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CLAUDIA WIESNER*

Conceptualising European Identity – Normative, Theoretical, and Empirical Dimensions

Abstract

In this paper, European identity is conceptualised by integrating normative, conceptual and empirical considerations into a working definition. The argument is based on two related questions: first, what is the relation between EU democratisation and EU identity formation from a normative point of view? Second, what has to be understood by European identity – from a normative, conceptual and empirical point of view? The first part of this paper introduces European identity as a multi-level concept. The second explores the relationship between EU democratisation and EU identity formation from a normative perspective. The third part discusses the interrelation between EU identity formation and EU democratization. The fourth investigates the relation of democratic identity and group differences. In the fifth, European identity is conceptualised as collective identity. The sixth part presents empirical research results on European identity, and the seventh part sums up the working definition. The concluding eighth part discusses the different perspectives on European identity.

Key words: European Identity, EU democratization, collective identity, No-demos-thesis, EU citizenship, EU civil society, EU public space.

JEL Classification: F53, Z13.

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Introduction

This paper's argument is based on a normative perspective on European identity that originated in the debate on the EU's democratic deficit: chances and limits of an EU democratization are linked to the development of an EU identity, as democracy needs a *demos*, a democratic subject. Democratic institutions and procedures need to be carried and actively filled by a democratic subject that defines itself as such (at least to a minimum extent). Democratic identity in this context names the self-identification of the democratic subject, i.e., the awareness of and the identification with the polity that rights and democratic practice relate to.

But what exactly is meant when a European identity is claimed? When looking at the debate on European Identity, it soon becomes evident that the contributors do not have an identical definition of European identity and its components – and several of them do not even define it clearly. The label European Identity is often left open to interpretation (see in detail Wiesner 2014). This confusion in the debate is largely related to the fact that it is a multi-level concept that includes normative, conceptual and empirical aspects (see below).

Accordingly, normative, conceptual and empirical considerations on European identity will be discussed in order to develop a working definition step by step. The argument is based on two related questions: first, what is the relationship between EU democratisation and EU identity formation from a normative point of view? Second, what has to be understood by European identity – from a normative, conceptual and empirical point of view? The paper, thus, seeks to contribute to two fields of research. First, it is a contribution to the debate on EU democratisation (see, e.g., Bellamy and Castiglione 2003; Hix 2008; Føllesdal and Hix 2006; Mény 2003; Beetham and Lord 1998; Moravcsik 2002; Majone 1998), and second, to the debate on EU identity formation from both theoretical and empirical perspective (see below).

The first part will introduce European identity as a multi-level concept. The second will explore the relationship between EU democratisation and EU identity formation from a normative perspective. The third part discusses the interrelation between EU identity formation and EU democratization. The fourth part explores the relation of democratic identity and group differences. In the fifth, European identity is conceptualised as collective identity. The sixth part presents empirical research results on European identity, and the seventh part sums up the working definition. The concluding eighth part discusses the various perspectives on European identity.

European Identity as a Multi-Level Concept

First, in order to conceptualise European identity, it is important to underline that it is a multilevel concept (similar to politicization, see Wiesner 2019). As succinctly put by Matthew Wood, “A ‘*multilevel concept*’ is one that can be applied in multiple contexts, and can have both a deep critical theoretical and even philosophical meaning, but also refers quite legitimately to concrete acts that can be usefully measured in empirical research” (Wood 2015: 527).

It follows that such a concept can be employed at “a *theoretical level*, a ‘*mid-range*’ *conceptual level* and a ‘*micro*’ *empirical level*” (Wood 2015: 522).

To conceptualise European identity as a multi-level concept means accordingly to clarify respectively what analytical level one is on: macro/meso/micro. Thus, in European identity research one should distinguish making great philosophical and/or normative claims from reflecting how they can be operationalized and measuring concretely operationalized items and research dimensions. Accordingly, in the social sciences, three main strands in research on European identity can be differentiated: 1) approaches in political theory or philosophy that often have a strong normative background, 2) individually oriented definitions that more or less relate to the approach of David Easton (Easton 1953; Easton 1965) and that focus on identification and support of individuals for a political system, and 3) macro-oriented approaches that regard identity as a pattern of meaning, i.e., that regard the contents that identification and support relate to. While these strands obviously relate to the multi-level character of the concept of European identity, they are sometimes not clearly distinguished.

In a multi-level conceptualization of European identity, all these perspectives need to be integrated. I therefore argue, first, that micro- and macro levels of identity are related. This means that democratic identity includes, on the one hand, individual orientations that can be empirically analysed on the micro level, and on the other hand, it includes patterns of meaning that can be analysed on the macro level (see below for the methodological background of this argument).

Second, the normative view on identity that is presented in this paper is more far-reaching than in the Eastonian model of identification and support. I argue that a democratic identity is not only a condition for the stability of a political system (identification and support) but that self-identification of the *demos* is also a condition

for political participation, deliberation, and protest – it is a condition for a *demos* to indeed *do* democracy.

European Union Democratisation and European Union Identity Formation: Normative Considerations

On the first conceptual level, the normative-theoretical one, my argument is that the relation between EU democratisation and identity development can be summed up as follows: Democracy, no matter if it is conceptualised following a republican, communitarian or liberal ideal, needs to be exhibited not only in election or citizenship rights, but also in democratic practice. This means that EU democratisation has to go hand in hand with the development of an EU *demos*, of a democratic subject in the EU. This is a normative condition since democratic institutions and procedures must be carried and actively filled by a democratic subject that defines itself as such.

Asking about the perspectives of further EU democratisation entails the question of the perspectives of an EU *demos*. *Demos*-building and identity-formation in this sense are necessary in a democratic polity for several reasons: It is a condition for political activity that the *demos* is at least conscious of the fact that it is linked to a respective polity – that is, people should consider themselves as members of that polity. If this is not the case people will not direct their political activity to it. Moreover, to make redistributive policies acceptable, the members of the *demos* should mutually identify themselves as such.

Democratic Identity in this respect refers to the fact that the democratic subject defines itself as such, or more exactly: *democratic identity means the self-identification of a democratic subject, a demos*. In that sense, the EU can be judged to be on a good track. The development of an EU *demos* and European identity is no longer in its beginning (see in detail Wiesner 2007; Wiesner 2018). A democratic EU identity in the sense of a minimum degree of self-identification of the EU *demos* as such, e.g. the identification of the EU population with the EU as a polity, is present. Moreover, the EU is neither at the beginning of its democratisation but is – despite its democratic deficits – the best developed example of a democratically organized political entity on a transnational level.

Chicken or Egg? The No-Demos-Thesis

Because of this normative relation between identity-formation and democratisation, many earlier contributions on EU democratisation have underlined that a mere democratisation of EU institutions (like an *improvement* of the competences of the European Parliament) will not be sufficient. In this context, German contributions underline that there are two approaches with respect to the processes that can or will lead to EU identity formation. First, adherents of the *no-demos-thesis* (Weiler 1995) claim that the EU does not show a democratic identity of the population, a European public space, or a European Civil Society. These are seen as pre-conditions for EU democratisation by the defenders of the *no-demos-thesis*. Thus, for them, a further democratisation of the EU would be not only unwise but could be dangerous from a normative point of view (see e.g. Scharpf 1999; Kielmannsegg 2003).

The *no-demos-thesis* postulates a certain, normatively binding succession in time of *demos*-building and democratisation. In this sense it implies a formula that claims democratisation to follow *demos*-building. The *no-demos-thesis* assumes a pre-political identity as a *condition* for the further democratisation of the EU.

The opposing approach claims that this postulate has to be declined. First, the succession in time of *demos*-building and identity formation is not necessary from a normative point of view, because democratic identity as well as a European Public Space or a European Civil Society can and probably will develop within (representative) democratic institutions and democratic practice. It is democratic citizenship that enables this development (see e.g. Habermas 2005; Lepsius 1999). Second, as will be argued in more detail below, pre-political identities do not exist. The comparative look at historical *demos*-building processes shows that a succession in time of identity formation happening first and democratisation following simply never occurred in practice in the simplified way suggested by the defenders of the *no-demos-thesis*. Furthermore, the *no-demos-thesis* is circular, because it implies a permanent repetition of negative circumstances that must forever hinder *demos*-building.

To sum up: the *no-demos-thesis* is too simplified, because *demos*-building-processes are far more complex and are in mutual dependencies between institutional components and different aspects of democratic practice. But the discussion that has been briefly sketched underlines four decisive components of a *demos*: democratic

identity, a European Public Space, a European Civil Society and democratic citizenship.

The two approaches mentioned disagree on two points: first, on the question if a European *demos* will or can develop, because they disagree, second, on the presumed ways in which it could develop. Whereas the *no-demos-thesis* claims the ideal of a succession in time of *demos*-building and democratisation which has been discussed and declined, the more constructivist and deliberative approach is based on the idea that *demos*-building and identity formation will be going hand in hand with the development of democratic practice. This approach has proven to be a) normatively and b) empirically justified.

The relation of EU *demos* and identity formation and EU democratisation now can be summed up as follows: Importantly, democratic identity (as well as a European Public Space and a European Civil Society) can (and probably will) further develop through democratic practice on the EU level. It can be assumed that the development of the *demos*-elements citizenship, identity, public space and civil society will be mutually interdependent.

European Identity, Democracy and Difference

To further conceptualise European identity normatively, one idea from newer democratic theory is highly relevant (on the following see in detail Wiesner 2014; Wiesner 2018): Democratic identity has to be respectful of difference, because otherwise the collective patterns of identifications and values can offend individual identities in multiple ways. This means that democracies have to be respectful of differences concerning race, class, gender, religion or culture (see e.g. Habermas 2005; Taylor 1993; Benhabib 1996).

This premise easily results in tensions between individual and collectively shared patterns of values or identifications. Two examples from the German public debate in the recent years illustrate these problems: the first concerns the question whether fundamentalist Christians should be allowed to prevent their children from going to school, which normally is compulsory. The second concerns the question whether Muslim women should be allowed to wear headscarves in doing public office. In cases like these it soon comes to debating or deciding if individual values or collectively shared values should be prevalent. In the case of the fundamentalist parents the tension was obvious and clearly recognizable: with respect to their individual values

they claimed their right to educate their children themselves whereas the collective value, laid down in the German constitution, is that school has to be compulsory as it plays an important role in education for democracy. In the case of the Muslim women wearing headscarves while doing public office, the sources of tension were more complicated: it proved difficult to find an unequivocal public position, because Christian nuns were allowed to wear their nun clothes while doing public office. There apparently was no good reason to interdict Muslim women from wearing headscarves – at least if one did not want to completely interdict the wearing of religious symbols in public offices, which would have also meant to forbid nuns wearing their special clothes.

Tensions like these between individual and collectively shared values cannot be discussed here in more detail, but it has to be underlined that they teach important lessons for conceptualizing European identity (on the following see in detail Wiesner 2014; Wiesner 2018): Even in relatively well integrated western nation states like Germany, it proves difficult to balance democracy and difference. But the European Union is much more heterogeneous than any of its member states. Therefore, claiming that European identity must enable a minimum set of shared democratic values while preserving a maximum respect of difference is a challenge which will inevitably lead to a considerable number of conflicts: It is probable that there will exist several different opinions on what should even be the range and content of that minimum set.

But from a normative point of view, based on these considerations, I conclude that the EU polity will have to rely on a set of mere political and democratic basic values. The reason is its heterogeneity. The EU is a political community based on 27 different nation states after Brexit, their respective cultures, and their differences. If it wants to succeed in reconciling democracy and difference, its political values must be as neutral as possible regarding these differences. Therefore, neither culture nor religion can be made part of the EU political values base. A model of constitutional patriotism (Habermas 2005) indicates the way to follow. For this, it will probably help that there are already bases for the definition of EU political core values: the European Charter of fundamental rights, the treaties, or the Copenhagen criteria.

After this discussion, I argue that European identity can be further conceptualized as follows: *what is at stake is that the EU population needs to develop a minimum level of identification with regard to the EU polity, and also a minimum set of collectively shared values. Both must guarantee the acceptance of difference, i.e. they must balance democracy and difference.*

European Identity as Collective Identity

What has been said so far aims at conceptualising an EU-related form of democratic collective identity¹. But what is collective identity?

To begin with, the term has to be differentiated from an individual's identity (Mead 2005), as it relates to human collectives that show a similarity in at least one dimension (Niethammer 2000: 9–11). The crucial point is that human collectives construct these identities themselves (Habermas 1976: 92). Second, collective identity needs to be distinguished from the concept of social identity. This concept also regards social groups but describes only the individual components of the individual's identification with the group (Tajfel 1978: 63). As will be discussed below, individual orientations are one central part of collective identity, but the patterns of meaning that represent the contents of this identification constitute another one.

This argument is based on the methodological perspective of a moderate holism (Albert 2005: 388–390; Albert 2007: 17–19), arguing that wholes, or macro-phenomena, do exist, and that furthermore macro-phenomena such as norms, institutions and legitimate orders can have causal effects on individuals (Albert 2005: 410). This methodological perspective allows to study the contents behind an individual's identification with a group, i.e., the patterns and constructions of meaning that are related to it. As constructivist research on nationalism has shown, people identify with a group, or a developing nation state, not without a reason, but precisely because they link this group or nation state to certain patterns of meaning (Anderson 2006: 53). Popper terms these patterns of meaning „*products of the human mind*” (Popper 1978: 144).

A further point to be emphasised is that collective identities are socially constructed: they are in continuous change, they are complex, and they are influenced by different types and patterns of belonging. This is why constructivist research on nationalism has been criticising the theoretical and methodological perspective that regards collective identities as closed and static. Authors such as Benedict Anderson (Anderson 2006), Ernest Gellner (Gellner 1983), and Eric Hobsbawm (Hobsbawm 2008) have researched the construction of collective identities. Their results can be summed up in the following points (Thadden 1991):

¹ Strictly speaking this is hence an EU identity and not a „European identity“, even if the notion will be used, as it is the one that is usually used in the debate.

- First, collective identities are neither natural and inevitable, nor pre-political. They are socially constructed.
- Second, collective identities are neither static nor stable. They must be regarded as narratives that are historically changing.
- Third, democracies are not related to a homogenous people. They are based on heterogeneous societies that consist of multiple different groups and interests.
- Fourth, while they often, and in practice, relate to countries – or regions-, collective identities do not need to be linked to fixed geographical areas.
- Fifth, collective identities are neither simple nor monolithic. They are always complex and express belongings on all levels of human existence.
- Sixth, and accordingly, the concept “collective identity” is to be understood in the sense that collectively shared memories, values and identifications always are a part of individual identity (Langenohl 2000).

This, I conclude, means that collective identity should rather be termed a collective pattern of individual identifications than a collective identity. These collective patterns of individual identifications or shared values are socially constructed. Therefore, my argument is that when researching European identity, one ought to first research its individual components – values and identifications, and second, one can also research their social construction. Research results stemming from both areas will be presented next.

The Empirical Conceptualization of European Identity

Based on what has been said so far, the state of the art in research on European identity² can be grouped into different strands and subfields (on the following see in detail Wiesner 2014). First, individualist research designs are influenced by Easton’s categories and analyse EU identity quantitatively (see e.g. Westle 2003; Fuchs, Roger, and Magni-Berton 2009; Kaina 2009; Duchesne 2008; M. Castano 2004; Herrmann and Brewer 2004; Bruter 2005). As research in this subfield primarily

² It is important to note that most items and indicators used in this strand of research have been developed for nation states and national identity rather than with regard to the EU. Therefore it has been critically discussed as to what extent they are also useful to measure European identity (Duchesne 2008; Bruter 2005: XII; Kaina 2009; Checkel and Katzenstein 2009: 10).

regards individual orientations it can be also said that that it focuses primarily on *EU citizens*. Core findings are:

1. Identification and support: until the sovereign debt crisis, and as well after the worst of the crisis was over, Eurobarometer state that roughly half of the EU citizens identify themselves with the EU in the sense that they name themselves as “EU citizens“. When we look at items such as support for EU membership, the percentages are even higher (European Commission, see in detail Wiesner 2014). But first, these percentages vary considerably from one member state to another, and second, citizens of different member states associate different characteristics and contents with the EU (Kaina 2009: 101–107).
2. Factors influencing EU identification: positive everyday experience (Schmidberger 1998) has a positive effect on EU identification, whereas unemployment and economic problems have a negative effect (Immerfall and Sobisch 1997). In general, individuals identify more with the EU if they have a positive image of it (Pichler 2005; Kaina 2009: 112–115).
3. Group variations: The higher the degree of education and wealth of a person, the more probable that this person will identify with the EU, and the more a person expects personal benefits, the more probable that he/she will support the EU (Pichler 2005).
4. The relation of EU and national identity is unclear: Different authors (see e.g. Westle 2003; Opp 2005; Castano 2000; Jiménez et al. 2004; Arts and Halman 2006; McLaren 2004) have analysed whether EU and national identifications are complementary or contradictory. The results are far from clear: in some cases authors found contradictions, in others harmony. One explanatory thesis is that those differences are based in different national contexts (Westle 2003: 474–76).

In the macro approaches, contents and patterns of meaning come into focus. While some contributions are grounded on normative arguments (Habermas 2004; Cerutti 2009; Meyer 2009; Delanty 1999), others focus on the conceptual level (Bauböck, Mokre, and Weiss 2003; Checkel and Katzenstein 2009; Pollack 2008; Lepsius 1999). Empirically, contributions that consider the macro level focus on *EU elites*. Research results can be summed up like this:

1. National and European identity constructions are related: Supporting the quantitative results, research found that these relationships can be positively and negatively loaded (see, e.g., Weiss 2003; Marcussen et al. 2001; Schmidt 2006).
2. There are similarities to the construction processes of national identities: EU identity construction relates on institutions, constructions of otherness and

founding myths (see e.g. Puntsher-Riekman and Wodak 2003; Lepsius 1999; Pantel 1999).

3. Elites have a central role: In the discourse construction of European identity elites indeed have a central role (see e.g. Diez Medrano 2009; Checkel and Katzenstein 2009; Kaelble 2009; Schmidt 2006; Weiss 2003; Banchoff 1999; Seidendorf 2007). But politicians and bureaucrats on both EU and national level often construct different versions and contents for EU identity.
4. National EU conceptions: The different elite discourses created different national EU concepts that differ according to their origins, main themes, and directions. Those national EU concepts can be more or less stable and have to fit with the interests of the national elites (see e.g. Baasner 2008; Banchoff 1999; Diez 1999; Diez Medrano 2003; Hörber 2006; Jachtenfuchs 2002; Larsen 1997; Marcussen et al. 2001; Schmidt 2006; Seidendorf 2007; Waever 2005). This means that these elite EU concepts can construct either harmonious, ambivalent or contradictory relations between European and national identities.
5. Low impact of EU citizens: Citizens are rarely involved in the construction processes of EU identity (Diez Medrano 2009).

In sum research demonstrates that the contents of European identity, the patterns of meaning associated to the EU, are fought over. Discourses in the EU, therefore, play a central role in the social construction of EU identity as they are key means of constructing and transporting meanings for the EU. Discourses, hence, can influence the social construction of identities in the sense of patterns of meaning. But the main level where these EU discourses take place is the nation state. National EU discourses are a central means of constructing meanings on what it means to be European and hence for constructing European identity.

European Identity: a Working Definition

In this section the conclusions regarding the two questions that formed the base of this article will be summed up. First, what has to be understood by European identity?

To sum up the working definition: European identity from a normative point of view signifies the self-identification of the EU *demos*. In practice, European identity development means the development a minimum level of identification of the EU population and a minimum set of collectively shared values about the EU polity.

Values as well as patterns of identification must guarantee the acceptance of difference (this is a normative condition). European identity will have a character of its own in the sense that it will be a multilevel identity comprising different national models of identification. Nevertheless, European identity development will be similar to the one of national identity in the sense that it develops in discourses, can be influenced by socioeconomic factors and structures, and is related to the definition of an 'Other' for the EU and the reference to founding myths, such as the idea that Europe is founded on the principle of peace, that it is connected to the values of enlightenment or that it needs to be opposed to China and the US (see Wiesner and Schmidt-Gleim 2014).

European Union Democratisation and European Identity Formation: an Outlook

The second conclusion concerns the relation between EU democratisation and EU identity formation. It has been said that European identity is not a *precondition* of EU democratisation, but that identity is what defines a *demos*, and that the existence of a *demos* is a normative condition for a democratic system that can be considered fully developed. Therefore, European identity is one part of this normative *condition*. The syllable 'pre' indicates a decisive normative as well as methodological difference: Since European Identity is not a pre-condition for EU democratisation, but a condition for a sufficiently successful democratisation process, European identity does not have to exist *before* further EU democratisation can start, but the degree of development of a European Identity will be an indicator for the *quality of the EU democratisation process*. The democratisation process therefore can well go on without having a strong European Identity today – but from a normative point of view it should get stronger over time.

Following what was said before, if the institutional system of the EU were further democratized, and the EP gained full parliamentary competences, this should increase the chances of European identity to develop. But if EU democratisation would go on without a European identity developing further, it would stay weak in that it would then entail a passive *demos*, including citizens that maybe go to elections, but do not identify much with the polity they are voting on, and therefore will probably not show much other political activity. Since democracy from a normative point of view must consist not only of rights to vote or democratic institutions, but also of democratic practice, EU democratisation in this case indeed would stay weak. It also has to be

said that every political activity directed to the EU will actively contribute not only to the development of an active *demos*, but also a European identity and to stronger democratisation.

Having said so, the perspectives for strengthening European identity do not seem bad. There are already some elements of European identity existing, and it is well possible that they will develop further within democratic practice in the EU and a growing – hopefully positive – day-to-day experience of the EU. But to which degree an EU identity will develop and in which way, will also depend on factors that can hardly be influenced by institutions.

Will the differences concerning values existing currently in the EU – like between secular states and states with a state religion – diminish, will a consent on minimum common values be reached, or will a proper European political culture of difference and mutual acceptance develop? Or, on the other hand, will existing value differences increase, and maybe even become sources of conflict? The current debates on migration indicate a potential for conflict.

What will the role of the national governments and the media be? Will they become advocates of a democratic European integration, inform the citizens about Europe, and therefore help create areas for public exchange within the different member states? Or will they abstain from talking about Europe, let alone be its advocates, or even publish populist statements against the so-called Brussels bureaucracy and the like? In the current EU, there are both governments and media that support European integration and others that strongly argue against it, but there also is a broad range in between – so the effects of their interventions are different as well.

Will mutual recognition and acceptance between the European citizens develop? Already, citizens of the EU for a majority of the EU population are no longer seen as real foreigners, but will they start more and more to define citizens from other member states as Europeans like them, and will they even start to recognize that Finnish fishermen have the same right to receive EU subventions as Greek olive planters, and vice-versa? Again, at the moment, we see examples of both dynamics.

All in all, what has been discussed underlines that European identity is, and will remain, a social construct. This means that the ways in which it will further develop, the character it will take on, and also the strengths – or weakness – it will show, depend on what we, the citizens of the EU, and also the EU's politicians and media, make it.

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The Protection of the Rule of Law in the European Union: State of the Art and Prospects

Abstract

Recent concerns about the state of health of the rule of law in the EU required the intervention of the European institutions that monitor the correct application of EU law. It was therefore necessary to activate the specific procedure that the Treaties allocate to safeguard the founding values of the Union, listed in Article 2 TEU and which include the rule of law (i.e., the Article 7 TEU). However, at the time of its first and real application, this mechanism proved to be ineffective. To deal with the critical issues inherent in the system established by Article 7 TEU, various instruments have been proposed and/or prepared. This work the analysis of analysing the latter and checking whether there exist new, more effective solutions to protect the rule of law.

Key words: Rule of law, Art. 7 TEU, Art. 2 TEU, Founding values, EU.

JEL Classification: K33, K38.

Introduction

Since its inception, the Community, today the Union, has placed as a *leitmotiv* at the heart of the process of European integration the respect for those values without

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which its own *ratio existendi* is lacking. These values form its ‘spiritual and moral heritage’ and permeate its entire legal and institutional structure, including its policies (Preamble to the Charter of Fundamental Rights of the European Union).

Article 2 TEU, which contains the list of these values, begins with the expression that ‘the Union is founded on the values [...]’. It is therefore clear from the outset that they do not constitute ‘mere ideal and political statements’ (Adam, Tizzano 2017: 375); but they are an essential condition for the survival of a ‘Union [based on the rule] of law’ as the European Union has sought to be since the *Les Verts* case law (Judgement of the Court of Justice of 23rd April 1986, case 294/83, para 23).

Moreover, the privileged position within the Treaties, which is second only to the affirmation of legal equality between the TEU and the TFEU, is enough to recall their fundamental importance.

In this regard, the Court of Justice has pointed out that ‘[...] each Member State shares with all the other Member States, and recognises that they share with it, a set of common values on which the EU is founded [...]. That premise implies and justifies the existence of mutual trust between Member States that those values will be recognised and, therefore, that the law of the EU that implements them will be respected’ (Opinion of the Court of Justice of 18th December 2014, 2/13, *Accession of the European Union to the European Convention for the Protection of Human Rights and Fundamental Freedoms*).

It is therefore a necessary presence for a constitutional order of liberal-democratic inspiration such as the Union. This justifies why, as it will be seen, failures to comply with them have even more serious legal consequences than the violation of any other obligation laid down (Fumagalli 2014: 11).

In view of the above, one of the values on which the Union is founded is the proper ‘rule of law’. The rule of law is in fact the ‘backbone’ of every modern constitutional democracy. It imposes the effective observance of (Union) law on all those subject to its shadow cone, namely institutions and bodies, Member States and individuals - natural and legal persons.

In addition to the principle of legality *stricto sensu*, the broader notion of the rule of law must also include the corollaries of fair trial, equality before the law, *ne bis in idem*, independence of the judiciary and effectiveness of its control, legal certainty, prohibition of arbitrariness of executive power, separation of powers, *etc.* (the principle of democracy is not included because it is an autonomous value. For the difference between this one and the rule of law, see Levits, Egils. 2018. *L’Union européenne en tant que communauté de valeurs partagées – les conséquences juridiques des articles 2 et 7 du traité sur l’Union européenne pour les États membres*, in *Liber*

Amicorum Antonio Tizzano. De la Cour CECA à la Cour de l'Union: le long parcours de la justice européenne, Turin, 517: 'À la différence de la démocratie, qui dispose d'un concept central et visible, l'État de droit constitue une catégorie de structure complexe').

The Protection of the Rule of Law in the European Union: the Current System

Recent concerns about the state of health of the rule of law in the EU required the intervention of the European institutions that monitor the correct application of EU law (On this point, it is permitted to recall Circolo 2019: 35, 1, 19).

It was therefore necessary to activate the specific procedure that the Treaties allocate to safeguard the founding values of the Union, listed in Article 2 TEU and which includes the rule of law (*id est*, the Article 7 TEU).

The so called 'suspension clause' establishes that the Council may suspend certain rights (including voting rights within the Council itself) of the offending State, without this ceasing to be bound by the obligations deriving from the Treaties, after the violation of the values referred to in art. 2 TEU has been ascertained several times (and this is where the 'drama' begins – Casolari 2016: 135); for an overview of Article 7 TEU, Sanna 2014: 71).

The mere reading of the provision immediately makes it clear that we are faced with a procedure where the intergovernmental method prevails. The Council and the European Council are in fact the only bodies delegated to ascertain the existence of the violation and to decide on the suspension of the rights to the detriment of the non-complying State. While the European Parliament has a decidedly marginal role. Indeed, it intervenes: a) in the activation of the procedure (it is one of the subjects entitled to request the intervention of the Council through a motivated proposal); b) in taking the determination, but only through prior approval of the decision of the Council first, then of the European Council. On the other hand, it does not play a role in the definition of the rights of the Member State to be suspended.

The use of a procedure very different from the co-decision procedure, in terms of the relationship between Parliament and the Council, is justified in the light of what has been defined as the 'sensitivity to sovereignty' (Müller 2013).

Since condemning a Member State without delay is a very delicate operation, given its possible political repercussions, the use of the intergovernmental method is

more appropriate because of the considerable room to manoeuvre left to individual sovereignties.

However, at the time of its first and real application, this mechanism proved to be ineffective in substance. The procedural complexities and voting thresholds made its use impractical (compare with Mori 2016: 207).

In particular, the unanimity within the European Council required by Article 7 TEU to certify the actual existence of the infringement favours, in substance, the emergence of alliances between States. The substantial failures of the current mechanisms for protecting the rule of law have called for a redefinition of the framework of safeguards by all EU institutions involved in the supervision of the correct application of EU law.

New Recent Solutions to Preserve the Rule of Law

To deal with the critical issues inherent in the system established by Article 7 TEU, various instruments have been proposed and/or prepared.

First of all, the communication of the Commission of 2014 (Communication from the Commission to the European Parliament and the Council – A new EU Framework to strengthen the Rule of Law, COM (2014) 158, 11th April 2014) and the modification of the deliberative *quorum* of Article 7 TEU (e.g., moving from unanimity to qualified majority voting).

Then, there is the creation of the ‘Copenhagen Commission’ and of the ‘Systemic Deficiency Committee’.

More in detail, the first would be an independent body responsible only for supervising respect for the values referred to in Article 2 TEU, a sort of a small Commission formed by eminent political figures, such as former Heads of State, former Presidents of Parliaments, *etc.*, and endowed with various sanctioning powers.

The latter is conceived as a part of the Commission, but administratively and economically independent, in the wake of OLAF. It is true that it is based on a fascinating thesis, since it goes beyond the impediment of the revision procedure – needed for the Copenhagen Commission – through the use of the flexibility clause of Article 352 TFEU, considering that the protection of the values of Article 2 TEU falls within the scope of application of the competences of the Union. Nevertheless, it is not acceptable, since it would be a question of establishing not a simple committee, but a supervisory body with several powers over the *status* of a Member State,

a change that could only be made during the revision of the Treaties (see von Bogdandy, Antpöhler, Ioannidis 2016: 218).

Continuing the analysis, there are the expulsion from the Union and the outsourcing of protection (entrusted, for example, to the Venice Commission).

For the first hypothesis, there are many doubts about its possible contrast with the 'hard core' of the Treaties, which is considered unchangeable even with Art. 48 TEU.

For the second one, if it is clear that this scenario silences the risk of instrumental political persecution against certain Member States in alleged violations of the principle of the equality of States [Article 4(2) TEU], it is not how an authority outside the Union can impose its conclusions on the parties concerned in a binding manner.

Lastly, we find the most recent mechanisms, the DRF (democracy, rule of law, fundamental rights; European Parliament resolution of 13 December 2016 on the situation of fundamental rights in the European Union in 2015 [2016/2009(INI)] and the regulation on EU's budget (European Commission, Proposal for a regulation of the European Parliament and of the Council on the protection of the Union's budget in case of generalised deficiencies as regards the rule of law in the Member States, COM(2018) 324 final 2018/0136 (COD), 2nd May 2018).

The DRF is a proposal to conclude an inter-institutional agreement, under Article 295 TFEU, between the Parliament, the Council and the Commission for the launch of monitoring procedures to defend these values, including the publication of an annual report on the state of the art of compliance with these rights. However, the inter-institutional dialogue it promotes does not seem to introduce new decisive tools, risking indeed to cause slipperiness and overlaps in the protection system.

Instead, the proposal for a new regulation, which was recently adopted at first reading in the EP (P8_TA(2019)0349, 4th April 2019), would allow the Commission, assisted by a group of independent experts, to identify 'generalised deficiencies regarding the rule of law' and to decide on the most appropriate financial measures to be implemented (i.e. suspension of payments for EU programmes). These sanctions can only be applied after approval by the Council. If it is true that this mechanism seems to be effective from the point of view of safeguards, it also raises more than a few doubts as to its compatibility with the Treaties. The connection to the legal basis is indeed indirect and forced. Even from a mere reading of the rule it emerges that Article 322 TFEU only allows to establish financial rules on the modalities of implementation of the budget; certainly not, on the contrary, to protect the expenditure of the Union against the generalized deficiencies of the rule of law. Bending the legal basis in this direction would lead to the violation of another fundamental principle of EU law, namely the prohibition of abuse of rights, which

prevents the exploitation of a benefit resulting from formal compliance with a rule, since its use goes beyond the objectives of the rule itself. This regulation would in fact censure: the same violations (systemic violations and not one-off); of the same principle (the rule of law); in the same way (the suspension of payments is nothing more than a suspension of a right deriving from the Treaties, the same rights that the Council may suspend according to Article 7 TEU). It is therefore not clear how and when one mechanism should be preferred to the other. In the end, it seems to be an *escamotage* to circumvent the revision of the Treaties and the unanimity needed to reform the existing protection mechanism.

To sum up, these solutions can be divided into three major macro-categories:

- instruments that require revision of the Treaties in order to be implemented (the lowering of the *quorum*, the Copenhagen Commission, the outsourcing of the protection, the expulsion);
- valid instruments that are, in substance, ineffective (the Commission's 2014 communication; the DRF mechanism);
- instruments that 'circumvent' the letter of the Treaties in order to offer alternative protection (Systemic Deficiency Committee, regulation on EU's budget).

Conclusions: Future Prospects

Nonetheless, none of these mechanisms proved to be the decisive for the above-mentioned critical issues. It seems that it is no longer justifiable for Member States to be unwilling to refer such breaches to the Court of Justice. However, this must always be done in accordance with the 'rules of the game' that the Member States have set themselves. The 'Copenhagen dilemma', that is the paradox whereby the candidate countries for accession are required to respect the founding values of the Union, the violation of which is not effectively censurable after accession, is an actual problem; but it cannot legitimize the forcing of the procedures that the Treaties allocate for the modification of the letter of the same.

