

# FACING THE CHALLENGES IN THE EUROPEAN UNION



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# FACING THE CHALLENGES IN THE EUROPEAN UNION

Re-thinking EU Education and Research  
for Smart and Inclusive Growth (EuInteg)

POLISH EUROPEAN COMMUNITY STUDIES ASSOCIATION  
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## PREFACE

The European Union is currently facing a number of challenges in the economic, political and social sphere. Their accumulation and strategic nature make the current situation unprecedented in the history of the EU. In addition, the dynamically changing balance of power in the world and the global economic and social challenges – including the processes recently taking place outside of the EU – require the Member States to employ several new measures. Echoes of the economic crisis and the prolonged wait for economic recovery cause new phenomena to emerge – such as growing anti-European sentiments or the crisis of internal solidarity. What is more, the changing situation highlights the growing structural problems in the economic and social dimension.

In the face of the challenges before the EU, European studies have become particularly significant in the shaping of a new civilisation image of Europe. It should be emphasised that scientific knowledge of the processes currently taking place in the Union itself as well as in its vicinity is crucial not only to the understanding of their importance in the theoretical perspective, but also to the practical apprehension of the wide spectrum of activities of this organisation. The knowledge of these processes will, on the one hand, allow to formulate long-term strategies and implement sectoral policies that will strengthen the position of the EU and its Member States in the world. On the other hand, it will make it easier for the EU citizens to accept the changes being introduced and to better understand the processes taking place around them.

The questions about the future of European studies and the ability to cope with the major challenges that the EU is facing are answered on following pages by representatives of the world of science, business practice and politics who attended the international scientific conference organised by the Polish European Community Studies Association (PECSA), entitled “Facing the Challenges in the European Union. Re-thinking EU Education and Research for Smart and Inclusive Growth (EuInteg)” (which took place on 14–15<sup>th</sup> May 2015 at Warsaw School of Economics), as well as many other recognised experts in the fields of European studies, economics, sociology and political science. The aim of the conference was to discuss the conditions for smart and inclusive economic and social development of the EU, with special emphasis on the role of science, research and education in its achievement through the prism of the Polish experience with multidimensional transformation of the economic, social and political systems.

The EU participates in international relations of global reach. Over the years, its role in the world has been systematically increasing alongside the deepening integration processes in Europe. With the changes introduced by the Lisbon Treaty regarding external affairs, the EU has indicated that it wishes to play an increasing role in the international environment, both in the political and economic spheres. The EU has strengthened its position as one of the main architects of global economic governance while promoting the values on which it was founded. However, it should be noted that, in the face of numerous global challenges, sustainable and inclusive development will require the continuation of economic, political and social cooperation of the EU with major actors in international relations, that is, among others, the USA, China and Latin American countries. To this end, the EU should intensify the efforts to maintain and deepen the political and economic relations with its partners, so that they can become a stable and solid pillar of economic growth. The EU has been strengthening ties with new neighbouring countries, thus not only contributing to the raising of its own prestige in the international arena, but also creating an opportunity for developing brand new political, social and economic relations with its immediate environment. These relations evidence the effectiveness of the external policy of the Union.

The EU's actions focus heavily on ensuring economic and social cohesion across all its regions. In order to do away with regional disparities within the Union, the cohesion policy is being implemented. The main objective of this policy is to ensure sustainable and balanced growth, as well as to increase the competitiveness of all EU regions and the EU as a whole. Successive enlargements of the Union have changed the nature of the challenges the cohesion policy is facing and made them more difficult to cope with. The enlargements led not only to an increase in the number of regions at a low level of development, but they also brought on more territorial diversity of the EU. Therefore, the current situation requires a new approach and a new set of instruments. The cohesion policy should also support the development of a knowledge- and innovation-based economy. The new approach to cohesion policy emphasises the role of cities as major centres of creativity and innovation which could take a leading role in the strive for smart growth. It is also to be supported by the introduction of smart specialisation in the EU regions, which is to contribute to the transformation of the economies of individual Member States through their modernisation, structural transformations, diversification of products and services, and creating innovative socio-economic solutions.

For many years now, the EU has been trying to mitigate the effects of the financial crisis of 2007–2009 and to prevent similar crises in the future. Thus, an important group of problems consists of challenges concerning the European financial safety

net and the stability of the European banking system and the euro zone. The financial crisis also brought on many challenges for the EU economy, including in the field of trade policy and competition policy. The competition policy plays a crucial role in the EU in achieving the objectives of economic integration of its Member States. It is a natural consequence of the principles of free trade within the European single market. Competition is an effective measure guaranteeing a certain level of excellence in terms of quality and price of products and services to all consumers in EU Member States. It strengthens the industrial and commercial structure of the European Union, which in effect allows to confront the competitiveness of our main partners.

For several years now, EU innovation indicators have shown lower growth dynamics than, for example, innovation indicators of Asian countries. It is a sign that the broader innovation system of the EU and its Member States (which includes, among others, research institutions, businesses and government institutions that affect the development of new technologies and R&D) is becoming less efficient and requires reforms that could guarantee a real conversion of EU economy to one of innovation-based competitiveness.

Significant EU challenges also arise from the dynamic demographic changes occurring across the Union and its Member States. On the one hand, it should deal with the aging population and hence the need to modify the social security systems. On the other hand, within its activities, the EU must take greater account of the unprecedented influx of people from regions affected by armed conflicts, mainly from Africa and Asia. One of the future tasks of the European Union is to increase the engagement outside its territory and to strengthen the cooperation with its global partners. Therefore, the EU should address the issues of root causes of migration and promote legal ways of migration that foster the spreading of economic growth and development both in the countries of origin and in the destination countries. This is not only important for the security of the EU, but also for its citizens who in the newly introduced “European Agenda on Migration” may see a chance for a balanced migration policy in the long term.

It is worth noting that the fundamental role in the development of society and improvement of prosperity and competitiveness of states and regions is attributed to education. In the light of the new challenges of the modern world, new goals – such as mobility, ability to change one’s qualifications at all stages of life and stimulating creativity – are being set for education. This is apparent in the new priorities for education specified in the Europe 2020 Strategy, which are, among others: implementing the concept of lifelong learning and mobility, promoting equality, social cohesion and active citizenship, as well as enhancing creativity and innovation, including entrepreneurship, at all levels of education and training. Therefore, education

is supposed to better correspond to current economic and social challenges of the EU and its Member States.

This publication contains studies on issues that nowadays are the biggest challenges for the EU and its Member States. They reflect the lines of research conducted within the framework of European studies and studies in economics and social sciences regarding issues related to the activities of the EU. This publication consists of seven parts.

The first part, entitled “Understanding the European Union – the Main Challenges for the Coming Years”, provides reflections on the major challenges that the EU will have to face in the nearest future. Eminent representatives of the Polish world of science and politics have shared their views on the matter. Those representatives being: prof. Lena Kolarska-Bobińska, Ph.D. – the current Minister of Science and Higher Education, Jan Truszczyński – the former Director General for Education and Culture of the European Commission, prof. Danuta Hübner, Ph.D. – the former Minister for European Affairs, Poland’s first-ever European Commissioner, and prof. Ewa Latoszek, Ph.D. – head of the Jean Monnet Chair of the European Union at Warsaw School of Economics.

The second part, entitled “European Union as a Global Actor in a Changing World”, discusses the place of the European Union in the rapidly changing global economy. Articles in this section concern both the assessment of the hitherto pursued foreign policy of the EU and the possible perspectives for further cooperation with countries such as the states of the former Eastern bloc, Turkey, China, India and countries of Sub-Saharan Africa.

The highly important issue of integrated development of individual regions is the focus of part three of the publication – “Regional Development for Economic and Social Cohesion in the European Union”. This part provides reflections on, among others, the role of the state in creating regional policies, the hitherto achievements of the EU’s cohesion policy and the role of other policies (for example the policy on energy or fisheries policy) for the cohesion policy and the economic growth resulting from it.

Part four, “Towards Better Finance Governance in the EU”, focuses on a particularly important matter given the EU’s experiences in recent years – that is the supervision of financial systems. The importance of this issue was clearly highlighted by the 2008+ crisis, which significantly changed the way the financial and real spheres of the economy are perceived. The focal points of the texts in this section are topics such as financial stability, supervision of financial institutions, common currency – the euro, and the reform of the EU budget.

Part five, entitled “Shaping and Unfolding Innovation in the UE”, is dedicated to innovation – an essential element for continued growth of developed economies of the West. The articles raise important issues of the EU innovation policy, the role of innovation in international relations and the impact of foreign direct investment on

the development of innovation. Additionally, Polish achievements in innovation – illustrated by the example of the airline industry – have been presented.

Demographic changes are the focus of part six: “Demographic Changes in the EU – Questions for the Future”. The matter in question is important both in the context of the consequences of long-term population projections for Europe, as well as in the context of a serious migration crisis that is already being called a “refugee crisis”. What is more, much attention was devoted to the current issues of population policy, with particular emphasis on its family-oriented dimension.

The final part, entitled “Education and Research as Main Drivers of the EU’s Sustainable Growth”, focuses on the role of education and scientific research in the economic development of EU countries. Particularly noteworthy is the issue of access to education as a determinant of innovativeness of the economy and the quality of life of the society, addressed in this section. Additionally, the authors reflected on the current challenges facing the educational systems of European countries.

Poland’s accession to the European Union crowned the important historical stage that was the multidimensional systemic transformation. This is why the publication closes with a text entitled “Systemic Transformation in Poland – 25 years later”. This text is a historical analysis of the Polish political and economic transformation and the opportunities offered by the Polish experience to countries aspiring to EU membership. In addition, it also presents the main results of a survey conducted among the participants of the EuInteg conference in which they were asked to assess various aspects of the Polish transformation.

The structure of the publication and the approach to the discussed topics were presented in such a way as to give the reader a broad overview of issues regarding the most important areas of EU activities. Bearing full responsibility for the way the problems were presented, we would like to express our gratitude to all those institutions and individuals who contributed to the publishing of this work – both in the form of financial support and in the form of expertise and knowledge. In particular, we wish to thank the European Commission and the Ministry of Foreign Affairs for the great trust they bestowed in us and the financial support that allowed to organise the conference „Facing the Challenges in the European Union. Re-thinking EU Education and Research for Smart and Inclusive Growth (EuInteg)”. However, the realisation of that objective would not have been possible without the invaluable cooperation of the Organizing Committee with the co-organisers and partners of the event, among which with great gratitude we mention: the University of Warsaw (in particular the Centre for Europe and the Institute of International Relations), the Gdańsk University’s Research Centre on European Integration, the worldwide network of the European Community Study Association (ECSA-World), the European Academy of Diplomacy

(EAD) and the Konrad Adenauer Foundation (KAS). Among the co-organisers a special role was played by Warsaw School of Economics (SGH), which was the scene of fruitful discussions during the conference held on 14–15<sup>th</sup> May 2015. Without the support of prof. Tomasz Szapiro, Ph.D., Rector of the Warsaw School of Economics and prof. Joachim Osiński, Ph.D., Dean of the Collegium of Socio-Economics of SGH, the organisation of the event would not have been possible. As the School authorities provided the needed organisational facilities, it became possible to invite distinguished and eminent guests inside the walls of Warsaw School of Economics.

