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Centre for European Studies, Alexandru Ioan Cuza University of Iași, Romania

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Editors

# EUROPEAN UNION IN TIMES OF CRISIS

PERSPECTIVES AND SOLUTIONS

EURINT 2014



EDITURA UNIVERSITĂȚII „ALEXANDRU IOAN CUZA” IAȘI

Gabriela Carmen Pascariu • Ramona Țigănașu • Cristian Încalțărău  
(coordonatori)

**EUROPEAN UNION  
IN TIMES OF CRISIS**

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**Perspectives and solutions**

**EURINT 2014**

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Gabriela Carmen Pascariu • Ramona Țigănașu • Cristian Încălțărău  
(coordonatori)

# **EUROPEAN UNION IN TIMES OF CRISIS**

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## FOREWORD

Under the auspices of the events conducted and promoted by the Centre for European Studies, every year, on the occasion of *Europe Day*, the present edition of the Jean Monnet International Conference entitled *European Union in times of crisis. Perspectives and solutions* exposes to the general public but not only, a number of issues facing European economies on the crisis background. During the event, we have enjoyed the presence of our colleagues (researchers, professors, specialists in European Studies) from the major universities of the country, as well as from Republic of Moldova, Ukraine and Turkey.

Communications were performed on the following topics:

- The EU economy under siege. Lessons from Europe's long recession;
- The macroeconomic (in)stability of the EU economy;
- EU sustainable development, regional cohesion and European policies;
- The EU social model at the crossroads;
- The EU institutional framework. Time for a rethink?;
- The impact of the European crisis on the EU's international role;
- European Neighbourhood Policy / Eastern Partnership - post-Vilnius Summit future developments.

We would like to thank to all conference participants and we hope they will also be present to future events organized by the Centre for European Studies.

The publication of this volume was possible with the European Commission support, through the project Jean Monnet Chair - Ad Personam "EU sustainable development, regional cohesion, and European policies".

The organizing committee has no responsibility for the originality of the papers included in this volume.

**Coordinators**



# ENERGY IN THE CONTEXT OF THE PRESENT CHALLENGES TO THE EUROPEAN COMMON SECURITY AND DEFENCE POLICY

Gabriel ANDRUSEAC\*, Liviu George MAHA\*\*

**Abstract:** *The Common Security and Defence Policy is a part of the European Union's Common Foreign and Security Policy (CFSP) and establishes the policy framework for the institutional structures and military instruments which have to deal with the security challenges in Europe's geopolitical neighborhood. The article aims to identify and analyze the role of energy as one of the present challenges to the European Common Security and Defence Policy in the context of the recent events in the world economy.*

**Keywords:** security; defence; European integration; globalization; energy; gas; dependence

The origins of the Common Security and Defence Policy (CSDP) can be found in the specific situation of Europe, following the end of the World War II, which set the stage for the cooperation across Europe in the field of security and defence. The first step in this direction was made in 1948 when the United Kingdom, France and the Benelux (Belgium, Nederland and Luxembourg) signed the Treaty of Brussels. A mutual defence clause was included in the agreement sowing the seeds for the creation of the Western European Union (WEU). This was a defensive alliance with the primary purpose of envisioning a collective self defence effort in order to maintain peace in Europe and keep the continent safe following the effects of the Second World War. This framework along with NATO was the main forum for consultation and dialogue on security and defence in Europe, until the late 1990s. Now all the functions of the Western European Union were incorporated into the European Union after the adoption of the Treaty of Lisbon in 2009.

After the World War II, several steps were made towards a common security and defence policy and in the field of foreign policy too. Following the Hague Summit held in 1969, the foreign ministers of the European countries introduced the idea of European Political Co-operation (EPC) in the Davignon Report from October 1970. This was the first step in the direction of harmonizing members' foreign policies and creating the Common Foreign and Security Policy introduced by the Maastricht Treaty. By this treaty there was established a single institutional

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framework - European Union, based on three pillars – the second of which being named Common Foreign and Security Policy. Under this pillar was introduced the idea of a “common defence policy, which might in time lead to a common defence” (Article J4.CFSP).

**Figure 1 – European Union and NATO member states**



The type of military actions that can be undertaken by the European Union in crisis management operations were incorporated in the Treaty of Amsterdam (1997). This tasks - known as the Petersberg tasks - were established for the first time at the WEU's Council of Ministers, in June 1992, near Bonn in Germany, outlining the missions for which military units could be used:

- humanitarian and rescue tasks;
- peace-keeping tasks;
- tasks of combat forces in crisis management, including peacemaking.

These tasks were included in the European Security and Defence Policy (now Common Security and Defence Policy) and were further detailed through the 2009 Treaty of Lisbon (TEU Art. 42):

- humanitarian and rescue tasks;
- conflict prevention and peace-keeping tasks;
- tasks of combat forces in crisis management, including peacemaking;
- joint disarmament operations;
- military advice and assistance tasks;
- post-conflict stabilization tasks.

**Table 1 – European Security Framework**

- **1948 – The Brussels Treaty**
- **1951 – The Treaty of Paris**
- **1957 – The Treaty of Rome**
- **1970 – The Davignon Report**
- **1992 – The Treaty of Maastricht**
- **1992 – Petersberg Tasks**
- **1997 – The Treaty of Amsterdam**
- **1998 – Saint Malo’s Summit**
- **2003 – European Security Strategy**
- **2009 – The Treaty of Lisbon**

Although there were established some ambitious objectives regarding the security and defence policy, any concrete actions wouldn’t be undertaken until the late of the 1990s. After the wars of secession in the Balkans we can mention the St. Malo Declaration from 1998, France and United Kingdom agreeing that European Union must have the capacity for autonomous decision-making and action capabilities sustained by credible military forces, in order to fulfill the tasks mentioned in the Amsterdam Treaty.

In 1999, at the Cologne European Council, Member States laid the foundation for the European Security and Defence Policy (ESDP) – now Common Security and Defence Policy (CSDP), in order to make the European Union able to respond to international crises. At the Cologne Council it was agreed that the European Union should have the military instruments to respond autonomously to security challenges, a certain number of institutional and military structures being established for the analysis, planning and conduct of the operations, and the military assets being drawn either from NATO capabilities or national or multinational contributions.

In this context, Javier Solana was appointed as High Representative for the CFSP (Common Foreign and Security Policy), after he was the general Secretary of NATO. This position was established by the Treaty of Amsterdam in order to create the premises for a European Union with “one face and one voice” on foreign policy and security matters.

The European Council organized in December 2003 adopted the European Security Strategy, providing the conceptual framework for the further development of the Common Security and Defence Policy. The European Security Strategy is the result of the splitting of the members of the European Union regarding the U.S.-led invasion of Iraq in 2003 and the necessity of forging a consensus on what should guide EU’s international role. The strategy entitled “A Secure Europe in a Better World” provides a systematic thought about the security environment, identifies the challenges and key threats, establishes the strategic objectives and the subsequent political implications for the European Union. (ESS 2003)

The “Report of the Implementation of the ESS Providing Security in a Changing World” published in 2008 by the High Representative for the Common

Foreign and Security Policy confirmed the validity of the European Security Strategy adopted in 2003 and the need to have an European Union “more capable, more coherent and more active” in order to achieve its full potential.

In less than a decade, the Common Security and Defence Policy has known a rapid development and has acquired an important position in the European policies and also an operational capacity. The Treaty of Lisbon and its entry into force in December 2009 can be considered a cornerstone for the evolution of the Common Security and Defence Policy, this treaty providing the legal framework on institutional aspects and including the European – Common Security and Defence Policy (ESDP - CSDP) in the Union’s Common Foreign and Security Policy (CFSP).

**Figure 2 – The Institutional Framework of the Common Security and Defence Policy**



The Treaty of Lisbon introduced some important provisions related to the Common Security and Defence Policy, the most important being: a mutual assistance and a solidarity clause, the expansion of the “Petersberg tasks”, the creation of a framework for Permanent Structured Cooperation and the creation of the European External Action Service (EEAS) under the authority of the High Representative for Foreign Affairs and Security Policy/Vice President of the European Commission (HR/VP) etc.

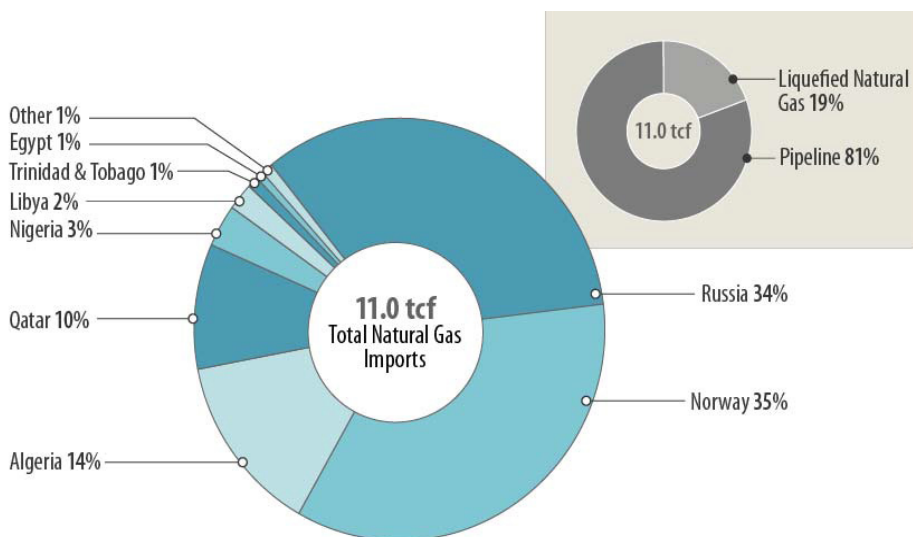
According to the Treaty of the European Union, the decisions related to the Common Security and Defence Policy are taken by the European Council and the Council of the European Union and usually they should be taken unanimously. The post-Lisbon approach concerning the security challenges is comprehensive, this meaning that the actions taken are part of a political dialogue process. They are

also part of a strategic concept, integrated in the overall policy, representing sustainable solutions, the host country being fully involved in the process. It's obvious that the Lisbon Treaty didn't transform the European Union into a super-state. It only offers a necessary policy framework in order to deal with the recent security challenges, to manage the continuously evolving international environment.

In the last decades, energy became again a strategic stake, important also for the European states. Being the largest importer of energy worldwide, the European Union faces two major serious tendencies: an increasing consumption of energy and a decrease in available energetic resources. Thus the energy needs of the European Member States is approximately double the energy stocks, the situation being important enough to include issues related to the alternative energy sources, climatic changes and economic globalization process in the Treaty of Lisbon and Europe 2020 Strategy.

The European Strategy in this domain focuses on a diversification of the energy resources, auctioning in two ways: once, at the internal level, by replacing the traditional and classical energy resources with the renewable types of energy and second, at the external level, by the diversification of the supply countries and regions, the actual situation illustrating a strong dependence on Russia – more than one third of the total natural gas imports coming from Russia.

**Figure 3 – Supply countries for the natural gas consumed in EU Member States**



Source: Ratner *et al.*, 2013

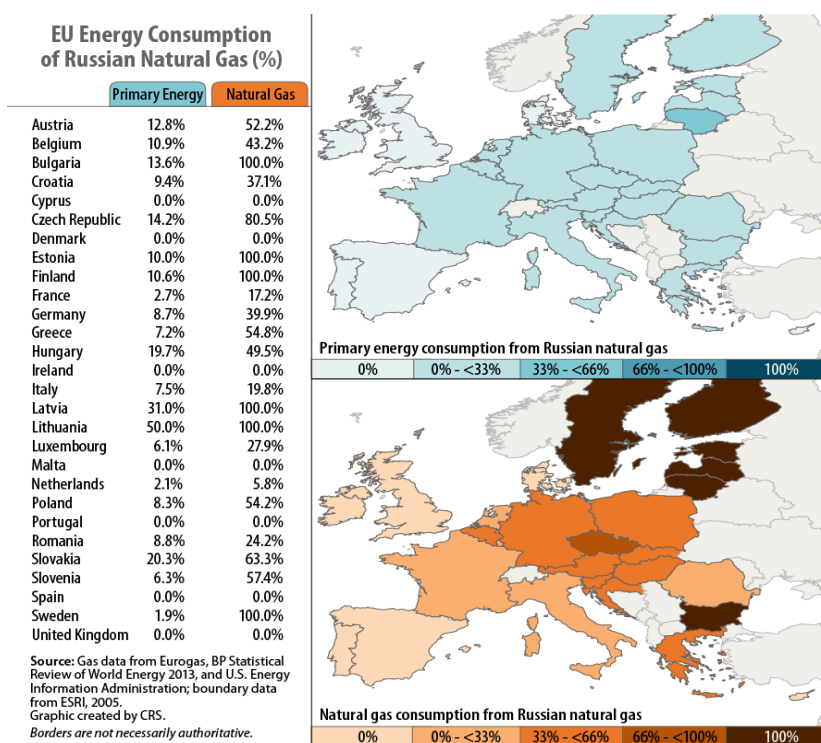
The underlying of the supply sources for the natural gas consumed within the European Union Member States is not irrelevant. Despite all the efforts made in recent years, the majority of the energy used in the European Union is still based

on the fossil fuels: coal, oil and natural gas. Between them, the consumption of natural gas is the only one with an increasing tendency, being confirmed again the strategic place of this resource in the European economy.

The analysis of the total European consumption of energy offers us a global image of the energy mix at the regional level and can confirm a few tendencies regarding the decrease of the consumption of energy based on coal and oil (the tendency is more obvious in the case of coal based energy), the maintaining at the same level of the consumption of nuclear energy and an increasing consumption of natural gas and renewable energy.

But it is more interesting to analyze the structure of the energy consumption for each Member State of the European Union, the statistical data showing us important differences between them from this point of view, even the increasing share of the consumption of renewable energy and the strategic role of the natural gas are present in every economy.

**Figure 4 – EU Energy Consumption of Russian Natural Gas (%)**



Source: Ratner *et al.*, 2013

One of the issues discussed in this context is related to the differences between the dependence to Russia regarding the imports of natural gas and the impact of this situation on the political approaches and on the security of the European Union. A high degree of dependence increases the vulnerability of these



Member States and of the European Union as a whole, interfering with the political issues and influencing the diplomatic discourse and behaviour. The recent Ukrainian crisis and the way in which European Union adopted the measures against Russia provided a very relevant image of the impact of the energetic dependence on Russia on the position adopted by each Member State.

But the economic relations between Russia and European Union should be considered taking into account all the aspects, not only the energetic balance and the obvious dependence to imports from Russia of some European countries. For instance, Russia became in the last decade one of the most important commercial partners of the European Union, the trade balance being asymmetric in favour of the European countries, some specialist underlying the existence of a dependence of Russia in terms of international trade. At the same time, we can't neglect the vulnerability of the Russian economy to the unpredictable changes on the international energy markets and the impacts of the political situation on these aspects.

## CONCLUSIONS

Analyzing the recent challenges to the Common Security and Defence Policy it is obvious that energy and the energetic dependence is one of the major strategic stakes, taking into account the role of energy on the economic process. In this context, European Union is facing an important risk maintaining a high degree of dependence to the Russian imports of natural gas, with a negative impact on the possibility of promoting the democratic values and adopting strong public positions in favour of democracy, justice and market economy.

But the situation changed in the last decade, with a decreasing share of the imports of natural gas from Russia and an increasing consumption of renewable energy, even the distribution is not homogeneous within European Union. It would be useful to concentrate the efforts in finding new supply countries for the natural gas, even in the next years it is not possible to eliminate this dependence because of the costs implied by the infrastructure used in transporting natural gas and the long distances, all the other potential suppliers not being located so close as Russia.

So maybe another option could be the replacement of the imports of natural gas with oil imports, because Russia is very well integrated in the world oil industry and the risks to the energetic security of the European Union are smaller than in the case of importing natural gas, as long as we don't have a public company like Gasprom in charge with Russian policy in this domain. In this case, changing the supplier is a more viable solution, the transport infrastructure being simpler and more potential suppliers being available.

In this context the energetic issues remain one of the most important challenges to the European security with a major impact on the other aspects of the integration process. That's why this is an evidence for the necessity of taking into consideration this matter in formulating and reforming the European Common Security and Defence Policy to better answer to the new trends in world economy.

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# THE ROLE OF NON-GOVERNMENTAL ORGANIZATIONS AS A CHANGE PROMOTER WITHIN EUROPEAN POLICIES

Carmen Claudia ARUSTEI\*, Irina Teodora MANOLESCU\*\*,  
Constantin-Marius APOSTOAIÉ\*\*\*

**Abstract:** *The importance of the non-governmental organization (NGO) in implementing specific activities and priorities of European policies increases continuously because of the new environment requirements. Through a qualitative research, our study aims to highlight the catalysts and the main constraints in operationalizing the European policies involving the civil sector. Our approach is integrative and nonetheless sequential and it is based on a multi-player model with the identification of the role and types of actions specific to each party involved. A temporal comparative analysis is also made by highlighting the evolution in time of the strategic pillars, the constraints and problems specific to the NGOs. The conclusions of our study are going towards pro-active measures: a fair placement considering the role of NGOs within implementing European policies considering the fact that they can offer consistent support and can undertake innovative actions that generate benefits for the society, community and the organization itself.*

**Keywords:** EU funding policies for NGOs; NGO's development; NGO's funding constrains; case study

## INTRODUCTION

Although non-governmental organizations (NGOs) don't benefit from an agreed legal definition at European Union (UE) level, they surly benefit from considerable amounts of EU funding, thus, involving them in many aspects of the EU policies. Whilst NGOs play a prominent role in the new EU funding cycle (2014-2020), with more funding schemes considering them as eligible candidates, the relationship between the European Commission and NGOs, wasn't always there and was built in time with great efforts from both parties.

Even so, the cooperation between Romanian Governmental Institutions and Romanian NGO sector is still a matter of concern. Although the NGO's positive trends are spectacular considering the way they managed to change over the past

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10 years, trying to adapt to the social-political environment, there is still work to be done.

The paper focuses on the EU – NGO collaboration for implementing the EU policies at a strategic, tactical and operational level by analysing the EU funding framework and also the way in which Romanian Government Institutions (i.e. Management Agencies, Implementation Organism) succeeded to manage the European funds for NGOs. Because the NGO sector covers a wide range of domains, we approached the matter from an integrative and also sequential perspective, by taking into consideration the on-going stages of the project, the catalysts and their constraints. We also develop a vertical integration view, by analyzing in tandem the strategic, tactical and operational factors. However in the end we offered some small insights on the matter from a social NGO point of view. Finally we draw up the conclusion that Romanian civil society has so much more to offer, but also so much more to prove in front of the Government Institutions in order to gain an important place at the “strategic policy making table”.

## 1. THE EU – NGO COOPERATION FRAMEWORK

The most important document (and the only one, to some extent) that reflects the relationship between the European Commission (the Commission or EC) and NGOs and its overall position and objectives of their cooperation is a discussion paper that was presented by President Prodi and Vice-President Kinnock, at the beginning of the year 2000. In this paper, they address key issues regarding: methods to improve the dialogue between the Commission and NGOs, highlighting the main problems; techniques to best organize EU funding for NGO-managed activities; and, “suggests ways of providing a more coherent Commission-wide framework for co-operation that has hitherto been organized on a sector-by-sector basis” (EC, 2000, p. 3). Within this paper we noticed what motivates the Commission to cooperate with NGOs (and the other way around), thus summarizing: a) the collaboration fosters democracy, civil dialogue and civil society and creates the necessary circumstances for the views of specific groups of citizens and causes to be heard and represented at the European level; b) the proactive dialogue with and consultation of NGOs’ sector specific experts help the Commission in the policy shaping process; c) moreover, by funding the activities of NGOs that are in line with community policy (within or outside the European Union), the Commission has alongside an important partner in implementing the EU policies and actions; d) the NGO’s and their networks of contacts create a powerful channel of spreading the information regarding the benefits of EU policies and the process of EU integration, especially to non-member countries. Currently, NGOs are seen by the Commission and other European Institutions as stakeholders with an increasing importance not only in the ‘policy shaping stage’ (via inter-institutional and timely dialogue, consultations and discussions) but also in ‘project management activities’ (in the preparation, implementation, monitoring and evaluation of funding programmes) on regional and local level.

A drawback that was identified when analyzing the strengths and weaknesses of NGOs' partnership with European Institutions was the "lack of sufficient information for NGOs in particular on funding and financial procedures" (EC, 2000, p. 6). A possible cause of this drawback could be due to the fact that 'NGO' is not an official legal and harmonized term at EU level, although the Commission uses a set of specific characteristics to identify such organizations. There are in the European Union different frameworks for NGO cooperation, depending on each Directorate General (DG). Introducing a definition of the term 'NGO' that could be unanimously accepted at EU level among the above mentioned institutions could solve such a problem and provide a transparent measurement of EU financing for NGOs. According to European Parliament (EP), the Commission is already working on such a task and makes great efforts to identify NGOs in its internal financial information system, so that EU funding differentiates between organizations with NGO status and those without (EP, 2014a).

Given that the relationship between NGOs and European Institutions are organized by policy areas (mainly 'external relations for development cooperation, human rights, democracy programmes, and, in particular, humanitarian aid' (EC, 2000, p. 2) and social, education and environment policy), important differences can appear, from one sector to the other, regarding information asymmetry and funding availability. Such is the case of financial market regulation, where there is a weak civil society organization and NGOs lack expertise, as oppose to other sectors as environment or public health, where NGOs have developed a strong counter-expertise and intense lobbying activity. Asymmetries like this can 'poses a danger to democracy' (EP, 2010a, p.24). In the new financial cycle (2014-2020), among all European Structural and Investment Funds, the European Social Fund offers the most attractive funding opportunities for NGOs (EP, 2014b), paying attention especially to the fight against poverty and exclusion, and anti-discrimination measures.

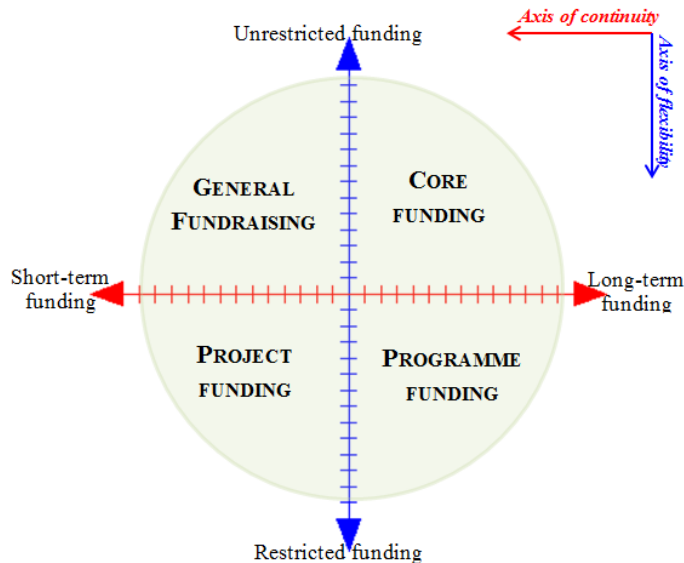
Regarding the funding opportunities of NGOs from different European Institutions, some criticisms have been raised (Boin and Marchesetti, 2010). One of these refers to the independence of NGOs receiving EU funding (i.e., its' ability to establish independent policy decisions or positions). We shall address this issue in the following lines.

An NGO uses funds from different sources that can be classified into two big categories according to the level of the restriction applied to those financial resources and their level of continuity (see the figure below).

Therefore, four big sources of funding can be distinguished: a) *general fundraising* (funds that are available for a short period of time and are of unrestricted nature, such as: fundraising events, grants, general donations and others); b) *core funding* (financial resources that are used for the NGO's core operations and can be relied upon on the long term, such as: membership fees, regular sponsorships and others); c) *project funding* (incomes that are relatively restricted and available on a short period, of 1 to 3 years, posing difficulties in assuring project continuity); d) *programme funding* (incomes that presume some

restrictions and are available for a longer period of time, 3 to 5 years and longer, and originate from strong working partnerships that have been established in time). As oppose to internal or self-financing, which is in general unrestricted but quite limited (demanding a lot of time, effort and special skills), external financing (such as EU funding) is, in general, rather restricted.

**Figure 1 - NGO funding typology**



Source: authors' elaboration after Mango (2013)

In their relationships with European bodies, NGOs can benefit from external financing in the form of project funding and/or programme funding (EP, 2010a, p. 36), or action grants and operational grants (EP, 2014b, p.5 or EC, 2012, p.10). In the Commissions' view, project funding or action grants cover relatively short-term financial resources that are provided to an NGO to implement a specific set of activities. These activities can have a European dimension (with the purpose of creating 'European added value') or a national/ regional/ local coverage. Operating grants provide funding for the regular activities of NGOs that are in line (according to their scope and objectives) with the general European interest and EU policy. On the other hand, EU programme funding covers a smaller number of NGOs but for longer periods of time and for larger amounts of financial resources. A comprehensive analysis of the benefits and challenges of the two different approaches to NGO funding (project vs. programme funding) can be found in EP (2010). Nonetheless, some voices have expressed significant doubts regarding the transparency, efficiency and effectiveness of the EU funding process for NGOs. Another aspect worth mentioning is the fact that, a typical NGO that performs its activities at EU level receives, more or less, half of its income from the EU budget (ECAS, 2004, p.2).

Within this context lays the question of independency of an NGO when dealing with EU funding. Is EU funding (at a certain level) creating a layer of smog that undermines the capability of NGOs to develop independent policy positions? Are NGOs capable to confront their ‘benefactor’ in order to maintain their point of view or are inclined to align themselves with EU policy positions? Such a dependency or lack of independency would not be favored by the Commission which advocates for participatory democracy. Possible solutions to this problem could be the adoption of funding barriers or thresholds (that could restrict EU funding under a certain volume) and/or development of a financing strategy based on diversification of the funding resources.

Being involved in various areas covered by EU policies and on a not-for-profit basis, NGOs have become ‘a natural target group’ eligible for a vast part of EU funding instruments. Or, putting it in other words, “it is difficult to find an EU programme which would not, in one way or another, include a funding opportunity for NGOs” (EC, 2012, p. 10).

In terms of the volume of EU funding for NGOs, the Commission has estimated that it alone had allocated over 1 billion EUR a year in 2000 (around 1% of the total EU budget), among which 400 million EUR in the area of humanitarian aid in 2000 (EC, 2000, p. 2). The volume of EU funding for NGOs continued to rise, reaching: 1.92 billion EUR in 2004, 2.20 billion EUR in 2005, 2.51 billion EUR in 2006 and again in 2007, 2.78 billion EUR in 2008 and 3.17 billion EUR in 2009. From the approximately 6 billion EUR in 2008 and 2009, almost half of it (2.5 billion EUR) came from four important Directorate General (Europe Aid cooperation Office, EC Humanitarian Aid Office – ECHO, ECDG Environment Aid Office – ENV and ECDG Education and Culture – EAC), covering some 2.2 thousand grants in 2008 and 2.8 thousand grants in 2009 to NGOs (EP, 2010b, p.6). After 2010, the EU funding for NGOs maintained its increasing trend: 3.51 billion EUR in 2010, 3.75 billion EUR in 2011, 3.96 billion EUR in 2012 and 4.49 billion EUR in 2013 (covering this year more than 2000 NGOs). Unfortunately, given the absence of a unanimously recognized legal term of the NGO, there is no detailed readily available financial data on NGO funding (EC data does not differentiate by type of beneficiary).

## 2. TRENDS IN THE DEVELOPMENT OF NGOs

The organizations pertaining to the third sector of the economy, that of the civil society, can be assigned to various categories if we consider their aims (satisfying the individual needs, the mutual interest or in general) and their domains of interest (human rights, culture, education, local development, social services, religion). The most encountered actors in this sector are the associations and the foundations. These two organizational structures possess cumulatively the characteristics of a privately, voluntary and autonomous body while the services provided can be offered privately as well as publicly. The number of such organizations has steadily increased in Romania after the 1990’s, counting now up to 80.000 (according to data available on <http://www.just.ro>). Nevertheless, no

more than 40% are still active (Constantinescu, 2012). Amongst the factors which cause the inactivity or reduced involvement of NGOs we could include the lack of credibility on the technical capacity of their intervention (caused by low expertise, limited staff number) and their financial inability to support their initiatives and, in particular, to ensure the continuity of their services. There are also cases where such organizations are criticized for establishing aims or activities which are not in line with the local, regional or national priorities. Moreover, these factors could also explain (or at least partially justify) the low percentage of employees who choose to redirect their 2% of the tax on income in favor of an NGO; for example, in 2012 only about 23% of the employees have opted for such a redirection (Press Release ANAF, 2013).

Willing to adapt to the complexity of our society, the NGOs, organizations which belong to the third sector, have "borrowed" specific mechanisms from other areas (public and private), thus evolving into hybrid entities that lay on the border of the three sectors. The catalysts of such transformations include: the need of the nonprofit sector to find alternative sustainable funding sources, the increased interest of companies to involve in the sphere of social responsibility and a tendency of the public sector to be more efficient (Mair and Martí, 2006).

Therefore, where the non-profit meets the public sector, there activates the NGOs of public utility. Their services and activities are recognized and certified by the public system. An organization is considered by the government to be an NGO of public utility if several conditions are met, regarding their activities and resources. Such an attribute is given for an undetermined period of time. Nonetheless, there is the possibility to withdraw the above mentioned right if the organizations doesn't fulfil the conditions stipulated by the law. In Romania, within the 2000-2009 period, a number of 105 organizations have been recognized as NGOs of public utility (2010 Romania Report, *Nongovernmental sector – profile, trend, challenges, n.d.*). This number is very small if compared to the total number of registered NGOs.

At the intersection where the civil society meets the business sector we can find that non-profit organizations which perform economic activities. From an organizational point of view, we are witnessing a change and even a reversal of the typical roles of the two sectors involved: one the one hand there are foundations and associations that are created by private companies to better provide activities of social nature, while on the other hand, there are social enterprises (i.e., the protected units) created by NGOs.

There is also common ground in the public - private - non-profit relationship, which falls within the multi-stakeholders model (Ridley-Duff and Sean Bull, 2008, p.3) and exploits their particular strengths. From an organizational point of view, one can find here complex entities based on extensive partnerships - business incubators, clusters, regional and local initiative groups.

Organizations which lay at the border of two or more sectors share not only their benefits but implicitly also their disadvantages. Amongst the main difficulties which the hybrid structures have to face are of managerial nature (Trivedi and Stokols 2011, p. 21-25) and deal with the required expertise of entrepreneurs and



workers from NGOs; they must have knowledge and expertise both from the social area of intervention as well as from the economic domain in order to assure the development of the organization. Giving up the comfort zone of a narrow specialization brings forward the need of an increased and divers portfolio of competences of the staff involved, an increase of the complexity of the organization and higher operating risks.

Placing organizations in various categories and sectors has relevance both at a conceptual level but, more particularly, at a practical level. The operational advantages resulting from the specific legislation, additional funding opportunities and from the increased visibility of the company motivate the involvement of NGOs in activities that arise at the border of two or more sectors (mentioned above) and in expanded partnerships (as network). Although there are great difficulties in establishing a unanimously recognized typology, given the different views and legislation, the importance of the analysis is seen especially when we consider the role and the results that such NGOs have on the development of our society and the community, on the sector as a whole and of each organization separately.

The most significant results of the activities performed by the NGOs are:

- various services tailored to the needs of the society and of the communities;
- increase in the quality of life of specific groups of beneficiaries;
- more involvement of the civil society in solving social problems;
- higher financial and operational autonomy;
- greater opportunities for innovative actions;
- direct involvement in the process referring to the legislative framework and development strategies.

At an international level it is well recognized the decisive role played by associations of NGOs in the development of the domains referring to corporate governance and social responsibility, in shaping environmental and social policies. Important initiatives, such as multi-annual programs, were endorsed in tourism, economic development and social protection.

### 3. METHODOLOGY

In order to make some insights into the way that Romanian NGO's manage the whole process of attracting and using European funds we conducted a qualitative research based on the case study method, in one of the first NGOs created in Romania. We've analysed the situation from two branches, Bucharest, which was the first location where the NGO appeared (in 1992), and Iasi where the organization just turned 19 years.

The case study is mainly exploratory and descriptive and less explanatory. Its purpose is to answer to questions like: "What have been done for attracting EU funds?", "What difficulties were encountered and how they were over passed". The information described below resulted from documentary work made on annual reports of the NGO and from two semi-structured interview guidelines with two project managers of the organizations. The interview guidelines consisted in 12

questions regarding the projects written and funded from European funds, the difficulties in attracting these funds and the future plans for the new financial cycle (2014-2020).

## 4. A ROMANIAN NGO CASE STUDY

### 4.1. Brief description of the NGO

The organization chosen for this paper is a nongovernmental, non-profit, humanitarian organization with 22 years experience in Bucharest and 19 years experience in Iasi in educating the general public on health issues and in providing primary social, medical and psychological assistance to vulnerable groups.

The branch in Bucharest is the most developed one and offers permanent services for a whole variety of public (from people living with AIDS, ethnic groups, injected drug users, and other vulnerable groups to public institution employees and other NGO's members). Their services include advocacy, prevention and harm reduction, social assistance for vulnerable groups, testing and counselling, research. During the last 10 years the branch played an important role in advocating for vulnerable groups which were not on the public institution priority list. At the present moment, most of their funding is from international partnerships and from European projects. Compared with the expertise and experience that the organization is having, the European funds attracted during 2007 – 2013 period are rather insignificant. In the following lines we will look into details in order to understand the reasons.

Out of the total number of nine branches, Iasi was the third city where the NGO developed (starting the year 1995). The main activities are: health educational services, awareness campaigns, and integrated services for HIV prevention and other sexually transmitted infections among young people and vulnerable groups. Most of their funding is from projects that are initiated by the core branch, in Bucharest and from donors. The branch is rather small, with no employees at the time being, but with over 20 volunteers involved in the organization's activities. The challenge they confront with is the fluctuation of the core personnel that make the organizational development and learning process rather sinuous.

### 4.2. The NGO's view on EU funds

The interviews conducted illustrated the existence of a wide variety of difficulties encountered during the projects implementation, most of them coming from the nature of NGO's activity – working with vulnerable groups that “have the law unto themselves” or have very low education level and no access even to primary social services.

The Bucharest branch had financial support from European funds for 3 projects that ended in 2013 and now they are implementing one as partners, although during 2007-2013 financial cycle they applied with over 50 projects, from

which more than 20 were sent during the last year. Their basic opinion is that because of the Management Agencies (MA) guidelines and reporting requirements (i.e. data registration procedure, beneficiary information - that should be confidential when working with these kind of beneficiaries) the funds address only to some people from these vulnerable groups, but not to the mass. Even though the law from social assistance field offers a framework in reporting the special cases (i.e. for injected drug users, sexual workers), the MA did not take these into consideration and had the same general requirement for all types of project beneficiary. On top of that the description of the indicators was made public only after the project was funded and for some of them there is still lack of consensus. In other words the most important difficulty goes even from the start, from the way in which the funding framework is designed for Romania, without having a realistic approach of the situation (i.e. the existent social services, law in the field, labour market).

Another implementing difficulty encountered was the large amount of documents that needed to be done when reporting the activity and also the “overnight” changes on the way things should be reported, things that take lot of time and are not justified, especially when the financial and technical support is limited in this kind of projects. The lack of correspondence between Implementation Organism (IO) and MA monitoring procedure was also an issue talked during the interview, winking out the fact that even though an addendum to the financing contract was made, one of the Control Organism did not recognise it and declared that expense ineligible.

In the end, the person interviewed said that they are not too optimistic about the next financial cycle 2014-2020 because even though the civil society came with different proposals during the consultation period they feel that they were not taken into consideration. For the next round, the main focus for vulnerable groups is Roma people, but again the set of indicators is still not well defined and many persons won't be included in this category only because they don't consider themselves being part of it.

Regarding the NGO's branch from Iasi, considering the fact that the its activity has been done through volunteer work for the last 3 years and that management positions are always field with young and less experimented managerial skills persons, the projects address only to the local community and have small budgets. Considering the European Union funding opportunities, the organization addressed only to Youth in Action Programme and received nearly 30 000 euro through 4 youth projects. The main actions were in terms of prevention AIDS among the young people, through actions like: informal educational sessions, awareness campaign; informing the community about the free testing and counselling services; fighting against HIV discrimination. They applied with 6 projects out of which 4 were funded and one project was considered to be good practice in the field. For this reason we can say that the Iasi branch have the necessary expertise to write and implement small projects, addressed to youth. The reason why they didn't write more projects comes from the low administrative

capacity: they work exclusively with volunteers; the management team is the one who writes the projects and the one who also implement it.

Considering EU operational programmes, the NGO's vice president says that they didn't apply for one because they don't have enough money for co-funding: "Even though the percent seems to be rather small (only 2%), for us a sum of 10 000 euro is significant and almost impossible to cover." Also, for the first 2 years of 2007-2013 financing cycle they were overwhelmed by the amount and rather unclear information. After words they found out about the refund delays and they concluded that don't have the necessary cash flow for implementing projects without interruption.

Anyway, the team from Iasi was part of the Bucharest team for implementing one project discussed above. The three employees involved in implementing the projects confronted with some difficulties in doing the reporting papers, because there were many "overnight" changes and they had to get in touch with beneficiaries in a very short period of time.

Regarding the new financial cycle, the branch is interested to closely follow up the new guidelines in order to be more prepared for the future call launches. Their strategy includes also becoming project partner for other branches or NGOs and being more active in collecting the 2% co-funds through fundraising events. In order to rely on European funds requirements, they will also need to easily change their focus (prevention through information and education) and to become more experienced in social and work integration, in advocacy issues and policy changes.

## CONCLUSIONS

The European Commission is one of the greatest 'benefactors' and providers of EU funding for NGOs acting in the EU and outside. If we would refer to the proportion of these sums in the financial needs of an entire NGO sector or even in the EU budget, probably it would seem very little, but the overall funds surely remain significant (among the funds provided by other national governments, regional and local authorities and quasi-governmental organizations) not only from a financial point of view, but also from a larger perspective, i.e. transforming NGOs in promoters of change within European policies.

NGOs can play very important roles in our society by performing complementary actions of other sectors, through customization and satisfaction enhancement of certain needs. The strengths that the sector holds are its dynamism, its emphasized motivation and availability and its flexibility and autonomy.

Nevertheless, there are a number of factors which raise barriers in the activities performed by NGOs. Amongst them the most common and important ones are: difficulties in assuring the co-funding percent; refund reporting procedure and lack of consistence in MA requirements, guidelines and monitoring activities. They can have great effects on the financial and operational capacity of the organization. Given the context and as reaction to the above mentioned barriers, various associations, federations, resource centers and coalitions have appeared with the purpose to meet the needs of the society.

As in other sectors, the NGOs also are subject to the ongoing shifts and changes in attitudes and patterns of interaction with stakeholders, in order to increase their performance. As a response, an NGO could choose the integration of its activities and approaches but also could opt for their specialization (a separation in the areas of intervention, but considering the cooperation in joint projects).

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# SOCIAL TRUST – DIFFERENCES AND SIMILARITIES BETWEEN EASTERN EUROPEAN COUNTRIES

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**Abstract:** *Social trust or the belief that others will not harm us or will look after us, if possible, is a concept of interest for many scientists coming from different areas. It can be important for economists, for sociologists, for psychologists or health researchers. Differences in social trust can predict differences in economic development as well. The present study aims to compare the levels of social trust from Romania, Ukraine, Bulgaria, Hungary, Czech Republic and Poland. To do that, we will use data from the European Social Survey, the 2008 round.*

**Keywords:** social trust; institutional trust; European social survey

## INTRODUCTION

Coleman (1990) defines trust as a decision to cooperate under uncertainty. Hardin (2003) defines trust as encapsulated interest: “I trust you because your interest encapsulates mine, which is to say that you have an interest in fulfilling my trust.” In this definition, trust is an expectation: the expectation that the trustee encapsulates the interest of the truster. Social trust can be seen as a generalized form of trust, meaning that people will trust other people whom they do not know, strangers, for whom they will have to appreciate a certain level of trustworthiness. But why is social trust important?

“When people trust each other transaction costs in economic activities are reduced, large organizations function better, governments are more efficient, financial development is faster: more trust may spur economic success” (Alesina and La Ferrara, 2002). This key phrase can stand alone in arguing the importance of social trust research. Having ties with so many areas and influencing our lives at so many levels, social trust has become of great interest for researchers, practitioners and stakeholders, no matter if we talk about the business oriented organizations or state affairs. Economists have started looking into social trust since Putnam (1993) defined it as a part of social capital together with features of social life, networks and norms, “that enable participants to act together more effectively to pursue shared objectives.” Thus, social capital and social trust can improve the functioning of institutions and facilitate economic transactions. Less trust has been associated with lower per capita output and slower growth rates (Tabellini, 2010). Lack of trust generates suspicion and fear of fraud (Tabellini, 2010) which can harm the economic development. Several studies have shown that countries with high levels of trust have grown faster in recent decades than other

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comparable countries (Whiteley, 2000; Zak and Knack, 2001; Beugelsdijk *et al.*, 2004).

## 1. LITERATURE REVIEW

Misztal's (1996) defined trust as believing the consequences of someone's intended action will be appropriate from our own point of view. This is the sociological point of view where the individual behaves accordingly to the amount of trust placed in another person or the level of trustworthiness that a person shows. Economists see trust as commodity, resource, and stock, whereas sociologists extend the concept to cooperation, reciprocity, moral obligation and describe the nature of interactions within social relationships (Welch *et. al.*, 2005). Economists believe that social capital stems from trust and try to use trust as a lubricant for economic growth. Societies characterized by high levels of trust usually benefit from well-being, economic prosperity, and low transaction costs in economic exchange (Fukuyama, 1995).

Over the years, important contributions have been developed on the role of social capital and social trust. Among prominent authors, there are Coleman (1988), Putnam *et al.* (1993) and Fukuyama (1996). The importance of studying social trust lies within the relationships that it has with institutions (Knack, 2002), economic development (Helliwell and Putnam, 1995; Knack and Keefer, 1997; Zak and Knack, 2001), corruption and crime (Uslaner, 2002; Buonanno *et al.*, 2009), perceived risk (Sjoberg and Herber, 2008).

As far as institutions are concerned, Knack (2002) found that US states with high trust are more likely to introduce policy innovations and less prone to corruption (Uslaner, 2002). High-quality policy making is, thus, responsible for growth, making social trust again a strong antecedent for it. Bjornskov (2006) provided evidence that social trust influences economic development through the quality of governance and schooling. Herreros and Criado (2008) argued that the presence of the state as a third-party enforcer of agreements can boost social trust and that efficient states promote more trusting societies.

Kenneth Arrow (1972) said that "virtually every commercial transaction has within itself an element of trust, certainly any transaction conducted over a period of time". Zak and Knack (2001) looked at social trust as a way of supporting the increase of investments, which lead to economic growth. Social trust can also be seen in this context as an element of reducing risk, facilitating higher investment rates (Bjornskov, 2006).

Durante (2010) has looked into social trust as originating from the need of farmers to deal with climatic risk. He found that inter-annual variability in both temperature and precipitation has a significant positive effect on current levels of trust at the regional level.

Social trust has been intensively studied in relation with perceived risk (Sjoberg, 1999, 2000; Cerully *et al.*, 2006; Siegrist and Cvetkovich, 2000). Bakir (2006) found that trust shapes public perception, yet Sjoberg and Herber (2008) showed that in some cases social trust is overrated as an influence on the public.



They showed that epistemic trust and antagonism can have a stronger influence and that the social trust approach is not enough for an efficient risk communication. It is not enough to make people believe in other people or in institutions, they also have to trust science and the fact that institutions do not act against them.

Kuovo (2011) analyzed the explanatory power of individual and country level factors when explaining generalized and institutional trust among the Europeans. Results confirmed that generalized trust between people and confidence in institutions is, with some exceptions, at the highest level in the Nordic areas whereas post-socialist countries are at the lowest levels. Also, the analysis led to the idea that it is important to compare countries which are more different in terms of socio-economic development, focusing on aggregate variables and not individual ones. This was supported by the fact that the regime explained more variance in trust at a macro level than all the individual-level variables at the individual level.

Following Kuovo's (2011) recommendation, our study aims to compare Eastern European countries in terms of social trust and institutions or political trust. The analysis wants to offer evidence of differences or similarities between six Eastern European countries that have participated in the European Social Survey: Romania, Hungary, Bulgaria, Ukraine, Poland and Czech Republic.

## 2. METHODOLOGY

The present study looks at social trust from a twofold perspective: interpersonal trust and institutional trust. Several authors have tried to use an objective measure for interpersonal trust by using aggregate indicators such as participation in elections, contributions and involvement in NGO's or blood and organ donations (Guiso *et al.*, 2004, 2008; Buonanno *et al.*, 2009; Putnam *et al.*, 1993.) At the individual level, construct is applied to measure interpersonal trust (Alesina and La Ferrara, 2002; Tabellini, 2005). The most common questions used in the construct have been also employed by the General Social Survey in the US and the European Social Survey (ESS). It measures interpersonal trust as a form of social trust through three items:

- Most people can be trusted (0) or you can't be too careful (10)
  - Most people try to take advantage of you (0), or try to be fair (10)
  - Most of the time people helpful (0) or mostly looking out for themselves (10).
- The items use the semantic differential scale with 10 points, from 0 to 10.

To measure institutional trust, seven items were used by the ESS:

- Trust in country's parliament
- Trust in the legal system
- Trust in the police
- Trust in politicians
- Trust in political parties
- Trust in the European Parliament
- Trust in the United Nations.

These items also use a semantic differential from 0 – no trust at all to 10 – complete trust.

The data used in this study is provided by the ESS, the 2008 round. Six countries are investigated in terms of social trust: Romania, Hungary, Bulgaria, Ukraine, Poland and Czech Republic. The choice of the countries has to do first with their geographic location and, secondly, with their former status of communist countries.

**Table 1 – Countries’ samples from ESS 2008**

Country	No. of respondents	Percent
Bulgaria	2230	19.6
Czech Republic	2018	17.7
Hungary	1544	13.5
Poland	1619	14.2
Romania	2146	18.8
Ukraine	1845	16.2
Total	11402	100.0

### 3. RESULTS

To compare the level of social trust between the previously mentioned countries, we, first, had to test the reliability of the social trust construct composed of the three items. The construct presented acceptable levels of reliability (table 2) according to Cronbach (1951).

**Table 2 – Reliability analysis**

Country	Cronbach’s alpha
Bulgaria	0.812
Czech Republic	0.683
Hungary	0.784
Poland	0.743
Romania	0.850
Ukraine	0.844

Next, we computed the social trust score at the individual level for each country by averaging the scores of the three items measuring social trust. As one can see from table 3, Romania has the lowest level of social trust, followed closely by Bulgaria. The highest level of social trust is found in the Czech Republic.

**Table 3 – Social trust\* means per country**

Country	N	Mean	Std. Deviation
Romania	2100	3.5998	2.26920
Hungary	1516	4.3536	1.93746
Bulgaria	2153	3.6032	2.09245
Czech Republic	1988	4.7455	2.00504
Poland	1584	4.2485	1.80751
Ukraine	1761	3.9648	2.33361

\*measured on a scale from 0 to 10

To obtain similarities and differences between the six countries we performed an ANOVA analysis having as a dependent variable – social trust – and independent variable – the country. Results of ANOVA showed that there are significant differences between the countries in terms of social trust (table 4).

**Table 4 – ANOVA results**

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	2030.951	5	406.190	92.621	.000
Within Groups	48661.850	11096	4.386		
Total	50692.801	11101			

A post-hoc analysis was used further to identify which countries are similar/different when social trust is involved (table 5). The analysis revealed that Romania and Bulgaria are not different in terms of social trust, being at the inferior threshold; Hungary and Poland are, also, similar, but are situated closer to the superior threshold. Ukraine and Czech Republic make a separate case. Ukraine has a level of social trust higher and significantly different than Romania's or Bulgaria's, but lower and significantly different than the other three countries analyzed.

**Table 5 – Post-hoc analysis social trust**

Tukey HSD <sup>a,b</sup>					
Country	N	Subset for alpha = 0.05			
		1	2	3	4
Romania	2100	3.5998			
Bulgaria	2153	3.6032			
Ukraine	1761		3.9648		
Poland	1584			4.2485	
Hungary	1516			4.3536	
Czech Republic	1988				4.7455
Sig.		1.000	1.000	.657	1.000

As far as institutional or political trust is concerned, we performed ANOVA for each of the seven items as dependent variables and country as independent variable. Post-hoc analysis showed a different pattern than the one revealed by interpersonal trust.

**Table 6 – Post-hoc analysis trust in country's parliament**

Tukey HSD <sup>a,b</sup>						
Country	N	Subset for alpha = 0.05				
		1	2	3	4	5
Ukraine	1788	1.61				
Bulgaria	2154		1.88			
Hungary	1502			2.62		
Poland	1562				2.99	
Czech Republic	1986				3.20	
Romania	2065					3.82
Sig.		1.000	1.000	1.000	.078	1.000

For instance, when it comes to trust in parliament Ukraine has the lowest level of trust and Romania the highest (table 6). Poland and Czech Republic are similar in this matter and significantly different from the other countries.

**Table 7 – Post-hoc analysis trust in the legal system**

Tukey HSD <sup>a,b</sup>					
Country	N	Subset for alpha = 0.05			
		1	2	3	4
Ukraine	1725	1.80			
Bulgaria	2071		2.23		
Romania	2062			3.78	
Hugary	1491			3.78	
Poland	1540			3.88	3.88
Czech Republic	1991				4.10
Sig.		1.000	1.000	.771	.079

Regarding trust in the legal system, Ukraine has again the lowest level, followed by Bulgaria. Similar countries in terms of trust in the legal system are Romania, Hungary and Poland; a different group is represented by Poland and Czech Republic (table 7).

**Table 8 – Post-hoc analysis trust in the police**

Tukey HSD <sup>a,b</sup>						
Country	N	Subset for alpha = 0.05				
		1	2	3	4	5
Ukraine	1768	2.17				
Bulgaria	2161		3.21			
Romania	2101			4.35		
Hungary	1508			4.36		
Czech Republic	2000				4.78	
Poland	1586					5.12
Sig.		1.000	1.000	1.000	1.000	1.000

Ukraine is situated again at the lowest level for trust in the police, which is consistent with the previous results on trust in the legal system (table 8). Similar countries in terms of trust in the police are Romania and Hungary; the other countries are all significantly different from each other.

**Table 9 – Post-hoc analysis trust in politicians**

Tukey HSD <sup>a,b</sup>						
Country	N	Subset for alpha = 0.05				
		1	2	3	4	5
Ukraine	1777	1.43				
Bulgaria	2139	1.61				
Hungary	1504		1.94			
Poland	1568			2.28		
Czech Republic	2002				2.62	
Romania	2076					3.05
Sig.		.107	1.000	1.000	1.000	1.000

Ukrainians have the lowest level of trust in politicians being similar to Bulgarians (table 9). Romanians have the highest level of trust in politicians.

**Table 10 – Post-hoc analysis trust in political parties**

Tukey HSD <sup>a,b</sup>						
Country	N	Subset for alpha = 0.05				
		1	2	3	4	5
Ukraine	1776	1.57				
Bulgaria	2127	1.70				
Hungary	1491		2.02			
Poland	1562			2.31		
Czech Republic	1997				2.76	
Romania	2067					3.13
Sig.		.406	1.000	1.000	1.000	1.000

Trust in political parties shows the same pattern as trust in politicians, having Ukraine and Bulgaria similar, and the other countries significantly different.

**Table 11 – Post-hoc analysis trust in European Parliament**

Tukey HSD <sup>a,b</sup>					
Country	N	Subset for alpha = 0.05			
		1	2	3	4
Ukraine	1334	3.42			
Czech Republic	1919		3.87		
Hungary	1348		4.12		
Poland	1419			4.55	
Bulgaria	1855			4.56	
Romania	1914				5.43
Sig.		1.000	.099	1.000	1.000

As far as the European Parliament is concerned, Romanians are the most trustful, while Ukrainians the least. Czech Republic and Hungary are similar in terms of trust in the European Parliament; Poland and Bulgaria are also similar, but different from the others, with a higher level of trust (table 11).

**Table 12 – Post-hoc analysis trust in United Nations**

Tukey HSD <sup>a,b</sup>					
Country	N	Subset for alpha = 0.05			
		1	2	3	4
Ukraine	1336	3.37			
Hungary	1283		4.63		
Bulgaria	1674		4.73		
Czech Republic	1883		4.80		
Poland	1397			5.15	
Romania	1856				5.55
Sig.		1.000	.608	1.000	1.000

Finally, trust in the United Nations has the same interval ends – Ukraine and Romania – as trust in the European parliament (table 12). Hungary, Bulgaria and

Czech Republic trust the same way the United Nations. Ukraine, Poland and Romania are significantly different from the each other and the other countries.

## CONCLUSIONS

The analysis showed that the level of social trust is usually lower in countries that are less developed from an economical point of view (Romania, Bulgaria). These results are consistent with previous studies (Tabellini, 2010; Kuovo, 2011). Countries with higher levels of social trust are associated with economic growth; our analysis positioned Poland, Hungary and Czech Republic in this category. Results are also in line with several studies which showed that countries with high levels of trust have grown than other comparable countries (Whiteley, 2000; Zak and Knack, 2001; Beugelsdijk *et al.*, 2004). The institutional trust yielded different results depending of the object of trust. Romanians seem to trust the parliament, the politicians and political parties more than the rest of the Eastern European countries analyzed. Romanians are situated also at the superior threshold as far as trust in international institutions is concerned (European Parliament, United Nations). Ukrainians are placed at the other end of the interval, being the least trustful in all cases.

Further research should focus on the relationship between the social trust and institutional trust with economic development. The present analysis was done at an individual level, yet a macro-analysis may offer more information regarding the differences and similarities between these countries.

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# REASSESSING THE EUROPEAN SECURITY STRATEGY IN AN AGE OF AUSTERITY

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**Abstract:** *The current European Security Strategy was drafted in the strategic context of 2003 and (unsubstantially) revised in 2008. More than a decade later, the dramatic changes in the international context have important implications for EU's strategic position and cast doubt on the relevance of the existing conceptual framework. Despite the efforts of some member states and various scholars, think-tanks and policy-makers advocating for a new strategic document, the much anticipated European Council of December 2013 - a body which could have provided a genuine impetus for such a change - remained silent on the issue. The author herein argues that a reassessment of the Security Strategy is more needed than ever if the EU is to remain a major global actor in times of crisis.*

**Keywords:** European Union; security; foreign policy; European Security Strategy; neighbourhood; strategic partners; global actor; economic crisis

## INTRODUCTION

In a turbulent and uncertain security environment marked by countervailing trends of unprecedented interdependence, on the one hand and of deepening rivalries and frictions on the global scene, on the other hand - the current European Security Strategy (ESS) provides little guidance on EU's core interests and instruments to advance and secure such commonly defined interests and values. Intertwined factors including the shift of wealth and political influence to "rising" (or resurgent) powers accelerated by the effects of the economic crisis, the US "pivoting" to Asia-Pacific, the complex mix of traditional and post-modern security threats, as well the rapidly deterioration in security in Europe's southern and eastern neighbourhood – force the EU to abandon its inner-looking and reactive approach to security developments and seek with renewed vigour unity of purpose and action; yet, financial constraints severely limit the means to achieve such goals – thus, prioritization becomes vital.

The structure of this paper unfolds as follows. The first section reviews the core provisions of the 2003 ESS and of the subsequent Implementation Report, while briefly discussing their particular contexts. The second section examines the main arguments for revising the ESS – which refer to a mix of internal and external factors altering the reality in which EU functions. Lastly, the third section

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analyzises the outcomes of the December 2013 European Council and highlights several for and against arguments for a reappraisal of the ESS.

## 1. THE EUROPEAN SECURITY STRATEGY (2003) AND THE REPORT ON THE IMPLEMENTATION OF THE ESS (2008)

Primarily driven by the Transatlantic rifts over the war in Iraq, the first ESS was drafted “in a swift and rather exceptional manner” by a team led by Javier Solana (Andersson *et al.*, 2011, p. 5) and was approved by the EU leaders on 12 December 2003 under the title “A Secure Europe in a Better World”. The document was well received as a clear, concise and accessible expression of EU’s political project, ambitions and role in the world, yet its importance was to be primarily found in its significance, rather than in its actual content: by asserting its own security identity and its distinct approach to foreign and security policy, the EU made a consistent step towards building a “viable, active, and influential collective presence” (Toje, 2010, p.172). The ESS opens with an (overly) optimistic introductory phrase emphasizing that “Europe has never been so prosperous, so secure, nor so free” and advances a “call to duty” (Biscop, 2005, p.15) by stating EU’s global aspirations: “Europe should be ready to share in the responsibility for a global security and in building a better world.” Briefly, three major strategic objectives are outlined for the EU: first, addressing a wide range of global challenges and security threats – including regional conflicts, proliferation of weapons of mass destruction, terrorism, state failure, organized crime, disease and destabilizing poverty, with the 2008 *Report on the Implementation of the European Security Strategy* adding piracy, cyber security, energy security and climate change to the list; second, building regional security in the neighborhood – the Balkans, the Caucasus, the Mediterranean region and the Middle East; and third, seeking the development of a multilateral, rule-based international order in which international law, peace and security are guaranteed by strong and well-functioning regional and global organizations (A Secure Europe in a Better World—European Security Strategy, 2003). In calling for a EU that is more *active*, more *capable*, more *coherent* and *works with others*, the Strategy sets forth EU’s principles and *modus operandi* in addressing security matters: *integration* by acknowledging the multidimensional character of security and pursuing a comprehensive security agenda beyond the traditional politico-military dimension; *global scope* by acknowledging that global action is essential for achieving comprehensive security; “*preventive engagement*” which implies a proactive prevention of conflicts and instability in the attempt to tackle the root causes of emerging security challenges with a broader range of coordinated instruments and capabilities; and finally, institutionalized and rule-based *multilateralism* and *cooperation with partners* as a prerequisite for addressing global, comprehensive security threats and for legitimizing the use of coercive measures (Biscop, 2005). The preference for this approach in addressing security threats reflects the widely held belief within the EU that the international system was developing into a principles-based, normative, multilateral world order where “soft power” tools

such as strengthening governance and human rights and providing economic development assistance would take precedence over power politics, military means and coercion (Bailes, 2005). In the years following the adoption of the ESS, several key developments occurring within and outside the EU made the reappraisal of the Strategy a matter of urgency: the “Big Bang” enlargement brought new actors to the table, many of which had not been included in the drafting process of the original document; the return of intra-state warfare in Europe and a resurgence of power politics marked by the Russia-Georgia war in 2008; the emergence or intensification of post-modern security challenges such as the outbreaks of the H5N1 (2006) and H1N1(2008) pandemics, the increasingly frequent cyber-attacks, and the devastating effects of climate change; the severe crisis weakening the West economically, politically and ideologically and accelerating the power shift to the East. As a result, several member states – such as France and Sweden - were more vocal in pushing for a revised ESS, a proposal which failed to gain the British and German support for several reasons including fears of reopening uncomfortable debates about Russia; concerns about a potential deepening of divergent views among the “old” and “new” members, which could have hampered the ongoing efforts to approve the Lisbon Treaty; or worries about an “end product” with a less ambitious purpose than the 2003 ESS (Andersson *et al.*, 2011). Instead, compromise was reached by drafting an “Implementation Report” called – similarly to the 2003 Strategy - “Providing security in a changing world” (European Council, February 2008). Although initially intended to sum up the emergent transformations of the security environment and evaluate the progress made on the ESS, the Report does not provide concrete recommendations for change, nor any follow-up mechanisms, generally reflects an abandonment of great power aspirations and remains focused on the *process* rather than on the *ends*, thus largely constituting “a return to the *status quo ante*” (Toje, 2011, p.189).

## 2. CALLING FOR THE REVISION OF THE EUROPEAN SECURITY STRATEGY

In this context, during recent years a significant number of individual scholars, think-tanks and policy-makers - supported by some member states<sup>1</sup> - have consistently called for a reappraisal of the 2003 ESS. Although “intellectual weight does not equal power politics” (Biscop, 2012, p. 2), such endeavors have

<sup>1</sup> Two notable efforts in this regard include the “European Global Strategy” project developed in 2012 by the foreign ministers of Italy, Poland, Spain and Sweden and a leading group of European think-tanks with the purpose of fostering debates on EU’s global actorness in the context of major international shifts (Towards a European Global Strategy. Securing European Influence in a Changing World, 2013) and the similar “Think Global-Act European. Thinking Strategically about EU’s External Action” initiative of Notre Europe and other think-tanks calling for “new strategic reflection on the EU’s role as a global power, allowing the EU to achieve a new and open outlook on the evolution of the new trends that are reshaping our current world order” (Notre Europe, 2013, Introduction).

nonetheless raised awareness on the urgency of initiating a reflection process on strategy, especially in the context of severe budgetary constraints when the scarcity of resources makes prioritization even more important. Broadly, scholarly suggestions for such a reassessment fell into one of the following three categories of solutions: reinvigorating the ESS – namely, identifying and addressing implementation problems of the initial document; revising the ESS – which would imply updating EU’s strategic goals and instruments in line with the current global context; or reinventing it – specifically, drafting ‘a grand strategy’ with a more ambitious and broader approach towards Europe’s role on the global stage (for a comprehensive analysis see Andersson *et al.*, 2011). Irrespective of the preferred option, a wide consensus is seemingly emerging in the academic *milieu* that such an endeavor should primarily focus on *substance* instead of form or process, as reviewing the ESS does not constitute an end in itself, but rather one means of launching the debate on a future grand strategy (Biscop, 2012).

Arguments supporting a reassessment of the ESS make reference to a mix of internal and external developments shaping the reality in which EU operates. Internally, the EU is confronted with domestic security challenges which remain connected to the external ones, as according to the Internal Security Strategy (ISS) – drafted in 2010 as an internal counterpart of the ESS - “internal security cannot be achieved in isolation from the rest of the world, and it is therefore important to ensure coherence and complementarity between the internal and external aspects of EU security” (The EU Internal Security Strategy in Action: Five steps towards a more secure Europe, 2010), which explains “a certain redundancy [...] between the challenges identified in both the ESS and ISS” (Renard, 2014, p.2). As a result, non-proliferation, terrorism, organised crime and cyber security are singled out as key priorities for EU action in both documents. Additionally, the 2004/2007 enlargements have expanded the security agenda and have further complicated the decision-making process. The urgency of defining EU’s shared, long-term interests, accommodate them with the upheld values and identify the instruments to secure those interests persists (Lehne, 2013). The innovations introduced by the Lisbon Treaty to improve the coherence of EU’s foreign policy have raised a number of difficulties themselves; issues such as the establishment of the European External Action Service (EEAS), the mandate of the High Representative (HR), the new cooperation arrangements *via* Permanent Structured Cooperation, the implementation of EU’s “mutual assistance” clause, and the fulfilment of new threat assessment obligations stipulated by EU’s Solidarity Clause – generate concerns over institutional coordination, action coherence and unity of purpose among member states. Moreover, a coherent foreign and security policy is deemed vital for safeguarding EU’s waning credibility and appeal both within the Union and globally; in times of crisis and growing mistrust in the EU integration project, a well-articulated Security Strategy could provide a “new attractive narrative” (Coelmont, 2012).

The external pressures generated by the long-term trend of power shift from the West to the East, the unprecedented level of global interdependence and interconnectedness coupled with an increasing rivalry for economic and political

influence, the complex mix of traditional and post-modern security threats, increased instability in Europe's southern and eastern neighbourhood – are just a few key challenges for the out-of-date Security Strategy. In the context of the US strategic rebalancing towards Asia-Pacific and the drastic budgetary cuts in defence spending on both sides of the Atlantic, EU member states are increasingly pressured to assume greater responsibility for their own security, especially in a periphery marked by violent protests and political unrest. An overreliance on US's key capabilities via NATO – as was the case of the intervention in Libya - no longer appears a viable option in the long-term: therefore, asserting European ownership of NATO by reinforcing the EU is vital for revitalizing the Transatlantic partnership. The current crisis in Ukraine has brought to the forefront questions about EU's willingness and ability to shape international developments in its neighbourhood (and beyond) in order to advance and safeguard its interests and values. Ten years after the launch of the European Neighbourhood Policy (ENP) it became clear that EU's plan of transforming its neighbourhood into a “ring of well-governed states” *via* a model derived from the EU enlargement process is far from meeting these ambitious goals. EU's response to the security crisis in its fragmented southern and eastern neighbourhood – marked by the return of power politics, dictatorships, military coups, failed states, insurgency, political and religious unrest, revolutions, wars and terrorist attacks - was largely reactive and defensive. A rethinking of the ENP within the wider framework of a new ESS would enable the revision of the “conceptual flaws and incoherent implementation” currently viciating the policy, such as the “one-size-fits-all” approach towards 16 diverse countries in the Middle East, North Africa and Eastern Europe grouped under the poorly-defined criteria of geographical proximity to the EU; an untailored model which does not suit either states seeking a close relation with the EU, or those avoiding a substantive bond with the EU; an Eurocentric conception ignoring the role of external actors within EU's neighbourhood; the over-prioritization of bilateral relations over regional approaches; unfit instruments for rapidly evolving security environments; and finally, a selective and inconsistent application of conditionality in its relation with its neighbours (Lehne, 2014).

The ongoing Ukrainian crisis has also led to reflections among strategic planners in Europe on whether the drastic cuts in European defence budgets have gone to extremes<sup>2</sup>, as it soon became clear that the end of the Iraq War and the ongoing drawdown from Afghanistan have not marked the end of crisis threatening Western security. Undoubtedly, the financial and economic crisis had a critical impact on military spending in EU member states, yet the fact that the European military “*malaise*” has been a constant reality for the past twenty years indicates that root causes are of *political* nature, rather than economic (Rogers, 2013). In this context, during the EU-US Summit on 26 March, 2014 President Barack Obama

<sup>2</sup> As an exception, the Eastern and Northern European states have largely maintained the existent defence spending levels or are reviewing their level of military spending in the context of heightened perceived threats to their national security, such as Poland, the Czech Republic, Latvia, Lithuania, Estonia and Sweden.

expressed his deep concerns about the decreasing spending levels of most NATO European states and emphasized that: “The situation in Ukraine reminds us that our freedom isn’t free, and we’ve got to be willing to pay for the assets, the personnel, the training that’s required to make sure that we have a credible NATO force and an effective deterrent force” (The White House, March 26, 2014). Also, during the EU Defence Ministers talks in Luxembourg NATO Secretary General Rasmussen warned that “Every Ally has a part to play in this effort. NATO keeps us all secure and we must all continue investing to keep NATO strong. Russia’s aggression against Ukraine shows that we cannot simply take our security for granted” (NATO, April 15, 2014). In a similar vein, in a speech to the 21<sup>st</sup> International Conference on Euro-Atlantic Security in Krakow, NATO Deputy Secretary General Ambassador Alexander Vershbow described Russia’s aggressive actions in Ukraine as a “wake-up call” for the Euro-Atlantic community: while reaffirming the US commitment to Europe’s security, the Ambassador stressed the importance of European nations stepping up their efforts “to match the US commitment - both politically and militarily” (NATO, April 4, 2014). To cite but one recent example, NATO’s Operation Unified Protector in Libya (2011) has clearly revealed the Transatlantic “capability gap”: after Washington transferred command and control to NATO, the US continued to play a critical role in OUP by making available to the Alliance key military enablers such as strategic airlift, ISR, aerial refuelling, command-and-control, and target-analysis capabilities, which the Europeans either lacked or did not have enough (Baltrusaitis, D., Duckenfield M.E., 2012). Within a relatively short timeframe, a number of NATO Allies expressed concerns about depleted stocks of precision guided bombs; Italy withdrew its Garibaldi carrier to cut military spending; France pulled out its Charles de Gaulle aircraft carrier for maintenance while the UK military was also strained in the low-intensity conflict. The intervention in Libya was also indicative for the US shift towards a “leading from behind” new model of leadership in NATO operations deemed of lesser strategic importance in the context of budgetary constraints and a strategic reorientation towards Asia-Pacific; although providing key military assets which secured the success of the operation, US retained a “support role” and let the European Allies and NATO partner countries provide the bulk of the combat sorties while also deciding to withhold capabilities such as the A-10 Thunderbolt II or AC-130 Spectre gunships (Hallams, E., Schreer, B., 2012). The EU’s absence as a collective actor from a medium-scale, low-intensity mission in Europe’s immediate neighbourhood raised questions on the CSDP’s relevance as well as on EU’s willingness and ability to step up its efforts to meet its level of ambition as a pivotal security provider on the global stage (Howorth, 2013). It goes without saying that EU member states will have to possess the military capabilities to work together with allies and partners while competing with emergent powers to protect the European “homeland” from conventional or unconventional attacks and safeguard a peaceful, stable and prosperous neighbourhood, but also to maintain a strong influence in zones of privileged interest (Eastern and Southern neighbourhoods, “the neighbours of the neighbours” – from Mali to Somalia, from the Gulf to Central Asia) and critical sea lanes in the “Indo-Pacific” (from Suez to

Shanghai) and the “wider North”; to secure maritime communication lines and strategic communications infrastructure, as well as to ensure access to energy supplies and raw materials in overseas territories and guarantee access to “global commons”; and lastly, to uphold European values *via* international law and an inclusive multilateralism (Missiroli, 2013). Yet, European defence budgets have been shrinking since the end of the Cold War. Since the beginning of the financial and economic crisis in 2008, declining budgets are not a reality only in Central Europe or in Western European states severely affected by crisis: reduction in military spending of over 10 per cent in real terms since 2008 has been observed in Austria, Belgium, Greece, Ireland, Italy, the Netherlands, Spain and the UK and all countries in Central Europe – with the exception of Poland (Perlo-Freeman and Solmirano, 2014). Although still the top spender in 2013, the US has reduced its military expenditure by 7.8 per cent in real terms to \$640 billion (with \$20 billion of the \$44 billion nominal fall being attributed to the reduction in outlays for Overseas Military Operations mainly in Afghanistan and Iraq); France, UK, Italy and Canada significantly reduced their spending as well. In contrast, China’s expenditure increased by 7.4 per cent in real terms according to its policy of rising its military spending in line with economic growth. For the first time since 2003 Russia spent a larger share of its GDP on the military compared to the US, as a result of the implementation of the State Armaments Plan for 2011-2020 according to which \$705 billion will be spent on new and upgraded military equipment. Saudi Arabia rose from the seventh to the fourth place among the 15 countries with the highest military expenditure and has the highest military burden compared to any of the largest spenders.