All that remains, therefore, is to continue to promote a constructive dialogue between the Union and 'rogue' States and to wait until, and if, there is a moment of community of purposes within the Union that can enable the players on the European scene to seize the ideas drawn from practice, such modifying the Treaties.

It is true that the possible jurisdiction of the Court of Justice over respect for the founding values, values which are common to the constitutional traditions of the

Member States, risks creating further conflicts of jurisdiction between the Union's courts and the national courts, '*traditionnellement jalouses de leur rôle de gardien des valeurs fondamentales dans les systèmes internes*' (Porchia 2018: 785–786).

However, often, it is precisely the internal courts that are the addressees of the measures in breach of Article 2 TEU, thus they are incapable of protecting those values. The institutional role of the Court, on the contrary, remains undisputed. From the outset of the Community that role constitutes the added value for its consecration to a community based on the rule of law and for the achievement of increasingly advanced legal, economic, social and political integration.

Waiting for this, the supervision on the respect for the rule of law can and must still be left to the Commission and the Court, but through the mechanism that the Treaties already reserve, as far as we can see, for the defence of Union law and its values, that is to say, the infringement procedure.

Contrary to what was assumed in the proposal for a regulation, Article 7 TEU and Articles 258 *et seq.* TFEU, both of which are in the primary legislation, do not explicitly conflict with each other. The interpretation of those provisions as cumulative and non-alternative means of protection does not appear to be subject to express legal obstacles. It is not possible to find in the Treaties the postulate on which one of their assumed ontological differences is based, that is the circumstance that the former only takes into account the systemic violations of these rights and that the latter is limited to 'one-off' non-compliance.

Article 258, para 1 TFEU just states: 'If the Commission considers that a Member State has failed to fulfil an obligation under the Treaties [...]'. How can compliance with the founding values not be considered as failure to fulfil an obligation under the Treaties? Furthermore, the thesis of the alleged generic nature of the obligation to respect the founding values cannot be considered acceptable (compare with the judgement of the Court of Justice of 16th December 2004, case C-293/03, *Gregorio My/Office national des pensions*, para 29; Gormley, Lawrence 2017: 76–77).

Indeed, as initially envisaged, they are not programmatic rules, but the essential premise of the existence of the EU, whose specific violations must be irreparably censored.

The Court has not yet expressly ruled on the possibility that the fundamental values may serve as a parameter between the infringement and the opening of an infringement procedure (Miglio 2018: 421–431, spec. 428); however, as part of the doctrine has already shown, such an intervention is highly desirable (Hillion 2016: 59).

However, problems may arise with regard to the application of the *ne bis in idem* principle. First of all, the breadth of these principles has to be marked, borrowed from national legal systems, they have been incorporated in the Union's legal order. Once these legal categories are acquired, they take on a new meaning in relation to the specific features of the European legal system, even if they continue to maintain the same label. In this sense, the application of *ne bis in idem* must always be balanced with the effectiveness of these other principles on which the entire Union is based. The exceptional nature of the case could well justify the joint application of the intergovernmental procedure and the action for failure to fulfil obligations. Moreover, by failing to recognise the cumulative effect of remedies, the infringement could well be brought whenever the Member States are unable to activate the Art. 7 TEU procedure, or, conversely, the latter could no longer be used if the non-compliant State has already been punished under Articles 258 TFEU and 260 TFEU.

However, if such an interpretation seems to, at least potentially, be able to go beyond the 'quantitative' argument, it is not equally capable of extending to the 'qualitative' argument, that is to say, to the hypothesis that the infringement cannot be traced back to the cone of shadow of EU law but that it refers to purely internal situations. In this sense, however, some recent landings of the Court's case law seem to show openings. The reference is first to the judgment of the Court *Associação Sindical dos Juizes Portugueses* (for a comment, see Krajewski 2018: 395: 'The Court took advantage of this case to emphasise the potential of EU law to consolidate and defend the rule of law structures in the Member States. The Court discovered a justiciable rule of law clause in Art. 19, para. 1, TEU, which enshrines the principle of effective judicial protection before national courts. This provision makes the enforcement of rule of law standards vis-à-vis the Member States more straightforward as compared to the enforcement of Art. 47 of the Charter of Fundamental Rights of the EU. In the future, Art. 19, para. 1, TEU could be enforced by means of infringement proceedings under Art. 258 TFEU to counteract the undermining of judicial independence at the national level').

The expansion of the value of Article 19(1) TEU, operated by the Court in conjunction with Article 2 TEU, allows to activate infringement procedures that could tackle violations of the principle of effective judicial protection, and so of the rule of law too (like this, see Coli 2018).

In *ASJP*, the CJEU affirmed that Article 19(1) TEU 'gives concrete expression to the value of the rule of law stated in Article 2 TEU' (para 32). Therefore, in providing effective judicial protection of the rights deriving from EU law to individuals within

their respective jurisdictional systems, national courts also ensure respect for the rule of law (compare with Parodi 2018: 987–990).

The Court of justice has confirmed and definitively formalized this case-law with the ruling *Commission v Poland* (judgement of the Court of Justice of 24th June 2019, case 619/18, spec. paras 47–59. See Rasi 2019: 1–14).

For the moment, entrusting the protection of the values referred to in Article 2 TEU to the exclusive jurisdiction of the Court of Justice probably constitutes a Copernican revolution. One the Member States are not yet ready for, as they have shown. But it would achieve ‘the most perfect design of contemporary constitutionalism, which gives the Supreme Court the power to arbitrate, on the basis of law, political conflicts between the constitutional actors of the legal order’ (Cannizzaro 2018: 168–169).

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BIANCA MARIA SFERLE*

Allies, but Enemies? What the Cold War Taught Us about Leadership

Abstract

This article aims to analyze the decisions and mistakes of the communist leaders, and the way in which they have shaped the world in its current state. I draw attention especially to the disagreements between the leaders who found themselves enemies in spite of their ideological unity – Tito and Stalin. The premise that I started with was that the lives of great leaders influenced their personality in a way that shaped their leadership style, leading to events like the political conflicts and splits in the Cold War communist bloc. Comparisons were made in order to observe the similarities and differences that arose in various communist bloc countries and I used a form of deductive research that started with a broader picture of the Cold War before concentrating on the particularities of various events and leaders. In addition, resources from the fields of history, IR theory, sociology and psychology were used. It was concluded that the Cold War, its ideologies, its leaders, its weapons, methods and diplomacy has undoubtedly marked a radical change in how wars are fought, in how countries relate to each other, and in how history plays out, but its key players, its backbone are the unique, individual and remarkable leaders.

Key words: Leadership, Cold War, Tito – Stalin Split.

JEL Classification: D74, D91, N44.

Introduction

The Cold War was an ideological and diplomatic conflict that took place after 1945, between the USA and USSR and between Western and Eastern Europe with

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two blocks confronting on the continent as military and security alliances. Also, the Cold War has been portrayed as a fight between good and evil, between capitalism and communism, between the liberal democratic system and the state socialism one, a conflict that came out of the World War Two coalition against Nazi Germany (Loth 1998: 21).

I consider Cold War to be a very relevant theme because of the current political climate in the world – even if it is a historical event, many scholars still believe that the Cold War has not yet ended and that we still live in a world split into great global powers’ spheres of influence. From the perspective of International Relations, the Cold War is a very important and truly unique event in this sphere, a diplomatic war, as it can also be called, during which the relationships between the world’s countries have been of vital importance, the emphasis falling on the conflicts, alliances and interests between them.

In this article, I chose to study the relationships between communist leaders, instead of inter-state relations. The study of individual heads of state and the way they interacted with each other is an infinitely more complex area for analysis because of the unpredictable and complicated nature of politicians and humans, in general, providing, as such, a proper challenge for this paper. Furthermore, the disagreements between the leaders who, despite being in the same ideological camp, had different perspectives and ideas for the countries they lead, going from being allies to enemies seem like an unique and neglected subject, one that is worthy of more attention than it has received.

The first part is a theoretical one, containing all of this paper’s key concepts: the nature of political leadership during the Cold War, leadership at its roots and types of leadership that can be identified today. In the second part, I have presented the biggest conflict within the Cold War-era communist bloc, attempting to emphasize the weaknesses of Stalin’s “Soviet Empire”. I chose to explore the Tito–Stalin split, as it was the first such break in the apparently unbreakable Soviet bloc; a conflict that was one of the first necessary steps for the stopping of Communism’s spread in Europe, a shaking blow to Stalin’s domination and a paving stone for the downfall of Communism itself.

The objectives of this research are twofold: on one hand, I want to understand the socio-political landscape of Cold War Europe, to see how history played out at a state level, to see the way in which a system creates certain kinds of politicians and leaders. On the other hand, I wanted to gain further insight into the key figures of the Cold War at a human level, to understand their psychology, their past and the

way it influenced their actions, looking to see how each leader was able to shape the political system.

The technique used in this paper is a form of deductive research that started with the broader historical picture of the Cold War before concentrating on the details and particularities of various events and leaders. The general part of the research was conducted using a multidisciplinary approach that was aided by various resources from the fields of history, international relations theory, sociology and psychology reaching a level of detailed analysis of Tito and Stalin that I consider I innovated in through my exploration of the causality between the effects of psychology and leader's personality and their actions, along with their subsequent historical consequences.

Political Leadership Then and Now

Even if the concept of leadership seems to be a modern construct, both through its attractiveness as well as its major importance in everyday life, its roots dates back 2,500 years, when Plato started addressing issues of morality and politics, and of how important it is that the two coexist and cooperate in the state. For him, the ideal notion of leadership comes from the leader who is capable of going beyond his selfish interest, acting, instead for the good of the people (Plato 1997: 119). While Plato considered that good leader owes his qualities to his birth, his mentor, Socrates, considered that a leader's necessary qualities and virtues can be developed and earned through education. Niccolò Machiavelli presented the ideal leader as being, foremost, adaptable to any situations, dismantling the ideas of previous great philosophers, who considered virtue a leader's defining trait, arguing that virtue made a leader weak and vulnerable (Machiavelli 2009: 69).

There are many definitions of leadership, and new ones are constantly appearing. For example, US academic environments define leadership as "a process of social influence in which a person can enlist the aid and support of others in the accomplishment of a common task" (Chemers 1977: 1). The New Oxford Dictionary of English defines leadership as: "the action of leading a group of people or an organization"; "the state or position of being a leader" (Stevenson 2010: 1003) and according to Dwight D. Eisenhower "Leadership is the art of getting someone else to do something you want done because he wants to do it" (McKay 2012), so it can be said that the concept of leadership is highly subjective and that each leader has his or her own style and philosophy of leadership.

Political leadership is a key concept to understanding political processes and outcomes, yet its definition is elusive. In order to study leadership, the contributions of several sciences such as political theory, history, psychology and management are needed.

Political leadership should be seen as a group activity or as an interaction between a large number of individuals, between whom a hierarchical structure of authority, with leaders and subordinates is created, proving that leadership is not the trait of a leader, but the result of an interaction. There are many ways in which a leader can exert his or her power, distinguishing many styles of leadership: *laissez-fair*, democratic, authoritarian or autocratic leadership.

During the Cold War, two types of leadership can be singled out: democratic, represented by the Western bloc and the USA especially, and authoritarian leadership, represented by the Soviet Union. If we look at the big picture of today, it can be observed that in this sense not so much has changed, and in these two states can be found the same styles of leadership present almost 70 years ago.

Democratic leadership is characterised mainly by citizen involvement in decision-making, mutual respect between ruler and subordinates, open communication and processes and has the purpose of “distributing responsibility within the demos, empowering the membership, and aiding the demos in its deliberations” (Gastil 1994: 958). Deliberation is at the heart of a democracy and is based on direct participation, healthy relations inside the political hierarchy and proper distribution of responsibility” (Gastil 1994: 960). On the opposite side is the authoritarian style of leadership, figure headed during the Cold War by the USSR’s Joseph Stalin, who, in my opinion, changed the way the world perceived leadership.

Authoritarian leadership is manifested through harshness, violence, superiority and order. An authoritarian leader is often a dictator, who decides on his own the policies, activities, goals to be achieved, and leads directly the activities of his subordinates (ST. Thomas University, n.d). Authoritarian leaders make decisions by themselves without accepting anyone’s help or not wanting to involve others in the decision making process. They usually prefer to keep a distance between them and the people they are leading, to show their superiority and to clearly mark their position. A common trait of regimes ruled by an authoritarian leader is that the ruler is shrouded in mystery (Gill 1980: 167), Tito, Yugoslavia’s president, being a prime example of this. Also representative is the use of propaganda and the development of personality cult that turns the leader into a super-human, demigod character.

As for Cold War leadership, I believe that Stalin was the most powerful and influential leader of the time. He obtained supreme power in Eastern and Central

Europe slowly, throughout the year, starting as a secretary in his native Georgia before reaching the Kremlin, where he used the Party to consolidate his own power. As such, in twenty years, Stalin went from the position of a “obscure party functionary” (Slovik 2009: 481), to that of an indomitable autocrat, supported by the party, in spite of Lenin’s warnings to the Party that Stalin started having too much power and was growing dangerous.

Nowadays, our perspective on leadership is more complex than ever as this world has been through two World Wars and a tense Cold War – a long period of time, that made us lose trust in some leaders and regimes and to put our hopes in others and more than this, it helped us to understand what kind of leaders our nations need. If we look towards the past once again, we can observe that Max Weber identified three types of leadership: patriarchal, based on tradition; charismatic, based on the possession by an individual of a special gift; and bureaucratic, based on law and rationality. I consider these three types of leadership, very relevant to modern day’s politics but also relevant to our central subject, as it can be easily observed that the charismatic type of leadership was the most popular one in the past (both Tito and Stalin were charismatic leaders as they ruled based on a fake image they have created through the Cult of Personality) and many nations still tend to choose charismatic leaders.

Lessons from the Cold War and the Dangers of Totalitarianism

Although united under the Warsaw Pact alliance, the unity of the eastern states was often challenged by the various conflicts between their leaders that destabilized the internal order of the Communist bloc. Three kinds of splits can be identified in the Communist bloc: in-bloc rifts, or the conflicts between states of the Soviet bloc, rifts between the leaders of the bloc’s countries and people-leader rifts that occurred because of conflicts between the peoples and leaders of Eastern bloc countries (Oudenaren 1984: 2–4).

The conflict between communist leaders throughout the world and Stalin was determined by the rebellion of the former against the USSR’s Stalinist, national self-interest imposing domination that severely disadvantaged the interests of the other communist states of the Eastern bloc, according to the principles of the Stalin-formulated doctrine of “Socialism in one country” (Carr 1958: 21). This doctrine

argued the importance of building and developing Socialism in the USSR, a purpose for which the subordination of leaders like Tito towards Stalin was implicit.

However, I consider that the life and psychological analysis of each leader should be presented first, in order to better understand the split between them, which will be presented as a second step of this case study.

Stalin was, and has remained, a crucial historical figure well into contemporary times. A strategic and calculating politician, he became a powerful, totalitarian and feared leader that was respected by many and judged and criticised by most. Stalin was the dictator who perfected the art of purging his enemies from the state and of cutting a swath in history and various unfortunate peoples through the use of unprecedented violence and power. A thorough understanding of his decisions and governing style of a historical personality of such importance and complexity requires a complex and close analysis of his life and personality.

Young Stalin was born with a duck footed left leg, was pockmarked by smallpox and was extremely fragile and unhealthy, but he survived his childhood, proving himself a true fighter and survivor. He has been demonstrating his intellectual abilities ever since he was little, being a precocious talker, an avid reader, and passionate about literature, history, art, music and poetry. He grew up in constant fear and lived on the roads for long periods with his mother as refugees of his father's anger, who started abusing and beating his family (Sebag Montefiore 2007). All of this, made him grow hatefully angry, turning him aggressive and even making him stab his father in a desperate attempt to stop him from beating his mother (Sebag Montefiore 2003: 26).

Once in school, he always tried to make himself seen and proved to be very competitive, his classmates and comrades described him as "the best but also the naughtiest pupil" (Sebag Montefiore 2007) and as "patient, calm and modest", but also, at the same time, "vainglorious, pushy and thin-skinned, with outbursts of viciousness just a short fuse away" (Sebag Montefiore 2007). He soon developed an interest for Karl Marx's socio-political theory, Marxism, marking his discovery of *Das Kapital* and his entry into the Russian Social Democratic Labour Party as turning points in his life.

Many consider Stalin worthy of appreciation for the status he brought Russia and for the extent to which the country developed under his rule, while others draw attention to the kingdom of fear he instilled and to the way he used his power excess for personal goals and purposes. What made him be such a power-hungry and feared totalitarian leader? A possible answer might be found in Freudian personality theory that highlights how childhood events can be repressed in our subconscious, affecting our behaviour and temperament afterwards giving a solid explanation of

Stalin's actions in maturity as seen from the lens of his childhood (Psychoanalytic Theory, n.d).

The birth defect of his leg and hand, which he insisted on hiding in photographs along with the fact that he had started to suffer from the so-called Napoleon Complex, being unhappy and self-conscious of his height (1,68 m), made him feel weak and frustrated. Along with his aging, his charisma and influence with the people started diminishing and his frustration, disappointment and self-consciousness about his appearance or the people around him made him show his diabolical nature and adopt an authoritarian attitude that was characterised by violence, imposing admiration, respect, or the acceptance and obedience of the people through terror and fear.

Lenin's death created the perfect pretext and opportunity for Stalin to get his hands on the absolute power he longed for and to unleash a long, 30-year period of violence and terror, turning Russia into a massive bloodbath. As a totalitarian leader, he imposed his political totalitarian regime on the people, using a single party government, secret services, well-organized propaganda that was broadcast through the media, which was totally controlled by the state.

Stalin introduced propaganda into his leadership style to persuade the people that they had to not only accept him as their rightful leader but also to obey him unquestionably. Through his leadership, he had control over the masses' thinking, introducing the concept of The New Soviet Person (Gill 1980: 175) and he exerted a great influence on education, on which he left his mark by imposing the study of Marxism and Leninism in schools. Under his leadership, the 1930s were a period of hell for the Soviet Union, period also called the Great Terror so Stalin began to be associated with terror, cruelty and brutality, characteristics that best defined his leadership style (Roberts 2011: 1).

Stalinist leadership can therefore be characterized, in one word, as totalitarian. Being omniscient and omnipresent, all of the achievements of the country being his; having power and influence over the masses to whom he imposed respect through terror, whose liberties were constantly being diminished and who even lacked their freedom of thought, Stalin was the dictator who changed the history of mankind (Gill 1980: 26). A mass murderer who did not value anyone's life besides his, he was seen as a monster by the West and any dissidents, but was revered, appreciated, respected, and decried on his death as an outstanding leader by his people.

Many historians claim that his personality was the cause for all of the horrors of his rule, the fatal combination of paranoid personality disorder, alcohol abuse, outstanding intelligence and cruel character being the base for all of his bad decisions,

mass killing and personality cult. I, however, consider Stalin to be a paradox because of his roots as brilliant young man that was inclined towards music, poetry and all that was art and beauty, a young man with great potential that was destroyed by his environment. His trauma made him develop an alter ego, a cold, calculating, diabolical side to his personality that gave birth to his leadership style and attitude towards his subject. Besides, “the lame, pockmarked, web-toed boy, humiliatingly beaten and deserted by his father, adored but beaten some more by his single mother, haunted by bastardy, surviving accident and disease, had overcome the odds” (Sebag Montefiore 2007).

When it comes to Josip Broz or Tito, not much is known about him. Although he is a very important figure in history, a hero of both the Second World War and the Cold War, a man who has resisted and fought the two most feared leaders in history, Hitler and Stalin, Tito is a leader whose life is neglected by historians.

Undoubtedly, Josip Broz Tito was a well-known and controversial politician (Velikonja 2008: 14) who attracted both criticism and appreciation. A man who inspired generations of Yugoslav communists, a political and party leader who survived and thrived for an entire political epoch, a politician who was a great master of political pragmatism, but at the same time a man prone to excessive, incurable hedonism show in his consumption of glory and power.

He was always a mysterious person, ever since he was little he was tormented by the desire for a better life, having dreams and aspirations that no one knew except him. He then confessed when he already was the leader of Yugoslavia: “My ambition when I was a little boy was to be a tailor, a natural result of the desire of every little peasant in Zagorje to have nice clothes” (West 2009: 30). All of the difficulties in his family influenced his hopes and dreams as a young adult and because of this, it can be said that as in Stalin’s case, the Freudian personality theory can be also applied in Tito’s case (Psychoanalytic Theory, n.d).

The First World War was for him a chance to discover and prove his leadership and strategic capabilities, becoming the youngest Sergeant in the Austrian army, being only 21 years old at that time. Due to his extraordinary communication abilities, he was recommended to the Yugoslav Communist Party by his comrades, who seemed to believe strongly in his potential and although young, he showed himself very devoted to the Marxist doctrine in which he strongly believed.

Being especially known for his liberal and rebellious tendencies, but also his strength and self-confidence in resisting Stalin, Broz Tito is considered by many a hero, and by others a war criminal, despite the fact that his lack of desire for revenge was known: “This freedom from vindictiveness was one of the pleasantest features

of Tito's personality" (West 2009: 116). Another one of his undeniable traits was his patriotism, proved by the fact that he fought on the front, shoulder to shoulder with his soldiers. This brought him his glory and renown as hero in many countries.

Tito's leadership style was a special one, characterized by his independence, freedom, rebellion, nationalism and courage. He was "glorified, praised, and adored, or was despised and hated" (Stevanovic 2017: 105). In spite of his criticism, it was his powerful leadership that kept Yugoslavia united in spite of all the social and religious differences that existed between the republics that formed Yugoslavia, and many say that he was born to be a politician and statesman (Crnobrnja 1996: 71). If we were to judge by his looks, like his cold eyes that he would hide behind sunglasses or his tough expression and war-marked face, Tito could be considered a diabolical dictator, but in reality he was not the harshest leader a communist regime could have.

His leadership style could be described as authoritarian, as he imposed communist ideology on his country, which started to be ruled by bureaucracy and a very effective secret police force. Although he was described as one of modern history's most gentle dictators by his people and many foreigners, these opinions can be considered very biased because of his aura as hero figure and his contribution to national liberation. What is certain, however, is that his patriotism and nationalism made him do everything for the benefit of his people, not for himself or his personal ambitions.

He was a good strategist, both internally and externally. At a national level, he slowly managed to build and grow the country's economy (Swain 2010: 64) providing people with a chance to live a decent life, sheltered from excessive debt and problems, making his people have a considerably higher standard of living and well-being than other Eastern European nations. Through his break with Moscow he insured his country's international political prosperity – while other communist countries were stuck in their soviet bubble, Yugoslavia was heading in a different direction, on its own. In regard to his foreign policy, Tito managed to balance between the East and the West, managing to perfectly secure his country's position of middle ground by co-founding the Non-Alignment Movement, making Yugoslavia the only country having good relations to both NATO pact countries and Warsaw pact ones.

Tito, in spite of all the good things he did, the advancement of his country's education, infrastructure, health system and the growth of its wages, was still a dictator and also did much harm, despite attempting to distance himself from the classic definition of an authoritarian leader. He too purged those he considered enemies, from Stalinist politicians to Serbian and Slovenian liberals. These, purges were not based on national or ethnic criteria, but on political and ideological ones, and removed those threatening to his power (Crnobrnja 1996: 77).

I consider that at the time, Tito was not perceived as a dictator but as a ruler because of his great charisma which even eliminated the necessity for violence and force in making the people respect and obey him. He, of course, also used his propaganda machine (McLean 1957: 400) in order to strengthen his image, and, although many consider that all that was being written about the loved leader's character and great deeds were myths, I believe that they were merely greatly amplified, but true, realities. His greatest mistake, as leader, is, in my opinion, was the fact that he did not lay down a system that would keep the country united after his death.

Opinions about his leadership remain split. What is certain is that he was a powerful leader, who, for the first time in history, managed to unite the Yugoslav nation under the banner of a common cause. Josip Broz Tito, "the greatest son of our peoples and nationalities", is surely one of the most mysterious figures of the Balkans and of the Yugoslavs, the lingering nostalgia for him that exists in former Yugoslav nations to this day proving how loved and appreciated he was.

After presenting each leader's life, personality and leadership style, it is now necessary to analyse the rift between them, in order to identify the true reason behind their split, which was the first step in the Eastern Block destruction and also to see, how this split affected each country's geopolitics.

The Tito-Stalin split made history. On the 28th of June, 1948, the Cominform, the main symbol of Stalin's rule over Eastern Europe declared Yugoslavia's exclusion, mentioning that Josip Broz-Tito had deviated from the line of correct communist governance and was heading towards nationalism, marking the first definitive break between the Soviet Union and one of its satellites.

The tensions between the two leaders had been obvious since World War Two, but the moment which escalated the conflict, leading to the break, was the fact that Tito had started capturing territory in Europe and had started getting involved into the Greek Civil War. The Yugoslav leader's intentions had become clear to Stalin: he intended to build a Balkan Federation (Perović 2007: 43), another eastern bloc, separate from the soviet one, formed by Albania, Greece, and Bulgaria. Stalin felt he had competition for the first time, as Tito's ambitions were similar to his and were directly threatening his authority and the empire he had built in Eastern Europe.

It is obvious that Tito's independence led to the conflict. Being oppressed by his father in childhood, he developed a free spirit and no longer wanted to obey anyone, not even the mighty Kremlin leader. Since the beginning of his period as Yugoslav leader, Broz Tito had begun to analyse the nature of his country's dependence on Moscow (Swain 1989: 266), as he wanted to act and to make decisions on his own, to

stop merely waiting for Moscow's orders, as he considered that it was him who knew best what his people needed.

The ideological break occurred when Tito started tracing a political line that was distinct and separate from Stalin's policies, considering that Marxism was not dogmatic and that it could only be applied by adapting it to national necessities and particular circumstances (Perović 2007: 29). He thus developed the spirit of Yugoslav nationalism and expected to be treated as an equal by the great dictator in Moscow. Stalin, on the other hand, understood Marxism as an authoritarian regime taken to the extreme, whose economy was based on forced industrialization. Because he always imposed a form of Soviet foreign policy that greatly advantaged Russia, placing it on a pedestal on Eastern Bloc countries, Stalin would not allow the growth of nationalism in any territories in his sphere of influence.

Being more than an ideological break, this conflict represented the clash of the two very similar styles of authoritarian and totalitarian leadership. Even though Yugoslavia had been considered, at one time, an indispensable part of the communist bloc, with Tito being praised and loved by the soviet press, and even being shown by Stalin as a worthy example to follow in the creation of the new people's democracies, conflict and misunderstanding soon appeared.

As representatives of two styles of leadership, Tito and Stalin became proxies in the indirect clash of their political personalities, in spite of the fact that these were very similar – they both were trusted by their peoples, they both heavily relied on propaganda and the removal of their political enemies to consolidate their power, the small, but crucial difference between them lay in the fact that the main tool of Stalin's rule was violence, while the main tool of Tito's was his charisma and hero image.

Tito's authoritarian leadership was highly aided by his supreme self-confidence (Rhoads 2017) and his faith in his people, things that Stalin lacked. He was, instead, paranoid, a trait that pushed him towards absolutism in imposing his will on others, a characteristic trait of his totalitarian rule (Cheuv 1993: 159). In contrast with Stalin, Tito's leadership style has remained somewhat of a mystery to scholars, who struggle to figure out how someone who had nothing and no-one managed to not only rule successfully, but to also keep unity in a territory that used two alphabets, had three religions, four languages and five nationalities, while struggling to break out from the USSR's domination. While Stalin was fighting to maintain his hegemony, prestige and influence (Tucker 1977: 281) in the centralised Soviet state, Tito was prepared to work towards building a prosperous society, "a paradise of the working class" (Rhoads 2017) through the federal unification of Yugoslavian nations into a decentralised, independently developing state.

While Tito is remembered by his people and other Europeans, both from the West and East, as one of the gentlest authoritarian and communist leaders of Europe, as well as a hero figure for his contribution to national liberation, Stalin's legacy is that of history's most monstrous tyrant, a man who gained fame through his massacres, violence and regime of terror. Their differences prove that a small, nuanced, variation in leadership styles leads to major differences in how countries are led and how rulers act.

The conflict, thus presented, showcases that a dogmatic, theoretical form of Marxism-Leninism could never be fully, perfectly and identically applied by any leader, because its application is vastly influenced by the leader's personality and style of governing.

Conclusions

This paper aimed to show the danger of a totalitarian regime and the hidden realities of life behind the Iron Curtain, where, in spite of what propaganda wanted to show, and of what huge cover-ups attempted to conceal, the truth was that the bloc's political realities were not in accordance to rulers' wishes, whose control and leadership styles were highly conditioned by their lives, personalities and psychological characteristics. Reality, thus shown, stands in stark contrast to what communist propaganda tried to enforce as fact, how it wanted to portray leaders such as Stalin, Tito, Ceausescu and others as infallible heroes in the worker's struggle for social equity, as veritable paragons of virtue, wisdom and authority.

Thus, all of the psychological, sociological and historical circumstances of a leader's life influence his behaviour, creating ripple effects that lead to important consequences in the way countries are led, in their conflicts, alliances, and in the writing of history itself. The way individuals affect and influence history and the destiny of nations and millions of people is a fascinating area for study, both from a historical and international relations point of view, and is an area that helps us understand the past and its errors so that we may not repeat them. It is very important to understand how human nature led to the tragedies of the 20th centuries, how terrible dictators and tyrants arise, how they relate to each other, how political conflicts emerge and are handled in order to best prepare ourselves for the future, in order to apply the lessons we learn, to what happens today.

Any new perspective and understanding of the Cold War, a unique historical event caused by completely new circumstances, actors and technology, is crucial in properly understanding the 20th century, and inevitably understanding the 21st and preparing for the future. The Cold War, its ideologies, its leaders, its weapons, methods and diplomacy has undoubtedly marked a radical change in how wars are fought, in how countries relate to each other, and in how history plays out, but its key players, its backbone are the unique, individual and remarkable leaders – they are, to us, the key to solving the mysteries of current political affairs.

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ALEKSY MOŁDOWAN*

Integration with the European Union Without Membership: Finding the Best Models

Abstract

The article focuses on the relationship between the EU and other states situated on the European continent. The EU has to deal with various groups of states, which are characterised by different attitudes towards the Union. Some of them seek membership in the future, whereas others do not need it, but would like to engage in closer economic cooperation. Besides, growing regional powers aspire to play a significant role in Europe's development, which is why they strive for equal partnership with the EU. The main goal of the paper is to find the best models of cooperation between the EU with the aforementioned groups of European countries.

Key words: European Union, European cooperation, European integration, Enlargement of the European Union, Common Foreign and Security Policy.

JEL Classification: F53, F55.

Introduction

Political and economic integration of Europe has advanced significantly over the last decades. This has been achieved mostly due to creation, development and enlargement of the European Union. Despite some difficulties and problems

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arising in the process, the EU turned out to be a successful and effective project of regional integration, which in turn provided one of the longest periods of peace and prosperity in Western and Central Europe.

At the same time, the process of European integration, led by the EU, covers only part of the continent. There are, however, other parts of Europe which are in a less favourable situation. Over the last three decades most of the areas located outside the EU (the Balkan region, Eastern Europe, the Caucasus region) have experienced a number of conflicts and wars, economic crises and political violence. In the wake of these dramatic events, it has become clear that without deeper cooperation and integration with the rest of the continent, the territory of peace and prosperity created by the EU, could be at risk.

Without a doubt, the EU must act as a leader and an engine of integration of the whole region, but obviously it cannot (and should not) absorb all countries of the continent by granting them full membership in the Union. There are several European countries which remain outside the Union. Some of them are in the process of preparing for accession (Western Balkans countries), but other ones do not have such perspective in the medium term (Ukraine, Moldova, Georgia) or just do not want to limit their sovereignty by joining the EU (Switzerland, Norway, Iceland). Apart from that, several regional powers (Russia, Turkey) aspire to playing a significant role in Europe's development and sometimes come up with their own integration projects for Europe.

How can then the EU ensure development and prosperity of Europe as whole in such circumstances? Integration and cooperation between the Union and all other European states is the single way to achieve the aforementioned goal. This in turn requires creation of an appropriate model (or models) of relations with other states of the continent, which should deepen and extend integration of the EU with the non-member countries without giving them a membership perspective. It is a complicated task, because each state tends to seek a different level of cooperation and integration with the EU and declares different range of commitments it is ready to make within such integration.

In view of the above, the aim of this paper is to find appropriate models of integration between the EU and various groups of European countries, which can lead to development and prosperity of Europe as a whole.

Three tasks have to be completed to achieve this aim. The first one is to discover real intentions, interests and expectations of the EU towards its European partners. There are several groups of non-member states on the continent, and each of them is treated by the European Union in a completely different way.

The second task is to analyse existing models of integration with the third countries to identify their advantages and disadvantages. It is also important to verify their effectiveness in terms of achieving goals articulated by the EU in relation to each group of non-member states.

The third one is to come up with the models that allow the EU to accomplish the objectives within its regional policy in Europe. The most effective models of integration are presented for each group of non-member states.