Neither the conference nor this publication – even with the great contribution of the co-organisers, partners and the support of the Warsaw School of Economics – would have been possible without the participation of wonderful guests and their invaluable contribution of expertise and knowledge. It is impossible to name here all the people who graced the event with their presence and shared their vast knowledge and experience with other participants. However, among the many participants, we would like to especially mention the following contributors: prof. Ewa Latoszek, Ph.D., prof. Lena Kolarska-Bobińska, Ph.D., prof. Enrique Banus, prof. Danuta Hübner, Ph.D., Janusz Lewandowski, Ph.D., prof. Willem Molle, prof. Jacques Pelkmans and Jacek Saryusz-Wolski, Ph.D. Special thanks are also due to Angelika Chomicka and Krzysztof Pietraszkiewicz, President of the Polish Bank Association, for their invaluable support in preparing the conference. Closing this long – but still not exhaustive – list of acknowledgements, we express great gratitude to the European Parliament (high patronage), the European Commission Representation in Poland (honorary patronage), the Ministry of Science and Higher Education, the National Centre for Research and Development, the Ministry of Economy and the Ministry of Infrastructure and Development, as well as the Polish Bank Association and the Association of Top 500 Innovators for their support through taking patronage over the conference.

Thanks to the great commitment of mentioned individuals and the institutions they represent, we can now place in the hands of the Readers a publication that is the result of research and discussions that occurred at the conference. We hope that the articles within it will – on the one hand – inspire the Authors to further pursue their research in the field of European Studies and to seek solutions to the growing challenges facing the European Union, while – on the other hand – encouraging the Readers to explore the issues related to those challenges.

*Ewa Latoszek, Magdalena Proczek, Agnieszka Klos, Marta Pachocka, Ewa Osuch-Rak*



**Part I. Understanding the European Union**  
**– the Main Challenges for the Coming Years**



*Lena Kolarska-Bobińska\**

## **EDUCATION, INNOVATION AND GROWTH. THE OPERATION OF PECSA IN THE FACE OF CONTEMPORARY CHALLENGES IN THE EUROPEAN UNION (EUINTG)**

Your Magnificence, Dear Ms. President, Ladies and Gentlemen,  
Thank you very much for inviting me to this conference. I am happy to be able to participate in it. We will be discussing topics that are very important to us, topics concerning new social, economic and political challenges which stand before the European Union today. This conference is also an opportunity to share the Polish experience from a period of economic and constitutional transformation. Most importantly, this is an opportunity to further develop international, scientific and academic cooperation.

This conference takes place during the silver jubilee of the operation of PECSA, the Polish European Community Studies Association. Please accept my best wishes on the anniversary.

Since the beginning of its activities PECSA has set its sights on promoting research concerning the European Union, developing education and subjects concerning European matters, as well as on the international cooperation of scientists and universities which address these issues.

An important goal of PECSA is to conduct research and analysis concerning the processes that take place in Europe and to give information about these processes to policymakers, and also to the society.

The goals that PECSA sets for itself are timely and important from the point of view of the development of Polish science and higher education. European academies and science institutions are both very strongly connected with the changes that are occurring in society and the economy. The European Union, so also Poland, must today confront important social, economic and political challenges. The necessity for changes is being driven by population decline, unemployment among young people, global competition for research funds, technological advances and migration.

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\* Minister of Science and Higher Education in Poland.

We, as an academic community, must bring analysis and information to policymakers on how to respond to those challenges and also how to forestall them, warn others about them and how to seek solutions. We should integrate scholars who work in this subject matter. These tasks are of special importance when faced with not only challenges, but also dangers and concerns, e.g. the threats of leaving the European Union by some countries.

Science and higher education must strive for excellence in research and care for the quality of education because that serves the development of society and economy well. Today the biggest research programmes are oriented towards responding to great social challenges. The results of scientific research – from various fields of science – may bring solutions to many problems that Europe is engulfed in. It is science that can help us fight environmental pollution and diseases of affluence. It is science that can lead us towards finding new, more effective ways of managing institutions.

Science and higher education will not develop in isolation. Innovation and education are in need of variety and we have to look at problems through the experience coming from growing up in different cultures. That is why promoting the idea of cooperation – which constantly presents itself in the activities of PECSA – is very important.

Making academies widely open to the world and making them cooperate with foreign scientific institutions, universities and scientists is one of the strategic goals of the Ministry of Science and Higher Education. We understand internationalization as the exchange of students and scientists – for example through the Erasmus Plus program. That also means attracting foreign students and scientists to learning and working in Polish academies. That also means the participation of Polish researchers in international programmes such as Horizon 2020.

Engaging in European programmes is a great chance for Polish scientists to increase the quality of the research that is being conducted in the country. Thanks to competitions like „Teaming for Excellence”, „Twinning” and ERA Chairs, Polish universities and institutes have the opportunity to cooperate with the best foreign institutions. In those competitions, we are more and more successful.

I hope that also the contacts made by scientists within PECSA will lead to higher attendance of Polish entities at Horizon 2020 and to cooperative execution of international research projects.

I am happy to see that during this conference young scientists will be debating the role of education as public welfare in the process of building an open, engaged and innovative community. Today, we have to consider education as a continuous process – from kindergarten through to college. Science and higher education must shape wise, open-minded citizens who are aware of their role in society and ready to face the day.

I wish you fruitful discussions during the conference. Thank you for your attention.

## **CAN TEACHING OF EUROPEAN INTEGRATION HELP EUROPE?**

Can teaching of European integration help Europe? Let me first address another, bigger question: does Europe need help? There is one issue here that I find to be central. Its paramount importance justifies, I would hope, the slightly uni-dimensional nature of the arguments I shall now try to present.

Over the last seven years we have been diagnosing ourselves on countless occasions. I am sure everyone in this room can quote from memory dozens of views on what is wrong with Europe. Personally, I liked quite much the sober, no-nonsense opinion which came two months ago from Saša Vondra, a former dissident and a well-known Czech politician. Here's what he said:

‘The future of Europe does not look rosy. The South is turning red, the North goes brown, the debate in France is focusing on the islamists, and the British consider leaving. The Russians keep pushing at the door, and many Czechs are actually welcoming this. As to the Americans, they just keep looking. At the same time, the agents of change on Europe's political map – starting with Tsipras and Iglesias, and ending with Putin, Le Pen and the mullahs in European mosques – are authentic and come out to promote and strengthen their truth. Now compare them with those who defend the liberal democratic order – their defensive game is about as attractive, as the famous catenaccio in Italian football’.

I think Vondra is right. Formally, the roots of liberal democracy remain in place. Emotionally, this model of societal organisation is in retreat. This is compounded by the crisis of trust, the evidence of which is visible throughout Europe, with yet another convincing demonstration offered by last Sunday's first round of presidential elections in Poland. Voters are disenchanted with politics, losing faith in the capability of the leaders to grasp the developments around them, let alone to find responses and to manage change.

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This nagging at the roots of liberal democracy is very dangerous for the European construction. Basically, the equations here seem quite simple. There will be much less Europe, or no Europe at all, if our societies should move towards less respect for human dignity, weaker rule of law, less tolerance, equality and solidarity, and disregard for the concerns and rights of the minorities from the ruling majorities.

Hence, if we want the European Union not to just survive – whatever the practical meaning of this – but to remain useful, even indispensable to our societies, we have to deploy bigger and better concerted efforts in teaching and promoting the basic values on which the European democracies are built.

While we are now perhaps less of a magnet and role model for Europe's neighbourhood and for countries farther afield, our power of attraction has not vanished. Many would agree with Heinrich August Winkler, who in his seminal 'History of the West' convincingly shows how European ideas remain a key reference worldwide. However, Winkler also argues that in order to continue our relevance as standard-setters, we need to develop and further deepen our ideas on the relationship between the individual and the society, the individual and the state. This kind of thing cannot be grown in an ivory tower. It can only emerge through patient work at the grassroots in all corners of Europe.

Those who deal with foresight and try to identify trends likely to shape Europe's future long-term, do believe that one of our key challenges for the coming years is to restore trust in democracy. There are no ready replies to the question how, but suggestions on where to look for them are quite plentiful. And so, many propose to implement models of participative democracy. Others plead for new forms of representation and direct consultation, including at the European level. A better regular use of new technologies is yet another obvious recipe.

So, let us not shy away from sharing with the young people of Europe the basic values that made our joint success possible. Let us consider how the teaching of these values can become a stronger key part of civic education of every young person, be it in the elementary school, be it at a summer camp, be it as part of community projects developed by civil society organisations. Let us be firm on values – they must remain our moral and political backbone – but let us at the same time stimulate creativity and innovation needed to modernise political structures and political processes in Europe. And it would be ideal if we were also able to add a specific European component to all this work – showing how our shared European machinery can be used to better deal with the challenges of the coming decades: a meaningful employment and a meaningful life for young Europeans, accommodating the immigration, looking after our security, winning partners on other continents for effective multilateralism. And so on.

Are we equipped to do what needs to be done? I'm afraid we aren't. Much too little is done on sharing and exchanging the best practice in civic education. The same goes for issues of European integration as a component of that education. It is five years ago, during the Hungarian presidency of the Council, that the EU Ministers of Education last looked at civic questions in compulsory education. The Eurydice report on these issues, released in 2012, only confirmed the deep diversity of EU Member State approaches and solutions. Nothing wrong with diversity, but Member States simply do not do enough, do not learn much from each other, do not recognise the importance and urgency of teaching, early on, the basic civic skills and instincts.

Now, looking back at my years in the European Commission, I must say that we, too, have not been doing enough. Instead of pushing the Member States to work together more in a more frequent rhythm, we have been hiding behind the safe excuse that the content of the curricula and the organisation of teaching remain an exclusive national competence. Part of the reason was, of course, that if Brussels goes into active mood it is very easy to accuse Brussels of poking its nose where it shouldn't, of pursuing a hidden federalist agenda, and so on. Indeed, a proactive approach can at times turn out to be quite counterproductive. And yet, with the benefit of a hindsight I say that we could and should have done more.

However, it is realistic to assume Brussels will prefer not to play the first fiddle on all this. And, under such a scenario, others must be more active. Who are those 'others'? Well, in every Member State we have, for instance, a division of the European Movement; many of these slightly dormant, but should they not all be kick-started into action, with a new sense of purpose? Among other obvious actors are political foundations, human rights organisations, the civic fora for the training of young activists. And, last but not least, it can also be our transnational community of specialists in the field of European integration.

The tools for our targeted action are already there. As you know, under the present Jean Monnet Actions we 'aim at an increased interest in understanding the EU and in participating in the EU, leading to a more active citizenship'. And to get us all there, the Commission wants to support the organisation of dissemination activities 'geared to the general public and adapted to it'. These activities, events if you like, should be primarily done in co-operation with schools and the organised civil society. So, ladies and gentlemen, let me use this opportunity to appeal for the broadest possible use of Jean Monnet Actions in the promotion of the roots and principles of liberal democracy, on which the entire house of the European integration has been built.





Danuta Hübner

## UNDERSTANDING EUROPE – THE BIGGEST CHALLENGES OF THESE DAYS

### Abstract

*Europe is slowly starting to emerge from troubled waters, but five years of crisis have left a mark on the Continent. The growth remains sluggish, deflation remains a risk and unconventional monetary policy has had to be implemented. Faced with these facts, we may be tempted to feel disappointed with the European project. However, we should remember that we have come a long way since the start of the crisis. This paper aims to document the major reforms implemented on the financial services and economic governance fronts, as well as the observed austerity episode. It then goes on to consider three challenges going forwards, namely democratic legitimacy, the euro/non-euro divide and growth.*

**Keywords:** European Union, EMU, growth, financial regulation, investment

### Introduction

Over the last year, we have witnessed a number of momentous developments. Europe has returned to growth, although growth rates remain modest, following years of crisis. Unfortunately, many dark clouds still loom on the horizon. They include the lack of investment and slow and potentially faltering structural reforms. Moreover, over the past year, the European elections were held, dominated by an unprecedented wave of Eurosceptic sentiment. This has in turn cast doubts about the legitimacy of the European project.