From a regional perspective, in 2013 military spending has fallen in the West – namely in North America, Western and Central Europe and Oceania while increasing in every region and subregion outside the West: in Asia and Oceania, military expenditure increased by 3.6 per cent and reached \$407 billion; in the Middle East, military expenditure increased by 4 per cent in real terms in 2013 and 56 per cent between 2004-2013, reaching approximately \$150 billion; Africa had the largest relative rise in military spending compared to any region (by 8.3 per cent), reaching \$ 44.0 billion; while in Latin America, military spending increased by 2.2 per cent in real terms in 2013 and by 61 per cent between 2004-2013. Reasons of concern also stem from the fact that since 2004, 23 states have doubled their military spending in real terms<sup>3</sup> - these countries being situated in *all* regions of the world, *except for* North America, Western and Central Europe and Oceania (Perlo-Freeman and Solmirano, 2014). Thus, it becomes obvious that the economic decline and “de-militarization” trend within the EU has its mirror image in the assertiveness of emergent powers with an increasing economic, political and military weight on the global scene. Clear guidance on how to engage with these new poles of power is therefore indispensable; yet, the current ESS is vague and

<sup>3</sup> Mostly due to strong economic growth in GDP, such as China or Angola, to high oil or gas revenues discovered or exploited recently – such as the case of Ghana -, or to armed conflict or dangerous ongoing frozen conflicts such as Ukraine, Armenia or Azerbaijan.

incomplete in this respect. The 2003 ESS affirms the need to pursue EU's objectives "both through multilateral cooperation in international organizations and through partnerships with key actors" and mentions in this context six countries: the US which in the light of the transatlantic relation is "irreplaceable"; Russia, deemed "a major factor in our security and prosperity"; Japan, China, Canada and India, the list remaining opened for "all those that share our goals, and are prepared to act in their support". Unlike the ESS which does not articulate strategic partnerships as tools of EU foreign policy, the 2008 Report on the implementation of the ESS views partnerships as instruments for pursuing effecting multilateralism; however, it does not draw any clear delineations between partnerships with multilateral institutions, regional bodies or states and therefore, fails to mention criteria for coordinating distinct levels of engagement (Grevi, 2010). The 2008 ESS review adds vague references to Brazil and South Africa, as well as to Norway and Switzerland as key partners. Nonetheless, strategic partnerships remain poorly conceptualized, with no clear definition or distinction among different partnerships which are "neither identical, nor equal" (Renard, 2010). An overarching strategy clarifying the main interests and objectives of the EU would help identify strategic partners according to whether they meaningfully contribute to advancing or achieving the set goals, and would also prevent an uncoordinated establishment of such partnerships. More importantly, a new strategy clarifying EU's strategic ambitions would facilitate the achievement of focus, unity of purpose and political authority it currently lacks in its relations with pivotal partners (Hess, 2012).

### **3. DOES DEFENCE REALLY MATTER? THE DECEMBER 2013 EUROPEAN COUNCIL**

In December 2013, the European Council discussed defense and security policy for the first time since 2008 and represented the first occasion when NATO Secretary-General Anders Fogh Rasmussen attended the Council's meeting. Expectations were high, but disappointment soon followed. The December meeting was originally expected to be "*the* Defence Council" (McDonnell, 2014), yet deliberations on security were to a large extent overshadowed by other pressing matters - such as those related to economic recovery and job creation. The introductory phrase of the European Council's Conclusions emphasizes that "defence matters". Yet, the meeting was largely regarded as failing to provide a strong political impetus for a clear and comprehensive debate on EU's "overall strategy", which has further fueled criticism on EU's waning influence and credibility both at home and on the international stage (Hatzigeorgopoulos, 2013, p. 3).

Even so, the European Council made several decisions in the realm of security and defence in three distinct areas, as follows: first, to enhance the effectiveness of the Common Security and Defense Policy (CSDP) – by launching a general call to improve EU rapid response capabilities, by establishing an EU Maritime Security Strategy until June 2014 and by developing an EU Cyber Defence Policy Framework by the end of 2014; second, to strengthen EU's defence

capabilities – by increasing member states' cooperation through "Pooling and Sharing" initiatives and the European Defence Agency (EDA) and specifically, by working to develop capabilities such as long-range reconnaissance drones, air-to-air refuellers, satellite communications and cyber assets; and finally, to boost Europe's industrial defense sector- by creating an EU-wide defence market and setting three priorities for the Commission, namely to promote research into technologies which can be applied both in the defence and the civilian sector, to harmonize industrial standards across member states and increase Small and Medium Enterprises' (SMEs) access to the defence sector (European Council, 2013). Despite the adoption of several specific commitments, the outcomes of the Council were described as "rather disappointing", largely because "no agreement was reached on what is probably the most urgent need, namely the revision of the ten-year-old EU Security Strategy" (Ricci, 2014). Seemingly, such modest results were hardly surprising for many commenters given the widespread doubts about the Council's ability to achieve ground-breaking progress on security matters. Critics have drawn attention to member states' lack of a common strategic outlook leading to divergent security agendas and to uncoordinated budgetary cuts (de France and Witney, 2013); their failure to foster a shared ambition which most often results in "political commonplaces or incremental bureaucratic progress" (Linnenkamp and Mölling, 2013, p.2) and the complicated circumstances both at national and EU levels preceding or following the December European Council - including the elections in Germany in September 2013, the British preference for bilateral commitments marked by the 2010 Lancaster House Treaties with France and key personnel changes in 2014 within the European Parliament, the European Commission, the European Council and the EEAS which will bear a significant influence on the implementation of any Council Conclusions. Similarly, other concerns emphasized the risks of deepening divisions among member states in times of crisis; of obtaining a document with even narrower provisions than the 2003 ESS; or of unnecessarily diverting attention away from the more pressing matters such as the sovereign debt and banking crisis, the record rise of Euro skepticism, enlargement fatigue and democratic deficits (Drent and Landman, 2012). According to some views, the reappraisal of the ESS is not only a futile initiative given that "within the EU, strategic documents are too often seen as an alternative to, rather than a guide for action", but also utterly damaging by generating a wide gap between stated objectives and actual outcomes (Menon, 2014, p.19). Yet, avoiding addressing national differences will not help mitigate divergent agendas: instead, by reopening debates on a new ESS, convergence of purpose and action among member states could be achieved easier by the explicit endorsement of existing common interests. Additionally, as financial constraints have forced member states to streamline their resources for foreign and security policies, a new ESS would better reflect these altered conditions and would prevent the reemergence of the "capabilities-goal" gap: "neither the EU nor its member states can afford to produce a shopping list, or have an 'apple-pie'-style global strategy" (Faleg, 2013, p. 6), hence the need for clear guidance on EU's strategic interests, level of ambition and means to achieve these goals. Moreover, by



ensuring a guiding framework for other sector-specific sub-strategies, a renewed ESS would enable their implementation, reassess and clarify EU's strategic priorities and enhance its visibility and political weight globally.

However, on a positive note, advancing two sector-specific initiatives at the European Council in December – the maritime strategy and cyber defense – might be the first (shy) steps towards a broader revision of the ESS in the near future, while the decision of concentrating the works of the European Council in June 2015 on defence could indicate the Council's commitment to pursue improvements in European security and defense with renewed strength.

## CONCLUDING REMARKS

To conclude, the deep and cross-cutting transformations occurring in the international security environment have increased the urgency of a revised, reinvigorated, or more ambitiously reinvented EU strategic response to emerging key challenges. At the same time, the economic recession has broad geopolitical implications, affecting EU's "hard power" – given that the global economic crisis has impacted countries and regional balances of power in the world – and "soft power" alike – as the credibility and attractiveness of the EU model are waning both domestically and externally. In this context, establishing a set of commonly defined strategic priorities and interests, while also providing the necessary instruments to achieve them is important – if "defence matters" indeed for the EU.

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# APPROACHING REGIONAL DEVELOPMENT STRATEGIES FROM THE PERSPECTIVE OF THE SYSTEMIC VIEW ON THE LOCAL SPACE

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**Abstract:** *After the first theories of the local development (congestion and scale effects), the contemporary socio–economical sciences have refined the concept and added to the equation of the regional development a more complex variable: the local system seen as a whole. To be more precise, by this method the analysis regards not only the regional variables as factors which determine or influence a certain trajectory of the development (as in the Marshall case), but also the variable becomes the local system itself characterized by unity and its own dynamic. The economics owes this systemic approach to a more general philosophy which emerged within the social sciences. This is why, in order to understand the concept of local system from the economic point of view, we need to situate it in a wider profile of the systemic approach within the social sciences. This paper attempts to connect the arguments proposed by systemic analysis, a fashionable topic in the mainstream of the '80 years of the previous century with the contemporary strategic approach towards regional development.*

**Keywords:** systemic vision; development

## INTRODUCTION: THE LOCAL – A COMPLEX SYSTEM

First we have to clarify the use of the concept of *local system* though we refer to the idea of regional development: thus, it targets a “mezzo” level between the state and pure local (localities). For instance, if we take into consideration the territorial aspects, all the human entities slide on a dialectal, complex relation between global and local, seen as extreme levels of a single process of territorialisation. The global concept, in a systemic meaning, does not necessarily have a dimensional character. It must be seen related to the entities which interact. The global system is understood in a *relational meaning* whose extension is not prior definable, depending on the system and on the relations which emerge between the levels that make it. In other words, the global is composed of the characteristics of the systems which it connects and by their specific configurations.

In its turn, *the local*, does not have a similar meaning as that of region which is also understood as a theoretical concept, meaning an entity delimited by real or administrative borders. It is not a segment which holds the world, but it is what we can define as “whole” meaning unity. Thus, not even the term *local* has an explicit

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dimensional meaning. From the geographical point of view it is about a space which has a considerable specificity thus it does not have a meaning within a global abstract view. On short, the local is not a part of a complex system, but it is a whole in itself, which has identity and distinguishes from the environment and other local systems. It is composed of actors who are aware of this identity and, implicitly, are capable of autonomous collective behaviour. Moreover, it is a system which interacts with the exterior based on some internal rules, created by its own organization, mainly informal and sufficient in order to ensure the system's reproduction in time.

But if *the place* as "*the local*" becomes an object of analysis as a system, as a unifying whole of different areas (economical, social, political, family), which inter-relate, then its evolution also has to be seen systemically, unitary without a causal reference to its components. From this perspective, the development of a region, seen as a system is identifiable in more complex terms than in the case of the analytical methods. But the advantage is that the idea of development has a more clearly territorial dimension, seen as a set of *concrete and symbolic relations circumscribed in an area, created and recreated as reactions of the system to more general economical and social processes* (Conti and Giacaria 2001). Combining these relations we get a multitude of specific and non-repeatable organizational models as well as interdependence and complimentary schemes between the systems (regions) far more complex than the traditional ones, univocally of the type „core –periphery” or “dominance – dependence”. The fact that, explicitly, the local might take the shape or the definition of a region is a convention which we assume later on.

For example, a region can be specialized on a certain type of production, following a certain regional division of work which ensures the functionality of the whole system. Its autonomy and regional identity will be the result of its capacity of self – organization dictated by the relations' network between the actors historically built (path dependency). Time also becomes an important variable, as organizing is a temporal process. Otherwise only at mezzo-territorial level can a society (or economical system) have the advantages which result from specialization and integration: for example, by reducing trades costs, contributing to collective learning or to production innovation. At the same time, the internal structure dictates the rules of the interactions with other systems, the structure and the paths of evolution.

According to Conti and Giaccaria (2001) the main characteristic which can separate the system as territorial entity is cohesion. Additionally, *the local relations* are elements of the system which define its cohesion. This cohesion does not mean that it has a binary character as it exists or not but it may vary on an axis from *identity* (as maximum point of expression of the organizational closure and of the ability of selection of relations), to a minimum from which the system does not even exist: *destructuring*. If, on another axis, we explain the supra local relations (trans – territorial) which define the possible interactions with the outside, more precisely the dialog and interaction ability of the system, we will obtain an indicator of the degree of the “functional endowment of the system”. We also have

at this point maximum and minimum expressed by *specialization (unique) vs. multi – specialization*. In economical terms, the specialization appears when the system's functions are not that innovative and the commercial sectors are merely differentiated. This involves few local actors and a less dense network. The multi – specialization involves the simultaneous presence of several functions, often interconnected, both from the territorial and functional point of view: a great number of actors and a thick network. The two types of relations and their variation express *the dialectal nature of the system* between the cohesive forces (of endogenous origin) and the disintegrating ones (exogenous). By combining these two variables, on two axes, it results, on the theoretical level, a typology of systems with different degrees of stability and specialization (Conti and Giaccaria, 2001).

The stringent issue of the system theory, which also makes it arguable, is finding (/the lack) some rules which regulate a system. A fundamental principle of the social sciences is the conviction that the infinite variety of the economic and social phenomena is only apparent and can be explained in terms of universal laws. The dynamics of the development until now has been identified by applying some mechanical and linear categories which simplified and modified the reality (for example “centre outskirts” heuristic). The world has been represented as a jigsaw with different parts but regulated by linear rules in each part – each region, each town has been aligned, in geographic and economic language, with a general dynamic, in which specificities are seen as anomalies which have to be corrected. Or, in contrast to this, the theory of systems causes a more realistic picture, but also a more complex one, which perceives the economic system as the sum of autonomous systems related amongst them. In other words, there has been substituted the organic reality with the idea of system, based on its own rules, making an identity and uniqueness which would be deprived of its meaning if they were observed with an abstract and universal approach.

Another issue is that of *the dynamics of systems* and, mainly, of *the meaning of the dynamics of systems*. The properties and functions of a system as well as the abilities to instigate its own evolutionary processes do not directly depend on the interaction with other lower or higher levels but more on the ability to dialectically interact with them (Joye and Schuler 1990). A common example, which is valid in any industrial metropolis: confronted with the economical, technological and geopolitical dynamics which exceeds the borders of the systems, the transformation of the production follows the directions dictated by its own history (the professional and entrepreneurial cultures the strengthened structures and infrastructures etc) and will evolve receiving and assuming new meanings. In the same direction, the system itself will change because of the new meanings received from the transformations at the different composite levels.

According to Conti and Giaccaria (2001), *a local system* has to have two other minimal characteristics: *self – reflexivity and duration*. *Self – reflexivity* refers to a system's ability to self-represent. In other terms, the actors who compose a system must be aware of their membership to this whole and of the fact that they have the same characteristics. In operational terms self – reflexivity represents the principle of “anchoring” (*embeddedness*) term established by Granovetter (1985)

and the correspondence between the ideal and real scale. When actors act and plan at the same scale there are created the conditions for these to self define as part of the local system. It is necessary that this reflexivity to be constant and durable in time. For example, it is not sufficient the participation to a traditional celebration in order to become part of the local culture. The duration and continuity mean an embeddedness created day by day and the creation of a *common awareness* (Conti and Giaccaria, 2001).

In contemporary society, the relationship between self-reflexivity and time is fundamental. The self – reflexivity of the system is more than a rhetorical artifice that creates consensus within the system. This concept involves the existence of a *common consciousness* and a *sense of belonging* that are expressed through the creation and maintenance of common institutions involved in economic development. The concepts of *embeddedness* (Granovetter, 1985) and *self – reflexivity* allow us to understand better how the institutions that define the local system's identity overlap with those that support the competitiveness from the local development perspective. In this way, local development is difficult to be transferred in space and time, as long as institutions are geographically and historically determined and if the development also depends on the interweaving of economic institutions with the socio-cultural ones. Additional cautions are needed before we draw conclusions and make policies after the models of local experiences. The epistemological perspective changes radically from this point.

## 1. CHANGE OF PERSPECTIVES: FROM FUNCTIONALISM TO TERRITORIALISM

It has been noticed in the social sciences that to each epoch corresponds a particular ideological discourse, or rather an ideational dominance which might influence in a major way even different ideologies. This means for example that "mass production" has dominated both the socialist bloc and the Western ideology during the glorious decades, with motivations and justifications more or less different. Similarly, the above analyses have produced a deep intellectual revolution in the territorial sciences, and a deep rift with the "tyranny of the functionalist" that dominated the glorious decades.

Applied strictly to the concept of regional development, the most convincing *synthesis* of this debate was made by J Friedman and C Weaver, who proposed the distinguish between two contrasting meanings of the concept of (Friedman and Weaver, 1979).

On one hand, we have the *functional meaning* which concerns the planning of the distribution of the economic activities in a "rationally structured" space, which would include canters and networks. At the operational level, defining the regional policy will benefit in this case, from the conceptual tools of the positive spatial science space (for example, the concept of polarization, or diffusion models).

On the other hand, there is the *territorial meaning* for which, in contrast to the previous approach, the priority is a strategy for the activation of the endogenous

development factors, while attention focuses on the specific forms of economic and social organization in regions, individually considered. **Rediscovery of territoriality** (if we accept to call it so, from the epistemological point of view, post crisis currents) (Kuklinski, 1990) is understood as a set of irreproducible economic and social relations, accompanied by the assertion of the need for direct participation by local actors in the political and economic decisions.

The first of the two meanings was the basis for regional policies in the early post-war decades, being the expression of a so-called *top-down development* (according to the terminology introduced by W. Stohr and D. Taylor, 1981) - which signifies expansion of logics and activities that have proven to be valid and successful in the early-developed areas in the marginal regions, followed by functional integration of regions, by gradually eliminating the barriers on the way of the diffusion of development.

The concept of regional development in territorial terms is the expression of the development from **the bottom up**, which, however, does not ignore the fundamental criterion of economic efficiency. It requires maximum mobilisation and potentiating of regional resources in addition to a local "control" of the endogenous mechanisms of generating development.

If the increase in functional terms manifested its preference for integration between 'opened' regions to outside impulses, from territorial perspective, by contrast, it is required a kind of selective *spatial closure* of regional economy and society. Not in the sense of an isolated development, but the development promoted by endogenous forces in agreement with endogenous preferences. Aydalot (1985) called this logic as being **self-centered development** not totally incompatible with the idea of opening, based on the comparative advantages and specialization of the regional economies after a spatial division of the activities. In theory, this proposal constitutes a rift to the principles that have inspired the functional and conventional economic thinking. In particular, it rejects the idea of maximizing the company or individual profit, in the sense that this fact would be external to the hypothesis of the increase in the local community and its cultural values and thereby it manifests a default opened criticism of the old mercantilist criteria, according to which the productivity of any social activities is purely dependent only on the market demand which stimulates it.

As a whole, this vision of territorial self-centred development remained incomplete formalised, but it groups a wide range of assumptions and operational principles that we can summarise as follows:

- Any community territorially organized has its own resources (human, institutional, environmental, and socio-cultural) which make its endogenous potential to enable some form of integrated development (Stohr, 1984).

- These factors taken together (economic, social, cultural, institutional, environmental, etc.) define a regional identity that is repeatable in terms of quality, thanks to the specificity of the interaction between the factors (if not the factors themselves), and of the way of participation and creation of political and decision-making system. In addition, there also manifests a special way to handle stimuli outside to the regional potential.



- The strategies of self-centred development, based on maximum intensification of endogenous potential must be selective, focused on certain key variables: particularly preferences will direct to sectors which meet the needs of the local population depending on the stage of development in which they are and on the corresponding conditions, historical and cultural values of the region;

- These concepts have to be applied at various geographical scales for each territorial level where there are natural, human and institutional conditions, capable to operate a relatively autonomous development process.

*The conceptual category of the **territory*** means a dense sedimentation of specific and non-transferable social relations. The territory is actually created and determined by social relations. This concept is different, if not even contradictory with that of space in the positivist tradition, through which were represented all the valid "objective" phenomena and processes in all times and spaces. Thus, the theoretical change regards the interpretation of the real phenomena. History is now regarded as the fruit of different circumstances and conditions neither predictable nor included in predetermined schemes. This purely generic remark, should be framed in the political atmosphere and in the cultural "background" of the 70s-80s, in which clearly manifested the conviction that regional science and, most importantly, the concept of development which inspired it, should not be (self) limited to being a tool for providing solutions in accordance with scales of universally valid values (they have imposed in the territorial disciplines an epistemological interaction stretching, forcing the limits of the traditional concepts) (Kuklinski, 1990).

In conclusion, when writing a project which changes the criteria for interpretation, perhaps it would be useful to refer to the *three fundamental determinants* of the regional development that Garofoli (2002) excerpted from the thrilling debate that we referred to. These are:

- *the local factors* able to assist in the transformation of the regional system (e.g. birth of entrepreneurs)-can be assimilated to that *regional potential*

- *reactions to external changes* (organizational or technological) based on the system's own organizational capacity (e.g. the promotion of forms of collaboration and cooperation) and

- *the external factors* which appear and totally change the production and the social structures (for instance, the location of a multinational company outside the region).

In the first and the second case, we are dealing with an explicit process of auto-centered development, given that the power and control of the process is in the hands of the socio-economic and regional institutional forces, while the third factor is the expression of an exogenous development. The distinction is not only nominal but it is also useful from the methodological point of view by the fact that it unites two concepts that the traditional economic theory kept them separately. To solve this conceptual antagonism, somewhat concealed, Dematteis (1994) proposes the separation of the meaning of *regional (local) development* from a simpler and more reductionist one that of "*value*". From this new perspective the regional system (be it land or space) becomes a passive support for pervasive forces and

processes. Territorial valuing can be derived from the variation of the distribution of the comparative advantages. More specifically, the decisive actors of transformations have external origin, but they find in the region the territorial conditions essential for their economic objectives.

Valuing is a reversible process which can be interrupted or cancelled if the development factors and conditions that have attracted outsiders disappear (for example, the discovery elsewhere of cheaper resources). The distinction between the simple territorial valuing and the regional (local) development helps us to understand why the growing global or international economy does not have a corresponding territorial uniformity but on the contrary tends to it.

## 2. EFFECTS IN THE DEVELOPMENT STRATEGY PLAN

The history of development theories is marked by the search for valid solutions in all times and in every place. This is due mostly to the simplifying processes typical for the social modern sciences. On the other hand, the systemic vision is based on combating these simplifications. From this perspective, the variety of patterns of development does not derive from the inability of local actors to be self-organized in the most effective manner and to adopt a single model of development. On the contrary, since the initiation of development depends on the actors' perceptions that deeply relate to each other through a network, it appears that each entity is associated with a path on its own in accordance with the perceptions and the capabilities of the reference systems.

Not only that the system has its own evolution and development, but if we were to consider the economic dimension of the local system, we cannot assimilate a 'sub-set' of the local system, because otherwise we would fall into the trap of the functionalist perspective and we would be inclined to separate the economic behaviour from other types of behaviour (for example, socio-cultural).

In these circumstances the strategy changes its configuration and orientation from finding the intervention sectors and manipulating policies to finding that feature that defines the region and its trajectory in terms of economic development, and in terms of the movement/ evolution/ dynamics/ strategy means discovering the vision but stemmed from a trajectory and a historic roadmap to ensure plausibility and a degree of comfort to citizens (history friendly). In addition to these elements, determined by the overall opening which requires that the territories be more open (or better said that no longer allows territories to isolate self-supplying) the strategy also involves the placement of the territory concerned on an orbit or on a dynamic line of trade and external relations, so, implicitly, finding that system of relationships which contribute to its increase of endogenous nature.

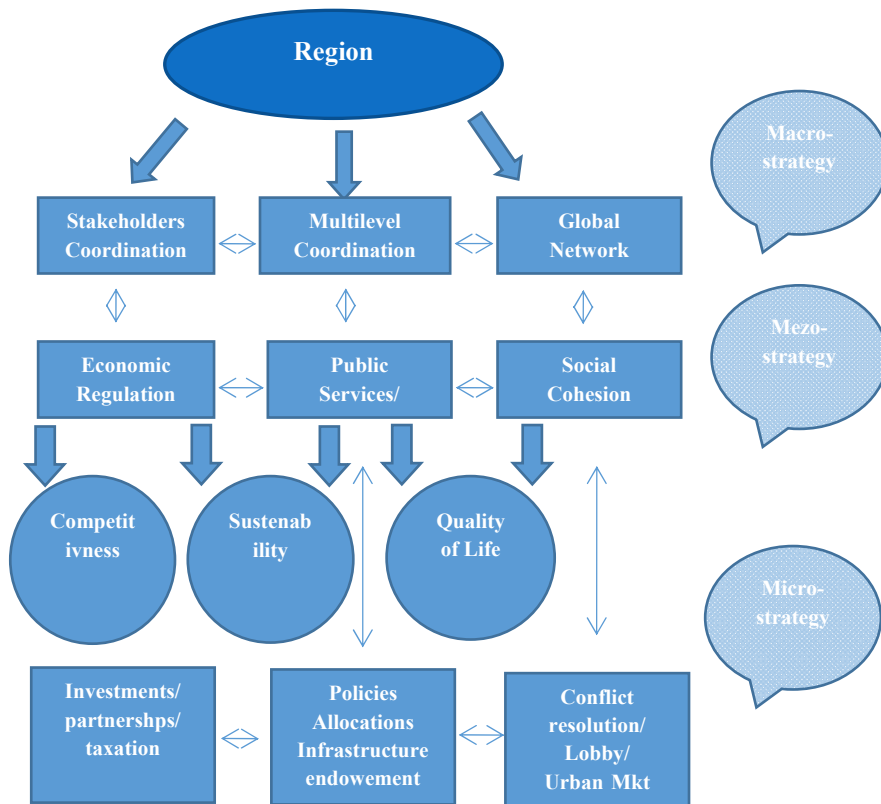
In this respect, the role of local (regional) policy rather becomes one of orientation of the territory in a competitive space wider than that of sector markets: namely in the territories competition (competition for investment, competition for capturing the opportunities for collaboration and implementation of projects in the open-air restaurant, competition for attracting/keeping of residents, etc.).

Local/regional authorities are becoming traders, transacting opportunities and facilities, environmental regulations or tax rules.

In the second plan, the role already established by the public service for residents or for mobile agents in search of localization remains important. Last but not least, it is also acquired and the role of reactivity (adaptability) at much faster world growth which involves the application of ‘instant policy’ and certain provisions for the future. On the whole, it is about a more interventionist, but less invasive (intrusive) strategic role than the present one.

Thus, we propose a model of strategic intervention on three levels of public authority available on the different instrumental bases (Figure 1).

**Figure 1 - Model of Strategic Intervention by levels**



Source: own representation

At the macro level-the strategic aim for **global positioning (Macro-strategy)**, the authority shall assume a purely political role of ‘coordination’ between the various levels and fields of power which manifests itself in the territory and between the various stakeholders that revolve in that space and ‘bargaining’ or lobbying for foreign forces which interact with the region (place on the orbit). At the mezo-strategic level, strategic-(**mezo-strategy**), the authorities are tasked to

produce those 'climates' to foster: *competitiveness, the quality of life and sustainability*. In fact, it is not about anything other than the institutions, rules and public services in addition to creating more opportunities for the population and firms providing comfort level enough to choose the opportunity cost/location in the region.

At *micro-strategic level* which concern the *functionality and resilience* for strategic/space, the authorities are working directly with public policy toolkit classics: taxation, allocation of resources, the infrastructure endowment, the establishment of public private partnerships, conflict resolution and policies of territorial marketing.

## CONCLUSIONS

Regarding from this perspective, development becomes more or less a problem of organization / management of space (physical structure problem Action must begin with area morphology identification and a sort of asset mapping: determining spatial development pattern, than a confrontation with the vision of development. If there is no matching between the two, measures are taken to facilitate the prospective of this pattern. These measures over the territory should be based on analysis of physical structures at different scales as well as patterns of movement, land use, ownership or control and occupation. In simplified terms the dilemma is to choose between an infrastructure adapted to facilitate the preexisting flows or to build a new infrastructure generating new flows.

Also development becomes, or better said, remain an administrative and institutional problem. A region's distinctive social and cultural characteristics, measured by the behaviors of its residents is an important source of knowledge as input for regional policies. New multi-level patterns of governance have emerged both from above by an increased involvement from EU (in our case) or other supra-national organizations and from below through the increased of cities and local authorities in the economic issues. Under these pressures alienated citizen needs a more comfortable way to refer himself at the authority and the new reforms must consider also these sensitive features.

Existing regional structures, including institutional weaknesses, together with local policies are dependent on their past evolution and thus are hard to change. Local economies are "spaces" or "scenes" of an institutionalized "collective learning" also dependent on its own history. Technological skills reflect the local, regional or national contexts that were formed. Successful regions are those in which institutions have complemented and were folded very well with local sectorial and production networks. That is why suitable models of agency, structures, institutions and even the discourse must internalize and adapt to a regional stock of knowledge.

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# AN EVALUATION OF INSTITUTIONAL STRENGTH OF CROSS-BORDER COOPERATION STRUCTURES

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**Abstract:** *This paper is premised on the observation that a view of competitive development based on ‘nation states’ may gradually have to give way to ‘contexts of development’ as an analytical framework which accounts more appropriately for the interstitial fabric of economic, as well as historical, social and cultural linkages across borders between atomized actors (countries, firms, and individuals). We attempt to identify contexts boundaries to reveal the contextual origins of a country’s competitive assets. We collect data for the three mapping dimensions: identity (geographical scale and polity), functionality (thematic focus of cross-border cooperation, policy areas), and governance (policy space, decision-making, civil society). The geographical focus consists of ten selected European regional groupings. We produce a qualitative assessment of each cooperation structure by assigning scores of institutional quality on two institutional dimensions: breadth and depth of the level of integration.*

**Keywords:** territorial development; economic integration

## INTRODUCTION

This paper attempts to present evidence related to the hypothesis about replacing the view of ‘nation states’ as optimal economic units (in explaining development) with a spatially contextualized one based on territories as economic areas of variable geometry. With ever greater emphasis on territorial cooperation and regional networks in the programming framework, the European Union (EU) heads towards a vision of economic integration which accounts more appropriately for the interstitial fabric of economic, as well as historical, social and cultural linkages across borders between atomized actors (countries, firms, and individuals). Against a background of almost inexistent barriers to trade, as well as near completion of the single market, the EU member states are expected to increasingly benefit from geographical and institutional proximity within neighbouring regions rather than conventional gains of country specialization. In other words, regional commonality has become a competitive asset.

The territorial vision of the strategy of integration is by no means a European characteristic. Contiguous regions that were successful at earlier times in advancing integration may shed light on things to come. One such example is

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Cascadia, a region on the Pacific coast stretching from British Columbia in Canada to Oregon and Washington in the U.S., and including parts of Yukon, Idaho, Wyoming, and Western Montana states. Initially conceived as the territory of an environmental project in the Cascade Mountains in the 1970s, the region has grown to a stage wherefrom it boasts the political identity of “The Republic of Cascadia” for its approx. 14 million residents (Webley, 2011), with a GDP of \$814 billion (2011), which would rank it the 18th largest economy in the world (Talton, 2013), and home to multinationals like Microsoft, Amazon, Starbucks and Nike, or worldwide renowned entertainment industries in Hollywood and Vancouver. Cascadia has proved to be a remarkable case of merging political and economic interests towards setting-up a cross-border polity with a regional identity, functional economy, and common governance, identifying characteristics of regional viability.

This is an outline this paper attempts to detail at the level the current European initiatives and projects of cross-border cooperation structures (CBCS). We first discuss the two building blocks of cross-border cooperation, geographical and institutional proximity. This provides the background for an institutional evaluation of CBCS as a function of regional identifiers, core functionalities, and policy scope, and how these relate to wider issues of development and advanced integration. We apply a three step exercise emphasizing the breadth and depth of the agglomeration. In terms of breadth, we want to know the number, thematic focus and institutional forms of the areas of cooperation that make a region more or less functional. In terms of depth, we investigate the connections that have resulted among various regional initiatives and the extent to which they become accomplished objectives. We conclude on the conditions of transforming cross-border development into a competitive asset.

## 1. THEORETICAL FRAMEWORK

Tackling cross-border cooperation in Europe has become almost an inevitable step on the way to understanding what the future engines of growth may consist of. Its dynamic development during the last decades (see Chilla *et al.*, 2012) permits some lessons to be drawn as to the setting of integration among member-states along contiguous borders, as well as the implications of integrating them into coherent regional policy initiatives. For instance, ample discussions relate now to both successful and failed attempts to overcome the disadvantages associated with marginal border location (Kratke, 1998, Perkmann, 2007), which may prove a stimulating premise of achieving the ambitious objectives of social and economic cohesion.

CBCS initiatives arise from a two-pronged set of prerequisites in relation to proximity. One is geographical, the other is institutional. The geography of CBCS is responsible mostly for the quantifiable effects of market integration: resource allocation, competitive effects, increasing returns to scale, and transportation costs. The amplitude of the effects depends essentially on the market size to the extent that a large geographical scale allows factors to find the

most favorable returns. The optimal institutional design should reflect these benefits as a function of the geography of integration of an area within which growth and competition become self-enforcing. That was the economic case of establishing a customs union among the six EU founding members in 1957, and it should have played a similar role with each successive waves of enlargement.

An economic bloc, however, thrives on unquantifiable benefits as well, resulting from example from externalities, trust, or commonalities such as a feeling of closeness, language, ethnic roots or historical events. On a general level, the potential of turning them into tangible gains from integration is a function of institutional proximity. An enlarged EU finds increasingly difficult to adapt a single set of policies with the same effect to environments that differ in the way they set their political vision, organize their economies, or adopt cultural values and social norms. Institutional proximity make complex, well-defined and oriented relationships possible across countries: “examples include customs, collective habits, prejudices, legal or moral rules but also parliaments, firms, associations etc, that constitute a concrete manifestation of institutions.” (Talbot, 2007)

Cross-border cooperation structures (CBCS) are formed on cultural, social and economic affinities, due their common historical background, offering a framework for regional cooperation. Based on the institutional form and level of governance, these structures have different tools to adopt and implement decisions and cooperation projects; they configure spaces of development within a geographical scale that includes homogeneous institutions. It is from this perspective that territorial development may be regarded as a competitive asset linking the two defining parts of a regional economy – its geography and its institutions, formal and informal – in truly mutually dependent articulations. Poor geography can undermine the success of good institutions, as can bad institutions turn a good environment into a botched attempt to development.

## 2. EVALUATION OF INSTITUTIONAL STRENGTH

### 2.1. Methodology

We collected data for three mapping dimensions: identity, reflected by geography and polity, functionality, the thematic focus of cross-border cooperation, and governance, the policy space of decision-making. Each of these dimensions, combining facets of both geographical and institutional proximity, permits a qualitative assessment of each cooperation structure by assigning scores of institutional quality on two dimensions: breadth and depth of the level of regional integration.

Our CBCS sample consists of ten European regional groupings, represented in Figure 1, as follows: Oberrheinkonferenz, Nordisk Ministerråd, Agglomération franco-valdo-genevois, Danube-Kris-Mures-Tisa Euroregio, Greater Region, Siret-Prut-Nistru Euroregion, Euregio Maas-Rhein, Council of the Baltic Sea States, Trinational Eurodistrict Basel, and Euroregion Alentejo-Centro-Extremadura.



**Figure 1 – Cross-border cooperation structures' map**

Source: Association of European Border Regions (2014)

The breadth of CBCS refers to the number and thematic diversity of regional policies. The strength of the regional structure is a function of common results from activities such as science and technology, cultural and educational exchange, health care, environment, tourism, and their relation to the economic development of the local economies. It has become customary that intra-regional partnerships include ‘science and technology’, ‘cultural and educational exchange’, or ‘health’ among prioritized areas of cooperation, which are all particularly favourable to promoting local/regional distinctiveness. These initiatives eventuate in increasing institutionalization strategic set-up in a cross-border region that would lay down the platform of deepening market integration.

The *institutional scale* is local, regional, and national for each thematic focus (Kraetke, 1999, p. 636), while the *geographical scale* is small, for areas under 5,000 km<sup>2</sup>, medium (5,000-25,000 km<sup>2</sup>), and large (above 25,000 km<sup>2</sup>). For example, cooperation in environmental protection might involve only a certain part of the region and the area of this specific territory should be classified as small, medium or large irrespective of the geographical scale of the entire cooperation structure.

The depth of CBCS refers to the level of integration for each thematic focus. We evaluate the strength of the cross-border institutional structure placing it in one of three categories to which we assign a number of stars accordingly:

\* If there is a written form of cooperation like agreement/contract/convention, etc.

\*\* If there is an institutional work form and a record of actions taken, for example: adopted working standards or codes, etc.

\*\*\* If there are economic effects, such as research and development projects, patents, application of standards, etc.

### 3. FINDINGS

#### *Identity*

Political organization takes a variety of forms. The study includes ten cross-border cooperation structures, some of them having an informal structure, such as a charter (Franco-Valdo-Genevoise Agglomeration and EuroregioMeuse-Rhin). Trinational Eurodistrict Basel, Danube-Kris-Mures-Tisa (DKMT) and Siret-Prut-Nistru Euro-region are non-profit associations, while the Greater Region has the most institutionalized form, with legal personality: European Grouping of Territorial Cooperation (EGTC) having a regional authority. Other structures have a consultative role at governmental level: the Council of the Baltic Sea States (CBSS) - political forum for regional intergovernmental cooperation, the Nordic Council - parliamentary cooperation forum, and Upper Rhine - intergovernmental commission.

The organization of the technical staff is not connected to the status of the cross-border cooperation structure and it usually consists of separate working groups. Their activities are not necessarily interconnected. Only *Projet d'Agglomeration franco-valdo-genevois*, Siret-Prut-Nistru Euro-region Association, Euroregio Meuse-Rhin and Meuse-Rhin work as integrated teams. This has a direct impact on the degree of coordination between several policies within the cooperation structure.

The Franco-German-Swiss Conference of the Upper Rhine provides the institutional framework of cross-border regional cooperation in the Upper Rhine area. Furthermore, the Government Commission represents the link between the Upper Rhine Conference and the national governments and can mediate questions, which cannot be settled at the regional level.

The Nordic Council (Norden) is the official inter-parliamentary body, all members being nominated by the party groups in their home parliaments. It works as a consultation body between its members, adopting recommendations prepared in its standing committees, or by passing specific declaration which are then acted on by ministers and officials in member states.

Grand Geneva or the France-Vaud-Geneva agglomeration is a cross-border cooperation structure that has evolved into several institutions that cooperate to preserve the quality of life in the context of the permanent demographic and economic expansion of the region: *Comité regional franco-genevois* (established in 1973 by Geneva and France), *Conseil du Léman* (1987). In 2004, the most extended project of cross-border cooperation that comprises the region of Geneva was initiated: *Project d'agglomération franco-valdo-genevoise* (Grand Geneva)

created in 2007 to support a homogenous development of the agglomeration. Métropole lémanique (2011) is the most recent institution and was created to promote the interests of the Léman region in Switzerland. The project of Grand Geneva implies a vast cross-border cooperation in several areas: agriculture, economy, environment, housing, mobility, nature and urbanization. (Grand Geneva, 2013)

Danube Kris Mures Tisa is an association based on 10 working groups with the purpose of extending the cooperation between local communities and local governments to ease the European integration process.

The Greater Region (or Greater Region of Luxembourg) is a geopolitical region within Europe, created to promote economic, cultural, touristic and social development and one of the most densely populated and wealthy regions of the EU.

Siret-Nistru-Prut Euroregion Association proposes a systemic approach toward strategic planning: local strategic planning - regional strategic planning frame.

The Euregio Rhin-Meuse is an agglomeration which was formed in 1976 as a charter and it is characterised by the existence of important sea ports like Rotterdam and Antwerp which generate high income.

The Council of the Baltic Sea States is an overall political forum for regional inter-governmental cooperation and its members are the 11 states of the Baltic Sea Region as well as the European Commission. The Council consists of the Ministers for Foreign Affairs from each Member State and a representative from the European Commission.

The Tri-National Association Eurodistrict Basel has a non-profit nature and its members are cities, municipalities, communal groups and communities which are located within the perimeter of the tri-national agglomeration of Basel.

EUROACE is located on the Spanish-Portuguese border. This organization is not legally formed. This means that EUROACE's structure is open and dynamic and that all entities and organizations within the three member regions, both public and private, that wish to participate can join this community. The Euroregion's territory is comprised of a vast web of medium-sized and small cities.

The geographical scale describes the surface of cross-border cooperation structures. The smallest regions are Trinational Eurodistrict of Basel (1,989km<sup>2</sup>) and the Franco-Valdo-Genevoise Agglomeration (2,000 km<sup>2</sup>), being densely populated urban areas. Trinational Eurodistrict of Basel comprises several towns and villages around the city of Basel, while the Franco-Valdo-Genevoise Agglomeration is created around the city of Geneva and includes both Swiss and French municipalities. Large structures are usually Euroregions: DKMT, Siret-Prut-Nistru and Alentejo-Centro-Extremadura. The largest CBCS is the Nordic Council (1,319,482.70 km<sup>2</sup>) and it is formed by entire countries: Denmark, Finland, Iceland, Norway and Sweden. Medium sized CBCS are: the Council of the Baltic Sea States and Euroregio Meuse-Rhin.

## Functionality

The functionality or the thematic focus of cooperation is analyzed in two dimensions: the breadth (the number of domains of cooperation) and depth (the level of integration on each thematic focus).

The thematic focus for each region differs according to the common background of the members, to the specific economic activity, specific resources, cultural affinities, social issues, etc. and cooperation targets using regional advantages to enhance its development.

The most common domains for cooperation are environmental protection which can be found in eight of the ten analyzed structures and culture in seven structures. Other very important directions are health (six structures), education and tourism (each in five structures). CBCSSs can develop an important part of cooperation in domains that cannot be found in other cases. An eloquent example is that of life sciences and biodiversity in Basel, which contributes strongly to this Euro-district's economy. One person out ten who lives in this region is employed in life sciences. (Eurodistrict Basel, 2013)

The depth of cooperation in each thematic focus is calculated as a sum of the number of stars assigned for each project. The highest rank reached Norden in environmental protection (25\*) and EUROACE also in environmental protection (19\*). Other advanced levels of cooperation were established in economic development: Norden (16\*), CBSS (12\*) and DKMT (8\*). In the Nordic Council, culture has an important role in cooperation (13\*), while Meuse-Rhin Euroregion focuses on research and development (12\*), the Greater Region on tourism (9\*) and Trinational Eurodistrict Basel on transportation (10\*). In general, an advanced level of development translates proportionally into the ease of multiplying the opportunities for asserting regional belongingness. A synoptic view of these findings is presented in Table 1 and Figure 2 below.

**Table 1 - A hierarchy of CBCS according to institutional strength**

(a) Large geographical scale

CBCS	Policy focus	Institutional score
Nordisk Ministerråd	Environment and Nature	25* (5x2*+5x3*)
Euroregion Alentejo-Centro-Extremadura	Environment	19* (2x2*+5x3*)
Nordisk Ministerråd	Economy, business and working life	16* (5x2*+2x3*)
Nordisk Ministerråd	Culture, leisure and media	13* (5x2*+1x3*)
CBSS	Economic development	12* (3x1*+3x2*+1x3*)

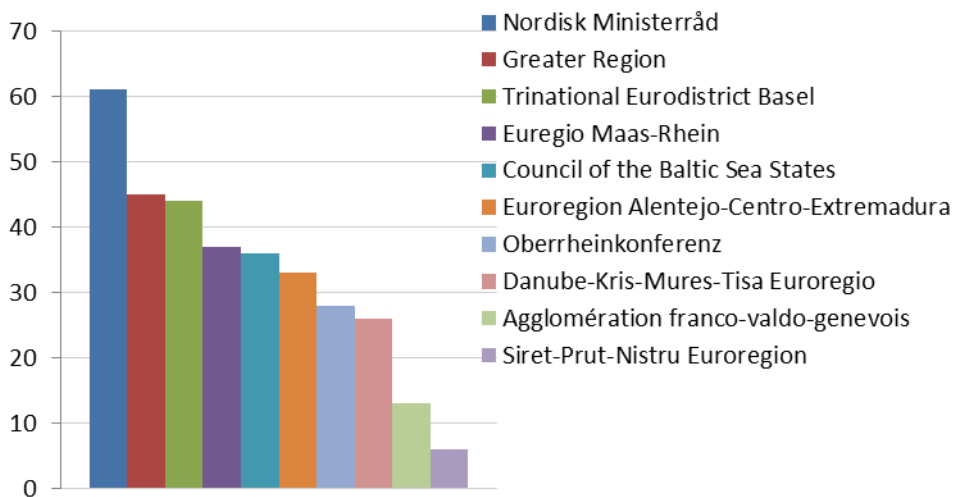
Source: authors' calculation

## (b) Small/medium geographical scale

CBCS	Policy focus	Institutional score
Euregio Maas-Rhein	Research and development	12* (3x2*+2x3*)
Trinational Eurodistrict Basel	Transport and urban development	10* (5x1*+1x2*+1x3*)
Trinational Eurodistrict Basel	Environment	9* (2x1*+2x2*+1x3*)
Trinational Eurodistrict Basel	Culture	9* (3x3*)
Trinational Eurodistrict Basel Council of the Baltic Sea States	Planning and sustainable development Civil security & human dimension	8* (1x2*+2x2*+1x3*) 8* (1x1*+2x2*+1x3*)

Source: authors' calculation

**Figure 2 - Institutional strength of selected European CBCS**



Source: authors' calculation

In terms of breadth, Greater Region cooperates in eight directions (the highest number), which are also the most frequent ones: environment, health, education, culture, economics, tourism, etc. and it is on the second place on the total number of stars achieved for the depth of cooperation, regardless the thematic focus. DKMT and Basel have seven domains of cooperation, but some of them comprise two or three areas at the time: transport and urban development for Basel and, in DKMT, economics & infrastructure and culture, education & sports. The region with the smallest breadth and smallest depth is Siret-Prut-NistruEuroregion with only one project for each of the three areas, each of them being ranked 2 stars. This region is also the newest and it includes a small population.

The region with the highest number of stars for all its projects, is Norden (61\*). All its domains of cooperation rely on a broader thematic focus: environment & nature, education & research, culture, leisure & media, etc. Its

projects are very advanced and they produce important economic results (nine projects were ranked 3\*) with a high emphasis on innovation. There is an important role assigned to education in almost every domain, being used to disseminate information to each policy's stakeholders. Creative industries receive a great attention in both economy and culture and leisure areas as they are seen as growth engines.

Greater Region also has many projects ranked 3\* (eight), but In the Greater Region policies are not interconnected through an integrated development strategy. For example, the project Edudora2 is a cooperation in the healthcare sector and it has certain implications in education as it relies on teaching the population to prevent and cure health problems. The Environmental cluster deals with development of cross-border cooperation in fields such as economy, education and research and the research in the Corena project is developed in medicine and agriculture.

### *Governance*

The institutional level can differ very much from one project to another in the same region and same thematic focus. The national level includes governments and national institutions, regional actors include regions, provinces, cantons and local actors include municipalities, communes and districts. There is no distinction in the analysis between civil society and public or private actors due to lack of comparable information.

Within the ten regions, there are generally more domains in which national actors are implicated in the decision process. The thematic focus which relies only on regional and local actors is usually more locally specific: housing and accommodation, urbanism and sports, or there are programs initiated by smaller regions which are more competitive in these directions: research and development, technology and tourism, or have certain geographical cross-border assets that they exploit: tourism, environment.

The size of the policy space is usually similar to the size of the whole region, but in some cases certain areas of cooperation focus on smaller geographical space. This is case of cooperation in security in Upper Rhine, which only focuses on the border area (small) and uses regional and local actors to coordinate and implement the projects, urbanism projects in DKMT, which develop only certain towns, and education in the Greater Region applicable in a number of municipalities, but coordinated at national, regional and local level. On the other side, Grand Geneva implements projects which are designed for a larger geographical space that it takes part of. For instance, cooperation in health includes programs that are conducted in France and Switzerland at national level, in a cross-border cooperation framework: emergency sector, health crises, epidemiology, environmental health and a free telephone line for prevention of addictive behaviors. DKMT is a special case, where most of the projects are at small scale, in small regions, initiated by local communities, trying to promote a very unique and concentrated cultural space through rural tourism, crafts and cultural events.

All in all the ten regions present a large variety of characteristics that describe their geographical space, polity, policy areas and governance. The limit of this analysis is that it does not set a direct relationship between the form of organization, size and governance level on one side and the level of integration on the other side, but it presents some obvious relations and a complete data on a common framework.

## CONCLUSIONS

Our results address some tangible policy issues such as: What connections are established between different thematic areas of cooperation? What is the role of cross-border externalities and what is their impact on country specialization?

A selection of ten cross-border cooperation structures, broadly spread on the surface of the European Union, serves the objective of describing well defined regional identities and their core functionalities, regardless of state borders. Their variety is given by geographical scale, form of organization, the thematic focus of cross-border cooperation, the governance and levels of decision, while their strength and unity relies mostly in the level of integration derived from the number of cooperation areas and the implementation level of the projects in each area.

The main conclusions of this analysis are:

- The geographical scale is not directly connected to the level of integration. Although policies that comprise large areas, such as entire states, are hard to coordinate, the Nordic Council is the most integrated region, while the Trinational Eurodistrict Basel is an urban agglomeration which creates many opportunities for cooperation, important cross-border flows of capital, workers and goods and congestion issues that are hard to manage.

- An older cooperation is usually more advanced, but this is rather the result more of the common history and cultural background, as well as older international relations of the countries involved.

- Integrated teams serve for a slightly stronger cooperation comparing to working groups assigned for each functionality because the last ones are more specialized and focused on their specific role. Functionalities can be otherwise coordinated through a common vision, good management of the CBSS, implication of common actors and assigning a single working group for two or more domains.

- Greater Region is the most institutionalized region and this might have an important role in its high level of integration because it has more authority and financing possibilities.

- Regarding thematic focus, there is a large set of possibilities to integrate a region on both the depth and breadth dimensions. The number of functionalities does not have a clear relationship to the advance of the projects and their economic impact. The cooperation is stronger in areas with a more general impact on the stakeholders: environment, health, education and tourism. Coordination between domains of cooperation is given by the organization of the CBSS and the

connections between them, which allow the appliance of the same policy, such as culture and leisure, or economy and business.

The governance level has an interesting influence of cross-border cooperation: a smaller scale, such as local, or regional gives more independence to central states being able to focus on regional identity and advantages, while a national one gives more authority, legal power and central coordination. The most integrated structure from our sample, Norden, functions as a consultative body between governments and uses national actors in all areas of cooperation.

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# THE THREATS TO EU INTERREGIONAL COHESION IN THE POST-LISBON AGENDA

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**Abstract:** *The intricate context of the economic crisis and the ever more obvious failures of the Lisbon Treaty appear to have amplified a phenomenon which threatens the cohesion at regional and national level in several states across the EU. It is a reaffirmation of regional or subnational identities, prompted by an increase in Eurosceptical attitudes and the feeling of Euro-fatigue, not only at the core of European construction, but also in "The New Europe", namely East-Central member states. The mistrust in the latest reconfiguration of the EU's institutions, engendered by the Treaty of Lisbon, has once again triggered accusations of democratic deficit throughout EU-28. If one adds to this the chronic lack of confidence in national administrations expressed by several more or less autonomous regions, a pertinent scenario arises, entailing such perilous concepts as separatism, disintegration and unrest. The classic right to self-determination has yet to play its part in an increasingly tense European geopolitical context. This article mentions the hot spots across the EU which endanger its regional cohesion, as well as the current institutional and political background fostering the sinuous course of events in places such as Scotland, Catalunya or Venice, as prompted by the post-Lisbon state of affairs.*

**Keywords:** Euroscepticism; democratic deficit; post-Lisbon agenda; regional cohesion; New Europe

## 1. BACKGROUND AND PERSPECTIVES

The European Union after the Treaty of Lisbon appears to be facing more intricate problems than in the aftermath of previous ratifications of such paramount documents, meant to enable it to adjust to the challenges arising in its institutional configuration. Indeed, unlike in the case of other "difficult" treaties, such as that of Maastricht or Nice (Weatherill, 2012), the configuration of the European projects brought at the negotiations table the countries from the central and eastern part of the continent, for the first time in their tumultuous history. Needless to say, more voices entail further discrepancies and a plethora of national interests meant to be upheld, to which one may boldly add the increasingly vocal regional ones, albeit this so-called "New Europe" has yet to define in an univocal manner the extent to which its sub-national units are entitled to intervene in the integration process and, thus, in the dialogue with EU bodies.

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Set against the background of the economic crisis and, particularly, the sovereign debt crisis, the first years of the post-Lisbon agenda were marred by economic and political turmoil, which did not foster many attempts to accurately evaluate the impact of the latest major institutional Treaty on the functioning of the Union. It is our purpose to shed light on the most significant implications of the aforementioned document on the factors that nurture national and regional cohesion, in order to draw a pertinent background which will accommodate the explanations pertaining to the numerous disturbances in this endeavour, arising at present.

Even though the core of the Lisbon Treaty is formed by the idea of upholding democracy from its three key angles, namely equality, representation and participation (Mitra, 2013), we will further pinpoint the fact that such formulas have become either obsolete or shallow in the eyes of many European citizens. This phenomenon, not entirely surprising amid a difficult economic context, inevitably fosters the re-emergence of nationalism, separatism and a general spirit of mutiny directed against the political class, at every step of the multi-level governance system the EU relies on. Concepts like the democratic deficit, Euroscepticism and a newly-concocted definition of self-determination (Sterio, 2013) appear to leave an ever more visible imprint on the institutional effectiveness of the Union, as well as on its enlargement and reform processes, which have largely defined it to date.

In keeping with the orientation of the European Union over the last two decades, the Treaty of Lisbon undoubtedly takes into account the threats to further integration posed by such tendencies as the ones sketched in the previous paragraph. For this reason, the post-Lisbon agenda was meant to be one of more subsidiarity, democratic participation and active citizenship, as shown by the myriad of activities hosted by EU institutions in this regard during the European Year of Citizens, namely 2013. Nevertheless, things did not go as smoothly as expected, since the numerous reforms proposed by the Treaty failed to gather the necessary support in a time of recession and drastic measures, as the latter appear to have prevailed in the minds of citizens. This phenomenon is noticeable throughout the EU, as the Eurobarometer indicated some of the lowest confidence levels in the Union in the majority of its member states. Even East-Central Europe, where the main strength of Euro-optimism lay, is currently suffering from disillusionment with the integration project, fuelling the numerous regional tensions arising once again. Whilst the Western part of the continent is confronting with a powerful wave of nationalism, such as the complicated and unpredictable Scottish case, the long-standing problems of Spain, not only in Catalonia, but also in the Basque Country, or the less known but definitely more peculiar recent case of Venice, the Eastern part of Europe trembles under the auspices of self-determination and its conflicting interpretations. Nowhere is the world more fragmented, from a geopolitical standpoint, than in the Balkans, which have also been, not coincidentally, the spark that lit the fuse of violent history far too many times. Thus, with the precedent of Kosovo already established, it remains to be seen how far the separatist ambitions may actually go (Hehir, 2010).

## 2. THE LISBON TREATY - NATIONAL AND REGIONAL COHESION ENHANCEMENTS

Given the achievement of the most consistent wave of enlargement of the European Union, in the first decade of the new century, the capacity of its already entangled decision making mechanisms to effectively respond to the newly-created status quo was obviously weak. Therefore, it came as no surprise that the failure of the Constitutional Treaty would trigger an attempt to rescue its essential institutional provisions, whilst leaving out those which pertained to the more symbolic - and, consequently, irritating in the eyes of nationalists - aspects germane to the functioning of the Union. In spite of the lengthy and somewhat perilous course of action leading to the ratification of the new document, which was two weeks short of lasting two years, the 1<sup>st</sup> of December 2009 saw its course of reform initiate, after the inevitable opt-outs, bargains and political exaggerations. It is difficult to refrain from outlining the origins of what we aim to call hereafter the “New Euroscepticism”, which became apparent during this tense period dedicated to the ratification of the Treaty of Lisbon, given the emergence of at least two poles of opposition stemming from the “New Europe”, namely Poland and the Czech Republic (König, Proksch and Tsebelis, 2012). While the nature of this phenomenon was the object of a previous study conducted by us (Corpădean, 2011), it remains important to remind the historical argument brought forth by Czech President Vaclav Klaus at the time, pertaining to the Sudetenland and the Benes Decrees, which ultimately served as a pretext to reject the Charter of Fundamental Rights, without any genuine legal basis (Piris, 2010).

That said, the Treaty did succeed in meeting the requirements of all parties with respect to the relations between the supranational, intergovernmental, national and regional levels, as part of the governance system of the EU. In this way, the institutional liaisons between the Union and its member states became clearer and somewhat more comprehensible to citizens, whilst the institutions that the latter are closest to were equally strengthened. For instance, the European Parliament was finally placed on equal footing with its traditional co-legislator, i.e. the Council of the European Union, in key areas referring to penal judicial cooperation and immigration - to mention just a few, which are closer to the everyday perception of citizens. This righteously enabled the artisans of the Treaty to change the name “co-decision” to “ordinary legislative procedure”, with positive democratic implications on the ratification of international treaties, as well as on budgetary approval procedures (Piris, 2010). Alongside this measure, it became evident that the pillar structure instilled by the Treaty of Maastricht had been rendered obsolete, which is why the more comprehensible separation of competences between member states and the Union into three categories was equally stipulated in the Reform Treaty.

National parliaments were reinforced, albeit the regional level once again failed to become an important part of such provisions. The Committee of the Regions remains a purely consultative body of the EU - not even an institution -, much like the Economic and Social Committee, although its functions are not to be

taken for granted, chiefly in the monitoring of the Europe 2020 Strategy. Furthermore, the functions of regional parliaments with regard to the application of the subsidiarity principle in the adoption of new Community legislation remain dependent on national constitutional frameworks. This is to some extent explicable, due to the sensitive nature of the topic, but also because of the well-known fact that federal and unitary states would need to have different provisions in this respect. However, providing national parliaments with more prerogatives in terms of supervising the EU's legislative process is a positive step towards better cohesion in this respect, but it remains soft by essence (Trybus and Rubini, 2012). This is because even if one third of national parliaments express their opposition to a legislative proposal issued by the Commission, the latter is under no formal obligation to retract it. Moreover, in the event that a majority of national legislatures vote against such a proposal and the European Commission insists on upholding it, it is the Council and Parliament that decide on the outcome of the process, not the national parliaments themselves.

On the other hand, a positive note from the viewpoint of synergy between the supranational, national and even regional levels, introduced by the Treaty of Lisbon, is the enhanced communication with citizens. This principle emanates from various measures, such as the public character of Council meetings and even the citizens' initiative (albeit not mandatory, it fosters dialogue as one million signatures from at least 7 member states are meant to be gathered). Eurosceptics are also appeased to some degree through the introduction of the withdrawal clause, for the first time in the history of European integration, which, albeit lengthy and intricate, does enable any member state - not territory - to secede from the Union (Art. 50, TEU). What happens, though, if a certain region within a member state becomes an independent country, from the perspective of its belonging to the European Union? The matter has become an exciting topic of discussion at various levels, including the academic and the political, so far leading to the bleak conclusion that such a state would not inherit the quality of EU member from its previous affiliation.

All in all, the Treaty of Lisbon does encompass a series of positive provisions, from the viewpoint of national states and, to a lesser extent, regional entities - from a Charter of Fundamental Rights to a more balanced voting system in the Council, applicable as of 2014, with a three-year cushion period, which enables smaller member states to be placed on equal footing with larger ones, at least in the case of one of the two criteria constituting a majority (Ginsberg, 2010). To elaborate on the importance of the Treaty for regions, it is important to state that the notion of "territorial cohesion" appears in the body of such a document for the first time, whilst the amended definition of the subsidiarity principle recognises regions as righteous actors in its application whenever the EU passes legal acts (Adams, Cotella and Nunes, 2012). The Neighbourhood Policy is not to be taken for granted either, as part of the set of provisions meant to enhance the position of the Union amid the ever more intricate context of globalisation: a legal personality, an External Action Service, a High Representative for Foreign Affairs and Security

Policy, a solidarity clause and, last but most certainly not least, a President of the European Council, endowed with some power of representation.

### 3. SPECIFIC CHALLENGES AND CONTROVERSIES IN THE POST-LISBON AGENDA

By using the phrase “post-Lisbon agenda”, it is not our intention to refer to the Europe 2020 Agenda, whose ambitious, but feasible targets, play a minor role in the analysis of the challenges arising in the current state of affairs of the European Union. On the other hand, we aim to focus our attention of the new occurrences of Euroscepticism and the potential outcomes of this increasingly prominent phenomenon.

Hence, albeit this may appear somewhat simplistic, an interesting starting point in our analysis consists of the latest definitions of this concept provided by renowned dictionaries, of which we have selected three. The Oxford Dictionary defines the term “Eurosceptic” as *a person who is opposed to increasing the powers of the European Union* (oxforddictionaries.com), which is interesting, as it encompasses only part of what is normally believed to lie at the core of this phenomenon, namely the increase in prominence of the Union, and not its dissolution, as one may have expected. Furthermore, the Cambridge Dictionary lists under the same entry the following peculiar explanation: *a person, especially a politician, who opposes closer connections between Britain and the European Union* (Cambridge Dictionaries Online). Needless to say, this definition is incomplete, particularly restrained and, to some extent, humorous for a scholar who is engaged in the study of this complex and dynamic phenomenon. Associating Euroscepticism to Britain is undoubtedly accurate and traces the problem all the way back to its roots, but this being said, attributing it solely to the British political sphere leaves aside a large portion of its occurrence and gives rise to a definition whose validity lies entirely within the country the dictionary belongs to. Finally, the attempts to define the term we are preoccupied with would be incomplete in the absence of at least one entry from a French dictionary, which is why we have predictably opted for Larousse. According to it, a “Eurosceptic” is *a person who doubts the validity or usefulness of the construction of the European Union* (larousse.fr).<sup>1</sup> This is a softer definition of the term and perhaps also a more general one, which leaves much room for interpretation.

The idea of coining the aforementioned term and rendering it functional linguistically, through its inclusion in prestigious dictionaries, albeit in an incomplete and often confusing manner, brings additional proof in support of the fact that it depicts an ongoing phenomenon, with particular dynamics. It is our view that Euroscepticism should not be separated from another negative phrase associated with the current state of affairs within the EU, with a considerable effect on the regional level, which concerns us at this time, namely the so-called

<sup>1</sup> Original text: Eurosceptique - *personne qui doute de la viabilité ou de l'utilité de la construction de l'Union européenne.*

“democratic deficit”. We need not bother looking up definitions of this term in a series of dictionaries published across the EU, since its explanation is provided by the most appropriate authority in this regard, i.e. the EU itself, on the europa.eu website. Thus, the democratic deficit is officially regarded as *a concept invoked principally in the argument that the European Union and its various bodies suffer from a lack of democracy and seem inaccessible to the ordinary citizen because their method of operating is so complex* (europa.eu). Has the Treaty of Lisbon played a major role in diminishing this feeling, whose definition is comprehensible as such? It would be wise to avoid a straightforward answer, as the latter would depend on the country or even region we may turn our attention to, but taken as a whole, the post-Lisbon agenda, as well as the analysis of the contents of the Reform Treaty, appear to provide us with sufficient arguments so as to state the opposite. How could it have, since the mere attempt to read the text of the Treaty is utterly complicated to the common citizen? True, amongst these citizens one encounters those who rejected, back in 2005, the much more coherent Constitutional Treaty, which would have certainly rendered it easier to teach European Law at an academic level, to give just one example. But the complicated form of this latest Treaty, whose purpose is not to replace, but to amend the key Treaties of Rome and Maastricht, is no excuse for its equally complicated provisions, in various cases. Without turning this matter into a goal of our study, we should simply point out the maze of processes the so-called “ordinary legislative procedure” relies on, much like its predecessor, or the concurring voices that are supposed to represent the interests of the European Union at an international level.

Euroscepticism remains a threat to cohesion from all angles, whether we are referring to interregional liaisons, national attitudes, or the much-needed furtherance of institutional reform of the Community. Its spread now enables scholars to consider a dichotomy between hard and soft Euroscepticism, which was once reserved for the notion of power, with the EU standing out as a champion of the latter. Regardless, we agree with this classification, as practice has shown that some regions or countries have recently exhibited tendencies to secede from the Union, taken as a whole, whilst others have put forward arguments against the progress towards federalism or a political union, or against further enlargement or conferral of new attributes to the supranational level, to the detriment of the more classic intergovernmental cooperation. What is certain, however, is that no member state, not even the latest addition to the Community, namely Croatia, has been spared of the emergence of consistent Eurosceptical attitudes in the years following the economic crisis (Arató and Kaniok, 2009).

What is even more worrying is the fact that such attitudes, which used to be chiefly confined to experienced member states, from what we may refer to as “Old Europe”, have now spread to the ex-communist area and are gaining new momentum as such. We admit that to date, the hardest blows given to the progress of EU integration and reform have come from the old member states, such as the French and Dutch “no” to the Treaty Establishing a Constitution for Europe, leading to its utter failure, or the Irish Referendum on the Lisbon Treaty, of June



2008 (Craig, 2010). Nevertheless, formerly enthusiastic states from East-Central Europe have done more than their share of alerting the European Union as to their intention of making their voices heard, even when this entails a frankly Eurosceptical discourse. If we are to illustrate such attitudes by once again resorting to the sinuous ratification process of the Lisbon Treaty, there are at least two cases that emerge in this regard: the hostile speeches of Czech President Václav Klaus and the defiant attitude of the Polish head of state at the time, Lech Kaczyński. While the type of Euroscepticism the two leaders expressed at that particular moment and the arguments uttered in order to support it were, in our opinion, inadequate and somewhat hasty, the idea of making a stand as newcomers to the European family - clichés left aside - was audacious. It enabled the two states to prove that East-Central Europe was entitled to drive a hard bargain even through it had taken part for the first time in its tumultuous history in a major institutional endeavour under the auspices of the European Union.

Furthermore, even for a country such as Romania, which adopted the Constitutional Treaty even before it became a member state of the EU, by means of its accession Treaty, and which later cast a single “against” vote in Parliament, upon the ratification of the Treaty of Lisbon, the level of confidence in the Union is obviously weakening. Albeit we do not dispute the importance of contributing to the furthering of integration, it remains important for Romanian politicians to understand the usefulness of engaging in a genuine European debate, amid such key moments as the ratification of a major institutional treaty of the EU or the current elections for the European Parliament. This is because the issue of the democratic deficit is catching up, even though it is unlikely that Romania will send any Eurosceptical political party to the European Parliament this year, none of which stand a chance of passing the electoral threshold. On the other hand, according to the latest available data provided by the Eurobarometer, the positive perception of Romanian citizens in the EU fell, from a reassuring 65% upon accession, back in 2007 (Standard Eurobarometer 67), to 48% in 2013. Needless to say, the severity of the economic downturn, the vanishing impression that the Union would be a panacea and the overall trend across the EU are some of the explanations of this phenomenon. In parallel to the aforementioned indicator, the general level of confidence in the EU, compared to that in national governments, was situated at 57/41% respectively, in 2007 (Standard Eurobarometer 67), while in 2012, the data read 33/27% (Standard Eurobarometer 78). An interesting phenomenon is that for the first time in its existence, the European Union is regarded with roughly the same confidence as national administrations, namely a low one, which is all the more worrying if one takes into consideration the fact that, traditionally, the EU ranked far above the latter.

In the context of a 31% EU average, in terms of citizens’ confidence, where, not surprisingly, Britain scored the second lowest figure (after Cyprus), at 19%, a regional trend remains in the case of the two member states that joined the Union in 2007, as Romania’s indicator reveals a 48% confidence level, whilst Bulgaria exhibits 56% (Standard Eurobarometer 80). The facts remain somewhat disappointing, chiefly because the values are steadily decreasing and an anti-

European political message that may acquire some citizen support is unfortunately imminent.

Moreover, these figures are indicative of another aspect which threatens not only regional cohesion, but also the furtherance of the integration process, namely the legitimacy attributed to EU institutions. As the only directly elected body of the Union, the European Parliament is in the crosshairs whenever the matter of legitimacy arises - which it does quite often in the Eurosceptical discourse of ever more charismatic political leaders within the EU. The facts speak for themselves, as, according to the Eurobarometer, the EP enjoys the support of 39% of European citizens, compared to a staggering 25% with regard to national parliaments (Standard Eurobarometer 80). Moving beyond the erosion of such democratic institutions in the eyes of citizens, which is particularly worrying and indicative of a need for more communication, information and transparency, we cannot help but pinpoint the advantage the EU still has in this respect. In fact, about the same percentage of EU citizens opt to participate in the EP elections, as it was the case in 2009, when 43% of them exerted their right to cast a ballot. However, it would be terribly wrong to presume that the participants were mostly those who made up the 39% that declared trusting the European Parliament. If that had been the case, Eurosceptical groups such as the infamous Europe of Freedom and Democracy would not have gained so many seats. In fact, Britain had a higher attendance rate than the much more Euro-optimistic Romania, with 34.7%, compared to our 27.67%. The matter of regional cohesion, applied to Romania and its neighbour, Bulgaria, is doubtful in this regard, as no fewer than 38.99% of Bulgarians took part in the 2009 EP electoral process, thus 11% more than Romanians (europarl.europa.eu). Hence, any attempt to simplify this phenomenon by attributing it to the enlargement wave of 2007 is thwarted by such data, and the perspectives for the 2014 ballot have no reason to be less gloomy.