The European Union Policy Towards Non-Member States: Goals and Interests

The European Union, as a unique participant of international relations, has developed a specific sphere of regulating its relations with the outside world, which essentially corresponds to the foreign policy of the state (Barburska 2016: 9–41). At the moment, the EU has diplomatic relations with more than 200 countries. The range and level of cooperation with each of them differs significantly. Some countries are very close to becoming members of the Union, which implies very close integration of the economies, legal systems and some domains of internal and foreign policies. The others have only weak trade contacts with the EU, which does not require tight cooperation, not to mention any integration.

The scale and level of cooperation between the EU and third countries are mostly determined by economic and political interests of the Union (Mołdowan 2019b: 53–78). Formally the Treaties of the European Union do not rank its partners in terms of their “value” for the Union. According to The Treaty on European Union: “The Union’s action on the international scene shall be guided by the principles which have inspired its own creation, development and enlargement, and which it seeks to advance in the wider world: democracy, the rule of law, the universality and indivisibility of human rights and fundamental freedoms, respect for human dignity, the principles of equality and solidarity, and respect for the principles of the United Nations Charter and international law” (TEU, art. 21).

However, other factors matter a lot, most importantly the country’s geographical location. This factor has a significant impact on the model of relations that the EU offers its partners. Only European countries are offered not only broad cooperation, but the deepest level of economic and political integration (Mołdowan 2019a: 51–68). This is because of the following reason:

Firstly, the EU is interested in expanding access to the closest markets. Such states as Switzerland, Norway, Russia, Ukraine, countries of Western Balkan region are huge and attractive markets for companies located in the EU, which is why it seeks to provide barrier-free or at least preferential access to them.

Secondly, non-member European countries play an important role in providing economic, political, ecological and military security at the EU borders. Armed conflicts, political violence and economic turbulence in the neighbouring countries can have immediate repercussions for the Union. Creating an area of stability and security around its external borders requires political stability and sustainable economic growth in the countries situated alongside the border of the EU. Examples of Ukraine and Moldova show that economic and political instability can result in huge problems for the EU, for instance a rise of smuggling, uncontrolled mass migration, influx of dirty money, *etc.*

Thirdly, after all most of the non-member states belong to European civilization. The EU aspires to strengthen and promote European values on the entire continent no matter if particular country has a membership perspective or not. The EU supports political and economic reforms that are necessary to strengthen democratic and free market institutions in all European states, especially those, which have limited experience in these areas.

Generally geographical proximity ensures that all problems these countries are experiencing get much more attention from the EU than similar crises happening elsewhere in the world.

In order to identify specific EU interests in relation to each non-member country in-depth research has been carried out. This has allowed to select the key topics which were discussed during negotiations between the Union and its partners. The method of event analysis was used for this purpose. All official bilateral contacts at the highest level¹ held between January 2014 to January 2019 were thoroughly analysed.

Information about the contents of negotiations has been obtained from official announcements, documents, concluded agreements as well as relevant press conferences devoted to those meetings' outcomes, *etc.* It is this author's assumption that the publicly available information reveals true goals and interests of the EU towards its partners².

¹ From the EU side – the President of the European Council, the President of the European Commission, 28 commissioners, including the High Representative of the Union for Foreign Affairs and Security Policy, from the third countries' side – presidents, heads of government.

² In this study, we do not explore the domain of hidden interests and goals. The analysis is based on public events and documents. Issues raised during the closed negotiations are not subject of this study.

Based on this analysis 37 specific issues have been identified as most frequently discussed. These issues have been grouped into six major blocks:

1. Strategic partnership. This block includes issues related both to very close economic cooperation and aligned interests in military and political spheres. The EU economic cooperation with these countries is based not only on mutual economic interests, but on the shared values as well.
2. Enlargement policy. This block includes discussed issues related to the process of preparation for accession to the EU. In this case democratic and economic transition of that countries seems to have priority for the EU over its pragmatic interests.
3. Sectoral integration. This is a general definition proposed in order to distinguish the EU's policy towards its European partners which does not imply full membership status but offers close integration in selected fields. Pragmatic economic interests are usually the determinants driving this type of integration. The Union and its partners select areas of economic cooperation which they want to develop.
4. Security cooperation. This block consists of issues related to cooperation the UE undertakes in the economic and political fields to ensure its own security. The EU is strongly motivated to devote a lot of attention to these countries which might affect its military, economic and ecological security. Not only armed conflicts in the region, but also terrorism, smuggling, uncontrolled mass migration and ecological disasters, pose risks for the EU.
5. Restricted partnership. This block embraces issues which relate to cooperation in very limited spheres (supply of natural resources, protection of investment, access to certain markets, migration policy, etc.). As a rule, the EU uses this type of relations towards those countries, which do not respect the EU's values or do not want to conform to interests of the Union. Certain reason or common interests however push them to maintain dialogue and cooperation in the aforementioned fields. The EU is usually forced to turn blind eye to serious problems concerning democracy, rule of law, human rights abuses, etc.
6. Energy cooperation. Providing the Union with energy resources is one the most important topics, which has continuously been raised in the negotiations between the EU and its partners. This block contains issues related to the supply of energy resources and infrastructure, which should ensure their delivery to the Union. In fact, that is one of the cases of the restricted partnership, but due to the significance of this question here the UE applies a distinct model of cooperation. A characteristic feature in this case is the fact that pragmatic economic interests absolutely dominate EU relations with states, which are powerful players in energy industry.

The results of study have allowed to identify the model of integration or cooperation, which dominates the relations between the EU and its non-member partners for each case³ (Table 1).

Table 1: Frequency of different blocks of issues arisen in the relations between the EU and selected third countries (in %)

| Country/ Block of issues | Strategic partnership | Enlargement policy | Sectoral integration | Security cooperation | Restricted partnership | Energy cooperation |
|------------------------------------|--------------------------|-----------------------|-------------------------|-------------------------|---------------------------|-----------------------|
| Norway | 89 | 0 | 0 | 7 | 0 | 59 |
| Switzerland | 87 | 0 | 0 | 11 | 0 | 9 |
| Iceland | 45 | 7 | 0 | 4 | 0 | 7 |
| Serbia | 14 | 93 | 45 | 62 | 0 | 14 |
| Turkey | 87 | 27 | 93 | 96 | 24 | 38 |
| Montenegro | 5 | 92 | 37 | 54 | 0 | 19 |
| Bosnia and Herzegovina | 9 | 96 | 21 | 49 | 0 | 16 |
| The Republic of North Macedonia | 12 | 77 | 29 | 56 | 0 | 13 |
| Albania | 10 | 63 | 81 | 59 | 0 | 5 |
| Kosovo | 0 | 57 | 24 | 86 | 0 | 0 |
| Ukraine | 4 | 7 | 97 | 81 | 0 | 83 |
| Moldova | 0 | 3 | 91 | 66 | 0 | 18 |
| Armenia | 0 | 0 | 27 | 9 | 98 | 14 |
| Georgia | 0 | 4 | 3 | 52 | 0 | 13 |
| Azerbaijan | 11 | 0 | 17 | 21 | 71 | 87 |
| Russia | 0 | 0 | 7 | 21 | 95 | 89 |
| Belorussia | 0 | 0 | 0 | 0 | 100 | 15 |

Source: own elaboration.

If one of the blocks dominates the debate it shows us the current model of relations the EU is using towards the examined country. It should be emphasised, that the UE can use dual approach towards some of its partners. It relates to such

³ The results presented in the table expose blocks of issues discussed in the bilateral relations between the EU and third countries. It means that, for example, issues related to various aspects of sectoral integration were discussed at 97% of all meetings held in the period between January 2014 to January 2019.

courtiers like Turkey, Russia, Armenia and Azerbaijan. For example, Turkey has been placed within strategic partnership model⁴, but at the same time the issues typical to blocks “sectoral integration” and “security cooperation” are frequently discussed at the meetings between the EU and top Turkish officials. This state of affairs does not deny the Turkish status of strategic partner but reveals the very important interests of the EU in the relations with this partner, which underpin this strategic partnership.

Based on obtained results all European non-member countries are grouped into several categories:

1. Candidate states, that have been already invited or have a perspective of joining the EU (Montenegro, Bosnia and Herzegovina, Macedonia, Albania, Serbia, The Republic of North Macedonia).
2. Strategic partners, that are treated as close partners, but which have no membership perspective in the close future or are unwilling to join the EU (Switzerland, Norway, Iceland, Liechtenstein, Turkey).
3. Sectoral partners, that have been invited to seek deep and comprehensive integration with the Union without membership perspective (Ukraine, Moldova, Georgia).
4. Countries, that are important suppliers of energy resources (Russia, Azerbaijan). They have this advantage, which grants them additional preferences in relations with the EU.
5. Restricted partnership, that creates a platform for cooperation with such states as Armenia and Belorussia.

This model does not dominate, but the results show, that shape and content of the EU relations with some non-member states to a large extent are determined by security concerns. For example, the EU sticks to sectoral integration approach in relations with Ukraine, but the issues related to the security cooperation model arise at almost every meeting between officials.

All of these categories of non-member states are characterised by individual distinctive features. Each of the mentioned states has different aspirations, expectations and level of ambitions in relations with the EU. To create an area of peace and partnership in whole Europe the Union should find a relevant model of integration or cooperation with all of them.

⁴ Moreover, officially Turkey is still a candidate state.

Is the Membership Perspective Still an Effective Stimulus for Democratic and Economic Reforms?

In order to integrate the European continent, the Union at first actively applied the enlargement approach, offering member perspective to those countries, which were ready to absorb and implement the Union's values, standards, and rules in the political, economic and cultural domains. Prospect of membership used to be the most effective incentive to stimulate non-member European states to pursue political and economic reforms in compliance with the guidelines suggested by the EU.

Such policy has helped to form a huge homogeneous European area based on set of common and precisely defined values, including democracy, equality, rule of law, human rights, market economy, etc. Intensive and dynamic functional integration of the European countries within EU (earlier EEC) has been combined with strong institutional one since the moment of its foundation. In that case full membership was necessary. By joining the EU new states not only obtained full powers in the making the law (*acquis communautaire*), but also took responsibilities of observance of the law.

Later this led to the establishment a kind of closed exclusive club of European states, institutionally separated from the rest of the continent. It was supported by hardening out external borders for European people outside the EU, enhancement of mandatory standards and demands for goods and services supplied by companies and individuals from the non-member states, arrogant foreign policy towards other countries of region (Moldowan 2019b: 24–35).

To get membership perspective in this closed exclusive club European states were ready to conduct deep and comprehensive transformation. When selected representatives were being invited, they put significant efforts into implementing numerous reforms to match the criteria of accession. Membership perspective itself became a powerful catalyst for political and economic transformation outside the EU, in particular in Central and Eastern Europe.

Positive results of historic enlargement of the Union in 2004–2006 encouraged belief, that sheer member perspective accelerates activities and increases efforts made by candidates to meet relevant criteria designed by the EU (so called the Copenhagen criteria). Based on this experience the Union has tried to integrate another part of Europe in the same way (Olszewski, Chojan 2017: 135–147). Soon

after aforementioned enlargement all countries situated in the Western Balkans region received a membership perspective. At that moment all countries (except for Croatia) were far from the EU's requirements both in a political and economic sense. Nevertheless, the UE gave them clear and firm member perspective and opened accession negotiations with candidate countries.

What was behind this decision? Firstly, as study shows, security concerns of the EU play a significant role in relations with the states of this region. Integration of the Western Balkans countries with the Union seems to be the single way of deescalating situation in that region. One of the main aims of the integration is to encourage countries of the region to cooperate among themselves in the wide range of areas, including the prosecution of war crimes, border issues, mitigation of ethnic and religious conflicts, etc.

Secondly, geopolitical factors also motivated the EU to hurriedly open membership perspective for the Western Balkan countries. This region traditionally is a battleground between Western Europe, Russia and Turkey. The rivals of the EU expend huge effort in order to strengthen influence in the region, which poses dangers to economic and political interests of the Union. In this context, integration of Western Balkan countries with the EU is a quite reasonable strategy of protecting this region from the influence of those other actors.

Thirdly, this region has huge economic potential, which is still not being used. Because of the wars and conflicts in the 1990s, the economic attractiveness of this region became clouded, but it has a huge perspective due to its sizable markets, beneficial geographical location, rich natural resources, biodiversity, etc.

All in all, according to the Western Balkans Strategy adopted by the European Commission, "firm, merit-based prospect of EU membership for the Western Balkans is in the Union's very own political, security and economic interest" (European Commission 2018: 3).

The UE assumed, that credible member perspective would step up the democratic and market transition in the region. All candidates received financial assistance within the Instrument for Pre-accession Assistance and other instruments to carry out the necessary reforms.

The prospect of EU membership appears to be less effective this time though. Until now only Croatia joined the EU, the other states are still in the process of accession preparations. Montenegro, Serbia, the Republic of North Macedonia and Albania are official candidates. Bosnia and Herzegovina, like Kosovo, are potential candidates for EU accession. It should be emphasised, that at the moment none of these countries

meet political or economic criteria for accession (European Commission 2018: 3). They are not ready to become Member States of the Union in the near future.

It turned out, that the motivating effect of membership perspective now is lower than 10–15 years ago. Based on conclusions of annual reports that assess the situation in the candidate countries, in particular their level of alignment with the EU acquis and standards, as well as the track record of their implementation, the dynamic of reforming is dramatically decreasing. There are problems both in economic and political fields. None of the Western Balkan states can currently be considered a functioning market economy nor to have the capacity to cope with the competitive pressure and market forces in the Union (European Commission 2018: 3).

The investment climate remained largely unchanged and is characterised by weak rule of law, the lack of adequate enforcement of state aid control, an entrenched grey economy, poor access to finance and low level of regional integration and connectivity. State interference in the economy persists, exacerbating the risk of corruption through weak public financial management and frequent changes in the regulatory environment and taxes (European Commission 2019: 3).

In the political sphere the majority of states stagnated in their efforts, in particular in such crucial areas as the rule of law, fighting corruption, ensuring democratic election, etc. The EC also noticed that these countries show clear elements of state capture, including links with organised crime and corruption at all levels of government and administration, as well as a strong entanglement of public and private interests. There also still exists the problem of extensive political interference in and control of the media.

Such dramatic deteriorating of membership perspective stimulating effect is caused by several factors. The first one relates to bad performance of Greek economy that is struggling to emerge from the aftermath of global financial and economic crisis. Being representative of the Balkans region countries Greece is rather a deterrent of close integration with the EU. Enormous concerns about the risk of unfolding the “Greek scenario” are perceived throughout Western Balkan region. Some courtiers of that region have the same economic imbalances that Greece had before the crises erupted.

The second reason regards the turbulence in the EU itself. There is no clear vision of the Union’s future both inside and outside it. All options are possible at the moment – starting with further institutional integration and ending with weakening European institutions, territory reduction and dissolution of the Union. It discourages candidates and potential candidates from quick accession to the EU.

Some of them are in no hurry to join the EU (and consequently to conduct reforms they have committed to) until they get a clear picture of the EU trajectory.

The third reason is the rising influence of other powers in the region (Russia, the USA, Turkey, China). All of them strive to weaken and shrink the EU rather than to strengthen and enlarge it. They actively interfere in internal affairs of the candidate states, in particular, with the intention of undermining their integrational aspirations.

Generally, not all candidate countries are active and effective enough to carry out main tasks that are necessary to meet the criteria of accession to the EU. Some of them even demonstrate regress in the fulfilling the commitments. It proclaims, that membership perspective is becoming a weaker and less effective instrument of the EU to promote and implement its values and standards. Enlargement was one of the most effective tools of the European Union's foreign policy and the best way to stabilise its European neighbourhood. Thanks to it, at the turn of the 20th and 21st centuries, there were essential positive changes in the countries of Central Europe. In recent years, however, we have been observing a kind of "fatigue" with enlargement and a slowdown of this process (Molendowski 2012: 41).

Existing Model of Integration European Union with European Non-Member Countries

Except for Western Balkans countries none of other European states will join the European Union in medium-term perspective. Moreover, none of them have such perspective in the foreseeable future. It is obvious that the Union put granting membership perspective on hold. Nevertheless, the UE tries to deepen, widen and strengthen integration with all the countries on the continent. To achieve this, it offers several models of integration – from accession to single market and customs union to cooperating in limited number of areas (for example in energy policy). All these models do not envisage full membership in the Union but offer a lot of options of very close integration in all domains.

Four models of integration are currently applied by the EU to develop integration with third countries without granting them perspective of membership – accession

to Single (Internal) market, Customs Union, Free Trade Area and Partnership and Cooperation model.

The first one is designed for highly developed countries (Switzerland, Norway, Iceland, Liechtenstein), which are strongly linked with the EU due to common historical, cultural and economic background. All of them meet the bulk of criteria, which the EU requires from candidates for membership, which is why they are desirable members. The EU is open to accept this group of states. The problem is that they do not want to limit their sovereignty by joining the EU, which will obligate them to transfer some powers to European institutions.

Being unwilling to participate in political integration (and in some economic fields as well) these countries, however, have a strong intention to develop integration with the EU within European Single Market. The framework for such integration is provided by the European Economic Area, which entered into force in 1994. It brings together the EU member states and Iceland, Liechtenstein and Norway (members of the European Free Trade Association⁵) – in a single market, referred to as the “Internal Market”.

This model of integration envisages free movement of goods, services, capital and persons⁶, unification of competition and state aid rules, close cooperation in certain areas such as consumer protection, environment, public health and education. For this purpose, non-member countries must incorporate certain EU legislation into their domestic legislation. The EEA Agreement is regularly revised in order to keep it in line with developments in the relevant EU law (*acquis communautaire*). At the same time, that model of integration excludes political fields (foreign and security policy, justice and home affairs) and some of economic spheres (agriculture and fisheries policy, customs union, monetary union).

Generally, EEA model of integration is the most advanced in the economic domain, offered by the EU to third countries. Thanks to it Iceland, Liechtenstein, Norway and Switzerland are closely integrated with the EU, but hold political independence and a relatively wide autonomy in their economic policy.

The second model of integration is access to the European Customs Union. Apart from all member states the Customs Union involves several third countries,

⁵ Switzerland, which didn't ratify The EEA Agreement, also joined to the Internal Market, make so on the base of numerous bilateral agreements. It has the same rights and responsibilities as all members of the EEA.

⁶ All four members states are part of the Schengen Area.

namely Turkey, Andorra, San Marino and Monaco. This option ensures the tariff-free movement of goods within the covered territory. It implies uniform system for handling the import, export and transit of goods and implements a common set of rules called the Union Customs Code.

It should be stressed, that participating in the Customs Union does not mean that the non-member states automatically engage in the Single Market and vice versa. Turkey, Andorra and San Marino are not part of the Single Market. The last one requires a much greater level of integration of policies, in particular relating to health and safety standards, intensity of the state aid, the free movement of labour, working conditions, etc.

In practice, the function of the Customs Unions with third countries differs significantly than within the EU. Firstly, this option does not cover the complete range of goods. For example, the arrangement between the EU and Turkey does not include agricultural, coal and steel products. Secondly, some bureaucratic procedures for third countries remain. For example, companies from non-member states (in this case from Turkey) in order to deliver their goods to the EU market are obliged to submit certain documents including export declarations and invoices as well as transport permits for each member country through which their goods will be transported. Goods also can be subject to inspections at the border to confirm they comply with EU regulations, despite the fact that Turkey aligned its legislation with certain EU internal market rules, covering product standards, intellectual property rights and competition controls.

Finally, being a member of the Customs Union limits non-member states in negotiating with other countries in a wide range of vital economic issues (for example, striking their own free trade agreements with other countries). The matter is, that the state opens its market, but hands over the power of negotiating important deals with thirds countries to the European institutions. Given that it has a very limited influence on the European Commission policy (because without membership status it does not appoint members of the Commission) this state has reduced bargaining position in the international trade. However, it is still able to negotiate with others cooperation in such topics as financial services, investment, public procurement and some other matters.

All in all, the Customs Union ensures an easier flow of goods, but would not itself guarantee frictionless trade. Nevertheless, it is a very advanced model of integration into the EU, which is offered only for a small group of partners of the EU. Like a single

market, the Customs Union benefits EU partners by providing favourable conditions for trade with member states and, thus, strengthens ties between them.

The third model of integration implies establishment of the free trade area. This option is designed chiefly for the neighbouring countries of the EU, which are involved in the Eastern Partnership. Initially it was addressed to all six states: Armenia, Azerbaijan, Belarus, Georgia, Moldova, and Ukraine. The general direction of integration is the same for all countries – strengthening democracy, liberalisation of economy, improving human rights and freedoms.

Later though, deep differences surfaced in that group of states. Some countries declared greater ambitions for the relations with the EU. They demonstrated a much faster dynamic of reforms than other ones, anticipating closer integration with the Union. To meet their expectations the UE offered a more advanced option of integration – an Association Agreement, which includes a Deep and Comprehensive Free Trade Area (AA/DCFTA). It is addressed to those countries that have clearly declared their intention of joining the European Union but do not have such perspective in the foreseeable future (Ukraine, the Republic of Moldova, Georgia).

AA/DCFTA comprises political, institutional and economic integration supported by comprehensive harmonisation of candidate's legislation with the *acquis communautaire*. The political part covers the following spheres: human rights, good governance, democracy, rule of law, countering corruption, combating terrorism, stability, security, peaceful resolution of conflict, crisis management, personal data protection, migration and asylum, readmission, fight against illicit drugs, money laundering and terrorism financing, etc.

The economic part implies establishment of the DCFTA. It provides access to the European Single Market in selected sectors (at the same time, it grants EU companies in those sectors the same regulatory environment in the associated country as in the EU). The agreement requires aligning legislation of the state to the EU's in certain areas, in particular competition policy, public procurement, customs and trade facilitation, protection of intellectual property rights, trade-related energy aspects, including investment, transit and transport.

In terms of institutional integration AA/DCFTA envisages deep cooperation between European institutions and central and local authorities of partners. It also establishes a high level of political dialog between the EU and its partners on regular basis.

Generally, AA/DCFTA is definitely a more advanced form of integration than regular free trade area, offered by the EU to other partners. It aims at achieving strengthened political association and economic integration with the EU, but without

any promises (not to mention guarantees) of granting prospect of EU membership even in the case of spectacular results of its implementation.

For the rest of Eastern European countries, which have not accepted AA/DCFTA model, less advanced forms of integration have been offered, namely a partnership and cooperation model. A partnership and cooperation agreement provides a general framework for bilateral economic and political relations. By using it the EU offers certain benefits (restricted access to its market, financial support, cooperation in the fields of culture, science and technology, *etc.*) in exchange for conducting reforms in the political and economic spheres.

A partnership and cooperation model is the best option for those countries, which do not seek a fast and deep integration with the EU, but have the intention to cooperate closely with the Union on a sector-by-sector basis (Armenia, Azerbaijan). They can individually pick the fields, where they want to cooperate closely. It helps to keep constructive relations between the EU and other European states even in the case they have quite different geopolitical and geoeconomical priorities.

For example, Armenia firstly negotiated AA/DCFTA with the EU, but finally decided not to sign it. It joined the Russia-led Eurasian Customs Union instead that makes it impossible to participate simultaneously in the DCFTA with the EU. The country evidently sees greater importance in the cooperation with Russia. At the same times it reaffirms its commitment to cooperate with the EU more closely and firmly in improving democratic institutions and judicial system, human rights and the rule of law, good governance, fighting corruption, strengthening civil society, expanding trade and investment. The Partnership and Cooperation Agreement (or the new one, that will be signed on its basis) allows it to keep close ties with the EU.

Azerbaijan also prefers to develop a pragmatic approach with a clear focus on economic cooperation, rather than to seek a membership perspective. In contrast to Ukraine, Moldova and Georgia officially aspire to the membership in the EU and Armenia and Belarus decided to join Eurasian Economic Union, while Azerbaijan does not seek to join any blocs. It aspires to develop good relations with all geopolitical players. It does not need such deep model of cooperation as DCFTA and is definitely unwilling to make commitments in the political domain. The AA/DCFTA integration model seems to be too close for that country

Azerbaijan has failed to fulfil commitments in fields of democracy and human rights for many years, but the state is a strategic energy partner for the EU and plays a pivotal role in bringing Caspian energy resources to the EU market. That is why the Union is interested in strengthening close cooperation. Initially it offered the AA/

DCFTA model. Negotiation over the agreement, launched in 2010, were stopped in 2013 when the Azerbaijani authorities stated that they were no longer interested in the deal. Instead, the country preferred to focus on selected fields, in particular energy cooperation. In 2017 the EU and Azerbaijan began negotiations on a new framework agreement, which is to be based on sectoral model of integration (Mołdowan 2019b: 53–78).

The Ways to Improve the European Union Relations with Non-Member States

By and large, the EU already has a number of the different models of integration and cooperation with non-member countries. Some of them are pretty effective and successful and match the expectations both of the EU and its partners. For instance, the EEA appears to be one of the most successful projects of integration with the EU without membership perspective. It allows the Union, along with its partners, to focus on the economic field of the integration, leaving behind the political dimension.

At the same time, in some cases the models of integration used by the EU pose essential risks for the relations with its partners. The problem is that some countries do not feel satisfied with the approach applied by the EU towards them. It results in weakening ties with the Union and deteriorating willingness to perform their duties and commitments properly.

The study reveals two main groups of “extremely unsatisfied” non-member states. The first group demands closer integration with the EU (Ukraine, Moldova, Georgia). A lack of membership perspective even in the distant future undoubtedly undermines these countries’ willingness to conduct in-depth reforms. In case of Ukraine it also leads to reconsidering the role and significance of the European integration.

The second group, conversely, perceives the model of integration proposed by the EU as excessively deep and close. This forced them to pull out of the integration process with the Union (Armenia, Azerbaijan). This group aspires to focus on integration in the limited number of sectors. Moreover, those states do not want to open their economy to the EU and do not consider aligning their own legislation with the *acquis communautaire*.

In order to meet the expectations of both groups of partners and to maintain their democratic and economic transformation the Union has to correct its integration policy. It is difficult to offer membership perspective to the first group. The EU do not

want to use this tool broadly at the moment. Firstly, the Union has huge problems with integration of states situated in Western Balkans region at the moment. Further enlargement would pose risk for the EU itself in the medium-term perspective.

Secondly, it is still struggling with its own internal problems (Brexit, migration crises, serious breaches of the rule of law by several member states, rise of populist radical right parties and movements, etc.). First of all, it needs to tackle these problems and to formulate a clear strategy of its long-term development. Based on this vision further steps towards enlargement can be undertaken.

The UE can propose to its partners one of the three alternative options instead:

- long-term membership perspective with an identified date of accession;
- joining the Internal Market;
- joining Customs Union;
- develop a new model of integration which would combine joining the Internal Market and Customs Union simultaneously (IM + CU).

Potentially IM + CU model could be an interesting and very attractive model for non-member European countries which seek to the closest integration with the EU. It is not accessible to new democratic republics of Eastern Europe at the moment chiefly due to very stringent criteria the potential candidate have to meet. The most important condition is maturity of democratic and market institutions. None of other Eastern European countries comply with these requirements.

Nevertheless, this model could be the ultimate goal for those European states, that have no chance to obtain membership perspective in foreseeable historic period. Considering the above, this option should be open to them, at least hypothetically. The second group of non-member states consists of those countries that do not want to limit their independence and sovereignty in relations with the Union. The EU's attempt to impose on them a comprehensive model of integration failed because it was too close. Such countries like Armenia and Azerbaijan refused to accept the AA/DCFTA, albeit they were offered that model. This does not mean that they want to break off relations with the EU. They just need a platform for sector-by-sector cooperation.

One possible solution for those countries could be a development by the EU of a sectoral integration model which should be institutionalised and accepted as one of the binding platforms. This model should envisage cooperation between the EU and non-member states in the limited number of areas, first of all in the economic sphere (Table 2).

Table 2. Existing and possible models of integration the EU can offer to non-member states

| Model of integration | Long-term membership perspective | IM + CU | Internal Market | Customs Union | AA/DCFTA | Sectoral integration |
|-----------------------|---|--|--|---|---|--|
| Criteria of accession | Meeting Copenhagen Criteria, full implementation of the <i>acquis communautaire</i> into national law. | Full implementation of the <i>acquis communautaire</i> into national law. | Aligning national law with the <i>acquis communautaire</i> in certain fields. | Aligning national law with the <i>acquis communautaire</i> in certain fields. | Harmonisation of national legislation with the <i>acquis communautaire</i> . | Partly harmonisation of national legislation with the <i>acquis communautaire</i> |
| Advantages | 1. Strong motivation effect for partners to conduct reforms, desirable for the EU. 2. Unification of political and economic processes in Europe due to implementing Union's <i>acquis</i> by other European countries. | Full economic integration without including partners in the policy-making process of the EU. | Enlargement of the Single Market without including partners in the policy-making process of the EU. | 1. Elimination tariff and non-tariff barriers within area. 2. Common trade policy on the international scene. | 1. Coordinating some domain of internal and foreign policy. 2. Harmonisation of business environment between the EU and its partners. 3. Elimination the bulk of tariff barriers to trade and investment. | 1. Establishing platform for the dialog, which often is better option than breaking off all contacts with the country concerned 2. Focus on own pragmatic economic interests without engaging in politic disputes. 3. Low costs related to developing such kind of cooperation. |
| Weaknesses and risks | 1. Huge costs for preparing candidate countries for accession are required. 2. The promise of accession must be kept at the end. | 1. The lack of supranational decision-making authority inevitably will cause fragmentation of common economic area. 2. Political disagreements and disputes between the EU and its partners can disturb the functioning of single economic area as well | When crossing the border between the EU and a non-member state which belongs to the Internal Market the export and import goods are subject to customs duties and customs control. | Joining the Customs Union does not ensure frictionless trade. Some bureaucratic barriers remain, especially between members of the EU and non-member state, which participate in Customs Union. | In practice this model appears to be unsatisfactory for all the EU's partners. For some non-member states it is not close enough (because it does not guarantee a membership perspective), for other ones – too deep, because allegedly interferes in internal affairs. | 1. Lack of ability to exert on those states in order to persuade them to fulfil commitments as well as to correct their policy. 2. Strengthening authoritarian regimes. Majority of states which strive for sectoral integration with the EU first of all try to exclude question of the rule of law and of human rights out of discussion. |
| Actual Members | Turkey | - | Switzerland, Norway, Iceland, Lichtenstein. | Turkey | Ukraine, Moldova, Georgia. | Armenia, Azerbaijan. |
| Potential member | Ukraine, Moldova. | Ukraine, Moldova, Georgia. | Ukraine, Moldova, Georgia. | Turkey, Ukraine, Moldova, Georgia. | Belorussia. | Russia, Belorussia. |

Source: Own elaboration.

On the one hand it can help to keep the dialog open, which often is the better option, when the alternative is freezing all contacts with the problematic country. The EU also can focus on its own pragmatic economic interests regardless of problems with democracy, human rights abuses, aggressive policy towards other partners and so on.

On the other hand, such approach poses crucial risks for the state of democracy and peace on the European continent. It can contribute to the empowerment of authoritarian regimes in Europe. It is no secret that the majority of states which strive for sectoral integration with the EU, in doing so try to eliminate from discussion issues concerning problems with democracy, corruption, rule of law and of human rights. If the EU continues to turn a blind eye to such problems, those countries' authorities will be getting more and more self-confident and aggressive.

In addition, such model will reduce the influence of the EU. Both Armenia and Azerbaijan refused to form deep integration with the Union among others due to the interference of other regional powers. The EU has to keep it position in this region to balance them.

Conclusions

Granting a membership perspective used to be one of the most efficient tools the UE applied to promote its values, standards and rules on European continent. Positive results of previous enlargements of the Union show that the sheer prospect of membership can ensure a high dynamic of political and economic transformation in non-member states. However, the potential of this instrument is getting exhausted.

In this situation the Union has to come up with new approaches to continue the integration processes in Europe. The EU has developed a number of different integration models and cooperation with non-member countries without a promise of membership. Some of them are pretty effective and successful, but other ones, conversely, undermine mutual trust and consequently worsen relations.

The EU has to deal with different groups of the "extremely unsatisfied" states. Some of them demand closer integration with the EU (Ukraine, Moldova, Georgia), that is why the existing model (AA/DCFTA) can be accepted by them only as a temporal framework. In the closest future they will expect more advanced options, otherwise they will lose incentives to conduct difficult and unpopular reforms. Other group of countries, by contrast, reject AA/DCFTA as a form of overly deep

integration with the EU, with permits it to interfere in internal affairs of those states. At the same time, they would like to cooperate with the EU more closely in the selected economic fields (Belarus, Armenia, Azerbaijan).

There are no simple solutions in this case. Some important changes have to be made. Firstly, the EU should correct and update its policy towards European non-member states. New models like IM+CU and sectoral integration have to be institutionalised. Secondly, the EU should be open to deeper integration with states aspiring to that. It does not necessarily imply granting a membership perspective. The Union could offer to its partners a closer model of integration instead, for example, joining the Internal Market or the Customs Union or it could even propose a new model (IM+CU). For those states that are unwilling to limit their independence and sovereignty in relations with the Union a sectoral integration model could be proposed to establish a platform to initiate dialog.

Generally, the Union should finally realise that ensuring stability and security in Europe can be achieved only by strengthen ties between the UE and non-member states. To accomplish this mission the EU, as a leader and engine of integration processes on the continent, has to find such models of relations with them which will prompt all non-member states to cooperate with the Union for the sake of peace and prosperity in Europe.