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To understand where we stand today and what challenges we will have to face, it is certainly worthwhile to look at how strikingly different the Union has become compared to its pre-crisis times. The first part of the paper will provide a brief overview of what has been achieved and where we stand today. It will in particular examine the reforms conducted both in the area of financial regulation and in the field of EU economic governance more generally.

The second part will look at current challenges. It will in particular focus on three issues: democratic legitimacy, the euro/non-euro divide and the investment crisis.

## **Responses to the Crisis: the 2009–2014 Reforms**

We did not foresee the crisis and could not prevent it. However, we responded to the economic turmoil through a multi-fold approach, commensurate with the multidimensional nature of the crisis. The reforms triggered by the crisis are unprecedented and not too long ago, many of them were unthinkable.

The changes triggered by the crisis took place in two major areas: financial regulation and economic governance.

The first type of shortcomings that were addressed concerned the financial sector. When confronted with a financial crisis of large magnitude, which spread rather quickly within the European borders, it became evident that a framework for crisis prevention and management was sorely missing in the EU. A series of reforms were therefore initiated in order to fill the gaps and address the challenges revealed by the crisis, with the ultimate view of eliminating, to the greatest possible extent, the risk of financial crises happening again.

We have therefore, following the recommendations of the De Larosière (De Larosière 2009) report, reformed the architecture for macro- and microprudential supervision in the Union. On the macroprudential side, a European Systemic Risk Board was established in 2010 and tasked with overseeing the EU's financial system and tackling systemic risk (Regulation 1092/2010, 2010). At the same time, on the micro-prudential side, weak supervisory Committees were replaced by three supervisory authorities with greater power (Regulations 1093/2010, 1094/2010 and 1095/2010, 2010).

We have also begun regulating a number of specific areas. To mention only the main examples, we started to regulate hedge funds (Alternative Investment Fund Managers Directive, 2011/61/EC, 2011) and credit derivatives (European Market

Infrastructure Regulation, 648/2012, 2012), as well as amended the regulatory framework for insurance undertakings (Solvency II Directive, 2009/138/EC, 2009).

Later on and more fundamentally, we built the foundations of the European Banking Union. We elaborated on a single rulebook for European credit institutions, carefully watching over solvency and liquidity concerns. A Single Supervisory Mechanism (SSM) started to operate in November 2014. A Single Resolution Mechanism (SRM) is gradually being constructed, with a Single Resolution Board, whose members were appointed in December 2014, and a Single Resolution Fund to be progressively implemented.

This is an impressive result, which shows that we have come a long way. Nevertheless, some challenges still lie ahead of us, mostly related to the regulation of the shadow banking sector and to the measures to be taken to promote investment and growth in the EU.

The crisis has revealed more deep-rooted flaws in the design of the Economic and Monetary Union (EMU). The experience of the crisis revealed that the architecture of the EMU was not only incomplete, but also laxly implemented. This situation called for radical reforms of the economic governance of the Union, which were undertaken with a primary focus on the euro zone.

The pre-crisis EMU design was based on the 1992 Maastricht Treaty and on the Stability and Growth Pact (SGP), which consisted of two Council regulations adopted in 1997 (regulation 1466/97 and 1467/97) (1997). The SGP aimed to provide a rule-based framework for the coordination of national fiscal policies in the EMU by requiring budgetary positions to be “close to balance or in surplus”, as well as by establishing an Excessive Deficit Procedure (EDP), which would be triggered once a Member State reached a deficit-to-GDP ratio higher than 3%.

However, after the creation of a single currency in 1999, the SGP proved to be insufficient.

The main problems are posed by the difficulties in the enforceability of the SGP, and consequently its limited credibility. This became evident when, in 2003, France and Germany blocked the procedure which would have brought them closer to the imposition of the sanctions under the EDP. This episode demonstrated that it was possible for Member States in breach of their obligations to escape the sanctions incurred under the SGP. After this episode, the Pact was also amended and several of its provisions relaxed, thereby further weakening its firepower.

Moreover, managing macroeconomic imbalances was outside the remit of the SGP.

As a result, the Pact failed to keep in place sound public finances and could not address the growing divergences in competitiveness between Northern and Southern Europe.

The path to reform was far from smooth as opinions differed widely on the direction that the reforms should and would take. The scope of the measures adopted and the extent to which they would interfere with issues of national sovereignty were of particular concern, bringing into the spotlight the difficult issues of democratic legitimacy.

In 2011, in line with the SGP principles, the policymakers launched the European Semester process, a six-month economic policy coordination cycle between national governments and national authorities, lasting from January to July each year. Under that process, national governments are obliged to submit their Stability and Convergence Programmes to the EU authorities prior to discussion by national Parliaments. A series of discussions between the Member States and the European level follow, whereby national governments declare the economic policy actions they plan to undertake, and then receive country-specific recommendations from the Commission. The advice received plays an important part in the drafting of national budgets.

Also building on the SGP, the six-pack (2011), consisting of five regulations (Regulations 1173/2011, 1174/2011, 1175/2011, 1176/2011 and 1177/2011) and a Directive (Directive 2011/85/EU) adopted in 2011, further strengthened the SGP in a number of ways. It reinforced the excessive deficit procedure by making it applicable when the debt limit is exceeded, quantitatively defined what constitutes a “significant deviation” from the medium-term objective or from the adjustment path towards it, made the imposing of sanctions more automatic and introduced a procedure to detect and address macroeconomic imbalances.

The Treaty on Stability, Coordination and Governance in the Monetary Union (known as the TSCG or the “fiscal compact”) (2012), signed in 2012, reinforced the six-pack, demanding that contractual parties stuck to their convergence towards the country-specific medium-term objectives, as defined in the SGP.

Policymakers also introduced the two-pack (2013), a duo of regulations (Regulation 472/2013 and 473/2013) targeted at the euro zone only, which dealt with strengthening budgetary surveillance in good economic times and included specific provisions for countries faced with economic difficulties.

On the occasion of the December 2014 Ecofin Council, the European Commission presented a Communication (European Commission 2014) assessing the reforms undertaken in the area of EU economic governance and the subsequent discussions hinted at the willingness of EU ministers to drive further the integration of the EMU. In February 2015, an analytical note was issued by the presidents of the Commission, the European Council, the ECB and the Eurogroup (Juncker, Tusk, Dijsselbloem and Draghi 2015), in which the presidents made a list of crucial questions to be addressed in the debate on the future of the economic governance, concerning issues such as

whether the current economic and fiscal governance framework is adequate and how to improve its effectiveness; whether we have really managed to break the negative bank-sovereign feedback loop; how to improve private risk-sharing through financial market; whether risk-sharing in the fiscal realm is desirable and on what conditions; whether common institutions are needed and how to improve democratic legitimacy. This is to be followed by a report from the presidents which will be published in June 2015 and outline a vision for the future of the EMU, answering the questions raised in the analytical note.

All of this reminds us that we will not be facing easy times ahead and that debates on the economic governance of the European Union are likely to continue for quite some time.

Therefore, what are the main challenges for the future?

Three issues are prominent: the democratic legitimacy, the retention of a united Europe in the light of pronounced euro/non-euro divisions and the question of restoring growth.

## **Democratic Legitimacy and Institutional Balance**

The democratic legitimacy of European integration has been growing to be a challenge for quite some time. In recent years, it has acquired a new dimension in the context of the reforms of the euro zone governance, which have raised the issue of democratic legitimacy of European decision making on an unprecedented scale.

Substantial changes have taken place over the recent years. However, the reforms undertaken have not been based on and driven by a long term vision, but have taken place incrementally, following a step-by-step approach.

This is somewhat traditional in the EU, where, throughout history, a teleological approach to reform has usually been rejected. However, maybe paradoxically, the method based on gradual change fails to generate confidence and enthusiasm among citizens, as they do not clearly see the direction and the purpose of the reforms.

This is why, today, at this crucial time, we need a vision for Europe.

We have also witnessed a *de facto* institutional evolution, based on concrete changes and *faits accomplis* and unaccompanied by formal legal changes.

The European checks and balances have been shaken up over the recent years.

We can see that some European institutions have gained new competences. Typically, since the Treaties were rather vague on some of the institutions, the new

institutional territories of entities such as the Eurogroup or the European Council have become a new reality through action.

The European level has also made a real move towards increased control of a greater number of components of national economic policies. With the reforms of the European economic governance, countries have become more accountable to the Union regarding their economic and fiscal policies.

This has created an additional legitimacy challenge – the need for double legitimacy, involving both European and national parliaments.

We also notice that, paradoxically, while reforms have gone in the direction of increasing centralisation, the European integration has shifted its weight towards the method of integration previously called intergovernmentalism, as relatively often, the Member States resorted to intergovernmental agreements instead of procedures based on the community method.

This phenomenon can be explained by many factors. Among others, the insufficiency of the legal bases available for some of the reforms, the need for unanimity for the Treaty changes and internal pressures in some Member States, but alarming events in the surrounding world, which called for European solutions in the areas within national competences, are worth mentioning as well.

As a result of all this, the relation between the European Union and its citizens has become a challenge to urgently cope with, comprising issues such as transparency, inequalities, fairness, participation and general democratic legitimacy of the process and the content of European decision making.

## **The Euro/Non-Euro Division**

For obvious reasons, the focus of economic governance reforms has been on the euro zone. The political challenge was, firstly and most urgently, to create a fully-fledged smoothly functioning area with a common currency. However, as reforms continue and the euro zone integration deepens, an equally important challenge is to keep the European Union united.

Recent reforms paint a picture of a two-tiered Europe, composed of a strong 'extended' euro zone core and of a group of 'outs'.

While a number of reforms, such as the two-pack or the European Stability Mechanism (ESM) treaty, have been focused solely on the euro zone, several of the remaining reforms are open to Member States which eventually wish to adopt the

common currency. This is the case with the six-pack, the TSCG and the SSM with its opt-in clause.

There is certainly a tendency to take on board the non-euro zone members in the current reforms aimed at strengthening the EMU. However, suggestions contrary to this tendency are sometimes made, for instance in the 2012 Commission communication (European Commission 2012) which proposed to create a eurozone budget, a eurozone committee in the Parliament and a single eurozone seat in the IMF.

Policymakers will need to slowly take a stance on whether the pre-ins should be properly involved in recent policies and, if this is the stance they want to take, they should strive to make the core as inclusive as possible. The question of how to achieve the objective of a more united core is also tricky. One option would be to make more use of the enhanced cooperation provision of the treaty.

Even if the “extended” core we bring about is as inclusive as possible, the ensuing two-tiered structure of Europe will still bring along a number of risks. They include a more fragmented single market and a potentially weaker standing of Europe on the global policy scene.

## Sluggish Growth and the Investment Gap

After the downturn witnessed in 2009, the steady growth did not return and, as a consequence of this economic stagnation, unemployment rates, soaring in the wake of the financial crisis, are still very well above their pre-crisis levels.