#### **4. EU REGIONAL HOTSPOTS - A PREVIEW INSTEAD OF CONCLUSION**

Given the abovementioned facts and figures, showing alarming trends in the thorny matter of EU interregional cohesion, it should be interesting to explore some of the most threatening regional hotspots, from the viewpoint of their commitment to EU integration, as incentive for future research. The following case studies are worthy of an in-depth investigation, given the upcoming 2014 EP elections and the respective course of events currently under way in each of them, in order to assess the European future of the prominent regional entities that we shall focus on. It is our view that the events in such parts of the EU, regardless of their respective outcomes, are warning signals prompting more action on the part of EU institutions with regard to regional cohesion and understanding of particularities and nationalist tendencies at present.

On the 16<sup>th</sup> of September 2013, the European Commission stated that *if one part of a territory of a member state decides to separate, the separated part isn't a member of the European Union*, in the words of Vice-president Joaquin Almunia,

“coincidentally” a Spaniard, amid turmoil in Catalonia over the matter of independence (Nielsen, 2013). The prospects of a referendum there, albeit challenged by the Spanish government (at a time when the idea of not recognising regional referenda by central administrations has gained momentum), are a reality that has to be seriously addressed by the EU, taken as a whole, and not only through the lens of the Spanish commissioner. Moreover, the repercussions of this declaration directly impact Scotland, whose independence referendum has been scheduled for the 18<sup>th</sup> of September 2014, and the pro campaigners have made it a point to argue in favour of a continuation of EU membership. Nevertheless, according to EC President Barroso, *if part of the territory of a Member State would cease to be part of that state because it were to become a new independent state, the Treaties would no longer apply to that territory. In other words, a new independent state would, by the fact of its independence, become a third country with respect to the EU and the Treaties would no longer apply on its territory* - a statement no different from that of Commissioner Almunia (Scotland Analysis..., 2013).

In reality, the legal situation is much more complicated than that, as the European Union has never faced such a “constitutional” challenge before and is to a large extent devoid of normative solutions, if one is to turn to the Treaty of Lisbon. Accusations of hypocrisy ignite further fuses, owing to the Kosovo case, albeit the absence of consensus there does give some member states the benefit of the doubt, such as Cyprus, Greece, Romania, Spain and Slovakia, which refused to grant diplomatic recognition to this act (Noutcheva, 2012). On the other hand, the international context could not be more hostile to the democratic acceptance of plebiscites and independence declarations of regional entities, because of the Crimea case, which did have its precedents in the complicated Abkhazia and South Ossetia files.

Amid this turmoil arises the apparently peculiar case of Venice, one which, beyond appearances, should not be taken for granted. According to arguable recent polls, more than half of Venetians are in favour of independence (la Repubblica, 2014), which is why dominant local political groups have started taking on the challenge of gaining recognition for a referendum. In an Italy whose political life has been shaken by the antisystemic party MoVimento Cinque Stelle, the element of unpredictability remains worthy of being considered.

To conclude, what is interesting about such movements threatening interregional cohesion is that they are supported by people who have benefitted from the freedom of movement and the common market, as provided by the European Union. Many of them are young, people with a natural propensity for openness and a borderless world, avid users of the World Wide Web, prone to travelling, speakers of one or more foreign languages. This is why governments should wonder where the true problem lies, instead of persecuting *ab initio* any attempt to organising a public consultation on the matter of independence, as such movements affect first and foremost the cohesion of national states, but subsequently also the European Union.

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# THE EU ASPECT AT THE UKRAINIAN MAIDAN

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**Abstract:** *An alarming decision “to pause” the process of Ukrainian Eurointegration taken by the previous government of Ukraine, turned out to be highly disturbing, both to the Ukrainian people and the EU in terms of planned partnership. Following the country’s course change a series of dramatic events unraveled triggering a mass protest movement called Euromaidan across major part of Ukraine, indicating the position of Ukrainian society towards the events. The further unfolding of the events in the Ukraine starting from November 22, 2013 diminished the “euro” direction making it solemnly “MAIDAN”. The direction of Eurointegration in Ukraine’s foreign policy was no longer the priority of the rebel movement, shifting the focus of those protesting to the internal issues. During the Maidan the EU’s representatives initiated and participated in the negotiation process between the government and the opposition, thus demonstrating support to Ukraine on its way to democracy. In the meantime, Maidan expected stricter sanctions towards representatives of the state at that time: freezing of the accounts of those associated with corruption as well as their visa bans and restrictions for travel and business conduction in the EU, etc.. The EU’s lasting conservative behavior was regarded negatively by protesters and lead to disappointment.*

**Keywords:** Eastern Partnership; EU; Euromaidan; Maidan; revolution; soft power; Ukraine

## INTRODUCTION

The region of the Eastern Europe is becoming increasingly important to the European Union in terms of its safety, economy and multi-level cooperation. After the EU’s “great expansion” in 2004 followed by Bulgaria’s and Romania’s acceptance to the Union in 2007, the renewed eastern borders became of vital importance. The European Neighborhood Policy introduced in 2004 and the Eastern Partnership program established in 2009 are implementing EU’s “soft power” to its regional neighbors. The Eastern Partnership Summit held in November 2013 in Vilnius demonstrated that this “soft power” instrument is a universal tool for the regions of Eastern Europe and Southern Caucasus, but its equal effectiveness is questionable. The Vilnius Summit showed positive feedback in terms of the EU’s power only in two out of six member-states of the Eastern Partnership. During the summit Moldova, Ukraine and Georgia were to sign the Association Agreement with the EU. Unexpectedly, despite the promises of the

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Ukrainian government to both the EU and the population of Ukraine, the initiation process was brought to halt. Moldova and Georgia proceeded with the Agreement initialling. Thus, the “soft power” tool did not seem to be working in this case. It was particularly good environment to test other allegedly pro-European countries, such as Armenia, Azerbaijan and Belarus. Armenia had already seemed to prefer pro-Russian Customs Union despite an initial interest in the Deep and Comprehensive Free Trade Agreement (DCFTA) a part of AA; Azerbaijan opted low-level cooperation with the EU, mostly in the energy sector; the support of the EaP by Belarus is always questionable due to A. Lukashenko’s political regime and his tight ties with Russia.

## 1. EU’S SOFT POWER IN THE EASTERN EUROPE AND SOUTHERN CAUCAUS

The concept of the Soft Power is getting progressively popular in the fast globalizing world. First introduced by Joseph S. Nye in his work *Bound to Lead* (Nye, 1990), it was later developed in several other books and articles, including *Soft Power: the Means to Success in World Politics* (Nye, 2004) and *The Future of Power* (Nye, 2010). According to J. Nye, Soft Power is the ability to affect other countries or regions through the common means of framing the agenda, persuading and eliciting positive attraction in order to obtain preferred outcome. The types of resources associated with it include intangible factors such as institutions, ideas, values, culture and the perceived legitimacy of policies (Nye, 2012, p.37).

The author is convinced that the resources often associated with the Hard Power behavior can as well produce Soft Power behavior depending on the context and its use (Nye, 2012, p.37). Nye defines power as an actor’s ability to act in a social situation, so as to influence others in order to get the targeted results. “Hard and soft power are related because they are both aspects of the ability to achieve one’s purpose by affecting the behaviour of others. The distinction between them is of same degree, both in the nature of the behaviour and the tangibility of the resources” (Nye, 2004, p.7). The Smart Power in comparison to the Soft and Hard powers is considerably more efficient in terms of Foreign and Domestic Affairs. For example, the EU’s successful economic performance can produce both the hard-power of sanctions with restricted market access and the soft-power of attraction and emulation of success. Soft Power relies on positive attraction, framing of an agenda-setting and on persuasion which is the use of argument to influence the beliefs and actions of others without the threat of force or promise of payment (Delcour L., Tulmets E., 2009, p. 509).

The Soft Power approach to the EU has become popular among political scientists, and has been eagerly adopted by the EU and member-states officials. For instance, Eneko Landaburu, at the time the Commission’s Director General for Enlargement, argued that the expansion and the ENP are descriptive examples of “soft power Europe” (Landaburu, 2006).

Nowadays, the solemn application of only one of the mentioned powers is not sustainable for modern international affairs. The tendency is leaning towards

the “Smart power” – a power that refers to the strategies that link resources and goals: in order to achieve the goals, an actor must effectively combine hard and soft power resources in changing social circumstances (Nye, 2010, p.14). International exchanges that imply economic payments contain hard power component and require adequate combination of strategies, meaning wielding smart power. From this perspective, the European Union is involved not only in military, but also in non-military exchanges that involve coercion, and needs intelligent strategies to combine coercion and attraction (Dîrdalâ, L., 2013). That’s why the EU is reviewing its policies towards the Eastern neighborhood hoping that Smart power application will promote new methods that will help to reshape the vision of post-Soviet sector modernization.

## **2. THE EU – UKRAINE RELATIONSHIP AT THE SCOPE OF EASTERN PARTNERSHIP**

Despite the official support of Ukraine, as well as other five states, in the initiated Eastern Partnership project of the EU in 2009, the cooperation between the two dates further back and is of strategic importance to the EU. The latter started seeking new approaches in soft power influence on its Eastern neighbors.

The resolution of the main foreign policy direction of Ukraine dates back to 1993 and is the first official document that proclaims European direction of the Ukrainian foreign policy. An abstract - “... the ultimate purpose of the foreign policy is a membership of Ukraine in European Communities... to maintain stable relations with the European Communities, Ukraine will sign the Agreement on partnership and Cooperation with European Communities. The implementation of this agreement will be the first step towards an associate, and then to the full membership in the organization” (Постанова Верховної Ради України Про основні напрямки зовнішньої політики України. – 1993). An Agreement on partnership and Cooperation with European Communities was signed in 1994 and defined the spheres of cooperation between the EU and Ukraine. Four years later, in 1998, the Strategy of Ukraine's integration into Europe was adopted by the presidential decree, Eurointegration of Ukraine was proclaimed as a strategic goal in the state program of 2000.

In 2004, Ukraine was included in European Neighborhood Policy and signed the Action Plan that coordinated the relationship between both sides. In 2007, Ukraine began negotiations concerning the Association Agreement that proclaimed the new level in relationship between the EU and Ukraine. In 2009, the EU suggested the new framework of the relationship by initiating the Eastern Partnership program. At that time, Ukraine had the closest ties with the EU comparing to six other partner-states as well as promoter of the Association Agreement adoption before the implementation of EaP. The official signature of the Association Agreement was a step in the EaP program, only Ukraine was in favor of such scenario, even though, there was no unanimity concerning its overall advancement for the country. Some were convinced that the new initiative would

hamper the dynamics of bilateral EU-Ukraine relations. Ukraine was clearly the leader of EaP among six other participant states at the moment of EaP initiation.

Ukraine was the first to paraphrase the Association Agreement and on the 10<sup>th</sup> of December 2012 the EU Foreign Affairs Council adopted the Council Conclusions on Ukraine. The next important step ahead for Ukraine was signing the Association Agreement with the EU planned to be accomplished at the Summit of the Eastern Partnership in Vilnius in November 2013.

## 2.1. The EU Aspect on Ukrainian Maidan

On November 21, 2013, a week before Vilnius Summit, the Ukrainian government has decided “to take a pause” in the process of the Association Agreement adoption. The statement of the Ukrainian Prime-Minister M. Azarov triggered an immediate internal and international reaction.

Ukraine has surprised the world - the U-turn was unexpected for everyone as well as lacking any reasonable explanation. Such significant event was reflected on a divided society of Ukraine – approximately half was supporting European course, while the other half was against it. In no time, the main squares of the cities started filling with activists protesting against the Cabinet of Ministers and its leader Mr. Azarov and their unpredicted change of country’s course. It is where “the movement” got its name – for Europe on Maidan – Euromaidan. “Ukraine is Europe”, “We want to live in EU”, “Youth chooses the EU”, “EU deserves the EU” – are some of the top slogans of the movement.

As Mr. Azarov said a week before the Vilnius Summit, the Association Agreement with the EU was not signed, thus meaning that no demands of protesters were met. Some say that the Ukrainian officials did not believe in long lasting prospective of the protests, but only after a week those in power lost their patience. On November the 30<sup>th</sup>, a special riot police division “Berkut”, received an order to brutally beat and disperse those peacefully protesting on the Maidan Square in Kyiv, hoping that this will bring riots to an end. Having revealed its real face, the regime shifted the focus of the protesters from the European prospective of Ukraine onto itself. That is when people started demanding president’s resignation and punishment for those allegedly participating in beatings of protesters.

The Ilko Kucheriv Democratic Initiatives Foundation (DIF) and the Kiev International Institute of Sociology conducted a poll asking to name three main reasons why people would go to Maidan. The poll resulted in 70% answering that the police brutality during peaceful protests was the reason motivating people to take to streets, 53.5% named the denial by V. Yanukovich to sign the Association Agreement as one of the reasons, 50% thought that the desire to change the life for better was motivating people, 39% wanted government’s resignation, and only 5% were inspired by oppositions calls (Неймырок Д.). The poll was conducted 7-8 of December in 2013 and comprised of 1037 respondents.

The EU could not stand aside of the situation in Ukraine and had to react. The European Parliament demanded the EU to support the eastern partners seeking



closer ties. The session in Strasbourg passed a resolution condemning the “brutal use of force against peaceful demonstrations,” demanding the immediate release of detained protesters, and calling for top-level EU engagement with Kyiv.

Even though Maidan was backed up by the support of the EU it was not fully supported by the people of Ukraine’s regions, at least not evenly. The next poll took place on November 20<sup>th</sup>-24<sup>th</sup> showing the variability of protest supporting in different parts of the country: in the West 80% of respondents supported the Maidan, while South showed weak 20% support with 71% against the demonstrations (Половина українців підтримують Євромайдан – соціологи).

Even though the internal support for demonstrations was not evenly distributed throughout the country, the unanimity in international condemnation of actions of government could not be higher. During this time various governments, especially of those in the EU, were closely monitoring the events in Ukraine. EU’s leaders visited Ukraine with the words of support for democratic changes making statements regarding the current situation in Ukraine. “I hope that it is a mirror for the Western European family members seeing how important is the European Union and Ukrainian would turn back believe in it”.—Minister of Foreign Affairs Radoslav Sikorskii said on the one of his interviews (Євромайдан поверне Європі віру в ЄС) Meaning that not only the EU aspect was present on Maidan, but also that some European politicians could find a positive influence in terms of strengthening the EU’s domestic situation.

During the long-lasting Maidan protests the EU refrained from imposing sanctions, preferring to build a constructive dialog to reach a compromise. Soon, such actions proved to be ineffective and resulted in Ukrainian society’s disappointment.

Another poll was held on the third of February suggesting that the repressive measures taken by the government have radicalized Maidan protesters significantly. 88% of those standing on the main square of the country were men; 63% were opposed to any negotiations with top officials, in comparison, only a month and a half ago their number was at 47% (Майдан став радикальнішим – соціологи). Such prospective was promising with deepening of the crisis and greater radicalization every day. At this point, it was clear, that without the intervention of a third party, the crisis in Ukraine would escalate and become even more dangerous. The EU began its participation in the negotiations between V. Yanukovych and opposition leaders. Before going to the round table with opposition leaders, the foreign affairs ministers of France, Poland and Germany conducted discussions with Mr. Yanukovych on a “roadmap towards a political solution” (EU imposes Ukraine sanctions after deadly Kiev clashes).

On February 21, the president of Ukraine, Viktor Yanukovich, and three opposition leaders have signed an agreement to end the crisis that sparked bloody clashes between protesters and riot police on the streets of the capital.

The deal sets out plans to hold early presidential elections, form a national unity government and revert to the 2004 constitution, removing some of the president's powers. The deal was also signed by two European Union foreign ministers who helped broker it in tortuous negotiations that lasted more than 30

hours. “This agreement is not the end of the process. Its the beginning of the process,” the German foreign minister, Frank-Walter Steinmeier, said after the signing. He said it was not perfect but the best agreement that could have been reached. “With it Ukraine has an opportunity to resume its way to Europe,” he said (Ukraine opposition leaders sign deal with government). Parliament subsequently began to vote to make the agreement law, supporting immediately a return to the constitution of 2004 and an unconditional amnesty for people detained in the unrest. It also voted to allow the release of the former prime minister Y.Tymoshenko after more than two years in prison.

European leaders said that this agreement has a number of challenges in it, at the same time, European ministers who participated in the negotiations said that the signed compromise deal is a chance to exit the crisis.

Additionally, the EU has agreed to impose sanctions on the Ukrainian officials “responsible for violence and use of excessive force” after the bloodiest day of clashes in Kiev. In the statement EU’s foreign ministers talked about targeted sanctions including asset freezes and visa bans.

However the signed deal between V. Yanukovich and the opposition was not carried out. “Maidan’s voice” was criticizing loudly enough the compromise deal and was deeply unsatisfied with it, promising to take more radical measures, urging Mr.Yanukovich’s escape to Russia.

After the escalation of the Crimean crisis, the negotiations between the EU and Ukraine were renewed. Five days after the so-called referendum was held in Crimea, the political part of the Association Agreement between the EU and Ukraine was signed promising to implement the economic part of the Association Agreement until the end of this year.

## CONCLUSION

The EU’s foreign policy of the Eastern Europe and the Southern Caucasus is actively applying its soft power in the Eastern Partnership project. Ukraine being one of its member-states is under the EU’s soft power influence, at the same time, it was evident that this soft power did not prove to do any good in the deployment of the Ukrainian crisis and would be more effective in combination with the Smart Power.

During the entire period of the Maidan in Ukraine, the aspect of EU’s power is of various significance. The protests in Ukraine that started after sudden “pause” in the eurointegration process were based on the European future of Ukraine. The Euromaidan itself was not lasting so long (only the first week of the protests), and was not so numerous in comparison to the following protests. It turned to be a spark that lit an enormous fire the wounds of which are still healing on the body of the Ukrainian society. The poll held after the dramatic and cruel night beatings on the first of December 2013 showed that the aims of the protesters shifted from supporting eurointegration direction in foreign policy of Ukraine to removal of the current government. At the beginning of protests the EU had a high level of credibility among the Ukrainian population believing that the European

organizations will show support in their fight for democracy, but it turned to have let them down. A certain level of credibility was restored after the Association Agreement was signed with the new Ukrainian government.

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# ASSESSING ECONOMIC VULNERABILITY IN THE EUROPEAN UNION

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**Abstract:** *Globalization is a multivalent phenomenon with controversial effects on the economic, social and political spheres. The aim of this paper is to study the relationship between the KOF globalization index and the economic growth, in order to prove that countries with a low globalization indexes tend to be more vulnerable during crisis. In line with previous literature, we employ panel data analysis on an extended sample of European countries, covering a time span of 11 years, from 1999 to 2010. The results indicate the existence of a bidirectional relationship between the globalization index and a sustainable economic growth rate. Future research directions will include an emphasis on the relationship between the KOF globalization index and the political and social dimensions.*

**Keywords:** globalization; economic growth; KOF index; panel data

## INTRODUCTION

In 2004 David Held and Anthony McGrew stated firmly that the time for globalization has come. Today, more than ever, this idea is valid. The impact of globalization has on the economic, politic and social environment is a force to be reckoned with, especially during periods of economic crisis.

Globalization has been portrayed by the international literature in contradictory perspectives. Nevertheless, a key issue researchers agree upon is the fact that the process of globalization can only be measured indirectly, using variables that assess its impact on the economy and the welfare state. Caselli (2008), as well as Dreher (2006), consider two possible ways of addressing the issue. The first one would be to use proxies, or empirically measurable variables, in order to estimate the dynamics of globalization. The most frequently employed is the GDP or the GPD per capita, (Darvas and Szapáry, 2004; Fidrmuc and Korhonen, 2010), along with other macroeconomic indicators, such as trade flows (Frankel and Romer, 1996; Frankel and Rose, 1998), foreign direct investments (Artis, 2003; Enea and Palasca, 2013), trade openness (Dollar, 1992), restrictions on the capital account (Alesina, Grilli and Milesi-Ferretti, 1994; Chanda, 2001), etc.

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The use of different macroeconomic variables for analyzing a multidimensional process such as globalization has been often criticized, due to the fact that it does not fully depict the overall influence on economic growth and social welfare. Thus, the alternative analysis method is to develop and implement an aggregated index, based on a set of distinctive economic, politic and social indicators.

There are a number of such indexes, including the World Market Research Center Index (WMRC), the A.T. Kearney/Foreign Policy Globalization Index (ATK/FP), the Maastricht Globalization Index (MGI), the CSGR Globalization Index, as well as the KOF Index. One of the reasons behind the development of these composite variables is to bridge the gap between theoretical and empirical studies (Dreher *et al.*, 2009), as well as to better understand and describe the impact of globalization on the society in general.

The indexes that have gained acceptance are the Maastricht Globalization Index (Martens and Zywiets, 2006; Martens and Raza, 2009), which is based on a cross-section of 117 national states, and the KOF Index of Globalization (Dreher, 2006), constructed by employing panel data analysis on a sample of 122 countries, covering a time span of 33 years, from 1970 to 2002. The difference between them concerns the methodological approach. The most important advantage these two indexes have over other composite variables is the longer time span for analysis.

In most cases the impact of globalization has been analyzed in close connection with national or regional economic growth. Dreher (2006), proving the robustness of the KOF Index, states that, in general, the process of globalization promotes development. On average, high ranks, in terms of the index, can imply the chance of higher economic growth rates. Nevertheless, it is foolish to consider that only by achieving a high globalization score the national economy will grow and poverty will be reduced.

Following the same analysis pattern, Salvatore (2010) estimates a Spearman rank correlation coefficient between the Competitiveness Index and the KOF Index, as well as the average growth rate of the GDP, and highlights the fact that countries that are more globalized are more competitive on the international markets, thus they tend to register higher growth rates. But this is confirmed only for large, developed economies, while developing states rely more on endogenous development determinants.

Another issue addressed by academic research is the correlation between globalization and vulnerability in times economic crisis. Martens and Amelung (2010) test the hypothesis that European countries that are more globalized depict the same vulnerability in times of crisis, as the less globalized ones. They consider that countries with a low index score report higher economic growth rates, a decrease of unemployment and inflation rates and increased investment flows. Interestingly, the new members of the European Union and the aspiring countries are present in this cluster of low globalization scores.

Their concluding remark is that a rising level of globalization amplifies the vulnerability to the economic crisis, but more importantly, it offers the opportunities and methods to better deal with a crisis.

As regards to the relations between globalization and the labor market, Dreher and Gaston (2008) stress out the fact that the economic dimension, and less robustly, political integration, have intensified wage inequality in developed countries, while, for developing ones, the impact is minor. In contrast, Majumder (2008) underlines the fact that globalization generates positive labor dynamics in strong economies and negative dynamics in emerging states. Moreover, Lee and Vivarelli (2004), based on the ideas of Basu and Weil (1998), consider that the impact of globalization on the labor market and the unemployment is country and sector specific.

Starting from these opposing results depicted by the international literature, the present article aims to study the relation between the GDP growth rate, the KOF index and the unemployment rate, in order to estimate the impact of globalization on economic and social welfare.

The remaining part of the article is structured as follows. The next section present the empirical approach used in study, in term of data, variables and methodology, while section 3 illustrates the most significant result and a set of needed clarifications. The last part of the paper comprises the authors' conclusion and the future study directions.

## 1. EMPIRICAL APPROACH

### 1.1. Data

This study focuses on 31 European countries, out of which 25 are members of the EU (Croatia, Malta, Luxembourg were excluded due to different economic conditions) and the other 6 are candidate and aspiring states (Turkey, Moldova, Ukraine), neutral (Switzerland and Norway) and the Russian Federation. The time span investigated is between 1999 and 2010, in order to capture at least one complete business cycle as reference for the outcomes of the crisis period. The year 1999 was selected as a starting point due to the introduction of the Euro currency, which led to closer economic relations and a higher degree of financial integration, a prerequisite of economic globalization, while the selection of 2010 as the final year was dictated by the availability of data, namely the KOF Index of Globalization.

This index is the key variable employed in this analysis as it strives to capture different measures of globalization. The KOF Index of Globalization was introduced in 2002 (Dreher, 2006) and its construction details can be found in further studies (Dreher, Gaston and Martens, 2008). The overall index covers the economic, social and political dimensions of globalization. More specifically, the three dimensions of the KOF index are defined as:

- economic globalization, characterized as long distance flows of goods, capital and services, as well as information and perceptions that accompany market exchanges;
- political globalization, characterized by a diffusion of government policies; and
- social globalization, expressed as the spread of ideas, information, images and people.

In line with the purpose of the present paper, only the economic index was retrieved from the ETH Database (ETH Zurich, 2014), in order to determine the nature of the relationship between this proxy of globalization and macro-economic variables, which account for economic growth (GDP) and social inequality (Unemployment). The latter were retrieved from the World Bank Database (World Bank ). The GDP was considered in nominal values (current US\$), while the unemployment rate was considered as percentage of total labor force.

## 1.2. Econometric Methods

Studies measuring the impact of globalization usually include an array of different countries over a certain timeline, thus the method of choice which emerges is the panel data analysis, as can be seen in some studies (Lipsmeyer and Zhu, 2011; Rodrik, 1997), also implemented by Dreher in his researches using the KOF Index (Dreher, 2006; Dreher, Sturm and Ursprung, 2008).

Other methods used in connection to the impact of globalization on the economic outcomes include factor analysis (Andersen and Herbertsson, 2003) and correlations (Salvatore, 2010). Since the KOF index is a ranking tool, it is advisable to use the Spearman rho as a measure of correlation instead of the Pearson coefficient, as previous studies point out (Marginean and Orastean, 2011).

The motivation behind using panel data can be found in the work of Hsiao (2005) and includes the increased capacity to model complex economic behavior, compared to simple cross-section or time series analysis. This is related to the increased degrees of freedom and including in the model the interaction between the variables, which gives it a dynamic profile.

Panel data analysis is employed to study the heterogeneity of the subjects or the lack thereof.

Transversal analysis employs models which include individual characteristics in the error term

$$y_{it} = \alpha + x_{it}\beta + \varepsilon_{it}$$

while longitudinal models offer the possibility to assess these differences through the parameters  $\alpha_i$ , which describe each entity. The equation in this case is:

$$E y_{it} = \alpha_i + x_{it}\beta, t = \overline{1, T}, i = \overline{1, n}$$

There are two different ways of highlighting the differences between entities, denoted by  $\alpha_i$ . The first one, the "fixed effects model" considers that  $\alpha_i$  are unknown, fixed parameters which will be estimated. The second approach, the "random effects model" considers that  $\alpha_i$  are the outcomes of a random variable, such as the last equation can be re-written as:

$$E(y_{it}|\alpha_i) = \alpha_i + x_{it}\beta$$

The cross-section fixed effects model has the equation

$$y_{i,t} = \alpha + \beta x_{i,t} + \mu_i + v_{i,t},$$

while the period fixed effects model is:

$$y_{i,t} = \alpha + \beta x_{i,t} + \delta_t + v_{i,t}$$

While  $\mu_i/\delta_t$  is the specific effect of each entity / period,  $v_{i,t}$  is the remaining error, which includes the random component of  $y_{i,t}$ .

The cross-section random effects model has the equation

$$y_{i,t} = \alpha + \beta x_{i,t} + \omega_{i,t} \quad \omega_{i,t} = \epsilon_i + v_{i,t}, \text{ where } \omega_{i,t} = \epsilon_i + v_{i,t}.$$

The term  $\epsilon_i$  represents the random bias of each entity from the common global constant,  $\alpha$ .

The statistical hypotheses for this model are (Frees, 2004, pp. 74-76):

H1.  $x_{i,t}$  are non-stochastically variables;

H2.  $y_{i,t}$  are the outcomes of independent, normally distributed random variables;

H3.  $\epsilon_i$  are the outcomes of independent, normally distributed random variables;

H4.  $E(\epsilon_i) = 0; V(\epsilon_i) = \sigma_\epsilon^2$ ;

H5.  $V(y_{i,t}|\epsilon_i) = \sigma^2$ .

The condition implied by hypothesis H4 and H5 is that of stationarity, for which unit-root tests are performed. In case the series is non-stationary, applying transformations such as differentiation or natural logarithm are necessary.

The selection between a fixed effects and a random effects model is done by applying the Hausman test (Hausman, 1978). This test compares the fixed effects under the null hypothesis that the individual random effects are uncorrelated with the other regressors of the model. If correlated (null hypothesis rejected), a random effects model will produce biased estimators so a fixed effects model is preferred.

In order to assess the impact of globalization on social outcomes we can use the correlation between the KOF economic globalization index and macro-variables such as unemployment, inflation. Since the KOF index is a rank, it works better under the Spearman rank correlation, which assesses how well the relationship between two variables can be described using a monotonic function.

The possible limitations of the proposed method include the small number of variables, which is easily overcome by the fact that both the KOF index and GDP are aggregate variables, thus comprise numerous other embedded influences, and the limited time range.

### 1.3. Empiric results

The GDP series was tested for common unit root processes using the Lin Levin Chu test in Eviews 7. This test was chosen as individual unit root tests, like ADF, have limited power.

**Table 1 - Unit-roots test results**

Variable	Method	Statistic
GDP	Levin, Lin & Chu t	0.2732 (0.6077)
ln(GDP)	Levin, Lin & Chu t	-8.6192 (0.0000)

Source: author's computation in Eviews 7.0



The previous table proves that the GDP series has unit roots, thus a natural-log transformation was applied, rendering the series stationary. The other two variables are not subject to unit-roots.

The panel data model was applied thus to the variables  $\ln(\text{GDP})$  ( $\text{lngdp}$ ), KOF index ( $\text{kof}$ ) and unemployment rate ( $u$ ) and the resulting equation was:

$$\text{lngdp}_{i,t} = c + \alpha_1 \text{kof}_{i,t} + \alpha_2 u_{i,t} + \delta_t + \mu_i + v_{i,t}$$

since the model selected was a cross-section fixed effects model with fixed period effects. The estimates of the parameters can be found in Table 2.

The values of the fixed effect for cross-sections and time periods can be found in Annex 1.

The model is valid since the  $R^2$  value is 0.99, which means that the error is almost insignificant. A graphical representation of the actual values, fitted model estimates and residuals can be found in Figure 1, while a histogram proving the normality of the errors is represented in Figure 2.

**Table 2 - Panel data analysis parameters estimation**

Variable	Coefficient	t-statistic	Prob
c	25.094	163.17	0.000
$\alpha_1$	0.011	6.151	0.000
$\alpha_2$	-0.019	-5.33	0.000

Source: author's computation in Eviews 7.0

Hence, the equation is

$$\text{lngdp}_{i,t} = 25.094 + 0.011 \text{kof}_{i,t} - 0.019 u_{i,t} + \delta_t + \mu_i + v_{i,t}$$

which becomes

$$\text{gdp}_{i,t} = \exp(25.094 + 0.011 \text{kof}_{i,t} - 0.019 u_{i,t} + \delta_t + \mu_i + v_{i,t})$$

Since  $e^{0.011} \approx 1.011$  it follows that an increase of the KOF Economic globalization index by 1 point leads to an increase in the nominal GDP by 1,1%.

Analogously, since  $e^{-0.019} \approx 0.9811$ , it means that an increase of the unemployment rate by 1% leads to a decrease of the GDP by 1,89%.

It is important to evaluate the relationship between the globalization index and the unemployment rate in order to have a basis to assess the nature of globalization's influence on economic and social outcomes. In this regard we use the Spearman rank correlation ( $\rho$ ). The computed value is:

$$\rho = -0.403 (0.000)$$

which means a significant negative correlation between globalization and the unemployment rate.

To summarize the empiric results, it has been proved that globalization sets the favorable conditions for economic growth, having a positive influence on the overall economic activity measured through GDP and a negative influence on one of the main imbalances, the unemployment. However, this result should be further discussed as a proof against the detractors of globalization not as stating that globalization automatically leads to economic growth.

## 2. DISCUSSION

The relationship between economic growth and globalization remains controversial, as some researchers (Dreher, 2006) advocate the existence of a positive relationship between a higher globalization index and economic growth, while practitioners tend to claim the opposite (Soros, 2008).

We aim to prove that a higher globalization index helps in attaining better economic results and acts as a safety net against negative social outcomes such as unemployment, which have a direct economic impact (Dreher, Gaston and Martens, 2008). Yet it is noteworthy to mention that the converse statement does not hold true, namely a high globalization index of a country does not guarantee economic growth, it only sets the favorable conditions.

Before explaining the main results of the study, it is important to make two clarifications, both of them being related to the fixed cross-section effects coefficient. The first one is that the calculations for  $\mu_i$  represent an average for the entire period of analysis, thus they engulf the effects of the current economic crisis.

As regards to the second one, as it can be seen from Table 3, the fixed cross-section effects coefficient has divided the countries comprising the sample in two categories, as follows:

- $\mu_i > 0$
- $\mu_i < 0$

The positive values describe countries, which generally have experienced economic growth above the average of the sample, during the analyzed time span, while the negative values imply a GDP below the mean. Further discussion will focus on the amplitude, causes and outcomes of the growth, in relation to globalization.

A quick glance at the results presents in Table 3 shows a clear separation between the already developed countries and the economies currently under development. The first group includes a set of countries which represent the backbone of the European economy, such as Germany, France, Italy, Spain, the United Kingdom, and Russia etc. The fixed cross-section effects mean that, on average, these countries have experienced economic growth rates which are multiple times higher than the sample's average, over the entire analysis period. Case in point, the German economy, which has registered a GDP growth rate 16 times higher than the European average. This is a very normal situation, if we consider the fact the Germany represents the foremost economy of E.U., with a surging industrial output, competitive products and reliant on exports and foreign direct investment outflows for economic growth. If we link these values with the average of the KOF index for Germany (74.99), the paradox that arises is the fact that a sustainable economic growth does not automatically imply a high level of globalization, but it requires other additional factors, such as the stability of the political environment, a strong legal framework, a transparent institutional system etc.

This situation is also true for some of the other countries that are included in this cluster. France (72.42), Italy (76.64), Russia (52.23), the United Kingdom

(78.64), all have registered less outstanding ranks in terms of the KOF Globalization Index. These results come to support opinions from the international literature which state that countries with lower index scores experience higher economic growth rates, reduction of unemployment and inflation and increase investment flows (Martens and Amelung, 2010).

The two interesting cases found in this cluster are the Russian Federation and Turkey. Russia, which has undergone a severe crisis at the end of the 1990s, has regained its strengths and remains one of the most important economies of Europe, mainly due to its very large consumer market, its strategic geo-economic position and also its vast natural resources (i.e. natural gas and oil), which represent one of the key pillars for a sustainable development.

Turkey, on the other hand, has enacted a set of reforms in the last years, the most important one being the reform to control inflation from 2001. These measures were taken in order to comply with the *acquis communautaire*, as regards to Turkey's future E.U. membership.

As regards to the second group, it consists mostly of the countries which have represented the last enlargement waves of the E.U., such as the Baltic states, Slovenia, Hungary, Poland, Romania, Bulgaria etc., or neighboring states of the Union, like the Republic of Moldova or Ukraine. The implications of the results are somewhat converse, namely that national economies which have achieved high globalization scores, have also register average or low rates for the GDP. The explanation regarding this situation can be found in the composition of the economic dimension for the KOF Index, which consists of trade flows (% of the GDP), FDI stocks (% of the GDP), portfolio investments and income payments, each with various weights. This implies that most of these countries are highly dependent on external economic relations, mainly in terms of commercial and financial flows, and with a certain lag, technological spillovers. In other words, even though most of them are well integrated in the European economic mechanism, they are dependent on the leading economies of the Union.

Given the fact that this second group is not homogenous, in terms of member entities, we consider that a few remarks are in order. Most of the countries included within this cluster are considered developing economies, but all depict different economic backgrounds. Ireland, for example, was considered to be one of the emerging economies of the European Union, with a good annual growth rate (3.90%, on average) and a high globalization index average (94.21). But it was highly reliant on foreign direct investment inflows and other economic linkages with well-developed countries (the United States, Germany, France, Italy, the U.K., etc.), reason why the present economic recession has left it in a severe crisis.

Poland on the other hand, albeit it recorded a low KOF score (65.80), is considered to be one of the few Union countries (if not the single one) that has emerged victorious from the present economic crisis. This is mainly due to its well-developed industrial and agricultural sectors, its competitive products and an educated internal market, in terms of consumers. Furthermore, Poland has been consistent in implementing E.U. policies.

Last but not least, we take a quick glance at Romania. It represents a very good example of a lagging European economy, greatly dependent of foreign economic relations. Before the current economic crisis, the Romanian consumer market was based almost 90% on imports of manufactured products, while exports consisted mostly of raw materials, thus producing an “artificial” economic growth.

These findings are in line with the some of the ideas underlined by the international literature, namely the fact that globalization alone does not lead to economic sustainable development and a reduction of poverty and inequality (Dreher, 2006), and that growth depends on internal factors, especially in emerging countries (Salvatore, 2010).

The results concerning the time effects are included in Table 4 and although contradictory at a first glance, they highlight two important consequences: the secular trend which is a growing one and the impact of the economic crisis.

The secular trend is explained by the growing rates, which, if we want an accurate result should be deflated correspondingly, but this is beyond the scope of this article.

The impact of the economic crisis appears clearly if we compare the values from 2008 and 2009. A difference of 0.14 emerges, which means that, on average, the GDP of the selected sample has experienced a 14% decrease during the recession period. Nevertheless, in 2010 a 5% recovery was recorded, also on average.

## CONCLUSIONS

The purpose of the present article was to study the relation between the GDP growth rate, the KOF index and the unemployment rate. For this we have retrieved data only for the economic index, in order to determine the nature of the relationship between this proxy of globalization and macro-economic variables, which account for economic growth and social inequality. To be more precise, the study wanted to provide evidence supporting the idea that a high globalization index helps in achieving better economic results and offers protection against negative social outcomes, especially during times of economic crisis.

The results of the study have brought forward a number of interesting results, as related to the connections between globalization and sustainable economic development. The computed results of the model have showed that in average there is a 1-1 direct positive relationship between the KOF economic globalization index and the economic growth, measured by the nominal GDP. In contrast, the unemployment rate has been proved to have a negative influence on the GDP, almost double in magnitude compared to the one of the globalization, a fact further enforced by the Spearman rank correlation between the two. This underlines the idea that globalization sets the scene for economic development but it is unable to trigger it without the help of other economic and social factors.

The second major finding is based on the fixed cross-section effects, which has separated the entities comprised in the sample in two large groups, namely developed and developing countries. As regards to the first group, the main idea is

that, on average, these countries have experienced economic growth rates, which are multiple times higher than the sample's average, over the entire analysis period. This, alongside the average KOF Index scores achieved, comes to uphold the opinion that countries with lower index scores experience higher economic development and reduction of negative social effects, such as unemployment.

In contrast, the second group has registered average or low rates for the GDP growth rate, but these countries had achieved high globalization scores. This situation emphasized the idea that, generally speaking, developing countries are highly dependent of external economic relations, in terms of trade and financial flows. Furthermore, the result underline the fact that globalization on its own does not bring forth economic sustainable development up and reduces poverty and social disparity.

Finally, the fixed time effects of the model have highlighted two important outcomes: a growing secular trend and, more importantly, the impact of the current economic crisis. The latter is very clearly highlighted for the years 2008 and 2009, when the average GDP growth rate for the selected sample has experienced a 14% decrease.

The relevance of the present is clearly supported by the its findings, which confirm ideas provided by the international literature, namely the fact that, on average, globalization promotes economic growth, but additional, country-specific determinants are needed in order to produce good results. Furthermore, given its complex nature, globalization cannot be analyzed from a singular perspective, be it dimension, country or sector.

The limitations of the study are derived from the data employed in the study, the number of entities comprising the sample and the time span. That is the main reason why the future research directions will include an emphasis on the relationship between the KOF globalization index and the political and social dimensions, an enlarged sample and longer analysis period.

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## ANNEX 1

Table 3 - Fixed cross-section effects

Country	$\beta_i$	Effect	Country	$\beta_i$	Effect
Austria	0.376828	1.458	Moldova	-3.98618	0.019
Belgium	0.572969	1.774	Netherlands	1.012481	2.752
Bulgaria	-1.66118	0.190	Norway	0.421551	1.524
Cyprus	-2.43235	0.088	Poland	0.807021	2.241
Czech R.	-0.41155	0.663	Portugal	-0.01131	0.989
Denmark	0.182153	1.200	Romania	-0.47643	0.621
Estonia	-2.70727	0.067	Russian F.	1.645489	5.184
Finland	0.013585	1.014	Slovak R.	-0.96668	0.380
France	2.564084	12.989	Slovenia	-1.5761	0.207
Germany	2.817477	16.735	Spain	1.865352	6.458
Greece	0.342082	1.408	Sweden	0.587795	1.800
Hungary	-0.6961	0.499	Switzerland	0.672788	1.960
Ireland	-0.19596	0.822	Turkey	1.170847	3.225
Italy	2.317157	10.147	Ukraine	-0.56412	0.569
Latvia	-2.27806	0.102	UK	2.465781	11.773
Lithuania	-1.87216	0.154			

Source: author's computation in Eviews 7.0

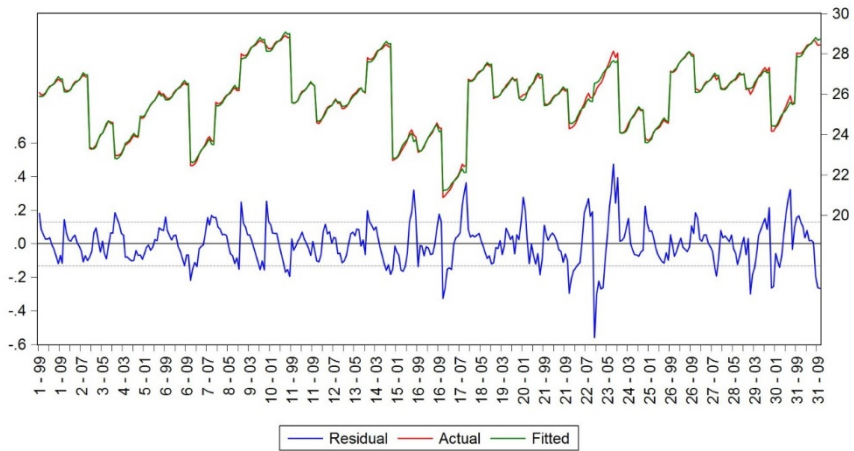
Table 4 - Period fixed effects

Period	$\bar{\alpha}_t$	Effect
1/1/1999	-0.45	0.637
1/1/2000	-0.50	0.602
1/1/2001	-0.46	0.625
1/1/2002	-0.34	0.705
1/1/2003	-0.15	0.864
1/1/2004	0	1.000
1/1/2005	0.10	1.101
1/1/2006	0.18	1.199
1/1/2007	0.33	1.397
1/1/2008	0.49	1.625
1/1/2009	0.40	1.488
1/1/2010	0.43	1.536

Source: author's computation in Eviews 7.0

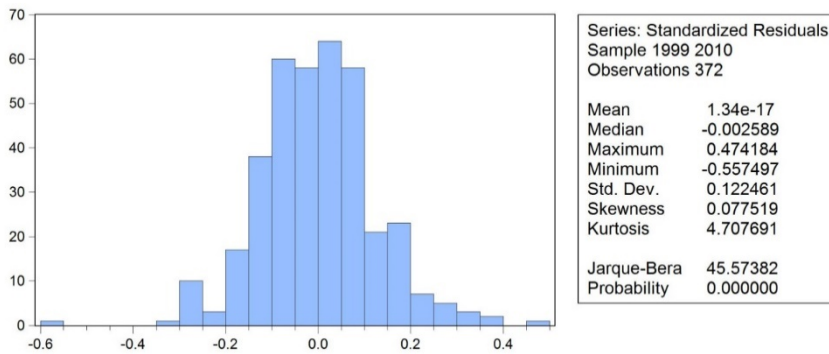


**Figure 1 - Actual, fitted and residuals of the model**



Source: author's computation in Eviews 7.0

**Figure 2 - Histogram of errors**



Source: author's computation in Eviews 7.0

# THE EU-RUSSIAN CONFLICT ON CRIMEA AND ITS REGIONAL IMPLICATIONS

Halil ERDEMİR\* , Buğrahan Nuri ERDEMİR\*\*

**Abstract:** *The EU has capacity on pragmatic approaches to resolving conflicts among its members. Nevertheless this supranational institution's potentials to overcome possible rivalries and conflicts originated from outside of its border might be more challenging one. This will be particularly true when conflicts arise over influencing the ENP areas between the EU and its archrival the Russian (Federation). Recent political and economic turbulences in Ukraine affected the both powers' awkward relations on a number of fields. These were/are particularly became evident on the issue of Crimea, in which 'the Russian referendum' was hold, and its annexation to Russia was/is under way. Russian and the EU officials used every opportunity to declare their legal and political stances in their statements. The issues on Crimea's strategic, economic, cultural and environmental significance for the world community in general and the direct involving parties in particular will be scrutinized through practical and theoretical approaches of international Relations.*

**Keywords:** Crimea; the EU's Neighbourhood policy; Russian Expansion; Energy; political theory

## INTRODUCTION

It can be argued that 'why Crimea matters to Russia is equally valid for the EU'. How far the involving parties can escalate the tension between them depends on their short- and long-term needs, expectations and requirements of internal and the determination of international political system. Therefore, from the point of political theory perspectives, the involving parties domestic systems and international balance of power need to be analysed in order to have a balanced and fully examination of this historic dispute.

Moscow decided to send its troops into Ukraine and seize the control of Crimea. Crimean peninsula has located on the northern coast of the Black Sea and strong historical, economic, military and cultural ties with Russia. The Russian authorities demonstrated their determination to use any pretext for their invasion and subsequently annexation of Crimea and other suitable areas. Crimea's strategic importance highly volatile to the regional powers in general to the Russian Federation in particular goes much further back to history (Herring, 1992, p.354-380).

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Within Crimea and its immediate region Sevastopol was/is a vital port for the Russian Black Sea fleet for many reasons since Novorossiysk is still at an embryonic stage for a full-scale naval base. This is a getaway for Russians not only for the Black Sea but also for the Mediterranean and beyond. Russia, therefore, will use every opportunity to regain and stay in Crimea and its immediate region. In fact, Russia sought to regain the area under the pretext of different agreements with Ukraine, which provide a continuation of the Russian military presence up to 2047. Sevastopol is a key factor for Russian regional security, which became evident during the 2008 war with Georgia and other recent international crisis.

The main worry of the EU and international community is beyond Crimea, which might further escalate the tensions between the country's pro-European west and Russian-leaning east and south.

Energy matters in the region and Crimea's potentials of hydrocarbon resources are fuelling the tension. Ukraine signed exploration and production agreements with some western countries' company, which disturbed Russia.

How far Russia will continue to push Crimea's and other areas' annexation and ready to face its possible consequences dependent on Russia's domestic and international power parity issues (Nye, 1997, p.161-170). Is it a legal movement to hold a regional referendum in Crimea on whether to secede from Ukraine and/or join the Russian Federation under the international law (Brownlie, 1967)? How could Kiev's move to dissolve the Crimean parliament, which apparently aiming at strengthening its hand under international law, affect the legality of Crimean annexation? What would be the role of the EU in these matters? The USA and the EU have condemned the referendum as 'illegal' and have threatened 'economic and political consequences' for Russia and its associates.

This paper will examine above matters in a political theory and practical perspectives with a special reference to economic, strategic, military and cultural policies of the EU and the Russian Federation in particular and the regional implications in general.

## **1. OUTLINE OF THE EU-RUSSIAN CONFLICT ON CRIMEA AND BEYOND**

### **1.1. Territorial Integrity of Ukraine and Crimea**

There were/are many pro-Russian nationalists and activists regarded/regarding Ukraine in general and its' mostly eastern parts in particular, as an integral part of the bigger Russian Federation (Russia Today (RT), Putin's address, 2014). This was/is particularly argued for Crimea, and its immediate region.<sup>1</sup> Ethnic Russians

<sup>1</sup> Ukraine was united twice with Russia, firstly in the 9<sup>th</sup> century and secondly in 1785, after a period of division between Poland, Russia, and the Osmanlı State (Ottoman Empire) (Armaoğlu, 1997, p.253-257; Sönmezoğlu, 2005, p. 407-408). Ukraine was an independent state following the 1917 revolution. Nevertheless, it became one of the original constituent republics of the Union of Soviet Socialist Republics. Ukraine, once again became an independent state in 1991, on the break-up of the Soviet Union.

are estimated 7.662 million (%17.3) and Russian-speaking Ukrainians 10.629 million (%24) out of the total 44,291,413 in Ukraine (Ukraine, 2014). Considering Crimea, on the similar scale, more than %60 of the population of Crimea are Russian-speakers, with the rest made up of Ukrainian, Tatars and a number of different language speakers (Orr, 2014).

Under the present circumstances, ethnic and linguistic combination of Ukraine creates great concern not only for the Ukraine authorities but also for the EU and the world community in general. The international communities' main worry is that tensions between the country's pro-European, Ukrainian-speaking west and Russian-leaning, Russian-speaking east and south could split the country. Present political turmoil might create wider consequences not only for the region but also in the other part of the world (Putin's address, 2014).<sup>2</sup> The Russian military existence was/is a reminder for those concerned involving powers that Russia would continue to protect/use its control of Crimea and the region for its variety of interests (Putin's address, 2014; Sönmezoğlu, 2012, pp.17-70).<sup>3</sup>

When the Russian authorities began to annexation process of Crimea in March and April 2014, the Ukrainian Prime Minister Arseniy Yatseniuk expressed Ukrainians feelings as saying "no one will give up Crimea to anyone" (Yatseniuk says 2014). This was regarded as a warning signal to the Russians and the West. It seems that the Ukrainian struggle will continue for the time being with and without the help of the West and the European Union. The European Union authorities appeared a bit reluctant to give a prompt reaction against the Russian move on Crimea. Russian President Vladimir Putin bluntly stated on the EU policies and practices as 'Instead of offering Ukraine real support, there is talk about a declaration of intent. There are only promises that are not backed up by any real actions' (Putin's address, 2014). In fact, the European Union has obligation on the protection of the territorial integrity of Ukraine for a number of reasons. Two members of the EU, the United Kingdom and France, signed the 1994 Budapest Memorandum,<sup>4</sup> which envisaged Ukraine's territorial integrity alongside by the Russian Federation and the United States of America. There were political,

<sup>2</sup> Russian state television RT (Russia Today) takes the Crimean issue and its annexation as a constant debate as being example for other potential areas in the world. This is argued for an instance for Bask Region in Spain.

<sup>3</sup> For a theoretical debate on citizenship and state relations see: Andrew Linklater, *Men and Citizens in the Theory of International Relations*, Second Edition, Macmillan 1990, London, pp.184-201.

<sup>4</sup> The Budapest Memorandum was signed by the Presidents of Ukraine, Russian Federation and United States of America, and the Prime Minister of the United Kingdom on 5 December 1994. This was done in connection with the accession of Ukraine to the Treaty on the Non-Proliferation of Nuclear Weapons. This Memorandum was expected to provide national security assurances to Ukraine on behalf of those countries. Later, China and France joined its provisions in the form of individual statements. The Joint Declaration by the Russian Federation and the United States of America of 4 December 2009 confirmed the security guarantees for Belarus, Kazakhstan and Ukraine (Unterm 2014).

economic and security reasons for those involving partners' interest on Ukraine at the time, then and present (Unterm 2014; Frederking, 2000, pp.103-104).<sup>5</sup> Economic matters fuel the political sensitivities on energy security and territorial integrity between the East and the West.

## 1.2. Energy Resources and Its influence on the regional matters

Crimea has potential hydrocarbon resources for exploration and its commercial usages for those interested energy giants of the western world, locals and the Russian Federation. Consequently, these potentials are one of the escalating issues for tensions in and around of Crimea. Ukraine signed exploration and production agreements with Italy's Eni<sup>6</sup> (%50) and of a Joint Venture with France's EDF (%5), and the State-owned companies Vody Ukrainy (%35) and Chornomornaftogaz (%10), (both fully owned by NJSC Nadra Ukrainy and NJSC Naftogaz Ucraina) in and around of Crimean peninsula on 27 November 2013 (ENI, 2014). Apparently the offshore area of the eastern part of the Crimean peninsula offers significant hydrocarbon energy exploration capacity, in which covering approximately 1400 km<sup>2</sup>. The area includes a license for Pry Kerch block (Subbotina, Abiha, Mayachna and Kavkazka) where either oil discovery was made and/or oil and gas prospects have been identified (Grove and Barker, 2014).

A consortium led by ExxonMobil and Royal Dutch Shell signed a production sharing agreement for an offshore plot off Ukraine's western Black Sea coast. Relating to this energy issue, local individuals also want to take places on cooperation with the West and the East on the energy issues (Ukrayna'daki, 2014; Nye, 1997, p.171-175). Rinat Akhmetov who is the richest man in Ukraine, was seeking to lure western investors into an offshore exploration project off the coast of Crimea in recent months (Orr, 2014).

Nonetheless, it is not so easy to solve existing Ukrainian related problems if there is highly valuable asset to share it. Therefore, potentials will be used for a number of disturbances for different aims, which were created in recent months in Ukraine and Crimea. The EU have taken some political measures in order to slow down the violence took places in Ukraine particularly against the western interests. As a first step, the EU imposed travel bans and asset freezes on Ukrainian officials deemed responsible for the violence in and around Kiev (Euronews, 2014; Ukraine crisis, 2014). So, administrative and legal issues started to play their roles in highly delicate bilateral and multilateral relations between the East and the West.

<sup>5</sup> Ukraine is the EU's a priority partner country within the European Neighbourhood Policy and the Eastern Partnership. The EU has been seeking an increasingly close relationship with Ukraine aiming bilateral cooperation, encompassing gradual progress towards political association and economic integration. In this respect, an Association Agreement between the Union and Ukraine was negotiated in 2007-2011. Furthermore, the both parties initialed an agreement on Deep and Comprehensive Free Trade Area on 30 March 2012. (Regulation of the EP, 2014).

<sup>6</sup> Eni, Ente Nazionale Idrocarburi (national hydrocarbon authority) which was founded with the Italian law of 136 and came into force on 11 April 1953 (ENI, 2014).

### 1.3. Legal aspects of Crimea's annexation

How far Russia will push Crimea's annexation and ready to face its consequences? Is it a legal movement to hold a regional referendum on whether to secede from Ukraine and join the Russian Federation under the international law? How could Kiev's move to dissolve the Crimean parliament, which apparently aiming at strengthening its hand under international law, affect the legality of Crimean annexation? There are many questions needs to be answered for the legal perspectives of the existing and emerging issues in the region.

A decision has to go through constitutional processes of a given country in order to be legalized nationally and internationally. Consequently whether or not the Crimean referendum is a constitutional move under Ukrainian law has to be examined which seems violates international law because it violates domestically Ukraine's constitution (Higgins, 2001, pp. 95-128, 238-253).

Purely legality point of views there are some obstacles has to be removed from Russian side (Tsvetkova and Gutterman, 2014). There are legal barriers under the Russian constitutional law that must be sorted out before the Kremlin can take the further step of annexation. In order to annex a part of a foreign country into the Russian Federation that decision has to be approved and/or in accordance with a request from the organs of state power of that part of the foreign country. Moreover, any request to join Russia must be approved by "a referendum conducted in accordance with the laws of the foreign state in the territory of that part of the foreign state." That means Crimea's regional authorities must approve the results of the March 16 referendum for Russia to agree to annexation which was approved in Moscow on 18 March 2014 (Putin's address 2014).

Contrary to this, the Ukrainian authorities dissolved the Crimea's parliament before the March 16, 2014 referendum (Ukraine Dissolves, 2014). This was done in order to argue for the Ukrainian authorities that 'a Crimean annexation request fails to meet the requirements of the Duma's draft bill because it was not carried out by regional organs of state power.' However, there is no practical way to enforce international law on Russia due to its Crimean annexation following the referendum (Brownlie, 1967, pp.178-93). It is extremely difficult to get a decision through United Nations Security Council due to the fact that Russia holds a veto right in it (Baehr, P.R., Gordenker L., 1999, pp. 25-6,120-131). There is no way to enforce Russia's standpoint otherwise. The question is will anyone other than Russia recognize Crimea as a part of Russia? (Laws 2014). The reality is that Russia can take it over a while which becomes a *fait accompli* as like China's takeover of Tibet. This is not a legal but exerting a military power processes.

The United States and the European Union have condemned the referendum as illegal and have threatened economic and political consequences for Russia if Moscow takes further action to seize control of Crimea (Jozwiak, 2014). In fact, they have taken some measures to achieve their end. The debate on Crimea and other parts of Ukraine is still under the discussion of the influential powers' agendas.

## 1.4. Why Crimea matters to Russia?

Moscow decision to send Russian troops into Ukraine and seize control of Crimea has thrown the spotlight onto the peninsula. Strategically important Crimea has located on the northern coast of the Black Sea and strong historical and cultural ties with Russia. Russia dominated and ruled Crimea for many years. Moscow cannot ignore such a significant gateways for its security and economic wellbeing (Putin's address, 2014). Therefore, Russians will use any issue as a pretext for its military invasion and annexation in order to defend its citizens and interests in Ukraine, especially in Crimea. If one consider the needs and expectation of Russia and its practices in immediate borders one can safely argue that Russia is pursuing realist perspective of international relations theory (Smith, 1999, p.61-91).

Crimea's strategic importance highly volatile to the regional powers in general to the Russian Federation in particular goes much further back to history (Cordesman, 1994, pp. 55-57). Sevastopol port was and still is one of the vital harbours for the Russian Naval forces. This is not only important for the Black Sea but also for the Mediterranean and beyond for the Russians. Russia therefore will use every opportunity to regain Crimea and its region. In fact, Russia sought to regain the area under the pretext of different agreements with Ukraine. The signed agreements with Ukraine in 2010, the Russian military can continue to use Sevastopol until 2042, with an option of extending the lease to 2047 (Hille, 2014).<sup>7</sup> Vladimir Putin blandly stated that the Black Sea fleet's presence in Sevastopol is a key factor for Russian security (Putin's address, 2014; Windsor, 1993, pp. 61-70). This became evident during the 2008 war with Georgia, when the Russian fleet staged blockades in the Black Sea and was used to launch amphibious landings. There were also other usages during the Libya crisis, anti-piracy missions in the Indian Ocean and Moscow's role in dismantling Syria's chemical weapons. According to the agreements were signed Russians can station up to 25,000 military personnel in the base. Sevastopol has become even more important since Russia was forced to stop using the naval base in the Syrian port of Tartus (Weir, 2014; Gardner, 2014).

Moscow is trying to convert the Russian largest commercial port, Novorossiysk on the Black Sea coast, into a full-scale naval base. The Russian navy using the port for smaller naval vessels and a supply point, which is still at an embryonic stage compare to Sevastopol. Russians see Crimea as an integral part of the Russian Federation. Nikita Khrushchev transferred Crimea to Ukraine in 1954.

<sup>7</sup> The Kharkiv Accords (Pact), (the Russian Ukrainian Naval Base for Gas treaty), was signed as a continuation of 1997 between Ukraine (President Victor Yanukovich) and Russia (President Dimitry Medvedev) on 21 April 2010 in Kharkiv, Ukraine. According to the treaty the Russian lease on naval facilities in Crimea would be extended beyond 2017 by 25 years (to 2042) with an additional 5 years renewal option (to 2047). This was in exchange for a multiyear discounted contract to provide Ukraine with Russian natural gas. Shortly after the March 2014 annexation of Crimea to the Russian Federation unilaterally terminated the treaty on 31 March 2014.

After the break-up of the Soviet Union Crimea became part of newly independent Ukraine rather than part of the Russian Federation (Putin's address, 2014).

It became rather difficult for Russians to digest the reality of an independent Ukraine with an approximately 7.6 million ethnic Russians in it. Sevastopol was home of Russia's Black Sea naval base since the 18<sup>th</sup> century and it was under the authority of the Ukrainian Soviet republic in 1978. Sevastopol somehow remained under the Russian authorities in everything but just the nominal name was Ukrainian city. More than %60 of the population of Crimea is Russian-speakers and the rest consisted of Ukrainian and Tatars speakers.

### 1.5. Recent Political Turmoil in Ukraine and Crimea

Pro-Russian 'activists' in Crimea have demonstrated and organized widespread opposition to the new national government in Kiev with a prospect of secession from Ukraine. These actions in Crimea protracted grassroots actions against the Ukrainian government in the capital's central square, recruiting hundreds of 'local men' into and as 'self-organized militias' as reported in various newspapers in the West (Buckley and Olearchyk, 2014).

**Figure 1 – Ukraine: Russian native speakers**



Source: ukrcensus.gov.ua; IMF; Thomson Reuters Datastream; IISS  
<http://blogs.ft.com/the-world/files/2014/03/election.gif>



In Sevastopol ethnic-Russians forced out the Kiev-appointed city administrator and replaced him with Alexei Chaliy, a local businessman with Russian citizenship. The tension has been further fuelled by the deaths of six Crimean riot police in the Kiev. So called ‘ethnic Russians’ have using the argument of Russian officials’ mouth labelling the new Ukrainian authorities as “fascists” and “bandits”.<sup>8</sup> Gennady Basov, leader of Sevastopol’s Russian Block party, argued that ‘the new Kiev leaders planning to make illegal to speak Russian altogether’ which is not substantiated by the previous and present actions of the Ukrainian authorities. Contrary to this claim however, the pro-Russian Crimeans organized well-attended protests where Russian flags were waved and chanted loudest possible way to be heard not only in Crimea and Kiev but also in the Western capitals “Russia! Russia!” There is no only single one-way solution of the Crimean conflict. On the one hand, there are Crimean residents supporting the peninsula’s unification with Russia and on the other, some Crimean prefer either greater autonomy for the region or remaining united with Ukraine under the new leadership in Kiev (Orr, 2014).

**Table 1 - About number and composition population of Autonomous Republic of Crimea by All-Ukrainian population census’ 2001 data**

	Defined as the native language (%)			
	language their the nationality	Ukrainian	Russian	other language
Russians	99.7	0.2	x	0.1
Crimean Tatars	93.0	0.5	5.9	0.6
Tatars	67.8	0.1	25.0	7.1
Azeris	55.8	0.7	37.9	5.6
Armenians	52.9	0.3	46.1	0.7
Ukrainians	40.4	x	59.5	0.1
Moldavans	31.0	1.9	66.0	1.1
Greeks	23.8	1.1	71.8	3.3
Koreans	20.1	0.1	78.8	1.1
Bulgarians	18.4	3.1	77.6	0.9
Belarussians	17.1	0.9	81.8	0.2
Poles	4.1	20.4	74.6	0.9
Jews	1.9	1.1	96.7	0.3

Source: All-Ukrainian population census

(<http://2001.ukrcensus.gov.ua/eng/results/general/language/Crimea/>)

<sup>8</sup> Russian intense diplomatic, media and psychological moves and works had taken places in portraying Kiev’s new leadership as ‘fascists’ and ‘terrorists’ directed by the Western powers. So, the Russian authorities have pledged to defend Russian citizens and interests in Ukraine, especially in Crimea. This is an old and new ways of influencing and expanding Russian interest wherever this pretext will be useful as it was exercised in Georgia in 2008 (Huntington, 1996, p.266-298).

The analysis of the indicated ‘native language’ shows that 10.1% of the population of Autonomous Republic of Crimea have indicated ‘Ukrainian’ as their native language and 77.0% of population indicated ‘Russian’ as their native language and 11.4% of population indicated Crimean-Tatar (Ukraine census, 2014).

### **1.6. Facts and figures on Crimea.**

The total population of the Autonomous Republic of Crimea according to the data of the All-Ukrainian census was 2,033,700 persons. The urban population accounted for 1,274,300 whereas the rural population is 759,400 persons, and this is 62.7% and 37.3% respectively. The total men of the population is 937,600 whereas women 1,096,100 which corresponded to 46.1% and 53.9% respectively. There are 16 towns in which 5 of them populated more than 50,000 inhabitants. Within this population the national structure of Crimea is multinational composition. According to the 2001 Ukrainian census Crimea has more than 125 different nationalities and ethnic groups in which with an increase intention of people with higher and secondary education (Ukraine census, 2014).

## **2. REGIONAL IMPLICATIONS OF THE CONFLICT**

### **2.1. The European Union decision on Ukraine and Crimea**

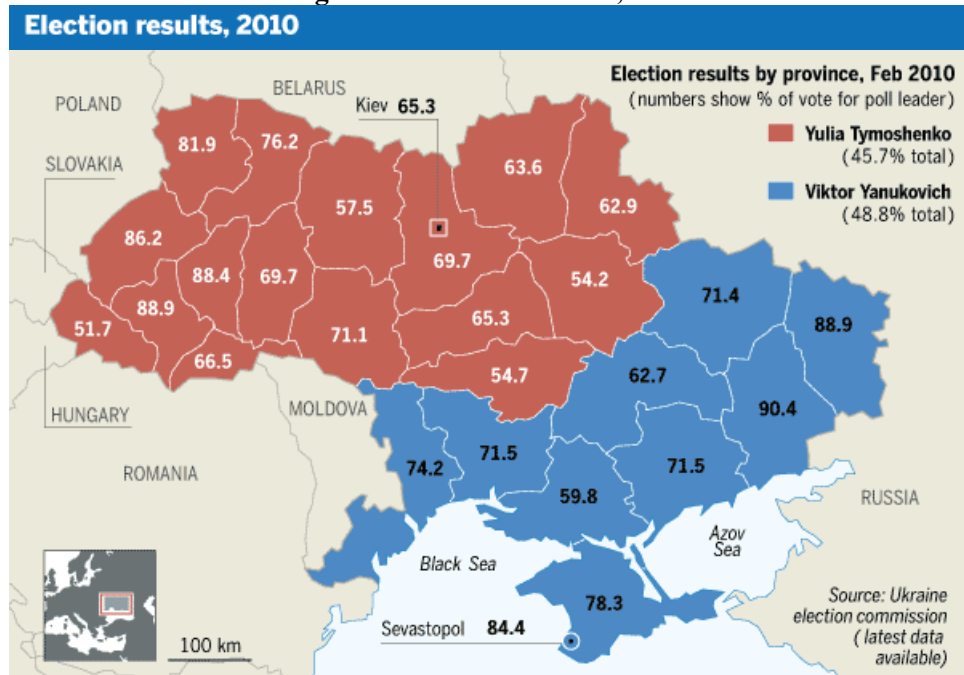
The European Council discussed and decided on the events, which took places in Ukraine in general and Crimea in particular. The European Union condemned armed individuals’ actions in cities of Eastern Ukraine (Statement 2014). These actions regarded as ‘destabilizing acts’ and should to be stopped. All involving parties are encouraged establishing a dialogue for a peaceful end. The Council expanded the list of those subject to assets freeze and visa ban (Council conclusions on Ukraine, 2014; EU freezes, 2014).

The Council repeatedly stated that Ukraine’s unity, sovereignty, independence and territorial integrity should be respected. The Council has called Russians to do the same, and urge them immediately ‘to renounce lawless acts’ in Eastern Ukraine. In order to sustain the stabilization of the area Russia should call back its troops from the Ukrainian soil. Threat and/or use of force cannot be accepted not only in Ukraine but also in the region. Nevertheless, the Ukrainian authorities should pursue their law and order within its soil and make every effort to reducing tensions between Ukraine and the Russian Federation.

The European Union condemned Russian ‘illegal’ annexation of Crimea and Sevastopol. It is stated that the European Union will not recognize Russian fait accompli in Crimea. The EU welcomed the adoption of the resolution of the United Nations General Assembly Number 68/262 on 27 March 2014 (Territorial integrity, 2014). The Council further stated that it looks forward to the Commission's evaluation of the legal consequences of the annexation of Crimea

and to the related proposals for economic, trade and financial restrictions regarding Crimea.

**Figure 2 – Election results, 2010**



Source: Ukraine election commission  
(<http://blogs.ft.com/the-world/files/2014/03/election.gif>)

The EU repeatedly declared that Russia's peaceful and constructive engagement with Ukraine is important for political, economic and strategic reasons in which the EU will gladly take places. As a first step, a multilateral mechanism for a dialogue should be established aiming to find a political solution on Ukraine's full sovereignty and territorial integrity. To this end, the European Council welcomed the meeting with the participation of the High Representative and Foreign Ministers of Ukraine, Russia and the US, as a start of a substantial de-escalation process of the issue. It is also further expected that the EU and the Russian Federation should support economic stability of Ukraine (Main results, 2014, pp.13-15).

The EU Council valued the work undertaken by the Organization for Security and Co-operation in Europe Monitoring Mission, which is of utmost importance in monitoring developments in Ukraine (OSCE Monitoring Mission, 2014). The Council supports and takes under strict consideration of this mission's reports for obtaining updated developments in Ukraine (Ukraine, a developing, 2014). Therefore, the Council expresses its concerns on possible restrictions on the ability to observe of this Monitoring Mission on the situation in the area of human rights and other issues in Crimea and Ukraine.

The European Neighbourhood Policy aims to familiarize Ukraine within the scope of EU's parameters. Therefore the EU Council is ready to assist Ukraine in the field of civilian security sector reform, support of police and rule of law within the territory of Ukraine. In this respect the Council tasks the European External Action Service (EEAS, 2014) to deploy an expert mission to prepare for appropriate assistance complementary with other on-going efforts and elaborate a Political Framework for Crisis Approach (PFCA), examining all options, including through a possible Common Security and Defence Policy (CSDP) mission (CSDP, 2014).