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Polityka handlowa Unii Europejskiej jako przykład asymetrycznych działań oddziałujących na państwa słabiej rozwinięte

Abstrakt

Polityka handlowa znajduje się w centrum realizacji stosunków zewnętrznych Unii Europejskiej. Wspólna polityka handlowa była pierwszym kamieniem milowym, który osiągnęły państwa członkowskie Europejskiej Wspólnoty Gospodarczej (EWG). Dlatego właśnie, jest jednym z głównych instrumentów Unii Europejskiej w relacjach z państwami trzecimi. Z jednej strony wykorzystuje ona asymetryczny system oparty na preferencyjnym dostępie do rynków europejskiej oferowany państwom najbiedniejszym, zaś z drugiej strony w ostatnich latach coraz intensywniej realizuje tzw. mieszane umowy handlowe z państwami najbardziej rozwiniętymi, jak Kanada w ramach umowy CETA (Comprehensive Economic Trade Agreement). Asymetria relacji z państwami słabo rozwiniętymi jest w znacznej części konsekwencją zasad, które dominują w UE i opierają się na wspieraniu gospodarek potrzebujących. Polityka handlowa stała się instrumentem oddziaływania na zmiany i reformy wprowadzane w państwach słabiej rozwiniętych. Celem niniejszego artykułu jest wskazanie, że koncepcja systemu GSP, cechy i powiązania tego systemu z innymi obszarami, oparta na asymetrii w relacjach handlowych z państwami najslabiej rozwiniętymi, istotnie oddziałuje na te kraje. Artykuł odwołuje się do materiałów źródłowych instytucji unijnych oraz opracowań na temat stosunków zewnętrznych i polityki handlowej Unii Europejskiej. W artykule wykorzystano następujące metody badawcze: analiza dokumentów UE oraz badanie literatury dotyczące powyższej tematyki. Artykuł ma charakter multidyscyplinarny z obszarów nauk ekonomicznych oraz nauk politologicznych.

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Słowa kluczowe: polityka handlowa, integracja europejska, Civilian Power Europe, Unia Europejska.

The European Union's Common Commercial Policy as an Example of Asymmetrical Actions Affecting Less Developed Countries

Abstract

Trade policy is at the center of the European Union's external relations. The common commercial policy was the first milestone to be achieved by the member states of the European Economic Community. That is why it is one of the main instruments of the European Union in relations with third countries. On the one hand, it implements an asymmetrical system based on preferential access to European markets for the poorest countries, while on the other hand, it has been increasingly implementing the so-called mixed trade agreements with the most developed countries like Canada under the CETA (Comprehensive Economic Trade Agreement). The asymmetry of relations with underdeveloped countries is largely a consequence of the principles that dominate the European Union and are based on supporting least developed economies. Trade policy has become an instrument for influencing changes and reforms taking place in less developed countries. The purpose of this article is to indicate that the concept of the GSP system, the features and connections of this system based on asymmetry in trade relations is crucial to affect change and reforms in the least-developed countries. The article refers to source materials of EU institutions and studies on external relations and trade policy of the European Union. The following research methods were used in the article: analysis of EU documents and literature research on the above subject. The article is multidisciplinary in the fields of economic sciences and political science.

Key words: trade policy, European integration, Civilian Power Europe, European Union.

JEL Classification: F00, F13, F15.

Wprowadzenie

Obszar stosunków zewnętrznych Unii Europejskiej jest materią skomplikowaną ze względu na występowanie następujących czynników:

- państwa członkowskie prowadzą we własnym imieniu politykę zagraniczną z państwami trzecimi;
- w wybranych obszarach, jak polityka handlowa, Unia Europejska przejęła kompetencje państw członkowskich;
- dzisiejsza polityka handlowa i umowy międzynarodowe wychodzą poza sferę kompetencji wyłącznych UE, co wymaga akceptacji zapisów przez państwa członkowskie;
- postępująca globalizacja istotnie wpływa na realizację stosunków międzynarodowych;
- wspólny głos 27 (28) państw członkowskich jest lepiej słyszalny na arenie międzynarodowej;
- Unia Europejska przyjmuje odpowiedzialność za sytuację najbardziej potrzebujących obywateli w najbiedniejszych państwach.

Wielu naukowców starało się zdefiniować rolę Unii Europejskiej również na arenie międzynarodowej. We wszystkich podejściach przypisuje się Unii określoną „super-moc” wynikającą z określonych cech związanych z polityką realizowaną ponadnarodowo, siłą ekonomiczną, wielkością obszaru czy liczebnością obywateli (więcej: Orbie 2008).

Rola UE w obszarze stosunków zewnętrznych podlega zarówno czynnikom wewnętrznym, jak i zewnętrznym. Wymiana handlowa Unii Europejskiej jest istotna z punktu widzenia generowania miejsc pracy i wzrostu gospodarczego w samej UE oraz faktu, że handel z państwami trzecimi prowadzi do ich zrównoważonego rozwoju, zwłaszcza w przypadku państw mniej rozwiniętych. W dobie globalizacja presja pochodzi dodatkowo z dwóch kierunków: po pierwsze ze strony Stanów Zjednoczonych, które poprzez działania administracyjne próbują wprowadzić protekcjonizm w handlu oraz ze strony konkurujących producentów chińskich (Hoekman, Puccio 2019: 1). Należy nadmienić, że polityki handlowe USA i UE od wielu lat realizowane są wzajemnymi odpowiedziami na podejmowane działania (Sbragia 2010: 369). Biorąc pod uwagę powyższe determinanty, Unia będzie strzec

systemu wielostronnego handlu opartego na systemie wypracowanym na forum WTO, co zostało również zapisane wśród priorytetów fińskiej Prezydencji w 2019 r.¹

Sięgając do korzeni powstania Unii Europejskiej, wśród fundamentalnych zasad nią kierujących znajdują się: otwartość i odpowiedzialność. Będąc najgłębiej zintegrowanym ugrupowaniem państw i jednocześnie skupiając znaczną część najbardziej rozwiniętych państw, Unia solidarnie dzieli się swoim dobrobytem z najbardziej potrzebującymi. UE w obszarze stosunków wewnętrznych kieruje się zasadami, które jednocześnie wspiera aktywnie w stosunkach z państwami trzecimi, a są to: demokracja, państwo prawa, ochrona praw człowieka, ochrona podstawowych wolności, równość i solidarność oraz działanie zgodnie z zasadami zawartymi w Karcie Narodów Zjednoczonych (Borowiec 2011: 514).

Unia Europejska na podstawie Traktatów realizuje działania zewnętrzne w następujących obszarach: wspólna polityka zagraniczna i bezpieczeństwa, wspólna polityka handlowa, współpraca na rzecz rozwoju oraz współpraca gospodarcza, finansowa i techniczna z państwami trzecimi (innymi niż rozwijające się)².

Celem niniejszego artykułu jest zaprezentowanie złożoności stosunków zewnętrznych realizowanych przez Unię Europejską poprzez wskazanie asymetrii relacjach handlowych. Przy czym asymetria jest rozumiana jako brak równowagi w działaniach dwustronnych. Wskazanie czynników istotnie wpływających na stosunki zewnętrzne UE prowadzi do wniosku, że fundamenty Unii Europejskiej i zasady, których przestrzega ta organizacja prowadzą do asymetrii w relacjach z państwami trzecimi w wymiarze ekonomicznym, społecznym i politycznym. Asymetria jest jednak wynikiem pozycji jaką Unia Europejska wypracowała na arenie międzynarodowej i jej zdolności do oddziaływania na własne otoczenie.

Asymetria w działaniach Unii Europejskiej

Unia Europejska jako odpowiedzialny podmiot stosunków międzynarodowych i jedna z największych organizacji międzynarodowych w wymiarze ekonomicznym,

¹ Więcej na ten temat: Finland's Presidency of the Council of the European Union, An ambitious, open and rules-based trade policy, <https://eu2019.fi/en/priorities/competitiveness-and-social-inclusion/trade-policy> (dostęp: 11.12.2019).

² Unia została upoważniona do podejmowania określonych, koniecznych działań zewnętrznych o ile jest to niezbędne dla wykonywania kompetencji wewnętrznych.

społecznym i ekonomicznym realizuje stosunki zewnętrzne w oparciu o szereg zasad, które podkreślają ideę solidarności i dzielenia się dobrobytem (Tabela 1). Artykuł 21 Traktatu o Unii Europejskiej jest spisem zasad i celów, wedle których realizowane stosunki z państwami trzecimi. Dotykają one kwestii praw człowieka, wsparcia państwa prawa, utrzymania pokoju i bezpieczeństwa czy wspierania rozwoju społeczno-gospodarczego w państwach słabiej rozwiniętych. Zasady te stanowią określoną wizję świata, do której urzeczywistnienia UE dąży w swoich działaniach. Zwłaszcza pkt. 2 wspomnianego artykułu definiuje zdolność UE do wywierania wpływu na inne państwa.

Tabela 1: Artykuł 21 Traktatu o Unii Europejskiej

| |
|---|
| <p>1. Działania Unii (...)</p> <p>2. Unia określa i prowadzi wspólne polityki i działania oraz dąży do zapewnienia wysokiego stopnia współpracy we wszelkich dziedzinach stosunków międzynarodowych, w celu:</p> <ul style="list-style-type: none"> a) ochrony swoich wartości, podstawowych interesów, bezpieczeństwa, niezależności i integralności; b) umacniania i wspierania demokracji, państwa prawnego, praw człowieka i zasad prawa międzynarodowego; c) utrzymania pokoju, zapobiegania konfliktom i umacniania bezpieczeństwa międzynarodowego zgodnie z celami i zasadami Karty Narodów Zjednoczonych, jak również z zasadami Aktu końcowego z Helsinek oraz celami Karty Paryskiej, w tym z celami i zasadami dotyczącymi granic zewnętrznych; d) wspierania trwałego rozwoju gospodarczego i społecznego oraz w dziedzinie środowiska naturalnego krajów rozwijających się, przyjmując za nadrzędny cel likwidację ubóstwa; e) zachęcania wszystkich krajów do integracji w ramach gospodarki światowej, między innymi drogą stopniowego znoszenia ograniczeń w handlu międzynarodowym; f) przyczyniania się do opracowywania międzynarodowych środków służących ochronie i poprawie stanu środowiska naturalnego oraz zrównoważonego zarządzania światowymi zasobami naturalnymi, w celu zapewnienia trwałego rozwoju; g) niesienia pomocy narodom, krajom i regionom dotkniętym klęskami żywiołowymi lub katastrofami spowodowanymi przez człowieka; oraz h) wspierania systemu międzynarodowego opartego na silniejszej współpracy wielostronnej i na dobrych rządach na poziomie światowym. <p>3. Unia szanuje zasady (...)</p> |
|---|

Źródło: Traktat o Unii Europejskiej (wersja skonsolidowana). Dziennik Urzędowy Unii Europejskiej C 115, <http://rie.amu.edu.pl/wp-content/uploads/2017/01/rie10-2016-30.pdf> [dostęp: 10.10.2019].

Działania zewnętrzne Unii Europejskiej, tak jak i zasady nią kierujące, są realizowane w trzech wymiarach: ekonomicznym, społecznym i politycznym (patrz Tabela 1). W wymiarze ekonomicznym UE realizuje stosunki zewnętrzne poprzez wspólną politykę handlową, współpracę na rzecz rozwoju oraz wsparcie finansowe, techniczne i ekonomiczne państw trzecich. Oferuje dostęp do rynku, na którym znajduje się ponad 500 mln konsumentów, a łączne PKB wynosi ponad EUR 14 bln. Dostęp do wspólnego rynku, jak również otrzymywanie pomocy rozwojowej przez

państwa trzecie są uzależnione od stopnia wdrożenia prawa, standardów europejskich czy zasad przestrzegania praw pracowniczych obowiązujących w UE. Tym samym, aspekty *stricte* ekonomiczne przekładają się na kwestie społeczne i polityczne. W wymiarze społecznym UE niesie pomoc humanitarną, zarządza kryzysem uchodźczym oraz dysponuje Europejskim Korpusem Solidarności. Aktualnie UE i jej państwa członkowskie są najhojniejszymi darczyńcami pomocy rozwojowej, co oznacza, że ponad połowa środków przekazana na pomoc rozwojową pochodzi z Unii Europejskiej. Wyzwanie związane z kryzysem uchodźczym wymaga od państw członkowskich współpracy i wsparcia finansowego tych krajów, których problemy wojny i konfliktów zbrojnych dotknęły bezpośrednio. Cel związany z ograniczaniem, czy raczej dążeniem do likwidacji ubóstwa, ma w swojej koncepcji wpisaną asymetrię i nie gwarantuje Unii Europejskiej bezpośrednich ani pośrednich zysków w długim okresie. Pomoc uchodźcom, w którą zaangażowana jest UE, mobilizuje co roku miliardy euro, a jej charakter jest nie tylko humanitarny, ale i ekonomiczny (Komisja Europejska 2017: 52–53). W wymiarze politycznym, Unia – jako kluczowy gracz na arenie międzynarodowej – jest inspiracją dla innych ugrupowań i dowodem na wartość dodaną płynącą ze współpracy. Aktualnie UE składa się (jeszcze) z 28 państw członkowskich i pozostaje otwarta na ewentualne rozszerzenie, o ile państwa aspirujące spełnią kryteria kopenhaskie. Ponadto UE oferuje też wsparcie w dążeniu do integracji europejskiej, chociażby w formie Europejskiej Polityki Sąsiedztwa. Dzisiejsza Unia obejmuje geograficznie obszar od Morza Czarnego do Atlantyku i absolutnie nie zamyka się na kolejnych członków.

Asymetria w polityce handlowej – System Preferencji Handlowych

Wspólna polityka handlowa należy do najstarszych polityk traktatowych Unii Europejskiej. Praktycznie od początku istnienia Wspólnot polityka handlowa znajdowała się wśród kompetencji wyłącznych Komisji Europejskiej. Polityka handlowa tym samym stała się dowodem na to, że polityki mogą być efektywnie realizowane na poziomie ponadnarodowym³.

³ Warto nadmienić, że w ostatnim czasie część umów z zakresu polityki handlowej ma charakter mieszany, co oznacza, że wymagają one ratyfikacji na poziomie państw członkowskich, np. CETA lub TTIP.

Istniejące w krajach Europy Zachodniej restrykcje handlowe po II wojnie światowej wynikały ze zniszczeń wojennych, braku rezerw płatniczych oraz niskiej konkurencyjności przemysłu europejskiego, co było widoczne w szczególności w porównaniu z amerykańskimi producentami (Barcz, Kawecka-Wyrzykowska, Michałowska-Gorywoda 2016: 176). Zniesienie barier handlowych stało się jednym z nadrzędnych celów utworzonej w 1958 r. Europejskiej Wspólnoty Gospodarczej. Państwa EWG zrealizowały ten plan wprowadzając w 1968 r. Wspólną Taryfę Celną oraz w pełni funkcjonującą unię celną w 1970 r. Istotne znaczenie dla liberalizacji handlu z państwami trzecimi miały wielostronne negocjacje handlowe na forum GATT a później WTO. Intensyfikacja i wysoka efektywność działań Wspólnoty w szczególności w latach 60. uczyniło z ugrupowania światowego lidera handlu (Tkachuk 2016: 482). Analiza polityki handlowej i jej funkcjonowania była podejmowana przez wielu autorów. Wśród nich można wymienić A.C. Roblesa (2008), S. Woolcocka (2012), A. Moravciska (1998), którzy wskazują, że to polityka handlowa ukształtowała pozycję geopolityczną Unii Europejskiej.

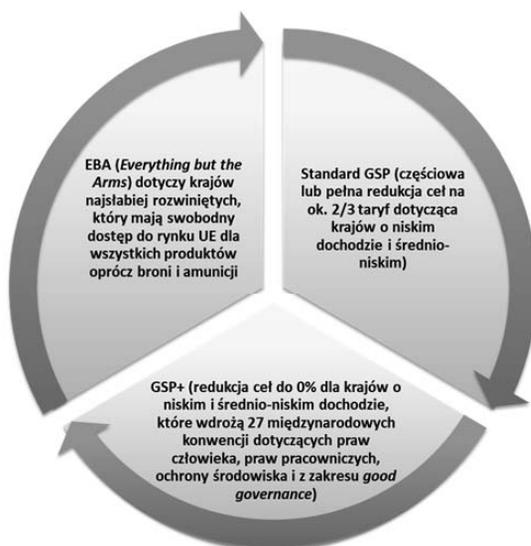
Artykuł 207 Traktatu o funkcjonowaniu Unii Europejskiej dokładnie określa zasady realizacji wspólnej polityki handlowej (WPH) oraz procedury instytucjonalne na szczeblu UE, jak również wskazuje obszary, których wspólna polityka handlowa dotyczy, jak obrót produktami, usługami, prawa własności intelektualnej czy zagraniczne inwestycje bezpośrednie. Jednocześnie po Traktacie z Lizbony ten artykuł bezpośrednio łączy wspólną politykę handlową z polityką zagraniczną (Tkachuk 2016: 484).

Wspólna polityka handlowa realizowana jest w dwóch wymiarach: autonomicznym i konwencyjnym. Polityka autonomiczna obejmuje środki i narzędzia, które nie są opisane traktatowo i można ją podzielić na politykę o charakterze dyskryminacyjnym i preferencyjnym. Polityka dyskryminacyjna stosowana jest wobec państw nie będących członkami WTO, zaś polityka preferencyjna obejmuje szereg stosowanych preferencji dla państw najsłabiej rozwiniętych. Natomiast, polityka konwencyjna wynika wprost z zapisów traktatowych i obejmuje umowy międzynarodowe oraz porozumienia zawarte przez UE z państwami trzecimi lub organizacjami międzynarodowymi (Czermińska 2008: 5).

Integracja ekonomiczna, w szczególności w wymiarze handlowym może być realizowana przez UE w czterech formach: (1) umowy o wolnym handlu, (2) umowy o unii celnej, (3) udzielenie jednostronnych preferencji handlowych oraz (4) zastosowanie klauzuli najwyższego uprzywilejowania (KNU) (Góralski 2008: 273). Asymetria w handlu zagranicznym widoczna jest w relacjach z państwami trzecimi

i nie tylko w wymiarze ilościowym, ale i stopnia otwartości państw członkowskich UE na państwa trzecie, w szczególności najsłabiej rozwinięte. Katalizatorem tej asymetrii – czy też podstawą do jej istnienia – jest jedna z form integracji z państwami trzecimi, tj. system GSP (*Generalized System of Preferences*)⁴. Celem tego systemu jest umożliwienie państwom rozwijającym się dostępu do rynku europejskiego poprzez zmniejszenie ceł na ich produkty. Do 2012 r. system preferencji miał na celu wygenerowanie dodatkowego dochodu z eksportu państwom rozwijającym się, aby zwiększyć ich zdolności do inwestowania we własny rozwój społeczno-gospodarczy. W ramach reformy przeprowadzonej w 2012 r. został skierowany do państw najbiedniejszych (LDS – *Least Developed Countries*), opierając się na trzech elementach (Rysunek 1)⁵.

Rysunek 1: Schemat Generalized System of Preferences



Źródło: opracowanie własne.

⁴ Więcej informacji szczegółowych na temat GSP można znaleźć w opracowaniu UNCTAD, 2015. *Generalized System of Preferences: Handbook on the Scheme of the European Union*. United Nations: New York and Geneva.

⁵ Reforma została wprowadzona na podstawie Regulacji (UE) No 978/2012 Parlamentu Europejskiego oraz Rady 25.10.2012 wdrażając schemat ogólnych preferencji taryfowych i zmieniając Regulację Rady (EC) No 732/2008, OJ L 303, 31.10.2012: 1.

Cały system GSP ma za zadanie wywołać „ssanie” w gospodarkach państw rozwijających się, które wykorzystując okazję w postaci zredukowanych stawek celnych mają możliwość wejścia na rynek europejski i uzyskania dostępu do ponad 500 mln konsumentów. Warunkowy charakter systemu GSP zmusza te państwa jednocześnie do wprowadzania zmian w sferze ekonomicznej (dostosowanie się do wymagań klientów europejskich, przestrzeganie europejskich standardów jakości, bezpieczeństwa czy ochrony środowiska), społecznej (wdrażanie zmian na rynku pracy, w zakresie ochrony praw człowieka czy edukacji) oraz politycznej (tworzenie klimatu dla negocjacji, ale również wdrażanie dobrych praktyk w zakresie *good governance*, czy zmniejszenie stopnia korupcji). Polityka handlowa realizowana przez Unię Europejską wywiera istotny wpływ w sposób horyzontalny oddziałując na szereg istotnych dziedzin życia społeczno-gospodarczego (EP 2019: 1–2). Należy podkreślić, że w sposób pośredni wiąże się z realizacją polityki rozwojowej UE, której celem jest wsparcie państw najbardziej potrzebujących (Jaszkiewicz, Latoszek 2013: 171–211).

Raport Komisji Europejskiej “Mid-term evaluation of GSP” z 2018 r. przedstawił efekty ekonomiczne, społeczne i polityczne, które są konsekwencją utrzymywanego systemu GSP opartego na asymetrii relacji z państwami rozwijającymi się i najmniej rozwiniętymi. W zakresie wzrostu eksportu w latach 2011–2016 nastąpił wzrost importu do Unii Europejskiej z państw objętych systemem GSP. W obszarach jak: obuwiu, odzieży, maszyny i urządzenia mechaniczne, które stanowią największą grupę produktów importowanych przez państwa członkowskie UE wzrost sięgnął poziomu 24,5%. Dla porównania w latach 2011–2013 wzrost ten wynosił 6,5%. Największą dywersyfikację eksportu odnotowały państwa korzystające ze standardowego schematu GSP, a najmniej zdywersyfikowaną strukturę eksportu nadal mają państwa EBA. Cały system GSP jest postrzegany jako katalizator zmian w sferze ekonomicznej, politycznej i społecznej w państwach do niego należących i współpraca w jego ramach ma wpływ takie elementy, jak środowisko czy jakość życia (EC 2018).

Zgodnie z raportem Komisji system GSP ma istotny wpływ na sfery pozaekonomiczne, jak ochrona praw człowieka, *good governance* czy wskaźnik SPI (*Social Progress Index*) obrazujący całokształt zmian w sferze społecznej zaczynając od podstawowych potrzeb ludzkich przez podstawy dobrobytu ludzkiego kończąc na szansach. W 2017 r. to Dania miała najlepszy wynik SPI – blisko 100. Państwa poddane analizie, jak Pakistan, Bangladesz czy Boliwia, robią postępy w tym zakresie, natomiast nie traktuje się systemu GSP jako czynnika bezpośrednio wpływającego na te pozytywne zmiany. Jednakże, warto zaznaczyć, że aktualnie sformułowany system preferencji handlowych wymaga od państw najsłabiej rozwiniętych intensywnych

zmian i może być jednym z czynników oddziałujących motywująco na ich rządy (EC 2018: 108–110). Orbie wskazuje, że narzędzia UE stosowane wobec państw objętych systemem GSP mają charakter perswazyjny, co wynika z dynamiki procesu liberalizacji mającego miejsce w obszarze polityki handlowej UE, ale i postawy Unii na forum WTO (Orbie 2004: 16).

Podsumowanie

Unia Europejska zbudowała swoją wspólnotę w oparciu o przesłanki ekonomiczne, wychodząc od unii celnej, przez wspólny rynek aż do utworzenia unii gospodarczo-walutowej. Realizacja polityki handlowej w wymiarze ponadnarodowym była kluczowa dla wypracowania przez UE statusu silnej organizacji globalnej, tzw. *Civilian Power Europe*. Wykorzystanie niemilitarnych narzędzi do wywierania wpływu w ujęciu międzynarodowym i siła ekonomiczna państw członkowskich Wspólnoty ukształtowały globalne zdolności UE do oddziaływania na państwa trzecie (Duchene 1973: 19).

Państwa członkowskie po drugiej wojnie światowej zdecydowały się połączyć swoje siły w wymiarze ekonomicznym, w szczególności zaś handlowym, aby odbudować potencjał międzynarodowy utracony w jej następstwie. Jednocześnie, pogłębianiu procesów integracji towarzyszyło postępujące zacieśnienie współpracy w innych obszarach niezbędnych do realizacji celów ekonomicznych. Dzisiaj współpraca handlowa realizowana przez Unię Europejską wychodzi poza schemat braku ceł wewnątrz UE oraz wspólnej polityki celne wobec państw trzecich. Obecnie stawia ona sobie za cel promocję standardów związanych z prawami pracowników, prawami człowieka czy ochroną środowiska. Zewnętrzna polityka Unii Europejskiej w obliczu globalizacji jest aktywna i ma charakter perswazyjny m.in. w formie systemu GSP. UE bezsprzecznie należy do grona organizacji, które wraz z własnym rozwojem dążą do osiągnięcia pozytywnych zmian w tych państwach, w których obywatelom żyje się najtrudniej.

Dlatego też nie tylko fundamentalne zasady UE pchają ją do utrzymania tej asymetrii. Znaczenie mają też czynniki ekonomiczne w postaci dostępu do rynków, które uczą się od konsumentów europejskich standardów. Dotychczasowa polityka handlowa i umowy należały do wyłącznych kompetencji UE. Praktyka ostatnich lat pokazuje, że umowy o wolnym handlu mają charakter mieszany. Są one konsultowane przez instytucje unijne oraz rządy państw członkowskich, ponieważ

zawierają elementy, które wykraczają poza wyłączne kompetencje UE. Jednym z przykładowych umów jest CETA (*Comprehensive Economic Trade Agreement*) z Kanadą, która aby wejść w życie wymaga akceptacji na poziomie narodowym. System preferencji handlowych zawarty w CETA tworzy mega-blok handlowy i warunki do inwestowania, co jest odpowiedzią na postępującą globalizację (Muravska 2018: 225–236).

Podsumowując, Unia Europejska jako jeden z głównych graczy na arenie międzynarodowej opiera swoje stosunki handlowe na umowach dwustronnych, które zawiera z państwami rozwiniętymi oraz jednocześnie realizuje system preferencji handlowych. Skierowany jest on do państw najbardziej potrzebujących i ma na celu nie tylko umożliwienie im dostępu do rynku europejskiego, ale również ma pełnić rolę kanału dystrybucji wartości europejskich. Co więcej, jego istota polega na motywowaniu państw najsłabiej rozwiniętych do reformowania własnych ustrojów poprzez implementację prawa międzynarodowego dotyczącego prawa socjalnych, praw człowieka, zapewnienia ochrony zdrowia, edukacji i zapewnianie dostępu do podstawowych usług publicznych.

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VIRGINIA-ANASTASIA FOURNARI*

Relationship Between Public Revenues and GDP for Countries in the European Union (2000–2017)

Abstract

In this paper we seek the relationship between public revenues and GDP after the consequences of the 2010 economic crisis for two groups of EU countries: “memorandum” versus “no memorandum”. In the EU, following the financial crisis and the imposition of varied and intensified budgetary discipline for both groups of countries, the collection of public revenues is not dictated by a strict provision. In both groups of countries, income from taxes occurs at lower forecasts or is higher than forecast. The application of the ARIMA model in our study verified that the tax burden for each citizen for the purpose of collecting tax revenues continues for the countries of our study; it has not been interrupted after the outbreak of the economic crisis and it can be predicted that it is going to continue.

Key words: ARIMA model, Tax Burden, Budget Data, International Comparisons, Economic Sociology, Memoranda governments.

JEL Classification: C10, H22, H66, Z13.

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Introduction

The accomplishment of fiscal stability in the EU became more crucial for some member states which found themselves mired in negative fiscal circumstances after the 2010 financial crisis. The consequences of the economic crisis within the institutional framework of European treaties compelled each one of the eight European states involved in the research (Austria, Belgium, France, Greece, Italy, Portugal and Spain) to face the crisis within the spirit of “fiscal stability”. This happened despite the different gravity of the causes and consequences for each state.

Public revenues in relation to GDP were shaped by the economic circumstances in conjunction with a continuously changing tax system which operates under these extreme conditions. Concurrently, fiscal prediction became linked to each state’s obligation to face the necessary fiscal policy changes, i.e. to impose medium-term financial objectives based on speculation regarding the macroeconomic development of the global economy and based on that to specify decisions and measures affecting public expenditures and tax revenues.

For the study, the aforementioned eight member-states were divided into two groups based on their terms of fiscal monitoring and control following the financial crisis. The standards of compliance to the terms as well as the administrative and legislative abilities of each state refer to good governance practices. On the other hand, non-compliance to these standards creates the conditions for the transition from “fiscal compliance” to “memorandum administration” of their budgets with all administrative and legislative consequences. The long-term analysis of tax revenues (1965–2017) for each group of the studied member states and their comparison aims at pointing out the categories of taxes for achieving the budgetary policy aims of one or more states.

In our analysis the prediction of tax revenues for each state or group of states of the EU, taking into consideration the changes of the GDP, is analysed through the autoregressive integrated moving average (p, q, d) the ARIMA (p, q, d) model. The application of this model through the repetitive transformation of the first differences leads to the production of a fixed time series. Following the “Box-Jenkins” method (Box, Jenkins 1976) we adopt and enter the given facts for analysis in the StatGraphics program. Thus, we arrive at the results that determined which EU countries were entered into a “memorandum” or a state of budgetary oversight in order to cope with the consequences of the global economic crisis of 2007 and the

post 2010 developments in the European Economy (Greece, Italy, Portugal, Spain) and which were not (Austria, Belgium, France, Netherlands). This analysis leads to the evaluation that for the countries in a state of deeper economic crisis the tax burden per capita is not going to be reduced in the following years. The progression of each Member State in terms of improving the living conditions of its residents will be linked to its effective governance and budgetary organization in order to minimize violent budgetary changes and regulate the mining of public resources.

The Public Revenue from Taxes

The reliable production of data, i.e. the systematic observations that are collected at fixed time intervals and following international standards, is based on the new reality of the European Union in the 21st century. It is mandated by the need to counter the production of inaccurate data from member-states. The imperative need for reliable data leaves national statistical practices and especially systematic observation of Public Revenue of individual member-states in the past. Relevant studies reveal that the sources of Public Revenues (and their ranking) as well as the prioritization of taxation policy within the E.U. are determined by legislation and administrative acts which each Member-State should take into consideration regarding their production, as well as verification of fiscal compliance (European Commission 2017a, 2017b).

This is in regard to the transition from an older method of applying budgetary policy by parliamentary governance to a modern form of governance with “levels of austerity”. These levels of austerity are determined by mid-term fiscal programming and take the form of national provisions (European Commission 2017c).

Taxation remains the fundamental, constitutional budgetary tool of each government; however, its regulatory aspect is shaped within the goals and functions of the EU as well as the influence of globalization. One of the greatest sources of influence, as was made evident by the recent financial crisis of the EU countries, is the management of public debt. The growth of such debt gives rise to political perceptions and management techniques whose primary goal is to find a taxation formula which can safely cover public expenditures without helping economic growth.

The common regulations among Member States aiming at a good taxation operation towards the collection of taxes serve the imposed budgetary targets but remain problematic. Due to a variety of causes there are deviations among the Member States; these are the administration and effectiveness of a state, the

synthesis of the public revenues, the transparency and the extent of corruption. The procurement of public resources through taxation now goes beyond national borders and its performance is a subject of research and evaluation of international organizations.

The financial policy of a growing number of states has been conducted through numerical indicators with surveillance of the fiscal policies since the 1980's. One side of this coin is the creation of a "database" of fiscal regulations for the member states of the EU ("Numerical fiscal rules in EU member countries") and the other is the creation of independent budgetary instruments. The creation of independent budgetary instruments for the first time in the global post-war economy gives rise to catalytic changes in the financial process and its performance, as well as the dynamic of constant increase in public resources from taxation and predictions that go beyond national borders.

The measures that are imposed on economies (as in the case of Greece) and the "European Support Mechanism" test the limits of the classic tools of the constitutional class and the well-known arena of "Public Economics", especially the relationship between state and economy, and economic policy and constitution. They also influence sociological fields such as "fiscal sociology" and "sociology of taxation" (Fournari 2016).

Therefore, the tax rules with their "fiscal rule strength index" (Fiscal Rule Strength Index, FRSI), become restrictions for the government in exercising its fiscal policy. The laws are formulated with criteria such as "the statutory base of the rule", "the room for revising objective", "the mechanisms of monitoring compliance and enforcement of the rule" *etc.* (European Commission 2007: 240).

The usual restrictions, which go beyond the national governmental policy and concern all the Member States or the EU, are the rules of fiscal balance (Eyraud *et al.* 2018). The conditions of a country being incorporated into the European system and the global system in general are not as easy as they were in the 20th century. The long period of countries doing as they saw fit in the management of Public Income is long past. The emaciation of the disintegrating political autonomy is furthered by tax rules which "are broadly utilized to limit the purview of fiscal policy and to promote fiscal discipline" (Venizelos 2019).

The number of countries that adopt and utilize fiscal regulations worldwide exceeds 90. This trend is supported by the realization that the main goal is the arbitrary limitation of tax policy and fiscal policy in general. Additional goals include the bolstering of fiscal viability, transparency, and the indication of the course of the country's fiscal policy to financial markets (Eyraud *et al.* 2018).