For years now, both public and private investment have been in decline in Europe. This ever-growing investment gap is compounded by the lack of innovation, which resulted in productivity slowdown. Insufficient innovation and investment hold back our economies and result in sluggish growth and low job creation (Phelps 2015). To mention only one indicator in this respect, the 2014 Innovation Union scoreboard (European Commission 2014) revealed once again that in terms of innovation, Europe lags behind not only US and Japan, but also South Korea (Nixon 2015). In this context, it has become clear that complementary measures would be needed in order to kick-start growth, unleash investment and enhance competitiveness.

The EU took initiative to address these issues. The European Fund for Strategic Investments (EFSI) announced at the end of November 2014 and made concrete in a Commission proposal in January 2015 (European Commission 2015) promises to be pivotal in this regard by mobilising up to 315bn EUR worth of investment. The idea is to encourage private sector investment through an EU guarantee given to the

European Investment Bank. This fund is aimed at supporting projects in the field of infrastructure, education, energy and environment, and SME financing. In order to assist in the “identification, preparation and development” of such projects, a European Investment Advisory Hub would be established. The European Investment Fund would also be accompanied with a transparent project pipeline.

This initiative is most welcome in the current context. However, for it to be a success, we must make sure that we get the regulatory aspect right. This means regulating smartly and optimally, so as not to suffocate willing private sector actors.

Parallel to the EFSI, in February 2015, the Commission launched (with a Green Paper) the Capital Markets Union (CMU) project (European Commission 2015). This initiative aims to create a true single market for capital and to diversify the financial system by complementing the European banking system with sound capital markets. The CMU should focus, in particular, on helping SMEs access funding more easily. Consultations with stakeholders on the CMU started in February 2015 and lasted until May.

The road towards CMU is paved with challenges, which will need to be addressed. The integration of EU capital markets is still hindered by economic and legal obstacles. The single market still faces a fragmentation in terms of depth of capital markets in different countries. Moreover, the EU as a whole still lags behind other areas of the world, such as the US, when it comes to stock market, equity markets and venture capital market development.

The CMU raises difficult questions, namely concerning whether it is feasible and even desirable to change the traditionally bank-based European finance and economy; what kind of capital markets Europe can expect to develop; and whether we have introduced a regulation which might actually impede the good functioning of capital markets. For instance, bank capital requirements introduced in order to ensure that our credit institutions remain sound and solvent might interfere with the institutions’ ability to support capital markets. These are the questions which we will need to answer over the coming years.

## Conclusion and Recommendations

We have certainly come a long way concerning the economic governance framework since the start of the crisis. However, we need further reforms to improve and complete the governance of the euro zone. There seems to be a growing consensus that the weaknesses of the common currency system could be corrected by a deeper fiscal



integration. In carrying out the additional reforms needed, we would not be starting from scratch, but would have laid the foundations on which we could build further fiscal integration.

Further progress would require more effective control of national budgets, which might imply a stronger role of national parliaments in European governance. It would require some form of European fiscal capacity to improve the extent to which economic shocks can be absorbed. Better fiscal coordination would also help shifting the burden of coping with future crises to *ex ante* rather than *ex post* instruments.

The reforms mentioned above would however not be effective without a mechanism to coordinate structural policies and implement structural reforms. Nevertheless, purely cooperative approaches to fostering structural change have shown its limits over the last decade. For structural reforms, both commitment technology and enforcement capabilities remain a challenge.

A genuine fiscal union, which is desirable, should rest on a few cornerstones. These include strong oversight and incentives for sound national fiscal policies, instruments enhancing fiscal risk sharing (which bring with them new risks), as well as a genuine break between sovereigns and the banking sector, probably going beyond the mechanisms we have in the banking union.

The current situation also raises the question of how far and how long we can continue to stretch the current treaties and use them as the legal bases for further reforms of economic governance. A new treaty might be necessary at some point, even though the political risks entailed are high and we might need to think of a new procedure for its ratification and entry into force.

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Ewa Latoszek

## THE TURNING POINTS IN THE EUROPEAN UNION'S INTEGRATION PROCESS IN THE COMING YEARS

### Abstract

*EU Member States are currently experiencing a certain lack of trust in the economic, political and social relationships which could seriously weaken the willingness to take collective responsibility for the future development of the EU. This state of affairs has affected the financial and economic crisis in the EU countries, and – to varying degrees – has affected the Member States. Some countries have been forced to make radical changes in their economy, while other countries experienced the effects of the crisis as less painful. In this article the author presents that the key challenges to be faced by the European Union in the coming years are connected with economic, social and political problems.*

**Keywords:** European Union Challenges, single market, economical relationships, social relationships, political relationships

Nowadays, more than ever, the EU Member States are asked to show mutual trust in their relationships within the European Union. However, at this moment they do not have a clear unified vision of the European Union. This fact can seriously weaken their willingness to undertake a joint responsibility for the EU's future development. The financial and economic crisis has influenced the Member States differently – some countries have suffered badly from its impact while in other countries these effects were less painful. Reforms undertaken by national governments respond to situations specific to particular countries, but they still need to be set in the framework of agreed policies. A strict cooperation between the national and the EU institutions is indispensable. This is the only right way to overcome the consequences of the crisis. The EU Member States should not forget that solidarity is the fundamental rule in the European integration process. This rule should be reflected in debates on topics related to appropriate economic policy under new challenges. Despite the effects of the crisis, EU policies determine a new phase of the EU growth to elevate the EU

position on the global scene through indicating the incentives to start new industries and fostering innovation processes, to strengthen research and development, and to strive for progress in social cohesion under the trends towards more stratified and diverse societies. To enhance the EU's capabilities to follow the path of smart, sustainable and inclusive growth, better use of human and natural resources (resource effective economy), promotion of energy policies and diminishing social and regional disparities by combating poverty and improving regional cohesion of the EU are crucial and need to be highlighted.

Tensions and opportunities emerging from the EU integration processes may create more differentiation. Societies at different levels have built upon their own social, cultural, linguistic, historical and institutional arrangements. This social infrastructure may be highly effective in tackling challenges and in increasing a society's resilience, but it may also be an obstacle, for instance, when this infrastructure loses its dynamism and its adaptability, or when it is governed by special interests. Coping with financial and economic crisis of the last years has shown it very clearly.

The key challenges faced by the European Union in the coming years are connected with economic, social and political problems.

Within the economic challenges, the following turning points belong to the most important for the future of the EU economy:

- The full Single Market which may become an important innovation asset of the EU, provided that a more balanced, unified and homogeneous innovation market emerges and the digitalization process of the Single Market is continued.
- The progress in innovation and productivity – taking into account the aging of the population, the shrinking of the European labour force and the increasing migration on the one hand, and increasing pressures for social policy reforms and stabilization of public finances on the other, the European Union needs to mobilize all resources, in particular its intellectual capital, to keep its competitiveness in the world.
- A full liberalization of the EU energy markets, which still has a long way to go. Many years after the process started, the energy sector in Europe is still highly concentrated, cross-border trade in energy is limited and prices differ substantially from one country to another. In order to make an internal energy market a reality, the following core areas need particular attention:
  - a European grid with common rules and standards for cross-border trade;
  - a priority interconnection plan to stimulate investment in infrastructure, linking various national grids, most of which are still not adequately interconnected;
  - solidarity between member countries for monitoring energy demand and security of supply (more than 500 million consumers have to talk the same voice);
  - adequate energy reserves in the EU to cope with potential supply disruptions.

- Speeding up the progress in production and consuming renewable energy. The EU Member States expect to reach 20% of gross final renewable energy consumption by 2020. If we convince the whole world to participate in the process of reducing emissions, we could go up to 30%. According to the International Energy Agency, 33 trillion US dollars will need to be invested in energy supply infrastructure between now and 2035 in the whole world – a half of that amount in power generation and around 42% in transmission and distribution of energy. Non-OECD countries account for 64% of total investment needs, with China alone representing 16% of investment needed.
- Higher effectiveness of financial regulatory systems and banking systems and their governance. The Union has to continue the adjustment needed at the level of Eurozone and Member States and reform its economic governance to reduce the risk of future crises.
- The regional dimension of the integration process should also be looked into as another important area, intended as a leading development and investment policy for closing the Member States' competitiveness gap. The cohesion policy faces new challenges. Firstly, it is crucial to change the mindset of regional authorities: they should look for smart specialization based on real entrepreneurial potential of their regions. It is not only the IT or biotechnology that may create comparative advantage. To find the niche in a region, however, it is necessary to think about the resources that lay at the heart of it. New global settings open possibilities, but there must be a regional strategy that sets out the priorities. Secondly, the new cohesion policy should create added value. The money invested in regional policy must create the snowball effect. The current financial perspective brings new settlements. The policy, aimed to reduce regional disparities, needs re-thinking. The regional policy must be in line with the Europe 2020 Strategy. The priorities of Europe 2020, i.e. smart, sustainable and inclusive growth, should be incorporated into the new cohesion policy. To make it happen it is crucial to set the priorities in line with the Europe 2020 strategy. Deeper integration will make the efforts more cohesive. The new cohesion policy must focus on: industrial restructuring, innovation, quality of labour, institutions (government). Finally, to make the current financial perspective effective, building the critical mass through the projects is needed. The European funding is not the only part of regional policy; national co-funding must be safeguarded, too. The new financial perspective should be focused around growth in the innovative sense (smart specialization). New goals should be consistent with the Europe 2020 Strategy, because this strategy sets out long-term goals, the achievement of which will get the EU back on the path of growth.

- More effective and fruitful regional policy of the EU could be achieved if the 'Smart specialisation' of the EU regions is given the proper attention – smart specialisation constitutes the solution which is available not only for the most developed regions, it does not have to be combined with biotechnology nor with advanced, high technologies, but it has to be tightly connected with the region's economy. Digitalisation, which creates extremely large development possibilities, constitutes another challenge for many regions.

From the political point of view, most important for the EU are the following activities:

- Supporting strong partnership with other actors of transnational transformations in the 21<sup>st</sup> century, like international organizations and informal groups (G8/G20).
- Closer partnership with third countries – the EU can do more to reach out to the world. We need to open new markets within Europe and between Europe and the rest of the world:
  - Deepening the social, cultural and economic cooperation between the EU and the Eastern Partnership countries, because this cooperation will contribute to the democratization process in those countries, developing markets for EU companies (e.g. banks) and increasing different aspects of security in Europe. For example, the issues that could in this context be considered by academics and researchers refer to sharing best practices in research, development and innovation management, as well as developing innovation strategies and reforms of research and innovation systems.
  - Other countries which are very important in the EU external policy are: the USA, the Mediterranean countries and China.

The most urgent social challenges for the coming years are the following turning points:

- Ensuring sustainable development of the quality of life of the European society – for enhancing its capabilities to follow the path of smart, sustainable, and inclusive growth, the EU should focus on resource-effective economy, promotion of energy policies, diminishing social and regional disparities by combating poverty and improving regional cohesion of the EU. The key issue that must not be neglected refers to a better use of human and natural resources.
- Encouraging activity of young people in the job market by building creative competencies of young people through modified education systems. The high speed of change of technologies exposes educational institutions to big challenges to adapt and deliver the competences required by the economy and society.