The EU Council highlighted the tense situation in Ukraine by any additional destabilizing acts may deteriorate broad range of economic and political consequences between the European Union and its Member States, on the one hand, and the Russian Federation, on the other hand. Therefore, the responsible EU institutions are working on the possibility of possible targeted measures and further steps as requested by the European Council.

The EU Council encouraged Ukraine to continue to move ahead with its course of political reforms and the constitutional reform. It is further supported that the Ukrainian authorities implementation and commitments to ensure the representative nature and inclusiveness of governmental structures which is expected to reflecting regional diversity and ensure the full protection of the rights of persons belonging to national minorities. The Ukrainian authorities should investigate what the International Advisory Panel of the Council of Europe suggest on all human rights violations, acts of violence and to fight extremism. The Council regarded an appropriate move of the Ukrainian parliamentary resolution calling for the immediate disarmament of all illegal self-defence forces. The Council supporting to build trust across Ukraine and the decision of the holding of free and fair Presidential elections on 25 May in Ukraine.

The Council is expecting from the new Ukrainian authorities will continue to commit on signing the remaining provisions of the Association Agreement after the presidential elections on 25 May 2014. The agreement will include the Deep and Comprehensive Free Trade Area (Full document DCFTA, 2014). To this end, the Council adopted the Regulation on the reduction or elimination of customs duties on goods originating in Ukraine as a support measure to Ukraine until 1 November 2014 (OJ of the EU L118.1-760).

The EU Council stated that its commitment to stand by Ukraine and to provide strong financial support to its economic and financial stabilisation. The Council welcomed the agreement between the IMF and the Ukrainian authorities on a new Stand-By Arrangement on 27 March 2014. The Council adopted the Decision on the macro-financial assistance for Ukraine establishing clear conditions for its future disbursement, which will bring the total amount to EUR 1.6 billion (Commission's support, 2014).

The Council encouraged and welcomed the creation of the Support Group for Ukraine. This will work on the implementation of the "European Agenda for reform" which is a part of the ENP's aims a implementation of set of structural reforms, including the fight against corruption, public finance management and

budget transparency. The EU calls on all interested and involving parties to contribute to the stabilisation and development of Ukraine and the region, which will serve not only for the EU but also for the regional powers.

The Council declared that the EU ready to assist Ukraine's energy security and supply through further diversification of the rapid enhancement of reverse flow capacities energy efficiency, and effective interconnections with and within the European Union. Nevertheless, such assistance has to be combined with Ukraine's efforts to reform and modernise its energy sector, in line with Ukraine's commitments in the Energy Community Treaty.

The Council suggested consultations with Russia and Ukraine with a view to ensuring security of supply and transit energy. The Council expressed its concern regarding the unilateral increase of gas prices applied to Ukraine. This might be an indication of possible political usage of energy in bilateral and multilateral relations. The Council highlighted its decision by expressing how an international business should conduct. It is suggested that a firm conviction that all differences of views on the price and conditions of gas supplies should be solved through negotiations and available legal mechanisms, with a view to stabilising the economic situation in a given place. Energy relations must be based on reciprocity, transparency, fairness, non-discrimination, openness to competition and continued cooperation to ensure a level playing field for the safe and secure supply of energy.

The European Union reaffirms its support for political association and economic integration with Georgia and the Republic of Moldova. The EU is trying to establish strong relations by signing the Association Agreements and Deep and Comprehensive Free Trade Areas within a very short period of time. This relation aimed to enhance the European Union's confident of a positive impact on wider stability and socio-economic development and for the benefit of all the citizens of the two states and their neighbours. Subsequently, the EU encouraging Georgia and the Republic of Moldova to continue implementing EU required reforms as part of their commitment to further strengthen the political association and economic integration with the EU. Therefore, it is important for the EU to have good relations not only with these two states of Ukraine neighbours within the Neighbourhood Policy of the EU. In order to bolster the relation and Ukraine thrust to the EU, the Council approved macro-financial assistance of up to € 1 billion for Ukraine. In addition to this, the European Union authorities adopted EU trade preference for Ukrainian products and reinforced EU restrictive measures targeting persons responsible for the misappropriation of Ukrainian state funds. These are granting unilateral trade preferences to Ukraine, providing for the temporary reduction or elimination of customs duties in accordance with a schedule of concessions set out in an annex to the EU-Ukraine association agreement (EU-Ukraine Association Agreement 2014). The EU's support package aimed to assist and encourage to Ukraine's political and economic transition and reforms (European future for Ukraine, 2014). The package was announced by the Commission on 5 March 2014 and endorsed by the Council on 6 March 2014 in response to the unprecedented developments in Ukraine.

## CONCLUSION

According to the EU's assessment 'Russia is a flagrant breach of international law and a policy of aggression that it is not observed as the like of since the Cold War'. The actions were taken places in Crimea and Ukraine reduced the international credibility of Russia. It is believed that Russia organized an unconstitutional "referendum" on whether to break the Crimean region off from the Ukrainian state.

International and the European Union efforts are needed to support economic and political reforms and their implementation in Ukraine. The events of Maidan Square were a popular uprising against corruption and political stagnation, a call for reforms and stronger ties to Europe. Russian supporters resisted severely to the uprising in Kiev which is quite understandable by the Russian great expectations.

The EU adopted a package of supporting economic stabilization and well-functioning public authorities in Ukraine about 16 billion Euros. The EU further offered visa procedures simplification towards Ukraine, strengthening the partnership by improving the judicial system and the rule of law, as well as fighting corruption with the state.

The European Council decided sanctions against Russia. This is regarded as a fair and just act as suspending the negotiations on visa liberalization with Russia. In addition to this, the EU carried out travel bans and freezing of assets of individuals and officials.

Ukraine in general Crimea in particular is a vastly important for the European Union and the Russian Federation. After president Viktor Yanukovich left office, the new government in Kiev faced a number of challenges as weathering out corruption, safeguarding the integrity of public authorities and getting the economy back on its feet. The EU wanted to play a key role to play in contributing to making what Ukrainian government what to achieve as line with the European Union requirements.

A Summit was held and signed the Association Agreement between the European Union and its Member States and Ukraine in Brussels on 21 March 2014 (Final Act 8841/14, 2014). The European Parliament and Council approved on the reduction or elimination of customs duties on goods originating in Ukraine on 16 April 2014 in Strasbourg (OJ L 118/1, 2014).

The Ukrainian people as like any other state in the region and wider world deserve a democratic and prosperous future where it is located. The strategic importance of Crimea should not be the curse of its bright future.

The EU should focus, research and practice on four core grounds of conflict resolution in Crimea and Ukraine. These four bases will provide the EU negotiators to focus their work in an area of concentration, such as health care, the environment, or ombudsman practices. The EU has potentials in the world of negotiation, mediation and conflict resolution through applied research and exposure to professional work in the field with grounding in theory, research and

practice. Obviously these depend on availability and acceptance of the EU's existence in the region in particular worldwide in general.

Conflict resolution requires a rigorous and concentrated works and program that demands a serious commitment of time and energy (Freedman, 1993, p.105-117). The EU and Russian needs are different on the issue of Crimea and Ukraine (Ukraine, 2014). Henceforth, the peninsula and its environmental areas' values are not the same level for the involving parties. This brings different approaches to the same issue while one side regards essential whereas others see the same differently in the future as in the past. Therefore, involving parties should be very careful in their every single move with an utmost attention.

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# THE DANUBE STRATEGY AND ITS IMPACT ON THE PROCESS OF UKRAINE-EU RAPPROCHEMENT

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**Abstract:** *The research paper analyzes the impact of the Danube strategy on the process of Ukraine-EU rapprochement. The strategy itself is primarily a political document, which provides guidance to States in the region and the EU institutions to ensure the development of the Danube region. This document is unique in a number of parameters. First, its implementation will affect not only the eight Danube States - members of the EU, but also the neighboring countries of the EU. Secondly, it is a comprehensive document that covers not only the transport sector, but environmental issues, development of culture and tourism, education and many others. For Ukraine, the value of the Strategy is primarily due to the fact that in the context of the course of European integration this document provides additional opportunities for entry into the common European space. In addition, the Danube strategy can be considered as a tool for regional development. Strategy parameters cover four regions of Ukraine, located in the Danube River Basin - Odessa, Chernivtsi, Transcarpathian and Ivano-Frankivsk region.*

**Keywords:** European Union Strategy for Danube Region; Ukraine; Odessa; Chernivtsi; Transcarpathian; Ivano-Frankivsk

## INTRODUCTION

In June 2009 the European Commission began to prepare the document which would include proposals of the Danube region countries towards directions of an integrated and comprehensive development of the Danube region. The European Commission has invited 14 countries for the development of the Danube Strategy that make up the Danube region, namely: eight EU Member States - Austria, Bulgaria, Czech Republic, Germany, Hungary, Romania, Slovakia and Slovenia; 1 candidate country for membership - Croatia; 3 potential candidates for accession - Serbia, Montenegro, Bosnia and Herzegovina; 2 Partner countries - Ukraine and the Republic of Moldova.

In December 2010 the European Commission represented Danube Strategy - a long-term EU policy towards solving the problems of the Danube macro-region. It was developed on the experience of the Baltic strategy. 14 countries of the

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Danube River Basin by 2020 are to implement 200 projects related to four main areas of Association of the Danube Region (transport, energy, culture, tourism);

- protection of the environment in the Danube Region (restoring water quality, control of environmental risks, conservation of landscape and biodiversity);

- promoting prosperity (development of the "knowledge society" through research education and information technology support for enterprise competitiveness through the development of clusters and complexes, investment in the development of knowledge and skills of employees;

- strengthening the position of the Danube Region (including political stability in the region to work together to provide security, the fight against crime).

Ukraine is a country that has been invited for developing and further implementation of the Danube Strategy. Ukrainian part of Danube region covered by the Danube strategy includes four regions: Odessa, Chernivtsi, Ivano-Frankivsk and Transcarpathian. As for today, Ukraine is the only country in the Danube region, which was not determined with its desire to coordinate one of the eleven priorities of the Danube strategy, but only demonstrated its interest towards "Improving transport and communication infrastructure , including the development of internal shipping" (Дьяков, 2012).

However, Ukraine's participation at the national level in the development of the Strategy from the outset was formal and declarative. As a result, country was not included in the list of States which are responsible for specific priority areas (Филипенко, 2013).

## 1. CURRENT FEATURES OF UKRAINE'S PARTICIPATION IN DANUBE STRATEGY

Ukraine's participation in the development and further implementation of "The European Union Strategy for Danube Region" enable country to demonstrate on practice that Ukraine and EU have common interests and have potential for working together for solving mutual problems and for sustainable development in the Danube region. However, Ukraine's participation in the development of the SDR at the national level initially had formal and declarative character. Official Kyiv did not use any opportunity to participate in a series of international conferences that were organized by the European Commission during the first half of 2010 for discussing common issues.

Consequently, the quality of "Ukrainian vision of the future EU strategy for the Danube Region" ("Position Paper" of Ukraine) cannot be considered satisfactory for the following reasons:

- Ukrainian "Position Paper" is not based on an awareness of the whole complex of problems that are common to all or most countries in the Danube region and the need for concerted action to resolve them. It contains a number of project ideas which are essentially local or national and are not deemed to be included in the Action Plan in accordance with the criteria put forward. Document does not take into account the key approaches to the development of SDR and

Action Plan, which had been formulated by the European Commission - namely, they must relate to the Danube basin as a macro-region, and not be focused on purely local or national projects;

- "Position Paper" is geographically limited, because almost all of the proposed idea, except for one (project V.3.2. - Flood prevention, protection from the harmful effects of water pollution and accidents in the basins of the rivers Prut and Siret) refer exclusively Ukrainian Danube, while geographically Ukrainian part of the Danube region is much wider and includes, in addition to Ukrainian Danube (Odessa region) areas located in the basins of the rivers Tisza, Prut and Siret (Ivano-Frankivsk and Chernivtsi region). It should be noted that the Transcarpathian and Chernivtsi region also borders with Romania and the Romanian minority living there;

- joint activities among region countries, which has been carried out and had some results was not considered sufficiently and only mentioned in Ukrainian "Position Paper". Thus, the project idea V.2.3. - Creating a single geographic information system of the Danube River Basin – has been proposed without the presence of a GIS database for Basin "Danube GIS", which had been developed under the auspices of the International Commission for the Protection of the Danube River (ICPDR / ICPDR).

Such a formal approach, lack of interest of relevant ministries in the development of the EU Strategy for the Danube Region, the rejection of the involvement of non-governmental experts has meant that some of the projects may have a significant impact on the subsequent redistribution of the hydrological balance in the Danube Delta and eventually the state of navigation in the Ukrainian part of the Danube Delta.

Comparative analysis of position papers of Ukraine ("Ukraine's vision of the future EU strategy for the Danube Region") and Romania ("First National contribution of Romania to develop the EU Strategy for the Danube Region") indicate that they recognize a number of common problems of paramount importance (primarily related to environmental issues and improving communication between countries).

At the same time, the focus on the national interest should be noted. For example, both documents contain priorities for the development of river ports, but each assumes it to its national territory. Both define the priority of navigation on the Danube, but each according to their own interests. In particular, Romania is interested in further development of existing shipping channels and Ukraine insists on creating of alternative one on its territory.

A formal approach, lack of relevant ministries interests in the development of the EU Strategy for the Danube Region, the rejection of the involvement of non-governmental experts have led to the loss of Ukraine advantages in the Danube Delta and had negative impact on the state of navigation in the Ukrainian part of the Danube Delta (Makyx, 2013, p. 11).

## 2. DANUBE STRATEGY AND DANUBE SYNERGY

On October 31, 2013 an International Forum "Danube synergy" took place in Odessa, in which the head of the Romanian counties of Tulcea and Galati have put forward ideas on possible ways of international cooperation in the framework of the Euroregion "Lower Danube".

According to the Chairman of the Tulchea county Horia Teodorescu, in the frame of the new fiscal period of EU on 2014-2020 the special attention will be paid to the creation of new opportunities and synergies for all verticals of power within the European region "Lower Danube". The main goal should be increasing of funding and volumes of foreign investments. H.Teodorescu stressed that for obtaining concrete results in the Danube region it is necessary to undertake a comprehensive examination of the opportunities existing in the region and to upgrade infrastructure in spheres of energy, transport, culture and eco-tourism, to organize joint control over emergencies. "Danube Synergy" provides a framework for developing a comprehensive strategy for cross-border cooperation in the framework of the Euroregion "Lower Danube" for joint action and sustainable development, based on the competence of the central, local government and the private sector.

Globalization, EU enlargement and the creation of new international organizations on the geographical basis or on common interests - all this testifies to the need to develop cooperation between the authorities of the Euroregion "Lower Danube". The responsibility of neighboring countries should be development of more effective collaboration through the mediator services of Association Euroregion "Lower Danube" commissions for the development of the economic potential, attracting of foreign investments and the use of European funds. Joint efforts can bring potential Euroregion "Lower Danube" to the maximum and under the new budget period 2014-2020 it can be convert common challenges to our opportunities.

According to H.Teodorescu, International Forum provides considerable potential for the Odessa region, as recently Odessa region actively entering into European structures and the European life. County Chairman said that in Odessa soon will be opened the local office of an international organization "Conference of Europe coastal regions" where he is the Vice President now. According to him, it will be additional political opportunity to integrate the Odessa region into European life. H.Teodorescu said that within the region "Lower Danube" Romania and Ukraine are partners, not rivals. And in the context of the integration of the various areas and regions the instruments of Euroregion "Lower Danube" should be used to the maximum for the development of cooperation and partnership. County Chairman said that recently Forum "Danube synergy" held in Bucharest as well. It was attended by top officials of the Romanian government (Prime Minister and Minister of Foreign Affairs) and there was determined how to build a partnership between the neighboring countries of the Danube. H.Teodorescu said that the leadership of the region of Tulcea ready to share experience with neighboring countries that are not yet members of the EU but belong to the Danube. He expressed the hope that the

opportunities opened up on the basis of the budget period 2014 - 2020 would be maximally utilized for further development of European regions (Teodoresku, 2013).

According to the Chairman of the Galati county Nicolae Bakalbasha since the creation of the Euroregion "Lower Danube" partner regions practically have not implemented any measures. Despite the favorable geopolitical position, from the economic point of view Euroregion has certain drawbacks. The Chairman suggested that most of the economic problems of the European region are artificial. N.Bakalbasha stressed that navigation problems in the Danube caused the Crimean War and, from the other side, became the basis for creating the first pan-European organization - "The European Commission of navigation on the Danube." He expressed regret that despite the fact that Danube is officially the seventh corridor of EU, it practically does not carry out transportation, because 7% of the navigation potential - is really nothing. However, in his opinion, the River Danube - a potential tool for development of all Danube countries, first of all for those that belong to the Euroregion "Lower Danube". According to N.Bakalbasha, European community began to take certain actions and is willing to invest essential funds for the development of navigation on the Danube.

The Chairman of county stressed that it is difficult in winter to transport any goods on the Danube, as the river sometimes freezes and there is shortage of icebreakers. Also, it became difficult in recent years to carry on goods on the Danube in the summer because of flooding that led to the accumulation of large amounts of silt and that constantly compel to engage in expensive procedure of flushing channels. He also drew attention to the presence of two dam construction projects for electricity production and for improving navigation conditions in the Middle Danube, which are not realized because of high prices and uncertain policy in addressing this issue. The Chairman of the county said that on the European level the Danube issues began to be considered together with the issues of the western Black Sea region. He said that in the future will try to raise the question of improvement of navigation conditions on the Danube on the European level. N.Bakalbasha considered unacceptable that so far Romania, Moldova and Odessa region could not influence the situation with navigation on the Danube, but owing to Danube synergy the significant results would be achieved (Bakalbasha, 2013).

### 3. DEVELOPMENT OBJECTIVES UP TO 2020

The issue of development of navigation on the Danube is of particular importance in the context of the EU Strategy for the Danube Region realization. The strategy particularly declares the following objectives in the development of such sectors of economy as transport, energy, culture and tourism:

- to increase the volume of cargo transportation by 20% by the year compared to 2010;
- to remove existing navigation "narrowings" on the river in order to enable the shipping of VIb type vessels throughout the year;
- to improve travel time of passenger transportation between major cities;

- to develop efficient multimodal terminals at Danube ports to connect internal waterways with rail and road transport up to 2020;
- to create a four rail corridors for freight that cross the Danube Region (as planned, on 3 or 5 years);
- to achieve national targets on the basis of the objectives on climate change and energy "Europe-2020".

However, the realization of abovementioned targets requires seeking of huge financial resources and in technical perspective - of effective design solutions (Макух, 2013, p. 11).

## CONCLUSIONS

Of great importance for Ukraine is the possible co-operation capacity of the Danube shipping with the industrial potential of Southern Ukraine, which can increase on 8-10% the intensity of traffic on the Danube. The good prospects have the cooperation in the energy sector, including renewable energy. The great importance in the context of implementation of the Danube Strategy takes common realization of city-building projects for the cross-border regions. The core of this process in attaining mutual agreement on territorial development of state border areas that poorly developed as peripheral. Joint planning will allow to avoid unbalanced using of border areas and thereby enhance the effectiveness of these areas and ensure proper connectivity between border areas.

Significant potential for constructive cooperation within the Danube strategy exists in the field of environmental protection, particularly in monitoring of compliance with environmental standards in the Danube River Basin, flood and other emergencies.

Poor infrastructure (waterways, ports and communications systems) and the uneven development of its elements are the main causes of the weakness of Danube shipping market and inability of new, primarily high-speed transportation technology introduction on Danube that by the time and cost of goods delivery can compete with railways and highways.

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# (RE)BUILDING THE EUROPEAN UNION'S INTERNATIONAL ROLE THROUGH HUMAN SECURITY STRATEGY IN THE AFTREMATHS OF THE EUROPEAN CRISIS

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**Abstract:** *In a globalized world, characterized by profound shifts in the dynamics of global power and by diverse threats to peace and security, the European Union should be an active and peace-promoter actor, according to its founding principles. Thus, the European crisis left hard to heal scars within the European Union internal coherence and for its international role and image. The European crisis determined a cleavage in foreign and defence policy between the EU's member states, creating dissonances in its internal processes. Therefore, this incongruence determined flawed reactions to international events. In order to determine the impact of the European crisis on the EU's international role, it is briefly analysed the EU's and its member states reactions to the conflicts from Libya and Syria. The main hypothesis of this article is that in order to overcome the effects of the economic crisis and to rebuild its international trust, the EU should reaffirm its core principles through a coherent external policy, which should be embedded in a bottom-up legitimized paradigm. This analysis demonstrates that human security strategy and the responsibility to protect principle can become the new European meta-narrative, the fact that they have the potential to overcome the current gap between rhetoric and practice in foreign and defence European policies. Therefore, this article advocates that the human security strategy and the responsibility to protect principle represent an impetus to transform the EU in an important global actor.*

**Keywords:** European Union; human security; European crisis; responsibility to protect; Common Foreign and Security Policy; Libya; Syria

## INTRODUCTION

The spillover effect of the effect of the economic European crisis in determined a natural propagation of the economic destabilization to the political level. The effects of the economic crisis determined a social crisis, followed by episodes of national protectionism and the questioning of the EU's values. Consequently, a wave of protectionism for national economies and policies emerged, with a registered critical situation described by member states' reluctant and non-cooperative attitudes, in the European foreign and defence policy. Member states adopted defensive positions, trying to reduce their external spending in order

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to protect their economies against the effects of the crisis. Therefore, they reduced their budgets and their willingness to participate in external actions both (bi/multi)unilateral and within a European conjugated action under the Common Foreign and Security Policy decreased. As a result, these facts contributed to the EU's weak and incongruent response to international tensions, as the most important examples, the conflicts from Libya and Syria.

Apart from the negative impact, times of crisis could represent an opportunity for a restructuration and a reconstruction of the old systems of values, facts and realities. Therefore, on the ground of the European crisis on EU's international role, it should be analysed its transformative assertive potential on rethinking its narratives, in order to rebuild the European international image and to build it as an important global actor.

In the global competition, with powerful global actors, which revive fast and durable their economies, the European Union should adopt a coherent foreign policy, based on legitimized internal principles, in order to increase its global visibility. As the European Commission's President Barroso observed, the EU was (and, to date, we can affirm that it still is) characterized by a type of "fatigue" (Barroso 2013), a "last man" (Fukuyama 1992, xxi) type of syndrome, "with no desire to be recognized greater than others" (Fukuyama 1992, xxi). Therefore, this fact asks for the rethinking of the European basic narratives, in order to create a meta-narrative based on global-shared values, which could strengthen the new generation's trust in the European values, and through transitivity, and to (re)build the EU's global role.

This article demonstrates that the implementation of the human security paradigm and of its operationalization, the responsibility to protect principle, in the EU's policies could be an integrative-reconciling solution, encompassing both the national and the individual level, to respond to the above described effects of the economic crisis and consequently to revive the EU's international role. In this paper we approach the human security paradigm in a broad sense, as a horizontal shared value in the EU's policies, over-passing the narrow crisis-response meaning. The first hypothesis is that the European economic crisis affected the European Common Foreign and Security Policy, therefore it had a negative impact on the international image of the EU. In order to test this hypothesis, a short analysis of the devised reaction of the EU and of its member states to the conflict from Libya and Syria is presented. The first section makes a short description of the effects of the crisis on the factors that determined a decline in EU's international role and on the Common Foreign and Security Policy. The next part presents the EU's and the member states' reactions to the Libyan and Syrian conflicts. The following section tests the valences of human security, whereas the next part represents the analysis of the pre-crisis contact of the EU with the human security rhetoric. The final section arguments the main hypothesis of the article, that the implementation of the human security strategy and of the responsibility to protect principle represents the palliative response to the European crisis effects on the EU's international role and the incentive for the EU to become a major global actor.

In order to test the main hypothesis this research uses qualitative methods, by analyzing the existing literature in the field and the official documents related to the central concepts and strategies. This article represents an introductory research on the broad and vast causes and effects of European crisis and proposes non exhaustively one of the possible methods to revive the EU's international role and to transform it in a global actor.

## **1. A BRIEF VIEW: THE EFFECTS OF THE EUROPEAN CRISIS ON THE EU'S INTERNATIONAL ROLE**

The global financial and economic crisis affected, in a spillover effect, the European Union dynamics on all its policies (Stracca 2013, 23). The prolonged crisis generated centrifugal forces that threatened the core existence of the EU's values, from both top-down and bottom-up, which divided the unity between member states and distanced the European citizens from the EU values (Tocci and Faleg 2013, 1-3). The euro zone's sovereign debt crisis and the economic-social crisis, which has been propagated in Europe since 2008, slowed down the optimistic European incentives for further integration in policies of shared competence or in those of states' exclusive competence. The EU and the member states focused mainly on economic issues, in order to create stability, reducing the importance of the European external agenda and neglecting the external security situations which needed their assistance. Together with the austerity measures adopted to overcome the effects of the economic crisis, a phenomenon of euro-scepticism and lack of trust in European values was registered. Therefore, there is an important part of EU's citizens that believes that the European Union lacks accountability and an empathic, representative approach. Moreover, as a consequence of the austerity measures, the top-down decision making is highly criticized by citizens. In order to restore the legitimacy of the European project, there is an urgent need for greater unity, through a meta-narrative which is strong enough to regain the citizens' trust and to provide the necessary framework for assuring peace and prosperity within and beyond Europe (Tocci and Faleg 2013, 6).

### **1.1. The effects of European crisis on the Common Foreign and Security Policy (CFSP)**

The effects of the economic crisis, which was determined by the macroeconomic Eurozone model and by the failure of the national governments to implement this policy's measures (Togati 2011, 99), influenced the EU's internal dynamics, coherence and conducted to a relative stagnation of Europe. These consequences were visible internationally through the drawbacks in the implementation of the CFSP (Common Foreign and Security Policy) and of the Common Security and Defence Policy (CSDP) and in the member states' (lack of) reactions to global events which asked for action under these policies. The lack of conjugated reaction to international crises, as for example the Arab Spring turmoil in Libya and Syria caused distrust in the EU's potential to assume a credible

international role. During the economic crisis, the European member states reduced their defence budget and discouraged their partners in engaging in new (potential expensive) defence or security common actions. These actions were concerning because they were built on a climate of protectionist and reluctant European engagement in politics of security and defence (Pertusot 2014, 4). Security and international priorities were increasingly defined nationally and the interest for domestic politics was revived. Between 2006 and 2012, the overall spending on defence in Europe has decreased by 26 billion euros, which represented the aggregating spending of the ten lowest defence spenders within the EU (Pertusot 2014, 4). The restraint defence budget limited the ability to develop and to sustain military capabilities, fact that jeopardized the sustainability of Europe's defence and the EU's international role (European Council 2013, p. 1).

Thus, the CFSP and CSDP are areas of the EU's external action which encounter on a normal basis difficulty to be implemented, due to the procedure of unanimity in the decision making process, fact that can hold back the EU's action, because of the member states' national interests or geopolitical conjunctures (Blockmans 2013, 46). The Lisbon Treaty and the subsequent meetings organized in order to find a response to the international crises proved that there is an extensive need to develop a common European commitment to values and norms so that the present drawbacks on issues of security and defence could be overcome. Further steps were taken at the European Council in December 2013 were all the member states were asked to reconsider the meaning of defence for them and for Europe. The main pillars of discussion were conducted around the shared opinion that "defence matters", with focus on regional and international peace and stability in the context of the current dynamics of geopolitical environment (European Council 2013, p. 1). In order to reconstruct the EU's international there is a correlated need for will and investment in External policy and in defence matters. The potential of EU stands in the "unique ability to combine, in a consistent manner, policies and tools ranging from diplomacy, security and defence to finance, trade, development and justice" (European Council 2013, p. 23). Therefore, the Council asked for further steps to be taken in order to reassure the EU's strategic partners of the good will and of the European defence capabilities in order to re-establish the EU's international role, but it was registered a prudent engagement of the member states and a discourse which does not overpassed the national interests, in comparison with the visionary and optimistic discourses in matters of defence registered before the beginning of crisis in Europe.

The European crisis' effects were also visible in the lack of institutional coordination. The above presented causes, correlated with a well-known reluctance of states to renounce to their security and defence prerogatives and with a lack of European strategic planning determined a "governance gap" that undermines the CSDP, visible in a decreasing of the CSDP deployments in four years after the official adaptation of the Lisbon Treaty, according to Faleg (2013, 2). Therefore, this conjuncture of factors, events and lack of will determined (along with other factors that not make the object of the present analysis) a depreciation of the EU's

international role and increased the mistrust in the EU as being a security provider actor, for the world and for its own citizens.

## 1.2. The EU's and the member states' incoherent reactions to Libyan and Syrian conflict

This section presents the distinct reactions of the European Union as a coherent actor and of the member states to the similar conflicts from Libya and Syria. The current analysis is relevant for the main topic of this paper, demonstrating that there was registered a major incoherence between the actions of the European actors, fact that undermined the international image of EU as a security provider. The drawbacks of a unitary international role of the European Union are determined by the fact that member states have a „thwarted coherence” in the EU's foreign action (Kempin 2014, 14). The reactions to the Libyan and the Syrian conflicts are edificatory to demonstrate the incompliance with the EU's High Representative position in this type of matters and the lack of coherence among the EU's member states in questions of external action.

The wave of uprisings for liberalization and freedom began in Tunisia at the end of 2011, spreading in a domino effect on Yemen, continuing with Bahrain, Libya, Syria and Egypt. The European Union was, as the entire world, surprised by this unpredicted wave of turmoil in these fundamentalist, apparently impenetrable states. The conflicts from Libya and from Syria shared the same pattern to a certain point: both were protest started against the undemocratic leader, which burst into civil war. Although the situation on the ground and the number of casualties was comparable, what lacked for a similar reaction of the international community under the responsibility to protect principle were the geo-political interests. While in Libya the Resolution 1973 permitted to a French lead international coalition to intervene under the auspices of R2P, Syria faces to moment, three years of civil war with daily civil victims, because international community is reluctant to intervene under the R2P principle. Syria is a diplomatic minefield between those that want to activate under R2P and those that prefer a natural internal resolution of Syrian conflict, demonstrating that the international community uses double standards in implementing its ruling principles. This non-sense situation presents a real test for international community, including the EU as a coherent actor or a global actor.

There was a tremendous difference between the response of the individual European Union's member states and the EU's reaction to the Arab Spring (European Union Center of North Carolina 2012). The EU's failure to react to the violent events of the Arab Spring, which were situations that asked for intervention under the R2P principle, was determined by the fact that its defence policy never materialized in realistic action, because of the internal dichotomy between the member states' will and the path of action described by CFSP and CSDP. Furthermore, the EU was unable to understand the internal conditions of instability form Libya and Syria and was paralyzed by the unanimity procedure in taking actions in CSFP, therefore this is the source of criticism for its ”deafening silence”.

Although in Libya's case the European Union had some initiatives to support freedom and democratization, in Syria's case there were to date several declarations, without important commitments and very few implemented projects.

The Libyan conflict was the test of the CFSP and for the European Union External Action Service, which proved that the expectations after the Lisbon Treaty were unrealistic (Gottwald 2012, 5) and demonstrated the existence of a concerning gap between the European rhetoric and reality. Although at the declarative level the EU was active and expressed its concern for the Libyan situation by condemning violence, in practice it was unable to act. The criticism for this incoherence came from both internal and external actors, blaming the EU's defence impotence.

The intervention in Libya, justified by the Responsibility to Protect principle, was driven by France and the United Kingdom. France was pursuing its national interest in the region, being a regional leader in the Middle East and North Africa, but while it appeared as a driver of European action, it failed in its role of being a multilateral actor within the European Union. The Great Britain followed France in its initiative, due to its economic interest in the region. Germany, in a diplomatic blunder (Seibel 2012, 9), and lacking any economic interest in the region, expressed its refusal to participate to this kind of international conjugated action. Therefore, the EU member states were characterized by different "logics of security" and contradicted the official EU rhetoric of security (Gottwald 2012, 22).

The situation from Syria found no support along the implementation of the EU's policies in European states, except France. The Great Britain and Germany presented reserves to be part in a further intervention deepening the opinion's division within EU (Faleg 2013, 3). The member states' reluctance to act under a common mission conducted by EU expressed the importance of their national interests and the possibility to step-back from a mission whenever greater risk is predicted. Therefore, the situations from Libya and Syria demonstrated that the EU is "politically and militarily impotent whenever a response to a major crisis is needed" (Faleg 2013, 3).

## **2. THE HUMAN SECURITY PARADIGM AND THE RESPONSIBILITY TO PROTECT PRINCIPLE AS POLITICAL LEITMOTIVS**

Human security is defined in the paragraph 143 of the 2005 World Summit Outcome as "the right of all people to live in freedom and dignity, free from poverty and despair" (UN General Assembly 2005). Its core elements are encompassed in the expression "freedom from fear and freedom from want" in the general background of human dignity. Human security is an integrative concept because it tries, based on a spirit of solidarity, to ensure the possibility to a participatory existence, in the spirit of human life and dignity (UNDP 1994, 22-3). UNDP identified in 1994 report the pillars of human security as being economic security, food security, health security, environmental security, personal security, community security and political security. Therefore, the human security concept encompasses the interdependence between security, governance and politics, as

well as social and economic development (Beebe and Kaldor 2010, 159). It is described as having the role to protect the vital core of human lives and the fulfilment of human being (Alkire 2004), while it has to be found a common pathway between global rights and national interests (Axworthy 2004). Acharya sustains that human security is a “holistic paradigm which offers opportunities for creative synthesis” giving credits for new international actors and global civil society (Acharya 2004). Thus, due to its loose and general definition, human security is a controversial concept, being accused that it is a justification for the international actors’ hidden, malicious interests. Therefore, there is a need for a threshold approach in implementing this strategy, even if it is implemented as a horizontal roadmap for other policies. This analysis adopts the broadest sense of human security paradigm, transforming it in a common, integrative pattern for other policies. Sira and Grans (2009, 7) observed that human security strategy is the response to three changes in international relations in the post-cold-war area, namely the new and large variety of threats to security, a change and development of global norms and the effects of globalization. The importance of the human security strategy is highlighted in the new global context due to a translation of the security referent, from state, towards the individual, simultaneous with a change of the traditional concept of sovereignty towards the concept of sovereignty as responsibility.

This change of paradigm was translated in practice through the responsibility to protect principle, which was elaborated in 2001 by the International Commission on Intervention and State Sovereignty (ICISS) on three pillars: (i) state responsibility implies protection responsibilities, (ii) every state has the primary responsibility to protect the people on its territory, and (iii) the international community has a residual responsibility to step in if states are unable or unwilling to protect the people on their territory (ICISS, 2001). The report reaffirmed the role of the state as the principal actor of international relations, but draw „the hitherto dormant link between state’s national security and the security of individuals within the state” (Simon 2008, 46). The foundations of the responsibility to protect, as a guiding principle for the international community, lie in its specific legal obligations under the human rights and the human protection declarations, covenants and treaties, international humanitarian law and national law. The responsibility to protect principle was unanimously adopted by UN member states at the 2005 World Summit, which validated the idea that states had the responsibility to protect their populations from genocide, war crimes, ethnic cleansing and crimes against humanity (Bellamy and Williams 2011, 827), and in the same time that states share the responsibility for the security of individuals, no matter within which boundaries they live. The quintessence of the responsibility to protect principle is encompassed on its dimensions of “responsibility to react”, “responsibility to prevent” and “responsibility to rebuild” (ICISS 2001, 17), which creates a more comprehensive view of the human security strategy operationalization. Therefore, R2P and human security represented, in the first two decades after the End of the Cold War a paradigmatic change that declared a new global politics centered on the individual. The international following crises slowed

down this impetus due to the international community's reluctance to adopt these norms. The successes and the potential evolution towards global peace and democracy of the human security rhetoric are demonstrated by its recurrent presence in the restructuring the international positions discourses.

Human security strategy was used in general related to situations of threat for human lives. The present article proposes a normative perspective of human security strategy, as having the potential to become a permanent state of fact, the leitmotiv and background for peace and security and which could empower the EU to increase its internal coherence and to become an important global power. Therefore, this paradigm, interpreted in terms of care and security for individuals regardless their nationality, and is derived from a pure form of democracy (which goes beyond the current meaning of democracy, towards cosmopolitan democracy) can be the meta-narrative that could revive the EU's internal coherence, legitimacy in front of its citizens and could re-create the EU's international role, transforming it in a global actor.

### **2.1. The EU before crisis: steps towards the implementation of the human security strategy**

The first attempts for the implementation of the human security strategy within the EU's security area were the European Security Strategy in 2003 and The Barcelona Report of the Study Group on Europe's Security Capabilities- *A Human Security Doctrine for Europe*. The last mentioned document highlights the importance of the bottom-up approach in achieving human security and draws the pillars of the implementation of the human security strategy within EU on seven principles: the primacy of human rights, clear political authority, multilateralism, a bottom-up approach, regional focus, the use of legal instruments, and the appropriate use of force (Solana 2004, 2). Although these initiatives had no real success the human security paradigm started to be included in the European projects of conflict prevention, crisis management and Civil-military coordination (Kaldor, Martin and Selchow, Human security: a new strategic narrative for Europe 2007, 274-7).

The Barcelona report created a three-dimensional argumentation for the EU to adopt the human security strategy. Morality, legality and the "enlighten self-interest" create, in a new window of opportunity for Europe, the pillars which draw the road to the revival of its international role. The EU has a moral obligation generated by its founding principles – peace, security, prosperity – to assure the security of its citizens, and consequently to the every individual human being. A general commitment to a broad definition of human security was embedded in Article 21 of the Treaty on European Union, which aimed at strengthening the international security, the consolidation and support of democracy, the rule of law, human rights and the principles of international law (Gottwald 2012, 13). Moreover, EU has the legal impetus to adopt the human security strategy, under the Articles 55 and 56 of the United Nations Charter and The Universal Declaration of Human Rights (Solana 2004, 10). The motivation of the enlightened self-interest to

adopt human security is generated by the mutual global vulnerability, which means that European citizens cannot enjoy security while others are endangered, due to the possible contagion process and of secondary effects (immigrant flows, terrorist acts, and economic instability). This pro-active broadening perspective of security could overpass the narrow practice of the European international affairs policies of aiming to defend the borders, by the human security strategy, which would be meaning to export the EU's functioning model and to assure security outside its borders. These facts would re-create the European internal coherence and therefore would exponentially increase the EU's international role, transforming it in a global peace-provider actor.

The Madrid Report of the Human Security Study Group from 2007 “A European Way of Security” created further incentives for the implementation of the human security strategy within the EU policies (Gottwald 2012, 14). The 2007 Madrid report was highly compatible with the main thesis of this article, which sustains that for becoming a global actor, the EU “needs to give clear political direction to its ambitions and responsibilities on the world stage”. This fact is possible through the implementation of human security strategy within the CSDP, due to its potential to operate “as a dynamic organizing frame, which could give new direction and coherence to European efforts to address the challenges set out in the European Security Strategy” (Human Security Study Group 2007, 3). Furthermore, the report called for conjugated action based on coherence, effectiveness and visibility in order to create a “European way of security” and for a bottom-up implementation of this strategy in order to create genuine rooted values.

The 2008 Report on the Implementation of the ESS (European Security Strategy) created the incentives for the inclusion of R2P rhetoric within the European security strategy and called for member states to embrace this paradigm because they “hold a shared responsibility to protect populations from genocide, war crimes, ethnic cleansing and crimes against humanity” (European Council 2008).

Thus, as the section I.2. presents, the EU failed in implementing the human security strategy and the responsibility to protect principles. A possible explanation for the failure of the EU and of the member states to adopt the recommendations of the reports on human security can be found in the effects of the European crisis. Hence, we cannot affirm that there is a direct relation between the European crisis and the EU's and member states' reluctance to react to international events, due to the well-known national protectionist measures for security and defence policies and the geo-political national interest, but we can assume that the oscillation in the implementation of CSFP was a response to the effects of the economic crisis.

## **2.2. (Re)building the EU's international role through the implementation of the human security paradigm**

The EU has passed through a developing process of the security concept, which was correlated simultaneously to the internal and external events, fact that determined a security approach that overcomes the classical divide between the



issues of external and internal security (Sira and Grans 2009, 4). On this background flourished the idea that the EU can reaffirm its international role, or to create its global role, thorough the human security strategy. Therefore, in order to reconstruct the EU's international role and to strengthen its internal coherence and trust, a common dominator which can encompass the European citizens' and member states' shared values and practices is needed. The human security paradigm adopted in its broad meaning, as a horizontal set of values, appears to be a solution which could encompass the above mentioned EU's internal and international deficiencies. The human security strategy is highly compatible with the core ideas of the CFSP and CSDP because it encompasses conflict prevention, crisis management and civil–military cooperation and in the same time describes the principles for applying these policies (Kaldor, Martin and Selchow 2007, 283). Moreover, the human security strategy has the necessary strength, embedded in humanitarian assistance and civil protection dimension, to reduce the current gap of governance within CSDP and between expectations and capabilities (Gottwald 2012, 24).

As Gottwald (2012, 6) observes, the EU perceives the CFSP as having the responsibility to act externally when is the case, it is focused on the “people” of Europe, which means the primary concern for the individual's security. Moreover, the EU is strongly correlated with the UN decisions regarding actions of the R2P principle. Therefore, EU has the potential to act under the R2P doctrine, fact that would increase its global notoriety as a security and peace provider. Falefg (2013) proposes the implementation of a set of principles, described of similarity, solidarity and trust, clarity and unity within the EU policies, in order to overcome the current gap in the CDSP and CFSP. Therefore, this proposed solution, which aims to protect the individual by a common commitment of the member states in a sustainable, fair and good-will alliance, creates the necessary framework to overcome the current gap in the European security policy and therefore, it can reconstruct the EU's international role and build its global status. The compatibility between the human security strategy and the EU's will to rebuild its international role is expressed by the European Council's call for a reaction to global environment, by horizontal issues between internal and external security dimension in areas of CSDP and Freedom/Security/Justice (European Council 2013, p. 4), all of them regarding as the main referent, the individual.

A strong argument for the proposed hypothesis, that the EU's international role can be reaffirmed through the implementation of the human security strategy is that this paradigm becomes a meta-narrative of the EU, therefore it would be embraced simultaneously by the EU's officials, strategies, member states, but most important, by the European citizens. This mechanism means that it would be created bottom-up approaches for human security, for a climate of peace and solidarity, through civil society initiatives, within member states and with neighbouring countries, once the human security paradigm is adopted as a general leitmotiv. The implementation of human security strategy is a self-enforcing type of phenomenon, because it would create a top-down pressure for further implementation and for its extension within and beyond EU's borders (Solana

2004, 13-4). This two-way relation represents the strength of the human security strategy as a pillar of the construction of the EU's international role.

The impetus of the implementation of human security strategy was reduced once the European agenda was flooded with the Euro-crisis issues. This strategy and the matters of CFSP were neglected as the member states focused their attention and budgets to their national economy that were threaten by economic, societal and political instability. Therefore, this could be an explanation for the failure to react properly to the conflicts from Libya and Syria, fact that affected its international reputation as a security provider and consequently its international role.

We can assume that the present moment, when the EU is almost recovered from crisis, is the most fertile moment to seed the ideas of human security and responsibility to protect in it strategies, so it can reborn both internally, through a greater legitimacy and coherence and internationally, as an important global peace and security provider actor.

## CONCLUSIONS

The positive impact of the implementation of the human security strategy on the EU's policies consists in the coherence that it would assure to the European actions, through member states and for institutional concepts because it is an umbrella strategy which can be implemented in all the European policies and practices. Moreover, the added-valued of the human security paradigm for the EU consists in the facilitation of a solid ground legitimization among the European citizens.

The impact of the reports on human security launched before the crisis was weak and almost neglected, as presented in the previous sections regarding the EU's reaction to the conflicts from Libya and Syria. The visible, undoubtedly incapability of the EU to respond coherently to international crisis under CFSP and CSDP, combined with a wave of euro-scepticism along Europe, determined a great depreciation of the EU's international role and of its credibility as an international actor. The double standard reaction to international situations under the incentives of R2P and the lack of internal coherence for the CSDP damaged the EU's international image and credibility and presented it as a weak, powerless actor. Therefore, there is an urgent need to compensate these drawbacks of the European project through a strategy that can overcome these destabilization phenomena. This paper demonstrated that by implementing the human security normative paradigm, correlated with its operationalization, the R2P principle, the EU can reconstruct its internal coherence through a new meta-narrative that encompasses the values of the European citizens and can, through a fresh incentive, to reconstruct the EU international role.

The elaboration of a conjugated strategy which would encompass the common European values, the synthesis of national interests and the core values of the European citizens through cooperation could create the conjuncture for the EU's international role reaffirmation. In order to encourage the EU's member

states to contribute in the defence policy there should be a continuity of strategic operations and engagement with the NATO and other partners, while creating the background European environment on a bottom-up basis and through a institutional reform that could sustain the reconstruction of EU's international role and credibility. The urgency of these tasks comes simultaneously from the hard to rebuild international credibility and reputation, and foremost, from the tensioned situation from Ukraine to which EU was incapable to respond firmly and coherently. (Pertusot 2014, 7).

Further research should analyse the attitudes of the EU's officials and of the member states' towards human security and R2P, and the EU's capabilities to sustain such strategies, in the context of the new international conjuncture.

Therefore, as the European crisis fades away, there is an imperative need to address the possible solutions to rebuild the EU's international role. The human security broad strategy has the necessary theoretical force and grounded roots in the values of the worldwide individuals in order to become the pathway towards a global vocation of the European Union. The EU has the potential and the responsibility to act as a peace and security provider actor in the multipolar world, fact possible through the implementation of the human security strategy, which creates the premises of a legitimated EU transformed in a global power.

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# THE ATTRACTIVENESS OF THE EU STATES. WHAT DOES MIGRATION INDICATE?

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**Abstract:** *Migration can foster development by various channels, although it is not a sufficient factor for development. Furthermore, if the origin country does not keep itself on the development path, by increasing attractiveness, migration can undermine the development process by draining its labour force. Romania faces the same problem, continuing to be the source of large migration outflows for over a decade. This proves the low level of attractiveness Romania is irradiating. Only a higher reactivity to the market opportunities, by becoming more attractive, will decrease migration outflows leading to the migration transition. The importance of this paper consists in inducing an assessment of the EU states attractiveness level, drawing attention about the fact that Romania, along with the countries which accessed the last enlargement rounds, needs to focus on two fundamental issues, namely the quality of institutions and infrastructure. The two issues may represent an important challenge in order to increase the attractiveness level and experience the same migration transition process as the older EU member states.*

**Keywords:** migration transition; attractiveness; EU member states; Romania

## INTRODUCTION

The paper draws attention to a problem that Romania has been facing for many years – labour migration. The results of the 2011 Census reported that around 0.73 million Romanians have been living abroad for a long period of time. Overall, the figures are even higher. According to the National Institute for Statistics (2014) the number of Romanian emigrants is around 2.4 million people. Furthermore, Romania is still the source of consistent emigrant flows. If in 2002 the number of emigrants per 1,000 resident inhabitants was 48.6, in 2012 this indicator increased to 116.5. So what should Romania do in order to keep its labour force, in order to reduce the temptation of migration?

Answering this question is definitely not an easy task. Yet, we must keep in mind that, as an EU member state, Romania is facing a tough competition for attracting labour and capital (established by adhering to the European Single Market). In this regard, each state must ensure high reactivity to the opportunities that may arise, constantly trying to increase its relative attractiveness. The

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evolution of the migration flows strictly depends on the attractiveness level. The higher the attractiveness, the higher the probability that the resident population is satisfied with the living conditions, being less tempted to emigrate. Furthermore, the more attractive a country becomes, the higher the probability to strengthen the status of host country, attracting more consistent flows of immigrants from countries with lower attractiveness.

The methodology we have used in this paper enclosed the push and the pull factors within the same analytical framework, by developing a composite index in order to explain the net migration. As we already know, the migration transition – the transition from an emigration to an immigration profile (migration transition) - is not inevitable, nor irreversible. Therefore, raising the relative attractiveness, as compared to other states, is extremely important in dealing with the migration phenomenon. The main objective of this paper is to evaluate the attractiveness level of EU states on the inside and outside labour, in regard to the transition from emigration to immigration.

Evaluating the EU member states using the same evaluation criteria allows us to identify the components that still need to be improved in order to rise attractiveness and turn from emigration to immigration. Furthermore, understanding the role of migration in determining attractiveness is even more important as the crisis has reduced the economic growth in all European states, creating a good opportunity for the emerging areas, including Romania. In other words, the economic crisis has provided a chance for a new beginning, the chance of rapid recovery by acquiring competitive advantages in order to reduce the development gaps between them and the developed countries.

## 1. LITERATURE REVIEW

The literature shows that there is a mutual relation between migration and development process:

1. On the one hand, migration contributes to the development of the origin area through remittances (Mara *et al.*, 2012), by overcoming capital constraints (Giuliano, Ruiz- Arranz, 2008), increasing willingness to invest (Acosta, 2007), human capital accumulated abroad (Ambrosini, Mayr, Peri and Radu, 2011) and through the networks it creates with the country of destination (Javorčík *et al.*, 2010).

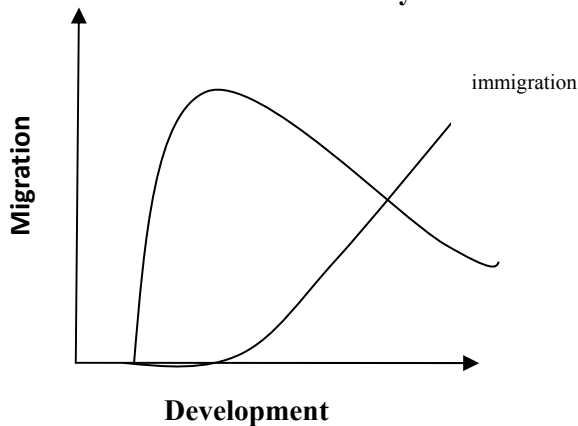
2. On the other hand, the evolution of migration is influenced by the changes in attractiveness induced by development. According to the *migration transition theory*, the international migration – development relation can be transposed as an upside-down "U". As a country/region develops, international migration tends to increase and then begin to decline, being overreached by the immigration inflows.

Figure 1 presents the dynamics of migration-development relationship in transitional models. In other words, socio-economic development stimulates the aspirations and capabilities of individuals, increasing their willingness to emigrate, first internally, then abroad. On the long run, as the development gaps decreases, reducing the differences in the existing opportunities at both internal and external



levels, both internal migration to urban areas and international migration are slowing down.

**Figure 1 – The international migration evolution according to the migration transition theory**



Source: de Haas, 2010, p. 19

Thus, migration can contribute to the origin areas development, but it's not sufficient factor for development. De Haas (2012) warns that a too optimistic vision on migration can distract our attention from some important policies, required for fostering growth, believing that migration will lead to development by itself. But the only real way of releasing the development potential of migration is to create attractive investment environments and to build trust in political and legal institutions of origin countries. Receiving remittances is not enough as they will only be used for daily or housing expenses if the conditions in the origin area are not attractive (Grigoras, 2006; European Investment Bank/Facility for Euro-Mediterranean Investment and Partnership, 2006). For example, the Egyptian migrants prefer to invest in more distant (urban) areas and not in their origin areas where they lack infrastructure and agricultural resources (McCormick and Wahba 2003).

Furthermore, if the conditions in the origin country do not improve, the emigrants will become more tempted to permanently settle in the destination country. The more they stay in the destination country, the higher the probability to remain there gets (Mara 2012, p. 24). And this has plenty of negative consequence on destinations countries: first, if emigrants are permanently moving to the destination countries, they will have fewer reasons to remit to their origin country; second, the country will definitely lose the investment in their education; third, they will not be able to further transmit their experience gained abroad back home.

Therefore, the ability of the source country to increase attractiveness will determine the extent to which the development potential of migration will be unleashed. It is a risk that Romania faces (Careja, 2013), given that it is the source of large migration outflows for a long time. Its status of source country is the main

consequence of the low level of attractiveness irradiated by Romania. Considering the strong competition developed by the European Single Market, the mobility of individuals has considerably increased, particularly due to the increasing number of EU Member States, even if the number of labour immigrants is still much higher comparing to the immigrants from inside the EU (Kahanec *et al.*, 2010). Overall, referring to voluntary migration, whether within or outside the EU, migration seeks better opportunities (to earn a better living). A survey done by Gallup World Poll, using data collected during 2009-2011 from 25,000 first-generation migrants (referring to the people who were not born in the country they live in) and over 440,000 native-born Individuals in over 150 countries showed that only 40 percent of migrant flows are generated from less developed countries to developed countries. 33 percent of total flows are between developing countries and 22 percent between developed countries (in IOM, 2013, p 108). In this paper, we propose a more complex approach (a more inclusive way of looking at migration, referring to all migration flows) on the factors that generate migration by proposing an index to assess the relative attractiveness of the states. This assessment of attractiveness aims to draw attention to the components that need to be improved by the less attractive states to discourage emigration and, furthermore, to start attracting more and more immigrants.

## 2. DATA AND METHODOLOGY

Assuming that the decision to emigrate is more complex, enclosing a broader analysis of several aspects, not just looking for higher earnings, the methodology we have used involves developing a composite index in order to assess the attractiveness of the EU Member States. By carrying out a relative evaluation according to specific components, we can identify the areas that need more attention in order to support the migration transition process. The Index of Attractiveness takes into account five key issues in migration transition evolution: *the attractiveness of the labour market, the attractiveness of the business environment, the quality of institutions, the quality and accessibility of social services, the quality of infrastructure* (For further details on the indicators we have used, see the Appendix 1). Since we only refer to labour migration, the share of labour market attractiveness in forming the index is higher as compared to the other included components, wherefore the other components have been given an equal share. The evaluation of these components is individually processed by each potential emigrant in part. Therefore, an accurate assessment of their preferences is hardly possible. Furthermore, not only that we cannot accomplish an accurate assessment of the preferences regarding those factors, but various other subjective factors can be also included. Therefore, the index performs only a basic evaluation of the attractiveness, being estimated by the following formula:

$$attractiv\_index_{i,j} = 40/100 * labour\_m_{i,j} + 15/100 * (business_{i,j} + instit_{i,j} + soc\_serv_{i,j} + infr_{i,j})$$

where  $i$  ranges between 1 and 28, representing the EU countries which have been

included in our analysis<sup>1</sup> and  $j$  between 2007 and 2012, representing the period under review.  $Attractiv\_index_{i,j}$  refers to the *Global Attractiveness Index*,  $labour\_m_{i,j}$  to the attractiveness of the labour market,  $business_{i,j}$  to the attractiveness of the business environment,  $instit_{i,j}$  to the quality of institutions,  $soc\_serv_{i,j}$  to the quality and accessibility of social services and  $infra_{i,j}$  to the quality of infrastructure.

Migrating requires a complex analysis of the difference in opportunities between the place of origin and the destination. Overall, migration is seen as a more convenient choice, as a process that generates more benefits; otherwise it would not take place (we only refer to voluntary migration).

Our analysis considers *work* as the most important reason of migration (around 40%<sup>2</sup>). Along with the economic motivation, other elements were also included, as essential to *well-being* (as defined by the Gallup Well Being, 2012 in IOM, 2013, p 112). Therefore, the composition of the Attractiveness Index refers to following elements:

- *The attractiveness of the labour market* (40%) - is perhaps the most important factor that defines the attractiveness of a country for both the resident population and immigrants, which led us to give it the highest share in index formation. Having a job and earning a wage represents a fundamental condition for individual satisfaction. The difficulties encountered in the labour market integration is one of the main reasons for emigration. Therefore, this component encloses the level of unemployment, the household income, the flexibility of labour market legislation (the ease of hiring and firing practices; in other words, the extent to which firms can react to market fluctuations, increasing their efficiency in order to stay competitive), the skill level of labour and the availability of skilled labour;

- The second component refers to *the attractiveness of business environment* (15%). Opening their own business represents another alternative for obtaining incomes particularly for individuals with a low aversion to risk. The attractiveness of the business environment takes into account the minimum capital required to start a business, the number of procedures and the time required for this purpose;

- *The quality of institutions* (15%) has a high importance in the attractiveness of a state, constituting the general framework of all the activities. Referring to political stability and absence of violence/terrorism, which are essential conditions for development, and prosperity, this component also includes the quality of regulations and the rule of law;

- The fourth component assesses *the quality and accessibility of social services* (15%). The quality and availability of social services is one of the main interests of individuals when choosing their destination. We have considered two main services, namely health and education;

- The last component refers to *the quality of infrastructure* (15%). The

<sup>1</sup> Even if the analysis refers to the 2007-2012 period, Croatia has also been included.

<sup>2</sup> For further details see Eurostat Database, 'Percentage distribution of main reason for migration, by country of birth, sex and age,' available at [http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=lfso\\_08cobr&lang=en](http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=lfso_08cobr&lang=en)

availability and quality of infrastructure are two important aspects which definitely influence the comfort and lifestyle of the individuals.

The index was calculated for all EU Member States for the period 2007-2012 in order to enclose periods before and after the crisis. Given the existence of the Single European market, namely the free movement of persons, the differences which occur in the level of attractiveness can generate large migration flows within the EU member states. Along with the five primary components characterizing the existing conditions in a specific state, representing the "objective attractiveness", individuals may be attracted to certain states for various other subjective reasons, representing the "subjective attractiveness."

All data series were normalized according to the following formulas:

$$\text{attractiveness index}_{i,j} = \frac{|x_{i,j} - \mathbf{max}(x_{i,j})|}{\mathbf{max}(x_{i,j}) - \mathbf{min}(x_{i,j})} \quad (1)$$

$$\text{attractiveness index}_{i,j} = \frac{|x_{i,j} - \mathbf{min}(x_{i,j})|}{\mathbf{max}(x_{i,j}) - \mathbf{min}(x_{i,j})} \quad (2)$$

where  $i$  ranges between 1 and 28, representing the EU countries which have been included in our analysis<sup>3</sup> and  $j$  between 2007 and 2012, representing the period under review.  $\mathbf{max}(x_{i,j})$  is the maximum value of the indicator for the country  $i$  in  $j$  year, and  $\mathbf{min}(x_{i,j})$  the minimum value of the indicator for the country  $i$  in  $j$  year. The data was normalized for comparison purposes, the country with the most attractive level of the indicator getting the maximum score, that is 1, while the most unattractive getting 0. If the most attractive value of the indicator is given by the lowest value (for example, the unemployment rate) we use the first formula above (1); otherwise, we use the second formula (2). Thus, the attractiveness index for each of the countries considered will gain a score between 0 and 1 (*indice atractivitate*= 0,1), being computed as a weighted average of sub-indices included.

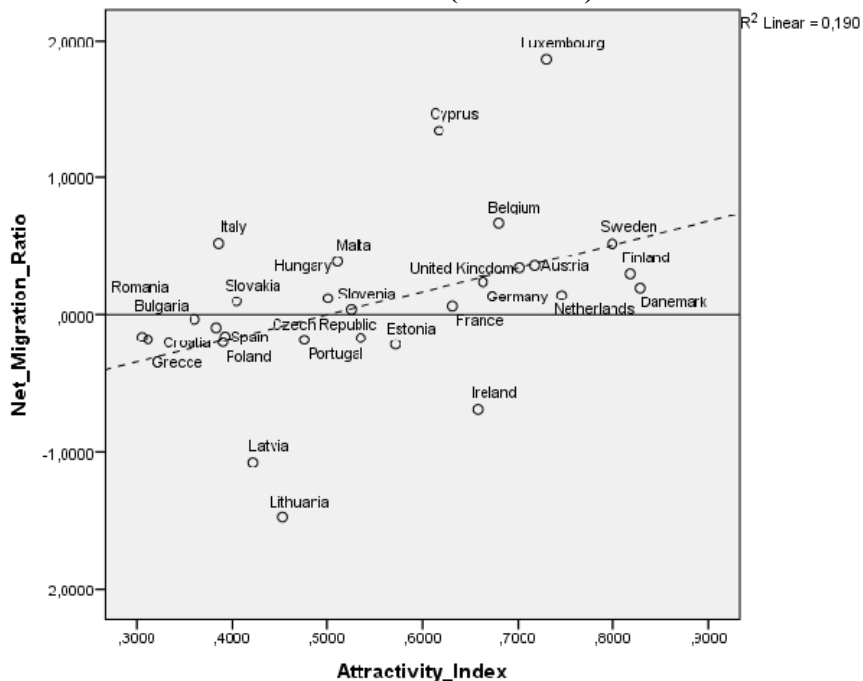
Our analysis also encounters several limitations. While assessing the attractiveness of states, considering the perspectives of migration transition, this index cannot include all the factors the emigrants may take into account when deciding to leave. There are various other subjective factors that may also be considered important by the potential emigrants (like the pollution level of the country of destination). In addition, this index does not take into account the geographical (attractiveness of Southern Europe countries to the immigration inflows from Northern Africa) or cultural (flows of immigrants from former colonies of the developed countries) factors.

<sup>3</sup> Even if the analysis refers to the 2007-2012 period, Croatia has also been included.

### 3. RESULTS AND DISCUSSION

The results of the attractiveness evaluation of the EU member states in terms of migration, indicate that, overall, the older EU members, specifically among the EU15 aggregate, have the highest attractiveness for immigration flows. Portugal, Spain, Italy and Greece are the exceptions, being severely affected by the recent economic crisis and are still facing problems in returning to the growth rates before the crisis (see Figure 2). If the top three positions are occupied by the Scandinavian countries, the bottom four positions include the countries which have joined the EU in the last two enlargement rounds (Croatia, Bulgaria and Romania), along with Greece, which is still facing serious difficulties in maintaining macroeconomic stability, while encountering high external indebtedness.

**Figure 2 - The net migration (% population) and the attractiveness of the EU member states (2010-2012)**

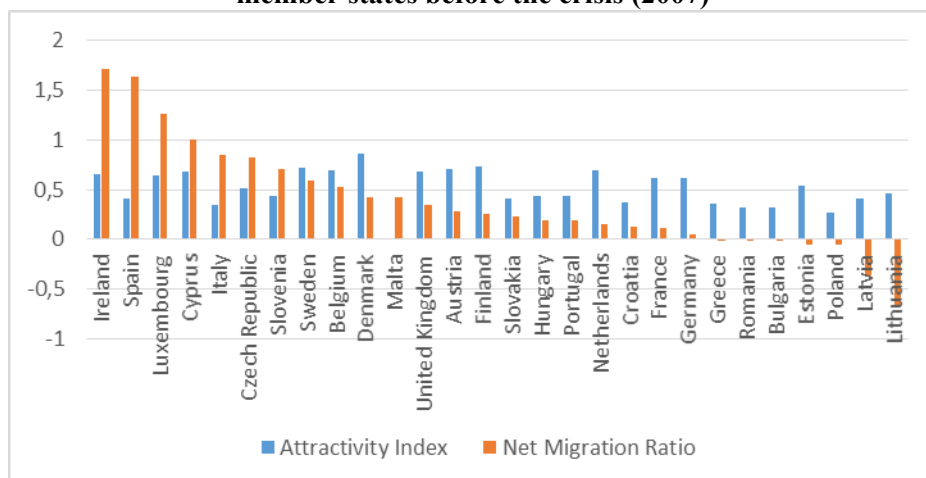


Source: own compilation

Note: For Malta the Attractiveness Index was estimated only for 2011-2012 period. We are also dealing with incomplete data series for the Net Migration Ratio calculation as follows: for Germany, the data refers only to 2010-2011 period; for Croatia the data refers to 2011-2012 period; For Bulgaria, the data refers to the year 2012.

As attractiveness increases, net migration goes from negative to positive (figure 2). The largest number of immigrants (per 100 inhabitants) during 2010-2012 period, were hosted by Luxembourg, Cyprus, Belgium and Italy. If the large number of immigrants from Luxembourg is not surprising given the high level of attractiveness and the small population, the large number of immigrants in Italy is due to the relatively higher level of attractiveness to source states. Most of the Italian immigrants are coming from countries outside the EU (UNAR and IDOS, 2012) with a much lower attractiveness as to the EU member states. But the economic crisis has caused migration diversion effects even to the flows within EU, signalling a high sensitivity to changes in attractiveness. Bertoli, Brucker and Moraga (2013) showed that as the main destination countries for Bulgarian and Romanian migrants, respectively Spain and Italy, were seriously hit by the crisis, they quickly reoriented to other destinations, like Germany. If before the crisis (2007) Italy and Spain were among the main destinations for immigrants in, the number of immigrants has considerably decreased in 2012, Spain becoming once again a country of emigration (see Figures 3 and 4).

**Figure 3 - The net migration (% population) and the attractiveness of the EU member states before the crisis (2007)**



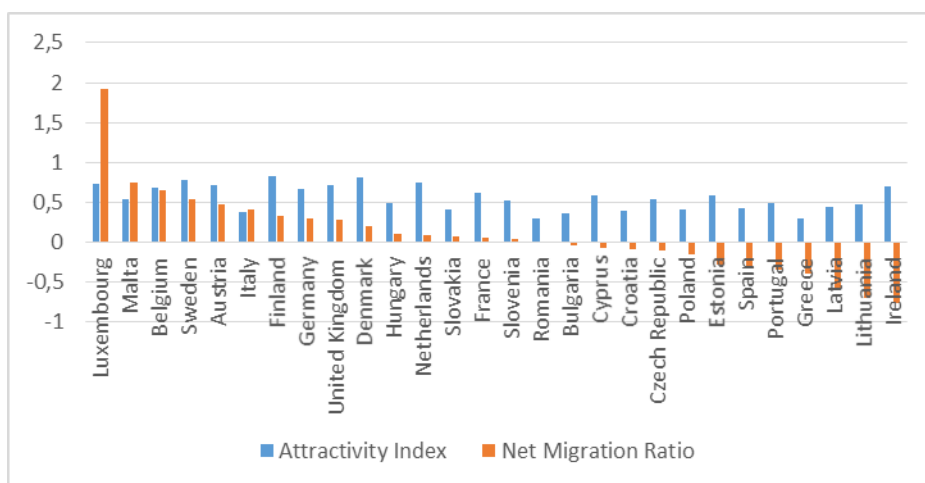
Source: own compilation

Note: for Romania and Greece the Net Migration Ratio refers to 2008; for Cyprus the Attractiveness Index is calculated for 2008; due to missing data series, we could not calculate the Attractiveness Index for Malta.

Although the attractiveness remained quite high, along with Spain, Ireland is another example of country facing a reverse migration transition during 2007-2012 period. The Irish migration flows reactivity was even higher, considering the large Irish communities in the English speaking countries. Most of them have emigrated to Britain, Australia and the United States being the other two important destinations (Lewis, 2013).

Generally speaking, the changes in attractiveness, induced by the ability of states in managing the crisis, have generated significant changes in the composition and direction of migration flows. If in 2007 there were only 7 EU countries that recorded a negative balance of net migration, in 2012 their number increased to 13 states. This evolution was due to the decrease in the attractiveness of destination countries, on the one hand, which discouraged receiving new inflows of immigrants, and on the other, due to return migration outflows back to the origin countries, as a result of the lack of opportunities in the host countries. Furthermore, because of the lack of opportunities caused by the economic activity contraction, even the resident population began to emigrate, looking for better living standards elsewhere<sup>4</sup>.

**Figure 4 - The net migration (% population) and the attractiveness of the EU member states after the crisis (2012)**



Source: own compilation

Note: the Net Migration Ratio refers to 2011 for Germany.

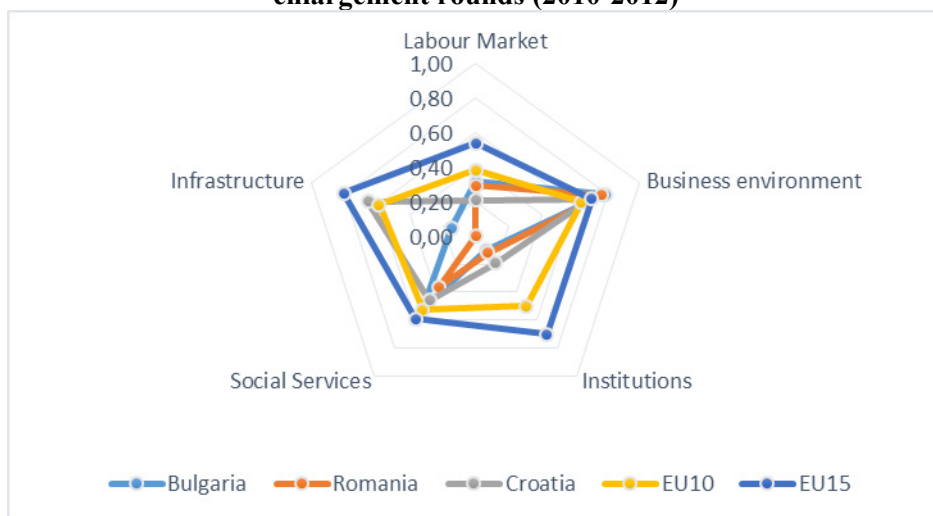
The results outline that migration flows have a high reactivity to the changes in EU member attractiveness. Therefore, migration stands as a suitable indicator of the attractiveness of states, drawing attention to the areas the policies should further address in order to discourage migration.

Figure 5 displays the EU states grouped by the last three EU enlargement rounds and the Attractiveness Index values. The oldest members, namely EU15 states, have the highest attractiveness (we should keep in mind that the EU15 average attractiveness still includes the lower values recorded by Greece, due to the

<sup>4</sup> For example, in 2011, after a long time, Spain recorded a negative net migration (Preseurop, 2011). Negative net migration balance (- 50 090) was mainly due to return migration outflows, (445 130). The number of Spanish citizens that emigrated was also large, reaching 62 611 people.

financial problems in recent years; the same can be said about the other Southern European countries included in the analysis, like Italy, Spain and Portugal, which are also facing financial problems, being forced to implement radical measures in order to rebalance the national budgets, even with the cost of short-term deterioration of attractiveness).