Tax Revenue

The relationship between the categories of tax revenue and the GDP shapes the field of taxation sociology. Some of the issues at hand are the modernization of fiscal rules, the connection between the tax climate and social justice, the prediction, quantification and confrontation of social inequalities especially in times of national crisis and violent social and technological transformation.

A necessary condition to this analytical spirit is the availability of reliable data and predictions as “(...) providing quality data is a must if we want to develop robust and effective tax policies for the future” (European Commission 2018). Between countries there is a search for different tax structures and their consequences on the tax ratio with regard to the GDP. The prediction of revenue depends on the evaluation of the tax elasticity, the assessment of the volatility of the financial conditions and their impact of prices and inflation (Jenkins *et al.* 2000: 15).

Empirical studies on these subjects have shown two different approaches: one concerns the assumption that the level of taxation influences financial growth and the other promotes the discussion surrounding the consequences of the tax structure on financial growth. This involves the size of the public sector with its negative consequences, meaning the distortion it causes to financial growth. The antithesis to this position supports the idea that higher taxation and its dissemination via public expenditure can promote economic growth. Post 1980 this discussion has been fortified by the comparison between countries which adopt different financial growth models (Stoilova 2017).

The connection with the public sector has widened the difference of opinion regarding the nature of the relationship between taxation and economic growth. This controversy is rooted in the tension caused by the distinction between developed and developing countries, viewed either individually, comparatively, or in groups of countries belonging to one or more international organizations.

In developing countries there remains a disagreement, no one has yet formulated a “Magical tax recipe” which would encourage economic growth (Nantob 2014): some countries with high levels of taxation have high rates of economic growth and some countries with low taxation have lower rates of economic growth.

Another component to this disagreement is the connection drawn between taxation and democratic organization. Countries with high incomes vs. those with medium and low incomes are distinguished by the ways in which they expand their

tax revenue during the growth phase as well as the importance placed on certain tax means.

It has been shown that the total of tax revenue for governments is linked to the growth index. Their relation to the GDP groups countries by tax rate. Those countries where taxation is between 5–15% of national wealth show very weak growth. Countries with a higher tax rate of 15–30% show an intermediate growth rate, and finally countries where taxation is greater than 1/3rd of the GDP have a high index of growth.

The ratio also has to do with the level of democracy, as has been shown by a large sample size of countries. Countries where the tax to GDP ratio is relatively weak (lower than 12–15%) are often governed in a dictatorial fashion. Countries where the tax burden is higher (between 12–15% and 25%) are characterized as relatively democratic countries and finally countries whose tax burden exceeds 28% are considered fully democratic. Taxation is the most important piece of internal revenue policy since it represents more than 80% of total revenue for more than 50% of the countries in the world (Fournari 2016, 2019).

Taxation Act and Policy

“Tax revenues in advanced economies have continued to increase, with taxes on companies and personal consumption representing an increasing share of total tax revenues, according to new OECD research” (OECD 2018). This change is accompanied by the relationship between “harmonization” vs. “following of rules” of the tax systems of different countries. The harmonization of tax systems (no need for an across the board harmonization of Member States’ tax systems) recedes from these rules with a better coordination (COM/2006/823) of national policies by the member states of the EU.

Member States, based on the principles of “subsidiarity” and “proportionality” (the principles of subsidiarity and proportionality) (European Commission 2017d, e), are free and in accordance with their preferences to choose the most appropriate tax systems for them. The need for tax harmonization in the EU includes “good governance” in the tax area (i.e. more transparency, exchange of information and fair tax competition) (European Commission 2009) and has added to the fight against harmful tax competition (OECD 1998). The change in tax revenues of each Member State is linked to the demand for “unanimity” in tax decisions that remains pending,

despite the recognition that Member States' tax coordination (European Commission 2004) is linked to the future of Europe (COM/2003/548).

This quick reference to three concepts crucial to tax policy decision making in EU member states ("harmonization", "rule compliance", "unanimity") encapsulates two matters which are linked to the transition from a historical analysis of the data to a prediction of public revenue from taxes from the two groups of countries.

Extract Taxation and Tax Resistance

At the crux of central power, taxation is a mechanism of evolution from the earliest years that today depicts the ways in which a country moves to a centralized and compulsory system of taxation, with the parliamentary role ever changing (Besley, Persson 2014, Dinecco 2011). The connection between taxation and GDP influences property rights through which revenue collection strengthens the mechanisms of market economy, solidifying market relations as a basis for the productivity of a state.

Besides being a necessary power, taxation, through its reforms, is a change agent to the ways in which this necessity is distributed into the construction of a law-abiding state. The functionality of the markets of such a state and its financial performance depend upon a stable budget and restrict expropriation and other violent forms of resource collection (Besley, Persson 2014). Taxation with stable rules is a strength which influences the level and layout of taxes, with the hope of long-term financial growth (Dackehag, Hansson 2012).

The relationship between taxes and the rate of growth of the real per capita GDP can be interpreted through the analysis of time series. G.D. Myles observes that "in most developed countries, the level of taxation has steadily increased over the last century. An increase from approximately 5–10% of the GDP to 20–30% is characteristic. Such important increases to taxation create serious questions regarding the impact it had to economic growth" (Myles 2000). In this analysis, the correlation between taxation and growth is quite strong. Thanks to short-term theoretical models, this theory observes that taxation distorts decision making and creates incorrect distribution of resources regarding the more uncertain long-term effects. Governmental taxation policy is ineffective as a mechanism to influence long-term economic growth, contrary to the short-term effects on per capita GDP.

Later, economists will highlight the effects of taxation on the rate of technological advancement and its potential influence on motivation for innovation and entrepreneurship (Dackehag, Hansson 2012). Furthermore, tax returns on

investments or expected profitability seem to have a positive impact on the rate of economic growth (Myles 2000).

The level of Resource gathering by means of taxation is a question to be answered through long term analyses. Is there a minimum analogy of tax to the GDP linked to the acceleration of development and development? (Gaspar *et al.* 2016). The experts have an empirical answer to the question whether there might be a point to turn over the analogy of tax to GDP, and ended up with two analyses of different time spans: the first and more recent concerns the data of 139 states for the period 1965–2011 and the second and older, concerns the data of 30 more advanced economies or the 1800–1980 period.

This approach showed that the estimated points for an overthrow to take place are similar to almost the 12% of the GDP. For the contemporary sum of data it is noted that for a state just above the median there will be a 7,5% GDP *per capita* after 10 years (Gaspar *et al.* 2016).

Taxation: a Basic Tool of the National Economy

The whole issue of tax payments is connected with the economic development; or contrary to this, a category of chosen taxes shapes the tax structure and enforces economic growth; this is a question which has already been addressed: i.e. the rise of taxes on consumption with simultaneous decrease of taxes on work and capital, can give rise to the development of the economy (Stoilova 2017).

The other category of studies shows that economic activity between different countries is influenced by the combination of “tax burden” and “tax structure”. Starting with the impact of taxation on the economic development of the 28 member states of the EU for the 1996–2013 period, we can evaluate the proposals for taxation that could lead to economic development.

For the needs of our study we took a pool of countries divided into two groups. One of the groups includes the countries characterized by a Memorandum of Understanding. The political conversation has been met with the confluence of factors which lead to an optimized tax system, which interprets causes and differences in the performance of tax revenue from country to country in the EU.

Planning includes reform (OECD 2017) so that its observation in Member States of the EU can determine the challenges of the tax policy they face for the improvement of their tax systems. It has been observed that these challenges, which become increasingly important during times of slow growth and budgetary purging (European Commission 2013) are owed to the potential contribution of taxation to

the purging of public economics – besides the restriction of expenditure – as well as to a friendliness to an enlargement of the tax structure.

The “descriptive analysis” of the differences between the 28 Member States, as it arises from the computation of the total tax burden and the planning of the tax structure and the empirical analysis lead to the impacts of taxation on economic growth (Stoilova 2017). Selective consumer taxes as well as income tax and property tax bolster financial growth when they help shape the tax structure of a state.

In this way, the hypothesis that taxation is a basic tool for the management of a national economy is further disseminated. The recent trend towards globalization and the older trend of internationalization both reinforce the practice of tax collection and its connection to economic growth. The analyses spread beyond country or group of countries to a regional level in order to analyse the causality between maximization of tax revenue and maximization of GDP.

The discussion centred on national economies with special circumstances focuses on the proposition that “high taxes do not help economic growth” in order to disprove this correlation (Yi, Suyono 2014). Of all the public revenue components of the GDP, tax revenue has the greatest impact on its progress. Moreover, there is a search for the degree of independence of economic growth from taxation in both developed and developing countries.

The sources of uncertainty regarding the prediction of tax revenue in certain countries (i.e. Israel) show that tax revenue that is delayed in relation to the GDP volatility gives rise to inaccuracy and potential errors. Finally, treatment of economic and institutional factors which apply pressure to the fiscal functions of member-states of the EU (Molina-Morales *et al.* 2014) shows that the economic model improves with the introduction of factors such as financial freedom or institutional and geopolitical variables.

Tax Revenues: from the Past to the Forecast

Historical Data

The public revenues coming from taxes for the two groups of states in our research (G.I.G. II), are distinguished by their common origin (the data base of OECD 1965–2017) and the different way of enforcing the budgetary stability; being member states

of the EU in the group G.II, measures of “memorandum of understanding” were enforced (Memorandum of Understanding, MoU).

The MoU is the unofficial contract, which is an integral part -the most important- of a series of decisions, acts, declarations, decrees or acts of the European Council, the ministers of the Eurogroup, the International Monetary Fund, the European Commission, the European Central Bank and the member-states of the Eurozone. The need for fiscal balance through data analysis intensifies the application of laws for the confrontation of the budgetary problem which is especially important for countries such as Greece (an EU member and member of OECD) which find themselves in a crisis post 2010. G. II falls from independent management of its budget to unilateral acts or decisions as well as international contracts or agreements of international justice and unitary justice with distinct goals (Manitakis 2017).

This is due to the fact that the “technical agreement memorandum” is a supporting document for the “Memorandum of Understanding” according to which the indices which are subject to specific quantitative goals and in which performance criteria are included and indicative goals are defined. It outlines the methods that should be followed and which are used for the assessment of program performance as well as the information needed to secure sufficient goal monitoring. This group includes Austria, Belgium, France and the Netherlands.

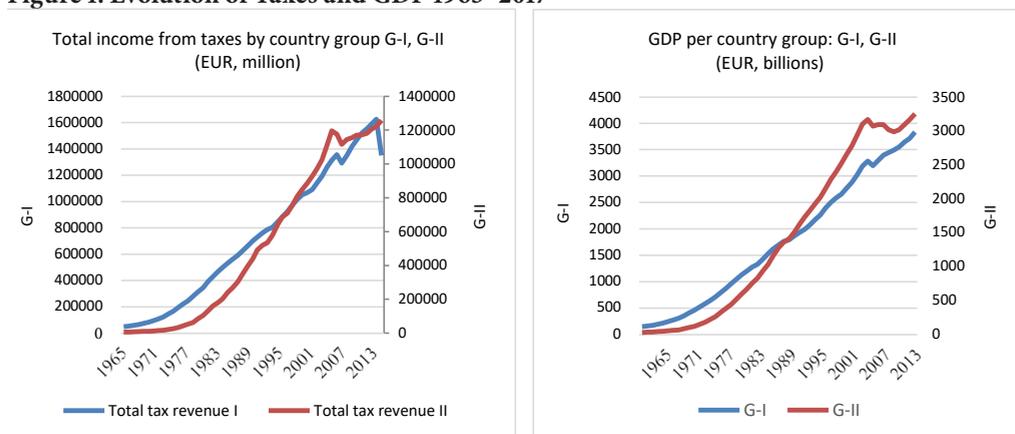
The historical analysis of tax revenues is based upon the use of the time series 1965–2017. Within this time span the period 2000–2017 is defined by very intense reforms and talks so as to estimate the rate of economic growth and the changes of the public revenues (Engen, Skinner 1996). Another question is how much “the consent of the method of taxation”, a major issue for those member states that are within the ‘memorandum’, affects the economic growth so that we may investigate the issue of the “minor” influence (Myles 2000).

Finally, the crisis of public finances strengthened the attention on the reliability of the data (as it has been manifested by the Greek case among others) and the tax revenues were placed in the centre of attention due to their relation to the economic activity (taking in consideration that they are modified faster as the tax indices and levels of income change).

Comparisons of Group I and II Countries: Historical Data, 1965–2017

The historical data (Figure 1) demonstrate that the changes of the tax rates become an additional burden for the citizens of the two groups of the member states by increasing their taxes during the period 1965–2017. A critical question to be answered is which group of taxes, out of the entire body of tax revenue, maintains the long-time tendencies and their effect regarding the modification of the GDP.

Figure 1: Evolution of Taxes and GDP 1965–2017



Source: OECD. *Details of Tax Revenue*. <https://stats.oecd.org/Index.aspx?DataSetCode=REVAUT> [accessed on: 23.03.2019].

The long-term increase of the sum of tax revenues indicates a variation of tax behaviours that expresses social and economic concerns of the citizens of each state for the funding of public expenses. Concerns arise as to the way the tax rates affect the living standards of the people (Johanson *et al.* 2008).

The nomenclature of tax revenues with the individual sections of taxes of each country and their categories show the evolution of the structure of the taxation system of each country. Within the period of our analysis, the five categories (plus one more for the “miscellaneous” taxes) of OECD’s data show in the statistical nomenclature 282 sections for France, 211 for Austria, 194 for Italy, 179 for Belgium, 162 for Spain, 147 for the Netherlands, 124 for Portugal, and 97 for Greece; all these fully agree with the width and modifications of the economic activity and effectiveness of each country.

It has been demonstrated that countries with a relatively high level of taxation can have different tax structures from one another. However, the reaction of the economy to a change in the tax structure can vary from country to country or from one tax level to another (Johansson *et al.* 2008).

The categorization of long-term quantitative data demonstrates the relationship between the cost of compliance of the tax base and the administrative cost that each government incurs for the performance of their tax system. For the countries in the first group (Austria, Belgium, France and the Netherlands) the tax burden ranged from 30% to 47% during the 1965–2017 time period. For the countries in the second group (Spain, Portugal, Italy and Greece) the tax burden ranged from 12% to 37%.

The breadth of the tax burden gives rise to the type of decisions made for the design of the tax mediums in order to achieve the total tax revenue (Figure 1) and for each state to accept the per capita tax burden. The tax burden encompasses the tax structures and social choices that are adopted with political evaluation by governments in order to shape their tax policy (Figure 3). Finally, with regard to the decisions made by a group of countries in order to collect tax revenue in a socially acceptable manner and in accordance to tax structures, the comparison between the two groups of countries shows that:

1. Even in times of crisis, it is difficult to distinguish the consequences from the changes to the tax structure for economic performance due to changes to tax revenue of the GDP
2. The general trend of increase in public revenue through taxation is parallel among the two groups of countries (I and II) in the categories “Income tax, profit and capital profit”, “Real estate tax” and “Goods and Services tax”. Conversely, there are great differences between the two groups regarding tax revenue from “Social Security Revenue” and “Payroll and workforce tax”. This general trend during the long period of 1965–2017 seems to have been altered a bit during the period following the 2010 crisis.

Comparisons of Group I and II Countries: Forecasts 2016–2023

The forecast of tax performance, taking GDP into consideration, enters our analysis with the Autoregressive Integrated Moving Average (p, q, d) (ARIMA) (p, q, d) model. This model, through the repetition of the transformation of the first

differences, allows for the production of a fixed time series following the Box-Jenkins method (Box, Jenkins 1976). The analytical processing of our data for the eight E.U. countries inputs the available observations into the Statgraphics program so that we may have the evolutionary results and forecasts for the 2000–2023 time period.

The results from the application of the ARIMA model by country show that none of the 24 partial autocorrelation factors (17 partial factors with actual data and 7 factors with predictions) are statistically significant at a confidence level of 95.0%. This covers the non-autocorrelation of the residual data in the per-country forecasts with regard to the *per capita* tax burden as well as the per capita GDP.

In 2008 there is a drop in the annual GDP which coincides with a drop-in tax payment of all types. This change marks the most important event of the global economy: in 2007 a crisis breaks out in the U.S.A. and in 2008 the first effects are seen in countries of the European Union.

In the first group of countries of our analysis, a tendency to increase the per capita tax burden becomes manifest after 2009. This trend does not seem to show signs of slowing down over the next few years, as is evident from the post-2016 forecasts. In the case of the countries in our second group, we observe a tendency to decrease or to maintain a balance up until 2016 and to remain in balance in the forecasts for the following seven years. This conclusion does not seem to be supported by the facts from Portugal, which shows more of the evolutionary characteristics of the first group despite having been forecast with the second group.

Regarding changes in GDP, the countries in the first group display a parallel relationship between the per capita tax burden and the changes in the per capita GDP. In the second country we observe a “perpendicular” correspondence, as the data for Greece and Portugal forecast a stable and possibly downward trend, contrary to Italy and Spain which show an upward trend to their values. Therefore, for the fiscally “healthy” countries of the first group we can hypothesize that the per resident increase in tax burden is accompanied by an increase in per capita income.

However, in the cases of the beleaguered Eurozone countries, their accession into the memorandum regimen rendered them economically weak in the short term. Additionally, the institutional surveillance they are subjected to adds to the vulnerability of the position they found themselves in following their exit from the memoranda for the imposition of budgetary balance.

In Greece the forecast for the tax burden per capita shows a slightly upward trend, in contrast to the progression of the GDP. This indicates that taxation will not come

from economic activity but from changes to the tax burden, such as the category of direct taxation. Portugal's progression appears to be similar.

The situation seems to be very different for Italy and Spain. For these countries we observe a balanced or slightly downward trend in taxation, with a parallel attempt to improve the per capita GDP. It seems to be a result of the goal for improvement of the tax burden for these countries as they leave the economic crisis behind.

Drawing on the Impact of the Tax and GDP Crisis

In order to control the impacts of the crisis on the economies of these countries, regardless of the “memorandum” responsibilities or the “budgetary” controls, we observe the progression of our values up until 2008. As follows, we attempt to forecast the following eight years. Our technique allows us to observe the ways taxation has progressed as a system (“tax system”) and the way each country structured itself under economic crisis conditions to face its consequences.

Further, we examine how the progression of economic indices was influenced by the crisis via forecasts and their incorporation in the evaluation of tax revenue and GDP for those years that in the end belonged for a group of countries affected by the crisis, which are a characteristic sample of countries of the 2009–2016 time period (Bank of Greece 2014; Millaruelo, del Rio 2017).

Impact on tax burden

Following this technique for the forecasting in the 2000–2008 period and the 2009–2016 period and comparing it with the forecast that we have dealt with above for the eight countries, it follows that having done all the above comparisons none of the estimations of any country lead to the decline of the collection of tax revenues and national wealth. This situation is overturned after 2009 and a different financial evolution of countries begins (Figure 2).

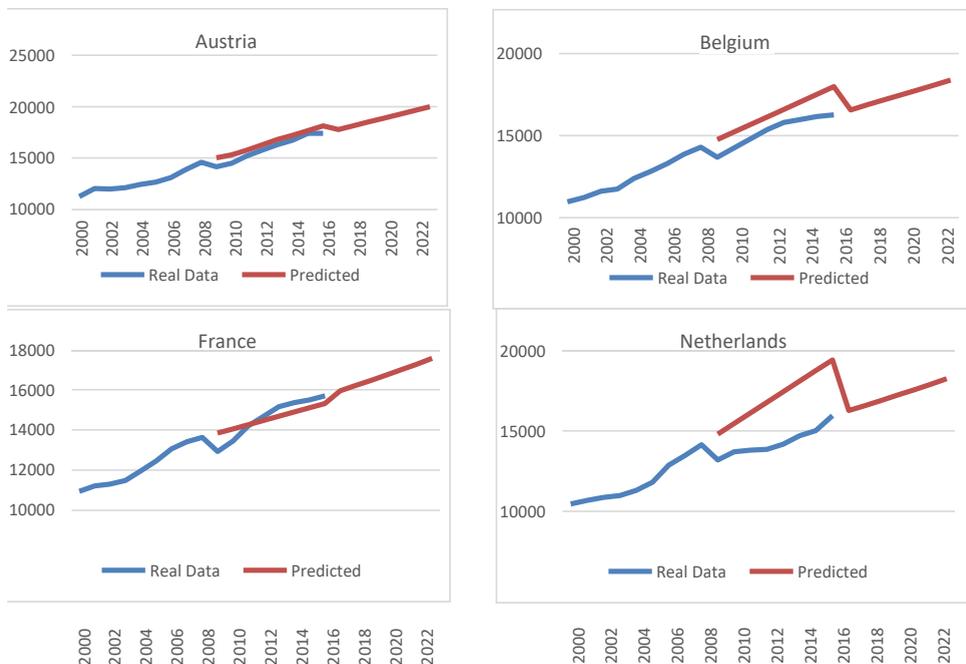
The course of fiscal burden per inhabitant follows the same path for the countries of G. I (Austria, Belgium, France, the Netherlands) excluding the decline of 2009. A more intense instability is noted for the countries of G. II (Greece, Italy, Portugal, Spain) as to the evolution of values throughout the period 2008–2016. From 2017 until 2024 Italy and Spain seem to have the rates that were predicted in 2008 for the years

up to 2016 and to be in equilibrium. The same is true for Portugal as well with one difference: that it follows an upward course in contrast to the other two countries.

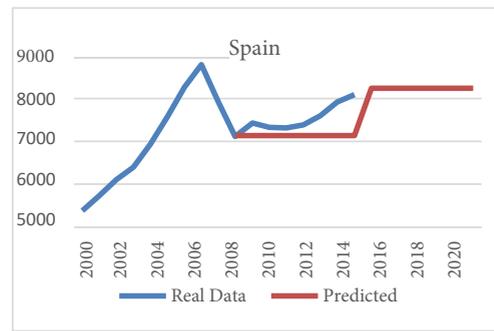
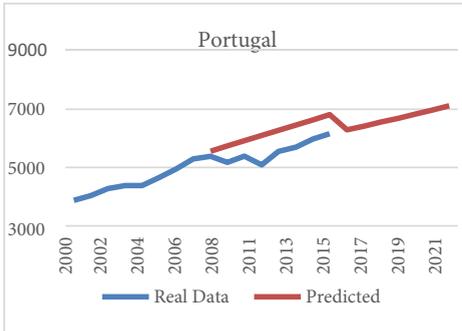
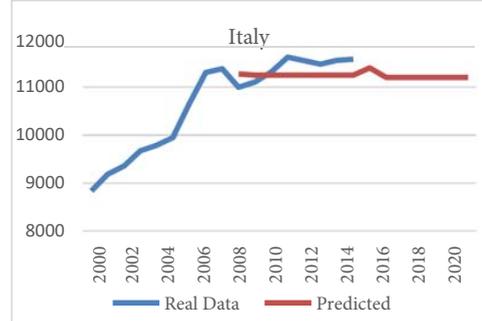
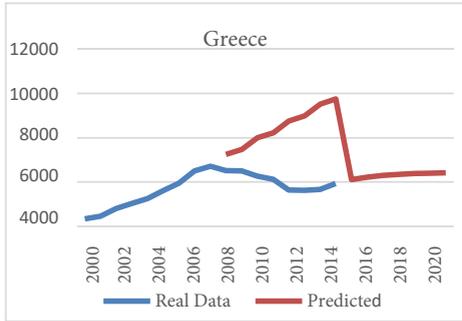
The big difference pertains to Greece: from 2009 up to 2014 the tax burden had a declining tendency. This tendency is linked to the decrease of the GDP *per capita* as well as to the decrease of income and the increase of indirect taxes. The result of this is the decline of purchasing power. The issue is that like the other three countries with an upward trend, Greece also shows a restoration of prices to levels that had been predicted during the period 2009–2016, but its curve is more pronounced in relation to the seven cases under investigation.

Figure 2: Comparison of Tax projections *per inhabitant* 2009–2016 and real data (EUR)

Group I: Austria, Belgium, France, the Netherlands



Group II: Greece, Italy, Portugal, Spain



Source: own elaboration.

Impact on GDP per capita

The continuation of the analysis to the per capita evolution of GDP, shows that in the case of the per capita GDP of the inhabitants (for the first group of countries on the whole) the countries follow the evolution that is expected from them based on the predictions. The decrease for the year 2009 is expected, (and it could not have been predicted), but after 2009, especially for Austria, they recovered to almost the same rates that had been predicted for the period 2000–2008.

On the contrary, for the countries of the second group an “internal” distinction appears. It concerns the countries that maintain (even with fluctuations) the forecasting and those with a negative course. Spain and Italy are countries with violent modifications of their curves, but they fluctuate in the patterns that emerge based on the data from 2000–2008 period.

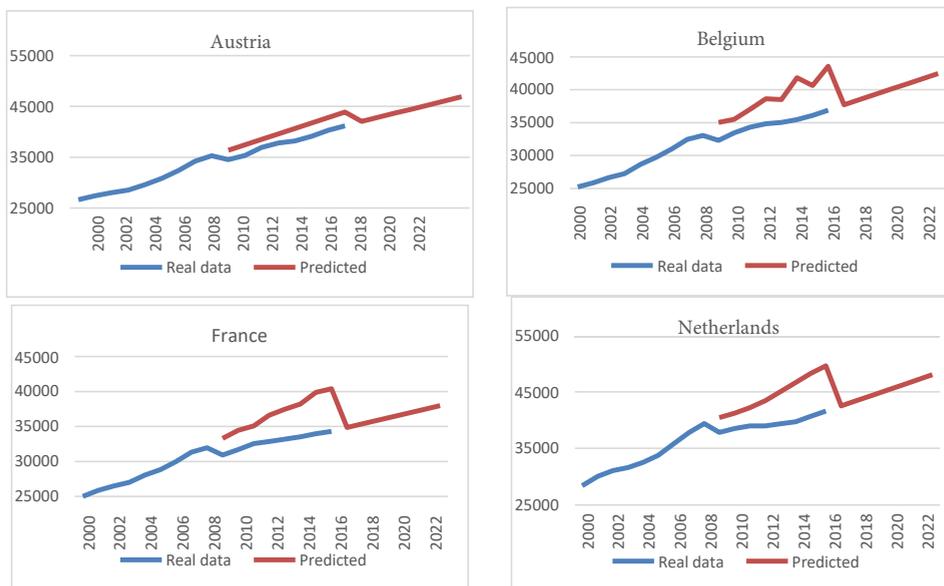
Portugal, after the decreasing range of 2009 and the fluctuations of the per capita GDP of the inhabitants, finally reaches a balance with the prices which had been

forecast before the crisis. The forecast stabilizes the evolution of the prices, but it has decreasing tendency contrary to what had been predicted before the crisis.

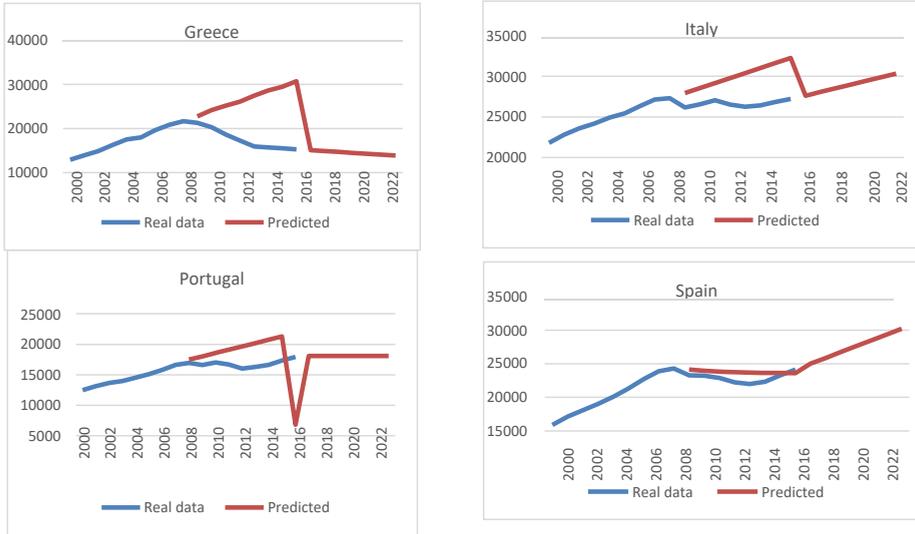
Greece’s situation is the most problematic in this case as well. According to one explanation this might have been the result of the policies undertaken to cope with the crisis on a national and international level. The data of 2000–2008 concerning the evolution of the per capita GDP of the inhabitants showed an increasing tendency. However, from 2009 on the per capita GDP of the inhabitants has a decreasing course, which is verified by the available data.

Figure 3: Comparison of GDP forecast 2009–2016 and real data (EUR, bmil)

Group I: Austria, Belgium, France, the Netherlands



Group II: Greece, Italy, Portugal, Spain



Source: own elaboration.

Conclusions

The tax burden as a means of mining revenues for public funds does not seem to be restricted to the countries of the EU and OECD that are the object of our study. Analysing the taxation revenues of the countries without austere fiscal supervision (countries I) as opposed to the countries with austere fiscal supervision after the outbreak of the financial crisis of 2010, leads to the hypothesis that there are very few basic categories of public funds (“Income tax, profit and capital profits” and taxes on goods and services”) which support the fiscal structure of the public revenues. This is true despite the changes after 2010 in the countries with austere fiscal supervision and memorandum.

Other issues such as that of the decrease of the shares of public revenues from actual people as opposed to legal agents, which appears in certain subperiods do not cancel the strong presence in the total revenues of these two categories of public revenues. The stability that is recorded during this long period and goes beyond the period of crisis shows the tolerance of the citizens to the fiscal structure and the limits of the tax reforms. The stability for the taxation of real estate is in the same spirit.

The application of the ARIMA model in our study verified that the tax burden for each citizen for the purpose of collecting tax revenues continues for the countries of our study; it has not been interrupted after the outbreak of the economic crisis and it can be predicted that it is going to continue with the same intensity.

There seem to be differences in this reform depending on the country and in one case of a country with memorandum the evolution of the tax burden tends to follow that of the countries without austere fiscal discipline despite the fact that for this country the “memorandum” has been applied for fiscal balance. The general tendency to increase the tax revenues instead of limiting public expenses is a principle existing within the EU.