- Deepening intergenerational solidarity together with fostering the development of civil society. These issues can be addressed largely through social innovation. It is also a very good time to deepen the research on this topic.
- Fighting the crucial issues of social insecurity:
  - job insecurity – not only among young people, but also other groups in the society. The issue of an ageing society is one of the most important challenges of the present society – another important issue in this area is the insecurity in the relations between employee and employer;
  - the insecurity regarding the relationship of man vs. advanced technology in the workplace – learning to interpret the consequences of the omnipresence of technology and formation of networks of a new kind as a result of that omnipresence, should be made our priority;
  - gender insecurity and the perceptions of women's role in different areas of life.
- Solving the question of population change in Europe – profiting from long-term increases in life expectancy, the Europeans live longer and longer, and more people survive until old age. The ageing of the population resulting from continuous mortality decline is easily predicted. These changes have far-reaching consequences for many domains of economy and society, which should be adjusted to the new demographic regime in Europe. Clearly, the demographic change cannot be ignored when discussing the future growth prospects of the EU.
- The global challenge of migration – if the EU wants to manage the immigration flows inside, it needs to strengthen its cooperation with other countries, including the countries of origin and transit. Another important question is the intra-EU mobility from the economic and social perspective.

All challenges indicated above promote a strategic and integrated approach to innovation, which optimizes the synergies between and within different EU and national/regional policies, and ensures greater involvement of different research groups and networking in the innovation process and support the full use of Europe's intellectual capital. With regard to the profound changes that are taking place in the workplace, the output should be the understanding of the processes going on in postmodern organization and the recognition of the sources of the changes which are going to affect it. Since these processes are of global nature and scope, they would make both the local research, as well as its hypothetical results, inconclusive. The sustainable and inclusive growth means reconciling economic, social and environmental goals and diminishing socio-economic inequalities. In addition, these activities have to be performed smartly to increase the EU's competitiveness in a more complex and demanding business environment, subjected to financial economic shocks. These

ambitious goals seem even more demanding when one accounts for the population change in Europe.

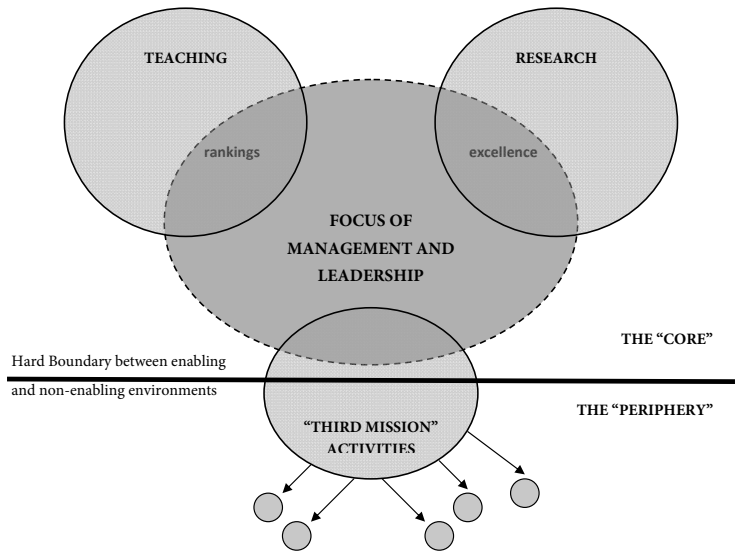
The European Union's future competitiveness, as well as its well-being and unity, under sustainable development objectives are therefore connected with solving four types of contentions: political, social, environmental and economic contentions – solving them requires socially conscious and responsible science, i.e. socially-relevant science and technology – linking to “Excellent Science” and “Industrial leadership” is needed. Most important for the researchers of the European integration process in the coming years it is therefore to analyse and develop policy recommendations for an ideal European Social/Financial and Economic/Political/Cultural Models, and to find answers to the questions: (i) how can the European Social Model be adapted and preserved, (ii) how can Europe's political institutions be renewed (European Political Model), (iii) how can Europe's financial and economic structure be strengthened (European Economic and Financial Model) and (iv) how can Europe's unique cultural structure be made more of an asset than today (European Cultural Model).

Our research should therefore be responsible and innovative. Responsible Research and Innovation (RRI) – a new paradigm being discussed among the EU Member States and the European Commission – covers many aspects and requirements via the research process under new challenges faced by the EU. RRI is the on-going process of aligning research and innovation with the values, needs and expectations of the society. Decisions in research and innovation must consider the principles on which the European Union is founded, i.e. the respect for human dignity, freedom, democracy, equality, the rule of law and the respect for human rights, including the rights of people belonging to minorities. RRI requires that all stakeholders, including the civil society, are accountable to each other and take shared responsibility for the processes and outcomes of research and innovation. This means working together on: science education, the definition of research agendas, the conduct of research, the access to research results and the application of new knowledge in society – in full respect of gender equality, gender dimension in research and ethical considerations.

Under new circumstances, the main areas of universities' activities have to change – being one of the main subjects of society conducting research, they should consider RRI as the background of their long-term policy for research and education, because the way innovation takes place is changing. Taking into account the fact that the ongoing economic crisis is putting European governments under enormous pressure to respond to the challenges of public and private debt at the same time as global competition intensifies and consequences of such situation for local communities and taxpayers who face difficult economic situations are questioning the “value” of universities, especially where the benefits may appear less obvious, e.g. in regions

with high unemployment – public funding for higher education is under scrutiny, compelling universities to demonstrate their value and direct contribution and benefit to society and the economy. In response, universities are rethinking their role and responsibilities, and engage in teaching beyond campus walls that directly benefits the public. All of this requires institutional transformation within universities. “Public support for universities is based on the effort to educate citizens in general, to share knowledge, to distribute it as widely as possible in accordance with publically articulated purposes... Universities have flourished in the modern era as central public institutions and bases for critical thought. They are currently challenged by a variety of social forces and undergoing a deep transformation in both their internal structure and their relationship to the rest of society. Critical theorists need to assess this both in order to grasp adequately the social conditions of their own work and because the transformation of universities is central to a more general intensification of social inequality, privatization of public institutions, and reorganization of the relation of access to knowledge. This is also a pivotal instance for asking basic questions about the senses in which the university is or may be ‘public’: (1) where does its money come from? (2) who governs? (3) who benefits? and (4) how is knowledge produced and circulated?” (Calhoun 2006).

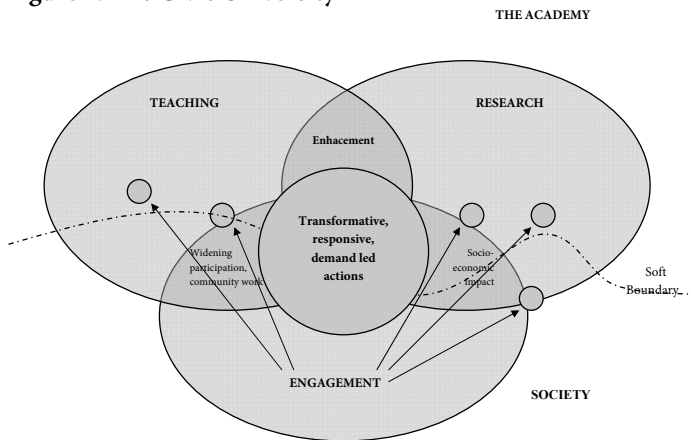
Figure 1. The Traditional University



Source: Goddard 2014.

As indicated by John Goddard (2014), currently there are two business models of the university – the entrepreneurial university model with a strengthened steering core and the triple helix model of universities, business and government with semi-autonomous centres. None of them consider the necessity to involve the civil society as a partner in their actions and undertaken activities. This requires a new model of a university, but unfortunately policies and practices discourage their engagement. And at the regional level, the lack of vision of the role of the public sector, as well as motivation by narrow self interest and short-term goals from the side of the private sector make such changes even more difficult.

**Figure 2. The Civic University**



Source: Goddard 2014.

Nevertheless, knowledge creation and mobilization of resources require shifting universities towards being open and relevant to the civil society's expectations and require education, research and innovation centres based on coproduction with consumers, customers and citizens. "The shift towards social innovation also implies that the dynamics of ICT-innovation has changed. Innovation has shifted downstream and is becoming increasingly distributed; new stakeholder groups are joining the party, and combinatorial innovation is becoming an important source for rapid growth and commercial success. Continuous learning, exploration, co-creation, experimentation, collaborative demand articulation, and user contexts are becoming critical sources of knowledge for all actors in R&D & Innovation" (Goddard J. after ISTAG 2010).

The initiation of ideas and the requirements of the innovation process should come from citizens. Public authorities, firms and universities therefore are expected to support citizens' innovative activities under a mutually beneficial engagement. All

of them have their own , aims, tools and areas of activities. Public authorities should provide tools making it easier for firms to offer products and services relevant to citizens and for universities to undertake research and education activities utilizing the civil innovations.

Some important actions structuring the political background for these processes have already been taken by the European Union and its Member States. One of the most important ones was the decision to establish the European Research Area.

Article 179 of the Treaty on the European Union (Treaty of Lisbon) states that the ERA can help the EU to strengthen its scientific and technological bases. It describes the ERA as a 'single market' for research and researchers which should make it possible to share data, compare results, carry out multi-disciplinary studies, transfer and protect new scientific knowledge and gain access to centres of excellence and state-of-the-art equipment.

The most important principles of the ERA are:

### **1. Open Access**

Free movement of knowledge is a central principle of the ERA. The results of research funded under Horizon 2020 will be freely available to all. This means that scientists, businesses and even the public will be able to read the latest science and apply its findings. The EU research funding programmes have an important role to play in making this new way of sharing science the norm. Progress is also being made on encouraging the publication of research data – the information on which research findings are based.

### **2. Mobility of Researchers**

Free movement of scientists is a prerequisite for creating a single market for research. EURAXESS ([www.euraxess.org](http://www.euraxess.org)) is a pan-European initiative which provides information and support services to researchers to help them take up jobs outside their home countries. The EURAXESS job portal lists thousands of vacancies and fellowships from more than 40 European countries and other parts of the world including China, India and the US. More than 200 EURAXESS Service Centres operate in 40 European countries to help researchers and their families with things like work regulations, taxation and social security.

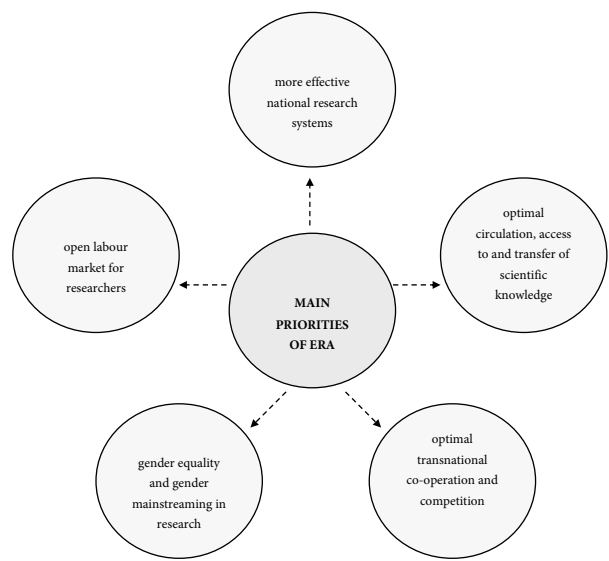
Other obstacles to mobility exist, which need to be tackled by policymakers – for example, making sure that researchers can move from one EU country to another without losing out on social insurance or pension entitlements. The Commission supports the setting up of a single European pension arrangement (RE-SAVER) to

help researchers keep their supplementary pension benefits when moving between different countries.