**Figure 5 - The attractiveness of the EU member states according to the enlargement rounds (2010-2012)**



Source: own compilation

Note: For Malta the Attractiveness Index was estimated only for 2011-2012 period. We are also dealing with incomplete date series for the Net Migration Ratio calculation as follows: for Germany, the data refers only to 2010-2011 period; for Croatia the data refers to 2011-2012 period; For Bulgaria, the data refers to year 2012.

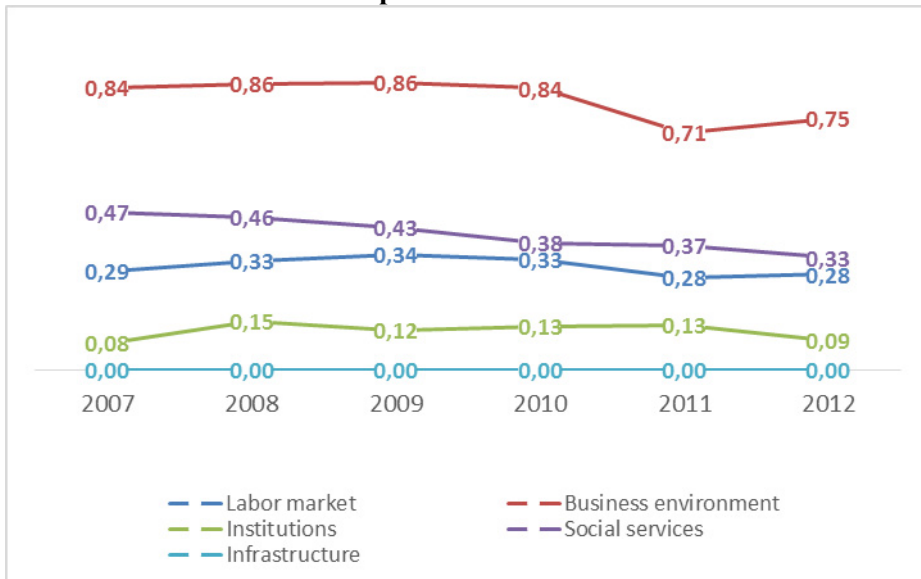
Comparing the attractiveness of Romania and Bulgaria to the average attractiveness of the EU10 aggregate countries, we notice a big difference in terms of institutional and infrastructure quality. If we go further in terms of development level, by comparing the EU10 and the EU15 averages, we notice that, once again, the largest differences are recorded between the same areas, namely, the quality of institutions and infrastructure. Certainly, these two components are linked together, as it is the responsibility of institutions to develop the infrastructure that provides common positive externalities, because the private sector will not support such big investments with common benefits, such as roads and railways modernization. Then, the quality of institutions and infrastructure continues to represent two fundamental problems detaining the catching up process of the less developed countries.

A more detailed analysis of the 5 components considered (figure 6) shows that between 2007 and 2012 Romania accounted relative setbacks to other EU countries for each of them, except the quality of institutions; even though,



considering the very low values Romania is gaining in this area, the increase was insignificant (still facing considerable problems in terms of corruption control, the quality of regulation and the rule of law). If the attractiveness of the business environment has the highest level within the sub-indices considered (the decrease of this component is largely due to maintaining a relatively high number of procedures to open a new business), as opposed to the quality of infrastructure, where Romania recorded the lowest value in the EU during the entire period.

**Figure 6 – The evolution of the attractiveness sub-indices in Romania during the period 2006-2012**



Source: own compilation

The attractiveness of the labour market is also declining, having major difficulties in regulating the cooperation between employer and employee, the low level of income and the lack of highly qualified individuals (as a result of the high emigration rates and the low education quality). The sub-index referring to social services had the highest decline, because of the lower quality of the education system, but also, to the relative decline of population health.

## CONCLUSIONS

The literature has shown that during development, states change their migration profile from emigration to immigration. Although supporting the origin country development through various mechanisms, migration is not a sufficient factor for development. Romania is a good example, continuing to represent an important source for migration outflows for a long time now. Given that the freedoms assured by the European Single Market lead to a fierce competition for attracting investment and labour, the high number of people leaving Romania

proves the low level of attraction exerted by Romania, compared with other EU countries. The recent developments, induced by the economic crisis, have shown that migration flows have a high reactivity to the changes in the EU states attractiveness, representing a good indicator in this regard. As the attractiveness of states increases, net migration increases as well, leading to the transition from emigration to immigration. But this evolution is not imminent, nor irreversible, constantly depending on the relative attractiveness as compared to other states. Ireland and Spain are two relevant examples of states that have recently experienced a reverse migration transition, going back to a profile of emigration (being affected by the economic crisis, not only have they stopped attracting new flows of immigrants, but the old immigrants have started to return to their home countries; also, more and more migration outflows were generated within the resident population).

In Romania, the high number of people leaving abroad is justified by the low level of attractiveness compared to other EU countries. Until the gap in attractiveness will decrease, Romania will continue to be a source country. Although the economic crisis has provided an opportunity for the emerging areas, including Romania, the chance of a new beginning, by reducing the economic boom in all European countries, Romania has failed to develop a high reactivity to the potential opportunities in order to stimulate a quick recovery and ranks last according to our assessment. Thus, during 2007-2012 period, Romania accounted relative setbacks in terms of quality of business environment, labour market and infrastructure. We however note that the biggest differences are accounted in terms of quality of institutions (with considerable problems in terms of control of corruption, the quality of institutions and the rule of law) and the quality of the infrastructure. Regarding the institutional quality, Romania ranks next to last (2012), exceeding only Greece's level. Regarding the overall quality of infrastructure, Romania ranked last during the entire period 2007-2012. Institutional quality and infrastructure appear to be the main problems of the states that joined the EU since 2004. These are two key areas which should be given increased attention in the next period, in order to increase attractiveness.

The importance of our analysis consists in outlining the need to intensify the efforts to increase the attractiveness in order to discourage emigration. The orientation towards increasing attractiveness is more important as the high unemployment rate among young people has considerably increased, increasing their willingness to emigrate to more attractive destinations. However, Romania's position at the EU's Eastern border provides a huge opportunity for attracting cheaper labour from the relatively less developed countries in the Eastern neighbourhood (Ukraine, Rep. Moldova etc.) in order to increase competitiveness.

## ANNEX 1

Table 1 – Attractiveness Index Structure

Index Structure	More details	Period	Source	
1. Labour market	Unemployment	The unemployment rate among people aged 15 to 74 years who do not have a job, but which have actively sought one and are ready to start work as soon as they find it.	2006-2012	Eurostat
	Annual net income	Mean and median income per person (PPS)	2006-2012; Romania 2008-2012; Bulgaria 2007-2012; Croatia 2010-2012	Eurostat
	Hiring and firing practices	World Economic Forum, Executive Opinion Survey ( <i>Global Competitiveness Report</i> ) Question: <i>In your country, how would you characterize the hiring and firing of workers?</i> [1 = heavily impeded by regulations; 7 = extremely flexible]	2006-2012	World Economic Forum
	Cooperation in labor-employer relations	World Economic Forum, Executive Opinion Survey ( <i>Global Competitiveness Report</i> ). Question: <i>In your country, how would you characterize labor-employer relations?</i> [1 = generally confrontational; 7 = generally cooperative]	2006-2012	World Economic Forum
	Availability of scientists and engineers	World Economic Forum, Executive Opinion Survey ( <i>Global Competitiveness Report</i> ). Question: <i>In your country, to what extent are scientists and engineers available?</i> [1 = not at all; 7 = widely available]	2006-2012	World Economic Forum
2. Business environment	Minimum paid-in capital required to start a business	Estimated as a percent of income per capita	2006-2012; Cyprus 2008-2012; Malta 2011-2012	World Bank
	Procedures required to start a business	Number of procedures required to start a business	2006-2012; Cyprus 2008-2012; Malta 2011-2012	World Bank
	Time required to start a business	Number of days required to start a business	2006-2012; Cyprus 2008-2012; Malta 2011-2012	World Bank

Index Structure		More details	Period	Source
3. Institutions	Control of Corruption	<i>Control of Corruption</i> - captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests. [0 corresponding to the lowest score, and 100 highest score].	2006-2012	World Bank
	Political Stability and Absence of Violence	<i>Political Stability and Absence of Violence</i> – captures perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including politically-motivated violence and terrorism [0 corresponding to the lowest score, and 100 highest score].	2006-2012	World Bank
	Regulatory Quality	<i>Regulatory Quality</i> – captures perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development [0 corresponding to the lowest score, and 100 highest score].	2006-2012	World Bank
	Rule of Law	<i>Rule of Law</i> – captures perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence [0 corresponding to the lowest score, and 100 highest score].	2006-2012	World Bank
4. Social services	Quality of the educational system	World Economic Forum, Executive Opinion Survey ( <i>Global Competitiveness Report</i> ). Question: <i>How well does the educational system in your country meet the needs of a competitive economy?</i> [1 = not well at all; 7 = extremely well]	2006-2012	World Economic Forum
	Education accesibility	The rate of people who have graduated from high schools or universities (within people aged 15 to 74 years)	2006-2012	Eurostat
	Population health	The average number of years that a person lives without encountering moderate or severe health problems	2006-2012; Croatia 2010-2012; Romania 2007-2012	Eurostat
5. Infrastructure	Quality of overall infrastructure	World Economic Forum, Executive Opinion Survey ( <i>Global Competitiveness Report</i> ). Question: <i>How would you assess general infrastructure (e.g., transport, telephony, and energy) in your country?</i> [1 = extremely underdeveloped—among the worst in the world; 7 = extensive and efficient—among the best in the world]	2006-2012	World Economic Forum

## ANNEX 2

Table 2 - Attractiveness Index values

	2007	2008	2009	2010	2011	2012
<b>Austria</b>	0,708591	0,74902	0,726833	0,728409	0,706608	0,719203
<b>Belgium</b>	0,701007	0,661575	0,670955	0,674838	0,685129	0,680152
<b>Bulgaria</b>	0,323873	0,327463	0,365543	0,377426	0,343269	0,3617
<b>Czech Republic</b>	0,511599	0,549045	0,531182	0,536387	0,536234	0,53271
<b>Cyprus</b>		0,677841	0,682161	0,663265	0,595477	0,591667
<b>Croatia</b>	0,368498	0,385992	0,387708	0,387093	0,375743	0,386989
<b>Denmark</b>	0,859893	0,874545	0,855794	0,842785	0,837958	0,80298
<b>Estonia</b>	0,543419	0,559975	0,532509	0,552763	0,572783	0,587934
<b>Finland</b>	0,739675	0,793306	0,805712	0,815287	0,813248	0,825114
<b>France</b>	0,614257	0,642132	0,637078	0,654049	0,630417	0,610356
<b>Germany</b>	0,620898	0,63695	0,64331	0,678548	0,644449	0,667083
<b>Greece</b>	0,353261	0,375489	0,345504	0,336651	0,308634	0,290812
<b>Ireland</b>	0,655759	0,661636	0,659309	0,644543	0,636913	0,691596
<b>Italy</b>	0,341941	0,362791	0,360046	0,404812	0,38212	0,37057
<b>Latvia</b>	0,412582	0,393348	0,386125	0,413828	0,409827	0,44225
<b>Lithuania</b>	0,45741	0,467065	0,432009	0,448325	0,436569	0,475637
<b>Luxembourg</b>	0,647014	0,669263	0,718087	0,74115	0,72566	0,723077
<b>Malta</b>					0,4873	0,534091
<b>Netherlands</b>	0,690487	0,716282	0,733797	0,74519	0,738192	0,752967
<b>Poland</b>	0,273205	0,323362	0,357589	0,382851	0,377269	0,410566
<b>Portugal</b>	0,430569	0,467636	0,461366	0,46493	0,469118	0,492873
<b>United Kingdom</b>	0,684611	0,67591	0,663062	0,689809	0,696408	0,716701
<b>Romania</b>	0,326592	0,349278	0,347715	0,334061	0,292152	0,289832
<b>Slovakia</b>	0,416879	0,444679	0,436755	0,422718	0,385229	0,407624
<b>Slovenia</b>	0,430429	0,555244	0,596228	0,546041	0,508624	0,519932
<b>Spain</b>	0,406342	0,39465	0,35025	0,356636	0,400042	0,420322
<b>Sweden</b>	0,723733	0,780749	0,806173	0,823046	0,791669	0,782052
<b>Hungary</b>	0,432665	0,465346	0,462748	0,523069	0,490103	0,489947

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# LOOKING BEYOND THE CRISIS. LESSONS FROM THE EUROPEAN ECONOMIC DECLINE

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**Abstract:** *This paper gives an overview on the deepest EU's recession since the 1930s. The purpose of this study is to analyze the main macroeconomic indicators and their domino effect, in times of crisis. The abrupt downturn of the EU economy wasn't entirely an unpredicted event. This is why the impact of the macroeconomic instability should never be underestimated in the future. Prevention, control and resolution represent elementary lessons from the way the current economic crisis has been handled. The analysis, added to the disruptions caused by the economic crisis, shows that the recession continues to weigh on the perspectives and solutions of the macroeconomic stability.*

**Keywords:** economic and financial crisis; European Union; perspectives; solutions

## INTRODUCTION

The present economic problems of the European Union have deep roots. The déjà-vu feeling of 2008 has emphasized the various similarities between the present crisis and what had happened in '29 - '33. The following pages describe the decentralized decisions that have led to the failed politics and rushed the present economic-financial crisis, and the lessons that can be learned. The wrong decisions have not only resulted in the crisis, but have exacerbated its deepness and duration, leaving behind weak economies and mountains of debts.

The excessive assumption of risks, the conflicts of interests and the generalization of the corrupted and dishonest behavior – all these manifestations have resurfaced each time the bloom periods have been transformed into collapses, and the present crisis is not an exception.

This article describes how flawed perspectives led to the current economic crisis, how did they determine the main decision factors in the private and public sector to refer with great difficulty the problems behind the appearances and how they contributed to the failure of institutions in managing the repercussions effectively.

This paper focuses on the institutional framework, that by means of the decisions and agreements concluded, plays a key role in risk reduction, first by promoting transparency, and then by strict applying regulations. The article follows an arc over time dwelling on the deep roots of the recent crisis and the ways in

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which the decline occurred after a very predictable pattern, conforming to the extremely old precedents.

## 1. LITERATURE REVIEW

The economic theories of the last century came with a great contribution of ideas regarding the causes that determine the markets to often fail and what can be done to help them work better. Economists have chosen to ignore the progress of knowledge. They chose to claim that Adam Smith and Friedrich Hayek had the final word in terms of market efficiency, but have not heeded the warnings of these scientists in regard of the need for state intervention.

According to Austrian economist Schumpeter, each market is temporarily dominated by a monopolist, but which gets to be pushed aside by another innovator who, in turn, becomes the new monopolist (Schumpeter, 2010). Participants compete among themselves for markets rather than within markets, and that competition is made through innovation. Recent experience shows that things may not be as good as the market supporters describe it.

Hayek, like Schumpeter, departed from the equilibrium theory dominating standard economics. He wrote his work in the middle of the controversy arisen by communism - where the state assumes the dominant role in managing the economy. In these systems, decision-making is centralized within a ministry of planning. Some of those who had passed through the Great Depression and had seen massive poor resource allocation believed that the state should take the lead in determining the allocation of resources. Hayek challenged these views, arguing not only informational advantage of a decentralized system of pricing, but also on a more general level, the development of decentralized institutions (Hayek, 2006).

Darwin talks about survival of the most adaptable body and social Darwinism has advanced an argument that the ruthless competition in which only the most adaptable companies, is one that would lead to permanent efficiency of the economy (Darwin, 1967). Unfortunately, natural selection does not necessarily select those institutions that are also the best ones in the long term. One of the key critics brought to the financial markets, refers to the fact that they have become more myopic. Some institutional changes have made it harder for companies to adopt long-term perspective. In the current crisis, some companies complained that they would not, in fact, want to be indebted, but if they didn't, they would not have survived. These institutions have not found another solution than to follow the herd, with disastrous effects in the long term.

Karl Marx thought the crisis is an integral part of capitalism, and that it is a sign of its imminent and inevitable collapse. Marx saw capitalism as inherent, unstable and prone to crisis. In his view, capitalism is the embodied chaos that will inevitably plunge into the abyss, taking with him the economy. Capitalism, according to Marx, is doomed (Marx, 2009). So far, history has not given him justice.

The words of John Maynard Keynes in "The Great Slump of 1930" could have been written today: "natural resources and human ingenuity are equally fertile

and fruitful as they were before. But today we've got a huge mess, making a mull of controlling a machine whose operation we do not understand. The result is that our possibilities of wealth may be scattered in the wind for a while, maybe for a long time" (Keynes, 1930 p 136). Now, as then, we live after an economic catastrophe. Keynes has provided us with much of the analytical framework needed to give rational point depressions.

Economist Hyman Minsky has dedicated his entire life building a theoretical edifice on the foundations set by Keynes. Minsky argues that, by its very nature, the instability is an inherent and an inescapable drawback of capitalism. According to Minsky instability is rooted in the very financial institutions that make capitalism possible (Minsky, 2011).

In order not to repeat the Great Depression, economist Irving Fisher thought that a central bank must intervene and assume the role of a lender of last resort, providing needed funding to the institutions, and even for corporations and individuals. In extreme cases, Fisher argued that the government should revive the economy by flooding it with easily obtained money (Fisher, 2011). This occurred in current times as well. With the deepening crisis, governments have turned to the teachings of the Great Depression and proceeded accordingly.

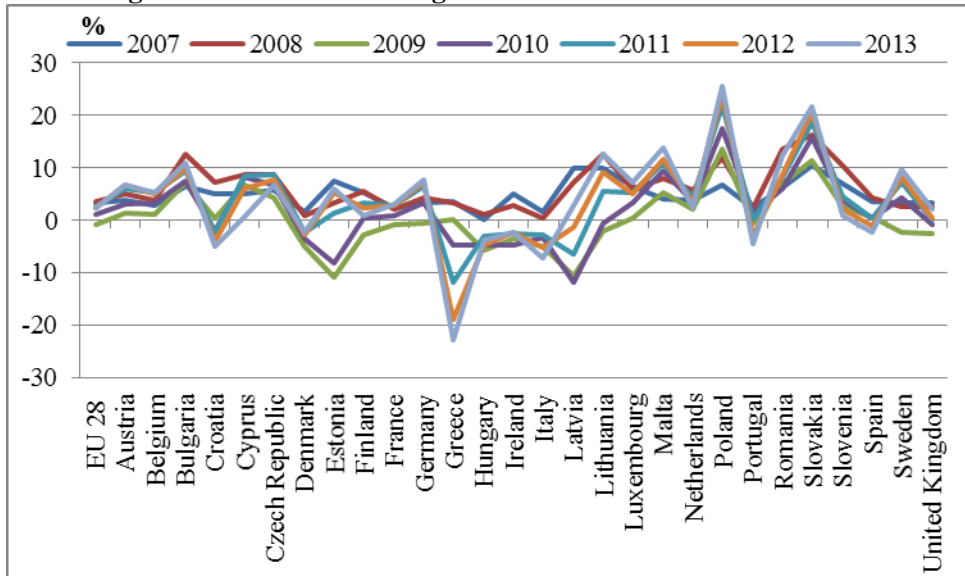
Joseph Stiglitz roughly criticizes financial institutions, decisions and agreements concluded by them in recent years, ironically inviting those who want adrenaline, those who want to pay money in horse racing and casinos in Las Vegas (Stiglitz, 2010). Too many bankers have forgotten that responsible citizens must be accompanied by a moral conscience. But they have hunted and taken advantage of the poor and most vulnerable. The greed that has gripped the economy has been exploited the most vulnerable in society.

According to economists Reinhart and Rogoff, the history's lesson is that, even when the institutions and decision factors improve their performance, the temptation to exceed the limits will always exist (Reinhart and Rogoff, 2010). Just as a man can become poor, however rich he may be at first, an economic system can collapse under the pressure of greed, political games and the desire to profit, no matter how well regulated it may seem to be.

## **2. THE CURRENT CRISIS AND THE DOMINO EFFECT OF THE EUROPEAN ECONOMY**

The current financial and economic crisis has put Europe under the shock of turbulences. Alongside the EU vulnerabilities, the crisis came too soon. It came, in fact, before the European Union concluded monetary and fiscal consolidation processes, and before having taken measures to strengthen economic and financial immunity.

Macroeconomic indicators analyzed below illustrate how Europe was affected by the current economic abruptness: declining economic growth, with public debt, inflation and unemployment rising in unison.

**Figure 1 – EU's real GDP growth rate between 2007 and 2013**

Source: processed after the data from Eurostat

The most powerful economic decline belongs to 2009, moment in which in the Baltic States (Estonia, Latvia and Lithuania) the evolution of the Gross Domestic Product registered values of -14% and -17%. The economic instability was also significantly enhanced in Croatia, Finland and Hungary. The economic trend rebounded by 2012, the next period being characterized, again, by a small destabilization of the European economy.

At the group level, European countries that now face fiscal difficulty began to significantly improve the position of the debtor, until the crisis is triggered. Along with the crisis, Europe's debt began to grow vertiginously.

**Table 1 – European Union's general government gross debt in times of crisis**

	2007	2008	2009	2010	2011	2012	2013
<b>EU (28 countries)</b>	:	:	74.3	79.9	82.4	85.2	87.1
<b>Austria</b>	60.2	63.8	69.2	72.5	73.1	74.4	74.5
<b>Belgium</b>	84	89.2	96.6	96.6	99.2	101.1	101.5
<b>Bulgaria</b>	17.2	13.7	14.6	16.2	16.3	18.4	18.9
<b>Croatia</b>	:	:	36.6	45	52	55.9	67.1
<b>Cyprus</b>	58.8	48.9	58.5	61.3	71.5	86.6	111.7
<b>Czech Republic</b>	27.9	28.7	34.6	38.4	41.4	46.2	46
<b>Denmark</b>	27.1	33.4	40.7	42.8	46.4	45.4	44.5
<b>Estonia</b>	3.7	4.5	7.1	6.7	6.1	9.8	10
<b>Finland</b>	35.2	33.9	43.5	48.8	49.3	53.6	57
<b>France</b>	64.2	68.2	79.2	82.7	86.2	90.6	93.5

	2007	2008	2009	2010	2011	2012	2013
<b>Germany</b>	65.2	66.8	74.6	82.5	80	81	78.4
<b>Greece</b>	107.4	112.9	129.7	148.3	170.3	157.2	175.1
<b>Hungary</b>	67	73	79.8	82.2	82.1	79.8	79.2
<b>Ireland</b>	24.9	44.2	64.4	91.2	104.1	117.4	123.7
<b>Italy</b>	103.3	106.1	116.4	119.3	120.7	127	132.6
<b>Latvia</b>	9	19.8	36.9	44.5	42	40.8	38.1
<b>Lithuania</b>	16.8	15.5	29.3	37.8	38.3	40.5	39.4
<b>Luxembourg</b>	6.7	14.4	15.5	19.5	18.7	21.7	23.1
<b>Malta</b>	60.7	60.9	66.5	66	68.8	70.8	73
<b>Netherlands</b>	45.3	58.5	60.8	63.4	65.7	71.3	73.5
<b>Poland</b>	45	47.1	50.9	54.9	56.2	55.6	57
<b>Portugal</b>	68.4	71.7	83.7	94	108.2	124.1	129
<b>Romania</b>	12.8	13.4	23.6	30.5	34.7	38	38.4
<b>Slovakia</b>	29.6	27.9	35.6	41	43.6	52.7	55.4
<b>Slovenia</b>	23.1	22	35.2	38.7	47.1	54.4	71.7
<b>Spain</b>	36.3	40.2	54	61.7	70.5	86	93.9
<b>Sweden</b>	40.2	38.8	42.6	39.4	38.6	38.3	40.6
<b>United Kingdom</b>	43.7	51.9	67.1	78.4	84.3	89.1	90.6

: = not available

Source: processed after the data from Eurostat

The vast majority of countries which have adopted harsh austerity policies, despite high unemployment rate, did forcibly compelled creditors. Greece, Ireland, Italy, Spain and Portugal found themselves unable to overcome debts and were forced to drastically reduce their expenses and increase their taxes. But there was one exception - a government willingly engaged in austerity, that is, the British government.

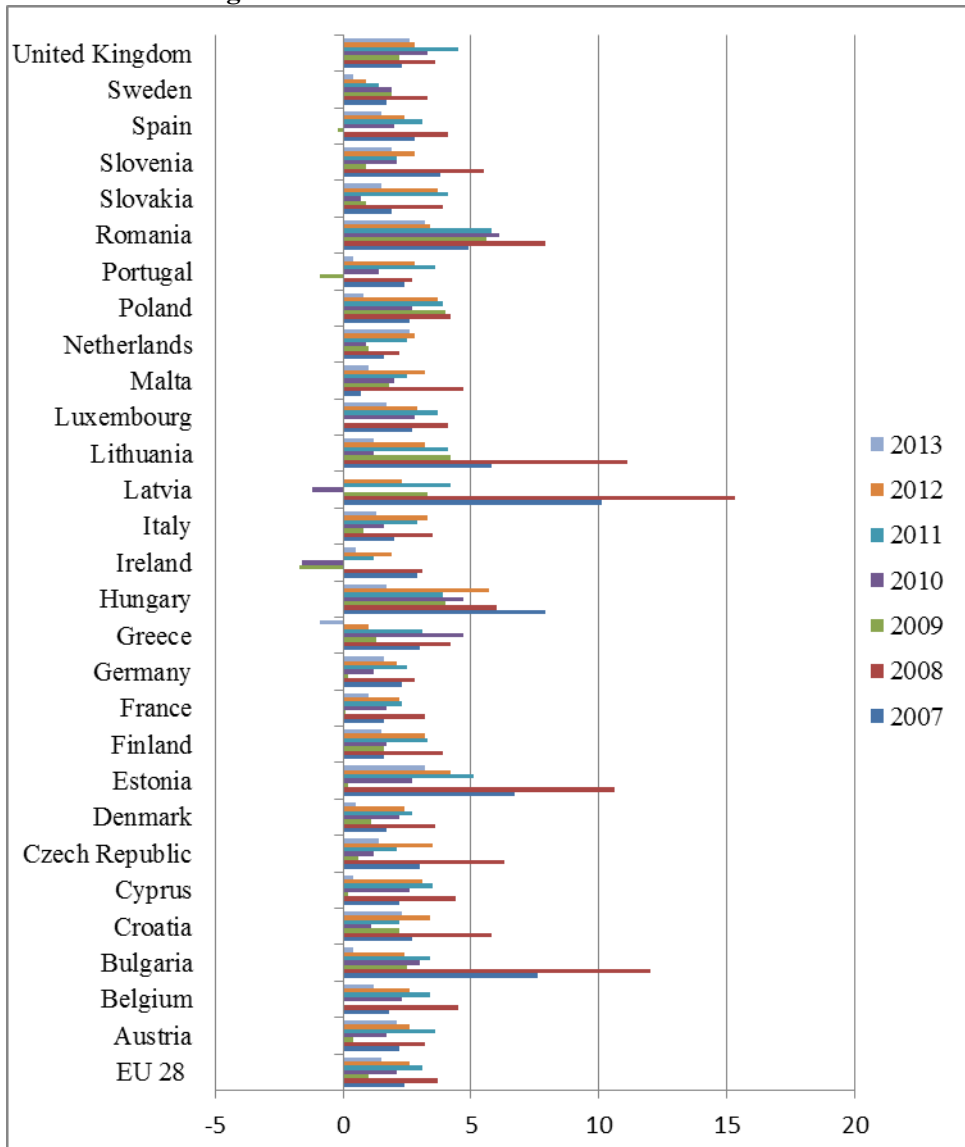
The data presented in Table no. 1 delineating well the PIIGS countries (Portugal, Ireland, Italy, Greece and Spain) from the rest of the European countries. Although it creates problems, the public debt levels are not the causes of the crisis in the PIIGS countries. For these countries, the main problem that led to the crisis outbreak is the current account imbalances of the private sector. External imbalances of private sectors in these countries have been exacerbated by the adoption of the euro, which made them more dependent on unit costs with the manpower, i.e. the ratio of nominal wages and labor productivity. The hypotheses that the productivity trends in the euro area countries will converge, are not true, so that the different growth rates of nominal wages have emphasized the trade balances disequilibrium.

Loss of competitiveness on the route of relatively rapid growth of nominal unitary labor costs in Italy, Greece, Portugal, Spain and Ireland was exacerbated by the appreciation of the euro. The appreciation statement was a factor that worked to erode the average competitiveness of the euro area and pressured for the deterioration of current account deficits throughout the euro area. In the south, the

appreciation was combined with the lack of real convergence, making it the main source of competitiveness deterioration of the crisis in the European Union.

The competitiveness evolution of the PIIGS countries after joining the euro area shows that countries that have joined the monetary union with a low competitiveness could not converge sustainably to all productivity levels of countries in the North. The crisis has shown that the single currency is not enough to make productivity trends converge. Due to massive borrowing in euro, they cannot allow the euro to become competitive enough without bearing huge costs for them.

**Figure 2 – EU's inflation rate in times of crisis**



Source: processed after the data from Eurostat

Hence, an important lesson for aspiring to the single currency: since the productivity convergence hypothesis was not confirmed within the area, the entrance in the money area should be delayed until labor productivity will converge sufficiently with that of the north - however long the process will be. Insufficient training would result in a crisis, as was the case with PIIGS countries. However, maintaining a relatively close date to accede to the euro area is relatively beneficial, as it can lead to the acceleration of reforms needed to reduce disparities in productivity.

Figure no. 2 shows the inflation rate in the EU area, in the context of the current financial and economic crisis. Compared to the EU average, the largest known monetary slippages are in Bulgaria, Estonia, Latvia, Lithuania, Romania and Hungary. In the opposite corner there are Austria, Belgium, France, Germany and the Netherlands.

Regarding the decreasing degree of labor employment, Cyprus, Croatia, Greece, Ireland, Italy, Slovakia and Spain are in the top of the classification, with values exceeding even 26% in the case of the Iberian Peninsula, or 27% in the Hellenic State. The lowest levels of unemployment were maintained, during the crisis, by Austria, Germany, Luxembourg and the Netherlands.

We conclude that, from a technical perspective, we escaped the recession, but the economic recovery could be moderate. The above data show that the economy generally recovers at low levels, but the EU needs new reforms, deficit reduction and a new innovation stake.

### 3. LESSONS OF THE EUROPEAN ECONOMIC DECLINE

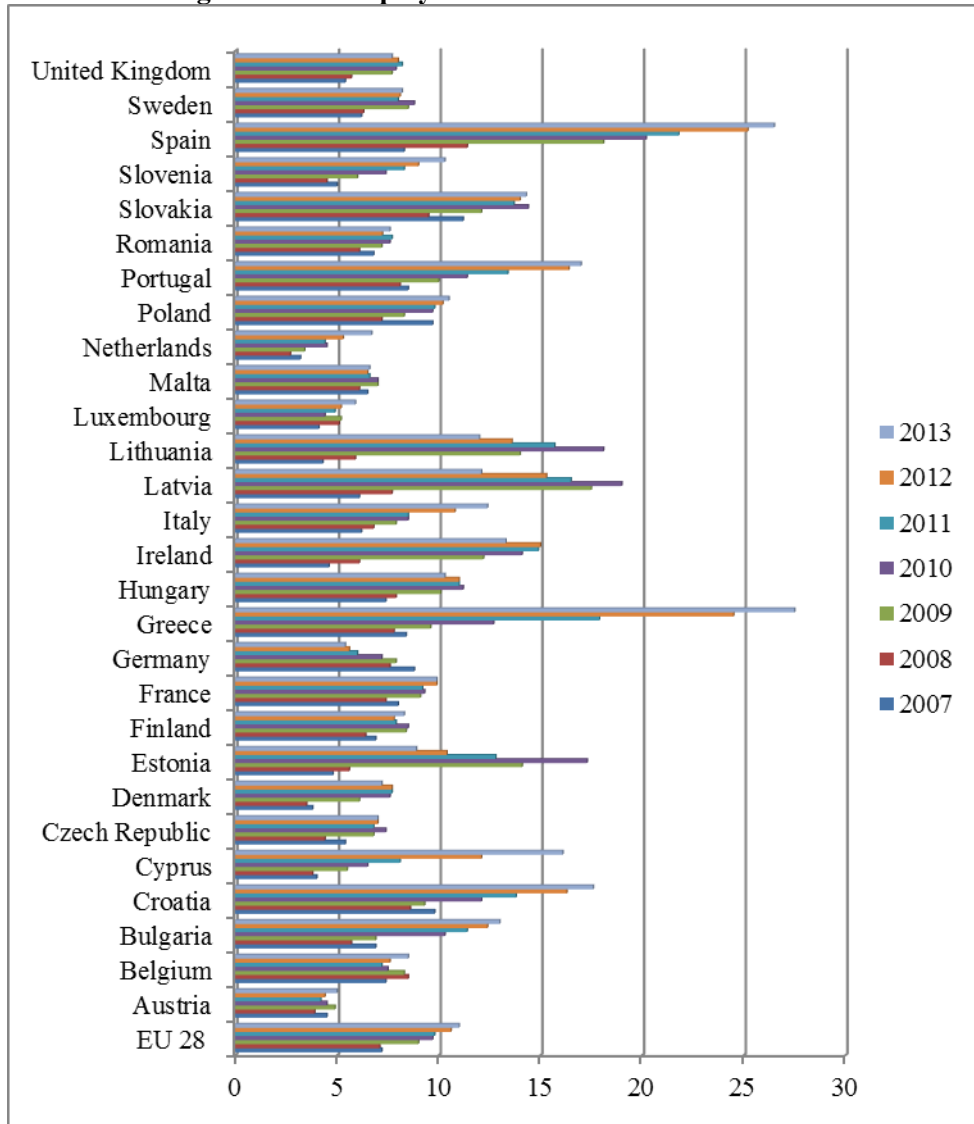
People forget quickly and apply little of what they learned, often within the same generation. The current economic crisis exported from the United States has quickly studied Europe. Stock market crashes, contractions of credit, extended declines in the housing market and inventory adjustments had taken place, but after the Great Depression they were no longer so crowded, fueling strength as they advanced. There was a common basis: the folly with which the financial department had given loans, fueling the housing bubble that eventually burst. The collapse of the speculative bubble and credit contraction had inevitable consequences.

Mankind has traversed thus one of the most serious and dangerous economic crisis in its modern history, the crisis will undoubtedly generate a number of important changes socially and politically, ample movements in the power balance globally. The consequences of these decentralized decisions will force us to reevaluate how we think about the economy, how we relate to it, the processes that determine it, to the state and to the market, to democracy as a political system.

An important characteristic of the decentralized decisions is the lack of transparency. Every time there is a crisis, it becomes obvious that there was a lack of information. The issue of transparency in fact refers to the problem of deception. Institutions were actively engaged in deceptive practices and conventions. Transparency, in order to have any type of usefulness, must be total. If some

channels are allowed to remain in obscurity, all decisions and illegal activities will go there. As the recent years revealed, financial institutions do not like transparency. A fully transparent market would be extremely competitive and under intense competitive conditions, fees and profits would be pulled down.

**Figure 3 – Unemployment rate in the EU's countries**



Source: processed after the data from Eurostat

Peeling the onion of the current economic crisis, there emerges a poor corporate governance, inadequate law enforcement, imperfect information and inadequate knowledge of risks from investors. In the period after the last big boom,

which led to the Great Depression, governments have tried to attack this problem by setting up new regulatory structures, but attempts were short-lived.

Institutions charged with maintaining the stability of the economic system failed to prevent the crisis and did not have the necessary capacity to organize the required coordinated response. The incoherence of the International Monetary Fund's (IMF) decisions has been repeatedly criticized. In the past, the IMF has provided funds, but only under the conditions of respecting some harsh clauses that actually aggravated the economic situation of the countries that were hit the hardest. The strict conditions imposed by the IMF have led to riots all over the world. In the present context, the IMF finally recognized the need for Keynesian macro-stimulation policies. However, although in many countries the IMF programs were much different from those in the past, it seems that for some of them, they continued to be applied harsh - including budget cuts and high interest rates, the exact opposite of what the Keynesian economic theory recommended.

Recent financial rescue operations are the exemplification of a set of coherent decisions that may have long-term consequences. In the current economic context, decisions have resulted in injections of liquidity into the banking institutions, neglecting the help of homeowners, unemployed persons and stimulation of the economy.

During the current economic crisis, the institutions have underestimated the severity of the recession. It was felt that if banks are given money, the economy will return to normal the flow of the loans will be restored and the housing market will come back to life. The only thing was that all decisions were wrong: restoring the accounts of banks not automatically restored to normal loaning. When the central bank of a country engages in a massive financial rescue program, risking public money, it engages in actions that must be directly held accountable politically and undertaken in a transparent manner.

The argument that if the FED and the Treasury would have saved Lehman Brothers, the whole crisis could have been avoided, is considered by many economists as much nonsense. Lehman Brothers was a consequence, not a cause. Regardless of whether it was saved or not, the global economy is headed for much difficulty. The Lehman collapse has most likely accelerated the process generated by the decentralized decisions, but it should not have influenced avoiding the economic decline.

The belief that markets can regulate themselves has resulted in the most massive state intervention on the market until the present day. Decisions were taken for each financial institution without even the benefit of a minimum set of clear principles. In the current crisis the state has assumed a new role that of the last resort risk bearer. When private markets were about to disintegrate, the entire risk was transferred to the state. Social safety net should focus on the protection of individuals, but the safety net has been extended to institutions with the belief that if this is not done, the consequences will be severe.

History and experiences of other countries provide a great wealth of information about how to treat economic crises. Decisions should be able to be served the theory, the empirical data and the rational common sense, to design a



package of measures to stimulate the economy in the short term and to strengthen it in the future.

Unfortunately, trust could not be restored only through speeches expressing confidence in the economy. Repeated statements on behalf of the European central governments and banking institutions, that the economy rests on solid foundations, with anchored fundamental principles, were contradicted by the consequences. What the government claimed, was not credible and the facts of the institutions have undermined trust.

An important lesson of this crisis is that it requires a collective action, that the state plays a role that was emphasized in several lines. The markets were allowed to shape the economy, but on this occasion they have shaped the society in which we live. The way the market has changed the thinking is illustrated by decentralized decisions and agreements concluded in the years before the economic downturn. The current context brought to the surface a serious and difficult to correct fundamental moral deficit. No matter how we see things, the institutions and decisions taken, both during and after the crisis, have not lived up to the moral standards we should aspire. Nowadays, almost everyone is claiming innocence. There was individualism, but no individual responsibility and on the long-term, the company cannot work well if people do not take responsibility for the consequences of their actions.

## CONCLUSIONS

The experience of the European economic decline does not mean that over the years a new generation, confident that it will not fall prey to the errors of the past, will appear. Human ingenuity knows no boundaries and in any system designed there will be those who will discover how to bypass laws and regulations designed to protect.

But if institutions do their job well, there will be fewer accidents and when they arise, however, they will be less expensive. The role played by each one must be balanced with the role of others, and the way in which the pieces are assembled and glued in their places influences the probability of future crises as well as the social justice and equity feeling.

The crisis has revealed not only flaws in the predominant economic model, but also the flaws in the contemporary society. Too many people have taken advantage of others, and the feeling of confidence was crumbled.

A society in which materialism dominates moral commitment was created, in which the rapid growth achieved is not sustainable, in which the rapid growth is not durable, in which it does not act as a community because individualism and market fundamentalism have eroded the sense of collectivity and led to the exploitation of the naive and defenseless and to the increasing division of society.

The economic decline has brought to the fore and has accelerated the erosion of trust. Trust has been considered a given fact, and the result was that it shattered substantially. If there will not be fundamental changes, society will never be based

on trust, altering social relations, changing the sense of belonging to a community and affecting the economy efficiency.

Not only have the institutions been modified, but also the rules of capitalism itself. It proclaimed that for the favored institutions there is very little or no market discipline. A capitalism with unclear rules was created, but with a predictable outcome: future crises, over-assumption of the increased risk and inefficiency. It taught the importance of transparency, but offered the financial institutions even greater opportunities to manipulate their accounting data. European states saw what bad management of globalization risks meant. But the reforms they hoped for in the management of globalization seem not to have disappeared from the distant horizon.

The crisis is not over, and the future course of history is uncertain - what can be said is that the economic recovery is not situated on solid grounds and that the European economy remains fragile.

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# THE EU'S INTERNAL FRICTIONS AND THEIR CONSEQUENCES ON THE EASTERN NEIGHBOURS

Lavinia LUPU\*, Alexandru VOICU\*\*

**Abstract** *In the last couple of years, the EU's foreign policy was mainly directed towards two regions: the Balkans and the Eastern neighborhood. However, the means and the ends of the EU's approach were in a sharp contrast. While the Balkan countries witnessed a more straightforward and coherent path towards the EU, the Eastern neighborhood had a different experience. Aiming to avoid future cleavages, the EU developed in 2004 the European Neighborhood Policy. But following Romania and Bulgaria's accession in the EU, there was still the need for a more comprehensive approach toward the Eastern neighbourhood. Therefore, at the Polish and Swedish overture, the EU inaugurated the Eastern Partnership program which comprises of six ex-Soviet countries. However, the Vilnius Summit was not as effective as it was expected. Instead, it has failed to address the major issues on the agenda. Considering these aspects, this paper asserts that the EU's gaps in its approach toward the Eastern neighbourhood were mainly determined by systemic incentives and constraints as polarity and ordering principle. After laying out the core arguments, the paper will further develop possible future dynamics concerning the fate of the EU Eastern neighbourhood in the aftermath of the Vilnius Summit.*

**Keywords:** EU; Neo-medievalism; Eastern Partnership; Russia; Structure; System

## INTRODUCTION

Foreign policy is one of the most important challenges for the European Union (EU). Throughout the years, the EU's member states succeeded in achieving some internal consensus on the integration process. However, in the foreign policy area the road proved not to be a smooth sailing; it was rather paved with roadblocks and inconsistencies. Even if there were some attempts to coalesce a unitary perspective, at the conceptual level, the EU's foreign policy is still in an embryonic stage.

Starting from these assumptions, this paper aims to offer a cogent perspective on the EU's policy towards the Eastern European<sup>1</sup> and South Caucasus<sup>2</sup>

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<sup>1</sup> Ukraine, Republic of Moldova and Belarus

<sup>2</sup> Armenia, Georgia and Azerbaijan. From now on, this paper will refer to the six mentioned countries as the Eastern neighbourhood.

states and its flaws. The starting hypothesis of the paper is that the EU's gaps in its approach towards the Eastern neighbourhood were mainly caused by systemic incentives and constraints as polarity and the ordering principle (Waltz, 1979/2006, pp. 130-143).

Therefore, in the first part of the paper, there will be exposed a parallel conception on the EU's approach towards the Western Balkans and the Eastern neighbourhood in order to highlight the crucial importance of the internal mechanisms and political will for the EU's foreign policy. In the second part, there will be discussed three structural arguments that are supporting the paper's hypothesis: Russia's relations with EU's Great power States (polarity), the futility of the Eastern Partnership endorsement (lack of polarity) and the neo-medieval characteristics of the EU (ordering principle). In the last part, the paper will further develop possible future dynamics concerning the fate of the Eastern neighbourhood in the aftermath of the Vilnius Summit.

## 1. THE EU: ANTHITETIC FOREIGN POLICY

### 1.1. The approach towards the Balkan states

EU's stance towards the Balkans can be conceived through two different periods of time: from 1990 to 2003 and from 2003 until the present. The first period consists of a rather lethargic approach, without a clear sense of leadership and firmness. This passive stance can be revealed through the wars between Serbia and Croatia, the Bosnian War and even the Kosovo War. In these sensible and tragic instances, the EU lacked cohesion and coherence. Its impact was marginal, and the United States played the most important role, especially in the Bosnian War and in the Kosovo War. The third 'Springtime of the Peoples' was not to be a peaceful and joyful moment for the Balkans, but a moment of upheavals and ethnic cleansing and the EU was not able to have a certain stance toward the events that were happening in its 'backyard'. The EU rather contained the Balkans through a 'cordon sanitaire' which was best revealed through the Balldur initiative<sup>3</sup> (Bianchini, 2013, p. 256) (Dolghi and Oliva, 2011, p. 107).

Though between 1990 and 2003, the EU was not resolute and lacked any robust action towards the Balkans from 2003 Brussels took a different track. EU's new posture towards the Balkans is best shown through the Thessaloniki declaration that was issued at the EU-Western Balkans Summit from June 2003. At the Summit participated all the Heads of States and Governments of the EU states and the representatives of Albania, Bosnia and Herzegovina, Croatia, the Former Yugoslav Republic of Macedonia, Serbia and Montenegro. In the second point of

<sup>3</sup> 'The Balladur's idea was to agree upon a pact preserving the stability of borders, rejecting territorial claims and respecting minority rights to be signed by all interested or potential candidate countries of the EU. Few months later, the EU members states finalized the Balladur plan and approved in Copenhagen the three famous criteria for submitting applications for membership: as known, the first one of these criteria was particularly devoted to the rule of law, democracy and minority protection.' (Bianchini, 2013, p. 257).

the declaration, the EU's representatives made a clear proposal towards the Balkans. For the first time the EU expressed its unequivocal support to the European perspective of the Western Balkan countries. The future of the Balkans is within the EU' (Thessaloniki Declaration, 2003, 2<sup>nd</sup> paragraph). Even if the initiative was perceived as utopian and it had many roadblocks in practice, it had the ability to pacify the region and offer a sense of direction. Briefly said, the declaration offered a teleological perspective that fulfilled the needs of the parties involved: the EU wanted peace and stability while the states of the Balkans wanted peace and prosperity (Sabriu, 2013, p. 71).

Even if at the beginning of the 90's, the EU was not effective in its approach towards the Balkans, in 2003, once the Thessaloniki Declaration was issued, it had succeeded in pacifying the region and also to gain a broader leverage on the relations within the Balkans. It is true that there were not radical changes short after the Summit from 2003, but the bottom line is that a firm approach like the one from Thessaloniki in 2003 had the power to eradicate the main issues of the Balkans that were war, ethnic belligerence and deep society polarization. The EU also persuaded the Balkan countries that its post-Westphalian political-economic model is better than a state-centric and ethnic exclusivist model. Thus, even if, the June 2003 Thessaloniki European Council recognized the Western Balkans states as potential candidate states, it did not do the same for the Former Soviet Republics (Verdun and Chira, 2011, p. 450).

## 1.2. The approach toward the Eastern neighbourhood

Following the last rounds of enlargement, the EU found itself in a new environment with different neighbours. The EU gradually started to realize the need to articulate its interests in the region by establishing a coherent policy framework toward its Eastern neighbourhood, in order to avoid 'drawing new dividing lines in Europe and to promote stability and prosperity within and beyond the new borders of the Union' (Wider Europe - Neighbourhood: A New Framework for Relations with our Eastern and Southern Neighbours, 2003, p. 4). Thus, based on the values of democracy, rule of law and respect of human rights, the EU developed in 2004 the European Neighbourhood Policy which comprises 16 countries: Algeria, Armenia, Azerbaijan, Belarus, Egypt, Georgia, Israel, Jordan, Lebanon, Libya, Republic of Moldova, Morocco, Palestine, Syria, Tunisia, Ukraine (What is the European Neighbourhood Policy?, *n.d.*). The European Neighbourhood Policy was created with the aim of promoting good governance and social development in the Eastern neighbourhood, without offering to the participating countries the possibility of accession. In other words, the European Neighbourhood Policy is not about enlargement, but rather about partial economic integration, closer political links, assistance with economic and social reforms and support to meet the EU standards (What is the European Neighbourhood Policy?, *n.d.*).

In 2008, the EU's first initiative was complemented by the Euro-Mediterranean Partnership (EUROMED), formerly known as the Barcelona

Process and by the Black Sea Synergy. One year later, at the Polish and Swedish overture, the EU inaugurated the Eastern Partnership program which comprises of six ex-Soviet countries.

The Eastern Partnership initiative is 'a genuine and long-term partnership the EU is seeking to build with the neighbour states for their mutual development, stability and security, making the countries involved fully realize the benefits of being part of a larger Europe' (Ionescu, 2013, p. 370). The European Neighbourhood Policy and the Eastern Partnership are complementary and inclusive projects, created with the aim of giving to the partner countries and their people choices and opportunities for the future. The Eastern Partnership is a policy based on a differentiated approach with each partner, thus providing flexibility because it is dedicated to support each individual country to progress in its own way and at its own speed (Tsantoulis, 2009).

The year 2013 was a crucial one for the EU's Eastern Partnership program. Commentators and EU politicians underlined that the November Eastern Partnership Summit in Vilnius should bring tangible results for the program. In other words, the Vilnius Summit was a very important opportunity to assess the stage of the Eastern Partnership program. But the reality showed the EU's Eastern Partnership initiative has experienced a serious setback at the Vilnius Summit. Among the six Eastern Partnership countries, only Republic of Moldova and Georgia initialled Association Agreements with the EU, including the DCFTA. The negative responses of Ukraine and Armenia to the EU's offer of Association Agreements and the lack of interest of Azerbaijan in adopting a DCFTA attracted a number of critics. Moreover, there were analysts who described the Eastern Partnership as being a failure and went on by asserting that 'it is high time to start a real partnership' (Wiśniewski, 2013).

After the results of the Vilnius Summit, many commentators expressed the opinion that the Eastern Partnership proved to be too technical, ignoring the proximity and influence of Russia, disregarding the differences between the six countries (although they share the same past as post-Soviet countries) and neglecting the characteristics of the Eastern neighbourhood as a whole (a highly diverse, volatile and unpredictable region, including political transitions, geopolitical competition, inter-state and intra-state wars and economic and political problems). At the same, the Vilnius Summit was an incentive for the EU to 'reset or rethink' its approach towards the Eastern neighbourhood, by finding first the answer to the question 'what went wrong?'

## 2. STRUCTURAL CAUSES: EXTERNAL EFFECTS

One of the endogenous structural factors which influence EU's approach and decisions toward the Eastern neighbourhood is the relations between the leading European states and Russia. The relations between European Great Powers like Germany or France with another Great Power which is Russia undermines the effectiveness and coherence of the EU. The EU has different approaches on Russia,

because of the member states' business interests and priorities. In this sense, Germany's relation with Russia has always been a subject of discussion.

'Change through rapprochement' (*Wandel durch Annäherung*) or 'change through interweavement' (*Wandel durch Verflechtung*) are concepts which played an important role in Germany's foreign policy. The classic principles of "Ostpolitik" applied by Germany led to the adoption of a co-operative policy with Russia. Today, the results of this kind of policy formed a symbiotic relationship between Germany and Russia or an interdependence between politics and business backed by economic interests. (Meister, 2014) For example, 'the annual trade volume between the two was a nearly balanced €76.5 billion in 2013 and according to Rainer Lindner, Director of the Ostausschuss der Deutschen Wirtschaft, 300,000 German jobs depend on business with Russia' (Härtel, 2014, p.5). Moreover, Germany is highly dependent on Russian oil and gas. 'Russia provides 38 percent of Germany's natural gas imports, 35 percent of all oil imports and 25 percent of coal imports, covering a quarter of the country's entire energy needs' (Deuse, 2014).

Another argument could be Europe's dependence on Russia's gas and Europe's role as Russia's largest gas market. Europe as a whole is a major importer of natural gas and Russia remains one of Europe's most important natural gas suppliers. Russia is currently the dominant supplier of natural gas to Europe, accounting for about one-quarter of the EU's natural gas supplies. But the dependency does not go only in one direction, because Europe is also the most important market for Russia's natural gas exports. (Ratner *et al.*, 2013) Energy becomes a useful political tool for Russia using Europe's dependency on its resources to influence decision making processes and to extract political concessions (Kaplan and Chausovsky, 2013). In this context, Heydar Aliyev's words – Oil is money, gas is politics – could be relevant.<sup>4</sup>

A second fact that reveals another flaw of the EU's approach toward its Eastern neighbourhood consists of the political will behind the Eastern Partnership. Even if the Eastern Partnership was a cornerstone of the EU's foreign policy, it lacked comprehensive and consistent endorsement from the leading EU member states. In structural terms, there was an absence of polarity, because the Eastern Partnership program was not endorsed by one or two Great Powers within the EU.

The Eastern Partnership program was an EU initiative backed by Sweden and Poland, not key members of the EU, as Germany or France were. Therefore, it was not the result of a unitary consensus among all the EU member states. After Romania and Bulgaria's accession in the EU, the process of European integration reached the Black Sea and led to the establishment of new neighbours. At the same time, the initial ENP was not functioning the way the European member states thought it would. The idea of incorporating Mediterranean countries and Eastern European/South Caucasus countries under the same 'umbrella' showed to be effective. The two groups of states were too different from social, political and economic point of views.

<sup>4</sup> Heydar Aliyev was the third President of the Republic of Azerbaijan.

The ineffectiveness of the European Neighbourhood Policy revealed by the lack of progress concerning democratization or economic stabilization and supplemented by the gas crisis between Russia and Ukraine or the Russian-Georgian war from 2008, forced the EU member states to find ways to reform the European Neighbourhood Policy. This approach was not an easy one, due to the fact that each proposal needed to gain support from Germany or France, which advocated ‘Russia first’ principle in building relations with the Eastern neighbours (Adamczyk, 2010, p.196). In other words, the states from that part of the world were perceived by Germany and France particularly from the perspective of building relations with Russia, which remained EU’s strategic goal.

Within the new environment and situation, Poland felt the opportunity to get involved in the shaping of the Eastern dimension of the EU. One of the aims was preventing the erecting of new barriers and divisions near the EU’s Eastern border. At the same time, Poland tried to promote and support its Eastern neighbours. Thus, in May 2008, Poland, enjoying Sweden’s support too, proposed the Eastern Partnership project to the EU member states. It would function within the framework of the European Neighbourhood Policy, but with the particularity of involving only six countries: three from Eastern European and three from South Caucasus.

This kind of approach was assessed by experts as being characteristic for Poland’s foreign policy, which tried to put a special attention on the unequal treatment of Southern and Eastern EU neighbours. Poland and Sweden claimed that ‘if the EU is going to strengthen its co-operation and support within the southern dimension, there will be a strong need to balance these steps by emphasizing also the eastern dimension’ (Łapczyński, 2009).

A third perspective encompasses a rather theoretic approach toward the causes of inconclusiveness of the EU towards the Former Soviet Republics. This perspective underlines the presence of a neo-medieval order that impedes a coherent and robust approach of the EU towards the Former Soviet Republics from its vicinity. Neo-medievalism is defined as a system of overlapping authority and multiple loyalties, held together by a duality of competing universalistic claims (Friedrichs 2001, 475). Therefore, this argument refers to the ordering principle of the structure.

The neo-medievalist Europe consists of two main antithetic and conflicting dynamics. The first dynamic consists of an integrationist one where the borders are permeable and multiple cultural identities coexist, whereas the second is fuelled by nationalistic sentiments and follows a state-centric logic. Whereas the first dynamic is broadly determined by the European institutions (European Commission, European Parliament) and the young civil society, the second dynamic is underlined by a Wespthalian logic that underlines a state-centric perspective where the state formally has absolute sovereignty over its territory and its borders are stable and hard and one single (national) culture predominates (Zielonka 2007, p. 10). Therefore, this paradoxical mix reveals an entity (EU) that finds itself in a struggle for a stable identity. However, the EU is an actor that has not a definitive



identity; it is still a young actor that finds itself in many conflicting situations when it is confronted with its external neighbours (Ungureanu 2012, p.16).

This is the case of the EU's relations with the Former Soviet Republics. Basically it cannot have a coherent approach because of competing universalistic claims of the nation-state on one part and the supranational entity on the other part. These frictions determine not just a lack of coherence but also a clash of interests that sometimes they might be convergent and other times they might also be divergent. Therefore, as long as this conflicting dynamic will preserve, EU's approach towards the Former Soviet Republics will not reflect unity and coordination but rather cleavages. However it is important to note that in specific situations like the Russian aggression, the European states might overlook the cleavages between them and offer a unitary position. A common threat or possible threat is an ingredient for a more cohesive posture.

### 3. FUTURE DYNAMICS

Russia's annexation of Crimea is an unprecedented step in Russia's post-Soviet foreign policy. Until Crimea, Russia had never formally annexed a territory belonging to another sovereign country recognized at an international level. Thus, Moscow's willingness to violate international law in the face of clear warnings (Mankoff, 2014) is a sign of Russia's revisionism. This is why further discussions on the possible future dynamics concerning the fate of the EU Eastern neighborhood in the aftermath of the Vilnius Summit should start from the new paradigm in which Russia is seen as a challenger of the West.

Russia will continue to regard the post-Soviet neighbours as making up a Russian sphere of influence, where Moscow has what Russian Prime Minister Dmitry Medvedev, in 2008, termed 'privileged interests' (BBC, 2008). As the president of Russia, Vladimir Putin once said the demise of the Soviet Union is 'the greatest geopolitical catastrophe' of the 20th century (BBC, 2005). Therefore this sense of nostalgia offers a broader perspective on Putin's aims towards Russia's vicinity which consists in preserving a strong and undisturbed control on it. Moreover, his purpose offers a hierarchic image of the relations of Russia with its neighbours and the sovereignty of the last is rather a concept that has negotiated meaning, not a stable one. This special relationship between Russia and its neighbourhood impedes a firm approach of the EU towards the Former Soviet Republics.

Another possible change could reside in Germany's stance toward Russia. Moscow's recent actions in Ukraine, including the annexation of Crimea and the destabilization of eastern Ukraine, could cause rifts between Russia and Germany, despite continued economic and energy dependence. Anyway, the shift would not mean a complete reversal of Germany's co-operative approach (Meister, 2014, p. 8).

Regarding the perspectives of Ukraine and Republic of Moldova's situations, it can be said that the EU will have a straightforward position towards them. As it is underlined in the paragraphs above, a common perceived threat might enhance a coherent and unitary response of the EU towards its vicinity,

especially Ukraine and the Republic of Moldova. This trend can be easily seen in the steps made in the last few weeks by the EU. First, on 21<sup>st</sup> of March, the EU has signed the political provisions of an association agreement with Ukraine in Brussels (RFE/RL, 2014) and second, the citizens of the Republic of Moldova will be transferred to the list of third countries whose nationals are exempt from visa requirement (Eureporter, 2014). This process will also be facilitated by the two countries and not just by the political will of the EU. As long as Ukraine and Republic of Moldova will feel threatened by Russia they will be eager to make significant compromises to converge with the European values. Therefore this mutual empowering dynamics will just further close the gaps between the EU and Ukraine and Republic of Moldova bringing them closer to the initiation of the integration process.

Concerning Armenia, as long as its security is guaranteed by Russia, it will endeavor to become a member of the Russian-led Customs Union as soon as possible. Armenia announced that it would join the Russian-led Customs Union, invoking security reasons related to the Karabakh conflict and the Turkish-Armenian relations. The Armenian political elites assess the decision as being natural within the given geopolitical context and, at the same time, consider that an ‘and-and principle’ consisting of the compatibility between the Association Agreements and the Customs Union should apply in its case. Since its announcement, Armenia is expediting the country’s accession to the Russian-led Customs Union. According to Minister of Economy Vagram Avanesyan, Armenia wants to sign the treaty of accession to the Customs Union of Belarus, Kazakhstan and Russia by the end of April (panarmenian.net, 2014).

In contrast with Armenia, Georgia decided to initiate the Association Agreement with the EU, including the DCFTA. (Joint Declaration of the Eastern Partnership Summit, Vilnius, 2013) The Georgian officials perceive this moment as consolidating and making irreversible the European integration process. Having the experience of a war with Russia in 2008, followed by Moscow’s recognition of Georgia’s separatist regions Abkhazia and South Ossetia, the Georgian elites are totally committed to accept the EU’s integration initiative. For Georgia, the signing of Association Agreement and DCFTA consolidates the country’s ambition to join Europe, a direction underlined under the mandate of the former President Saakashvili and continued by the new leadership from Tbilisi. Just after the Vilnius Summit, the Georgian officials said that by initialing the Association Agreement ‘the European integration process became irreversible’ for Georgia (civil.ge, 2014). Georgia has taken concrete steps to facilitate European integration and NATO membership. The parliamentary and presidential elections were freely and fairly held, there was a peaceful transition of power, the peaceful cohabitation process created a precedent given the fact that Georgia has never experienced this before. Georgian society and political class are determined to continue the pro-Western course chose for their country, even if it disturbs Russia.

Azerbaijan will maintain its European option and will keep requiring an agreement for establishing a special strategic partnership with the EU, in which the special formula of its relations with the EU that of a principal supplier of energy,

will be quantified. At the Vilnius Summit, Azerbaijan signed a visa facilitation agreement, thus making easier and cheaper for Azerbaijani citizens to acquire short-stay visas, allowing them to travel freely to and throughout the EU (Council of the EU, 2013). Even if Azerbaijan didn't initiate an Association Agreement with the EU, the visa agreement is important too, being a step further in the development of EU-Azerbaijan relations.

In addition, the Ukrainian crisis might lift Azerbaijan's oil and gas profile. In the Azerbaijani press, analysts expressed the opinion that Azerbaijan would emerge as a winner in the Ukraine-Russia crisis. Being confronted with the risk of a possible Russian decision of cutting natural gas supplies to Europe or raising the prices, Azerbaijan's natural gas production might take in the future a new strategic meaning for Europe. (news.az, 2014) Moreover, the Trans-Caspian pipeline is a subject debated in the press. Analysts draw attention to the fact that the Russia-Ukraine crisis might create an opportunity for Azerbaijan and Turkmenistan to become export partners. Because Turkmen Foreign Minister Rashid Meredov paid an unexpected visit at the beginning of April to Baku, experts are of the opinion that Azerbaijan and Turkmenistan might come to an agreement over the creation of the Trans-Caspian pipeline. If so, Europe's energy export picture will look differently in the sense that Europe will reduce its dependency on Russia's gas (Abbasov, 2014).

## CONCLUSION

As can be seen in the paragraphs above, the EU's approach is not a coherent and uniform endeavor, but it is a process that has different dynamics and shapes influenced by a certain set of structural factors. In the first part, there were identified some major discrepancies between the EU's policy towards the Balkans and its Eastern neighbours. Moreover, in the second part, there were emphasized the major structural causes that stay at the basis of the flawed approach of the EU towards its Eastern neighbours. This paper demonstrated that the endogenous factors played a decisive role for the success or failure of the EU's behavior towards its vicinity. The last part was designed to offer some future perspectives on the Eastern neighbours based on the latest achievements and arguments discussed above.

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# EURASIAN CUSTOMS UNION – ANALYSES AND PERSPECTIVES

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**Abstract:** *In the era of Globalization the process of integration is speeded and taken to a different level. After the EU model, we are facing now with different entities trying to copy this model and adjusting it to their needs. Such a project is the Eurasian Customs Union, a project which has only recently come into being. The present paper will analyze the driven forces behind this and its capacity to fully function as a customs union before the year 2020- the time limit set by the Russian President Vladimir Putin.*

**Keywords:** customs union; integration process; international trade; free trade area; customs tariff

## INTRODUCTION

The Eurasian Customs Union formed by The Russian Federation, Belarus and Kazakhstan was established in 2010 and it is, from a territorial standpoint, the biggest in the world. This union is committed to abolish the non-tariff barriers among its members, thus establishing a common external tariff and a common customs code.

There are a few aspects that we need to take into account when we analyze about this project:

a) the Russian Federation decides the directions for the further developments  
b) The Eurasian Economic Commission, the only regulatory body of the customs union, has been declared the only representative body of the Member States when it comes to discussing aspects such as commercial policy at a regional and global level (This Commission is the single supranational institution of the Euroasian Customs Union).

c) In spite of other aspects, we still cannot talk about a true customs union. The Member States still use protectionist measures, as they do not trust the transfer of authority to Eurasian Customs Union and have still too many exceptions to the rules. Thus, Moscow will have to make serious efforts to build the trust amongst the Eurasian Union members.

d) The Members of the Eurasian Customs Union agreed to implement the commitments taken by Russia in front of the World Trade Organization (WTO) as Russia is member of the WTO starting from August 2012, but no one can

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guarantee the fact that Belarus and Kazakhstan will undertake the same commitments.

e) The Member States have agreed to align their standards to those of the European Union (EU) and also to international standards promoted by WTO, but above all, the local standards are prevailing.

Russia would like that Ukraine would become a future member of the Customs Union, but Kiev's leadership has yet to decide between this Euroasian Customs and the European

Given these issues, the EU must make an effort to face its fears and pre conceived ideas towards Russia and ex-soviet space. For some EU Member States, this Customs Union promoted by Moscow is just an attempt for Russia to re-build its empire, despite the fact that pro-Russian analysts emphasize and focus on the fact that Belarus and Kazakhstan had joined willingly and that the practical side of this project should be the highlighted (Dragneva, Wolczuk, 2013).

In order for the EU to refer clearly to this new Russian project, firstly it should treat Ukraine separately from its relationships with the states that are already members of the Customs Union and re-define its policies towards the ex-soviet space. The EU needs to further analyze the particularities and specifics of its Eastern Neighborhood and to be aware that its integration project does not always apply to the ex-soviet space (Schumlyo-Tapiola, 2012).

While the European Union remains a desired and attractive model, a gravity center for some of its neighbors (here we are referring mainly to the Central Asia states), for others Russia can be a better option. Russia has always emphasized the economic character of this customs union and in the spring of 2012 has invited the EU to formal recognize this new entity and to discuss with Eurasian Economic Commission the issues that regulate the trade relations between the EU and Russia.

Although Brussels encourages the economic integration projects, the EU as a whole is very cautious when these projects appear in its Eastern Neighbourhood, reason for which the debate upon Russia's project is barely at the beginning. Lately the EU has expressed its concern with regard to this Customs Union because, for Western Europe mainly, it is not clear which are the true intentions behind this project. Is it an integration project or is it just a pretext of Russia to control the territory of the former USSR? What impact may this project have on its region and on the EU?

To all of these questions the analysts that come from the ex-soviet state as follow: if the EU will let behind the historical and emotional past when they refer to the former USSR, it will manage a lot better the relation with this area and will not be so quick as to suspect Russia of any hidden interests (Vinukurov, Libman, 2012).

## 1. WHAT IS EURASIAN CUSTOMS UNION?

Even in the '90s, Russia has advocated for different integration projects, among which the best known is the Community of Independent States. This project is very flexible in terms of commitments on behalf of its members and the results

were vague. After two decades, the summits for the state heads are still on going. In reality, it is a rather irrelevant project, taking into consideration that the vast majority of the states opt out from this construction. There is no trust among the Member States as they have different economic, political and security priorities (Schumylo-Tapiola, 2012).

After a series of unsuccessful attempts for a wider integration, three members of the Independent States Community –Russia, Belarus and Kazakhstan– have reached an agreement which resulted in the creation of a customs union, launched in January 2010.

The aims of this union were ambitious because it proposed the establishment of non-tariff barriers among its members, a common external tariff and a common customs code. Also, another Agreement was signed aiming to create a Common Economic Space within the Euroasian Customs Union which offered the basis for a free trade regarding the services, labor force and capital movement, as well as for a coordination of monetary policies, customs, taxation and competitive common policies. In spite of all these agreements, it is not likely for these to be implemented in the nearest future.

### **1.1. The reasons for establishing a customs union**

For Western observers, this customs union is nothing but another purely political initiative, a further attempt of Russia to build its empire. A few hypothesis were advanced regarding this project. The majority of analysts consider that the project was created to postpone the negotiations between Russia and WTO, especially because Russia proposed a block enlargement, which meant that the whole customs union should negotiate as a block with the WTO, proposal that was rejected immediately.

Other voices affirm that Russia has initiated the customs union project because she wanted to counterbalance the Eastern Partnership launched by the EU in 2009 (Agbodejobi, 2012).

In reality, this project is far more complicated. Mainly this is the product of geopolitical and Russian leadership considerations that to a certain extension corresponds to those of the other two member states. We need to take into account the fact that geopolitical considerations range from personal ambitions of state leaders to practical and tactical matters.

### **1.2. Russia`s intentions and rationality**

When we take into consideration Russia`s intentions towards the customs union we refer in firstly to the aspect of regaining its control of the neighborhood (Van Vooren, 2012). It is obvious that this project of customs union revolves around Russia and that she tries to further consolidate its position in its neighborhood. From Moscow`s perspective, this aspect is just following a natural course of its external policy. We must not fall into the trap of Russian rhetorics without being aware that it is very difficult for all ex-soviet states to reunite under



the same umbrella, because each of them has its own agenda. Only three of them considered that their priorities are compatible and decided accordingly to establish the Eurasian Customs Union.

Another argument towards establishing the Eurasian Customs Union is the fact that Russia did not have any serious rival in the area controlled in the past by the USSR. Many political analysts argue that Russia does not have a mighty plan of reconstructing the soviet production lines. Moreover, Russia aims to create cohesion in its neighborhood, to extend her own terms and conditions and to gain access to its neighbors resources. In other words, this project would rather be a commodities exchange than an economic model (Schumylo-Tapiola, 2012). Practically, Russia seeks to limit the re-exporting of cheap goods from the EU to China through Belarus and Kazakhstan, thus controlling the exports of raw materials to the EU via Belarus.