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Annexes

Table 1: ARIMA (p, q, d) models – Taxes per capita

| | | | | | | | | | | |
|--|--|-------------------|----------|----------|-----------|----------|-------------|----------|----------|--|
| Austria | 2017–2023 | ARI-MA (0,2,1) | RMSE | 356.084 | Parameter | Estimate | Stnd. Error | t | P-value | |
| | | | MAE | 265.149 | MA(1) | 0.91004 | 0.061599 | 14.7735 | 0 | |
| | | | MAPE | 1.83776 | | | | | | |
| | | | ME | 14.673 | | | | | | |
| | | | MPE | 0.047265 | | | | | | |
| | Backforecasting: yes Estimated white noise variance = 2.54571 with 14 degrees of freedom Estimated white noise standard deviation = 1.59553 Number of iterations: 5 | | | | | | | | | |
| | 2009–2016 | ARIMA (2,2,2) | RMSE | 182.633 | Parameter | Estimate | Stnd. Error | t | P-value | |
| | | | MAE | 104.255 | AR(1) | 0.303257 | 0.271413 | 1.11733 | 0.345274 | |
| | | | MAPE | 0.811752 | AR(2) | -0.52493 | 0.095264 | -5.51031 | 0.011768 | |
| | | | ME | -9.43071 | MA(1) | -0.25976 | 0.187486 | -1.38547 | 0.259947 | |
| | | MPE | -0.10268 | MA(2) | 1.02907 | 0.305989 | 3.3631 | 0.043633 | | |
| Backforecasting: yes Estimated white noise variance = 35994.9 with 3 degrees of freedom Estimated white noise standard deviation = 189.723 Number of iterations: 10 | | | | | | | | | | |

| | | | | | | | | | | |
|---|---|---------------|----------|----------|-----------|----------|------------|---------|----------|--|
| Belgium | 2017-2023 | ARIMA (0,2,1) | RMSE | 329.404 | Parameter | Estimate | Std. Error | t | P-value | |
| | | | MAE | 243.929 | MA(1) | 0.926057 | 0.057652 | 16.063 | 0 | |
| | | | MAPE | 1.75176 | | | | | | |
| | | | ME | 28.0759 | | | | | | |
| | | | MPE | 0.229825 | | | | | | |
| | Backforecasting: yes Estimated white noise variance = 108514 with 14 degrees of freedom Estimated white noise standard deviation = 329.415 Number of iterations: 4 | | | | | | | | | |
| | 2009-2016 | ARIMA (0,2,1) | RMSE | 154.285 | Parameter | Estimate | Std. Error | t | P-value | |
| | | | MAE | 99.9423 | MA(1) | 1.04344 | 0.11825 | 8.82398 | 0.000118 | |
| | | | MAPE | 0.815607 | | | | | | |
| | | | ME | -22.8688 | | | | | | |
| | | MPE | -0.21787 | | | | | | | |
| Backforecasting: yes Estimated white noise variance = 29470.7 with 6 degrees of freedom Estimated white noise standard deviation = 171.61 Number of iterations: 8 | | | | | | | | | | |
| France | 2017-2023 | ARIMA (1,0,0) | RMSE | 341.816 | Parameter | Estimate | Std. Error | t | P-value | |
| | | | MAE | 244.607 | AR(1) | 1.01615 | 0.005699 | 178.296 | 0 | |
| | | | MAPE | 1.87387 | | | | | | |
| | | | ME | 59.321 | | | | | | |
| | | | MPE | 0.40076 | | | | | | |
| | Backforecasting: yes Estimated white noise variance = 125010 with 16 degrees of freedom Estimated white noise standard deviation = 353.568 Number of iterations: 5 | | | | | | | | | |
| | 2009-2016 | ARIMA (0,2,0) | RMSE | 178.225 | Parameter | Estimate | Std. Error | t | P-value | |
| | | | MAE | 154.064 | | | | | | |
| | | | MAPE | 1.24096 | | | | | | |
| | | | ME | -9.34429 | | | | | | |
| | | MPE | -0.0452 | | | | | | | |
| Backforecasting: yes Estimated white noise variance = 32764.3 with 7 degrees of freedom Estimated white noise standard deviation = 178.225 Number of iterations: 1 | | | | | | | | | | |

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|--|--|---------------|----------|----------|-----------|----------|------------|----------|----------|--|
| the Netherlands | 2017-2023 | ARIMA (1,0,0) | RMSE | 456.306 | Parameter | Estimate | Std. Error | t | P-value | |
| | | | MAE | 313.939 | AR(1) | 1.01936 | 0.007764 | 131.301 | 0 | |
| | | | MAPE | 2.3775 | | | | | | |
| | | | ME | 64.9761 | | | | | | |
| | | | MPE | 0.392288 | | | | | | |
| | Backforecasting: yes Estimated white noise variance = 219110 with 16 degrees of freedom Estimated white noise standard deviation = 468.092 Number of iterations: 5 | | | | | | | | | |
| | 2009-2016 | ARIMA (0,2,0) | RMSE | 298.546 | Parameter | Estimate | Std. Error | t | P-value | |
| | | | MAE | 222.6 | | | | | | |
| | | | MAPE | 1.76122 | | | | | | |
| | | | ME | 62.76 | | | | | | |
| | | MPE | 0.533916 | | | | | | | |
| Backforecasting: yes Estimated white noise variance = 89129.7 with 7 degrees of freedom Estimated white noise standard deviation = 298.546 Number of iterations: 1` | | | | | | | | | | |
| Greece | 2017-2023 | ARIMA (1,1,0) | RMSE | 224.931 | Parameter | Estimate | Std. Error | t | P-value | |
| | | | MAE | 181.994 | AR(1) | 0.653403 | 0.20445 | 3.19591 | 0.006014 | |
| | | | MAPE | 3.12309 | | | | | | |
| | | | ME | 42.5965 | | | | | | |
| | | | MPE | 0.852517 | | | | | | |
| | Backforecasting: yes Estimated white noise variance = 50738.2 with 15 degrees of freedom Estimated white noise standard deviation = 225.251 Number of iterations: 3 | | | | | | | | | |
| | 2009-2016 | ARIMA (1,2,0) | RMSE | 138.517 | Parameter | Estimate | Std. Error | t | P-value | |
| | | | MAE | 116.87 | AR(1) | -0.96534 | 0.196378 | -4.91571 | 0.002668 | |
| | | | MAPE | 1.99847 | | | | | | |
| | | | ME | 41.2539 | | | | | | |
| | | MPE | 0.718306 | | | | | | | |
| Backforecasting: yes Estimated white noise variance = 19224.8 with 6 degrees of freedom Estimated white noise standard deviation = 138.653 Number of iterations: 4 | | | | | | | | | | |

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|---|---|---------------|----------|----------|-----------|----------|------------|----------|----------|--|
| Italy | 2017-2023 | ARIMA (0,1,2) | RMSE | 234.789 | Parameter | Estimate | Std. Error | t | P-value | |
| | | | MAE | 179.503 | MA(1) | -1.33946 | 0.126381 | -10.5986 | 0 | |
| | | | MAPE | 1.67176 | MA(2) | -0.88075 | 0,096353 | -9.14083 | 0 | |
| | | | ME | 37.3108 | | | | | | |
| | | | MPE | 0.379683 | | | | | | |
| | Backforecasting: yes Estimated white noise variance = 60620.6 with 14 degrees of freedom Estimated white noise standard deviation = 246.213 Number of iterations: 20 | | | | | | | | | |
| | 2009-2016 | ARIMA (0,1,2) | RMSE | 191.658 | Parameter | Estimate | Std. Error | t | P-value | |
| | | | MAE | 131.055 | MA(1) | -1.71495 | 0.186725 | -9.18434 | 0.000094 | |
| | | | MAPE | 1.30126 | MA(2) | -0.78645 | 0.139087 | -5.65439 | 0.001314 | |
| | | | ME | 70.5784 | | | | | | |
| | | MPE | 0.710908 | | | | | | | |
| Backforecasting: yes Estimated white noise variance = 52698.0 with 6 degrees of freedom Estimated white noise standard deviation = 229.56 Number of iterations: 12 | | | | | | | | | | |
| Portugal | 2017-2023 | ARIMA (1,0,0) | RMSE | 226.561 | Parameter | Estimate | Std. Error | t | P-value | |
| | | | MAE | 171.611 | AR(1) | 1.02067 | 0.010009 | 101.976 | 0 | |
| | | | MAPE | 3.44963 | | | | | | |
| | | | ME | 28.5098 | | | | | | |
| | | | MPE | 0.461635 | | | | | | |
| | Backforecasting: yes Estimated white noise variance = 53037.3 with 16 degrees of freedom Estimated white noise standard deviation = 230.298 Number of iterations: 5 | | | | | | | | | |
| | 2009-2016 | ARIMA (0,2,1) | RMSE | 139.835 | Parameter | Estimate | Std. Error | t | P-value | |
| | | | MAE | 124.054 | MA(1) | 0.869977 | 0.20985 | 4.14571 | 0.00604 | |
| | | | MAPE | 2.59129 | | | | | | |
| | | | ME | 31.8066 | | | | | | |
| | | MPE | 0.622162 | | | | | | | |
| Backforecasting: yes Estimated white noise variance = 19595.5 with 6 degrees of freedom Estimated white noise standard deviation = 139.984 Number of iterations: 5 | | | | | | | | | | |

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|--|--|---------------|---------|---------|-----------|----------|------------|----------|----------|--|
| Spain | 2017-2023 | ARIMA (0,1,1) | RMSE | 361.106 | Parameter | Estimate | Std. Error | t | P-value | |
| | | | MAE | 269.852 | MA(1) | -0.9392 | 0.067995 | -13.8127 | 0 | |
| | | | MAPE | 3.65613 | | | | | | |
| | | | ME | 91.7039 | | | | | | |
| | | | MPE | 1.36119 | | | | | | |
| | Backforecasting: yes Estimated white noise variance = 130422 with 15 degrees of freedom Estimated white noise standard deviation = 361.14 Number of iterations: 6 | | | | | | | | | |
| | 2009-2016 | ARIMA (0,1,1) | RMSE | 479.434 | Parameter | Estimate | Std. Error | t | P-value | |
| | | | MAE | 354.508 | MA(1) | -0.80133 | 0.155876 | -5.14081 | 0.001338 | |
| | | | MAPE | 4.78512 | | | | | | |
| | | | ME | 107.7 | | | | | | |
| | | MPE | 1.67183 | | | | | | | |
| Backforecasting: yes Estimated white noise variance = 239129 with 7 degrees of freedom Estimated white noise standard deviation = 489.008 Number of iterations: 4 | | | | | | | | | | |

Annex 2: ARIMA (p, q, d) Models – GDP per capita

| | | | | | | | | | | |
|--|---|---------------|----------|----------|-----------|----------|------------|----------|----------|--|
| Austria | 2017–2023 | ARIMA (0,2,1) | RMSE | 607.881 | Parameter | Estimate | Std. Error | t | P-value | |
| | | | MAE | 424.296 | MA(1) | 1.02783 | 0.067602 | 15.2042 | 0 | |
| | | | MAPE | 1.24601 | | | | | | |
| | | | ME | 90.5902 | | | | | | |
| | | | MPE | 0.246891 | | | | | | |
| | Backforecasting: yes Estimated white noise variance = 370083 with 14 degrees of freedom Estimated white noise standard deviation = 608.344 Number of iterations: 6 | | | | | | | | | |
| | 2009–2016 | ARIMA (0,2,0) | RMSE | 412.959 | Parameter | Estimate | Std. Error | t | P-value | |
| | | | MAE | 337.079 | MA(1) | 1.02783 | 0.067602 | 15.2042 | 0 | |
| | | | MAPE | 1.04732 | | | | | | |
| | | | ME | 44.13 | | | | | | |
| | | MPE | 0.16713 | | | | | | | |
| Backforecasting: yes Estimated white noise variance = 170535 with 7 degrees of freedom Estimated white noise standard deviation = 412.959 Number of iterations: 1 | | | | | | | | | | |
| Belgium | 2017–2023 | ARIMA (0,2,1) | RMSE | 557.214 | Parameter | Estimate | Std. Error | t | P-value | |
| | | | MAE | 387.472 | MA(1) | 0.990749 | 0.103796 | 9.54519 | 0 | |
| | | | MAPE | 1.20236 | | | | | | |
| | | | ME | -70.8942 | | | | | | |
| | | | MPE | -0.18178 | | | | | | |
| | Backforecasting: yes Estimated white noise variance = 312297 with 14 degrees of freedom Estimated white noise standard deviation = 558.835 Number of iterations: 6 | | | | | | | | | |
| | 2009–2016 | ARIMA (2,2,2) | RMSE | 242.4 | Parameter | Estimate | Std. Error | t | P-value | |
| | | | MAE | 113.792 | AR(1) | -2.05168 | 0.179622 | -11.4222 | 0.00144 | |
| | | | MAPE | 0.398951 | AR(2) | -1.49445 | 0.217225 | -6.87973 | 0.00629 | |
| | | | ME | 77.5658 | MA(1) | -1.93518 | 0.230263 | -8.40423 | 0.003534 | |
| | | MPE | 0.275026 | MA(2) | -1.32117 | 0.236469 | -5.58708 | 0.011323 | | |
| Backforecasting: yes Estimated white noise variance = 66433.5 with 3 degrees of freedom Estimated white noise standard deviation = 257.747 Number of iterations: 22 | | | | | | | | | | |

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|--|--|---------------|----------|----------|-----------|----------|------------|----------|----------|--|
| France | 2017-2023 | ARIMA (0,2,1) | RMSE | 561.96 | Parameter | Estimate | Std. Error | t | P-value | |
| | | | MAE | 358.193 | MA(1) | 0.93404 | 0.063444 | 14.7223 | 0 | |
| | | | MAPE | 1.15607 | | | | | | |
| | | | ME | -21.4305 | | | | | | |
| | | | MPE | -0.03711 | | | | | | |
| | Backforecasting: yes Estimated white noise variance = 322358 with 14 degrees of freedom Estimated white noise standard deviation = 567.766 Number of iterations: 5 | | | | | | | | | |
| | 2009-2016 | ARIMA (2,2,1) | RMSE | 230,821 | Parameter | Estimate | Std. Error | t | P-value | |
| | | | MAE | 126.517 | AR(1) | -1.40011 | 0.35569 | -3.93631 | 0.017012 | |
| | | | MAPE | 0.426372 | AR(2) | -1.1345 | 0.274506 | -4.13289 | 0.01446 | |
| | | | ME | 96.5858 | MA(1) | -0.96522 | 0.109386 | -8.82394 | 0.00091 | |
| | | MPE | 0.331681 | | | | | | | |
| Backforecasting: yes Estimated white noise variance = 53738.9 with 4 degrees of freedom Estimated white noise standard deviation = 231.816 Number of iterations: 11 | | | | | | | | | | |
| the Netherlands | 2017-2023 | ARIMA (0,2,1) | RMSE | 884.924 | Parameter | Estimate | Std. Error | t | P-value | |
| | | | MAE | 589.653 | MA(1) | 0.995363 | 0.115719 | 8.60159 | 0.000001 | |
| | | | MAPE | 1.57208 | | | | | | |
| | | | ME | -161.695 | | | | | | |
| | | | MPE | -0.40908 | | | | | | |
| | Backforecasting: yes Estimated white noise variance = 820895 with 14 degrees of freedom Estimated white noise standard deviation = 906.033 Number of iterations: 10 | | | | | | | | | |
| | 2009-2016 | ARIMA (2,2,2) | RMSE | 265.254 | Parameter | Estimate | Std. Error | t | P-value | |
| | | | MAE | 171.327 | AR(1) | 1.21727 | 0.26643 | 4.56881 | 0.01027 | |
| | | | MAPE | 0.494986 | AR(2) | -0.79167 | 0.198199 | -3.9943 | 0.016207 | |
| | | | ME | 0.982365 | MA(1) | 1.15326 | 0.276358 | 4.17306 | 0.013996 | |
| | | MPE | 0.002622 | | | | | | | |
| Backforecasting: yes Estimated white noise variance = 78332.6 with 4 degrees of freedom Estimated white noise standard deviation = 279.88 Number of iterations: 10 | | | | | | | | | | |

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|--|---|---------------|----------|----------|-----------|----------|------------|----------|----------|--|
| Greece | 2017-2023 | ARIMA (0,2,0) | RMSE | 640.068 | Parameter | Estimate | Std. Error | t | P-value | |
| | | | MAE | 483.508 | | | | | | |
| | | | MAPE | 2.59443 | | | | | | |
| | | | ME | -77.5707 | | | | | | |
| | | | MPE | -0.23618 | | | | | | |
| | Backforecasting: yes Estimated white noise variance = 409687 with 15 degrees of freedom Estimated white noise standard deviation = 640.068 Number of iterations: 1 | | | | | | | | | |
| | 2009-2016 | ARIMA (2,2,2) | RMSE | 245.297 | Parameter | Estimate | Std. Error | t | P-value | |
| | | | MAE | 144.974 | AR(1) | -0.65033 | 0.297273 | -2.18764 | 0.116512 | |
| | | | MAPE | 0.795346 | AR(2) | -0.92392 | 0.317277 | -2.91202 | 0.061895 | |
| | | | ME | -13.0404 | MA(1) | 1.40544 | 0.149885 | 9.3768 | 0.002569 | |
| | | MPE | -0.12097 | MA(2) | -0.56653 | 0.130419 | -4.34389 | 0.022522 | | |
| Backforecasting: yes Estimated white noise variance = 61894.7 with 3 degrees of freedom Estimated white noise standard deviation = 248.787 Number of iterations: 13 | | | | | | | | | | |
| Italy | 2017-2023 | ARIMA (0,2,1) | RMSE | 519.481 | Parameter | Estimate | Std. Error | t | P-value | |
| | | | MAE | 341.385 | MA(1) | 0.447816 | 0.222067 | 2.01658 | 0.064883 | |
| | | | MAPE | 1.30012 | MA(2) | 0.617818 | 0.239476 | 2.57987 | 0.022862 | |
| | | | ME | -69.4935 | | | | | | |
| | | | MPE | -0.25304 | | | | | | |
| | Backforecasting: yes Estimated white noise variance = 291156 with 13 degrees of freedom Estimated white noise standard deviation = 539.589 Number of iterations: 6 | | | | | | | | | |
| | 2009-2016 | ARIMA (0,2,1) | RMSE | 272.868 | Parameter | Estimate | Std. Error | t | P-value | |
| | | | MAE | 182.933 | MA(1) | 0.774915 | 0.150608 | 5.14524 | 0.002125 | |
| | | | MAPE | 0.696493 | | | | | | |
| | | | ME | -93.7961 | | | | | | |
| | | MPE | -0.35928 | | | | | | | |
| Backforecasting: yes Estimated white noise variance = 94272.0 with 6 degrees of freedom Estimated white noise standard deviation = 307.038 Number of iterations: 5 | | | | | | | | | | |

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|--|--|---------------|----------|----------|-----------|----------|------------|----------|----------|--|
| Portugal | 2017-2023 | ARIMA (0,1,1) | RMSE | 423.909 | Parameter | Estimate | Std. Error | t | P-value | |
| | | | MAE | 341.13 | MA(1) | -0.9255 | 0.080232 | -11.5352 | 0 | |
| | | | MAPE | 2.15987 | | | | | | |
| | | | ME | 182.264 | | | | | | |
| | | | MPE | 1.20508 | | | | | | |
| | Backforecasting: yes Estimated white noise variance = 179761 with 15 degrees of freedom Estimated white noise standard deviation = 423.982 Number of iterations: 11 | | | | | | | | | |
| | 2009-2016 | ARIMA (0,2,1) | RMSE | 217.582 | Parameter | Estimate | Std. Error | t | P-value | |
| | | | MAE | 175.727 | MA(1) | 0.832117 | 0.16093 | 5.17068 | 0.002073 | |
| | | | MAPE | 1.12675 | | | | | | |
| | | | ME | 22.7298 | | | | | | |
| | | MPE | 0.137213 | | | | | | | |
| Backforecasting: yes Estimated white noise variance = 50057.0 with 6 degrees of freedom Estimated white noise standard deviation = 223.734 Number of iterations: 10 | | | | | | | | | | |
| Spain | 2017-2023 | ARIMA (0,2,0) | RMSE | 561.415 | Parameter | Estimate | Std. Error | t | P-value | |
| | | | MAE | 428.596 | | | | | | |
| | | | MAPE | 1.88629 | | | | | | |
| | | | ME | -23.9507 | | | | | | |
| | | | MPE | -0.09501 | | | | | | |
| | Backforecasting: yes Estimated white noise variance = 315186 with 15 degrees of freedom Estimated white noise standard deviation = 561.415 Number of iterations: 1 | | | | | | | | | |
| | 2009-2016 | ARIMA (1,1,2) | RMSE | 181.594 | Parameter | Estimate | Std. Error | t | P-value | |
| | | | MAE | 110.962 | AR(1) | 0.657404 | 0.228432 | 2.87789 | 0.034674 | |
| | | | MAPE | 0.524225 | MA(1) | -1.85734 | 0.281838 | -6.59008 | 0.001209 | |
| | | | ME | 41.8685 | MA(2) | -1.23219 | 0.342096 | -3.60188 | 0.015513 | |
| | | MPE | 0.234697 | | | | | | | |
| Backforecasting: yes Estimated white noise variance = 75506.5 with 5 degrees of freedom Estimated white noise standard deviation = 274.784 Number of iterations: 14 | | | | | | | | | | |

KRZYSZTOF PODGÓRSKI*

Analysis of Dependencies Occurring Between Volatility of Currency Pairs with Euro and Their Tick Volume

Abstract

The presented article fits in with the subject of the currency market. Price volatility and volume seem to allow to accurately assess the situation on the market, therefore the analysis of the type and strength of dependence, occurring between them is important from the point of view of all participants of the forex market transactions. The aim of the study is to verify the hypothesis that there is a strong monotone dependence between the level of exchange rate volatility and the tick volume of a given currency pair, in which euro is the base or quoted currency. Due to the fact that not all time series accepted for the study have a normal distribution, the Spearman rank correlation coefficient was applied to determine the strength of the compound. The research was carried out on the basis of data from EUR/USD, EUR/JPY, EUR/GBP, EUR/CHF and EUR/AUD currency pairs at intervals of one hour, four hours, daily, weekly and monthly in the years 2016-2018. Based on the research, its hypothesis was rejected. At the same time, it was found that the relationship between volatility and tick volume exists in most cases (88% of all) and in more than half of the cases (60% of all) is at least moderate. The value of the correlation coefficient turned out to be positive in 96% of all examined cases

Key words: currency market, volatility, volume, dependency analysis, euro, US dollar, Japanese yen, Swiss franc, British pound, Australian dollar.

JEL Classification: F31, F36, G12, G15.

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Introduction

The foreign exchange market is the largest in terms of the level of turnover in the world market. Through the use of high financial leverage, it allows its participants to generate above-average rates of return, at the same time, with a very high risk of capital loss. The reference to the concepts of exchange rate volatility and trading volume is helpful in understanding the mechanism of its functioning. The first of these issues is taken up in many publications, mainly as a subject of forecasting. The issue of the currency market volume is less often the subject of analysis and is examined mainly in the context of changes in value over a long period of time.

Volatility and volume are a source of profit for an investor in the currency market, so it is worth to examine the type and the degree of connection between these parameters. The obtained results and conclusions may be used in the future, *inter alia*, in the process of making investment decisions. The aim of the article is to verify the hypothesis that there is a strong monotone dependence between the level of exchange rate volatility, in which the euro is the base or quoted currency, and the tick volume of a given currency pair.

The publication consists of three theoretical and one practical chapter. The first part of the article defines the concepts of volatility and volume in relation to the currency market. The most important characteristics of both issues are also presented, among others: temporal differentiation, types, functions that they perform on the market, as well as determinants and measurement methods. The second chapter of the article presents the euro as one of the most important international currencies. This part of the publication also argues that currency pairs, in which the euro is a base or quoted currency, even though they are not as popular with investors as currency pairs with the US dollar, deserve a deeper analysis. The third chapter is a review of the literature on the subject of volatility and volume in the currency market. The last chapter, which is empirical, presents the results of studies on the relationships between volatility and tick volume for EUR/USD, EUR/JPY, EUR/GBP, EUR/CHF and EUR/AUD exchange rates at hourly, four-hour, daily, weekly and monthly intervals in 2016–2018.

The Essence of Volatility and Volume in Relation to the Currency Market

Two basic pieces of information to accurately assess the situation on the market are price volatility and turnover (Arms 1997: 1). Before making a practical attempt to assess the relationship between these parameters, it is worth looking at the essence of both concepts in relation to the currency market.

Currency market volatility is a parameter that informs how currency exchange rates change in a given unit of time. It is an inherent element of the currency market and at the same time it is the reason for the occurrence of exchange rate risk (Czekała, Szpara 2013: 87–102). There are two types of price changes: proportional and absolute. Proportional changes are most often used in comparisons. When analysing individual currency pairs, it is worth using absolute measures, i.e. changes expressed in pips at a specific time interval. The volatility assessment is important from the point of view of the currency market participants because the forecasts of the future exchange rate volatility are made on the basis of historical data. From the investor's point of view, volatility analysis: facilitates the decision to select a particular currency pair on which transactions will be made, helps in making decisions regarding the time of concluding the transaction and determining the size of the transaction as well as supports the course risk management process (Admiral Markets 2019).

Trading on the currency market takes place 24 hours a day, 5 days a week, between 23:00 on Sunday and 22:00 on Friday of Central European Time (CET). At the same time, the volatility of the forex market varies over time. Most often, it is the largest between 8:00 and 10:30 and also between 14:00 and 17:00. At 8:00, the Frankfurt Stock Exchange is marked by the beginning of the so-called “European session” and then more markets in Europe are opened. Volatility decreases around 10:30 because then no significant macroeconomic data are published. The second phase of volatility growth on the currency market starts at 14:00 CET, when the stock market opens in the United States and ends at 17:00 with the closing of the London Stock Exchange (Korsak, Piekutko 2014: 356–357). The period of the European session lasting from 8:00 to 17:00 is characterized by greater volatility of currency pairs in which the euro is the base currency or quoted (Comparic 2019).

The determinants that can be divided into two groups: fundamental factors and technical factors determine the volatility of the currency market. The fundamental

factors include: reports on economic data as well as data on the investment profitability level, monetary policy, international commodity exchange as well as the level of foreign investments. Fundamental factors also include political and geopolitical information. The second group of determinants of currency market volatility is the result of technical analyses made by market participants (Galant, Dolan 2010: 28–29).

In order to identify the level of volatility of individual currency pairs, market participants use various types of tools, among which the most popular include ATR and heat map. The ATR indicator measures the average volatility of price movements in the analysed period. Low values of the indicator point out a consolidation and high values a large volatility of the analysed pair (Trading Academy 2019). Heat maps are visual tables that allow real-time monitoring of the volatility of many currency pairs simultaneously (Forex Early Warning 2019). An example of a heat map is shown in Figure 1.

Figure 1: Example 9

| | EUR | USD | AUD | GBP | NZD | CAD | CHF | JPY | HKD | SGD |
|-----|--------|--------|--------|--------|--------|--------|--------|-------|-------|--------|
| EUR | | 0.27% | -0.26% | -1.38% | -0.04% | -0.4% | 0.25% | 0.72% | 0.32% | 0.15% |
| USD | -0.32% | | -0.47% | -1.59% | -0.28% | -0.7% | -0.03% | 0.45% | 0.03% | -0.15% |
| AUD | 0.18% | 0.44% | | -1.15% | 0.15% | -0.22% | 0.42% | 0.91% | 0.49% | 0.32% |
| GBP | 1.38% | 1.71% | 1.18% | | 1.35% | 0.94% | 1.7% | 2.14% | 1.69% | 1.51% |
| NZD | 0% | 0.25% | -0.15% | -1.29% | | -0.45% | 0.21% | 0.71% | 0.29% | 0.12% |
| CAD | 0.4% | 0.71% | 0.28% | -0.96% | 0.4% | | 0.7% | 1.21% | 0.69% | 0.52% |
| CHF | -0.3% | 0.01% | -0.46% | -1.66% | -0.32% | 0% | | 0.43% | 0.01% | -0.16% |
| JPY | -0.78% | -0.47% | -0.91% | -2.15% | -0.8% | -1.19% | -0.48% | | -0.5% | -0.63% |
| HKD | -0.28% | 0% | -0.43% | -1.65% | -0.31% | 0% | 0% | 0.42% | | 0% |
| SGD | -0.11% | 0% | -0.24% | -1.48% | -0.12% | 1.02% | 0.17% | 0.59% | 0.18% | |

Source: Trading View.

The second important issue related to the functioning of each market is the volume. In contrast to volatility, the concept of turnover is often overlooked because most of the tools used to assess the market situation have been designed to analyse exchange rate volatilities rather than the accompanying turnover. The reason for this

is the fact that the price volatility ultimately determines the investor's profits or losses. However, it is worth remembering that the analysis of both factors is important for a reliable and comprehensive assessment of the situation on the market (Arms 1997: 1).

The volume can be defined as the quantity of a given asset that has been exchanged between sellers and buyers. It performs a number of functions on the market: it is an element of market analysis and a liquidity determinant, it weighs information held by market participants, verifies prices, reveals the beliefs and diversity of opinions of market participants, expresses interest and enthusiasm of market participants, drives the market itself, reveals the secret of the market, provides the reason for change and also gives rise to price dynamics (Dormeier 2012: 52–56).

Three types of volume can be distinguished on the currency market: real, transactional and a tick volume. The real volume represents the number of futures contracts that have been exchanged in a given time interval, e.g. on the CME market (Chicago Mercantile Exchange) (FX Mag 2019). The tick volume illustrates the number of price changes that occurred in a given time unit. Its name comes from the concept of tick, the smallest possible change in the price of a given asset. The disadvantage of this type of volume is the fact that it does not reflect the exchange taking place on the market and only allows to assess the activity of its participants. The tick volume, however, is most often used due to its availability, which is its main advantage. The last type of volume, referred to as transactional, is the number of transactions made by market participants. However, it has a fundamental disadvantage as it does not take into account the volume of transactions that have been made (Smart Trader 2019).

The volume finds many uses in the analysis of the currency market, but above all it is a source of confirmation of signals from other types of analyses. The higher the volume, the more valuable and reliable are the signals flowing in the analysis of charts or macroeconomic data (Traders Area 2019).

Euro as the Base and Quoted Currency on the Currency Market

The currencies whose share in transactions on the forex market is the largest based on the report of the Bank for International Settlements from 2016 include: the US dollar, the euro, the Japanese yen, and the pound sterling. The share of each of these currencies in the market turnover exceeds 10%. In 2016, the US dollar accounted

for 87.6% of all foreign exchange transactions, while the euro was subject to 31.4% of transactions (Bis 2016). Both currencies simultaneously make up the most popular EUR/USD currency pair among investors, which in 2016 was subject to almost a quarter of exchange transactions (23.1%) and at the beginning of 2019, every fifth transaction (20.03%) (FXSSI 2019).

In order to characterize the function that the US dollar and the euro have in the global economy, reference should be made to the concept of international currency. An international currency is a currency whose use as the value of money, the means of payment and the means of accumulation, extends beyond its territory (Oręziak 2008: 4). The fact that the currency can be considered international is determined by structural factors as well as macroeconomic stability of the country. The structural factors include: volume of production and trade, stability of purchasing power as well as the degree of development of the financial market (Bergsten 1997: 17–48).

The value of US GDP in 2018 was USD 20.44 trillion (Trading Economics United States 2019), while euro zone GDP for 2018 amounted to USD 13.669 trillion (Trading Economics Eurozone 2019). The volume of exports of the euro area countries in 2016 amounted to USD 1.929 trillion, while the US export volume in 2017 amounted to USD 1.576 trillion (Cia 2019). The value of shares and bonds outstanding in the euro area in recent years was significantly lower than the corresponding values in the United States (Kuziemska 2014: 144).

Taking into account the above-mentioned facts, it should be stated that the US dollar is at present unquestionably the dominant international currency. It is worth noting, however, that the participation of the euro zone in the global economy places it second only after the United States. In spite of this, most of the studies devoted to the currency market in the part concerning the analysis of particular parameters of foreign exchange investments are focused mainly on currency pairs connected with the US dollar. To a lesser extent, they refer to the problem of currency pairs in which there is no US dollar and the euro is the base or quoted currency.

Review of Literature on the Volatility and Volume of the Currency Market

Literature referring to the problem of volatility in the currency market is very broad. Articles matching the exchange rate change on the forex market largely focus

on forecasting methods, which is understandable because it is the volatility that is the source of profits and losses of entities on both sides of the transaction.

The article from 2006 by S. Kumar focuses on the assessment of ten statistical and econometric volatility models for the foreign exchange market and the Indian stock market. The models were compared using symmetric and asymmetric error statistics. After the surveys, it turned out that the most accurate forecast for the currency market was the GARCH model (5.1). More accurate results have been achieved for asymmetric error statistics (Kumar 2006). An example of a publication that is part of the subject of volatility forecasting is the article by R. Mohnot from 2011. The author attempted to assess the predictability of currency exchange rates in thirteen countries. In his research, carried out on data from 2005–2009, he also used the GARCH model. Comparing the volatility from the crisis periods and the relative stability before the crisis, he obtained results indicating that in the three years before the crisis the currencies of all the studied countries except Thailand, were at least once characterized by a low level of volatility. During the crisis, each of the currency pairs was characterized by a high level of volatility. Based on the research, the author stated that exchange rates tend to maintain conditional heteroscedasticity and, therefore, can be predicted with one date of delay (Mohnot 2011: 27–38). Y. Kamal, G. Usman and M. Muhammad, authors of the article published in 2012, emphasized in their publication that today the role of the exchange rate in corporate decision-making becomes more and more important. The authors undertook to examine exchange rate fluctuations using models from the GARCH group. The study was carried out using data from 2001–2009 and their results confirmed that models from this group may, to a greater or lesser extent, be used in accurate forecasting of exchange rates (Kamal, Usman, Muhammad 2012: 2830–2838).

The issue of volatility on the currency market, apart from the most extensive subject of research, which is the subject of forecasting rates, was also discussed in publications pertaining to the issue of linking volatility between individual currency pairs and markets, and as an element of constructing investment strategies.

In an article from 2011, V. Bubak, K. Evzen and F. Zikes analysed the relationships between the volatility of the currency pairs of the Central European countries and the EUR/USD currency pair. The authors created a parametric model in which the daily volatility of a given exchange rate was dependent on the historical values of the analysed pair and the other currency pairs. Based on the conducted research, the authors found dependencies between the volatility levels of currency pairs of Central European countries. However, they did not find any relationship between

the currency pairs of the Central European countries and the EUR/USD pair, with the exception of those with currencies of Poland and the Czech Republic (Bubák, Kočenda, Žikeš 2011: 2829–2841). The publication from 2012 by L. Menkhoff is part of the subject of volatility understood as risk. The author in his publication focused on the analysis of *carry trade* investment strategies. Based on the research conducted, L. Menkhoff concluded that high interest rates ensure low profits in times of high volatility, while low interest currencies generate positive returns (Menkhoff 2012: 681–718). An article from 2017 prepared by J. Barunika, K. Evzen, and L. Vach refers to the problem of factors affecting the volatility of the currency market. Based on the research carried out on data from 2007–2015, the authors found that positive asymmetries of fluctuations in volatility result mainly from monetary policy and events taking place in the real sphere. Negative asymmetries, on the other hand, are mainly the result of fiscal factors (Baruník, Kočenda, Vácha 2017: 39–56).

In contrast to the issue of volatility, the subject matter of the currency market volume has not been thoroughly researched in the literature. Publications in this field relate mainly to the question of changing the value of the volume and its informational significance. The issue of dependencies between volume and volatility was also the subject of research.

One of the two articles from 1996 by P. Jorion refers to the issues of risk and the volume of the currency market. The author in his publication showed, among others, that many aspects of the forex market depend on the perception of risk. P. Jorion also studied the type of connection between risk and volatility, showing that both variables are positively correlated with each other (Jorion 1996: 19–40). The second publication, released in 1996 by R. Lyons, is part of the subject of the informational meaning of the volume. The author examined the information value of transaction signals, generated at low and high turnover levels. The results of the research confirmed the hypothesis that signals generated in the case of a low volume value, at the same time have a high information value (Lyons 1996: 183–208). However, the publication by G. Galati from 2001 refers to the issue of a sharp drop in the value of the currency market volume in the years 1998–2001. In the article, the author states that the decrease in turnover over the three years studied, contrasts with the results of previous surveys, in which the volume value increase was systematically recorded (Galati 2001: 39–47).