3. Coordination of National Research

Closer coordination of national research priorities in different countries can bring benefits because, by pooling resources, funding can be used to tackle major problems which might otherwise be too large for one Member State to address on its own. It also reduces unnecessary duplication, helping to ensure that scarce resources are spent efficiently. Examples include the ERA-NET scheme, which provided targeted support for the coordination of national and regional research programmes, and Joint Programming Initiatives (JPIs), which allow countries to come together to tackle major challenges such as climate change and healthy ageing.

Figure 3. Main Priorities of the European Research Area



Source:

However, the core element of the Europe 2020 Strategy is Innovation Europe, ensuring Europe’s competitiveness and growth for the coming decade. World-beating science is essential to Innovation Europe. Productivity improvements are necessary to become more innovative and to explore our lead in high-growth markets. To make it possible for Europe to remain a place where great inventions are made and find their way to the market we need to act, and to act fast. Moreover, according to the latest Innovation Union score, the EU’s level of performance is significantly below

that of the US and Japan. Despite recent efforts, there has been no major progress in reducing this gap since the 1980s. Over the last 15 years the EU share of world R&D expenditure has decreased by a fifth. This gap is widening. At the same time, emerging economies like India and China are catching up. Therefore, we have to create an environment that is more open to innovation and thus better positioned in terms of global competition to attract investors, entrepreneurs and top talents to research and innovation. Innovation Union is a comprehensive package of actions aimed at achieving an innovation-friendly environment within the EU. It strives to boost research and innovation in the EU through a series of measures to the benefit of public authorities, entrepreneurs, citizens, as well as researchers and engineers. Priority is given to challenges of common interest, with the objective of improving framework conditions, and to the access to finance for research and innovation activities, and in turn paving the way for a single innovation market. To achieve this objective, Innovation Union builds on 34 commitments and funding from the Horizon 2020 programme, among other instruments. At the moment 100% of the actions set out in the context of Innovation Union are on course, with different levels of implementation. In particular, five European Innovation Partnerships dealing with:

- active and healthy ageing
- agricultural sustainability and productivity
- smart cities and communities
- water
- raw materials,

have been established in order to foster cooperation of the EU, national and subnational stakeholders. Measures reinforcing the use of public procurement for innovation, introducing the passport for cross-country venture capital investment or creating unitary patent protection go in the direction of improving the innovation-friendliness of the business environment. Steps have also been made towards the achievement of the European Research Area, which aims at increasing the efficiency and effectiveness of public research systems to generate higher productivity, competitiveness and growth in the EU. And monitoring tools have also been set up. A comprehensive Innovation Scoreboard provides an assessment of the innovation performance of the EU Member States and the respective strengths and weaknesses of their research and innovation systems. In addition, a new indicator of innovation output has been designed – however, work is still ongoing to address some of its limitations – with a view of monitoring the EU's and its Member States' innovation outcomes against their main trading partners. It relies on four main dimensions, namely technological innovation, employment in knowledge – intensive activities, competitiveness of knowledge-intensive goods and services and employment in fast-growing firms of

innovation sectors. The measures set out in the framework of Innovation Union for sure go in the right direction, however, the materialisation of the associated benefits crucially depends on proper implementation. No matter what, we have to admit that Innovation Union has not prevented the increasing risk of innovation divide inside the EU. Since 2008, the EU has managed to close almost half of its innovation performance gaps with the United States and Japan. Yet, within the EU the dynamics of convergence between the innovation performance of the Member States has come to a halt and disparities between countries are growing.

Summing up, to make the EU progressing along the Europe 2020 Strategy path we should explore and examine how the unlimited arsenal of intellectual capital the EU should be used within the context of growing competition, increasing economic and social inequalities along with regional disparities, demographic change, and energy and environment pressures.

Europe 2020 sets out a vision of the continent as a knowledge-based economy, with a target of 3% research and development intensity to be achieved by the EU by 2020. Program Horizon 2020 with its EUR 80 billion budget for the period 2014–2020 becomes the Union's main contribution to reach this ambitious goal. Horizon 2020 is aimed at using money in more effective way for multiplying its effects all over the Member States and to strengthen the EU's position in science, empowering industrial leadership in innovation and tackling the societal challenges the EU is facing. Europe can become a better place to live and work, though: an open access to scientific publications, a clear and ambitious budget for research and innovation in renewable energy sources and energy efficiency, a substantial budget for SMEs, gender equality, better control of public-private partnership, a proper role of social sciences and humanities, genuine dialogue between science and society about contributing to the integration of scientific and technological endeavour into the EU society and strengthening researchers' competences and skills. 30% of the Horizon 2020 budget will be devoted to societal challenges – reflecting the problems which are major concerns to citizens of the EU and improving people's live through improving the Union's competitiveness, boosting growth and job creation. If we want science to be a priority for public investment, we need the EU citizens to share scientific values and recognize how science contributes to progress.

The impact of the crisis will be experienced for many years. Today, the unequal distribution of income and wealth in Europe, together with ratings published by rating agencies, generate large interest rate differences between the indebted and the "wealthy" countries. In the debtor countries the results are negative capital account balances. The compulsion to generate a current account surplus is used to justify austerity measures, i.e. cuts in wages and social spending. People affected by these policies do not accept



such an explanation and protest loudly, with street riots. As long as the current account generates only small or no surpluses, this can only be resolved through inflows of new capital. But pumping money into the economy leads nowhere. The only way out is to work out a sound recovery program which will identify country-specific conditions and their strengths, with intellectual capital properly taken into account.

Another important issue is the social agenda. The most visible human cost of the crisis is the high level of unemployment (particularly among the youth), as well as inequalities. Also, the issue of social reforms under demographic change should be considered just as important.

Next, a focus should be on the outcomes, not income. This is not only related to competitiveness, but to the economic policy in general. A good example are structural funds and the EU cohesion policy. It is clear that financial support, with particular emphasis upon the Structural Funds, is a pre-condition for growth and development. But this is not an end in itself. Results should be measured against improvements in the standard of living. In this context it is crucial to remember that a smart growth is the key to successful competition. Better addressing the priorities which will go along with the Europe 2020 Strategy will result in more effective usage of financing.

It is also important to review growth strategies vis-à-vis their impact on the environment. The concern for environment and growth can and indeed must go well together. There are many economic opportunities that promote green growth. We should tap into them and create a conducive policy framework that will allow for structural transformation of our economies based on the energy security policy.

Finally, we need to better define the targets we pursue. Rather than being limited just to put up growth rates, they should also include real improvements in people's lives. This is not only an ambitious goal but something truly worth to be considered while advancing competitiveness issues and proposals.

## Conclusions

Europe is currently experiencing a number of serious problems. There is a number of grand challenges that have to be dealt with. Innovation and optimizing the intellectual capital of the EU with special attention to research and innovation are key factors in overcoming the current socio-economic difficulties, to keep working places in Europe, and to address the other economic and societal challenges that are forthcoming.

The Europe 2020 Strategy, the Innovation Union, the Horizon 2020 Programme, Joint Programming, the EU-wide patent, the Structural Funds and all other policy

initiatives and instruments have their own roles to play, but they should be managed in a cohesive way. The structure of the programs through concentration of resources shall create the effect of synergy. But we have to remember that the process of building the modern European economy must be based on commitment of all the Member States, which could be achieved only if their current socio-economic conditions and development aspirations are taken into account. Each Member State has specific resources and unique experiences – its own intellectual capital which may become a source of future economic growth, wellbeing of European societies and sustainable development of Europe. But taking full advantage of intellectual capital also requires active participation of the EU institutions and other players, including research communities. With their capacity for developing, adapting and transferring ideas, knowledge and technology the universities and other research centres and innovation players are essential for the process of shaping and strengthening the European Research Area and putting Europe back on the path to economic progress and innovation leadership. Research agendas require solid long-term road-maps in order to ensure real impact on the challenges themselves. As the success in addressing the challenges can benefit greatly from unexpected technological breakthrough, it is important to leave room for disruptive research and to establish the conditions for transversal application of new knowledge and innovation practice across societal challenges. But we have to remember that effectiveness of the research depends on the capability to transfer the knowledge generated in that research to the users (market, public policy makers, citizens...) and this requires more interaction and collaboration between researchers and users.

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## **Part II. European Union as a Global Actor in a Changing World**



Willem Molle\*

# **PROMOTING SMART AND INCLUSIVE GROWTH. THE EUROPEAN UNION INTERACTING WITH INTERNATIONAL ORGANISATION**

## **Abstract**

*Over the past decades the competences of the European Union (EU) have been considerably increased. In the same period many important global issues have been entrusted to specialised international organisations (IOs). These two trends have produced a growing need for the EU to be well represented in the relevant IOs. The subject of this book is the rethinking of smart and inclusive growth. Among the international organisations, the OECD and the ILO are competent in these issues. The interrelations of the EU and these two IOs are complicated given the fact that the EU has not acquired a formal membership in either one. However, notwithstanding various institutional inadequacies, the EU has found ways to promote its objectives both on the global and European levels.*

**Keywords:** international organisations, European Union, smart growth, OECD

## **1. Introduction**

### **1.1. Objectives**

This paper considers the role of the EU on the world scene. The subject is not new; it has been present since the conception of the EU. Indeed, Jean Monnet, the father of the European integration, has already indicated that European integration should not be

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the final perspective, but that the EU should aim at worldwide integration, promoting global organisations that foster fundamental values and create wealth for all<sup>1</sup>.

The discussion in this paper is rooted in this vision. We want to establish how the EU can best pursue its main objectives in a rapidly integrating world setting. We focus thereby on the subjects of smart and inclusive growth, the theme of this book.

## 1.2. Structure

The paper is structured as follows.

First, we sketch the ways in which the integration process has developed both on the European and world level. We describe how over the past decades the competences of the European Union (EU) have considerably increased. In the same period, many important global problems have been entrusted to specialised international organisations (IOs). These two trends have produced a growing need for the EU to be well represented in the relevant IOs.

Next, we describe the way the relations between the EU and major international organisations have developed. First, we describe the point of view of the EU, which has adapted its constitution in order to claim its position in international fora, commensurate with its new competences. Then we describe the reluctance (or even opposition) of many international organisations to accept the EU among its members. It means that the EU has to work with inadequate institutional arrangements to play its role at the world level.

Finally, we focus on the subject of the book, which is rethinking of the issues of smart and inclusive growth. Among the international organisations, the OECD and the ILO are competent in these issues. We describe for each the kind of solution that has been elaborated for its relation with the EU and the way the EU has adapted to these institutional contexts to promote its objectives.

The paper will be round off with some general conclusions and suggestions for reorientation of research efforts.

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<sup>1</sup> “La Communauté que nous avons créée n’a pas sa fin en elle-même. ... elle n’est qu’une étape vers les formes d’organisation du monde de demain” (The Community that we have created is not a goal in itself...it is just one step towards the organization of the world of tomorrow) (Monnet 1976: 617).

## **2. The Historical Setting**

### **2.1. European Union Development**

The post war period has witnessed a very strong tendency towards European integration. Over the past half century, the EU has developed in two dimensions.

In terms of deepening, the EU has followed the stages of integration approach. It has developed from a Customs Union to an Economic and Monetary Union. In the course of its development it has gradually reinforced its institutions. Moreover, it uses an ever larger set of governance methods to effectively implement its policies. Finally, it has worked on consistency of its various policies via one integrated institutional setup.