Russia wants to be an equal partner on the international relations arena and that is why the customs union represents more than a battle for resources; it means having an impact upon the global position of Russia. To many of the Russian political elite, the Customs Union is a precondition to achieve this status. Russia has the misconceived idea that Brussels would support a customs union from Lisbon to Vladivostok. (Schumylo-Tapiola, 2012).

We must not forget that for the Russian Federation the Customs Union is another means to counterbalance a rapidly developing Asia. It is not a mystery that Russia does not feel comfortable with a powerful China that consolidates its position in Central Asia. The Customs Union is a means of protecting Russia from China, using a buffer zone formed by Kazakhstan, Kirgizstan, and Tajikistan, as potential members. Moscow is not convinced that Beijing seeks a pragmatic exploitation of natural resources from Central Asia with no interest in dominating the region and exploit its own economic model.

### **1.3. Considerations of Belarus and Kazakhstan**

Belarus has always had tight connections with Russia, as the first customs union between these two took place in 1996, and Kazakhstan has never hidden the fact that its interests towards achieving a Euroasian Customs Union are rather high. Both states are governed by the former socialist elite (Lukashenka is the president of Belarus for the last 10 years now, and Kazakhstan has the same president ever since its independence) which follows Moscow's model but without this being imposed. These two countries hope for an equality status within the Union, but they are obviously conscious of the fact that their decision was a political one. Russia promised them substantial gains as a result of the elimination of tariffs barriers and cheaper gas.

For Lukashenka the Customs Union is a means to insure the survival of its political regime. He needed financial support to restore the social contract with the population due to the situation created by the economic and financial crisis. Also, Russia's threat with establishing tariff barriers has been the decisive factor to join the Customs Union. (Tarr, 2012) Without financial support from the International

Monetary Fund (IMF) and the EU, Lukashenka was forced to accept the Customs Union proposed by Russia.

In the case of Kazakhstan the situation is much different. Nazarbaev isn't facing the same problems like Lukashenka. The natural resources of Kazakhstan keep the economy functioning even during the crisis, and its policies are supported by the people. For him, the decision to join the Customs Union was made only taking into consideration internal reputation and external prestige. Another reason was the need to counterbalance the power of China, which presence in Kazakhstan raised lately. Business men, together with country`s elite have expressed their worries towards this project, but Nazarbaev has justified his position using the following arguments:

- the possibility of a wider access to Russian market
- a better Russian investment flux
- consistent budget revenues
- better transit routes for Kazakhstan`s exports to the EU.

## 2. SUPRANATIONAL CHARACTER. THE EURASIAN ECONOMIC COMMISSION

Previous integration attempts of the ex-soviet space show that supranational institutions have existed only on paper, but in fact the decisions were taken by the member states. This is the case of the Independent States Community and Eurasian Economic Community (Schumylo-Tapiola, 2012).

In November 2011 within the Supreme Eurasian Economic Council, composed of chiefs of state of the three member states, a treaty was signed to create an institution to regulate the Customs Union and the Common Economic Space. That moment was the birth of Euroasian Economic Commission. This institution replaced the Advisory Commission of Customs Union and started to function in February 2012.

The Commission is responsible with the implementation of agreements within the Customs Union and of the common economic space, and with the evolution of these two projects. The functioning of these projects is governed by the functioning treaty and the Supreme Council. Its headquarters is located in Moscow, but there are pressures for its movement to Astana. The Commission consists of two bodies: the Commission`s Council (with 3 members, the Presidency belongs to Belarus) and Commission`s Board (with 9 members, its Presidency belonging to Russia).

The Eurasian Economic Commission is seen as a ministry of the Customs Union, and its decision must be taken independently of member states national interests. Its members (the staff and its bodies members) are hired by the Commission and should not be influenced by there founding states. (Vinokurov, 2012).

## 2.1. The legislative procedure within the Commission

The first stage is represented by the analysis of the legislative proposal by the Commission departments, after that it is submitted to member states commentaries. After its revision by the responsible departments, the proposal is sent to the Commission's board and to the Council. At the Council level the decisions are reached with through consensus, each country having just one vote. The third phase is highly important because the legislative proposals are approved by the Supreme Council. The fourth phase means implementing the decision. After its approval the proposal has a mandatory character to all member states.

## 2.2. Commission's Problems

First of all, when we talk about the Commission's lack of authority within the Customs Union, this question can be surpassed once this body will further grow and develop. The fact that the decision making process is guided by the three member states and not by the Commission as an independent body, it is yet again an issue that we need to address. This aspect could change if the political will for integration will prevail in front of national interests. (Mankoff, 2012)

Accepting Commission's authority by Russia is the vital point for the project of Customs Union to be successful towards the long desired integration and the Commission's staff must make further efforts to detach from the national interests of the represented states. If these differences will be addressed is highly possible for the Eurasian Customs Union to take shape and to receive recognition at least at a regional level (Darden, 2009).

By far, the most pressing problem of the Commission is represented by the fact that this institution does not have the recognition outside the Eurasian Customs Union. In order for the Commission to become an actor on the regional/global arena it is necessary for this Union to be recognized at least by the WTO, and this recognition will depend on Belarus and Kazakhstan joining. Both states have accepted to be guided by the WTO regulations when they signed the constitution act for establishing the Customs Union. That means that Russia's commitments to WTO and its regulations would become an integrative part of the legal framework of the Customs Union. In such a way the Commission will benefit from a sort of credibility on behalf of the EU, if it ensures the total implementation of WTO regulations within the Customs Union.

## 3. ECONOMIC AND COMMERCIAL INTEGRATION - A FEW ASPECTS

According to Western economists it is obvious that the Eurasian Customs Union cannot pretend that it has all attributes belonging to a construction of such type. We mustn't forget that important steps towards integration have been made, but the national interests and the economic protection mechanisms should prevail. Above all that the degree of integration is low due to the lack or incomplete standards convergence.

### 3.1. The commerce within the Customs Union

According to statistics the intra-union commerce has grown both in 2011 and in 2012. It is well-known that Russia owns the largest finance capital due to its energetic resources which represent 45% of the intra-union commerce. Belarus focuses its exports towards the Customs Union, while Russia and Kazakhstan continue to focus on three directions, more exactly: The Community of Independent States, European market and China's market.

The tariffs imposed within the Customs Union don't have a contractual character, which means that they aren't established by the WTO, thus being changed whenever the Member States desire. Moscow insisted that free intra-union trade to be made of goods produced by Member States, having suspicions that Belarus would resell goods that come from the EU (Intra-union commerce is not without suspicions especially regarding the Russia-Belarus relationship. These two states are involved into the so called "commercial wars" and Kazakhstan would have the same policy when it deals with goods coming from China.

Also in terms of intra-union commerce there is an open debate around limitations and boundaries for this process, and how these limits will be implemented while there are no boundaries among Union's members? We must bear in mind that Russia restricts Belarus's exports because of the Free Trade Area with the EU and because of low sanitary standards (these problems could disappear in 2017 once Belarus will eliminate the Free Commercial Area, in order to comply with the Common Economic Space, but the sanitary standards need to be homogenous for every state).

### 3.2. The common external tariff

Starting from 2010 there have been discussions regarding the establishment of a common external tariff, based mainly on Russia's external tariffs before its negotiations with WTO. This tariff would have a limited impact on Moscow and also on Minsk which harmonizes its tariffs with Russia. The most affected state by the external tariff is Kazakhstan because its tariff rates have doubled ever since it joined the Customs Union, and the tariff variation has grown substantially.

It should be mentioned that some tariffs are not harmonized-Russia and Belarus don't have exceptions, but Kazakhstan practices its own tariffs to many of the goods and applies a tax reduction for imported goods (OECD, 2013). Moreover, Customs Union members can grant exceptions by imposing import and export exemptions as long as the Eurasian Economic Commission and the other states give their approval.

Russia's accession to the WTO brings new changes in the common external tariff and it is not sure if Belarus and Kazakhstan will implement the commitments made by Russia with the WTO.

### 3.3. Customs Code

In 2010 the Customs code issue was raised. This code was adopted in 2010 but came into force in 2011. This code regulates the customs procedures together with the control and payment of goods that are sent outside the Customs Union.

An important aspect here is the residual income distribution issue, taking into consideration that the vast majority of it belongs to Russia, due to oil and petroleum products that came from Russia and have a special regime. Moreover, Belarus and Kazakhstan agreed that 100% from the residual earnings from the crude oil exports that comes from Russia, would be redirected to Russia.

### 3.4. Commercial facilities

When we talk about commercial facilities we refer mainly to borders and to the elimination of non-tariffs barriers. The borders are eliminated within the Customs Union, but this upgrade doesn't mean that the Russian project is free of difficulties. Belarus is accusing Russia of restoring its customs control zones; also Russia is accused because of its deficient border management that forces the other two states to open their borders. Likewise commercial operators in Belarus and Kazakhstan are complaining about the mistreatment applied to their goods by the Russian customs authorities.

The elimination of non-tariff barriers was firstly discussed in 2010 when the three member states agreed upon unifying their technical standards. Immediately afterwards the agreement was signed and then approved by the national Parliaments of the three member states. Once the new regulations will be implemented, the national ones will cease to function, but the implementation of new regulations is rather slow.

The technical standards that need to be harmonized are rather divergent, the main barrier being the fact that the decision making process is still dominated by those in force since the times of the USSR. To reach a consensus and a certain progress it is necessary to have a political engagement of Russia together with the employment of resources on behalf of the other member states.

### 3.5. Costs and benefits for the Customs Union members

When we talk about the cost-benefit analysis we need to bear in mind the fact that when the Union was created such an analysis wasn't operated. Taking into consideration Russia's position within the Customs Union we can note the following benefits: an increase in commercial fluxes, which will bring higher income to the budget, but it will offer also a higher degree of border control within the Union (Vinukurov, Libman, 2012). Russia hopes to increase its trade with Kazakhstan, a better access to market for its own producers, a decrease of business costs due to the cancellation of transaction costs, together with the earnings from infrastructure improvements. When dealing with earnings from infrastructure

improvement, we refer to the growth in state's connectivity, which will increase the transit speed on Russia's territory.

Belarus has several advantages from being a member of the Customs Union due to Russia's financial contributions, but the direct effect of this project is still uncertain. This state benefits from the external tariff, which is quite escalated, but it could obtain some benefits by protecting the manufactured goods with bigger import costs applied to Western countries. Also, Belarus hopes to gain from the customs rates belonging to the non-Community of Independent States (CIS) area, but also from its geostrategic position of transit country.

Kazakhstan's participation to the Customs Union does not seem to be a rational choice. This country enjoys a fairly good economic status, characterized by a relative liberalization, with a higher degree of foreign investments and oriented mainly towards CIS and non-CIS countries (OECD, 2013). Although the prices have lower sustainability because of the inflation, it is still possible to gain more access to Russia's market. Moreover, Belarus could convert its costs corresponding to its membership of the Customs Union and maximize the gains if the Member States will eliminate non-tariff barriers.

Russia expects also some negative consequences. Such consequences are related to residual income redistribution of Member States. Another challenge is represented by the re-exported goods from third countries through the territory of Belarus and Kazakhstan. Although public opinion is in favor of a reunified USSR, it is also worried about Moscow's granting subsidies to other members of the Union.

The costs for Belarus are connected especially to introducing new standards and their harmonization within the Customs Union. Belarus has benefit many years from Russia's crude oil, having a duty free regime, but it won't be able to capitalize that portion that goes to refinery for export, because she agreed to return all these earnings to Russia.

The image displayed by Kazakhstan as member of the Customs Union is an optimistic one, but this state has some costs of its own. Here, we are referring to its common external tariff, a chapter where Kazakhstan loses, because of the price increase of its exported products (Schumylo-Tapiola, 2012). This situation could change when Russia will fully join the WTO and will reduce its customs tariffs. Tariffs harmonization can be translated, like in the case of Belarus, into additional costs, time consumption and may result in postponement of its WTO accession.

#### 4. CUSTOMS UNION CHALLENGES

We mustn't ignore that the Eurasian Customs Union is at its beginning and obviously faces multiple challenges.

We refer mainly to the *economic disparities and the divergent purposes* of its members. This project suffers from its disproportionate size- for instance, Belarus is 40 times smaller than Russia, but also because of its internal divergent purposes - while Kazakhstan follows its modernization and liberalization, Russia

and Belarus are attached to their natural resources and state protectionism (Schumylo-Tapiola, 2012).

The mistrust and protectionism create a tense atmosphere within the Union, each state having its protectionist measures established, and there are even speculations that this Union develops through blackmail and manipulation.

The implementation of the existing engagement is one of its biggest challenges. Firstly, the most important priorities are the elimination of protectionist measures and the unification of technical standards. On the second place comes the implementation of regulations that allow freedom of movement for services and capital. It is still unclear if the three states would want to find a balance between national interests and those of the Customs Union, and to implement on a very short period of time what the EU has done in 50 years (Schumylo-Tapiola, 2012). It is still not certain if these countries would be able to unify their standards, and to accept the authority of the Eurasian Customs Union Commission.

Recognition by the Western countries is one of the thorniest issues of the Russian project. Its achievement is possible only by implementing all the arrangements, otherwise this Union won't be treated as a key regional and global player.

Russia's accession to the WTO is another challenge just because it is still hard to foresee the consequences upon Belarus and Kazakhstan, taking into consideration the fact that it is not certain whether these 2 countries will commit to Russia's agreements with the WTO.

The agreements signed by the member states involve a wider integration in just a few years. Western economists have drawn attention upon these aspects, suggesting that speeding up the integration process will result into way too much shock to the economies of the Member States. Belarus and Kazakhstan are opposing the accelerated integration suggested by Russia, arguing that they want their economies to first adapt to the changes that already have taken place. There have been discussions about creating a unique currency, but the three Member States aren't ready to take this step yet.

#### **4.1. Enlargement perspectives**

The enlargement of the Customs Union, clearly represents a challenge and we need to emphasize that this aspect was proposed only by Russia. Although the Customs Union enlargement is an independent decision taken by the candidate, each state is forced to adopt the legal framework of the Union before becoming a member. Despite the fact that the accession invitations have been launched to each member of the ISC, we cannot estimate a defined border for the Customs Union. In what follows, we are examining the situation for the states that were given the possibility of becoming part of this project.

Kirgizstan and Tajikistan aspire to the membership and according to a World Bank analysis the benefits will exceed the costs. Their accession is convenient for Russia because Kirgizstan would help diminishing the influx of Chinese goods (we are referring at the fact that Russia will be able to control much easily Kirgizstan's

borders), and Tajikistan can help building a sanitary cordon to stop drug traffic from Afghanistan to Russia.

Uzbekistan and Turkmenistan are not interested to join the Customs Union. Uzbekistan suspects that this Union will become a political one, and Turkmenistan has rich oil resources and from an economical perspective the Customs Union is unattractive.

Azerbaijan is a candidate desired by Russia, especially because it has energetic interest there, and with a wider control over Baku, Russia would strengthen its monopoly status on the energetic market. That is why there is a lot of pressure directed to this state. Azerbaijan has also started the discussions with the EU towards signing a new agreement, but this aspect does not concern Russia, while Baku won't embrace naturally the integration model proposed by the EU.

Armenia does not represent a priority when it comes to enlarging the Eurasian Customs Union. Because of her close connexion with Moscow, there is no real pressure for her to join Putin's project. But when Armenia expressed her desire to sing a Free Trade Area Agreement with the European Union, she felt the pressure from Russia. According to some local observers, Armenia continues its talks with the EU within the Eastern Partnership framework and for now the Russian threats are just dust in the wind.

Moldova is another state that does not find a place in the top-priority list of Russia. She does not have a lot of natural resources and most of its population already works in the Russian Federation. In terms of external policy Moldova has defined a clear orientation towards the EU and this is one of the main reasons for which Eurasian Customs Union is not a top priority for her (the Customs Union could be an option when the Communist Party will reach the power). Nevertheless, one must not ignore the fact that Moldova has a series of crucial issues in hot-areas such as Transnistria or the autonomous region of Gagauzia, issues that can be so easily speculated by Russia.

In the case of Ukraine, the things are slightly different from the other areas mentioned. A strong pressure is still applied for this country in order to become a full member of the Eurasian Customs Union. Russia has always invited Ukraine to become a full member of every customs union project that she initiated, but Ukraine always refused up to some point. Once Yanukovich became president, Kremlin's pressures became more intensified and strongly felt even by the population. Always having a pro-Russian orientation, Yanukovich provoked almost a rift between the two states when he agreed to start the Association Agreement and Association Agenda proceedings with the EU. At that point Russia tried bribing Ukraine with false promises like paying the fees to WTO and offering cheaper gas and several loans for re-bursting the economy. As the recent developments show, the shifting toward the EU was just a facade from the higher political establishment point of view and the observer status in the Eurasian Customs Union shows the fact that Ukraine will have no choice but to turn decisively towards Russia now that Crimea is a part of the Federation.



## CONCLUSIONS

This Customs Union project is very different from the others that came before it-it is not on the priorities list of the international system, has a vast bureaucracy and the 3 Member States leaders tend to overinfluence any decision-making process through sabotage and personal ambition, often forgetting the economic aspects. The Eurasian Customs Union is clearly dominated by Russia and it has little credibility because of its internal problems.

In order to deal with this new entity, the EU must learn to face its own fears and preconceptions when it comes to the ex-soviet space. The events that take place in this area are often treated with a huge emotional and historical charge, which will ultimately lead to EU trying to find strong evidence to confirm its fears. One of the causes of this aspect is the fact that there is too little literature from this space and the scientific works are not published in an international language. Another important root-cause is Russia's behaviour in the international arena and the weak response of the international community in terms of sanctions applied.

EU must be conscious that this Customs Union is not a state-like entity and therefore should learn to deal with it as a ever-moving and ever-evolving target. Now the EU cannot and will not recognize the Eurasian Customs Union and nor will the World Trade Organization.

Once this project was launched, the frictions between the EU-Russia relations were not slow to come to light. There were talks at some point of a re-negotiation of the Agreement between EU and Russia, but nothing could be reached in this aspect because Russia has delegated all its negotiating power to the Eurasian Economic Commission and wishes negotiations to include the other two members of the Customs Union.

In order to objectively assess the Customs Union, maybe EU should be able to separate the Ukrainian question from this project and re-asses its policy in the ex-soviet area. Bruxelles authorities must be conscious that this new economic model does not apply to the needs of the states in question.

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# EU-MOLDOVA TRADE RELATIONS: COMPETITIVE ADVANTAGES OF MOLDOVAN INDUSTRIES ON THE SINGLE MARKET

Ioana SANDU\*

**Abstract:** *Engaging on the long road of implementing the Deep and Comprehensive Free Trade Area with the EU in 2010, Moldova is now closer than ever to being included in the most privileged category of the Eastern neighbouring countries - those who have chosen to deepen the European economic integration. The Vilnius Summit in November 2013 has reinforced the 'more for more' principle for both Moldova and Georgia by emphasizing, at the same time, the role of reactive measures and financial aid in counterbalancing aggressive trade barriers from non-EU states. Not only has Moldova proved to efficiently capitalize the provisions of the ATP agreement since 2008, but it has also consequently received more support from the EU in boosting exports to the single market. The wine industry was the first to benefit from the free-trade regime, as for the EU decision of eliminating quotas from the beginning of 2014. Nonetheless, the progressive liberalisation of trade flows between Moldova and the EU would finally oppose two asymmetric partners. Consequently, Moldova is facing the challenge of asserting its value on the EU market, by yet not undermining the relevance of other important trading partners nearby.*

**Keywords:** asymmetric partners; cooperation; trade regime

## INTRODUCTION

Amongst the most obedient EU apprentices, Moldova has decided to follow the rigorous and long European way. Not only by getting closer to EU standards and policies, but also by implementing and continuously improving the economic and political frame of its partnership with the EU, the country is now part of the most ambitious and wise of the Eastern neighbours.

In the attempt of commercial matching and pursuing the 'more for more' principle, Moldova has started in 2010 negotiations for a Deep and Comprehensive Free Trade Area (DCFTA) with the EU. It is only by its merits that Moldova has been granted this opportunity and although included in the category of poor neighbours, Moldovans have proved their right to equal treatment through determination and hard work.

The balance, some say, is highly disproportioned. However, strong commitment and very good results of past collaboration (ATP agreements) encourage progress and steady growth. We are trying to show that even a small

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feeble state can balance the huge Single Market when competitiveness and liberalization of trade are the engines of specialization.

## **1. LESSONS OF THE ATP AGREEMENT – MOVING FORWARD TO THE DCFTA**

### **1.1. The frame of the ATP agreement between the EU and Moldova**

The ATP (Autonomous Trade Preferences) is a unilateral trade regime granted by the EU on a limited amount of time. As part of the Action Plan for Moldova agreed in 2005 and within the frame of the EU Council Regulation no. 55/2008 (effective starting the 31<sup>st</sup> of January 2008), the ATP agreement enforces the free access to the EU Single Market of all products originating in Moldova, except for certain agricultural products, with limited concessions:

- Exemption from customs duties within tariff quotas for: fresh, chilled, frozen or preserved meat (bovine, swine, sheep, goats, poultry), dairy products, birds' eggs, common wheat, barley, maize, white sugar, wine of fresh grapes;
- Tariff reductions (exemption of the ad valorem component of the import duty) for: tomatoes, garlic, cucumbers, courgettes, artichokes, grapes, apples, pears, apricots, cherries, peaches, plums, quinces.

This preferential trade regime has been into force until the 31st of December 2012, when the ATP have been renewed until the end of 2015, by also increasing the tariff quotas exemptions for wines of fresh grapes, common wheat and white sugar. These are the products for which Moldova has proved to capitalize the benefits of the ATP to the greatest extent.

### **1.2. DCFTA – the next step to complete liberalisation**

Based on the same free-trade principle between the EU and Moldova, generated through the ATP agreement in 2008, the implementation of the DCFTA covers not only the exemption from import customs duty, but also the removal of non-tariff trade barriers (Radeke, 2012), technical barriers against trade such as the sanitary and phytosanitary measures.

The comprehensive feature of this free-trade area is given by the inclusion of all trade divisions, notably on services, energy and the competition policy. Unlike the ATP agreement, the DCFTA is built on a mutual basis. Consequently, the liberalization is expected to take place both ways, unlimited in time.

For the proper implementation of the DCFTA, Moldova needs to better manage the harmonization of the sanitary, phytosanitary and food safety measures with the EU standards. At present, Moldova operates up to 75% with soviet standards, which makes export for some Moldovan products to EU impossible (Lupușor, 2013). Moreover, subsidies are always granted to the same restricted group of producers, efficiency criteria not being tested, therefore the need for a consistent and equitable support from the state (Chivrigă, 2013).

## 2. EASTERN PARTNERSHIP: BRIEF HISTORY AND RECENT CHANGES

### 2.1. Provisions of the Eastern Partnership since its creation

Set in 2009 within the frame of the European Neighbourhood Policy (ENP), a complementary of the EU enlargement Policy, the Eastern Partnership (EaP) was meant to ‘accelerate political association, as well as economic integration and approximation towards the EU’ (The Eastern Partnership portal, 2009) for the 6 Eastern neighbours: Armenia, Azerbaijan, Belarus, Georgia, Republic of Moldova and Ukraine.

The EaP stipulates a strong political commitment to the EU, by the perspective of signing an Association Agreement and the integration in the economy of the EU through free-trade agreements, but also by a progressive liberalization of the visa regime, the improvement of energetic security and an increase of financial assistance. The last criterion has also been proven by the allocation of 350 million euros (out of the 600 million euros EaP funds for 2010-2013) to the economic integration and convergence with EU policies.

Therefore, regarding trade and market access, the European Commission has identified for the first part of 2010 an ‘intensified evolution of trade relations with the member countries of the ENP, especially with Eastern partners’ (Communication from the Commission to the European Parliament and the Council, 207/2010, p. 6). EU exports to the ENP countries have increased by 63% between 2004 and 2008, whereas imports from the ENP countries have increased by 91%.

In order to support a deep economic integration, the EU has decided for Moldova to be granted the extension of the ATP regime until December 2015 and thus Moldova becomes the first country to benefit from this type of preferential trade regime with the EU.

### 2.2. Recent architecture of the EaP

Recent research regarding the reconfiguration of the EaP after the Vilnius Summit in November 2013 have provided a differentiated approach to the member states by dividing them into two categories:

- Moldova and Georgia – first circle – have chosen to deepen the economic integration towards the EU;
- Belarus, Azerbaijan and Armenia (from September 2013) – second circle – have not been interested in deepening the economic integration with the EU;
- Ukraine has until recently been positioned between the two circles, but political unrest for the past few months has oriented the country to the EU side, not yet consolidated given the continuous external tensions.

Anita Sobják, researcher of the Polish Institute of International Affairs, defines the priorities of each circle by stating that in the case of Moldova and Georgia, signing the Association Agreement and an efficient implementation of its provisions would only reinforce the ‘more for more’ principle. Moreover, additional financial and technical instruments, as well as ‘strategic patience’ (Sobják, 2013) are required for supporting the implementation of the DCFTA. Belarus, Azerbaijan and Armenia, as countries of the second circle, would benefit from stimulation of reforms from the EU, without a tendency of isolation in case of failure.

The Russian aggressive measures meant to counterbalance the EaP (such as improper pricing on the energy market or artificial trade barriers) have to be addressed by the EU in a quick-acting and efficient way – for instance by providing financial help for trade restrictions. This has happened for Moldova in December 2013 when the European Parliament has decided full liberalization of Moldovan wines of the Single Market as a response to the Russian embargo on wine imports since September 2013.

### **3. EU-MOLDOVA TRADE RELATIONS: AN UNBALANCED BALANCE**

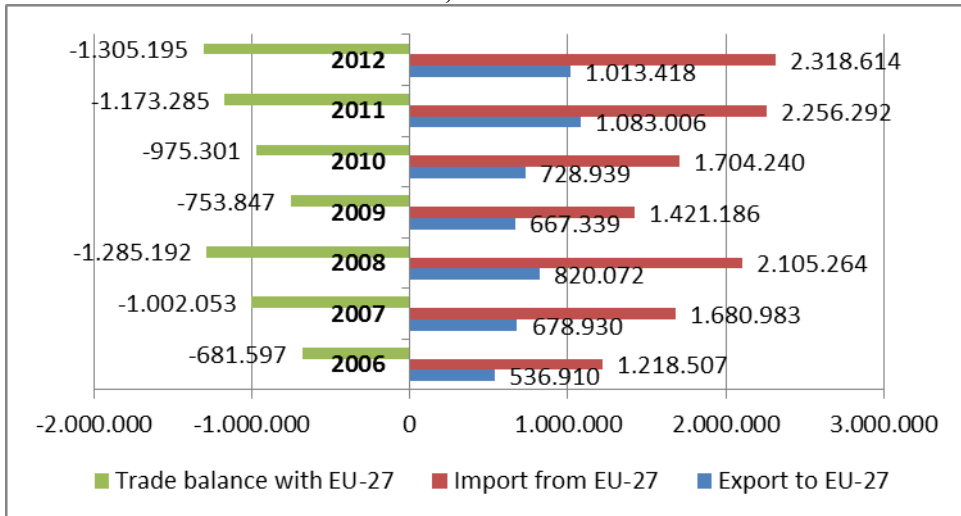
The general assumption is that, in handling relations with poor countries from its neighbourhood: Moldova, Armenia and Georgia – poorer than the poorest EU members – the EU might try to export the *acquis* which will result in an excessive focus on regulation and the assertion of very high adjustment costs against these partners. A softer approach is required: the EU has to support exporters on complying with the European standards, but also on developing sensitive areas such as the agricultural sector, parts of industry and low-skilled labour force.

Given the above, the present study aims to quantify the benefits Moldova can get from a free access to the Single Market, but also to identify improvements that can increase the competitiveness of Moldovan products on the EU market. Furthermore, the purpose of the following analysis is to determine to what extent the implementation of the DCFTA will reconfigure the trade relations between Moldova and the EU, given that the EU has constantly been the main trading partner of the Republic of Moldova.

#### **3.1. Imports and exports between Moldova and the EU. The evolution of the trade balance**

Trade flows between Moldova and the EU intensified considerably after 2000. Exports increased about 6 times, from 182.4 million dollars in 2001 to 1013 million dollars in 2012, whereas imports increased about 5 times, from 431,4 million dollars in 2001 to 2318.6 million dollars in 2012 (the evolution between 2006 and 2012 is represented in Figure 1 below).

**Figure 1 - Exports, imports and trade balance Moldova - EU27 between 2006 and 2011, million dollars**



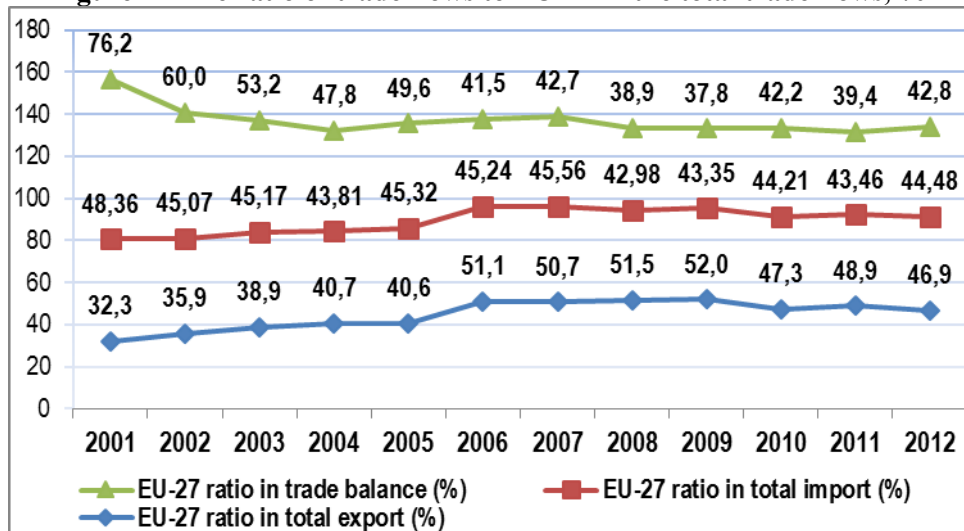
Source: Based on Ciucu, C., Chivriță, V., Toderiță, A., Tornea, I., *Consecințele unei Zone de Liber-Schimb Aprofundate și Cuprinzătoare asupra economiei Republicii Moldova (Consequences of a Deep and Comprehensive Free Trade Area on the Moldovan economy)*, European Institute of Romania, 2011, p. 34

Out of the 1596 million dollars increase in exports for the given period, 52% was represented by the growth of exports towards EU countries, while the increase of imports from the EU contributed by 44% to the total imports of Moldova (4320 million dollars). Trade flows with EU countries, as well as the total trade flows of Moldova have recorded high trade deficits between 2001 and 2012.

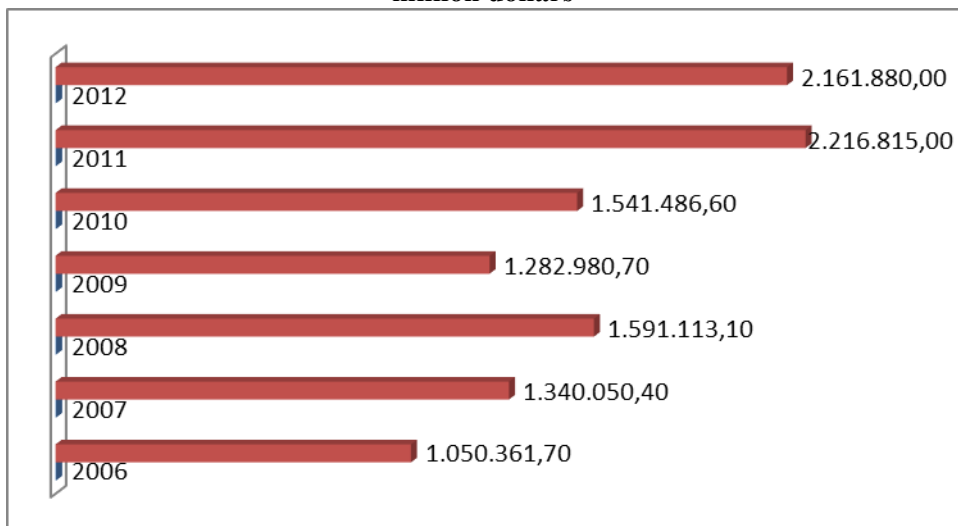
Given the more accelerated growth of the country's exports to EU, their ratio in total exportation flows from Moldova increased from 32% in 2001 to 47% in 2012, reaching a peak of 52% in 2008 and 2009 (see Figure 2 below).

The reduced ratio of EU in the total Moldovan exports after 2009 might be explained by the slower recovery of EU economies after the crisis, as compared to other trading partners, thus reflected in a lower increase of demand for Moldovan goods versus other source destinations. Imports, on the other hand, have lessened in ratio over the analyzed period, from 48% in 2001 to 44% in 2012.

Exports towards EU have inanced after the introduction of GSP+, in January 2006, by 94.3 million dollars against 2005, their ratio in total exports rising by 10.5 percentage points, from 40.6% to 51.1%. This situation could have been equally due to the Russian embargo (set in 2006 on Moldovan alcoholic beverages, animal and vegetable products) and to the fact that Romania became EU member in 2007. However, the next two years, exports to EU have increased by 140 million dollars, what can be only attributed to the GSP+ liberalisation.

**Figure 2 - The ratio of trade flows to EU-27 in the total trade flows, %**

Source: Based on Ciucu, C., Chivrigă, V., Toderiță, A., Tornea, I., *Ibidem*

**Figure 3 – Total exports from Moldova to EU27 between 2006 and 2012, million dollars**

Source: National Bureau of Statistics of the Republic of Moldova

In 2011 Moldova has registered the largest volume of exports for the analyzed period (see Figure 3 below): 2217 million dollars, representing an increase of 44% from the previous year. On a regional scale, this was reflected by an increase of exports to EU-27 countries from 47.3% of the total exports in 2010 to 48.96% of the total exports. As for exports to the Commonwealth of



Independent States (CIS) for the same period, the increase was lower, from 40.48% in 2010 to 41.38% in 2011 (Economic Monitor, 23/2012, p. 35).

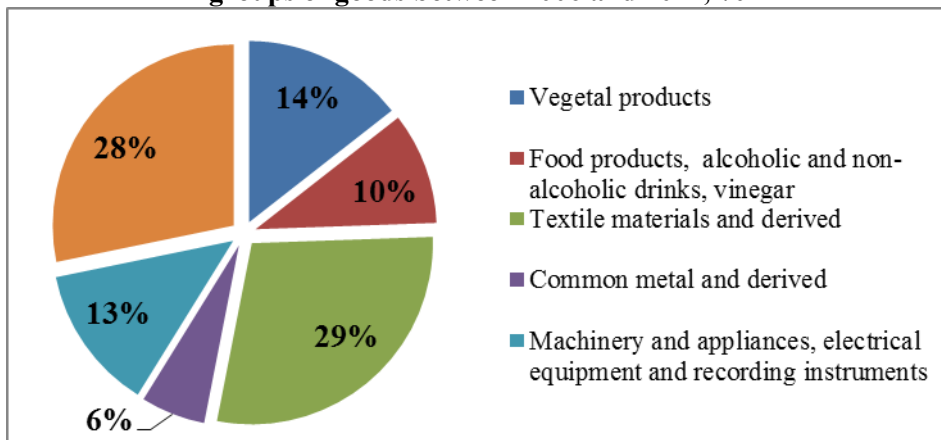
Nonetheless, the higher export volumes (exceeding 200 million dollars) were directed to Russia, Romania, Hungary, Italy, Germany, Turkey, China, Belarus and Poland. Export flows to the EU have increased substantially as a result of the growth rates in the asymmetric trade relations. Regarding trade with the CIS countries, in particular with Russia, the increase was due to the elimination of barriers to the export of food products, vegetables and alcoholic drinks.

### 3.2. Exports of the Republic of Moldova by groups of goods according to the Nomenclature of Goods (NG)

By analyzing exports of the Republic of Moldova to the EU between 2006 and 2012, we have identified, according to Nomenclature of Goods, the first five groups of the most exported Moldovan goods (Figure 4):

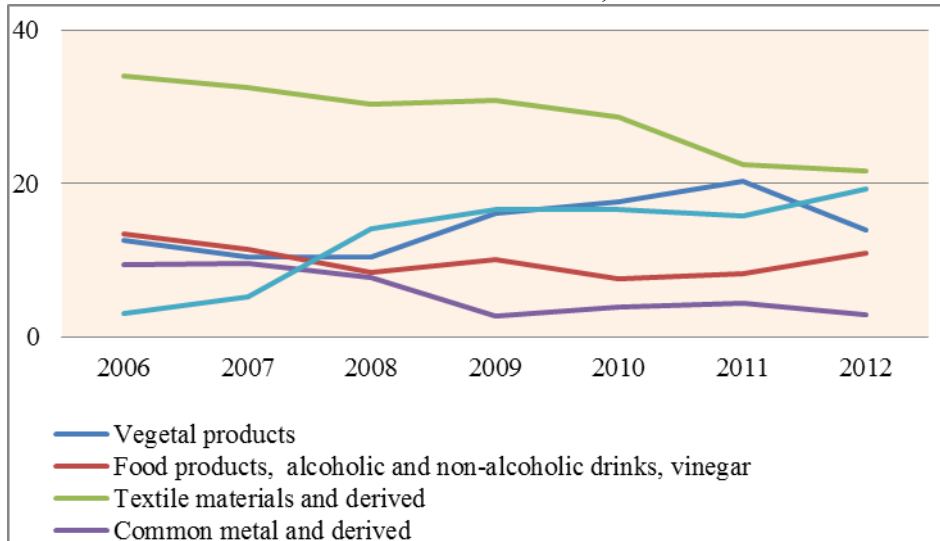
1. Textile materials and derived (29%)
2. Vegetal products (14%)
3. Machinery and appliances, electrical equipment and recording instruments (13%)
4. Food products, alcoholic and non-alcoholic drinks, vinegar (10%)
5. Common metal and derived (6%)

**Figure 4 – Exports structure to EU27 in the Republic of Moldova by the main groups of goods between 2006 and 2012, %**



Source: National Bureau of Statistics of the Republic of Moldova

**Figure 5 – Evolution of the Moldovan exports by the main groups of goods between 2006 and 2012, %**



Source: National Bureau of Statistics of the Republic of Moldova

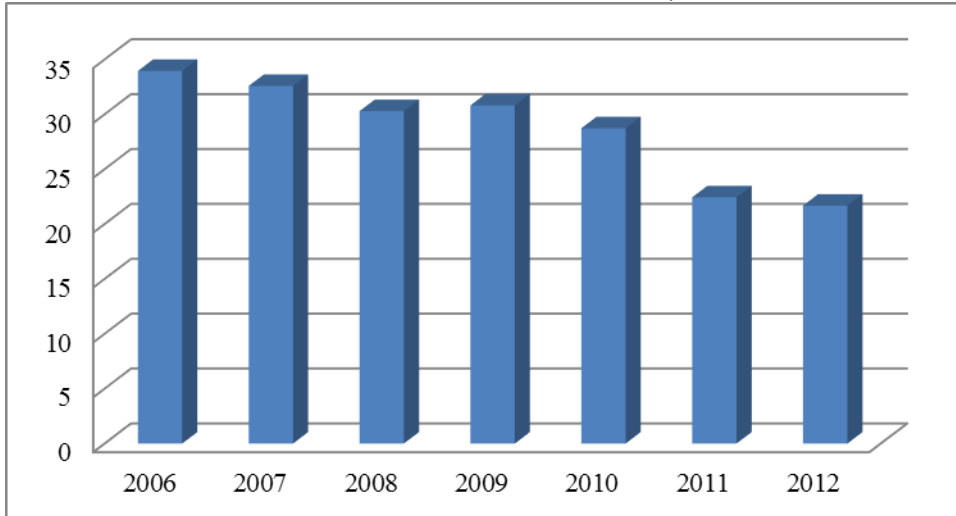
Figure 5 above depicts the evolution over time of the ratio that these products have had in the export flows of Moldova to the EU between 2006 and 2012. Machinery and appliances, electrical equipment and recording instruments have been more and more exported to the EU reaching a peak of almost 20% in 2012, almost equaling the exports of textiles in the EU for the same year.

The vegetal products registered a significant increase in exports to EU countries until 2011 from 10.35% in 2008 to its peak of 20.3%. This is mainly related to the same period of the first ATP regime 2008-2012. Common metal and derived have been less exported since 2008, while the focus is now more on the propensity to export food products and alcoholic drinks.

### 3.2.1. Exports of Moldovan textile materials and derived to the EU

Exports of textile materials and derived to EU countries recorded a slightly declining trend between 2006 and 2012 (see Figure 6 below). Nonetheless, we consider that the removal of tariff protection as well as of non-tariff barriers brought about by the implementation of the DCFTA with the EU will not significantly affect the industry. This is mainly due to the fact that textiles for domestic consumption are generally imported, whereas production intended exclusively for export purposes is carried out by foreign companies relocated in Moldova.

**Figure 6 – Evolution of the Moldovan exports of textile materials and derived to the EU between 2006 and 2012, %**



Source: National Bureau of Statistics of the Republic of Moldova

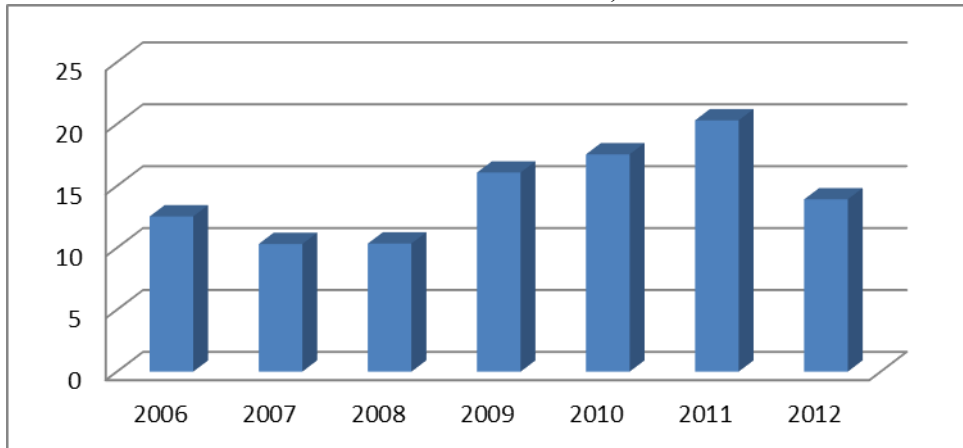
### 3.2.2. Exports of Moldovan vegetal products to the EU

Exports of vegetal products recorded an increase in the total exports of the Republic of Moldova to the EU, particularly between 2009 and 2011 (Figure 7), due to the extension of free trade facilities through the ATP agreement, entering into force on the 31<sup>st</sup> of January 2008. Thus, according to the ATP provisions, Moldova has benefited from the exemption of customs duties within the limit of tariff quotas to common wheat, barley and maize, as well as tariff reductions for: tomatoes, garlic, cucumbers, zucchini, artichokes, grapes, apples, pears, quinces, apricots, cherries, peaches and plums.

Notwithstanding, we should take into account that the sharp increase in exports of vegetal products to the EU until 2011 was largely influenced by the expansion of tillage grounds, as well as a modest yield growth for some cultures (Economic Monitor, 23/2012, p. 21).

On the other hand, for 2012 agricultural production decreased twice of the 2011 amount, especially in cereal crops. The production of wheat, for instance, was lower than the one of 2007. Moreover, the bulge in fuel prices and consequently, in prices of chemicals and fertilizers for agriculture, has led to the loss of competitiveness of Moldovan agricultural products.

**Figure 7 – Evolution of the Moldovan exports of vegetal products to the EU between 2006 and 2012, %**



Source: National Bureau of Statistics of the Republic of Moldova

The capitalization of tariff quotas when exporting cereals in the EU is reflected by comparing exported amounts (according to export licenses issued by the relevant authorities) to the ones included in the ATP regime (see Table 1 below).

**Table 1 – Tariff quotas for exports of cereals to the EU according to ATP 2008-2012 and ATP 2012-2015 (tons)**

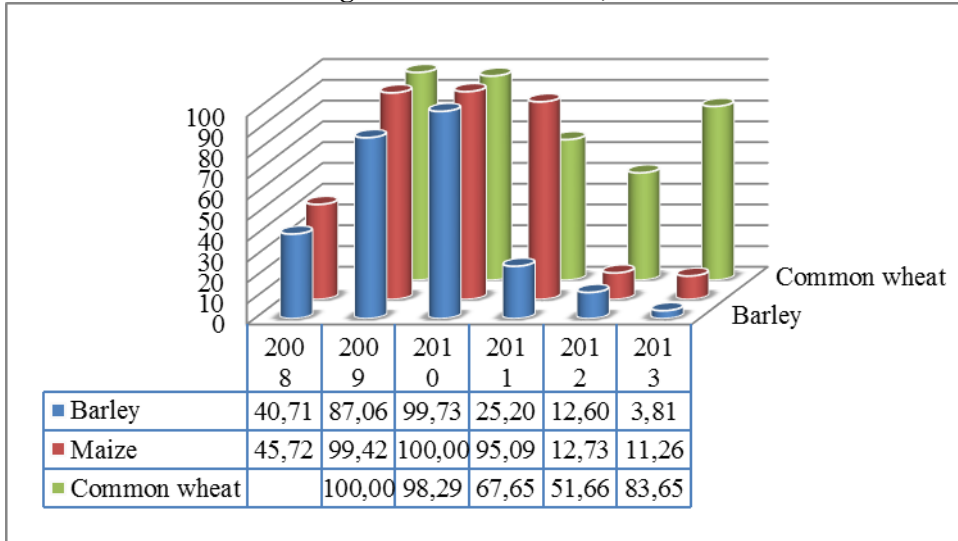
NG code	Description of goods	2008	2009	2010	2011	2012	2013	2014	2015
1001 90 91	Common wheat	25,000	30,000	35,000	40,000	50,000	55,000	60,000	65,000
1003 00 90	Barley	20,000	25,000	30,000	35,000	45,000	50,000	55,000	60,000
1005 90	Maize	15,000	20,000	25,000	30,000	40,000	45,000	50,000	55,000

Source: Chamber of Commerce Licensing of the Ministry of Economy - the Republic of Moldova: (<http://www.licentiere.gov.md/pageview.php?l=ro&idc=265&>)

Thus, for 2008 the Ministry of Economy and Commerce has issued export licenses for barley of 8,141 tons (as of July, 143 licenses), the 20,000 tons quota being used of only 40.71%. Similarly, for maize, the 15,000 tons quota was used of 45.72% (Figure 8). Common wheat could not be exported under preferential regime in 2008.

The poor performance of the cereal exports in 2008 was a result of profound drought in 2007 affecting the national food safety, so that exports were possible only starting September. The international financial and economic crisis has affected international relations of cereal traders. In addition, one should take into account that the introduction of the ATP for Moldova was achieved since March 2008, when the EU Council Regulation nr. 55/2008 of 21 January 2008 became effective.

**Figure 8 – Tariff quota yield evolution for cereals through the ATP agreements until 2013, %**



Source: Chamber of Commerce Licensing of the Ministry of Economy - the Republic of Moldova

In 2009 and 2010 tariff quotas have been used more than 80% for all three cereal products exported through the preferential regime: common wheat, maize and barley. However, although the quota for wheat in 2008 was 100% used (30,000 tons) according to data recorded by the EU authorities, the Government Assembly on the 14<sup>th</sup> of April 2009 proved that the Ministry of Economy was not legally entitled to issue such authorizations for this group of goods. Starting the 1<sup>st</sup> of November 2010, this function is transferred to the Chamber of Licensing of the Republic of Moldova.

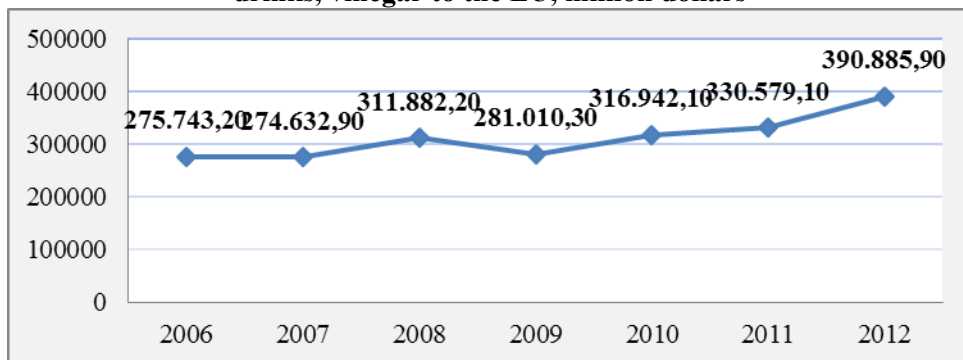
For 2011, the export quota for maize has been almost entirely used (95.09%), whereas for common wheat and barley, lower values have been recorded as compared to previous years, namely: 67.65% and 25.2% respectively. In 2012 were issued 4 export licenses for barley and maize, with similar use of tariff quotas i.e. around 13%. In both cases the export destination was Romania. Export quotas for wheat were distributed by 51.66% (28 licenses), the main destinations being the United Kingdom, Romania and Italy.

In 2013 the situation was similar to 2012, so that, although barley and maize registered low yields, common wheat quotas reached 83.65% of use.

### 3.2.2 Exports of Moldovan food products, alcoholic and non-alcoholic drinks, vinegar to the EU

Regarding this group of goods, significant changes have occurred, so that they reached 391 million dollars in 2012 as opposed to 276 million dollars in 2006, mainly due to the positive developments in the export of granulated sugar and wines.

**Figure 9 – Exports of Moldovan food products, alcoholic and non-alcoholic drinks, vinegar to the EU, million dollars**

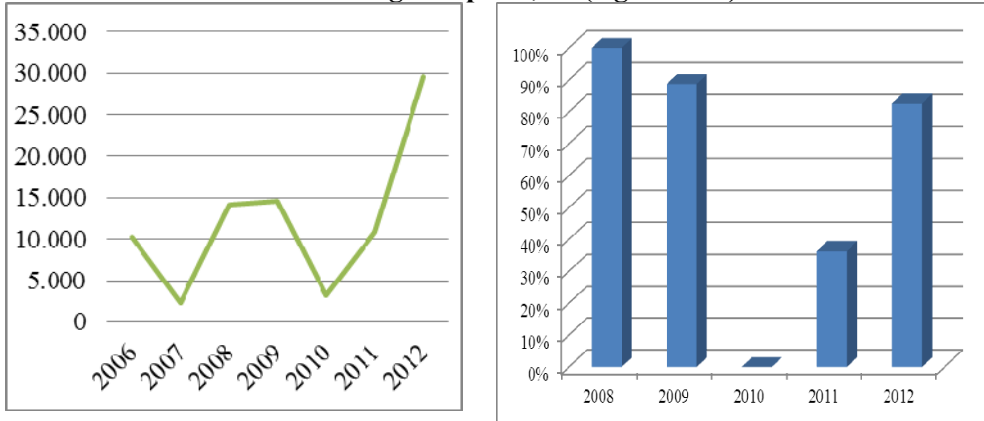


Source: National Bureau of Statistics of the Republic of Moldova

In 2009 the most exported goods to the EU market were the agri-foodstuff products: sugar, seeds and sunflower oil, wheat, alcoholic drinks, coconut, fruit juices and dried fruit (Perju, Chivrigă and Fală, 2010). For Moldova, increased exports of white sugar and sugar confectionery to the EU countries in 2008-2009 was directly related to the capitalization of tariff quotas granted by the EU of 100% and 88.77% respectively (Figure 10 below). Since the beginning of 2010 there were no more requests for export licenses in this group of goods, therefore it have not been registered any exports of sugar under preferential regime. This development was due to the scarcity of sugar in 2010, which led to the entire production being directed to cover demand on the domestic market.

For the first part of 2011, the export tariff quota has not been used, domestic demand being insured through imports from the EU. However, towards the end of the year, the export of white sugar has improved, so that domestic producers have exported 9,439 tons of white sugar, making use of 36.3% of the tariff quotas. In 2012, the Moldovan white sugar was exported mainly to Romania, Poland and Belgium, covering 82.58% of the EU set quota. In the next 3 years (2013-2015) provisioned quota remains the same, i.e. 34,000 tons.

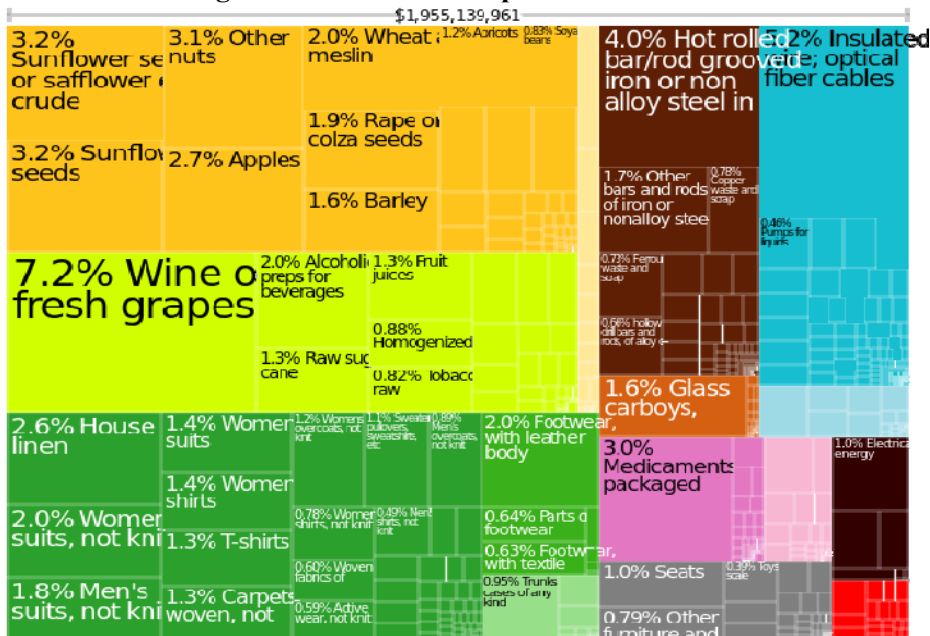
**Figure 10 – Exports of Moldovan white sugar and sugar confectionery to the EU, million dollars (left chart) and tariff quota yield evolution of white sugar exports, % (right chart)**



Source: National Bureau of Statistics of the Republic of Moldova

The analysis of Moldovan export structure in 2010 shows that in the first product to be exported was the wine of fresh grapes: 7.2% of total Moldovan exports (140 million dollars) - Figure 11 below.

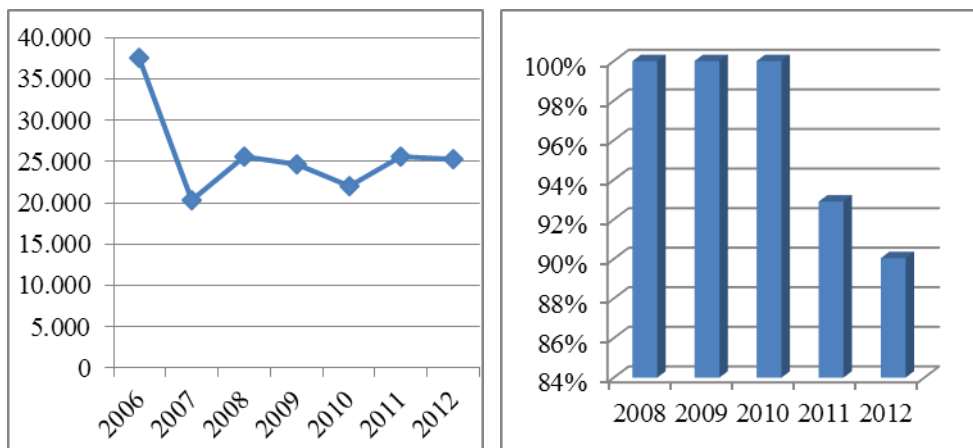
**Figure 11 – Moldovan export structure 2010**



Source: The Observatory of Economic Complexity: <http://atlas.media.mit.edu/>, according to the CAEN classification.

The main export destinations for Moldovan wines are Russia (34%), Belarus (25%) and Ukraine (11%). Romania, Poland and the Czech Republic register 9.8% of the Moldovan exports of wine. Even though Russia remains the classic market for Moldovan wines, EU facilities for the export of wine through the ATP agreements: 2008-2012 and 2012-2015 have been successfully used by the Republic of Moldova. This led directly to an increase in tariff quotas from 100,000 hectoliters initially to 150,000 hectoliters in 2011 and from 120,000 hectoliters initially to 180,000 hectoliters in 2012.

**Figure 12 – Exports of Moldovan alcoholic drinks, non-alcoholic drinks and vinegar to the EU, million dollars (left chart) and tariff quota yield evolution of exports of fresh grapes wine, % (right chart)**



Source: National Bureau of Statistics of the Republic of Moldova

For 2013-2015 proposed tariff quota amounted 240,000 hectoliters per year. Therefore, the extension of free trade facilities (removal of tariff quotas) on very important products of importance to Moldova's exports to the EU such as wines from fresh grapes will positively influence trade on medium and long term.

In September 2013, shortly after the public announcement of Moldova's intention of signing the association agreement with the European Union in Vilnius, the health service of the Russian Federation decided to ban imports of Moldovan wines, claiming irregularities of processing and storage of wine products.

As a result, tariff quotas for Moldovan wine exports to the EU have been removed starting the 1<sup>st</sup> of January 2014, by fully liberalizing the Single European Market to Moldovan wine production (Radiografia anului economic 2013 și așteptări pentru anul 2014, 2013, p. 6). This decision supports the Moldovan wine producers and helps them counteracting the effects of the Russian embargo. However, proper use of this opportunity will be possible only by extending the market share in EU countries where Moldova is already an exporter: Poland, the Czech Republic, Romania, the Baltics and launching wine products on other local



markets in Europe, where traditional producers such as France, Italy and Spain provide fierce competition.

## CONCLUSIONS

Although the trade balance between Moldova and the EU has registered negative values for 2001-2012, the EU ratio in total exports has increased especially after 2006, due not only due to the Russian embargo to alcoholic and agricultural products from Moldova, but also to the admission of Romania as EU member. The peak was reached in 2008-2009, when 52% of total Moldovan exports were heading towards the EU.

Tariff quotas introduced by the ATP agreements 2008-2012 and 2012-2015 have significantly improved exports to the EU countries for essential Moldovan goods, such as cereals (common wheat, barley and maize), alcoholic drinks (wines of fresh grapes), white sugar and sugar confectionery. The threshold being used each year in a more efficient way, the amount for the next year has often been increased.

The main groups of goods in Moldovan exports to the EU are textile materials, vegetal products, machinery and appliances, food products and alcoholic drinks, as well as common metal and derived. Whereas after the full implementation of the DCFTA no significant changes are expected to the textile industry, for cereals, alcoholic drinks and white sugar we assume that a complete liberalization will largely contribute to the country's exports.

Aggressive measures such as artificial trade barriers and embargo from the Russian market are to be addressed by the EU in an objective and practical way, by providing financial support to the affected neighbours and by enforcing new regulations towards trade liberalization.

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# SOLAR POWER PLANTS IN THE EU. AN ENVIRONMENTALLY-FRIENDLY ENGINE FOR THE EUROPEAN ECONOMIES

Mircea SAVEANU\*, Ion IGNAT\*\*

**Abstract:** *We establish that the European Union is facing severe ecological problems, by analysing the ecological footprint of selected member states. Many of these problems are related to carbon and carbon equivalent emissions, some of which are generated by fossil fuel power plants. It is then shown that the European Union has potential in the solar power renewable energy sector. Finally, we calculate roughly how much land would be necessary in order to replace fossil fuel power plants, as well as nuclear plants, which are largely seen as environmentally dangerous. It is concluded that developing this alternative energy sector would help improve the ecological sustainability of the Union, by diminishing a significant part of its carbon footprint.*

**Keywords:** Solar power; carbon footprint; fossil fuels; alternative energy; ecological sustainability; sustainable development

## INTRODUCTION

The European Union boasts some of the most performant economies in the world. Eight countries out of the first twenty (GDP/capita at purchasing power parity) are members of the EU (*cf.* CIA 2014). The same is true for the first twenty countries in the world, HDI wise (*cf.* UNDP 2013). One could, therefore, say that, at least in certain parts of the European Union, human welfare is at very high levels. While that may be true for the here and now, we might be entitled to ask what the costs were for achieving this status?

One of the main issues facing humankind in the XXI century is the sustainability of its natural environment. How well is the EU faring with regard to this objective? This paper seeks to analyse this part of the sustainability agenda of the Union, with a specific focus on the development of solar power potential, in order to lessen the carbon footprint of Europeans.

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## 1. ECOLOGICAL SUSTAINABILITY IN THE EU<sup>1</sup>

The easiest way to gauge the ecological sustainability of a country is by analysing its ecological footprint. This reflects the pressure exerted by nations on the regenerative capacity of the environment, and, to a larger extent, the biosphere.

**Table 1 – Ecological footprint data for 25 EU member states**

Country*	Ecological footprint of consumption	Biocapacity	Gross ecological footprint
Austria	5.3	3.31	-1.99
Belgium	8	1.34	-6.66
Bulgaria	4.07	2.13	-1.94
Croatia	3.75	2.5	-1.25
Czech Rep.	5.73	2.67	-3.06
Denmark	8.26	4.85	-3.41
Estonia	7.88	8.96	1.08
Finland	6.16	12.46	6.3
France	5.01	3	-2.01
Germany	5.08	1.92	-3.16
Greece	5.39	1.62	-3.77
Hungary	2.99	2.23	-0.76
Ireland	6.29	3.48	-2.81
Italy	4.99	1.14	-3.85
Latvia	5.64	7.07	1.43
Lithuania	4.67	4.36	-0.31
Netherlands	6.19	1.03	-5.16
Poland	4.35	2.09	-2.26
Portugal	4.47	1.25	-3.22
Romania	2.71	1.95	-0.76
Slovakia	4.06	2.68	-1.38
Slovenia	5.3	2.61	-2.69
Spain	5.42	1.61	-3.81
Sweden	5.88	9.75	3.87
United Kingdom	4.89	1.34	-3.55
EU aggregate	5.3	3.49	-1.81

\* Data unavailable for Cyprus, Luxembourg and Malta.

Source: GFN 2010 (data for 2007)

<sup>1</sup> Parts of the rationale put forward in this heading have been published in a previous article (*Implications of ecological footprint values for selected EU members* (2013), CES working papers, vol. 5, no. 4).

What we can infer from Table no. 1 is that 21 out of the 25 EU member states for which data was available are exerting more pressure on their environment than it can support. Only Estonia, Finland, Latvia and Sweden are existing within the carrying capacity of their natural environment. At an aggregate level, the European Union has overshoot the carrying capacity of its environment by more than 50%. This is a clear statement that the European Union is on an unsustainable path, with regards to its natural environment.

This situation is perpetuated because other countries in the world are in effect exporting their carrying capacity. Countries dealing in agricultural exports and those having dense vegetation, which contribute to the planetary bio-chemical cycles (like Argentina, with its lush Amazonian jungle), are two such examples of countries which are in effect crediting other states with the carrying capacity of their environment. Even given this situation, the world at a whole is still unsustainable, as William Rees calculated that humankind has overshoot the biocapacity of its environment by 30% (Rees 2010, p. 200).

Another thing to note about the numbers in the above table is that they reflect two situations: 1. humankind is using too many natural resources (putting a strain on the source side functions of the environment); 2. humankind is generating too much waste (putting a strain on the sink side functions of the environment). This means that, at least with regards to what the ecological footprint indicator measures, improving our mark on the environment would have to be a double undertaking: 1. use fewer natural resources 2. generate less waste. Both imply either a reduction in consumption or an increase in the efficiency of our consumption patterns; a third scenario combining both these effects is also possible.

One of the industry segments most reliant on natural resources, and therefore which contributes in an acute manner to the negative ecological footprint of the European Union is the energy sector. Regardless of what their fuel is, power plants require a high amount of natural resources and generally generate high amounts of waste (included in the term waste are both solids, like depleted uranium from nuclear fissile processes and gaseous CO<sub>2</sub> emissions, like those generated by conventional coal power plants). In this respect, one of the key industry sectors to act upon in order to mitigate our carbon footprint is the energy sector.

## 2. SOLAR POWER POTENTIAL IN THE EU

One of the emerging environmentally friendly energy technologies is the solar power plant (*e.g.* Swanson 2006, 2009). In line with other forms of renewable energy technologies, solar power plants promise both a more abundant input resource base and a lighter footprint on the environment. Their core unit is the photovoltaic cell, which needs sunlight in order to generate electricity, the efficiency of which is dictated by the materials used, the number of layers used, *etc.* As can be seen, the only natural resource input is sunlight, and this can roughly be computed, in order to ascertain the potential and feasibility of such a technology.

If we seek to analyse the European Union as a whole entity, one must sacrifice some of the precision of the model. With this in mind, we can compute a rough solar potential, although some areas might not conform to the calculations made herein. The starting point is the average solar irradiance received by the Earth, at ground level. This world-wide figure is roughly  $184 \text{ Wm}^{-2}$  (cf. Trenberth *et al.* 2009; world mean values closely resemble this figure:  $182 \pm 6 \text{ Wm}^{-2}$ , for 1981-1990, from Liepert 2002, p. 61-2;  $184.8 \text{ Wm}^{-2}$ , for the year 1985, from Stanhill and Cohen 2001, p. 263).

Given the fact that this figure is a world-wide scenario, which includes many tropical areas, we can assume a lower value for the European Union. Solar irradiance values for the EU range from under  $100 \text{ Wm}^{-2}$ , in the northern regions to as high  $180 \text{ Wm}^{-2}$  for areas close to the Mediterranean Sea. Therefore, an average yearly EU ground level solar irradiance value of around  $130 \text{ Wm}^{-2}$  would be close to reality (for measurements over a 30 year period in selected sites, see Ineichen (2011)).

For 2009, EU 27 generated 3,046 TWh (cf. EUROSTAT 2012). In Watts, this means an electricity generation of  $E_g = 3.4 \times 10^{11}$ . The power output of a photovoltaic module (be it solar panel or CPV) is given by the relation:

$$E_o = A \cdot \eta \cdot S_i,$$

where  $E_o$  is the electricity output,  $A$  is the area occupied by photovoltaic (PV) modules,  $\eta$  is the conversion efficiency and  $S_i$  is the solar irradiance at ground level.

Given the fact that we seek to replace nuclear energy and fossil fuel power plants,  $E_o$  is equal to  $83.11\% \cdot E_g$  (nuclear power has a 27.77% share in electricity generation and fossil fuels have a 55.34% share).  $S_i$  is set at an yearly average of  $130 \text{ Wm}^{-2}$ . This leaves the conversion factor  $\eta$ . This can vary depending the technology chosen, from as little as 5%, for organic PV modules to as much as 31% for concentrated photovoltaic technology (CPV) (cf. SunShot 2012, p. 83). CPV technology is used in solar farms, and is therefore a comercial undertaking, while common, household affordable PV modules normally have a  $\eta$  value of 16-18%.

This establishes the logical premise for 3 possible cases: one in which all electricity is generated via large scale CPV farms, one in which all electricity is generated via rooftop or small-scale installations and a third, where some electricity is generated by CPV farms and some by household small-scale PV installations. We deem this last case realistic and arbitrarily set a 70% to 30% ratio between large scale and small scale installations. This means that in order for solar plants to substitute nuclear and fossil fuel plants, the following conditions must be met:

$$0.7 \cdot 0.8311 \cdot 3.4 \cdot 10^{11} = A_1 \cdot 0.31 \cdot 130$$

$$0.3 \cdot 0.8311 \cdot 3.4 \cdot 10^{11} = A_2 \cdot 0.16 \cdot 130$$

where  $A_1$  is the area occupied by CPV modules, and  $A_2$  is the area occupied by small scale PV modules. Thus, we can define the total area to be taken up by PV modules, in order to substitute for nuclear and fossil fuel plants as:

$$A = A_1 + A_2 = \frac{0.7 \cdot 0.8311 \cdot 3.4 \cdot 10^{11}}{0.31 \cdot 130} + \frac{0.3 \cdot 0.8311 \cdot 3.4 \cdot 10^{11}}{0.16 \cdot 130}$$

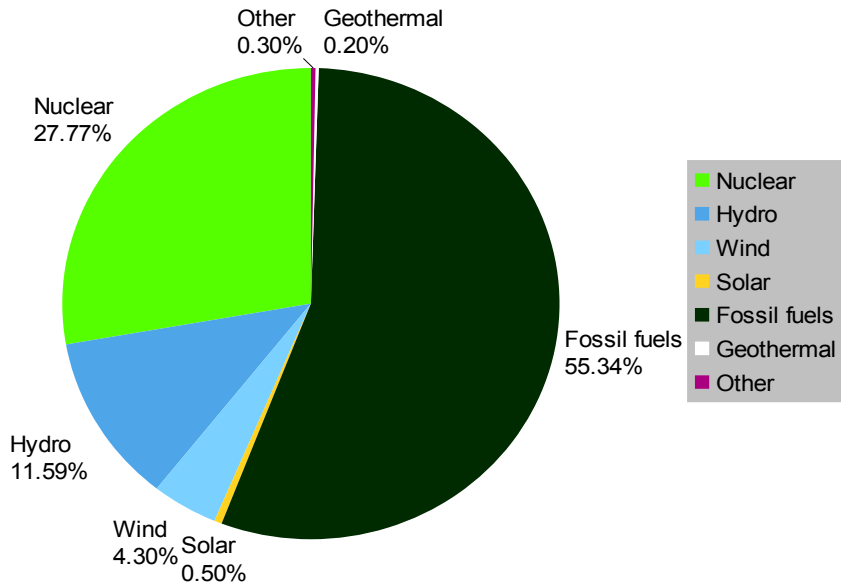
This yields a total area value of  $A=8.9 \cdot 10^9 \text{ m}^2$  or  $8.9 \cdot 10^3 \text{ km}^2$ . This means that in order to generate the same amount of electricity as done in 2009, for EU 27, via solar plants, an area roughly the size of the Island of Corsica would have to be fitted with PV modules.