On the basis of the presented literature review, it should be pointed out that issues of volatility and volume on the currency market have so far been mainly examined separately. Only the publication of P. Jorion from 1996 analyses both issues together (Jorion 1996: 19–40). Publications that are part of the subject of volatility, relate

mainly to the issues of forecasting courses as well as their relation to other markets. Articles devoted to the issue of volume, mostly focus on the issues of changes in its value and the informational significance of changes in the volume of turnover. In this article, an attempt was made to assess the level of dependence occurring between the volatility and volume of the currency market.

Research on the Level of Dependence between the Volatility and Volume of Selected Currency Pairs with the Euro in 2016–2018

The survey was conducted on the basis of data for currency pairs of the euro such as EUR/USD (euro to US dollar), EUR/JPY (euro to Japanese yen), EUR/GBP (euro to British pound), EUR/CHF (euro to Swiss franc) and EUR/AUD (Euros to the Australian dollar). The most liquid currency pairs were chosen, in which the euro was also the base currency or the quoted currency (FXSSI 2019). The data from the period from January 1, 2016 to December 31, 2018 were used for calculations. Data were aggregated in five time intervals: one-hour, four-hour, daily, weekly and monthly. The study analysed two factors: volatility and volume. Volatility was understood as the difference between the maximum and minimum value of the exchange rate at each of the time intervals. As the volume, a tick volume was available on the MetaTrader 4 platform, provided by the Fresh Forex brokerage firm. Due to the limited availability of data, the transaction volume was not used (Smart Trader 2019).

To determine the level of relationships between volatility and the tick volume of selected currency pairs, a correlation coefficient analysis method was used. The chosen method belongs to the set of quantitative methods. Due to the rejection of the hypothesis about the normality of distributions of all of the analysed variables based on the tests of normality of Kolmogorov-Smirnov distribution, the Spearman rank correlation coefficient was chosen to measure the degree of dependence.

The research procedure consisted of four stages. In the first stage, data from the years 2016–2018 were collected regarding the rates and value of the tick volume for five selected currency pairs, in which the euro was the base or quoted currency. In the second stage, the average volatility levels for individual currency pairs were calculated at five time intervals during the researched period. Next, the Kolmogorov-Smirnov test was used to measure the normality of distributions of all extracted

variables in order to select the correlation coefficient. Since not all variables adopted the normal distribution for the fourth stage, which was the calculation of the level of dependence between volatility and volume, the Spearman rank correlation coefficient was selected.

Table 1 presents the average values of tick volume of currency pairs EUR/USD, EUR/JPY, EUR/GBP, EUR/CHF and EUR/AUD at intervals: hourly, four-hour, daily weekly and monthly in the years 2016–2018.

Table 1: Average values of tick volume of currency pairs in which the euro is the base currency or quoted at selected time intervals in 2016–2018

| Currency pair | 1 hour | 4 hours | 1 day | 1 week | 1 month |
|---------------|--------|---------|---------|---------|-----------|
| EUR/USD | 4 723 | 18 868 | 113 133 | 562 374 | 2 444 939 |
| EUR/JPY | 7 960 | 31 809 | 190 729 | 948 986 | 3 828 432 |
| EUR/GBP | 5 009 | 20 014 | 120 009 | 596 660 | 2 419 527 |
| EUR/CHF | 4 374 | 17 476 | 104 790 | 520 742 | 2 135 683 |
| EUR/AUD | 6 128 | 25 623 | 153 640 | 764 221 | 3 068 509 |

Source: own elaboration.

For each analysed time interval, the average values of the tick volume were the highest for the EUR/JPY currency pair, while the lowest for the EUR/CHF pair.

Table 2 presents the average volatility values of currency exchange rates EUR/USD, EUR/JPY, EUR/GBP, EUR/CHF and EUR/AUD at intervals: hourly, four-hour, daily weekly and monthly in the years 2016–2018.

Table 2: Average volatility values of exchange rate pairs in which the euro is the base or quoted currency at selected time intervals in 2016–2018

| Currency pair | 1 hour | 4 hours | 1 day | 1 week | 1 month |
|---------------|--------|---------|--------|--------|---------|
| EUR/USD | 0.0015 | 0.0032 | 0.0085 | 0.0193 | 0.0396 |
| EUR/JPY | 0.0021 | 0.0043 | 0.011 | 0.0255 | 0.0515 |
| EUR/GBP | 0.0013 | 0.0027 | 0.007 | 0.0157 | 0.0325 |
| EUR/CHF | 0.0011 | 0.0022 | 0.0056 | 0.0118 | 0.0244 |
| EUR/AUD | 0.0024 | 0.0051 | 0.0129 | 0.0295 | 0.0608 |

Source: own elaboration.

For each of the five time intervals, the EUR/AUD exchange rate was characterized by the highest volatility, while the EUR/CHF pair showed the lowest volatility.

Table 3 presents the results of the normality study of volume distributions of currency pairs EUR/USD, EUR/JPY, EUR/GBP, EUR/CHF and EUR/AUD at intervals of one hour, four hours, daily and weekly in 2016–2018. The measurements were made using the normality test of the Kolmogorov–Smirnov distribution. Time series that have a normal distribution are marked by the word „YES”, while the one without the normal distribution are marked by the word „NO”.

Table 3: Results of assessing the normality of tick volume distributions of currency pairs in which the euro is the base currency or quoted at selected time intervals in 2016–2018

| Currency pair | 1 hour | 4 hours | 1 day | 1 week | 1 month |
|---------------|--------|---------|-------|--------|---------|
| EUR/USD | NO | NO | NO | YES | YES |
| EUR/JPY | NO | NO | NO | YES | YES |
| EUR/GBP | NO | NO | YES | YES | YES |
| EUR/CHF | NO | NO | NO | YES | YES |
| EUR/AUD | NO | NO | NO | NO | YES |

Source: own elaboration.

Of the 25 analysed time series, in 10 cases (40% of all), the distribution proved to be normal. For intervals: one hour and four hours, all time series were characterized by an asymmetrical distribution. For the daily interval in one of five cases (20%) a normal distribution was recorded. Only the tick volume distribution of the EUR/GBP currency pair was characterized by normality for the daily interval. In the case of the next of the analysed intervals, i.e. the weekly period, the situation turned out to be reversed because distributions of the tick volume for four currency pairs: EUR/USD, EUR/JPY, EUR/GBP, EUR/CHF (80%) proved to have a normal distribution. The distribution of the tick volume of each of the five currency pairs turned out to be normal for the monthly time interval. Based on the results of normality tests of volume distributions of currency pairs in which the euro is a base or quoted currency, it should be noted that the number of time series with a normal distribution increases with the growth of the assumed interval. At the same time, it is worth pointing out that the most common distribution was the tick volume of the EUR/GBP pair in as many as three out of five cases, and the least frequent in only one case was the distribution of the tick volume of the EUR/AUD pair.

Table 4 presents the results of the study of the normality of volatility distributions of currency pairs EUR/USD, EUR/JPY, EUR/GBP, EUR/CHF and EUR/AUD at intervals: hourly, four-hour, daily and weekly in 2016–2018. In this case, the measurements were also made using the normality test of the Kolmogorov–Smirnov

distribution. Time series that have a normal distribution are marked by the word „YES”, but without the normal distribution by the word „NO”.

Table 4: Results of assessing the normality of volatility distributions of currency pairs in which the euro is the base currency or quoted at selected time intervals in 2016–2018

| Currency pair | 1 hour | 4 hours | 1 day | 1 week | 1 month |
|---------------|--------|---------|-------|--------|---------|
| EUR/USD | NO | NO | NO | NO | YES |
| EUR/JPY | NO | NO | NO | NO | YES |
| EUR/GBP | NO | NO | NO | NO | YES |
| EUR/CHF | NO | NO | NO | NO | NO |
| EUR/AUD | NO | NO | NO | NO | YES |

Source: own elaboration.

Of the 25 time series of exchange rate volatilities in which the euro is the base currency or quoted only four, they have a normal distribution (16% of all). The normal distribution has four out of five time series in the monthly interval for currency pairs EUR/USD, EUR/JPY, EUR/GBP and EUR/AUD. Only in the case of the EUR/CHF currency pair, in any of the analysed intervals, the volatility is not characterized by normal distribution.

Table 5 presents the values of Spearman’s rank correlation coefficients between volatility and tick volume of currency pairs: EUR/USD, EUR/JPY, EUR/GBP, EUR/CHF and EUR/AUD at intervals: hourly, four-hour, daily, weekly and monthly in the years 2016–2018.

Table 5: Spearman’s rank correlation coefficients between volatility and volume of currency pairs in which the euro is the base currency or quoted at selected time intervals in 2016–2018

| Currency pair | 1 hour | 4 hours | 1 day | 1 week | 1 month | Minimum | Maximum | Average |
|----------------|-------------|-------------|-------------|--------------|-------------|--------------|-------------|-------------|
| EUR/USD | 0.77 | 0.77 | 0.45 | 0.33 | 0.41 | 0.33 | 0.77 | 0.55 |
| EUR/JPY | 0.61 | 0.54 | 0.34 | 0.31 | 0.25 | 0.25 | 0.61 | 0.41 |
| EUR/GBP | 0.73 | 0.74 | 0.5 | 0.46 | 0.61 | 0.46 | 0.74 | 0.61 |
| EUR/CHF | 0.55 | 0.53 | 0.18 | -0.02 | 0.07 | -0.02 | 0.55 | 0.26 |
| EUR/AUD | 0.58 | 0.51 | 0.35 | 0.23 | 0.32 | 0.23 | 0.58 | 0.4 |
| Minimum | 0.55 | 0.51 | 0.18 | -0.02 | 0.07 | -0.02 | 0.55 | 0.26 |
| Maximum | 0.77 | 0.77 | 0.5 | 0.46 | 0.61 | 0.46 | 0.77 | 0.62 |
| Average | 0.65 | 0.62 | 0.37 | 0.26 | 0.33 | 0.26 | 0.65 | 0.45 |

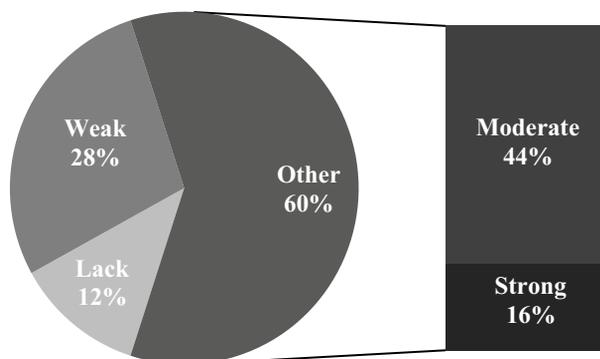
Source: own elaboration.

In the case of values calculated for an hour and a four-hour time interval, volatility was linked with tick volume to the highest degree in the case of the exchange rate of the EUR/USD currency pair (0.77 in both cases). The lowest level of connection for the hourly interval occurred for the EUR/CHF currency pair (0.55) and for the four-hour interval for EUR/AUD (0.51). Analysing the daily interval, the values of the correlation coefficient for EUR/GBP pair (0.50) turned out to be the highest, while the smallest correlation, with the Spearman rank correlation coefficient of 0.18, characterized the EUR/CHF pair parameters. In the case of weekly and monthly intervals, the highest level of correlation was recorded for the EUR/GBP currency pair (0.46 and 0.61 successively) and the lowest correlation, close to zero, was determined by time series of the EUR/CHF currency pair (consecutively -0.02 and 0.07).

The highest correlation value of all the currency pairs selected for the study at all time intervals was recorded for the EUR/USD pair for data aggregated in one-hour and four-hour periods (0.77 each). The lowest and the only negative value of -0.02 was recorded for the EUR/CHF currency pair in the weekly interval.

Figure 2 presents the percentage distribution of Spearman's rank correlation coefficients, calculated between volatility and tick volume for selected currency pairs with the euro in the analysed time intervals in terms of dependence strength.

Figure 2: Percentage distribution of Spearman's rank correlation coefficients calculated between volatility and tick volume for currency pairs where the euro is the base or quoted currency at selected time intervals in 2016–2018



Source: own elaboration.

Only in four of the 25 cases analysed (16% of all) the degree of association between variation and tick volume turned out to be greater than 0.7, i.e. quite strong monotonic correlation, in 11 cases (44%) the relationship turned out to be moderate, in seven cases it was weak (28%) and in three (12%) it did not occur. However, the average degree of correlation determined by the correlation coefficient was 0.45 and can be described as moderate (Task Statistics 2019).

Conclusions

During the research, Spearman's rank correlation coefficients were calculated between exchange rate volatility and tick volume of five currency pairs, at five time intervals. Of the 25 observations, a strong monotone dependence occurred only in 16% of cases, while most frequently, in 44% of cases, the relationship turned out to be moderate. In the remaining 40% of cases, the relationship turned out to be weak or statistically insignificant. On the basis of the conducted research, one should therefore reject the hypothesis that there is a strong monotone dependence between the level of exchange rate volatility, in which the euro is the base or quoted currency, and the tick volume of a given currency pair. The conducted research shows that between the analysed parameters, as much as in 88% exists at least a weak dependence, while in 60% of cases it is at least moderate.

The results of the conducted research confirm the thesis put forward by P. Jorion in the article from 1996 titled "Risk and turnover in the foreign exchange market", in which the author claimed that the relationship between the size of volatility and the volume is true (Jorion 1996: 19–40). In 24 cases analysed (96% of all) the tested relationship turned out to be positive, only the examined parameters of the EUR/CHF currency pair in the weekly time interval turned out to be negative.

Confirmation of the existence of dependence between volatility and tick volume may be used in forecasting of the exchange rates. The limitation of the test results presented in the article is the lack of access to data about the size of the real volume. In exchange, the tick volume available for the researcher was used. Further research using the real volume could allow for more accurate results. At the same time, from the point of view of a strategy building individual investor, who in most cases also does not have access to real-volume data, the research results obtained using the tick volume may be more useful.

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KONSTANTINOS SKIRLIS*

The Effects of European Integration and the Case of Slovakian Automotive Industry**

Abstract

The European Union currently consists of 28 member states. Although each member joined the EU under different conditions, one of the most noteworthy memberships is the case of Slovakia. Even though Slovakia is a relatively small country with an independence history of only 26 years, Slovakia managed to comply with the EU guidelines and gain EU membership. One of the most noteworthy changes undertaken by Slovakia was the industrial reform of the country, especially this relating to the automotive industry, which led to the transformation of Slovakian economy into one of the most dynamic of the euro-area. This paper aims to examine both how Slovakia managed to navigate several events in the 20th and 21st century so as to gain its independence, and foremost, how Slovakia successfully adapted in the European integration model, thus becoming able to compete against other larger national economies which have a significantly longer history in the EU.

Key words: European integration model, Slovak Automotive Industry, Velvet divorce, Slovak history.

JEL Classification: F15, F21, L62, N14, N44, N64, N94.

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Introduction

Countries of the European continent have a long history of interactions, which mainly resulted in positive outcomes. Nowadays, trade among different regions or even different countries is considered feasible worldwide. Trade can be defined as the exchange of goods between different regions that may also be controlled by different political entities. This means that trade has historically connected people of different cultures, making trade the primary form of globalization – the widening set of interdependent relationships among people from different parts of the world divided into nations (Daniels, Radebaugh, Sullivan 2015: 47). In other words, globalization relates to the movements of services and goods among all countries. The 20th century, was the period with the biggest rates of global trade activities in the world.

Currently European Union (EU) consists of 28 Member States and every member state acquired the European membership under different conditions. Still, one of the most noteworthy examples among all of these countries is this of Slovakia which had a successful industrial transformation and as a result, managed to acquire numerous benefits of international trade resulting in the creation of one of the most dynamic economies in the euro-area, especially after Slovakia's introduction to the EU. Slovakia is a small country with a population of 5.5 million citizens, expanding no more than 49,000 square kilometres. After the dissolution of the Union of Soviet Socialist Republics (USSR), Slovakia has a 26-year history as an independent nation. In 2004, Slovakia joined the European Union (EU) along with the other countries of the Visegrad (V4) group – Czech Republic, Poland and Hungary, but was the first of its group to adopt the euro as its currency. The rapid adaptation of Slovakia to EU policies and the benefits of Euro currency that came along with it, resulted in an economic growth, especially of the automotive industry which gradually overcame even other European nations with stronger economies. Slovakia nowadays, has transformed into a country with a functioning market economy and is a member of World Trade Organization (WTO), Organization for Economic Co-operation and Development (OECD), North Atlantic Treaty Organization (NATO) and the EU (Liptakova 2018). Surprisingly, considering its short history as an independent country, Slovakia is currently referred to as Detroit of Central Europe, reflecting the huge foreign direct investment (FDI) inflows into the automobile and related industries (Koyama 2016). It should be noted, however, that when a country's economy is based mainly in a limited number of sectors, there are various risks present, as there is strong dependence on

these sectors. These risks, although not analysed in this paper, should be kept in mind when considering the case of Slovakia.

This paper aims to explain how a small and relatively young country, like Slovakia, managed to have a successful industrial transformation and flourish especially in the automotive industry when competing against other nations. As such, a small retrospection of the dissolution of Czechoslovakia, commonly referred to as the Velvet divorce, will be presented first, so as to explain the path Slovakia followed towards the European integration and the Eurozone. Secondly, an analysis of the significance of the automotive industry in the EU as well as of Slovakia will follow, concluding in how Slovakia managed to adapt and thrive among other nations in EU in automotive industry.

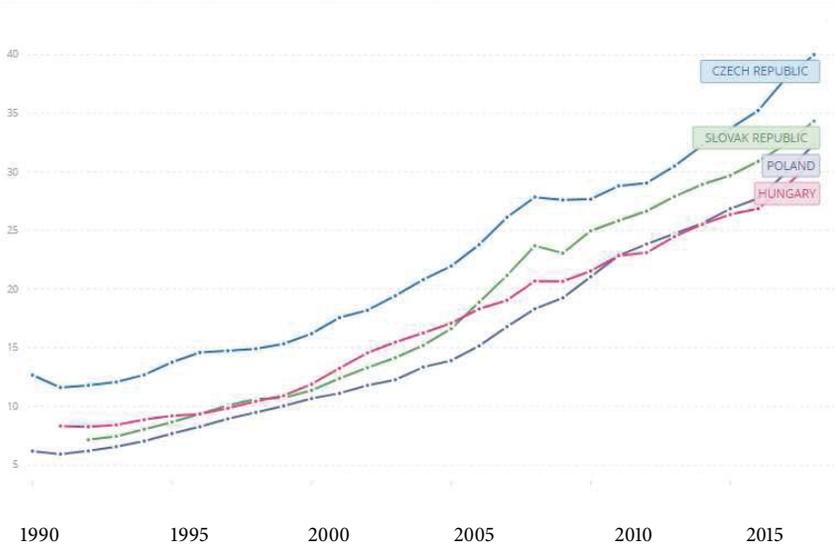
The Velvet Divorce, European Union and the Eurozone Membership

After the end of the Second World War (WWII), Czechoslovakia was conquered by Soviet Union. Joseph V. Stalin expressed his determined will that Soviet army should exclusively liberate Eastern European countries so as to enable the installation of communist-controlled governments after WWII (Janik 2010). Following a long period of communist governments, despite all efforts the agricultural and industrial plans had failed to boost the national economy and the country was in severe stagnation. All levels of economic development were limited, and Czechoslovak economy was not capable of following the developing economies of the Western world (Brown et al. 2011).

The election of the Slovak Alexander Dubček to the position of the first secretary of the Czechoslovak Communist Party, was one of the major elements which led to the event of the 'Prague Spring of 1968'. Prague Spring of 1968 was an attempt to fight for an independent Czechoslovakia under a real democracy. Czechoslovakia had to conform to the previous regime, otherwise a domino effect could affect other Eastern bloc countries (Slovak Ministry of Foreign and European Affairs 2019). As a result, this attempt was suppressed by Soviet armed forces and hardline communists retook power. Other mass demonstrations took place in favor of the human rights during the 1980's in Czechoslovakia, but there was no change until the fall of the 'Iron curtain' which ceased to exist in 1989 leading to a wave of protests against communism in eastern Europe. Despite numerous significant events, including the adaptation

of a democratic constitution in Hungary, the culmination of the Polish Solidarity movement as well as a mass exodus of thousands of freedom-seeking East Germans via Prague, the Czechoslovak people took little action (Encyclopædia Britannica 2018). The documented trigger for the Velvet revolution of Czechoslovakia was a violent incident against peaceful student protesters in Prague, leading to mass strikes and protests in the country's industrial centres, protests which escalated and led to the negotiation of ruling parties for a real democracy. As such, in 1990 Czechoslovakia held its first free elections since 1946. After a fragile two-year period, separatism became a momentous issue for Czechoslovaks. Negotiations for a separation were taking place even though politicians were not sure about the public opinion on the matter. Eventually, the separation was so swift and held in such a peaceful manner that came to be known in history as the 'Velvet Divorce'. On the 31st of December of 1992, Czechoslovakia terminated its existence and on the 1st of January of 1993 Slovakia and Czech Republic replaced it.

In the rest of Europe over the next decades, many different steps were undertaken to establish European integration between the different countries of the European continent. The addition of numerous members into the EU was one of these steps. The original European Economic Community has also grown, from six to twenty-five members in the recent years and the process has not yet come to an end (Piedrafita & Torreblanca 2004). After the dissolution of the USSR, the countries of the former Eastern bloc declared their wish to join the rest of the European countries and become EU members; following its declaration of independence. Especially Slovakia aimed to boost its economy and become an EU member state. As Roxburgh (2014) stated, even though the 'divorce' was rushed within a few months and allowed little time for negotiations and adaptations, Slovakia was admitted to international institutions, such as the World Bank and International Monetary Fund (IMF) instantaneously and become a member of the United Nations after just 19 days of independence as a nation. In 1995, Slovakia applied for an accession to the EU. During the following 5 years, Slovakia successfully cultivated an image of a country that was business-friendly, fiscally prudent, and blessed with a lean state (Nič, Slobodník and Šimečka 2014). On May of 2004, Slovakia was one of the 10 countries which joined the EU increasing the EU membership to 25 countries. Central and Eastern European countries managed to transform from passive policymakers to dynamic members of the EU's governance agenda (Schweiger, Visvizi 2018). It is quite noteworthy that especially after 2003, Slovakia had high economic growth; Slovak GDP per capita increased sharply and managed to overpass Hungary's and to reach this of Czech's Republic which was already high among the V4 group countries (Figure 1).

Figure 1: GDP per capita among V4 Group Countries (Current International USD)

Source: The World Bank: GDP *per capita* among V4 Group Countries, <https://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD?end=2018&locations=CZ-SK-PL-HU&start=1990&view=chart> [accessed on: 15.09.2018].

The next step for Slovakia was the Eurozone membership. For a country to be able to join the eurozone, there are some specific criteria that should be fulfilled. These are convergence criteria related with monetary and fiscal policies but also with exchange and interest rates. According to Maastricht Treaty, the deficit must not exceed 3% of a country's GDP and its debt must not exceed 60% of GDP. Moreover, the previous year's inflation must not exceed 1.5 percentage points of the inflation of the three best performing Member States. It is worth mentioning that there is no specific limitation on the timetable for completing the criteria to join the eurozone. After numerous efforts and changes, such as the reform of the country's pension system, and despite the country's high government's debt (34,1%), Slovakia managed to fulfil all the nominal, real and legal convergence criteria and successfully joined the Eurozone on January 1st, 2009.

The Importance of Automotive Industry in the European Union

Automotive industry is one of the biggest industries worldwide and it is also of vital importance for the economic wealth of EU, as the EU is one of the biggest producers of motor vehicles worldwide. EU holds the second place with 23% of global production of motor vehicles and competes with the markets of North America, Japan/Korea etc. The automotive sector adds up to 6.1% of the EU's GDP and employs more than 13.3 million people. As Jonnaert (2018) stated, the EU auto manufactures exported 5.9 million motor vehicles in 2017, generating a trade surplus of EUR 90.3 billion for the EU, making automobile exports a vital contribution to the total trade position of the EU. Another leading position for the sector of automotive industry in EU is that it currently is one of the largest private sectors of research and development (R&D). R&D division's significance lies in its profitable competitive ideas as well as in its effort to increase the productivity in the long-term. Among the top 20 spending firms in R&D, six of them are exclusive automotive makers (Gibson 2017). This is partly due to the European Commission's (EC) support for technological harmonization and funding for R&D, aiming to increase the competitiveness of the European automotive industry and to preserve its global technological leadership (EC 2018). Furthermore, as EC strives for the technical harmonization of motor vehicles and for car manufactures to be able to enlarge their markets, they introduced the European Community Whole Vehicle Type Approval (EC WVTA) directive (2007/46/EC) which only applies to new (pre-registration) vehicles (Horiba-mira.com, 2018). Conclusively, the automotive industry is vital for the EU not only because of the number of jobs it offers, but also because it links with other sectors such as this of digitalization and advancements in technology, sectors which are estimated to increase investments in automotive industry by 82 billion USD by 2020 (Newman 2017). The important connections between the car industry and the non-manufacturing sector should also be mentioned; it has been estimated that there are countless jobs related to the automotive industry, such as selling spare parts, fuel stations, rental, transportation and many more that add up to around 10 million positions. Thanks to all the cooperating industries and all those dependent on the automotive industry, there is a multiplier effect. Considering the number of annual sales and the need for just-in-time delivery of automotive vehicles, which characterizes vertically integrated

production, Visegrad region is viewed as an ideal region for automotive investment in EU (Jakubiak, Kolesar, Izvorski, Kurekova 2008: 14).

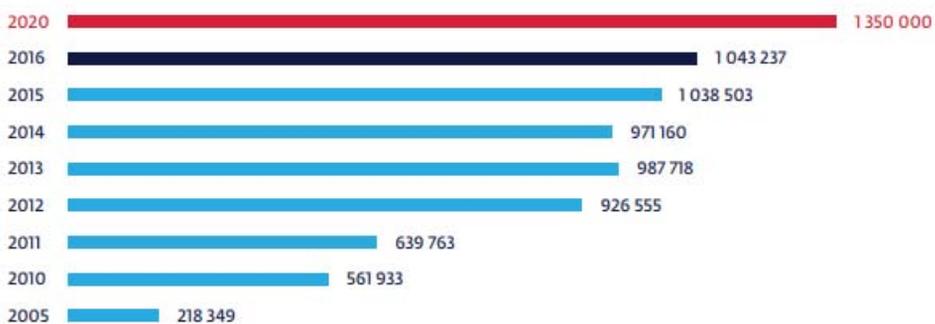
The Slovak Automotive Industry

One of the most important sectors in Slovakia is this of the automotive industry with a share of 44% of the country's total industrial production and volume of exports around EUR 26 billion. Slovakia has a long history in the automotive industry. Some of the brightest examples are the Bratislava Automotive Factory (BAZ) which produced Skoda models and vans for the Trnava automaker-Trnavské automobilové závody (TAZ) industry in the 1970's and 1980's. It is worth to mention that Volkswagen (VW) had already bought the Czechoslovak manufacturer (Skoda) in 1991 and also decided to build a production plant near Slovakia's capital. After Slovakia entered the EU, there was a need for industrial transformation. To achieve that, Slovak government scheduled a series of tax reforms and set the same level of 19% taxation for private income tax, corporate income tax and VAT. The previous tax brackets ranged from 10% to 38%, the national tax system was very complex and many citizens avoided paying taxes. The country's newfound political and economic stability, along with a flat tax rate and attractive investment incentives, including experienced, productive and low-cost workforce, lead to an economic boom in foreign direct investment (FDI) in Slovakia, of which the automotive industry emerged as a key target (Nič, Slobodník, Šimečka 2014: 7).

Other factors which help to improve the reputation of Slovakia and led to the advancement of the automotive industry there, were the entrance of South Korean KIA and of French PSA Peugeot-Citroen to Slovakia. The most recent achievement of the Slovak automotive industry is this of Jaguar Land Rover (JLR). Based on the increased demand for JLR on Chinese markets as well as from the UK, JLR needed to come up with an investment plan and had to create new manufacturing sites. JLR focused on 'Project Darwin' which would take place in eastern Europe and Slovakia managed to secure the JLR production plan from other V4 group countries. To achieve that, Slovakia took various steps: firstly, the Slovak movement designated an authorized group of people who would coordinate to promote Slovak position among other V4 group candidates. Secondly, a new law was introduced to permit the offering of certain financial incentives to JLR and the prime minister was

personally involved in the negotiations as well (Balko 2018: 56). The result was the JLR investment of hundreds of millions of euros to expand its manufacturing line and relocate manufacturing to Slovakia. This investment has been estimated to create 3.000 new jobs in Slovakia (Toplensky 2018). Slovakia currently holds the first position in car production per 1000 Inhabitants in the EU with 192 units and this number has been estimated to reach the 249 units in 2020 (Sario 2017); the car production in Slovakia was around 1.043.237 units in 2016 and will consequently increase as well (Figure 2).

Figure 2: Car Production in Slovakia



Note: Year 2020 Estimate.

Source: SARIO. 2017. *Automotive Industry Association of the Slovak Republic (ZAP SR)*, <https://www.sario.sk/sites/default/files/data/sario-automotive-sector-in-slovakia-2018-02-01.pdf> [accessed on: 20.10.2018].

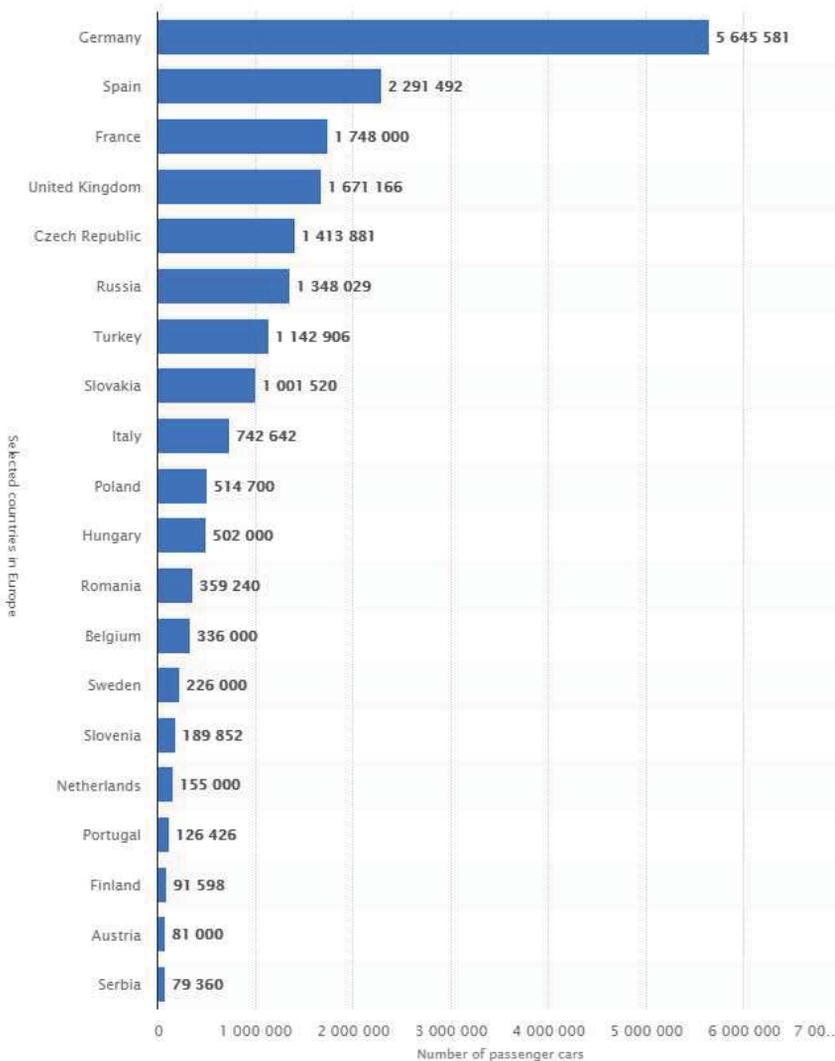
It is worth to mention that Slovakia managed to thrive in the automotive industry and overpass other automotive producers with longer history such as Italy or Poland. (Figure 3).

The European Investment Bank (EIB) will finance “CIE Automotive’s” RDI strategy with EUR 80 million under Juncker Plan (EC 2018), a future plan that ensures the dominant position of Slovakia in Automotive industry; a part of these funds will be allocated to facility upgrades, some of which are located in Slovakia.

By observing the map of Slovakia, we can clearly see the importance of the Automotive industry and the high number of supplier network facilities in the country (Figure 4). Especially after the expansion of Volkswagen in Bratislava in 1993, many different suppliers expressed their interest in investing in Slovakia; following the positive experience of Volkswagen, other car producers considered Slovakia as an option for their production base (Jakubiak, Kolesar, Izvorski, Kurekova 2008: 20).