In terms of widening, it has developed from a small group of western countries (the initial EC6) to almost complete sub-continental coverage. This enlargement has very significantly increased the differences in the level of economic development, political priorities, administrative practices, etc. This increased diversity makes it more difficult to come to uniform positions on a range of policies.

The picture of deepening/widening is not as simple as sketched above. First, not all Member States participate in all the activities (e.g. EMU, development aid, Schengen). Second, the EU uses different combinations of instruments for different policy areas; and for some policy areas, Member States are free to use their own set of instruments.

The EU system was severely shaken at several moments of its development; most recently with a deep economic and financial crisis. However, it has been able to overcome these by adapting its structures and governance methods. The EU has identified the major challenges it is confronted with and has defined its strategic objectives in the triad: smart, inclusive and sustainable growth, coupled with macro-economic stability and cohesion. This makes an integrated set of objectives with dedicated policies (Molle 2006, 2011, 2015).

Notwithstanding this elaborate governance architecture, it is not always easy for the EU to come to common policy choices; mainly due to the sheer size and diversity of its membership.

### **2.2. World Integration**

In the past half century the world has seen a very strong increase in the interrelations between its constituent parts. This globalization process was fuelled by large benefits that could be drawn from international specialisation. It was made possible by the

fact that a number of international organisations (IOs) did provide the institutional framework for facilitating such increased interrelations. One need but think of the World Trade Organisation (WTO), which did promote trade liberalization and did provide a mechanism for dispute settlement.

Most of these organisations were created by western countries in the early postwar period. They started off with a limited mission and a limited coverage in terms of countries. In both respects, they have evolved.

As far as deepening is concerned, one sees that the process of global integration has not followed a stage approach (such as CU, CM and EMU). Neither has it used an integrated institutional setup. Indeed, organisations have been created and gradually adapted to respond to specific emerging challenges. The result is a real patchwork of specialised institutions. All have very idiosyncratic institutional structures and sets of governance methods to realise their specific sectoral objectives. Therefore, a wide diversity exists (Gstoehl 2008; Molle 2003, 2008, 2013; Sapir 2007).

As far as widening is concerned, one observes an ever larger participation of countries in the global integration process. The collapse of the communist rule caused the division into the 'West', the 'Centrally planned' and the 'Third world' to become irrelevant. Many countries opened their economies to the world and acknowledged the benefits of participating in the relevant IOs. Now virtually all countries in the world have acquired membership in major global institutions. Many have done so only reluctantly, as several of these IOs are dominated by the West and their ideology-based policy recipes are often inadequate for developing and emerging countries. In particular, the major BRICS are claiming stronger roles and make attempts to set up new organisations not dominated by the West.

This non-system suffers from two problems: lack of effectiveness and lack of consistency. There are serious doubts about the capacity of this non-system to face the challenges of the future, such as stability, equity, sustainability and growth (we leave security, religious conflicts etc. aside).

## 2.3. Implications

So we see a fairly divergent development of global organisations and of the European Union.

On the one hand, we see that global architecture consists of a set of partly overlapping specialised institutions. There is neither a common view of the challenges nor a common action plan to face them. Moreover, there is large uncertainty as to



many factors, such as the motivations of major players, the consequences of increased interdependency of the private and public sectors (see: financial and debt crisis), the understanding of intricate economic interrelations (and hence of the impacts of shocks). To increase consistency, inter-institutional coordination frameworks are used, but these devices tend to have a limited effectiveness.

The EU system is much more strongly structured and has a stronger collective sense of purpose. However, there is much discontent with the apparent incapability of the EU to effectively deal with major problems such as instability, unemployment and threats to security. There are large differences in opinion as to the best ways to tackle such problems and to deal with the uncertainties that are the consequence of the increased openness to influences of the rest of the globe.

As the EU is now competent to deal with a series of policy issues, there is a growing need for the EU to act in the relevant IOs to promote the delivery of global public goods in such a way that they respect the interests of the EU. However, due to the very different development paths of the EU and the world organisations, the role of the EU in global matters is under strain.

### **3. The European Union in IOs: General**

#### **3.1. The European Union Viewpoint**

The EU is a regional organisation and it has promoted regionalism in the rest of the world. However, it is very much aware of the fact that most regional organisations are very weak and cannot form the basis for world governance. All these regional organisations have a very limited scope in terms of competences; they are limited to free trade arrangements and a timid form of monetary coordination. Therefore, the EU is a supporter of “effective multilateralism”<sup>2</sup> and is committed to a world order based on rules instead of power<sup>3</sup>. Seen from the viewpoint of the EU, its role in the IOs (that institutionalise multilateralism) has changed in two respects.

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<sup>2</sup> See for the definition of the term: Montobbio (2013) and for the application on a number of policy areas: Drieskens and van Schaik (2014). See also Costa (2013) and Kissack (2010).

<sup>3</sup> See: Wessel and Blockmans (2014). Mind that rules need not always be formal rules, but increasingly take one of the many forms of informal soft law (Pauwelyn et al 2012). The EU has often taken the lead in the process of adopting such formal and informal international rules. Cases in point are the climate package and the fundamental labour standards (that the International Labour Organisation develops in the framework of its “Decent Work” agenda).

The first is of a political-economic nature. Individual Member States no longer have sufficient weight to make a real difference on the global scene. Operating as one provides the EU with the total weight of its constituent parts in the frameworks of international organisations. And the EU can achieve much better results in international negotiations than individual Member States would<sup>4</sup>. However, in practice this is less clear than in principle. In many areas, competences are actually shared between the EU and its Member States. In such cases complicated arrangements have been made to define the role of both the EU and its Member States in global instances<sup>5</sup>.

The second is of a legal nature. Since the origin of the EU, the basic treaties have stipulated as a principle that as soon as a competence is handed over from the national governments to the EU instances, the external dimension of that policy becomes a matter of the EU as well. In order to allow the EU to play its role well on the international scene, its “constitution” has been adjusted at several occasions. The Lisbon Treaty complemented this process in four ways. First, it gave international legal personality to the EU. Second, it defined the main objectives and norms that have to guide the actions of the EU instances on the international scene<sup>6</sup>. Third, it clearly defined the roles of the major actors, in particular of the Commission and of the Presidency of the Council<sup>7</sup>. Finally, it established the European External Action Service. These changes allow the EU to be more effective in its external relations.

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<sup>4</sup> See for the problem and possible solutions: Sapir (2007) and Emerson et al. (2011). See Van Schaik (2013) and Da Conceicao-Heldt & Meunier (2015) for more nuanced opinions as to the power of a unified position of the EU.

<sup>5</sup> Over a wide range of issues that fall into the realm of international organisations (for instance the conclusion of a new global climate agreement) the countries of the EU have to coordinate their positions in order to get the best result out of international negotiations. See e.g. EC (2004).

<sup>6</sup> “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. The Union shall seek to develop relations and build partnerships with third countries, and international, regional or global organisations which share the principles referred to in the first subparagraph. It shall promote multilateral solutions to common problems, in particular in the framework of the United Nations” (TEU, art 21).

<sup>7</sup> In all areas of EU external policy (art 218 TFEU) where the EU wants to enter into arrangements with international organisations, the Commission has to do the negotiations and the Council (and EP) takes the decisions. Under EMU, the pattern is complicated, because the role of external representative is attributed to the Council and part of the competences are in the realm of the ECB. (Emerson, Kaczynski 2010).

### 3.2. IOs Viewpoint

The foundations of the major institutions with a global vocation, such as IMF, WB, OECD and ILO have been laid down in international treaties between sovereign states. These treaties do only recognize states as members, which is understandable as supra-state entities such as the EU did not yet exist when these IOs were created. Global organisations that have been created later did take the EU into account. An example is the WTO, which has acknowledged the specific competence of the EU in trade matters and has accepted the EU as a full member (next to the EU Member States). Other organizations and regimes that emerged later could also take the competences of the EU into account (albeit sometimes with complicated institutional compromises, like the G20)<sup>8</sup>.

For the older IOs there is a strong tension between the old form and the new reality. There are two reasons why a solution to this friction is difficult to find. One is specific to the IO in question; the other is internal to the EU.

Many non-EU members of the major international organizations resist a change of the articles that would permit supranational organizations such as the EU to be accepted as members alongside sovereign states. There are several reasons for this position. Power politics is one inhibiting factor: the West dominates several of the major global economic institutions. Thus, any decision to extend the weight of the West by accepting the EU alongside its members meets with strong resistance of non-western countries. In several cases (for instance the IMF), the EU and its Member States expressed their willingness to accept a limitation to their power. However, they made this dependent on a simultaneous decrease in votes of the US and on improvements in the governance model of the organisation in question. As this would imply the loss of the *de facto* veto power by the US, the latter did not accept it. Asian countries have now lost patience and under the leadership of China are in the process of constructing alternatives to the WB/IMF setup.

It might have been possible to overcome these problems had the European Union taken a strong and unequivocal position to substitute itself for its Member States. However, this was not the case. One reason is the diversity of legal situations; for instance, some EU countries are not members of the euro zone, so their external monetary policy is not handed over to the EU. Moreover, there is a tendency among many Member States to stay involved in external actions even in instances where the EU has the competences (e.g. in the WTO). Finally, there is politics; Member States

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<sup>8</sup> Examples are the Kyoto protocol, the Bank of International Settlements, the Financial Stability Board and the G20 (Molle 2013).

which do not want the EU to develop in certain areas (such as EMU) do not facilitate the participation of the EU in the international organisations dealing with that matter.

### 3.3. Implications

The tensions depicted above create a major challenge: to improve the effectiveness of the major organisations at the world level while offering a role to the EU that is commensurate with its constitutional competences and its political power [See for instance Costa and Jorgensen (2012) and Wessel, Blockmans (2013, 2014)]. The way this challenge can best be faced has been the subject of much academic and political debate<sup>9</sup>.

Once created IOs are difficult to change<sup>10</sup>. It implies that the EU is unlikely to be able to acquire a stronger and more formal position in most IOs. Thus, it has to make the best of the present situation. In order to promote its interests on the global scene, the EU has to evaluate the institutional settings in which this can best be done. It will choose the venue that seems to be most likely to lead to results. This need not be an existing IO; indeed the latter have on many occasions been bypassed and new and experimental structures were created (Princen 2010).

Let us see how the situation presents itself for the two topics of the present book: smart and inclusive growth. Among all the IOs the OECD is the only one competent in the first issue: innovation and growth (alongside many other policy issues). In many respects, the ILO is the IO competent in inclusive growth. We will devote a separate section to each, taking the institutional approach rather than the issue approach.

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<sup>9</sup> Studies of the EU in major IOs have been made notably by political scientists, see: Blavoukos and Bourantonis (2011) and Oberthur et al (2013), Jorgensen (2009), Jorgensen and Costa (2013), Jorgensen et al (2011) and Jorgensen and Laatkinen (2013). For a legal point of view see Wessel (2011) and Van Voorn et al (2013).

<sup>10</sup> To avoid ill-adapted institutions, one has moved away from formal institutions and adopted more flexible and informal forms, such as a customer-based light organisation (e.g. the Internet), informal gatherings of government leaders (e.g. the G20) or cooperation in networks of both public and private actors (e.g. in the environment) (Molle 2013).