The analysis conducted up to this point does not include a cost analysis; however grid parity for solar-generated electricity is quickly approaching (already some areas of the world, situated in highly favored geographical positions, have reached grid parity – *cf.* See Breyer *et al.* (2009) for a brief analysis on EU and USA; see Denholm *et al.* (2009) for an analysis on USA; see also Branker *et al.* (2011); this, however, might not be enough, as some authors have correctly pointed out – *cf.* Yang (2010)).

A second thing to note is that the solar irradiance figure has a natural fluctuation. Seasonally, the solar irradiance is greater in summer than in winter. Also, solar irradiance drops to almost 0 during the night. Southern states receive more solar irradiance than Northern ones, and deserts more than covered landscapes. More-so, cvasi-predictible cloud formations can severely impact on the yearly amount of solar irradiance that the ground level sees. But as a yearly average, the figure put forward is a close approximation to the real thing. Another thing to note is that solar panels generate direct current, and this has to be transformed to alternative current in order to be fed into the main power grid. Some studies place losses due to this process to as high as 23% (*cf.* Denholm *et al.* 2008, p. 3).

### 3. IMPROVING THE ECOLOGICAL SUSTAINABILITY OF THE UNION THROUGH SOLAR POWER

Capitalizing on the solar potential of the European Union can bring significant benefits for the European community, and to a larger extent, the global community. First, if developing the solar power industry sector is done with replacing old fossil fuel power stations, than this can lead to a significant reduction in the carbon footprint of the Union. Currently, the European Union is most dependent on fossil fuels (mostly coal and natural gas) for meeting its electricity demand.

**Figure 1 – Electricity production structure in EU-27, 2009**

Source: EUROSTAT (2012)

This means that, given an appropriate energy transmission infrastructure all around the European Union (*i.e.* a supergrid), fossil fuel power plants could be replaced by solar plants. More-so, given the fact that nuclear facilities are not deemed ecologically sustainable, 28% of electricity, generated via these methods, could also be transferred to solar panels. Making these replacements would have a double effect, with regards to ecological sustainability:

1. the carbon footprint of the EU would see a significant drop. The two top contributors to carbon equivalent gases output in the atmosphere are, at this moment, the transport sector and electricity sector. While manufacturing and installing the needed solar panels does indeed come with a carbon price, there are no additional carbon costs, as in those brought about by raw materials in conventional power plants.

2. decommissioning nuclear plants is on the agenda of some European countries, due to the potential dangers of a core meltdown and similar accidents. Germany, for example plans to phase out all nuclear power from its electricity generation by the year 2021. Although nuclear plants are technically safe and reasonably environmentally-safe, the dangers of accidents are forever present and the costs, due to such accidents, very high. *Ergo*, replacing nuclear plants with solar farms could eliminate this potential threat.

The effect on the carbon footprint of the EU can be further analysed. For EU-15 2011, the public electricity and heat production sector has generated



$PEHP_{EU15CF} = 861.521 \text{ Gg}^2 \text{ CO}_2$  equivalent (own calculations based on  $\sum 1A1a$  rows in table 1.9 of EC (2013a, p. 73)). The carbon footprint of the EU28 (latest data for 2011) can be deduced from published reports. Since EC (2013b) aggregates: 1. *public electricity and heat production* with 2. *petroleum refining* and 3. *manufacture of solid fuels and other energy industries*, in computing a EU-28 2011 carbon footprint value, there is a significant overlap between the value desired (public electricity and heat production) and other values quantified by the report authors (petroleum refining and manufacture of solid fuels and other energy industries). More so, the last report aggregates these 3 industry sectors, but differentiates between  $\text{CO}_2$ ,  $\text{CH}_4$  and  $\text{N}_2\text{O}$ . In other words, there is an aggregation and overlap issue, given by the 3 industry sectors and a differentiation problem, since EC (2013a) gives results in  $\text{CO}_2$  equivalent units, and EC (2013b) gives results differentiated in 3 different gas units.

Therefore, in order to compute a *grosso modo* figure for the public electricity and heat production sector of the EU-28, for the year 2011, one must first normalize the values in the two reports. This is done by resolving the differentiation problem with this equation:

$$PEHPPRM_{EU15CF} = \text{CO}_2 + \text{CH}_4 \cdot \alpha + \text{N}_2\text{O} \cdot \beta,$$

where  $PEHPPRM_{EU15CF}$  is the carbon footprint of EU-15 public electricity and heat production, petroleum refining and manufacture of solid fuels and other energy industries sector, for the year 2011,  $\text{CO}_2$  are the carbon emissions resulting from these activities,  $\text{CH}_4$  are the methane emissions,  $\alpha$  is the methane to carbon dioxide conversion factor,  $\text{N}_2\text{O}$  are the nitrous oxide emissions and  $\beta$  is the nitrous oxide to carbon dioxide conversion factor. Using the greenhouse gas equivalences calculator provided by U.S. Environmental Protection Agency (USEPA 2014), this yields a value of  $PEHPPRM_{EU15CF}$  of 1,041,372.95 Gg  $\text{CO}_2$  equivalent (values for  $\text{CO}_2$ ,  $\text{CH}_4$  and  $\text{N}_2\text{O}$  from EC (2013b, pp. 79-81)).

Next, we can calculate the ratio of public electricity and heating to the aggregate 3 industry sectors indicator put forward by EC (2013b). This ratio  $PEHP_{EU15CF}/PEHPPRM_{EU15CF}$  is equal to  $861,521/1,041,372.95$  and yields a value of roughly 83%. This means that for 2011, EU-15, the ratio of public electricity and heating carbon footprint to public electricity and heating, petroleum refining and manufacture of solid fuels and other energy industries is roughly 83%. Based on this figure, we can make a hazardous, but necessary equivalence of 83% as the ratio between the same variables, but for the whole Union (EU-28). This is necessary in order to compute a rough, but likely EU-28 2011 carbon footprint from public electricity and heating. With this caveat in mind, the final figure is  $0.83 \cdot PEHPPRM_{EU28CF}$ , where the last term is equal to 1,412,587.39 (computed using  $\sum$  EU-28 rows and columns 2011 from tables 14-16 *cf.* EC (2013b, pp. 79-81); conversions made using USEPA (2014)). This means that for 2011, EU-28, the amount of  $\text{CO}_2$  equivalent gases generated by the public electricity and heat production industry sector was on the order of 1,412,587.39 Gg.

<sup>2</sup> Gigagrams ( $10^9$  g).

It would be a difficult undertaking to determine exactly how much of this value is generated by fossil fuel and nuclear power plants. Out of these two, the carbon footprint of nuclear plants is negligible, in comparison to fossil fuel power plants (see Table no. 2). Even out of the total figure, it is highly likely that fossil fuel power plants make up for at least 80% of the carbon footprint. This is because hydro, nuclear and wind power have very low carbon footprints. Geothermal power is also negligible, with regards to carbon equivalent emissions. Solar power has a somewhat distinct carbon footprint, but, as figure 1 shows, solar power is not well represented in the current electricity generation processes of EU-28. An educated guess would be made even harder by the fact that, even though fossil fuel power plants have the greatest carbon footprint, this varies if we distinguish between coal-based, oil-based and natural gas-based plants. More so, some plants have implemented carbon capture and storage technology, further reducing their carbon footprint. Given these obstacles, we could none-the-less place the carbon footprint contribution of fossil fuel plants in EU-28 to somewhere in between 80% and 90% of the computed value. In order to further substantiate our claim, we direct the reader to table 2.

The previous table is significant in showing that fossil fuel, and in particular coal power plants have a very high carbon footprint, when compared to all other technologies. This means that for 1 kWh<sub>el</sub> generated from coal, on average 9 kWh<sub>el</sub> can be generated from photovoltaic modules, with the same carbon footprint. Other technologies would be even more carbon-friendly (like wind and hydro), however their resource base is highly specific. Solar power on the other hand is, more or less, ubiquitous although even in such cases some areas show more potential than others. Nuclear power, although benefiting from almost 50% of the carbon footprint of photovoltaic modules can raise severe ecological problems, in case of accidents.

**Table 2 - Carbon footprints of major fuels**

<b>Electricity technology</b>	<b>g CO<sub>2</sub>-e/kWh<sub>el</sub></b>
Nuclear	62.5
Coal	993
Natural gas	664
Wind turbines	21
Photovoltaics	106
Hydro	15

Source: Adapted from Lenzen (2008, p. 8). Some of the values have been aggregated into average values

Also, one last thing should be noted: photovoltaic modules are a somewhat novel technology, and significant increases both in conversion efficiency and in input materials are expected (*e.g.* Curtright *et al.* 2008). And, since the bulk of the carbon footprint of solar panels is generated in the production process, once silicon is replaced as a main constituent, a significant decrease in CO<sub>2</sub> equivalent emissions is expected.

Another shortcoming of our carbon footprint analysis is the fact that our data refers to public electricity and heat generation. Given the fact that we have not analysed solar thermal power, this naturally inflates the emissions from electrical power plants with those from heating plants. This shortcoming can be mitigated by including thermal solar power into the analysis. This remains, however, an undertaking for future research. Given all these assertions, it is entirely conceivable that replacing fossil fuel power plants and nuclear plants with solar plants, as given by the ratios 70/30, will yield a significant decrease in the carbon footprint of the European Union. Since, however, our CO<sub>2</sub> equivalent emissions are inflated with emissions from heat generation, determining an exact value for the mitigation caused by developing solar farms would be a risk-ridden undertaking.

These things said we must not overstate the role and benefits of solar power. Developing solar farms takes up land, approximations of which we have provided in the previous heading. This means that more natural land will be converted to built-up land, leading to an increased ecological footprint. Therefore, although lowered carbon emissions will clearly reduce the ecological footprint, raising the built-up surfaces of land will act as a counterbalance. Given the fact that solar farms are site-specific projects, it is entirely possible that areas rich in biomass might have to be cleared, in order to optimise the output of such projects.

## CONCLUSIONS

Following the statements made in this paper, the conclusion is that lessening the carbon footprint of the European Union can be done by replacing fossil fuel power plants with solar farms. In order to achieve this, and to replace nuclear plants, which are also considered ecologically unsustainable, a surface area roughly the size of the Island of Corsica (or  $8.9 \cdot 10^3 \text{ km}^2$ , to be exact) would have to be fitted with solar panels and concentrated photovoltaic parks (the ratio we chose was 70% of energy output generated by concentrated large scale photovoltaics and 30% by small scale solar panels). Union wide, for the year 2011, power plants (regardless of the fuel used) were responsible for an estimated 1,412,587.39 Gg of CO<sub>2</sub> equivalent emissions; a significant part of this value can be eliminated by replacing fossil fuel power plants with solar farms, as the carbon footprint of solar power technology is markedly lower than that of conventional fossil fuel ones.

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# THE EASTERN PARTNERSHIP AS PART OF THE EU FOREIGN POLICY: A REVIEW OF THEORETICAL APPROACHES

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**Abstract:** *The Eastern Partnership (2009) as a component part of the European Neighbourhood Policy is a tool that aims at the economic integration and political cooperation of the countries that are included in this project by signing association and free trade agreements with the European Union (EU). The recent events in Ukraine have revealed the possibility of these countries to become EU member states depending on the progress made, which is confirmed by many European experts. However, there are big differences among the Eastern Partnership countries on their way to EU integration on the background of the strong pressure from Russia, aimed to suppress any pro-European manifestations of such countries. Despite the sharpening of geopolitical challenges, the EU continues to use the traditional ways of enlargement and deepening of cooperation processes with the Eastern Neighbourhood. This paper aims at reviewing the theoretical approaches through which the EU, as a normative power, exerts major influence on the Eastern Partnership (EaP) countries by extending the neofunctional practices, intergovernmental cooperation and the constructivist model. However, in view of reaching the soft power objectives, we aim at transforming and strengthening the EU positions in the context of amplified economic and political-ideological problems at regional level.*

**Keywords:** Eastern Partnership; Eastern Neighbourhood Policy; integration theories; normative power

## INTRODUCTION

The progress made on the European integration path after the collapse of the bipolar world has asserted the EU as a world economic power that amplified after its successive enlargement to the East. The geopolitical stakes materialized at the turning of millennia required the EU to establish more clearly its objectives in the ex-Soviet countries that would exclude the perspective of these countries to be included in the enlargement process but at the same time would avoid a possible security vacuum at its eastern borders. The Wider Europe concept of 2002 was complemented with the European Commission initiative, called the European Neighbourhood Policy (ENP), which was resumed to formulating for the neighbourhood countries “all the advantages” enjoyed by the member states, excluding the advantage of participating in decision making.

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Being a tool used by EU to act in the name of the “force for good”, the ENP offered to some Eastern European countries, such as Armenia, Azerbaijan, Georgia, Republic of Moldova, and Ukraine the possibility to join the European economic space and, at the same time, to become more democratized, thus forming an EU friendly sphere of influence. With the ending of the 2004 and 2007 enlargement waves, the ENP results were rather modest due to the lack of the perspective of the countries from the Eastern proximity to join the EU but also due to the specific political regimes that promoted an ambivalent foreign policy, oscillating between the East (Russia) and the West (EU, NATO), aggravated by the lack of transparency in decision-making in carrying out the reforms embedded in the Action Plans. In 2009, as an ascending power, the EU tried to extend its influence on the East-European states through the EaP – a new attempt to breathe new life into the ENP, aligned to the realities of a geopolitical fight in the ex-Soviet space, accentuated after the Russian-Georgian armed conflict of 2008. The privileged status given to the EaP countries reflects the EU tendency of playing a primary role in Eastern Europe, in the absence of a clear political and institutional profile of the countries belonging to Europe. The relative failure of the EU around the Vilnius Summit (November 2013), mainly caused by the pressure exerted by Russia on the EaP countries, culminated with the refusal of certain countries, such as Armenia and Ukraine, to sign/initial the Association Agreements (AA), unlike the consistent governments of Georgia and the Republic of Moldova. These dramatic events bring a question mark over the efficiency of the EU foreign policy in relation to its Eastern Neighbourhood, thus requiring a review of the theoretical concepts in the context of the EU-EaP cooperation in a region threatened by an eventual Cold War for re-dividing the spheres of influence in Eastern Europe.

## **1. THE EU WAY OF TACKLING THE EASTERN NEIGHBOURHOOD – THEORETICAL PUZZLES**

### **1.1. The Neofunctionalism Versus The Intergovernmental Approaches**

The European experiment, seen as a unique phenomenon in the history of humanity by the theoreticians of neofunctionalism, derived from the federalist approach, continued the same practices of enlargement and deepening of the regional integration processes, agreed upon in the 1950s by the countries-founders of the European Communities. The Eastern Neighbourhood thus represents a “circle of friend countries” that follow the logic of shifting the loyalties to a new center whose institutions take over the jurisdictions of the nation-states through the spillover effect that incrementally passes over from one area of cooperation to another. Thus, the EU enlargement to the east in 2004 and 2007 that imposed strengthening the sectorial integration and advancement of the Common Foreign and Security Policy (CFSP), including through the ENP, involves integrating nearly in full the neighbourhood countries, except for the institutional area. The argument that the EU has shaped the ENP on the enlargement process (Kelley,

2006, p. 30) is confirmed by the official documents issued by the European Commission.

After the signing of the Association and Free Trade Agreements between the EU and the partner states, advanced on the European integration path, in the ENP, due to the spillover effect, the sector activities will be more interdependent, thus strengthening the EU governing system. A contradictory moment, in the terms of the classical neofunctionalism terms of E. Haas and L. Lindberg, consists in the fact that the ENP implies an integration of the East-European states in the economic area, with the transmission of sovereignty to the supranational institutions but without the partner states participating directly through their representatives in the supranational bodies.

From another perspective, the ENP is one of the concentric circles around the gravitational center represented by the EU (Moga and Pascariu, 2013, p.154) whose countries implement only a part of the EU's *acquis* depending on the wishes of the political elites or of their absorption capacity. The events around the Vilnius Summit convinced us that the successes of the EaP countries, depending on their approach to the EU, are similar to the 'two-speed' EaP European integration process. Thus, significant pro-European aspirations and approximation to the EU standards and norms have been displayed by the group of countries made up of Georgia, the Republic of Moldova and Ukraine, while the second group, comprising Armenia, Azerbaijan and Belarus, has not shown a clear favoring of their integration in the EU.

The neofunctionalism can explain the process and dynamics of the EU integration of the neighbourhood countries, less the result of the integration because the integration process is led by the political elites and by the leaders of various interest groups. It is the EaP country leaders who, being systematically involved in the political integration processes, can eventually develop European preferences and loyalties much faster than the population that may be reluctant to an excessive approximation with the EU due to the damage on the national economies that remain uncompetitive even after the period of accommodation to the European standards as well as to the illegal or less popular activities carried out by the national elites and promoted or hidden behind pro-Europeans slogans.

In the past decades there has been a tendency to reanimate neo-functionalism as a theoretical approach with *new institutionalism*, including in the foreign policy area. Thus, Michael E. Smith thinks the foreign policy has turned into a relatively weak intergovernmental forum under the inspiration of instrumental rationality in a political system increasingly institutionalized, governed by social rationality (Smith M., 2004, p.103), discouraging the unilateralism of external actions of big member states. The new institutionalism proves the assumption that the European institutions influence the behavior of the elites and of political culture both in the member states and in the EaP countries.

The intergovernmentalism represents a very vast spectrum of theoretical approaches that oscillate around the central idea of the primary role of state-nation. In regard to the promotion of CFSP to the Eastern Neighbourhood, the intergovernmentalists tend to explain that it is rather an intergovernmental

cooperation and will remain within the same limits if the partner countries do not turn from the object to the subject of this common foreign policy of the EU.

The crisis in which the EU is involved and the recent pressures of Russia against the EaP countries, reminds us of the need to come back to neorealist contributions. According to this logic, with the disappearance of the bipolar world as a result of the breakup of the USSR and of its spheres of influence, the security motives that deepen European cooperation and represent an anomaly for the neorealist approach should have disappeared (Collard-Wexler, 2006, p.402).

Even if the intergovernmentalists think that the state-nations are not overlooked due to European integration, nonetheless, it was necessary to revise the views of the structural realism that presented the European integration process as one apparently impossible due to the tendencies of the states-nations to have more power and security (Mearsheimer, 2006). Hence, the EaP countries in certain areas are interested in transmitting their sovereign rights and in making them common with the other EU member states.

In the neorealist perspective, the ENP initially designed as a policy at the community level has been directly influenced by the interests and actions of the EU member states (Mocanu, 2013, p.39) that obviously are divided into two groups for supporting the eastern or southern dimensions of the ENP.

The supporters of the liberal intergovernmentalism argue that the *bargaining power* of the national and sub-national actors has a conclusive importance in the European experience. Therefore, the negotiation and signing of the association and free trade agreements would denote *power of negotiation* and would ensure the economic interdependence of the EU with the Eastern Neighbourhood, promoting the extension of interests to other areas, where the member states have major interests. In the foreign policy area, the national governments enjoy a disproportionate control over the ideological and political access to the international system. The liberal intergovernmentalists stress that the weakness of the EU in the foreign policy and security area is closely related to geopolitical considerations, such as power, peace and war (Moravcsik 2001, p.177) that play a sporadic role in the EU history.

Contrary to the neorealist logic, after the end of the Cold War, the EU ensured total peace among the member states while the conflict threats came from the transition democracies and authoritarian countries of the Central and Eastern Europe. In this connection, the concept of 'soft power' is considered to be extremely important in defining the EU's position of international actor. The proponents of liberalism claim that the EU knew how to hold the soft power to obtain preferable results; even if it is not a global military power, the EU may settle global issues through diplomacy, trade, and assistance for development (Nye, 2004, p. 78).

Hereafter, the EU has been recognized as a 'quiet' superpower that uses the enlargement as the most important tool of the EU and the ENP, directed by big member states, is diplomatically used for settling conflicts (such as the one in Georgia) and for promoting political and economic policies in the neighbouring countries (Moravcsik, 2010, pp.158-159).



Under the influence of the latest developments on the EaP agenda, there can be identified requests for formulating strategies implying a successful combination of *hard power* and *soft power* in the EU interaction with its East-European partners beyond the intergovernmental system of bilateral relations (Dîrdală, 2013, pp. 132-133).

However, the intergovernmentalism cannot explain the advancement of the ENP with a possible economic integration based on neofunctional principles. It is important to stress that the ENP is nonetheless an expression of the Commission's position to the EU members while the EaP, even if it was a Polish-Swedish initiative, perfectly fit in the ENP through the participation in the Commission's and European Parliament's decision-making.

In my opinion, the traditional distinction between neofunctionalism and intergovernmentalism is obsolete due to the appearance in the specialized literature of a range of alternative concepts, using cross-disciplinary research. This view is also closer to the reality in which the approximation of the Eastern Neighbourhood to the EU takes place. As proof of this assumption, the supranational and the intergovernmental approaches manifest themselves differently depending on the area involved in the synergy between the EU and its Eastern partners.

## 1.2. The Constructivist Approach and the Normative Power

The proponents of the constructivist approach identify themselves as a third means and challenge the classical schools of realism and liberalism, considering the interests to have social basis and that the international system hence is a consequence of 'collective meanings'. This was an attempt to build a 'constructive' bridge between the two main approaches, using liberal arguments that the international institutions can change the countries' identities and interests.

Most of the countries today identify themselves as a component part of a 'state society' (Wendt 1999, p.242). For certain reasons, these states will tend to transpose internal modalities in their behavior in the area of foreign policy on conflict settlement, organization of economic relations, observance of rule of law, and others. In this sense, one can notice a clear relation of constructivism to the 'power of adjective'. It is these constructivist analyses of realistic character that tend to research the interrelations between power and international norms in moral sense (Barkin 2003, p. 337). A common concept for both approaches is power, a factor that in the past years has been estimated as having low importance as compared to the Cold War period.

Indeed, the constructivism facilitates promotion both of an ethical foreign policy and of practices and methods within the foreign policy, thus stressing the importance of ideas, ethical norms and moral convictions in international politics. Thus, the constructivist answer can be found in the speeches of EU officials that show how the EU constructed its own actorness, including its dynamic aspects. (Larsen, 2002, p. 293).

The new theoretical approaches include a certain view of the EU taken as a normative model for other regions of the world. The dispute over the role of the

European Communities in international relations appeared with the introduction of the term of *civilian power*, proposed by François Duchêne, which considers the economic power to be extremely important in promoting the European interests (Duchêne, 1972). The critical response of Hedley Bull who thought it necessary to create a military dimension in Western Europe (Bull, 1982, p.151) raised ardent discussions around the concepts of power.

Starting from the assumption that EU is a *normative power*, Ian Manners used a holistic approach to identify the global role of the EU as being bigger than the sum of its sides. The normative peculiarities of the EU are determined by the specific historical context, hybrid polity and the political-legal framework (Manners, 2002, p.240). Thus, the normative ethics of the EU should be based on “being reasonable” in the foreign policy and on “doing least harm” (Manners, 2008, pp. 58-59) in the relations with its partners.

The concept of normative power seems to be of long-term perspective in a world that promotes democracy and human rights, sustainable economic development, social equity, solidarity, the rule of law, and good governance. In this connection, the ENP represents EU as a ‘force of good’ and serves the European interests by creating a ring of well-governed states (Barbe and Johansson-Nogues, 2008, p.81). The recent inputs contain more and more suspicions that the actors use the norms to justify the promotion of certain interests and thus the problem of dual standards arises. By promoting the CFSP, the EU may create expectations both from the member states and from the partner states to live up to the standards it identifies as its own norms.

The criticism of normative power concepts stress that the EU either uses its norms for constraining its partners or does not act as a normative power but rather as an instrument of “collective hegemony” (Hyde-Price, 2006, p.227). According to the realistic logic, the EU acts a *civilizing power* only when the most powerful member states impose the common values and norms to the Eastern Neighbourhood.

How do the Eastern Partnership countries see this normative power of the EU? Oftentimes, the political elites look at the promotion of European values with suspicion because the EU, through its policies, tries to promote certain interests that would be in contradiction with the so-called “traditional” values. However, at the beginning of 2013, using its normative and civilian power, the EU had also an impact on the overcoming of the political crisis in the Republic of Moldova that threatened the latter’s European path and an eventual turn of face to Russia. In this period, the coalition of pro-European forces felt pressure put on it from the European emissaries, but also from the member states interested in the success of this project in the Eastern Europe.

### 1.3 External governance in Eastern Neighbourhood

The recent theoretical inputs on EaP cover an important segment represented by the concept of external governance in the logic of application of the enlargement mechanisms on the ENP.

Given that the ENP promotes enlargement, at least from the functionalist perspective, at the level of certain areas, without ensuring the access to the decision-making of EU institutions (Lavenex and Schimmelfennig, 2008, p.155), the main question was the sectorial approach with the promotion of opportunities for flexible horizontal integration of the Eastern Neighbourhood of the EU. Thus, external governance means extending the EU's legal-institutional framework on the non-members states, as a response to the complex interdependence of the EU with the Eastern neighbourhood.

There are certain fears that the relevance of enlargement may lose intensity and significance for the EaP states in the context of the EU crisis. In this connection, the EU attitude to the Eastern neighbourhood has been "hierarchical" and "prescriptive" (Korosteleva, 2012, p.46). In this perspective, the need arises to develop one's own apparatus to offset the deficiencies of hierarchical governance (Korosteleva, 2013, p.17) with assistance for implementing the common goals, which in my opinion would require increased attention to avoid the 'export of instability' to the EU.

The renouncing of the realistic concepts of the intergovernmentalism and of the hierarchic governance model contributes to the institutionalization outside the EU boundaries. Also, external governance is less fixed on the export of the *acquis* than on promoting the EU norms and practices (Lavenex and Schimmelfennig, 2009, p. 807).

The latest inputs claim that even if certain EaP states adopt the EU strategies in certain sectors, their efforts are not compensated enough for the EU's limited governance capacity in its eastern neighbourhood (Langbein, 2014, p.158), creating new divisions among the member states and the states outside EU, including increasing the economic discrepancies and convergence standards with the EU.

Despite the unfavorable international environment, the horizontal governance becomes increasingly open to association and cooperation, involving the respective structures, which contributes to promoting the EU values in the EaP states (Moga and Pascariu, 2013, p.157), being a much more flexible form of integration as compared to the hierarchical model. Thus, democratic governance promotes the implementation of the EU legislation and favors favorable attitudes of eastern neighbourhood officials, although it can be applied with the implication of economic risks and reverse strategic results. An important result is also the use of the recent inputs by the European officials to reformulate the ENP. Thus, the approach of the "more for more" principle favors the implementation of reforms by the EaP states and, hence, the motivation and accountability of governments and the civil society grows due to the increased support from the EU.

## 2. THE EASTERN PARTNERHIP IN THE POST-VILNIUS CONTEXT

A decade has passed since the beginning of promotion of the ENP and the first important experience of EU enlargement to the East. The EU enlargement strengthened the EU importance as a global actor, at regional level led to increased economic discrepancies between the EaP states and the new EU members (Epstein

and Jacoby, 2014, p.11). This phenomenon influenced considerably the EU need to extend its economic and political influence in the Eastern Neighbourhood. The EU eastern enlargement and the armed Russian-Georgian conflict of 2008 served as an impetus for the EaP development in view of the approximation of the EU to the Eastern Neighbourhood and inclusively differentiated it from the Southern Neighbourhood by advancing bilateral cooperation with the involvement of various social layers from the partner countries (Summits, Foreign ministers' meetings, Euronest, CS Forum, Business Forum etc.).

The Vilnius Summit marked the moment of a serious break away of the EaP group of states. These developments within the Eastern Neighbourhood confirm that the EU's ability to trigger reforms crucially depends not only on internal factors (European Integration Index 2013) but also on external ones. In this connection, the "pro-European" group of the EaP (made up of Georgia, Moldova and Ukraine), countries that unfortunately do not control fully their territories, given the armed offensives and deployment of Russian troops in the separatist regions. In this connection, it is possible to rethink also the priorities of other East-European countries that have had modest results in advancing the EaP (Armenia, Azerbaijan and Belarus).

The historical experience of the latest enlargements to the East shows that the transition that leads the association process may pose risks for the partner states. This development takes place on the background of the negative impact of the active promotion by Kremlin of the Eurasian Economic Union that could minimize the EU efforts of building in the EaP a circle of well-development countries with European values. The studies based on empirical results confirm the fact that the deep and comprehensive free trade regions by applying the provisions of these agreements, have excluded the possibility of armed conflicts among their members (Vicard 2012, p.67). The CIS and the Eurasian Union, on the contrary, are an example of a poorly-developed free trade zone that maintains the danger of military conflicts if the interests of the EaP countries do not coincide with the imperial ambitions of Russia.

The change of the regional environment has put new tasks before the EU in its relations with the EaP states. At present, having much more active contacts, the European and the neighbouring countries political elites must align fast to the requirements of the situation in Eastern Europe, after Russia began its offensive in Armenia and Ukraine in the fall of 2013. This process is promoted by the civil society that thus supports the pro-European efforts of the EaP countries (Georgia, the Republic of Moldova and Ukraine) as well as by the diasporas of the said countries in the EU member states.

In this connection, such countries may benefit from increased financial assistance for development, due to the military threats. The Ukraine may repeat the economic experience of Turkey of 1980s-1990s during its process of association to the European Communities. The EaP may definitely choose the status of countries associated with the EU despite their economic weakness.

We can state that, even if the EU acts as a normative power, it is forced to adjust its objectives and practices on a case to case basis. In this connection, we

can establish that some countries, such as Russia, through its actions, can urge the EU and the member states to act promptly to the security challenges on the European continent, no matter how 'soft' the promotion of this power is. As confirmation thereof comes the decision of the EU member states to suspend the construction of the South Stream gas pipeline, which increases the energy dependence of the EU and EaP countries on Russia's natural resources as well as the expediting of energy projects to ensure the reverse transportation of gases from the EU member states to Ukraine and Moldova by May-June 2014. In this connection also falls the decision of the EU countries to increase expenditures for military and security purposes.

Unfortunately, the EU still has a long way to go to become a single actor in promoting an efficient CFSP, ready to react to the European security challenges, a level hard to reach because it has never experienced in its recent history another power to be so aggressively against European enlargement. Thus, we can say that the group of EU member states made up of Germany, Poland, Sweden, the Baltic States, and Romania – the countries-neighbours of Russia, are the most consistent defenders of a common foreign policy and of the viability of the EaP objectives. Undoubtedly, the latest events in the EaP countries have contributed to reconsidering some of the EU priorities to them but also its major objectives for the proximate future.

## CONCLUSIONS

In the scientific inputs, the opinion prevails that the CFSP will develop under the impact of external challenges. It is important to stress that the CFSP, although remains closely related to intergovernmental cooperation, from Maastricht to Lisbon gives up more free space in favor of the supranational institutions, even if it is the member states that have the last word to say in this area.

There is no common position of the supranational institutions with the positions of the member states in regard to giving to the EaP countries the perspective of requesting EU membership, an initiative approved on 17 April 2014 by the European Parliament on the background of the disagreement of certain member states with the statements made by European officials. This ambiguous situation, without giving a clear European perspective to the EaP only underlines the need to reconsider the priorities of the EU and of the member states in the East-European region as compared to the West Balkan countries, whose successes in implementing reforms in certain areas are more modest than those achieved by some EaP countries.

Political affiliation raises many question marks in the absence of the possibility for the partner states of participating directly in decision-making. In this connection, no theoretical approach denies the fact that the ENP does not imply institutionally the governments or the partner states in the process of approximation to the EU and thus the issue of the democratic deficit arises, sharper than in the case of the EU member states.

Economic integration in functional terms, implying economic interdependence with the EU is beneficial for the EaP countries. Another incentive would be the rather serious financial situation of the EaP countries and that see the EU as an important source of investment for their national economies. The signing of the AA and of the DCFTA in the proximate future can ensure the viable integration of the economies of the Eastern neighbourhood into the EU single market.

From another perspective, the EaP states have many reminiscences of the Soviet past, common for the national elites, oftentimes with tendencies to autocracy and a criminal past represented by ascension of oligarchs and their accession to governance and, eventually the criminal control of such countries. The European norms are often taken over formally while in reality all the substantial reforms remain imitated by the pseudo-European elites. In this process, a part of the responsibility is certainly borne by the European institutions that are responsible for monitoring the progress made by such countries but often, due to the geopolitical stakes, the 'sins' are forgiven in exchange for displaying a pro-European attitude. This situation undoubtedly corrupts the entire image of the EU and of its normative values.

Nonetheless, the EU soft power achieved some success in 2013 when it managed to bring the Republic of Moldova closer while in Ukraine it led to changing the government with a pro-European coalition, which resulted in signing the "political association" with the EU. This example proves that even in the absence of a clear perspective of becoming of full-fledged EU member, the population feels part of the same European identity. Thus, the arguments that the social influence and the power of transnational mobilization are not efficient in the case of the EaP countries, can be questioned.

A small success achieved by such a tiny country as the Republic of Moldova after the abolition of visas with most of the EU member states on 28 April 2014 represents a big success and a real impetus for other countries of the Eastern Neighbourhood. In my opinion, the EaP needs tangible results for their maximum approximation to the EU economy and promotion of normative values in the year of signing of the AAs and the DCFTAs. This logic falls under the 'more for more' approach, according to which the EU offers increased incentives to those EaP states that fulfill these requirements, including greater mobility to citizens through visa liberalization; access to the EU single market for the countries implementing the DCFTA and ensuring observance of human rights and fundamental freedoms, promoted by the EU normative power.

Finally, without the member states' political will of building a viable foreign policy and of supporting their statements and intentions with real political and economic force, the EU will become a nominal political power. Hence, it will be extremely difficult to influence the process of "Europeanization" in the EaP countries under the impact of the complicated geopolitical and geoeconomic situation of the latest regretful developments in this European region.

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# THE EUROPEAN UNION AND RUSSIA, COOPERATION OR COMPETITION?

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**Abstract:** *The unfolding events in the Ukraine remind us of Georgia 2008 and make us wonder whether their impact and implications on the EU – Russia relations will be as deep and long-lasting. Although it is too soon to ponder on the implications of these events, we can already perceive the wave of tensions and disagreements that is spreading all around the European continent; tensions that once more prove that proper economic cooperation between the two actors is merely impossible to consider without taking into account the political ties between them. How can the EU enhance greater cooperation with Russia and solve Churchill's "riddle, wrapped in a mystery, inside an enigma"? Is the European Union vulnerable politically due to its energy dependence on Russia? Is the Russian economy dependent solely on its European consumers? Whose behaviour is more rational? Who holds the upper hand? This paper will focus on answering all these questions by analysing both actors in terms of power and will particularly highlight their paradigms, perceptions, needs and expectations from one another.*

**Keywords:** power; interdependence; vulnerability; energy

## INTRODUCTION

In the light of recent events, the annexation of Crimea have led to a steady deterioration of Russia- EU relations. Twenty years after the end of the Soviet totalitarian communism, Russia remains a major challenge for Europe. Russia's future, unpredictability and evolution remain a mystery that raises an endless debate.

The dialogue and partnership of the European Union and Russia is complex and multilateral: from an economic standpoint the two actors are bound to cooperate due to the interdependence that characterizes their relations although politically and strategically they tend to compete since the EU and NATO enlargements clashed with Russia's geopolitical interests.

When it comes to analyzing the relations of Russia and the European Union, the most common concept used to define their interaction refers to interdependence. From an economic perspective, their interdependence implies that the EU depends on Russian exports of energy, while Russia depends on European buyers and investors. The political perspective emphasizes on the asymmetry of their relation

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implying that whoever holds the advantage tries to influence the other and consequently holds more political power.

Essentially, interdependence means mutual dependence which, in other words, implies that the analyzed actors depend on each other. The fact that Russia and the EU are interdependent has been well established in the literature. Nevertheless, when it comes to the symmetry of their interdependence, the debate still remains: Who holds the upper hand?

There are experts who consider Europe to depend more on Russia since its developed economy cannot survive without Russia's supplies and to substitute Russia is next to impossible. In the meantime, they consider Russia less vulnerable since, on the long run, the federation can find other buyers and investors to keep their economy going.

Other experts consider Russia more dependent on the European Union since its economy is not diversified and the energy exports represent the federation's main income source. According to them, Russia cannot substitute the union on the short and middle term taking into account that the pipelines infrastructure is extremely expensive. They also consider Europe less vulnerable emphasizing on the efforts that the EU has made regarding the development of renewable energy production.

However, the economic analysis of Russia - European Union interdependence is not relevant enough since very often the political factor has an impact on the economic one. In other words, for a more accurate assessment it is necessary to extrapolate the political relations of the actors over the analysis of economic risks associated with dependence, as the events in Crimea prove.

From a political standpoint, the asymmetry of their interdependence is directly linked to the concept of power. Keohane and Nye examine the concept of asymmetric interdependence directly related to the concept of power and establish that an unequal distribution of gains and costs is central to asymmetric interdependence and this inequality represents the very source of power (Keohane and Nye, 2009, p.9). In other words, the state that holds the advantage in asymmetrical interdependence can therefore gain power.

Overall, Russia and the EU have many differences in their perceptions of each other, as well as of the role and means of power. That is why, a focus on their perceptions and an assessment of power in both spaces might shed some light on where the balance leans more: competition or cooperation?

## 1. THEORETICAL FRAMEWORK

Generally, in literature, the concept of power is widely used in the field of International Relations, both for the analysis of relations between states, as well as for defining the external policy and conduct of states seen as actors on the international stage, starting with Thucydides, Machiavelli, Morgenthau, Mahan, Clausewitz, Sun Tzu and continuing to contemporary researchers such as Baldwin, Gratzke, Waltz or Cohen. There are several ways in which power may be expressed, for example it may represent: a measure of the degree of influence or

control that an actor uses in order to achieve specific goals and expected results; the way in which an actor may decide or influence the course of events or issues management on the international stage; an ability to control the resources or capabilities or a status that some states or actors possess and others do not.

Researchers that analyzed this concept have not reached an agreement on what power is, how it works, how it can be measured or how to interpret or weigh different empirical results, so that there are many different opinions and contradictions when it comes to both the role and the nature of power. For example, Kenneth Waltz argued that power is based on a number of components, such as "the size of population and territory, abundant natural resources, economic capacity, military strength, political stability and competence" (Waltz, 1979, 131), but emphasizes that "defining the concept of power remains a controversial issue" (Waltz, 1986, 333). Moreover, Robert Gilpin describes power as "one of the most controversial issues in the field of international relations" (Gilpin, 1981, 13), thus pointing out the lack of a consistent and coherent orientation in the literature when it comes to this basic. Gartzke believes that purely theoretical studies do not have enough relevance and legitimacy and therefore it is necessary to supplement them with evidence and empirical analysis (Gartzke, 2001, 11).

The concept of power is complex and multidimensional and this study will use this concept in terms of exerting influence by economic or political means (Baldwin, 1985), as well as in the light of describing a state as *hard* or *soft* power.

Robert A. Dahl captured in one sentence, which became a classic notion of power, the exertion of power as the action (or ability) of a state / actor to determine another state / actor to do something that in normal conditions it would not do it (R. Dahl, 1957). Using as a start point the variety of ways and means to influence other states, David A. Baldwin made a classification of the means of influence in international relations, referring to four categories: symbolic, military, economic and diplomatic, in his book *Economic Statecraft* (1985) (Baldwin, 1985).

Over time, the relative importance of the traditional military power (a "national power" approach or so-called "resource-to-power") changed in favor of the economic power of the state. Moreover, the analysis of the economic power become more sophisticated as the attention shifted from the aggregation of economic capabilities to a more nuanced set of concepts such as power and recognition, as well as to the fact that they can vary considerably from one economic zone to another (the approach called "relational power") (Thomas *et al.*, 2012).

In the literature there has been an extensive research of the concepts of economic power, the economic rationale of geopolitical and military power and how to measure them. Initially, the focus was on the various capabilities and resources of the country, population or economic size. Moreover, if in the beginning the focus was on the economic sectors which were relevant to developing and enhancing weapons and warships in order to enhance military power, gradually the attention shifted to ways and means of increasing and diversifying the state's overall economic power. Therefore, the rigorous emphasis on increasing economic power began to expand beyond increasing the total size of

the economy and it led to a greater focus on certain key economic sectors. Today, the perception of economic power often focuses on economic growth rates and therefore it is paid increased attention to energy, education and technology, as they are considered to be important factors for economic growth. (Willet, Chiu, 2012, p.3)

It is now widely recognized that we live in a world defined by what Robert Keohane and Joseph Nye (2009, [1977]) have called "complex interdependence", in which the fungibility of power from one area to another can vary greatly. The increasing importance of economic power to the detriment of the military one led to a paradigm shift regarding the analysis of the concept of power. Joseph Nye has developed a new concept which has gained substantial importance in the philosophy of international politics of our century, namely, the concept of *soft power*. (Nye, 1990) This new concept, developed later in the book of the same author, entitled *Soft Power: The Means to Success in World Politics* (2004) was analysed in contrast with another notion, that of *hard power*.

Essentially, for Nye, power represents the ability to influence the behavior of others in order to achieve the desired results. There are several ways in which this can be done: by coercion / threats, by actual payment or by determining or attracting others to co-opt for the same purpose or results. The actor defined as soft power does not use coercion or payment, but influences or persuades another actor to want/desire the same results (Nye, 1990, p.181). By default, at the other end, the hard power refers to the use of coercion or payment in order to persuade others to move towards the desired results. Soft power can be exerted not only by states but also by all actors in international politics arena, such as NGOs or international institutions (Nye, 2004, p.31). The concept of soft power, is also considered "the second face of power" and it *indirectly* leads to the desired results. Also, Nye believes that the soft power of a country is based on three essential resources: culture (when it is attractive to others), political values and foreign policies (only when others see them legitimate, having a moral authority) (Nye, 2011, p.83).

A country can achieve the desired results in world politics because other countries – who are admiring its values or are aspiring to its level of prosperity and openness – want to follow. In this respect it is also important to establish an agenda and attract others in world politics, "not to force them to change by the threat of military force or economic sanctions." (Nye, 2004, p.31)

Although most times it is very difficult to compare, estimate or measure objectively the effectiveness and efficiency of the two sides of power, there is increasingly little doubt about the fact that, in a world governed by peace, soft power acquires more importance than the hard one.

## 2. GENERAL LINES OF RUSSIA-EU DIALOGUE

The different perceptions of EU and Russia regarding the concept of space-time also refers to a difference in their perceptions of the past. A highly-sensitive link between history and memory of the twentieth century - is felt by both sides in different ways (Roth, 2009, 2). The interpretations of the recent past weighed

heavily on current political thinking. The Russian elite rejects to "reflect on the past" and prefers to refer to a glorious past, marked by a prestigious national history, instead of to reconsider and accept new interpretations. In full contrast, Europeans - mainly Germans and the French, have formed the basis for reconciliation of the peoples of Europe just through the so-called principle *devoir de mémoire* that is central to the European project (Gomart, 2008, p. 3). Without recognizing it, Russia and some EU member states are engaged in a "battle of memories", rooted in the interpretation of Communism and Nazism on the one hand, and the Cold War, on the other hand, as well as of the second World War. Therefore, the "struggle" includes a psychological dimension as well as an identity factor which are often ignored by the European Union in its relations with Moscow (Gomart, 2008, p. 4). The resurgence of nationalism in Russia can be explained by a deep nostalgia shared by much of the Russian population (Cassier, 2011, p. 23). In Russia, it is noteworthy that nostalgia is all that remains for those who were left outside the general enrichment process in recent years.

Regarding the general perception in Russia, the difficult years of transition are often associated with the West, and more specifically with the fact that the West attempted to get involved in the internal affairs of Russia which had disastrous consequences. The recent resurgence of Russia under President Putin determined the public opinion to favor the actions of their president, whatever the means and to reject any legitimacy of the West to get involved in the internal affairs and problems of the country. Moreover, the European Union would benefit from understanding that Russia's policy towards it is partly fueled by resentment so that it should consider more carefully the references of the past used by the Kremlin. (Roth, 2009, 17) When Putin stated that the collapse of the Soviet Union was "the greatest geopolitical catastrophe of the century", the entire Europe was shocked. However, when he added that the collapse of the USSR was a "real tragedy" for the Russian people, he actually spoke for the entire Russian collective mentality (Gomart, 2008, 7). Putin's Russia feels no responsibility for the past, instead it seems to focus mainly on strengthening the grandeur of a past that is strongly idealized.

EU's perceptions of Russia are conflicting as it is the structure of EU policy towards Russia which consequently becomes very complex. This complexity includes three elements: transatlantic solidarity as the key driver of EU security policy; the deep internal splits between EU member states on Russian issues and ultimately, the energy interdependence between them (Kazantsev, Sakwa, 2012, 292).

The external policy of the European Union is strongly linked to that of the US and therefore in the security sphere there is a complex set of relations in the triangle USA–EU–Russia, while in such dimensions of European–Russian relations as economic issues EU–Russia relations can be considered separately from transatlantic issues.

The second element, referring to the internal splits of the EU member state in approaching Russia, there are basically two main paradigms: "At one end of the spectrum are those who view Russia as a potential partner that can be drawn into

the EU's orbit through a process of 'creeping integration.' They favour involving Russia in as many institutions as possible and encouraging Russian investment in the EU's energy sector, even if Russia sometimes breaks the rules. At the other end are member states, who see and treat Russia as a threat. According to them, Russian expansionism and contempt for democracy must be rolled back through a policy of 'soft containment'" (Leonard and Popescu, 2007, p.2).

When it comes to their economic interdependence, the mutual dependence is quite obvious: 60 per cent of Russian exports go to the EU, and 70 per cent of Russian FDI comes from the EU. Gazprom alone earns 70 per cent of its profits from the EU. (Sakwa, 2012, 316) The dependence, although mutual, always comes with costs which involve sensitivity to outside pressures, which in certain cases take the form of vulnerability (Keohane and Nye, 2009, [1977]; pp. 12–13). Within this context, the unpredictable actions of the Russian Federation, in Georgia and in Crimea imply long term costs for Russia.

Putin faced a difficult choice. If he returned Crimea to Russia, his popularity would rise to the point that he would be a national hero for generations to come. Yet, in geopolitical terms there would be an exceptionally high price to pay, not only in terms of Russia's reputation but also in terms of its relations with Ukraine, the West, and other countries in the post-Soviet space. Nevertheless he chose the first option which ultimately contradicts a rational economic approach, which in turn emphasizes the importance of prestige and power for Russia.

## 2.1. Outcomes of hard power in the Russian Federation

When it comes to the concept of power, Russia is a resurgent superpower and its system is based on a close association between the prestige of the state and that of the army (Gomart, 2008, p. 5). Within the world stage, Russia craves for recognition, namely to have the status of a potential global player once again (Allison, 2008, p.1171). That is why the Georgian conflict or the annexation of Crimea did not express the desire of territorial enlargement but a desire for respect, image and recognition of power. Despite Russia's return to power through economic development, political stability and strategic ambitions, it shouldn't be overlooked its demographic disaster and lack of technology that this country is facing. These aspects push Russia to seek and form strategic partnerships with the European Union, as well as to better valorise and use the interdependent relation which they develop.

Although it has been over twenty years since the Soviet Union disappeared from the maps of the world, in the Russians collective mentality remains the crave for what it was once lost (Kasamara, Sorokina, 279). This "post-imperial nostalgia" or "post-imperial syndrome" as it is called in political science, translates into a desire to see the great power restored (Gaidar, 2007).

Altogether, the enlargement of 2004 towards the Russian sphere of influence marked a turning point in terms of mutual perceptions of Russia and the European Union. Within this context, for Russia, the EU's expansion coincided with Putin's consolidation of power internally and with the first dividend of economic recovery

(Lorkowski, 2012, p. 11). Russia's recent aggressive foreign policy (Georgia War, Annexation of Crimea) can be explained by two arguments.

First, Russia's economic recovery has been associated with the revival of a political speech on "Russian civilization" - a secular civilization that is so connected and so distinct from that of Europe – through which the federation has openly stated its intentions to remove any existing inferiority complex (Gomart, 2008, p. 13). In the eyes of the Russian political elite, the European Union has stumbled upon its own contradictions and no longer represents a dynamic model of economic development.

Secondly, Russia is always careful to distinguish between Europe and the European Union as it still harbors hopes of an European continent based on two pillars: a Western pillar (led by the Union) and an Eastern pillar (led by Russia) (Trenin, 2009, p.37). This approach can be easily detected in Kremlin's attitude and expectations from the EU - a dialogue between equal partners. A sign of success regarding Russia's approach is that its claim is not disputed by Russia's strategic partners in the EU -27, although it does not correspond to a real balance of power. Moreover, the Kremlin's attempts to form regional groups under the aegis of Russia, such as the common economic space, encountered a number of difficulties and challenges due to Russia's inability to move beyond the traditional role of power. Therefore, the Federation has failed to initiate a viable process of integration without resembling a new form of domination over its neighbors. Within this context, Russia seems to be caught in a paradox: "geopolitical omnipresence and profound political solitude" (Trenin, 2009, p. 37).

In the 1990s, EU member states gathered around a strategy of "democratizing" and "westernizing" a weak and indebted Russia, and managed to get the Russians to sign up to all major international standards on democracy and human rights. But since then, soaring oil and gas prices have made the Russian governing elite incredibly powerful, less cooperative and above all, less interested in joining the West.

Beyond the facade of a new charming and arrogant Russia-which is taking advantage of the soaring energy prices in order to assert itself on the world stage once again-, the social catastrophe that befell this country remains completely impressive. The quasi-absence of a social assistance system provided by the state, as well as the Russian social body diseases (alcoholism, drug abuse, domestic violence, child abandonment etc.) heavily weigh upon the country's demography. The deeply rooted criminality within the State's structures- which lasts since Soviet times- is based upon an „incestuous relation” between the political power and the business sector (LeVine, 2009, p. 212)

## 2.2. The soft power of the European Union

Within the theoretical framework of the power concept, the EU is more of a political prototype as well as a bureaucracy (The Commission) reluctant to submit to democratic control. The European Union's attitude, that of an emerging soft power which is reflected in the union's reduced involvement in conflict (frozen)

resolution of the area, led the EU to pay the bill for reconstruction in cases such as Georgia.

The EU has been variously described as a global power, a superpower, a civilian power, a trade power, a normative power, a realist power and an ethical power, but it remains unclear when and how the EU really can exercise its power effectively (Forsberg, Seppo, 2009, p. 1805).

Overall, the EU's power fragmentation is caused by a lack of political homogeneity of the Member States. There is a widespread conception regarding the division of the EU countries when it comes their attitude towards Russia which involves the existence of two groups of Member States: old and new. Regarding their attitude vis-a-vis Russia, the EU Member States either promote a pragmatic or a moral one. Overall, each Member State tends to adopt one of the two main political paradigms. At one end of the spectrum are those who see in Russia a key trading partner (usually the former members of Western Europe) and at the other spectrum are those who perceive Russia as a threat (usually new members from Central and Eastern Europe). In general, the bilateral disputes between Russia and the EU Member States affect the Union's foreign policy towards Russia and hinder the economic cooperation between the two at a regional level.

Through a power perspective, the reactions of Russia vis-a-vis EU's proposal to include the federation in its European Neighbourhood Policy show Russia's affiliation to the more traditional concept of power. Not only that Russian leaders do not appreciate that their country is put on the same footing as the others, but the ENP is seen as a competition or even a threat. This is why Russia chose not to join the ENP, in order to be „an equal partner”.

At times, instead of dialogue with Russia and genuine attempt to understand Russian concerns, the bureaucracy in Brussels simply prefers to impose its own standards on Moscow without taking into account the ability of Russia's economic and social system to comply with these standards. It is on this basis that many Russian experts and policy-makers examine the negative aspects of the EU being a 'normative power' internationally. As a result, Russia prefers to deal with nation-states, who have concrete interests, not with the EU as a whole, an entity. From this point of view Russian criticism of EU resembles in some respects the criticism of British Eurosceptics. (Sakwa, 2012, p. 291)

The disappearance of mutual trust in European–Russian relations is underlined by the popularity of the metaphor of the new Cold War in the West (Lucas, 2008). The basic argument suggests that the present condition of European–Russian relations is comparable to the situation that existed during the Cold War. The notion of a 'Cold Peace' is another metaphor of the same period that is directly related to discussion of a new Cold War (Bugajski, 2004).

As opposed to the EU, that perceives itself as a 'post-modern', 'institutional', 'normative' power, Russia is oriented towards the power politics of the great powers of the nineteenth century. The Kremlin does not understand why it needs the EU in order to deal with European states. (Kazantsev, Sakwa, 2012, p. 292) 'Russia has sought to bilateralise both its deals and its disputes with EU member states, putting a strain on EU solidarity and making Russia the stronger power. This is not part of a



master plan to dismember the EU. It is, after all, natural for Moscow to deal with individual EU member states because that is how it sees international politics – as a series of tête-à-têtes between great powers’ (Leonard and Popescu, 2007, pp. 13–14).

## CONCLUSIONS

Although they have different paradigms concerning the concept of power, the EU and Russia’s geopolitical relations cannot be defined as a simple struggle for power. Their relation is more complex than that taking into account the major differences in their values as well as in the way they perceive each other.

The lack of unity does not need to be the only explanation for the EU’s poor influence. Perhaps, even where it has been united, the EU has not been able to choose the best possible strategy or to implement it properly to achieve its aims, mainly because of their different perceptions and values. The EU does not often rely on hard military and economic power even if it has such hard power resources available, but tends to prefer persuasion, invoking norms and acting as an example: power tools that are often associated with the EU’s identity as a normative power, not with Russia’s hard power politics and perceptions.

On one hand, the European Union, through all its approaches seeks for cooperation, not competition when it comes to Russia. Nevertheless the tensions within their relations proves that somehow it cannot reach a common ground. On the other hand even if Russia perceives itself mostly as a European civilization, the affiliation for power politics makes it highly competitive, especially when it comes to its former satellites.

Conventionally, both economically and demographically, the EU possesses a greater power than Russia. However, the lack of European unity makes Russia outperform the EU, when it comes to the concept of power and influencing expected results. Therefore, Russia behaves as a real global power, while the EU still questions its own identity, thus not being able to become a credible security player.

Who holds the upper hand? From an economic point of view, the European Union, backed down by the US holds the advantage. Russia’s provocative policies and violation of the international law will definitely come at a high cost. Though the West is justifiably reticent to be drawn into any military confrontations with Russia beyond NATO’s boundaries, and is even reluctant to apply economic sanctions (especially the EU), the existing trade, investment, and financial relations between Russia and the West are already becoming severely affected after the annexation of Crimea.

From a political perspective, so far, Russia holds the upper hand. The EU has failed to influence Russia in pursuing the same results, especially in their common neighbourhood. EU has also failed to set itself as a normative power, to be a model that Russia wishes to follow. In other words, EU has hardly been able to influence Russia although it is a far bigger power than Russia in conventional terms.

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# FLEXIBLE AND IMPROVED IMPLEMENTATION OF THE EUROPEAN NEIGHBOURHOOD POLICY

Marcela SLUSARCIUC\*

**Abstract:** *The European Neighbourhood Policy is at crossroads meaning that the actual frame of geopolitical movements imposes a new reshaping mainly on the Eastern side caused by the Ukraine issue. The implementation of the ENP through the European Neighbourhood Partnership Instrument, financial umbrella for the Joint Operational Programmes (JOPs), is already a challenging exercise for the Member States working together with the Partner Countries in order to develop an area of prosperity and good neighbourliness. This paper proposes a pack of features and recommendations arisen from the experiences gained by the implementation bodies of the JOPs along the European Union Eastern border, beneficiaries and other experts in cross-border cooperation. The main issues approached aim the improvement of the future cross-border programmes in terms of flexibility, transparency and efficiency: stakeholders consultation all along the programme cycle, a new mix of funding sources, gradual involvement of new types of beneficiaries and programme evaluation.*

**Keywords:** cross-border; European Neighbourhood Policy; financial programmes

## INTRODUCTION

The research area we established includes administrative units near the border from Romania, Ukraine as it follows: in Romania, the counties of Suceava, Botosani, Iasi, Vaslui, Galati, and Tulcea, in Ukraine, the oblasts of Odessa, and Chernivetska and in the Republic of Moldova, the whole country.

The methodology we used in the research was specific to the stage of research and we used various types of data policy documents, relational, qualitative, quantitative data. On one side, we analyzed the policy frame through official documents, regulation, official statements or press reviews in what concerns three facets of cross-border cooperation, both general and specific for the research area: neighbourhood policy, partnership and cooperation and crossborder programmes. On the other side we had the field research and the analysis of results and we considered that the best approach would be in steps, from general data gathering to a more and more narrowed research. Therefore, we started with a preliminary survey that was applied randomly to the potential beneficiaries and applicants who participated to the information sessions for the second call for proposals in the three countries. The results were a starting point for the next two

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steps we made, one – a public consultation about the improvement of the actual programme for crossborder development and a series of interviews with stakeholders of the programme, namely persons involved in the decisional system and grant beneficiaries. The public consultation is used in the frame of initiating or changing public policies in order to enquire about the needs of the ones affected by the policy and is mostly an advocacy tool. Even though the public consultation is not a research method we decided to use this tool to gather qualitative feedback and proposals for improvement and increase of efficiency. A consistent step was to have interviews with beneficiaries or partners involved, granted by the JOP Ro-Ua-Md following the first call for proposals. In the selection of the beneficiaries we used the following criteria: a minimum of 10% of beneficiaries as a relevant ratio from all beneficiaries from the call, to be representative for all three countries, but respecting the proportionality between countries as number of projects and funds granted, to be representative for the priorities of the JOP and to be available for interview. One of the final steps before issuing a recommended future model of financial instrument in the research area was an application of a questionnaire to 31 experts covering three dimensions: a vertical one, meaning that they work at local, regional and national level, a horizontal one, namely they are experts from all three countries, Romania, Ukraine, Republic of Moldova, and a field coverage, meaning that they are from public administration, nongovernmental, research (universities) and business fields.

## 1. CHANGING FRAME FOR THE CROSS-BORDER PROGRAMMES AT EU BORDERS

At the moment of launching the European Neighbourhood Policy, namely 2003, the cooperation on the borders with that time actual and future neighbours of the European Union was supported by a variety of instruments, governed by different regulations, operating with different project identification, selection and implementation procedures, being also difficult to implement genuine joint projects, meaning to serve a joint objective and to operate on both sides of the border at the same time. The building of a cross-border financial instrument for the EU neighbouring area was designed in two phases – a first phase 2004-2006<sup>1</sup>, introducing the neighbourhood programmes and a second phase, a new neighbourhood instrument.

There were five financial instruments: INTERREG Community Initiative, PHARE CBC Programmes, TACIS CBC Programmes, CARDS and MEDA. The *INTERREG Community Initiative* (European Council, 1999), a financial instrument within the framework of the European Union's Structural Funds, supports cross-border and transnational cooperation among Member States and neighbouring countries. In the framework of the pre-accession-driven PHARE instrument in the candidate countries, the *PHARE CBC programmes* (European

<sup>1</sup> 2004-2006 it refers to the programming period. The effective implementation was 2005-2010.

Commission, 1998) supported cross-border cooperation with Member States and between the candidate countries. Before that, cross-border cooperation on candidate countries' borders with the future neighbourhood has been financed through national PHARE programmes. For the period 2004-2006, the geographical scope of PHARE CBC was extended to cover the borders of Bulgaria and Romania with neighbourhood countries. In the also called New Independent States (NIS countries) the *TACIS CBC programme* (European Council, 1999) supported cross-border cooperation in the western border regions of Russia, Belarus, Ukraine and Moldova. In the Western Balkans, *CARDS* (European Council, 2000) was a key instrument of the stabilization and association process and supported a range of activities. In the Mediterranean, the *MEDA programme* (European Council, 2000) provided support for regional cooperation between countries on the Southern and Eastern shore of the Mediterranean but did not fund direct cooperation activities with Member States.

For the first phase, for the 2004-2006 programming period, the proposed key objective was to build on existing progress made in coordinating the various instruments, while fulfilling the existing commitments at that time and obligations regarding the previous programming period up to the end of 2006. In this context, the particular pre-accession needs of Bulgaria and Romania were taken into account. As a first step, the Commission proposed for this period the introduction of *Neighbourhood Programmes* covering the borders of the enlarged Union with the final neighbours. These programmes should have been prepared jointly by relevant stakeholders on both sides of the border. The Neighbourhood Programmes covered a broad range of actions flowing from the objectives stated in the European Commission document (European Commission, 2003), including infrastructure in the sectors of transport, environment, energy, border crossings, electronic communications; investments in economic and social cohesion (productive investments, human resource development, business-related infrastructure, cooperation in the fields of research and technology and innovation); people-to-people actions (such as cultural and educational exchanges and cooperation); promoting the management of the movement of people and support to institution building (including justice and home affairs, border and customs management and meeting other common challenges). The design of those programmes included a single application process, including a single call for proposals covering both sides of the border, a joint selection process for projects, the funding for these Neighbourhood Programmes being based on the allocations already earmarked for existing programmes at that time. The Neighbourhood Programme approach had to be materialized in single projects operating on both sides of the border. In reality, some of the programmes didn't manage to have a real joint process of application or selection or real joint projects with effects on the both sides of the border, nor joint contracting, reporting, monitoring or evaluation procedures<sup>2</sup>.

<sup>2</sup> See the example of Neighbourhood Programme Romania-Ukraine, going through the documents referring to the calls for proposals or the list of projects it can be identified

The second phase for the implementation of the European Neighbourhood Policy through the cross-border financial instruments was to establish a new Neighbourhood Instrument post 2006 linked to, and coherent with, the various external policy agendas and processes taking into account of the different regional priorities already developed. Also, this new instrument was aimed to combine both external policy objectives and economic and social cohesion. The new instrument was named the European Neighbourhood and Partnership Instrument (ENPI) and covered more programmes, the geographic coverage of the programmes being established in 2007 in reflection of the basic criteria from the ENPI Regulation and taking account of relevant lessons from past experience. For the period 2011-2013 there are the thirteen cross-border cooperation programmes adopted and in place - 9 land-border, 1 sea-crossing and 3 sea-basin programmes. The total funding available for ENPI CBC programmes for the period 2011-2013 amounts to 537.7 million Euro, out of which 260 million Euro comes from the ENPI and 277.7 million Euro from ERDF.

The European Commission considers that the actual financial frame for the implementation of the European Neighbourhood Policy, the ENPI, has been widely recognized as a successful instrument to accompany the EU's policy towards its neighbours. Nevertheless, the ENP policy review and other assessments, lessons learned and public consultations have all identified a number of issues to tackle in the future by adapting the instrument to make the EU's response even more effective, in particular (European Commission, 2011).

The future European Neighbourhood Instrument should be aligned to the new ENP vision and address the specific challenges and issues as identified above. The European External Action Service held specific consultations with representatives from the EU Member States and ENP partner countries as part of the Strategic Review of the policy, launched in July 2010 (Interact, 2010). The consultations tackled financing of the ENP, notably under the European Neighbourhood and Partnership Instrument, and issues of the long-term ENP vision and medium-term policy objectives. The consultations revealed that the ENPI was seen as a step change in the way EU assistance was delivered. However, they also identified the need for further refinement. Specific consultations on CBC were organised with all stakeholders (Interact, 2010). The process was launched during a CBC Conference in Brussels in February 2011, and stakeholders were consulted on the future regulatory framework, including on the Cross-border Cooperation Implementing Rules, on the basis of a questionnaire circulated in May/June 2011. The results reflected the need to adapt some provisions to improve the efficiency of the Cross-border Cooperation. The aim of the suggested changes is to better reflect the integration between EU foreign policy priorities and the EU Cohesion Policy, especially by further aligning the Cross-border Cooperation on external EU borders to the European Territorial Cooperation (ETC) rules.

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one single joint call for proposals - <http://www.mdr.ro/programul-phare-cbc-ro-ua-2004-2006>. Moreover, the relevant implementation procedures available are only for the Romanian projects - <http://www.brct suceava.ro/download.html>.

The key elements of the proposal of the European Commission, as compared to the current set-up, and their rationale are the following (European Commission, 2011): to apply the principle of “more for more” and mutual accountability in line with the new vision of the ENP, to address the complexity and length of the programming process in order to streamline, shorten and better focus the process, to streamline the scope of the Instrument, to adapt the implementation provisions and improve coherence between the external instruments and to improve the provisions on the Cross-border Cooperation approach to facilitate effective and fast implementation of the programmes, to promote closer links with EU internal instruments and policies.

The proposal for the ENI includes provisions to simplify the instrument in a number of aspects. A new, simplified programming tool for most of the neighbouring countries, Single Support Framework, has been introduced. This new programming document should be shorter than the Strategy Papers and Multiannual Indicative Programmes, should prevent duplication of information contained in the legal/political documents that underpin EU relations with its neighbours, and should help shorten the programming process, therefore reducing administrative costs. The proposal is setting the vision for a solid and simplified frame for the next programming period – 2014-2020, which gives the base for new specific financial instruments for cross-border cooperation in the research area.

In what concerns the research area, a practical step was held on 18 June 2013 in Bucharest<sup>3</sup>, by the organization of the first meetings of the Joint Programming Committees for the Romania-Ukraine and Romania-Moldova cross-border cooperation programmes. The two programmes are to be financed under the European Neighbourhood Instrument during the period 2014-2020, as successors of the ENPI trilateral which Romania, Ukraine and the Republic of Moldova are currently carrying out.

## **2. FLEXIBILITY AND TRANSPARENCY IN THE CROSS-BORDER COOPERATION PROGRAMMES**

The core objectives of cross-border cooperation and the base of a new neighbourhood partnership instrument for the timeframe 2014-2020 should be built in order to support sustainable development along both sides of the EU’s borders, to help decrease differences in living standards across these borders, and to address the challenges and opportunities following on EU enlargement or otherwise arising from the proximity between regions across our land and sea borders. In order to support the core objectives, the strategic objectives should be at least to promote economic and social development in regions on both sides of common borders, to address common challenges, in fields such as environment, public health and the prevention of and fight against crime, to promote better conditions and modalities for ensuring the mobility of persons, goods and capital and further to promote local

<sup>3</sup> <http://www.mdr.ro/en/comunicare/presa/comunicate/mdrap-nominalizat-autoritate-de-management-pentru-programele--romania-ucraina-romania-moldova-2014-2020>



cross-border “people-to-people” initiatives as an important element to be deployed in support of any or all of these objectives.

Considered reasons for change of frame in cross-border area are multiple: the actual and future gradual transformation of the border from a line of separation into a place for communication between neighbours, the will for overcoming the mutual animosities and prejudices between peoples of border regions which result from historical heritage, the overcoming of national peripherality and isolation, the promotion of economic growth and development and the improvement of the standards of living and not the last, the better use of the previous experiences.

Our proposal is based on two main areas of intervention: a first one that supposes the improvement of the frame of the actual programme considering the feedback from the past and current experiences in order to increase flexibility, transparency and efficiency of the financial intervention, and a second one, the innovative element that makes the bridge between the actual programmes grant oriented to a financial instrument designed to improve the economic and social life of the research area, namely the sub-scheme for the SMEs. Still, some general aspects of the intervention that we consider now as being important in the design of overall financial intervention in the research area: the stakeholders’ consultation all along the programme implementation process, types of beneficiaries, the programme sources of funding and the evaluation of the programme.

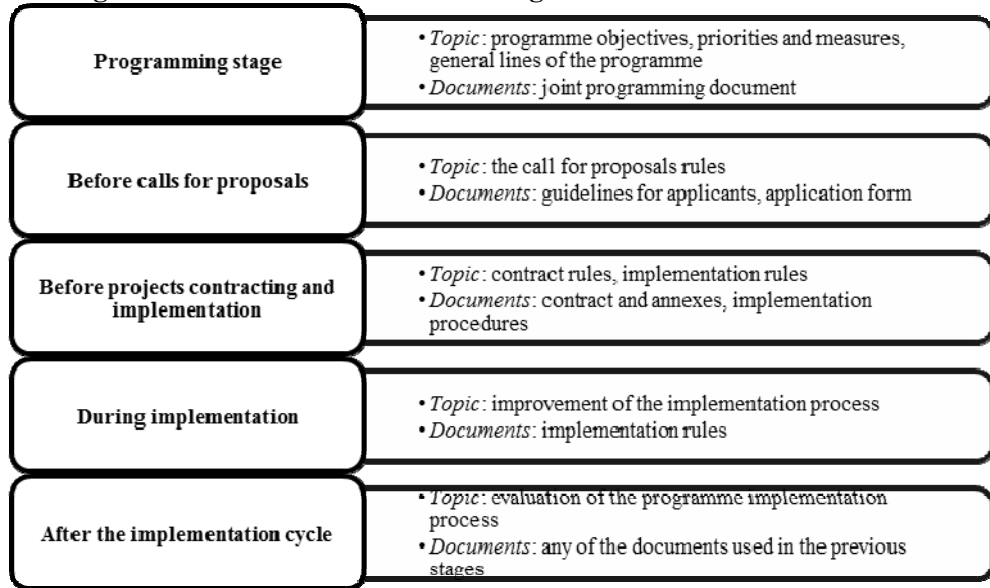
As far as the programme documents are concerned, these are rising from the programming process as the mirror of the area needs and the stakeholders will as described in the section for stakeholders’ consultation. As far as our research included in the investigative endeavors just a part of the stakeholders, any potential proposal of a document as guidelines or application form would not be complete and appropriate to the realities.