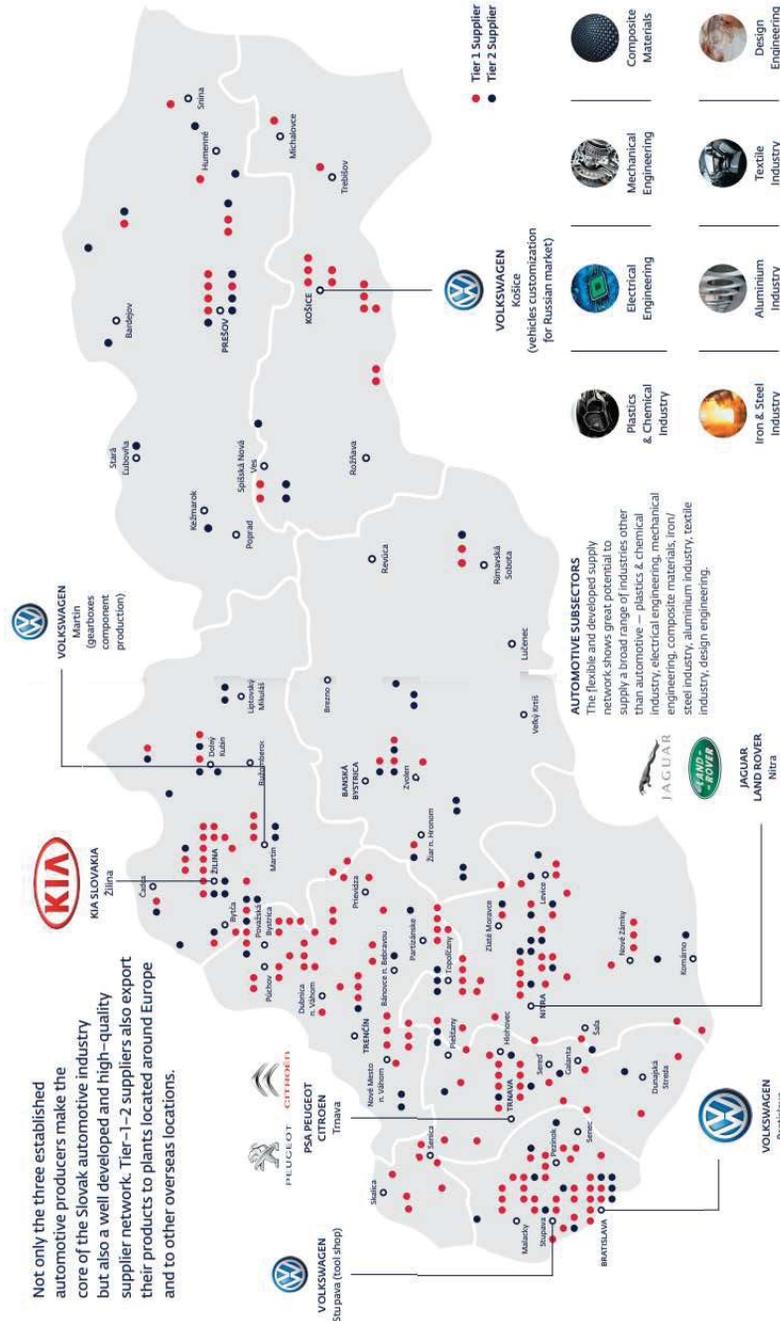
It should be mentioned that the above investments were reinforced by the Slovak government, as it had heavily subsidized the automotive suppliers. Due to the multiplier effect, Slovakia became a hub especially for car production companies as well as for suppliers of various firms.

Figure 3: Number of Passenger Cars Produced in Selected Countries in Europe in 2017



Source: *Number of passenger cars produced in selected countries in Europe in 2017*, <https://www.statista.com/statistics/269623/passenger-car-production-in-europe/> [accessed on: 20.10.2018].

Figure 4: Map of Automotive Suppliers in Slovakia



Source: SARIO, *Automotive Suppliers in Slovakia (ZAP SR)*, <https://www.sario.sk/sites/default/files/data/sario-automotive-sector-in-slovakia-2018-02-01.pdf> [accessed on: 20.10.2018].

Conclusions

Slovakia is considered to be one of the brightest examples of a country which entered the EU and the Eurozone and in less than a decade managed to adapt to the requirements of European integration as well as to gain several various microeconomic and macroeconomic benefits for its citizens and ultimately achieved significant economic growth. Some of the most important benefits that Slovakia gained was the economic upturn of the country's GDP even after 2009 due to the adaptation of the country's economy to the convergence criteria, and the annual decrease of unemployment by 3%. Even the country's infrastructure in many regions has been upgraded, especially where the automotive factories operate. The most important benefit for a small country like Slovakia, was the economic stability and the greater economic security that followed. All the aforementioned benefits transform Slovakia into a more reliable country for future investments in general.

Slovakia, after its introduction to the Eurozone, managed to attract even more potential and actual investors from various industry sectors. The automotive industry, representing a prime example of complex manufacturing, composed of high capital, technology, and skilled labour, became a leading sector in V4 countries (Kurekova 2018). Slovakia not only succeeded in the automotive industry but also managed to compete with other EU members with longer history in this industry. Slovakia's real income has grown rapidly in the past decade and managed to outpace the rest V4 countries; GDP *per capita* now stands at over 76 % of the EU-28 average.

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The European Union New Landscape: Impetus for Sustainable Economic Growth in Central Asia

Abstract

This article explores the problems of the EU in the challenging times for the world economy, Brexit, EU solidarity towards external policies and, in relation to countries in Central Asia. We examine the EU regional approach from two perspectives: the socio-economic situation as an integral component of the overall transformation process in Central Asia, and from the perspective of political economy of the regional cooperation perspectives of this region's countries with the EU. This methodological approach serves as a tool of integrating several main goals related to the EU's soft power that require the development and support of civil society and promotion of European values in Central Asia. This contribution aims to offer insight into the implementation of the EU external policies approach towards countries in Central Asia, taking into consideration implications of the new political and economic realities in the EU. Also, further economic development in the region of Central Asia as a precondition for the prosperity and security of countries in the region is discussed. The article concludes that the EU external policies have inevitably become more important due to the new economic and political powers emerging in Asia.

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Introduction

Presently EU Integration happens in a different environment in which geopolitical rivalry is inevitable. The so-called liberal international economic order, which was developed in the aftermath of World War II, has become compromised as a result of nationalist economic policies pursued by China, India and the United States during the presidency of Donald Trump. In contrast, the European Union (EU) continues to support and actively work to maintain an open, rules-based global economic regime. Europe's challenge now is to position itself in a new landscape where power matters more than rules and consumer welfare. European economy and European integration are experiencing difficult times and seem to be moving from one emergency to the next. In the past similar downturns resulted in a period, which in the European integration history is called "eurosclerosis", when protectionist tendencies dominated, and integration was halted. There is a danger that the same tendency may be repeated, and one should do everything to prevent this from happening. Existing consequences of a number of social and economic uncertainties represent major threats for further development of the EU. It is widely acknowledged that economic integration in the EU has helped to successfully converge EU countries and their economies.

According to experts most of the inequalities across EU countries are now accounted for by differences within rather than between countries (Bachtler et.al 2017; Filauro 2018). These differences cannot be addressed by compensatory policies relying on income transfers. Place-based strategies are required to reduce differences between regions within the Member States (Baltiņa, Muravska, RSA 2017). However, for developing new strategies it is essential to consider lessons from the past and to set up realistic goals. According to experts, such EU strategies as Lisbon, Gothenburg and Europe 2020 – have been moderately successful and produced limited results in relation to the problems they were to address. It is necessary to admit that often EU strategies have been over-ambitious and not relevant when considering the financial, human and administrative resources available. Moreover, current discussions related

to Brexit bring even more uncertainties to people's understanding and interpretation of EU Common Market values. Especially values such as the free movement of labour, which resulted in migration of people, be they workers, high level professionals or students, to the UK. As a result, people that work and live in the UK are not certain about their future. This concern is also relevant to the Member States (MS) in Eastern Europe. The free movement of people and labour is a very sensitive issue that is currently under discussion within the framework of the UK membership in the Customs Union and Common market. However, with globalization this internal integrating approach to the Single Market is losing its relevance and consequently the EU's external policy acquired new importance and dimensions, which need to be taken into account in consolidating the fragmented character of the governance of EU's external policy, including its economic aspects.

However, most experts agree that Brexit would impose significant costs on the UK as well as on the economies of the EU-27 (European Parliament 2017), with their economic strength and competitiveness varying from sector to sector; integrated production chains will also face difficulties. Restricting the free flow of capital between the continent and UK would impact London-based financial institutions, but also financing opportunities across Europe.

The future of Eurozone is the other major challenge related to Brexit, for instance, the overall shift in the balance between the Eurozone centre and the non-euro periphery of the EU; the UK departure will result in the percentage of the EU's GDP generated outside the Eurozone reducing from approximately 30 per cent to 10 per cent, according to experts' opinion (European Parliament 2016).

In the long-term, Brexit would change the EU's balance of power and, what we could not dismiss, strengthen its protectionist tendencies. However, the withdrawal of Europe's second-largest economy from the EU will strengthen French–Germany position in the EU. Nevertheless, Brexit is likely to weaken the EU's ability to become a leading global actor in the context of the growing dominance of Asian economies. Almost 20 years earlier, the EU was primarily seen as a regional integrational entity among a relatively small number of participating countries tearing down the walls that separated them and prevented their economic and political integration, the EU's external policy being essentially a sub-product of this internal consolidation (Sapir 2011:vii). The recent changes in the world's geopolitical order have put pressure on the EU to redefine its global position; the EU now has to be ready to defend its interests and be proactive.

Sustainable development has always been at the centre of EU policies; founding treaties address economic, social and environmental dimensions. The EU widely

supported international efforts to find a consensus on a new agenda and in 2015 the United Nations agreed on the 2030 Agenda for Sustainable Development as a new global sustainable development framework, with 17 sustainable development goals (SDG). Ensuring a coherent policy on sustainable development as embedded in the 2030 Agenda means considering the impact of all policies on sustainable development at all levels – nationally, within the EU, in other countries and at global level (United Nations 2015). The EU is fully committed to be a frontrunner in implementing the 2030 Agenda and the SDG, together with its Member States (MS), in line with the principle of subsidiarity. The Agenda will catalyse further a joined-up approach that combines the EU's external actions instruments and coherence across EU flagship initiatives, innovative and financing instruments (The European Commission 2016). The Commission is going to align its new 2021–2027 financial framework with the priorities of the SDG such as “Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all” (United Nations 2017) to guarantee growth in the EU and its MS, and to assist partner countries in maintaining their economic development. More concretely the following targets must be achieved:

- 1) sustain *per capita* economic growth in accordance with national circumstances;
- 2) achieve higher levels of economic productivity through diversification, technological upgrades and innovation;
- 3) promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation;
- 4) progressively improve global resource efficiency in consumption and production and endeavour to decouple economic growth from environmental degradation;
- 5) achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value;
- 6) substantially reduce the proportion of youth not in employment, education or training;
- 7) take immediate and effective measures to eradicate forced labour, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labour;
- 8) protect labour rights and promote safe and secure working environments for all workers;
- 9) devise and implement policies to promote sustainable tourism that creates jobs and promotes local culture and products;

- 10) strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all;
- 11) increase Aid for Trade support for developing countries, in particular the least developed countries, including through the Enhanced Integrated Framework for Trade – Related Technical Assistance to Least Developed Countries;
- 12) develop and operationalize a global strategy for youth employment and implement the Global Jobs Pact of the International Labour Organization¹.

In the article we looked at a few of these indicators by which sustainable economic growth can be measured and characterized, like development of business environment, digital economy and digital innovations, research and education.

In the 21st century societies with different and complex cultural identities and beliefs are forced to closely interact. In the EU Member States, just as in any country in Central Asia (CA), discussion is taking place on what will be the political as well as methodological response to the challenges in the EU external relations and changing EU concept towards policy related to countries in Central Asia?

The European Union's Soft Power: Legacy of Cooperation Between European Union and Central Asia

The EU's relationship with its partners is based on soft power principles, which cover the overall sphere of EU and partner countries interests. The EU aims to promote democratic values and support its neighbours in implementing, for example, the rule of law and adapting European high-quality standards for trade. The implementation of far-reaching reforms in the partner countries is undoubtedly a positive development. In addition, greater freedom of movement would go a long way towards empowering young people in the countries as well as encouraging exchange with their peers in the EU. Central Asia is a geo-strategically positioned region with high importance for the EU's interests, it offers abundant natural resources contributing to EU's energy security.

¹ The targets have been later agreed in the following documents: A/RES/71/313 including refinements agreed by the Statistical Commission at its 49th session in March 2018 (E/CN.3/2018/2, Annex II) and at its 50th session in March 2019 (E/CN.3/2019/2, Annex II).

In the future Central Asia will play a central role, as part of a new “Silk Road”, connecting the economies of East Asia with the West. The EU wants to shape a more sustainable strategic partnership with the region, but also with each of the Central Asian countries individually. At the same time, several challenges in Central Asia linked with issues such as democratisation, human rights and the rule of law, as well as socio-economic development still remain.

As result of a structural crisis in the socialist system and following the disintegration of the Soviet Union in 1991 the countries of Central Asia Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan became independent states and constitute the region of Central Asia. Since 1992, the EU has opened towards Central Asia in a strategic process that resulted in a structured bi- and - multilateral approach. Closer cooperation between the EU and Central Asian European partners is one of the components of the EU’s external relations.

In June 2007, the European Union adopted its ever first strategy for Central Asia by enhancing its partnership with Central Asian countries and facilitating regional cooperation in the region. The strategy was called “The EU and Central Asia: Strategy for Enhanced partnership” (The Council of the European Union 2007) and established a comprehensive framework for strengthening EU relations with Central Asian countries. By adopting Strategy, the EU and Central Asian countries defined common strategic goals such as prosperity, stability and security by means of peaceful interaction, development of stable, open society and adhering to international EU norms and values. It was agreed that political dialogue and bilateral cooperation should be strengthened by establishing regular exchanges at ministerial level, gradually expanding EU’s presence in Central Asia. Political instruments, such as Partnership and Cooperation Agreements (PCA) and EU’s assistance programmes should be adapted to be aligned with the new political documents. Collaboration and interaction with international financial institutions, international organisations and regional organisations should be strengthened. The Strategy looked at ways how to intensify bilateral cooperation in order to respond to the needs and proposals of each Central Asian country. It was agreed that a number of flagship cooperation platforms will be launched, such as the EU Rule of Law initiative for Central Asia, European – Central Asian Education Initiative, enhanced environment and water cooperation and EU Central Asian Action Plan on Drugs. It was built on seven pillars: 1) human rights, good governance, rule of law, 2) investing in youth and education, 3) promoting of economic development, trade and investment, 4) strengthening regional energy and transport links, 5) environmental

sustainability and water resources, 6) combating common threats and challenges, 7) building bridges and inter-cultural dialogue.

In 2009, the first Joint Progress Report by the Council and the European Commission to the European Council on the implementation of the EU – Central Asia Strategy was published (The Council of the European Union 2009). The Progress Report took stock of the progress achieved since the adoption of the Strategy back in 2007. It was underscored that the EU should continue its support of WTO accession for the four states in Central Asia which were not yet WTO members. Regarding economic development, another success story in the implementation of the Strategy was the expansion of the mandate of the European Investment Bank to Central Asia and the establishment of the Investment Facility for Central Asia (IFCA). The IFCA was created to blend investment loans from EIB and other European financial institutions in order to support projects in Central Asia. The core of the IFCA objective in providing EU's funding is to support sustainable development, economic growth and poverty reduction in the region. One of the main prerequisites in this regard is the provision of access to economic opportunity through the creation of decent jobs (The European Commission 2019b).

European Union institutions support EU partnership across Central Asia, for example the European Investment Bank (EIB) provides loans and advisory services to projects that contribute to economic development in Central Asia. Bank's activities in the region aim to create employment, facilitate trade with the EU, to encourage regional development and to improve living conditions. A next review of the Strategy 2007, was completed in 2012, and the Council agreed that all priority areas of remain important: human rights, rule of law, good governance and democratization; youth and education; economic development, trade and investment; energy and transport; environmental sustainability and water; combating common threats and challenges (The Council of the European Union 2012). The strategy encouraged Kazakhstan to make the necessary final steps for swift WTO accession, supporting Tajikistan in their efforts to achieve accession and work with Uzbekistan and Turkmenistan to advance their accession negotiations and applications; promoting economic diversification, inclusive growth and sustainable regional development policies addressing poverty reduction, business services and SME development; stepping up co-operation to strengthen our economic relations (The Council of the European Union 2012).

In 2015, the EU MS agreed that the main objectives and priority areas of the 2007 EU Strategy for Central Asia remain pertinent (The Council of the European Union 2015). However, in view of the growing differentiation in the region the European

External Action Service and the Commission was invited to come forward with proposals for effective implementation of the Strategy in accordance with the need for a renewed partnership with the region (The Council of the European Union 2015).

In spite of this, the process of ‘Europeanisation’ in terms of EU values 1) domestic reforms, 2) new momentum in regional cooperation, 3) international efforts to promote Euro–Asian connectivity (The Council of the European Union 2019) applying EU standards, norms and regulations is very slow in Central Asia, as the region has not been subject to neighbourhood policies and accession procedures. Therefore, the perception of Central Asia requiring liberalisation without Europeanisation was in the forefront of the EU’s strategy of 2007. In the last several years, the EU–CA process has produced somewhat mixed results and has been a disappointment in some cases. Structural policy weaknesses and different socio-economic realities in the CA countries notwithstanding, the major challenge to the successful implementation of the EU–CA approach comes from the Russian and Chinese external policies and is related to their geopolitical role in the shared neighbourhood with the European Union. Although the main objectives and priority areas of the 2007 EU Strategy for Central Asia remain pertinent until today, as this is referred in the 2015 Review, there are many opinions, including the European Parliament, stressing, that “the EU’s strategic approach adopted to date to shaping relations with Central Asian countries has demonstrated only limited viability and success” (European Parliament 2016). It was outlined, then an extensive and detailed strategy that would ideally be accompanied by an action plan and measurable benchmarks” is needed (European Parliament 2016). Furthermore, Central Asia retains the commitment of the European Union’s decision making for “the establishment of a strong, durable and stable relationship with the five Central Asian countries” (The Council of the European Union 2015).

A key vision for such Sustainable EU–CA Strategic Partnership includes an enhances regional CA cooperation that would improve the economic and security situation in the region and the need to ensure synergies, coherence and consistence between measures taken by the EU and international organisations as well as between the various EU external financing instruments deployed in the region.

European Union – Central Asia Interactions

Outlook: Development of Business Environment

For Central Asian countries, the EU remains an attractive trading partner. However, economic cooperation with Russia and China, as well as integration in regional organizations, such as the Eurasian Economic Union (EEU), the Customs Union, the Collective Security Treaty Organisation (CSTO) or the Shanghai Cooperation Organization (SCO) is still attractive for CA counties. Moreover, new technologies allow global communication and societies to grow together and improve existing socio-economic conditions for economic and business development. However, economic growth in CA accelerated slightly to from 4.7 per cent in 2017 to 4.8 per cent in 2018 contingent on continued supportive external conditions, advancement in regional integration and only moderated political uncertainty. The CA regions forecast to grow by 4.4 per cent in 2019 and 4.2 per cent in 2020 reflect a need for fiscal consolidation in the region, slower growth in the extractive sector and higher inflation limiting growth in real incomes and private consumption (EBRD 2019a).

Central Asia has exceptionally low levels of intra-regional commerce and very significant obstacles to trade. Tariff and non-tariff barriers ensure that Central Asia is less integrated than any other world region (Russell 2019). Although EU trade with CA has grown over the years, the total turnover of the EU's trade with Central Asia remains low, 16% for 2007 to 2017, far behind the 39% increase achieved by EU trade with the rest of the world during the same period. Kyrgyzstan was the best performer (+84%), but this increase was largely driven by a possibly temporary, surge in Kyrgyz gold exports to Europe. By contrast, trade with Tajikistan and Uzbekistan declined. Despite this poor performance, the EU remains Central Asia's biggest economic partner (30% of the region's total trade; direct investments worth EUR 62 billion) (European Union 2018). In addition, High Representative/Vice-President Borrell stressed the need for progress in these areas, to benefit from the Generalised Scheme of Preferences Plus (GSP+) – the EU's unilateral special incentive trade arrangement (The European Commission 2019a). These obstacles and the poor regional economic performance resulted in Central Asia's low inter-connectedness and the emergence of new economies, mobilities and integrated spaces which connect Central Asia to Europe. Also, the four objects of the trading economy – goods, service, capital

and people – exhibit a crosscutting issue of regional economic integration and/or cooperation. Promoting regional integration is the key EU foreign policy objective in the Central Asian region. The disintegration of the Soviet economy and the failure to achieve economic integration within the Central Asian region are the dominant themes of the last 30 years since gaining independence. Following the regaining of independence, a nation rebuilding process has started; institutions which allowed the nation to function were established. This involved new major political and economic transformation that had to ensure transition to democracy, the rule of law, functioning market economy and integration of these countries in international political and economic environment (EBRD 2019b).

Institutional changes in transition from a central-planned to a market economy were based on introduction of a liberal economic policy, followed the recommendations of the international financial institutions. Institutional reforms, privatization and restructuring of large enterprises in all branches of national economy, radical fiscal reform, supported by the reform of tax policy and tax administration as well as the reform of the budgetary process, have been carried out according to a “policy package” suggested by the “Washington institutions” policy (Blejer, Skreb 2002). The Central Asian countries have become very open to outside influences and governments of these countries started to invest in nation-building processes that are often separate and often mutually exclusive. So, while nation-building processes are internal matters, outside influences represent the impact of international actors.

According to the international institutions, reforms remain limited in all CA countries (ERBD 2019b), in the financial sector, banking, insurance, and capital markets, which are critical areas for investment inflows. Reforms are still needed to improve infrastructure of roads, railways and urban transport. In order to enhance long-term competitiveness, the countries need to accelerate reforms of their juridical systems and of their civil service. Other areas of reforms are corruption; support SMEs, increased spending on health care, research and education, improvements in labour skills; jobs in these countries are mainly in low-productivity occupations. These constraints are compounded by deficiencies in the higher education system, which further worsen skill mismatches. Moreover, lack of flexibility in labour market regulations, which makes it difficult for firms to hire workers, and the slow pace of workers’ relocation are all problematic. Major European and Western companies have been engaged, with limited success, in the extraction of commodities. China, however, has rapidly risen to be Central Asia’s main trading partner. New infrastructure in the form of pipelines, mainly to China, electricity networks to South Asia and communications infrastructure, including China’s “One Belt One Road” initiative,

reflect these shifts and have been a focus for policymakers (Eurasian Development Bank 2018). The SCO and its investment bank stand behind these regional integration initiatives. Russia, by contrast, has gradually lost its modern place as the main destination for Central Asian goods and commodities. Via geopolitical concessions to the Central Asian states it has sought to institutionalise its status as the main destination for their labour migrants in the emergence of the Eurasian Economic Union, out of a variety of previous cooperation projects of the 1990s and 2000s (Euroasian Development Bank 2008). Massive labour migration takes place within the post-Soviet space with Russia and increasingly Kazakhstan hosting huge numbers of migrants from Kyrgyzstan and Tajikistan – two of the three most remittance-dependent economies in the world (Euroasian Development Bank 2019). These developments suggest that a *new* ‘*regionalisation*’ is emerging, which is largely a top-down and competitive struggle between planned, political processes of creation of regions from the top (Bachtler *et al* 2019). These new regional formations are not necessarily in line with global standards advocated by the EU but often challenge the process of regionalization. Regional cooperation is considered an important instrument for promoting economic growth (Eurasian Development Bank 2019). Likewise, an increased specialisation in CA countries could generate more trade, which can provide opportunities for small and poor economies. However, as discussed above, most CA countries do not have the required number of skilled workers, local financial capacity, or ability to sustain clusters of suppliers and complementary services. In addition, economic cooperation among countries with shared borders facilitates the creation of larger markets to increase efficiencies and economies of scale by reducing barriers to trade, capital and labour mobility.

Lack of regional cooperation is a constraint for the development of growth-facilitating infrastructures. Cross-border cooperation facilitates the development of regional infrastructure networks supporting trade and permitting the efficient management of cross-border spillover.

Increased regional economic cooperation should also allow, for example, CA countries to support growth through enhanced energy and water security and possibly to enable progress on long-standing conflicts and tensions. However, while the countries of the region have made progress in integrating with the rest of the world, intra-regional trade has yet to expand. Globalisation, however, is evident in Central Asia and is represented by the movement of capital and services. In terms of finance and services, Central Asia is becoming increasingly denationalised and globalised. Central Asian countries have set up majority-owned state companies in the EU and overseas territories, such as Tajikistan’s aluminium company in the

British Virgin Islands (CIS Arbitration Forum 2018). In services – legal, financial, real estate, education, the EU plays a major role for Central Asia. For example, Courts in Sweden, UK and France provide extraterritorial jurisdictions for the arbitration of disputes. Real Estate agents in the EU countries do a great deal of business with Central Asia elites wishing to invest, or launder, their capital in the West, which enable deep and growing interconnections between the EU and CA. In turn, they raise business opportunities and influence development of business environment. Nevertheless, a great deal of attention by the EU and international organisations experts has been devoted to corruption, capital out-flows and money laundering on a global scale (ERBD 2019). Anti-money laundering regulations are weak or not properly enforced. Currently EU relations relating to Central Asia are different than they were in 2007, and it was one of the main reasons why the EU and its Member States made a decision to have a fresh look at its relations with its Central Asian partners. The above considerations explained that the EU's Strategy for Central Asia was revised and updated in June 2019 by harmonising the EU policy with new challenges and opportunities in the Central Asian region. The new strategy aims at promoting welfare prosperity, and regional cooperation in Central Asia. The Strategy underscores the role of economic development, the conclusion and implementation of Enhanced Partnership and Cooperation Agreements, which include comprehensive provisions on trade, and the effective use of other existing trade instruments, such as the Generalised System of Preferences. These measures should increase trade and investment flows between the EU and Central Asian countries (CEPS 2019). The promotion of an open, sound, secure and attractive climate for business and investment in Central Asia, particularly through business-to-business dialogue, is important. The new Strategy similarly stresses the importance of developing services further and of modernising infrastructures (The Council of the European Union 2019).

Today, achieving inclusive and sustainable growth remains one of the main challenges for Central Asia. The national reform agendas of Central Asian government should better support policies that improve the business environment and transparency, guarantee equal access to public services; enhance governance and institutional quality. Despite the progress achieved, further reforms are needed to support modernization of public infrastructure networks, notably in energy sector, in order to reinvigorate trade and private investment which would contribute to the diversification of sources of growth. Importance of open markets to foreign investments, good business and investment climate, as well as transparency,

predictability and proportionality in economic policies, to diversify the economy and increase foreign direct investments and competitiveness cannot be overstated. In this regard the EU should send an encouraging message to all countries in the region by inviting them to work closer to facilitate political contacts and create economic and trade links in the region and with neighbouring countries. Sustainable and inclusive growth remains a challenge for most of Central Asian countries.

Digital Economy and Digital Innovation

The trend of digitalisation is transforming both manufacturing and service industries. Societies in the EU and outside of it, at the same time, face tremendous opportunities and challenges. On the positive side, Europe's tech sector is booming. Many parts of the EU lead the world in e-government and in using digital technology to update public services. Even traditional European industries, from cars to coal, are increasing their digital investment. On the negative side, there are high regulatory hurdles when scaling up to reach global markets. Far too few funds are pouring into high-speed web markets. European content industries are suffering and need to find a substantial way of recreating their business models. European policy makers must avoid imposing too many regulations causing fragmentation in the digital sector. More broadly, the EU should emphasise the role of openness and collaboration by providing open access to the results of publicly funded research, promoting open science, engaging more transparently with citizens and endorsing open innovation models to tackle societal challenge and achieve its long-term goals. Although the EC promised to create a Single Digital Market as one of the Commission's priorities, estimating that it could boost the EU's economy by EUR 415 billion annually (The European Commission 2019).

The 2019 EU Strategy towards CA countries will provide political guidance for programming new assistance initiatives for Central Asia, thus complementing EU's political messaging with practical support. One of the new Strategy's novelty is cooperation in the digital economy, with a focus on promoting access to affordable, open and secure broadband connectivity and to digital infrastructure, including adopting the necessary regulatory reforms; supporting the development and maintenance of high capacity research and education networks; promoting digital literacy and skills; fostering digital entrepreneurship and job creation; and developing

areas such as e-Government and e-Education. Additionally, it ought to provide applications for energy and telecommunication networks (The European Commission 2019a). The development of Central Asian economies in the era of digitalisation is an opportunity for economic growth to accelerate transparency. In its relations with Asian countries, the EU promotes a peaceful, secure and open ICT environment, while addressing cybersecurity threats and protecting human rights and freedoms online, including personal data protection. The Commission has proposed to promote digital connectivity with Asian and other countries through the Connecting Europe Facility for the period of 2021–2027 (The European Commission 2019b).

A coherent regulatory approach is needed to support private and public investment in the ‘digital’ infrastructure as well as policies and incentives to bridge the digital divide, particularly in inaccessible regions. One of the means to solve the above problems is the plan by the EU to test the Digital40Development strategy in Asia (Joint Communication 2018) to promote digital technologies to facilitate socio-economic development.

Then again, an important issue is the need to promote regulatory systems and optimal conditions in relations to the Digital Single Market and business environment. Notwithstanding certain achievements, further regulations are required for the labour market, social dialogue and social investment relevant to digital platform economy. Further digital development is the precondition necessary to diminish regional and wellbeing divide between the EU and its Member States and regions cooperating with the EU, such as CA region. It is particularly important to increase competitiveness of the EU as a whole and to support social and economic prosperity in the region of Central Asia.

Social Dynamics: Research and Education

Strengthening the collaboration between the EU and CA is particularly relevant for trade and investment, the traditional cooperation areas. The creation of scientific knowledge, and its use in technology and economic and societal development, has become increasingly global and multipolar, which draws attention to the limited research on understanding of Central Asian economic development in the EU. The engagement of academics, civil society, businesses and policymakers on a larger scale in the EU is required to understand this issue. There are core reforms foreseen and

implemented in CA that could have resulted from the cooperation agreements with the EU and its Member States. These agreements are foreseen in a number of key areas besides trade. They focus on economic recovery and growth issues, consumer protection and vital sectors of national economies such as energy, transport, environmental protection and industrial development.

The reforms are required to improve public governance, justice, law enforcement, social development and protection. The cooperation of the EU with CA countries is the prelude for the development of a deeper dimension in international relations, both for the EU and the countries concerned, with significant implications. The need to increase the knowledge and understanding of the EU among the population and, in particular, the youth is essential not only in the EU Member States, but also it should be a high priority for the European Institutions and those interested in the European Union in CA countries.

Reflection on how to articulate the differing interests of EU members in the region with the Union's principles and orientations is a task for the academic and research communities in the EU. New connections will have to be proposed between unchanged priorities such as the defence of human rights, good governance, socio-economic development, the development of open trade and of freedom of investment, strengthening of transport links and environmental sustainability.

It is necessary that European academic and research communities address, in a coherent and systematic way, the strategic importance of Central Asia for the EU in relation to its political, economic and social interests in the years to come. There is substantial room for European research centres and think-tanks to better explain Central Asia, which is crucial in relation to youth, that is affected by political changes and tends to accelerate socioeconomic and environmental changes. Central Asian countries will be influenced by rising powers in Asia during the next decade and it is becoming essential to see what role youth will have to play in these societies and how political elites will influence the development of human capital in Central Asian societies.

Conclusions

It is well-known that EU integration is progressing in small steps rather than big leaps. We must remember what we have achieved in Europe as the result of the

integration of the Union, but we must also look into the future, and offer policies which are relevant today, and will remain relevant tomorrow in these uncertain times.

European Union relations with countries in geo-politically important regions offer many substantial benefits to both sides. For these to become reality, the EU should improve and reconsider the way it approaches its regional partners. The relationship between the European Union and Asia is of global significance and the ties are likely to increase in the coming years. In the relations of the EU with the CA countries the following pillars should be considered: political, economic and this relating to civil society. The economic pillar will be effective if there exists support from the civil society and therefore there is a need to understand what the EU is and what are the benefits provided by the cooperation with the EU.

The content of studies of the EU must be regularly adapted to these constantly changing realities. The EU benefits from the cooperation with the region of CA, as this region has inevitably become more important due to its geo-political realities, new political powers in Asia and the emergence of Eurasian Economic Union as an ambitious regional grouping.

The European Union support requires some conditionality and the need for an increase of economic efficiency and productivity in the region as a precondition for the prosperity and security of countries and of the regions. Close cooperation with the EU market requires continued implementation of the reforms that assure macroeconomic stability and support the countries of the region in becoming strong emerging economies. These reforms should be supported by the civil society. Bringing the economies of the CA up to par with the economies of the EU Member States is a major task, which shows that the experience of recognising and implementing EU standards is a benchmarking process.

The EU's soft power also requires the development and support of civil society in the region; the role of civil society is essential. If political elites show reluctance to political and economic reforms, the door and the dialogue with civil society, students, academics, businesses must be kept open and enhanced.

The EU must engage its neighbouring region as an equal partner to affect positive change in their own neighbourhood. If the EU cannot demonstrate this commitment it cannot ever be viewed as a world power, demonstrating the limitations of the EU's soft power in the Asia, which is important for the future of EU foreign policy.

The experts in political economy of regional integration already involved in European Union research should be encouraged to become interested in the CA

region in relation to issues pertinent to their specialisations. Such an approach should be progressively extended to other countries with which the EU builds similar cooperation in the future.

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