## **2.1. Stakeholders’ consultation**

For a bottom-up approach and a proper matching of the financial instrument features with the needs of the targeted area, some necessary steps should be considered, the first important one being the consultation with the stakeholders, namely the institutional system at national, regional and local level, actual and potential cross-border grant beneficiaries and applicants, for figuring out the main priorities and measures to be included in the programming stage, the form of the documents and the implementation process. We recommend not only a meeting but consultation groups and different investigation tools starting from questionnaires, meetings and direct dialogue. The consultation with stakeholders should be all along the entire programme implementation, at least before each call for proposals about the documents and every time a significant change in the process or procedure is initiated. Also, in the programming period at least three stages of consultation should be considered, a first general collection of opinions, a first draft of the programme and the final acceptance. The inclusion of a new target group of beneficiaries, the SMEs, requires also the separate consultation with SMEs or representatives of them, business associations, authorities from the future

programme countries, possible private stakeholders, and not the last the European Commission as far as the sub-scheme designed for them is concerned. A graphic representation of the consultation process can be viewed in the Figure 1.

**Figure 3 - Intervention scheme through the stakeholders consultation**



Source: own representation

The permanent consultation will make an efficient match between the stakeholders' needs and the programme documents and process flow and will make the programme more transparent, efficient and flexible, giving legitimacy to the decisional process.

## 2.2. Types of beneficiaries

The types of beneficiaries are similar with the current programmes with the recommendation we have to consider a more specific list for each measure proposed and have a direct link with it. A description of the potential applicants should be clear, not to have a have double meaning and be understandable. Taking into consideration that the legislation in programming countries is different, these peculiarities of legislation should be also taken into account. The list of potential applicants should be in conformity with actual needs but should be given a certain degree of flexibility for any future situation. The categories of eligible applicants should be very well correlated with intervention areas and the expected results (see development area of SMEs, trade activities, foreign investments). Also, we recommend the introduction of a new category of beneficiaries, namely the SMEs for the priority or measure that will be considering economic development.

The core issue of the cross-border programme, that the partnership across countries is mandatory, it is mainly important as long as the programme shape is of a cross-border one and not an initiative dedicated to SMEs that is a new type of beneficiary, not accustomed yet within the programme structure. An added feature from this point of view is that the partnership with an already-cross-border-grant beneficiary should be mandatory (ex: university, business association, chamber of commerce or other) due to the experience of the ‘old beneficiaries’ and to reduce the risk of spending the grant and not to achieve the stated results of the project. Also the sub-scheme should consider incentives in order to encourage some specific business, for example innovative business, or the SMEs partnership across countries in a form of extra-points in the evaluation process.

### 2.3. Programme sources of funding

Due to the awareness and the main source of funding, European funds, the Joint Operational Programme umbrella should be maintained, meaning that the main public sources for fund are: European Union, Romania as Member State, Ukraine and Republic of Moldova as partner countries, even if in the actual programme the two partner countries are not contributing directly, only through the beneficiary co-financing and as pilot area should be the cross-border area Romania-Ukraine-Republic of Moldova, within two programmes that will implement the financial instrument – Romania-Ukraine and Romania-Republic of Moldova. The private sources of funding are coming from the beneficiaries’ contribution through the co-financing of the eligible expenditures and the coverage of the ineligible expenditures. Along the programme implementation, when and how it will be considered appropriate, the banks can be included for the sub-scheme designated to the SMEs. A proposed potential level of contribution can be seen in the Table 1 where the financial cycle is starting with the call for proposals and is ending with the implementation of projects financed through the call.

**Table 5 - The sources of funding for the future financial instrument and the gradual approach of involvement**

	EU	Romania	Ukraine/Republic of Moldova	Banks
1 <sup>st</sup> financial cycle	85%	10%	5%	-
2 <sup>nd</sup> financial cycle	80%	12%	8%	-
3 <sup>rd</sup> financial cycle	70%	15%	10%	5%
4 <sup>th</sup> financial cycle (if case)	65%	15%	10%	10%

Source: own representation

The gradual approach and the involvement of the countries with funding sources will increase the commitment of the partner countries toward the reach of programme objectives and the efficient implementation of it.

In what concerns the funding rules toward the beneficiaries, we recommend also a gradual approach and a protective allocation of money through the consideration at least three aspects. Firstly, at least three calls for proposals should be organized in order to improve every financial cycle and allow a flexibility regarding the allocation on measures as to follow and fit to the economic environment changes. Secondly, the co-financing contribution from the beneficiaries' side should be gradual increasing and dependent on the type of project and type of beneficiary. Therefore, the co-financing contribution for beneficiaries from partner countries may be lower because of their weaker institutional capacities and also the NGOs can have a lower contribution than the public institutions that have regular support from the budget. As well, the social oriented projects may have a lower co-financing rate than the infrastructure ones. As far as the SMEs are concerned, they will have a lower co-financing rate in the first call, higher than the one for public beneficiaries, which will increase from a call for proposal to the other. Thirdly, in the case of SMEs, in the second or in the third call for proposals, as appropriate, it will be introduced a part of reimbursed funding that will be constituted at long time in a revolving fund.

A potential share of grant – co-financing of the beneficiaries, on type of beneficiaries and gradual from a financing cycle to the other is detailed in the Table 2.

**Table 2 - Sources of funding for the projects on types of beneficiaries**

Type of beneficiary	Public institution/ administration		NGOs		SMEs		
	Grant	Own budget	Grant	Own budget	Grant	Loan	Own budget
1 <sup>st</sup> financial cycle	80%	20%	90%	10%	80%	-	20%
2 <sup>nd</sup> financial cycle	75%	25%	85%	15%	70%	10%	20%
3 <sup>rd</sup> financial cycle	70%	30%	80%	20%	65%	10%	25%
4 <sup>th</sup> financial cycle (if case)	70%	30%	75%	25%	60%	15%	25%

Source: own representation

The loan component should be a revolving fund which sustains itself and is the area where the banks can become an important private source of funding.

The gradual approach in the sense of decreasing the share of public funding through the programme will activate beneficiaries to find more sources and to have an economic guided and dynamic thinking of the project as an investment for the future instead of a static and short term oriented thinking.

The new sides of our proposal are based firstly on the involvement of the countries in sustaining the programme budget, secondly on the gradual approach that allows flexibility of the financial instrument, thirdly the increase of financial involvement of the beneficiaries and fourthly the loan component that translates the cross-border programme from a grant oriented programme to a financial instrument. The proposed funding structure will transform the programme countries and the beneficiaries from static recipients of external non-reimbursable funding, without real commitment and responsibility toward the results, into

dynamic partners that initiate and shape the programme as financial instrument that is appropriate to the cross-border area needs on the path of intelligent economic development.

## 2.4. The evaluation of the programme

This issue is linked with two aspects we want to consider as intervention for change – one is the programme indicators based on which the final evaluation is made and the second is the evaluation process itself.

As far as the first aspect is concerned, the current programme has in its programming document specific indicators for each level of intervention, namely impact, results and outputs and there are specific indicators for each priority and measure. We recommend keeping this frame in the perspective of the evaluation. On the other side, as change we recommend that the fund allocations among measures to be flexible from a call from proposals to the next one in the sense that, in case of measures where the indicators are going to reach the targeted value considering the projects in implementation, the amount available for the next call for proposals should be decreased and for the measures where it was not so attractive to apply projects in order to reach the specific indicators to increase the amount available for granting. In the actual frame, in order to reach the indicators that showed a low level it was considered an action in the assessment process, by selecting with priority the projects that fulfill the less reached indicators. In case of interventions that need projects to be effective, even if there is the risk of having a low number of proposals despite the large amount available, there are at least two further steps that can be done concurrently: one would be to re-launch a short call just for that type of intervention, other would be to have meetings with potential applicants for the specific measure and to help them to figure out projects in the sense of reaching the indicators. Only if this fails, it should be considered by the programme institutions an update of the programming document and a revision of the indicators or areas of intervention. Anyhow, we considered that the indicators established at the beginning of the programme should be realistic, based on the area needs and potential. As proposed by us, this aspect would give flexibility to the programme.

The second issue, the evaluation process of the programme itself, as it is now, even if it exists in a form, it is not articulating enough all the stakeholders and it is not transparent enough toward them. From this point of view, we think that through the stakeholders' consultation all along the implementation process and at the end of each financial cycle, as detailed above, would give a reasonable transparency, commitment and useful feedback about the programme and will give flexibility to it.

## CONCLUSIONS

The on field research lead us to a conclusion that concerns the beneficiaries of the Joint Operational Programme Romania-Ukraine–Republic of Moldova as there was a deeper investigation among them. The beneficiaries are a very good resource for collecting feedback about the issues that decrease the efficiency of the funds spending, lessons learned and recommendation for an increased efficiency of a future programme. Any programme design has to start from the needs of the target groups and beneficiaries and their previous experiences and moreover they are eager to help improving the programmes addressed to them.

A future proposal of a programme that includes a financial instrument should be based on two main areas of intervention: a first one that supposes the improvement of the frame of the actual programme considering the feedback from the past and current experiences in order to increase flexibility, transparency and efficiency of the financial intervention, and a second one, the innovative element that makes the bridge between the actual programmes grant oriented to a financial instrument designed to improve the economic and social life of the research area, namely the sub-scheme for the SMEs. For the general frame of a future programme we consider as being important in the design of overall financial intervention in the research area at least the stakeholders' consultation all along the programme implementation process, types of beneficiaries, the programme sources of funding and the evaluation of the programme.

As far as the programme documents are concerned, they should emerge from the programming process as the mirror of the area needs and the stakeholders will as described in the section for stakeholders' consultation. As far as our research included in the investigative endeavors just a part of the stakeholders, any potential proposal of a document as guidelines or application form would not be complete and appropriate to the realities. Nevertheless we made recommendations that are based on our on the field research and experience. The permanent consultation will make an efficient match between the stakeholders' needs and the programme documents and process flow and will make the programme more transparent, efficient and flexible, giving legitimacy to the decisional process.

The gradual approach and the involvement of the countries with funding sources will increase the commitment of the partner countries toward the reach of programme objectives and the efficient implementation of it. Moreover, the gradual approach in sense of decreasing the share of public funding through the programme will activate beneficiaries to find more sources and to have an economic guided and dynamic thinking of the project as an investment for the future instead of a static and less future long term oriented thinking.

In what concerns the evaluation of any future intervention through a programme that includes a financial instrument in the research area, namely Romania-Ukraine-Republic of Moldova research area, at least two aspects should be considered as intervention for change – one is the programme indicators based on which the final evaluation is made and the second is the evaluation process itself. The first one should be a base of flexibility in funds allocation along the time

and the second one should allow an increase of transparency toward all the stakeholders involved in the programme.

## ACKNOWLEDGEMENT

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# EU'S DEPENDENCE ON RUSSIAN ENERGY RESOURCES AND THE NEW ALTERNATIVE OF OIL AND GAS EXPORTING COUNTRIES

Sabina STRIMBOVSCHI\*

**Abstract:** *In this paper the author tackles the EU-Russia energy relations from the beginning of their cooperation in this field until now. Likewise, the disputes that emerged, along the time, at the EU's border and vicinity are presented and analyzed, by trying to explain how Russia uses its energy resources as a tool of hard power in its foreign policy. However, taking into consideration the previous gas crises and the policy of Russia toward the Eastern Partnership (EaP) states that aim to follow Euro-Atlantic integration, the author treats and highlights the EU's strategic interest to establish new partnerships with other energy exporting states. In this regard, one of the EaP states that present a huge interest for the EU in order to develop a bilateral energy relation is Azerbaijan, a Caspian state with great oil and gas resources.*

**Keywords:** Energy security; gas crises; renewable resources; EU; Russia; the shared neighbourhood; Caspian Basin; Azerbaijan

## INTRODUCTION

The recent social, political and economic challenges on the international arena in general, and at the Eastern border of the EU especially might be perceived as the beginning of a new era, where EU and Russia are the key actors, while the countries from the shared neighborhood represent the “battleground between the great powers”, between West and East. Despite that the EU and Russia have tried to bound strategic and credible partnerships aiming to bring prosperity and mutual benefits, the recent decisions of the EU towards the countries from the Eastern Partnership (EaP) and the steps taken by the states which intend to follow the European way, disturbed Russian Federation giving that it continues to consider this region its sphere of influence. Nevertheless, maybe it's time to realize that both, the EU and the Russian Federation had incompatible and somehow competitive strategies in the common neighborhood, which is why the EaP was considered by many political analysts a failure. However, a common area of interest and cooperation for Russia and the EU has been and will remain the energy sector. At the same time, considering how Russia uses its resources not only for economic purposes, but mainly for political ones and as a tool of coercion, the EU is put in the position of looking for alternatives to Russian resources in order to act

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objectively and independently in the future, without being conditioned in a certain way by Russian Federation .

## 1. THE CHALLENGING EVOLUTION OF THE EU-RUSSIA ENERGY RELATION

Russian Federation and the European Union started to cooperate in 1994, when the *Partnership and Cooperation Agreement* (PCA) was concluded. In this context, the primary goal was to establish constructive economic relations, yet the development of political dialogue within multilevel institutional framework was one of the hidden objectives (Busighina, 2012, p. 17). Nevertheless, there is no surprise that the respect for human rights and democracy represent the main ingredients for the EU. As a normative power, the EU is trying to spread and implement its fundamental values and ideas, even in the former USSR. However, since the 1960s was admitted that one of the most important area of cooperation, mutually beneficial for the EU and Russia is related to the energy resources. Thus, few years later after the launch of PCA, in 2000 during the EU-Russia Summit, Vladimir Putin, Jacques Chirac and Romano Prodi decided to create an Energy Dialogue, which was seen as a real platform for further development between both parties in the energy sector where the promotion of trust and transparency were considered the key objectives (Piebalgs, 2009, p. 6). As a result, now Russia is the EU's most important supplier of energy products, accounting for 29% of EU consumption of oil and gas. Howbeit, Russia needs the EU as its economy is based on the export of energy raw materials and the EU is its most important destination at this point. (*EU-Russia summit*, 2014) In this regard, the Energy Charter Treaty, a framework for multilateral cooperation in energy sector between the EU and Russia is vital for the EU, in order to create a framework for global energy governance. However, Russia views the Energy Charter as the main tool of the EU's energy policy, mainly because the EU has given the impression that Russia should accept the Treaty as it is (Belyi, 2012, p. 2). For that, Russia refuses to sign the Energy Charter, where the provisions that should separate production companies from networks represent as well an important negative aspect that would weaken Gazprom. Howbeit, Russian authorities proposed an alternative Draft Convention for Energy Security to ensure future global energy security, but so far failed to create and implement a common EU-Russia energy charter.

Given that the energy field is connected to the economy, in order to enhance the EU-Russia relations, in 2003 during the Saint-Petersburg Summit, was established the strategic partnership between both parties, that covers four so-called "Common Spaces" on: economic issues and the environment; freedom, security and justice; external security; research and education in the framework of the PCA. Furthermore, in order to strengthen the EU-Russia relations, in 2008, during *Khanty-Mansiysk Summit*, started the negotiations on a New Agreement that has the aim to replace the current PCA. A New Agreement is designed to become the legal basis for EU-Russia relations. In that framework, the parties will be able to have also political dialogue and will treat various aspects on economic, trade,

energy, justice and security issues (*EU-Russia summit*, 2014). However, this partnership based on the common values and shared interests was challenged due to differences with regard to the Trade and Investment provisions as well as to the economic interdependence and political competition over the shared neighborhood (Busighina, 2012, p. 20). Since Brussels and Moscow have failed to complete negotiations on the New Agreement, some scholars consider this strategic partnership a failure because of the different perspectives upon their interests but also because of the lack of those basic common values, which are, actually, essential in a strategic partnership. Moreover, Russia perceived this partnership as a tool of the EU's soft power in Russia, as the Eastern Partnership is seen in its near abroad. In this context, the EU should understand that Russia doesn't intend to adopt the European model and, consequently, should change its approach, by reviewing its conditions and requests upon Russian domestic affairs and democracy. At the same time, the EU should be aware that Russia now is different than it was in the period of Mikhail Gorbachev, when it was a weak and helpless country. Now Russia is trying to build its relations with the EU on the economic and strategic interests acting through various geopolitical tools.

### 1.1. Energy security - a common concern

One of the common issues that concern both Russia and the EU is on the one side, the security of supply for the European Union and on the other, the security of demand for Russian Federation. These issues were planned to be tackled in the Energy Charter Treaty, but considering that Russia rejected this one, the cooperation in this field has hampered. To Russia, energy security is guaranteed by state control of the energy sector, where the companies prefer a governance structure that restricts competition (Belyi, 2012, p. 3). From the EU's perspective, it is guaranteed by an impartial and effective regulatory framework and by diversity with regard to source, supply, transport and sales (Cameron, 2009, p.23). Thus, the EU seeks a governance regime to ensure competition on the market. The gas crises of 2006 and 2009, when Gazprom cut off its supplies to Ukraine as a result of natural gas pricing disputes, had serious repercussions on the European Union, and consequently EU-Russia gas trade became extremely politicized (Belyi, 2012, p. 3). Furthermore, the Member States which are dependent on Russian gas have been directly affected because almost 80% of European natural gas imports from Russia ran through Ukrainian pipelines at that time. Following the gas disputes in 2009, the EU and Russia set up an Early Warning Mechanism in order to ensure the stability of existing transport network and to guarantee an early evaluation of potential risks related to energy supply (Tarradellas Espuny, 2009, p.14). Thus, it is clear that both parties are looking for security and a clear understanding of what demand and supply will be in the future is of great importance.

Since then, both Europe and Russia have implemented limited measures to diversify the energy supply and markets. However, certain decisions have been taken regarding this issue. In this respect, Russia has already expressed its intention

to reduce its dependence on EU demand and turn to Asia (C. Chow and Hudson, 2013). Thus, the recent energy deal that will send natural gas from Russia to China beginning in 2018 is considered a first important step for Russia. However, it is clear that Gazprom will not abandon European market and will not give up at some of the most important pipelines projects like North Stream or South Stream. At the same time, the EU as well proclaimed that seeks new gas and oil exporting countries (Medlock, 2014). The EU already receives gas from a number of different suppliers including Norway, Algeria, Nigeria and Qatar. But with the exception of Norway there are few stable areas from which to import gas. In this context, the Liquefied Natural Gas (LNG) could be an efficient energy alternative that has also the potential to contribute to security of gas supply. Likewise, the exploitation of alternatives to fossil fuels: nuclear energy and renewable energy sources, such as solar cells, wind turbines and other sources, (Spagnol, 2013) are taken into consideration by the EU as it will reduce the dependence on imported energy and will enable the EU to cut greenhouse emissions. In this respect, Sweden could be an example as it seeks to invest in renewable energy technologies and energy conservation, while Iceland intends to become energy-independent by 2050 through deploying 100% renewable energy (Spagnol, 2013).

The interdependent and sometimes vulnerable relationship between the EU and Russia was created specifically by the diversified Western markets and the lack of unity within the EU. While some of the EU Member States are almost dependent on Russian supplies, some of them even do not need to import energy products from Russia. This phenomenon has emerged because of the divergent national interests which some of the Member States prioritize and which often do not correspond with those promoted by the EU. At the same time, the different attitude of Member States towards Russia is related, as well, to their particularly historical past. However, dependence on Russian energy resources is one of the most severe factors that condition countries like Latvia, Slovakia, Hungary or Bulgaria that are almost completely dependent on Russian energy supplies. On the opposite side, is Spain or Ireland that doesn't import energy from Russia, while countries like Germany, Italy or France have strong relations with Russia in the industrial, commercial and energy sector. From this point of view, it is obvious that a common strategy on Russian energy products cannot be achieved because some of the important Member States don't want to jeopardize their strategic relations with Russia. However, only the gas cut-offs of 2006 and 2009 prompted the Member States to act collectively and to condemn Russia because it affected millions of EU citizens (Cameron, 2009, p.21). For all that, in order to prevent a divided union it is necessary to establish an integrated and competitive European gas market that would create the maximum possible degree of solidarity between European gas consumers and would improve collective supply security. Thus, Europe would be a single export market for Gazprom, making bilateral relations with Moscow that will be much less critical to accessing Russian gas (Noel, 2008, pp.3-9). However, it is arguing that this solution has been proposed yet a while ago, but some of the key Member States, especially Germany and to some extent France, continue to have reservations about a truly integrated, competitive European gas market (Noel,

2008, p.12) because their strategic and bilateral economic relations with Russia have priority over the common interests promoted by the EU.

However, for the medium term the future cooperation in the energy sector is necessary and evident as the EU and Russia are interdependent on energy resources, considering that 29% of the EU's consumption of oil and gas are imported from Russia, while the Russian economy continue to be largely dependent on the export of hydrocarbons (Cameron, 2009, p.20). Furthermore, European Parliament stressed in a study that “EU-sponsored efforts to build pipelines bypassing Russia are not a complete solution; on the contrary a strategy is needed to make interdependence work, establishing the rules of the game and a long-term trilateral agreement on transit via Ukraine” (*EU-Russia Relations and the shared neighbourhood: An overview*, 2011, p.12.).

## **2. ENERGY RESOURCES – AN INSTRUMENT OF RUSSIAN FOREIGN POLICY IN THE SHARED NEIGHBORHOOD**

It is well known that Russia is using its energy resources not only with the aim of bringing economic profit but above all are used for political and geopolitical purposes. This fact has been communicated in written form since 2003 in the “Energy Strategy of Russia to 2020”, where was emphasized that the energy sector is “an instrument for the conduct of internal and external policy” and that “the role of the country in world energy markets to a large extent determines its geopolitical influence” (Cameron, 2009, p.23). Despite that both, Russia and the EU, are trying to consolidate their relation by cooperating in various fields, there are several areas where the principle of cooperation was replaced by that of competition. In this regard, the shared neighborhood between the EU and Russia represents one of the sensitive subjects. This area of common interest became more tense and unstable in the fall of 2013, before and especially after the Eastern Partnership Summit in Vilnius, when Ukraine had to sign the Association Agreement (AA) and the Deep and Comprehensive Free Trade Agreement (DCFTA), while Armenia, Georgia and Moldova had to initial the AA and DCFTA. In this respect, the situation started to worsen with Armenia’s decision to abandon the initialling of the Association Agreement before the EaP Summit and to join the Customs Union. Likewise, the decision taken by the former president of Ukraine, Victor Yanukovich to postpone the signing of the Association Agreement led to the outbreak of mass protests and, in the end, to the weakening of Ukraine as nation and state. In this context, was obvious that Russian Federation acted by various means in order to prevent these states to build strong relationship with the EU as it has acted in Georgia in 2008 and in Ukraine in 2009 due to the intentions of these countries to integrate into the Euro-Atlantic community at that time. Nevertheless, the Eastern Partnership from the beginning was perceived by Russian authorities as a threat to the Russia’s near abroad. From a retrospective approach, it should be reminded that in 2009 Serghey Lavrov stated that this policy represents an instrument by which EU is trying to create a new sphere of influence in the Eastern region. At the same time, EaP was considered a real challenge to the Russian integration projects like Customs Union

or the future Eurasian Union and was seen as a direct threat to the energy security and to the energy projects, especially to North Stream and South Stream. (Arbatova, *n.d*) These two pipeline projects were very important for Russia from the geopolitical point of view. They were meant to bypass Ukraine and undermine Ukraine's domination of pipelines to Europe, which was one of the biggest obstacles to Russian domination of the European gas market (Cameron, 2009, p.24). However, Russia succeeded to build North Stream, being supported by Germany that backed the construction of this pipeline. For all that, Germany's actions have been criticized by Poland and Baltic States because North Stream that started to operate in 2011 led to increased energy dependence on Russia and raised concerns regarding the environmental pollution. Likewise, South Stream that is expected to be completed in 2018 would bring Russian natural gas through the Black Sea to Bulgaria and further to Greece, Italy and Austria. This pipeline is considered as well a threat to reducing energy dependence on Russia but also a challenge to Nabucco project that was backed by the EU and had to transport gas from the Caspian Sea to Europe, in order to bypass Russia. Unfortunately, this pipeline project was cancelled, being declared "dead". In this framework, where Russia uses energy as a political weapon abroad, especially in its near abroad, Europe intends to depoliticize the EU-Russia gas relationship with the aim to integrate Russian gas imports into a competitive pan-European gas market. (Noel, 2008, p.2) Besides this, a solution in the context of depoliticizing the energy dialogue between the EU and Russia would be to increase the use of green technologies and new renewable energy. Nevertheless, for Russia a depoliticized EU-Russia gas relationship would place it into a neutral position, as a weak power in the shared neighborhood, a fact that will hardly be accepted by Russia.

Despite all the challenges and disputes that have emerged between the EU and Russia, the strategic target by 2050 is to achieve a "Pan-European Energy Space, with a functioning integrated network infrastructure, with open, transparent, efficient and competitive markets, making the necessary contribution to ensuring energy security and reaching the sustainable development goals of the EU and Russia" (*Roadmap EU-Russia Energy Cooperation until 2050*, 2013, p. 5). Such a result would have vast economic and political consequences. It would improve the energy security of the EU and Russia, and strengthen their positions on the global energy market. This is an optimistic scenario, but meanwhile the EU must look for other new alternatives and opportunities other than Russian.

### **3. AZERBAIJAN – A STRATEGIC PARTNER IN THE CASPIAN REGION TO THE EU**

The actual competition between the EU and Russia over the shared neighborhood and the disputes in the energy sector determined the EU to look at the Caspian Basin which represents a new opportunity for the EU in the energy field. However, and other important international actors got involved in the region. Thus, the United States, together with the United Kingdom and Turkey, has strongly contributed to the Caspian's re-emergence on the global scene by

enhancing engagement and complement established Russian supplies to the EU from Caspian sources. Therefore, the Euro Atlantic is the major beneficiary of Caspian trade and investment opportunities while the EU and Turkey, together with Russia and China in the Asian Pacific, are the principle parties interested in energy and security (Van Agt, 2014, pp.22-44).

The European Union has become involved in the Caspian region especially since the supply cut of Ukraine in 2006. Consequently, on November 2006 the EU and Azerbaijan signed a Memorandum of Understanding on the strategic energy partnership, where the diversification and security of energy supplies, the development and modernization of energy infrastructures and the use of renewable energy resources became the key priorities for both parties. (Memorandum of Understanding, 2006, p. 5) In time, Azerbaijan became a strategic partner in this region to the EU due to the large and accessible hydrocarbon resources that it has, and because in the future will become an important transit country for natural resources from Central Asia to Europe. On the other hand, Baku is also interested to establish strategic partnerships with EU, as it considers the EU the most attractive market, after Russia and the CIS countries.

In this region, the Southern Gas Corridor is seen as an important point for diversifying energy resources that is hoped to supply 10-20% of EU gas demand by 2020. The Southern Corridor would be – after the Northern Corridor from Norway, the Eastern corridor from Russia, the Mediterranean Corridor from Africa and besides LNG – the fourth big axis for diversification of gas supplies in Europe (Studies: Energy infrastructure). In fact, diversification of sources will improve competition and thus will contribute to market development and energy security. Furthermore, the Caspian gas that is planned to be exported to the EU by 2018 via the Trans-Anatolian and Trans-Adriatic Pipelines represent a new opportunity for both parties. On the one hand for the countries bordering the Caspian Sea because the investment in strategic gas and oil infrastructure will increase and on the other, the EU can benefit from new energy partners.

However, Trans-Caspian pipeline which is a proposed submarine pipeline between Turkmenistan and Azerbaijan that would transport natural gas from Kazakhstan and Turkmenistan to Central Europe remains constrained because of the competing interests in the region. Caspian crude oil, gas and products are exported mostly to Russian and Turkish markets. Oil and gas flows to other markets and ports in Central, South-eastern and North-western Europe. The Caspian Sea and the South Caucasus represents, as well, a transit corridor for exporting petroleum and gas to Europe, reducing dependence on Persian Gulf oil and Russian gas supplies. Thus, taking into consideration the European interests in the Caspian basin to preserve the security of European energy supplies and prevent the monopolisation of oil resources by any one powerful country, (Nuriyev, 2007, p. 8) the EU should change its soft approach towards Russia and should find common solutions in order to achieve its goals. Considering that actors like Russia, Iran or Turkey are involved in the Caspian basin, the EU doesn't intend to become a key security actor in this region. On the contrary, is trying to build positive and constructive relations with all the involved countries, in order to have a ring of well

governed and stable countries in southern Europe (Nuriyev, 2007, p. 20) However, this neutral attitude doesn't place the EU in a good position. In order to become a reliable partner, the EU should get involved more in this troubled region in order to solve the conflict between Armenia and Azerbaijan, as the conflict resolution over Nagorno-Karabakh represents one of the country's most important foreign policy concerns. The EU is trying to maintain positive relation with Russia which still perceives the South Caucasus region as its sphere of influence, but the EU should be aware that the internal political stability in Azerbaijan is a precondition for securing energy export routes and for developing energy and infrastructure projects.

## CONCLUSIONS

In the actual context, each actor pursues its interests and, consequently, the fight for power and influence is becoming increasingly fierce. However, I tend to believe that the maintaining of peace and stability in the world still remains a major goal. In fact, this is one of the reasons the European Union was set up. As the energy security represent a policy priority for the EU and because energy resources are no longer an instrument for social-economic integration but have become for Russian Federation policy goals and instruments of coercion, the EU is obliged to change its energy policy. Thus, the EU should speak with one voice and implement a smart energy strategy in order to reduce the dependence on the imported energy resources. In this regard, the EU should support the pipeline projects that can bypass Russia, like Nabucco and should rely more on renewable energy resources that will help the EU to establish constructive relations with Russian Federation, as the dependence on its resources will be reduced. A more optimistic scenario for the EU-Russia energy relations would be the integration of Russian gas imports into a competitive pan-European gas market, but this solution is not an option, at least for medium term, due to the fact that the current Russian leaders seeks to keep the politics in the gas relationship, since it is the most powerful weapon in its foreign policy.

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# MACROECONOMIC STABILITY OF CENTRAL AND EASTERN EUROPEAN COUNTRIES

Arnold WEISZENBACHER\*

**Abstract:** *In the context of the recent financial crisis, the macroeconomic stability of most countries has been cast to shadow. The damage to the economy caused by high inflation, volatile exchange rates, increasing amount of debts and the unstable financial markets has heavily left its toll on the global market and has led to massive unemployment and increasing poverty. This paper aims to follow the eight new Central and Eastern European countries that joined the European Union in 2004, as well as Romania and Bulgaria, who followed suit in 2007, in what concerns their economical performance, following adhesion to the EU while also comparing the periods before and after the economical crisis. They were chosen as a topic of research for the severity with which the crisis affected them and the high degree of reform implementation in the aftermath. It also plans to highlight the effect of the new reforms and the growth potential when compared to the rest of the European Union. The price inflation, real GDP growth, the levels of (un)employment, fiscal policy and stability of exchange rates will provide a clear image of how this cluster of developing countries fare nowadays against the rest of the EU countries.*

**Keywords:** GDP growth; unit labour cost; unemployment; current account; budget deficit

## INTRODUCTION

Most of the eight Central and East European Countries (CEE), who joined the European Union in 2004, as well as Romania and Bulgaria, who adhered to the European Union three years later, were heavily affected by the global financial crisis that occurred in late 2008. In the aftermath of it, a lot of lessons were learned and a lot of reforms were implemented with long-term positive as well as some negative implications.

Just before the crisis hit in its fullness, most of the CEE countries already showed major concerns. Hungary was still dealing with high public debt and long lasting fiscal problems. The Baltic countries, as well as Bulgaria and Romania were facing a current account crisis, while the former two had double digit inflation figures by 2008. After the crisis began, output started to constrain and unemployment reached new highs. Romania, Hungary and Latvia needed in the aftermath rescue programs from the International Monetary Fund (IMF).

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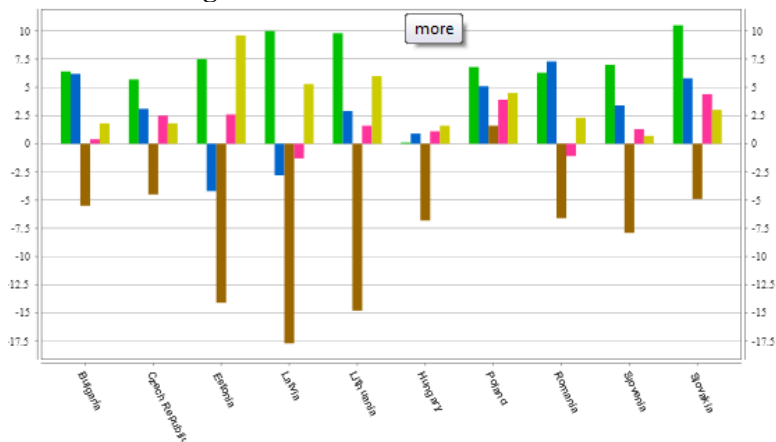
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By 2010 however, almost all the countries started to recover and exhibit economic growth and signalled that they managed to overcome the crisis. I will first offer a macroeconomic analysis of the situation before and after the crisis, in order to provide a quantitative picture of the extent to which the countries fared during and in the aftermath of the crisis. I will then try point the main reforms carried out and whether or not they provide the structure for future economic growth.

## 1. MACROECONOMIC ANALYSIS

It is interesting to notice that the countries that experienced the largest growth before the crisis, more exactly Latvia, Lithuania and Estonia are the ones that underwent the largest contraction when the crisis hit the hardest, with Romania and Bulgaria showing a similar trend. The three Baltic countries are the only ones that recorded a double-digit contraction with a staggering 14% reduction of the GDP at least for each one in 2009. Similarly, after they recorded a steady growth of around 6% before the crisis, Romania and Bulgaria witnessed a 6.6%, respectively 5.5% contraction in 2009. By 2011 however, all the CEE countries exhibited growth once again.

**Figure 1 – GDP Growth 2007-2011**

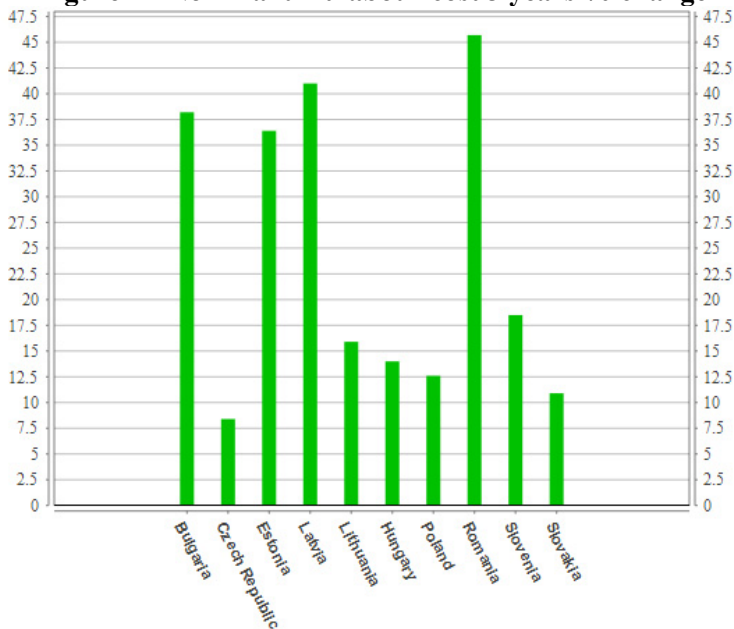


Source: Eurostat (online code tec00115)

The pre-crisis rapid growth was accomplished at unsustainable rates in these countries, thus creating strong internal and external imbalances. The credit boom allowed a major rise in the prices of the assets, mainly the house prices. As shown by the deflated house price index, which measures inflation in the house market relative to the inflation for private final consumption expenditures, the boom of 23.6% increase in one year in Latvia was followed by a 39.2% decrease in 2009, with all three Baltic countries as well as Bulgaria and Romania witnessing decreases of over 20%. The wealth excess further provided increases in demand and rising wages which then lead to strong increases in the nominal unit labour

cost, which is the ratio of labour costs to labour productivity. This indicator reflects both the amount of labour costs needed for the production of one unit of GDP, as well as the interdependence of labour costs and productivity with respect to the formation of the GDP. The overall consensus is that the unit labour cost should increase slow and steady and the changes in labour costs should be on par with those in productivity in order to stimulate competitiveness (Mertsina and Jänes, 2012). However, in 2009, based on a three year average the changes peaked at more than 35% in Bulgaria, Latvia, Estonia and Romania, with a record high 45.7 increase in the latter.

**Figure 2 - Nominal unit labour cost 3 years % change**



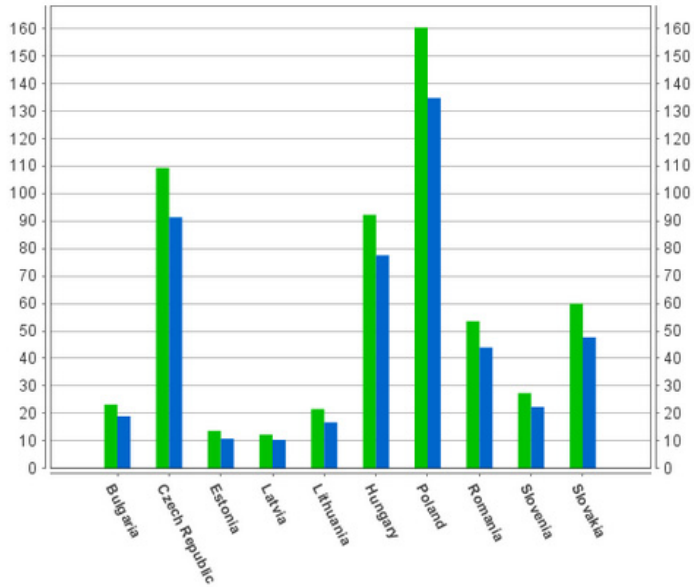
Source: Eurostat (online code tipslm10)

Improvements in the competitiveness of cost translated in general for the emerging economies into a surplus in the trade balance (Richard, 2011). Therefore, we assume there is an inverse relationship between unit labour cost and the exports of a country, with an increase in the former affecting the overall export benefits. This is indeed true when regarding the same period for total exports compared to the unit labour costs, with exports diminishing in every one of the ten countries between 2008 and 2009.

The budget deficit also started to rise before the crisis in most of the CEE countries due to increased growth and overconfidence of the governments in terms of forecasted output but it still wasn't significantly high in 2007. With the onset of the crisis however, governments were forced to spend more in order to reboot the economy and the deficits increased alarmingly with the peaks occurring in 2009 in

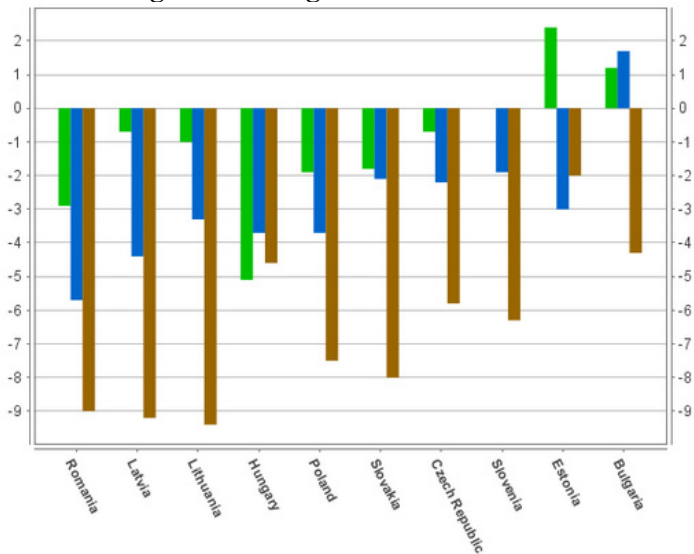
most countries, with Romania, Lithuania and Latvia leading the pack with over 9% of their GDP as budget deficit.

**Figure 3 – Exports in 1.000 million**



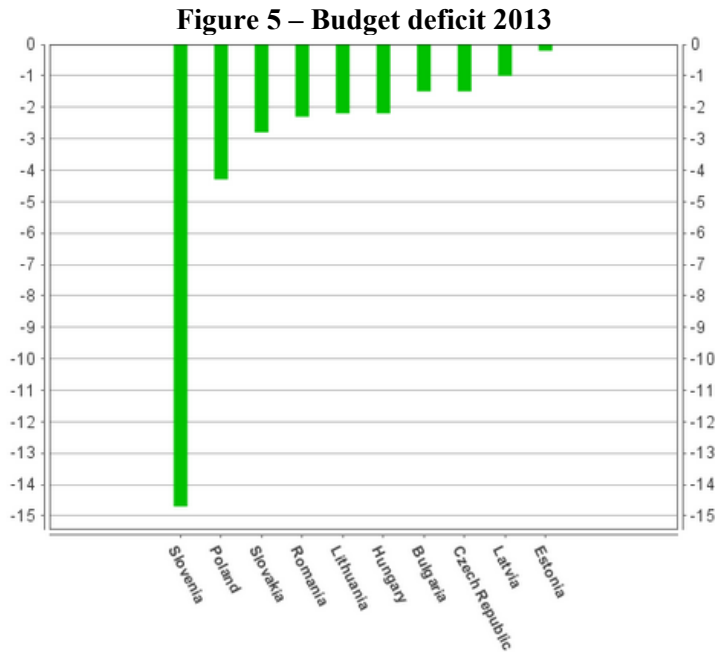
Source: Eurostat (online code tec00038)

**Figure 4 - Budget deficit 2007 - 2009**



Source: Budget deficit 2007-2009 (online code tec00127)

All the countries with the exception of Poland and Slovenia have managed to reach their intended purpose of reducing their budget deficits to under 3% by 2013. This is in opposition to countries like Spain, Portugal or Greece, which still exhibit high deficits as of the last year.



Source: Eurostat (online code tec00127)

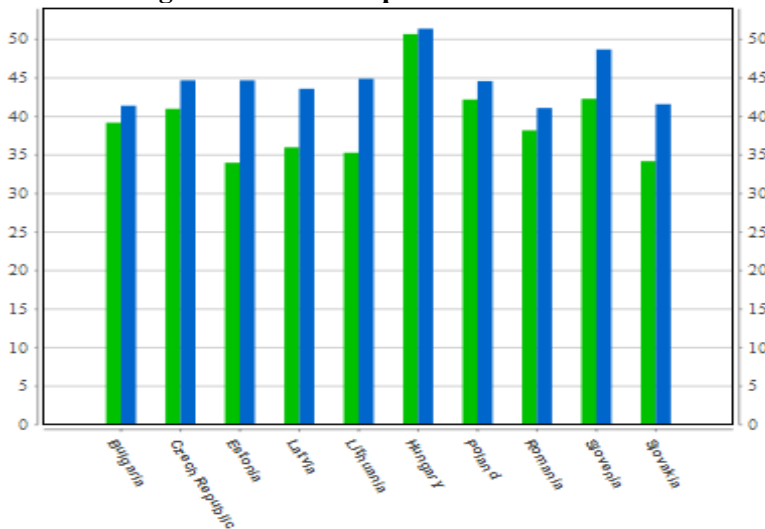
The situation in Slovenia is particular with the deficit standing at 5.188 million euros or 14.7% of GDP in 2013, but this is expected to slide back to around 4.1% of GDP in 2014, according to the Statistical Office of the Republic of Slovenia. This is mostly due to a double dip recession in which Slovenia crept into in 2012, a crisis due to the banking sector which was still accountable for bad loans. After a 3.6 billion Euros package invested by the government in 2013, Slovenia is expected to have a balanced budget by 2017 (Novak, 2014).

Before the crisis the public expenditures of CEE countries was lower than that of EU-15, who had expenditures of around 47% of GDP on average. Naturally, as the government tried to invest in the recovery of the economy the public expenditures grew as a percentage of GDP.

After a much lower figure than their western counterparts, the CEE countries reached an average of about 45% of GDP in 2009 at the peak of the crisis. However, we must take into account the contribution of Hungary to this figure, since it exhibits the highest degree of public spending with over 50% of GDP between the above mentioned dates. At the other side of the spectrum, Romania and Bulgaria reported the least amount of public spending, with 41% of GDP being directed towards expenditures at the peak in 2009. The situation is worrying in Hungary since it has the highest amount of public expenditures yet has one of the

lowest amounts of spending on social protection as a share of total budget and is the only one that has healthcare spending out of the top three priorities (Dewan and Ettlinger, 2009). Thus the burden on its citizens and on its social protection system is of great significance, macroeconomic stability being obtained through political stability as well. Overall however, it is positive to note the fact that CEE countries, as opposed to countries from Western Europe, have managed to refrain themselves from substantial state aid, safeguarding their budget balance by curbing on their public expenditures.

**Figure 6 – Public expenditure 2007 - 2009**



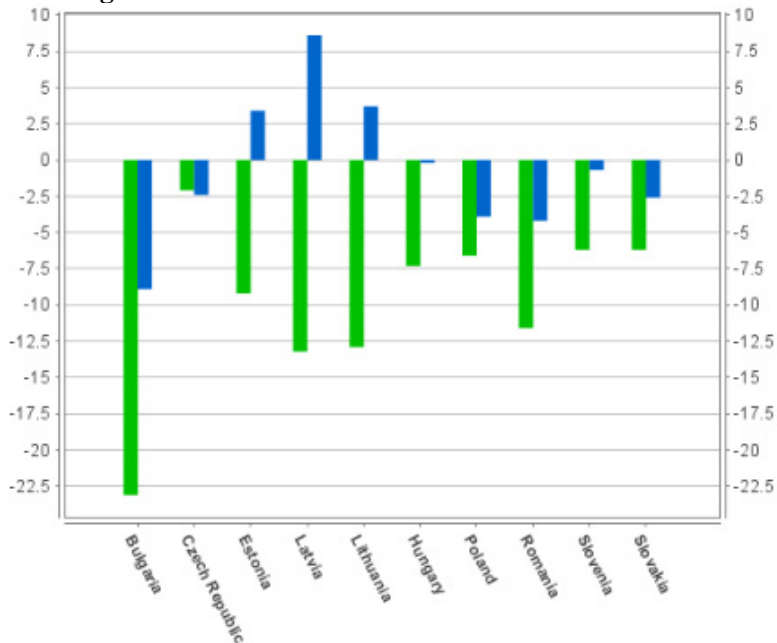
Source: Eurostat (online code tec00023)

The current account witnessed some staggering fluctuations in the years before and after the crisis. In Latvia, one of the largest growth per year occurred between 2008 and 2009 when the country experienced a 21.8% increase in its current account from a deficit of 13.2% of GDP in 2008 to a positive balance of 8.6% of GDP in 2009. Lithuania witnessed a similar trend, from a deficit of 12.9% to a surplus of 3.7% of GDP, an 16.6% increase in only year, as did Estonia with an 12.6% increase, who was the only other country from the CEE to output a surplus on its balance in 2009. The CEE countries have fared fairly well against their southern counterparts, with Greece experiencing a 11.2% deficit and Portugal a 10.9% one in the same period, while Italy and Spain have put forth a deficit of around 4% in 2010, still higher than most of the CEE countries.

In terms of current account balance, it is reasonable to divide the 10 CEE countries into two main groups: core countries, that exhibited moderate year-to-year fluctuations like Poland, Slovenia or Slovakia and periphery countries that underwent extreme year-to-year fluctuations like the Baltic countries. According to Harkmann and Staehr (2012), econometric analysis reveals that in the core countries, the current account balance is due partly to convergence effects and

internal factors like competitiveness and fiscal policy, while in the periphery group it was partly due to risk pricing in the EU financial markets, capital flows to the region and sentiments regarding internal development. To sum it up, in the countries that exhibited moderate fluctuations, the current account balance was mainly driven by policies and effects of convergence, while for those countries that underwent major year-to-year fluctuations, this was mostly due to sentiment effects and external factors (Harkmann and Staehr, 2012).

**Figure 7 - Current account as % of GDP 2008-2009**

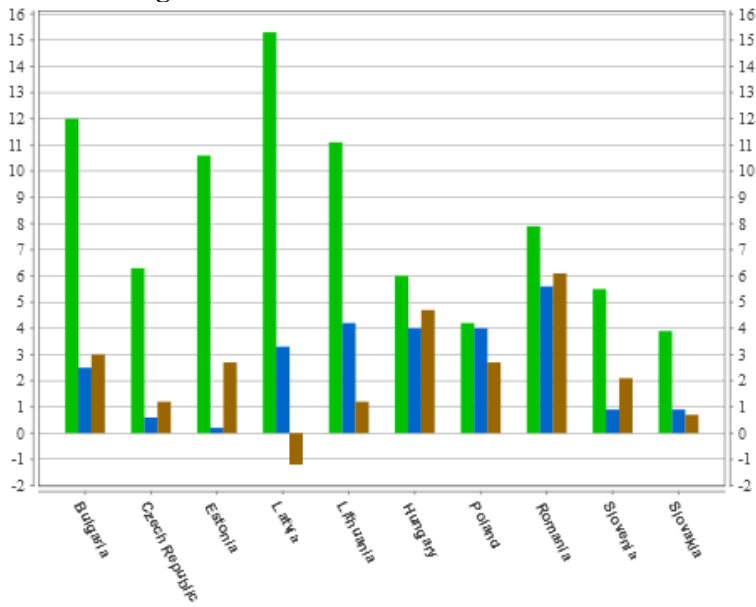


Source: Eurostat (online code tec00043)

The annual average inflation rate as measured by the Harmonised Indices of Consumer Prices (HICP) displayed alarming double digit figures before the onset of the crisis in 2008 in countries like Bulgaria and the Baltic States. The large numbers were spurred by the credit boom, however as a normal consequence of the crisis, the figures rapidly fell down due to minimal credit being handed out, low domestic demand and a general reduction in global commodity prices, with Romania being the only country out of the CEE to display inflation rate of above 5% in 2010.

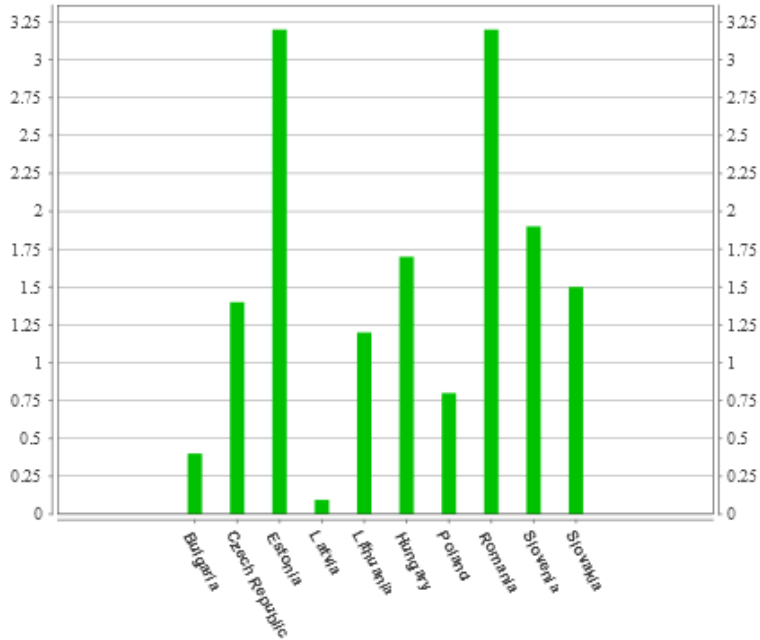
The steepest decline occurred in Latvia, who before the crisis had the most massive HICP rate of all then countries, with a staggering 15.3% in 2008, ending up just two years later as the only country with deflation at 1.2%. By 2013, the risk of a deflationary cycle was considered inexistent, with Latvia reaching a null rate, whereas fears of an inflationary cycle were proven wrong, Romania and Estonia being the only countries with an inflation rate of over 3% and all the other ones exhibiting below 2% levels.

**Figure 8 - HICP inflation rate 2008-2010**



Source: Eurostat (online code tec00118)

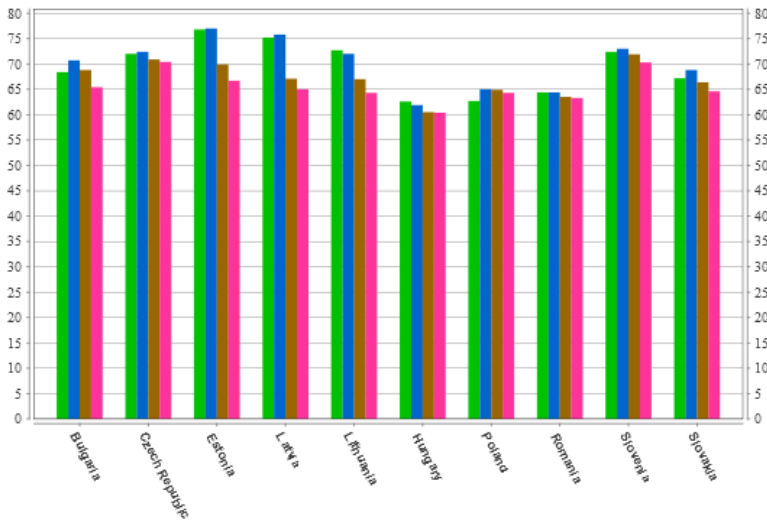
**Figure 9 - HICP inflation rate 2013**



Source: Eurostat (online code tec00118)

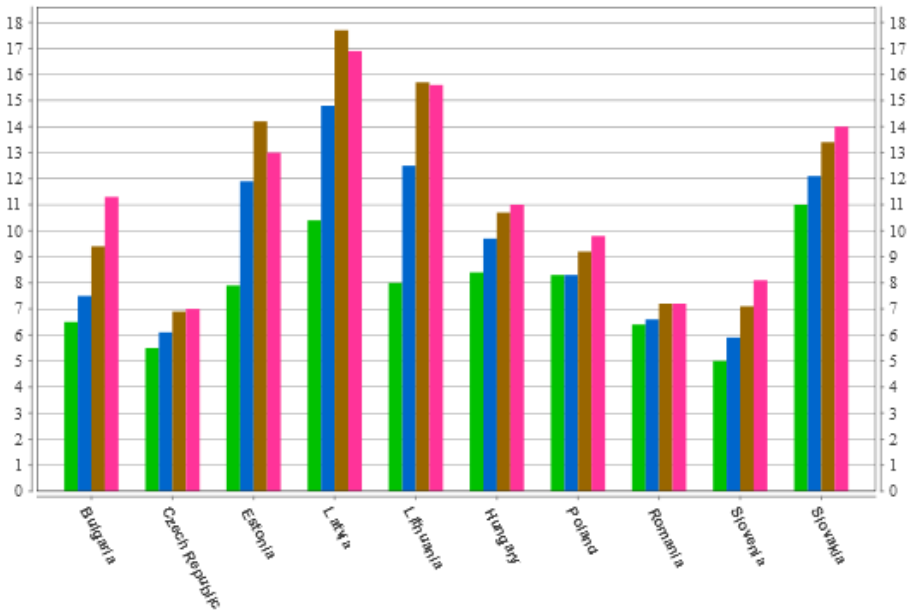


**Figure 10 - Employment rate 2007-2010**



Source: Eurostat (online code tsdec420)

**Figure 11 – Unemployment rate 2009 - 2012**



Source: Eurostat (online code tipsun10)

The labour market proved one of the most difficult sectors for reforming due to the political implications as well. Before the onset of the crisis, most countries experienced significant increase in employment, with the exception of Hungary which saw a decline between 2007 and 2008. As a result of the economic crisis,

employment rates started to fall in 2009 in all countries but Poland, although the employment levels witnessed a reduction here as well starting with 2010.

The countries most impacted were once again the Baltic ones which experienced the highest decline. As a consequence unemployment soared in the period 2009 to 2012 with the Baltic countries being of course the major player. Increasing worrying double digit figures were however still recorded in 2012 in Bulgaria and Hungary, with around 11% unemployment rate and a very high 14% in Slovakia. Still, the CEE did substantially better than other Southern European countries, with Spain peaking in at 22.3% in unemployment in 2012, followed by Greece with 18.2% and Portugal with 13.6%. One can observe the gravity of the change when considering that in 2007 six countries of the CEE were among the twelve countries of the EU with an unemployment rate of 6 or less per cent (Dymarki, 2010).

## 2. REFORM IMPLEMENTATION AND THEIR EFFECT

The global financial crisis demanded extreme measures from the governments of the CEE countries. Massive fiscal adjustments were carried out, public expenditure was cut, as were wages, especially in the public sector. Due to the fact that public expenditures had significantly increased pre-crisis, most of the CEE countries, especially the Baltic ones and Hungary, which as demonstrated previously had the highest percentage of public expenditure, were thrown in the mist of the recession ridden with fiscal imbalances.

In these Baltic countries, in order to implement a successful fiscal adjustment strategy, it was first needed to reduce fiscal funding needs, restore deficits according to the Maastricht limit of 3% of GDP and keep up with a correction of the real exchange rate in order to restrain domestic demand growth, thus keeping in line with the convergence criteria for a faster adoption of the euro. Then competitiveness was to be achieved by decreasing labour costs, in both sectors of the economy, this measure having also the support of the traditional labour market flexibility of the Baltics. Moreover, it was important to maintain financial stability by securing liquidity in the banks and providing adequate capitalization. On a final note legal measures were introduced in order to circumvent the traditional legal frameworks so as to provide help to private corporate and households balance sheets, by reducing their debt, without the state actually intervening. As previously shown above, the Baltic countries had one of the highest budget deficits out of the CEE countries, but the situation could have been gloomier according to IMF estimates, that predicted deficits of around 16 to 18% of GDP in Latvia and Lithuania and around 10% of GDP in Estonia, had the aforementioned fiscal measures hadn't been introduced. As a result these countries embarked on unprecedented fiscal adjustment, this totaling more than 11% of GDP in only one year in Latvia with the result being that the deficit in 2009 ended at only 9% of GDP (Purfield and Rosenberg, 2010).

Other fiscal policies included modification of the tax system. Thus, in order to stimulate work and growth, the taxes have started to concern more consumption

and property in the detriment of profits. Lithuania and Latvia, as well as Hungary and Romania needed to raise their VAT tax in order to cope with the crisis, with Romania recording the largest increase from 19% to 24%. The lowest rate of corporate income tax is in Bulgaria with 10%. Latvia and Lithuania have 15%, Czech Republic, Slovakia and Poland cloak at 19%, in Slovenia it is 20%, followed closely by Hungary at 20.6% and Estonia with 21%. Personal income rates are the same as corporate ones in six out of the ten countries, namely Romania, Bulgaria, Hungary, Estonia and Slovakia, while in Latvia it peaks at 25%. However, the potential gains from a flat tax rate are uncertain and they depend on other factors as well, like the content of the reform (Radulescu, 2011). But given that the CEE countries have a low flat income tax, while the corporate income tax follows the same trend, this provides the necessary environment for sustaining a culture of work and entrepreneurship, one that is needed for sustainable growth. Property taxes also experienced an increase in percentage points in some countries but in cases like Romania, this was abolished by the Constitutional Court.

In order to curb the public expenditure, severe wage cuts were employed, especially in the public sector (public administration, education and health care). In Bulgaria, the government eliminated the predicted wage increases in these sectors. This plummeted nominal and real wage growths, with the rate of increase of nominal wages in education falling down from 21.7% in the first quarter to only 8% in the last one and that of real wage increases falling from 15.8% to 7.1%, while the trend in the health care was similar. In public administration the situation was worse, with growth rate turning to negative in the last quarter of 2009. The following reforms cancelled any increase in public wages from mid-2009, as well as freezing both the public sector wage and the minimum wage until 2010. The effects were visible on-hand, with wages of employees in the aforementioned sectors remaining at 2008 levels. The minimum and public sector wages reduced in real terms, the gap between wages in public and private sectors diminished and the reduction of the salaries in these sectors translated into decreasing internal consumption and demand which is not beneficial to economic growth.

In Hungary the situation was grimmer due to the severity of the crisis. Since it required significant help from the IMF and the World Bank, Hungary was poised to their restriction and the government had little free-hand. Thus they committed to safeguarding the budget deficit under 4% and introduced significant austerity measures, eliminating the thirteenth-month wage in the public sector and a freezing of them which equated into a 11.5% decline in salaries of public functionaries. Working hours were also reduced. Since the Hungarian government had no option when it came to implementing their own reforms, being restrained by the IMF, they had to reduce the budget deficit by either dismissing thousands of workers or by cutting down on wages, and the latter was clearly more favorable from a political context. This had the effect of increasing wage inequity, but this only grew slightly between 2008 and 2009, the private sector having little part in that. Hungary also raised their retirement age in order to deal with the burden of the pension costs.

In Romania compulsory unpaid leave was introduced in the public sector along with the abolition of bonuses in 2009. Another set of constraining measures

in 2010 enraged public workers who took to the streets. In education, wages were cut overall by 25%, in the public health sector by 20% and in the public administration by 13.9%. The effect was a growing wage inequality of a much higher degree than in Hungary, with wage disparities reaching figures higher even than in the 1990s. Romania still had in 2009 the lowest minimum wage out of all Member States, by 0.96 euro per hour. Individual work contracts were renegotiated for workers from state-owned companies and cases where dismissal was introduced, followed by re-employment at a much lower wage were frequent. The income tax hasn't proven itself efficient in getting rid of the informal economy and was only used as a fiscal tool for obtaining direct tax with no long-term revenues. However, on a positive note, pressured by the loan from the IMF, the government introduced a law that harmonized wages in the public sector according to responsibility, amount of work and qualifications. But the Romanian labour market is still poised with inflexibility and insufficient capacity to incorporate unemployed citizens (Schmidt and Vaughan-Whitehead, 2011).

Overall, the share of social protection in terms of public expenditure increased in all CEE countries with the highest increases in Bulgaria, Estonia, Latvia and Romania, with around 7 to 8%. Reductions in terms of education, public order and general public affairs were the most pronounced as evidenced above, while in terms of economic affairs and health the changes were country specific. A reduction of the gross fixed capital formation share was also registered, as was one in the relative share of compensation of employees according to a European Commission report from 2012. As Zugravu and Sava (2014) point out, general economic, commercial and labour affairs expenditures usually have a negative relation with respect to GDP growth, while spending on agriculture, transport, R&D and the development of small and medium sized enterprises have positive connotations (Zugravu and Sava, 2014). In that regard, the reforms undertaken by the governments of the CEE countries in light of the crisis have been fairly justified, with the decrease in public sector expenditures possibly providing for future economic growth, although more progress needs to be carried out in investment spending in order to benefit the SME and provide for job creation.

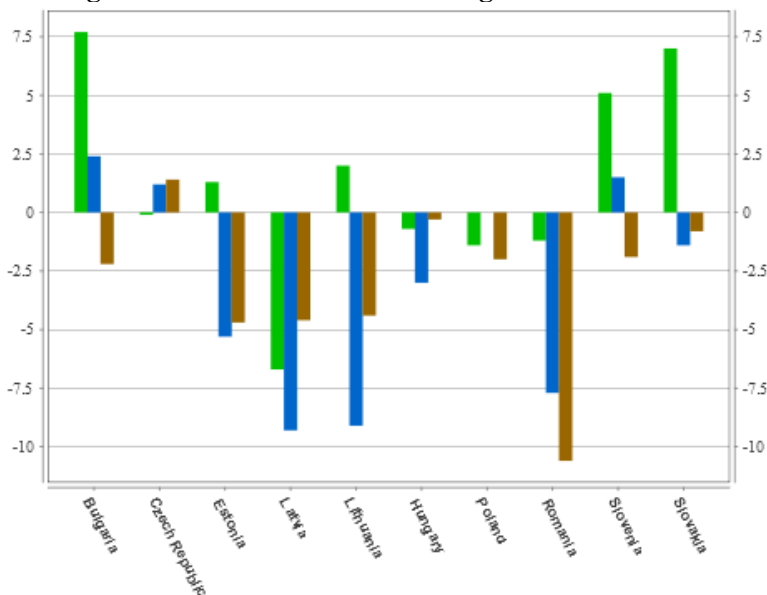
### 3. FUTURE GROWTH POTENTIAL

In light of the reforms implemented in order to combat the economic contraction, we try to measure their effectiveness and see if pillars were laid for future economic growth. In order to create growth, an environment friendly to business needs to be in place in order to attract both internal and external investors. This can be done by identifying, supporting and further developing their main competitive advantages. One of those is their competitiveness, which is fueled by a regulatory environment promoting the creation and well-running of firms. An indicator that measures just that is the World Bank's ease of doing business index. Lithuania is the highest classed country out of the CEE on the 17<sup>th</sup> place overall, with Estonia and Latvia coming in at 22 and 24 respectively, followed by Slovenia in 33<sup>th</sup> position. Poland and Slovakia rank middle way at 45<sup>th</sup>, respectively 49<sup>th</sup>

place, as does Hungary at 54<sup>th</sup> and Bulgaria at 58<sup>th</sup>. The countries with the most challenging environment in which to do business out of the CEE countries are Romania at 73<sup>th</sup> and the Czech Republic at the 75<sup>th</sup> overall place. While Estonia, Lithuania and Latvia are 45, 47 and 53<sup>rd</sup> in the International Monetary Fund's GDP per capita at purchasing power parity list, this means there is significant room for improvement and future growth when compared with the ease of doing business ranking. On the other side of the spectrum, the situation is worrying in the Czech Republic which ranks 37<sup>th</sup> in the GDP per capita list, but only 75<sup>th</sup> place in the ease of doing business ranking, signifying growth potential loss.

Also, as a consequence of the massive wage cuts and austerity measures introduced in the aftermath of the crisis, the real unit labour cost fell in most countries with the highest reductions occurring in Romania and the Baltic countries. This translates of course also into increased competitiveness.

**Figure 12 – Real unit labour cost growth 2009 - 2011**



Source: Eurostat (online code tec00130)

The real effective exchange rate, which is based on the unit labour cost, fell down especially in Latvia and Poland but also in the other Baltic countries. It appears that the steep depreciation has provided countries with flexible exchange rate regimes to restrain the decline in exports as a report of the ECB points out.

According to a PwC Polska report (2013), growth in the CEE region can be measured through five key determinants: Access to markets, Resources for growth, Cost Competitiveness, Growth Sustainability and Business Environment Indexes. The access to global markets is guaranteed by the EU membership. The region can boast itself with reliant future growth due to the high degree of foreign direct investment, created by competitive labour cost and low corporate income taxes,

outstripping the more developed countries from Southern Europe in this regard. In terms of resources for growth, the CEE countries dispose of excellent human capital, with a large pool of tertiary educated and in good health working force but providing only modest saving rates, even though they compensate a bit through the low cost of credit. The CEE countries from the southern part fare the worst in terms of this indicator against all other EU countries, partly due the scarcity of the innovation role in the economy, with R&D activities amounting to very little in countries like Romania and Bulgaria. CEE countries possess however the biggest advantage when it comes to cost competitiveness, which is the ratio between costs and quality of work. The South CEE countries like Romania and Bulgaria are the strongest in this aspect with low costs, yet highly qualified labour force, providing them an increased competitive advantage in attracting FDI. When considering growth stability, the CEE countries are still behind the Northern countries but are doing well better than their highly indebted Southern European counterparts, with financial sustainability looking pretty good when considering the stable banking sector (Slovenia being an exception to this rule), as does political stability that seems to have taken over the region. Nevertheless, the Environmental sustainability leaves much room for improvement, especially considering the lack of convergence to the EU climate policy. Almost all of the CEE countries do however have a good business environment, by this umbrella term understanding the mix of government institutions, tax system, infrastructure and transparency of the economy. The former presents a rather worrying index due to the public sector reforms that have swept the CEE countries following the crisis as does the infrastructure, which still lags behind all other members of the EU. Positive signs are coming from the taxation system, which is one that provides the highest incentives for investment in the south CEE members. The lack of enough transparency of the economy is one of the major issues affecting this cluster of countries, with the main culprits being corruption and an abundance of informal economy, especially in the south CEE states. Overall, the conclusion that can be drawn from these indicators is that the CEE countries ought to pay more attention to their business environment and growth stability, which require little cost but can significantly raise the investment potential of the countries.

## CONCLUSIONS

Based on the analysis of macroeconomic indicators like GDP growth, current account balance, HICP index, budget balance, unemployment and public expenditures it is reasonable to conclude that the CEE countries have mainly overcome the crisis, with growth starting to resume, albeit at much slower rates than before the crisis. Most of the countries have managed to reduce their budget deficit under the Maastricht limit of 3% of their GDP and the current account balance was greatly stabilized after abnormal fluctuations. Inflation was curbed down due to the decrease in domestic demand and public debt has been kept under the Maastricht limit of 60% in all countries but Hungary, which we can say is the only one that hasn't come out entirely of recession.

The reforms concerned mainly the reduction of public expenditures in the detriment of tax increases, which has proved successful and has also improved the quality of the public apparatus by “trimming” the unnecessary.

The Central and Eastern European countries exhibit great growth potential, based on cost competitiveness and providing great access to their markets, while at the same time needing to improve their business environment and growth sustainability in order to attract more foreign investment.

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This volume encloses the proceedings of the conference entitled: *European Union in times of crisis. Perspectives and solutions*, organized by the Centre for European Studies within the broader events conducted at the Alexandru Ioan Cuza University of Iasi on the occasion of *Europe Day*. The publication exposes to the general public, but not only, a number of issues facing European economies on the crisis background. During the event, we have enjoyed the presence of our colleagues (researchers, professors, specialists in European Studies) from the major universities of the country, as well as from Republic of Moldova, Ukraine and Turkey.

Communications were performed on the following topics:

- The EU economy under siege. Lessons from Europe's long recession
- The macroeconomic (in)stability of the EU economy
- EU sustainable development, regional cohesion and European policies
- The EU social model at the crossroads
- The EU institutional framework. Time for a rethink?
- The impact of the European crisis on the EU's international role
- European Neighbourhood Policy / Eastern Partnership  
- post-Vilnius Summit future developments



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