## 4. The EU–OECD Relation

### 4.1. The OECD Structure<sup>11</sup>

The objectives of the OECD are of a very general nature: the promotion of policies that will improve the economic and social wellbeing of people around the world. The OECD provides a forum in which the governments of member countries can work together to share experiences and seek solutions to common problems. To that end the OECD establishes data bases and makes analyses on a broad range of subjects, such as productivity (and innovation), employment, financial stability, environment, macroeconomic balance, taxation, etc.

To realise its objectives, the OECD uses a limited set of governance methods. The main one is coordination. The actual coordination work is done in some 250 working groups and specialised committees; formed of experts coming from the administrations of the member countries (and the EU Commission). The OECD staff does in-depth comparative studies that may result in specific recommendations for the member countries.

The OECD has a membership that is limited to the most developed countries in the world. The organisation is funded by its member countries; national contributions are based on a formula which takes account of the size of each member's economy. Countries may also make voluntary contributions to financially support specific OECD programmes.

Innovation (smart growth) has always been at the centre of the concerns of the OECD. Mind that the OECD is the only IO that assumes a role in this matter. Innovation is one of the main drivers of growth and the OECD has done many studies into the way countries could promote innovativeness. Moreover, it makes country-specific reviews of innovation policy.

The issue of inclusiveness also falls under the mission of the OECD, and OECD action appears in different guises<sup>12</sup>. In employment matters, one of the main activities

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<sup>11</sup> For further information on the development of the OECD, see: Caroll, Kellow (2011, 2013), Mahon, MacBride (2009); Woodward (2009); Martens, Jacobi (2010); Clifton, Diaz Funes (2011).

<sup>12</sup> Inclusiveness is an elusive notion, so one could consider that more aspects of the OECD work, such as pensions and education, fall also in this category. However, we will not go that far. See in this respect for instance Papadopoulos (2011); Martens et al (2004). Inclusiveness can also be promoted by specific innovations (OECD 2015).

of the OECD is the annual Employment Outlook. In matters of social protection and welfare, the OECD pursues its aims mainly in the framework of its Economic Surveys.

## 4.2. The European Union Position

The EU – OECD relation is very important. First in terms of membership; most EU countries are also OECD members, while the EU constitutes a large part of the OECD membership. Next, in terms of subjects: the OECD covers all the socio-economic policy areas the EU covers too. Finally, in terms of governance instruments; the OECD is well known for its specific way of operation: study, exchange of views and experiences, benchmarking, codes (Mahon, McBride 2009; Woodward 2009; Carroll, Kellow 2011; Clifton, Diaz Fuentes 2011)<sup>13</sup>; these instruments are also widely used by the EU.

These factors combined with those discussed in section 3 have resulted in a special position of the EU in the OECD. Although the EU as such has not become a member, an agreement between the two organisations permits the European Union to be involved in the daily work of the OECD. Civil servants of the European Commission participate fully in OECD committees and working groups; some even chair the more influential ones. Moreover, the Commission finances a number of programmes of the OECD in which it is particularly interested. These are mostly motivated by the wish to confront the internal EU work on a controversial subject with the ideas and practices in other OECD countries in order to facilitate internal decision making and external consistency of EU rules and policies.

## 4.3. Effectiveness in Reaching Objectives

The influence of the OECD on its members has been very significant (Armingeon 2004: 236; Woodward 2009). Examples of such effectiveness are given in Box 1.

However, this influence is not unidirectional; the EU and its members have strongly promoted the work of the OECD and have actively participated in the elaboration of policy ideas, principles and good practices. On the one hand, the EU has “downloaded” many elements of its policy from the OECD’s work; on the other hand, it has also been able to “upload” elements to the OECD level.

Examples of “downloading” the OECD’s ideas and policy recipes can be found in the innovation policy. The OECD has established a long-term record in developing new ideas and checking their applicability in specific policy contexts. The OECD’s work in

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<sup>13</sup> For a comparison of these methods between the EU and the OECD, see e.g. Groenendijk (2009).

the matter has actually influenced the recast of the EU Lisbon strategy and a number of national strategies following the OECD's reviews of their innovation policy<sup>14</sup>.

### **Box 1. OECD. Generating New Ideas and Promoting their Implementation**

The OECD has been leading in matters of sustainability policy; already in the 1970 it developed the major principles (such as polluter pays) that have been adopted by all members and now guide both the global and the EU environmental policy. Another example of leadership in policy renewal is the OECD's concern with the quality of government. In this respect a strong interaction has developed between the OECD and the EU in three domains. First, the OECD has developed a coordination method (with reviews, guidelines and recommendations as main elements) that has very strongly influenced the definition of the Open Method of Coordination by the EU and its adoption in a number of EU policy areas (Groenendijk 2010; Schaefer 2006; Martens et al 2004; Martens, Jacobi 2010; Molle 2011). The same can be said concerning the quality of regulation; the EU Smart Regulation programme is very heavily indebted to the work of the OECD on better regulation, among others by Regulatory Impact Analysis (de Francesco 2013)<sup>a)</sup>. Finally, we mention the fight against corruption: the OECD's work in the matter is closely linked to that of the EU (Wolf 2010).

<sup>a)</sup> Note: Mind that the EU has actually financed the OECD to promote the concept of better regulation in its member countries, considering the OECD mechanisms more effective than its own. The same is true for the SIGMA programme: "Support for Improvement in Governance and Management", in which the EU finances work in the EU Member States, the candidate countries and the neighbouring countries (OECD 2011).

An example of "uploading" is smart specialization. This concept was initially developed in the framework of an EU working group that considered many investments in innovation policy to be insufficiently productive because of their general character and lack of "embeddedness" in the regional economy, so regions have to specialize on specific technological trajectories related to their structure and potential. These principles have become a central element in the new EU cohesion policy. They have been extensively discussed among EU and OECD experts and are promoted now by the OECD to its membership as best practice, both on the regional and national level<sup>15</sup>.

<sup>14</sup> See for the policy: OECD (2010) and for the OECD suggestion on Lisbon: Padoan (2009).

<sup>15</sup> For a specific description of the smart specialisation approach, see: Foray (2015) and Mac Cann (2015), for the EU cohesion policy in general: Molle (2015) and for the application of the ideas in other OECD countries: OECD (2013).

The EU – OECD relation in the matters of inclusive growth is also characterised by an exchange of policy ideas and practices, where both examples of “uploading” and “downloading” can be found <sup>16</sup>.

## **5. The European Union – the International Labour Organization Relation**

### **5.1. The International Labour Organization Structure**

The International Labour Organization (ILO) is the main organisation dealing with labour-related and inclusiveness issues at the world level. The ILO is an exception in the world of international organisations because it is tri-partite: governments, trade unions and employer associations.

Its main instrument is regulation: it sets international standards (conventions) on many aspects of labour markets, industrial relations and social issues. Member countries are free to adopt ILO conventions and can even withdraw from a convention they had previously accepted. But once a member country has ratified a convention, its government is legally obliged to implement it correctly. The ILO supervises the compliance of its members by an involved procedure in which governments regularly send reports to the ILO. Representatives of employers’ and workers’ organisations comment on these reports. The other ILO instrument is technical assistance to countries that struggle with labour law issues.

### **5.2. The European Union Position**

The position of the EU in the ILO is a complicated one. The articles of the ILO limit membership to states. Given the competences of the EU in labour and social matters, a special status would be justified. However, even that has not been accepted by the majority of members, so other solutions had to be found for solving the numerous

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<sup>16</sup> See in this respect: Dostal (2004), Armingeon (2004), Noaksson, Jacobson (2003) and Kildal (2009). An interesting example is the recent cooperation of the EU and the OECD in an EU-financed OECD programme for inclusive entrepreneurship; this programme (OECD 2014) aims at vulnerable groups (such as ethnic minorities, young people) and tries to find new ways of activation, among others by adapting the relation between work and welfare systems.



problems that arise because the objectives and competences of the EU and the ILO overlap and hence are (potentially) conflicting.

Four mechanisms have been put in place. The first is coordination of EU Member States on ILO issues. The second is the representation of the EU's view in the ILO discussions by the EU member that holds the Presidency of the EU Council. The third is the (non-voting) observer status for the EU in certain instances of the ILO. The last is the creation of a coordination platform between the ILO secretariat and the European Commission. For quite some time these arrangements have not been able to provide a fruitful relation between the two organisations and many conflicts arose. A decade ago, the two organisations decided to make the best of the existing situation and to define a number of common objectives for enhanced cooperation (ILO 2012).

### 5.3. Effectiveness in Reaching Objectives

The first objective of the cooperation is to avoid conflicts over the interpretation of the ILO rules in the context of the EU's legal system. Reaching this objective is still difficult, due to the limitations of the internal coordination of the EU while negotiating ILO texts; the differences in implementation mechanisms and the specific role of the judiciary in the EU<sup>17</sup>.

The second objective is to cooperate effectively in the promotion of labour protection around the world (in ILO terms "decent work"). There is both a moral and an economic rationale for pursuing this objective. The first one is self-evident. The latter may require some explanation. Labour protection helps the investment in human capital and thereby promotes productivity and hence development. Moreover, promoting labour standards at the global level means the limitation of the competition coming from producers that benefit from low-paid and poorly protected labour (popularly called social dumping). So, the EU has an interest in striving for stricter norms on the global level. There is a dilemma in this respect. Indeed, the more the EU pushes its agenda for setting high standards, the lower the number of countries that ratify the text and the more numerous the cases of non-compliance with ratified texts (van Aart 2011; Kissack 2011).

In order to mitigate this effect the EU has put in place a financial instrument. It finances extra-budgetary ILO programmes of technical assistance to promote, for instance, decent work in developing countries (ILO 2009, 2012). Moreover, the EU

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<sup>17</sup> For efforts to minimise conflicts, see ILO (2006), for implementation Harlapp (2007) and for examples of still remaining conflicts Seifert (2013).

finances preparatory work of the ILO in sensitive areas where the ILO membership does not provide the necessary budgetary support (for instance in the maritime sector).

The conclusion of the previous considerations is that the EU has found a way of pursuing its objectives in the ILO notwithstanding the very clumsy institutional arrangements on which the cooperation between the two organisations is based.

## 6. Conclusions and Recommendations

The objective of this paper was to see to what extent the EU's action in international organisations is effective. We selected in this respect the OECD and the ILO, as they are competent in smart and inclusive growth. The interrelations of the EU and these two IOs are complicated, given the fact that the EU has not acquired a formal membership in either one. However in practice, the EU has found ways to interact with these IOs and to promote its objectives both at the global and European levels.

The theme of this book is the re-thinking of EU education and research for smart and inclusive growth. The present paper has not dealt with the education side, only with the research side. On this latter score our investigation has shown that there is a domain where much further research is warranted: the interaction between the EU and the OECD is indeed a largely under-researched area <sup>18</sup>, so we recommend scientists to (re-)orient their research work towards one of the policy domains where the EU and the OECD both pursue objectives. Indeed, it is important to establish under which conditions such interaction is most effective.

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<sup>18</sup> This is put in the limelight by the following citations:

“The Organisation for Economic Cooperation and Development is a much cited, but little studied institution, and its role in international governance is poorly understood” (Mahon, McBride 2009).

“OECD,... being one of the least researched institutions” (Jorgensen, Laatkinen 2013: 7) .

“Even today, it remains something of a paradox that an organisation comprising major economies which, despite the rise of Asia and other regions, still overshadow the rest of the world as regards trade, investment and GDP, has not received as much attention from scholars in the fields of international relations, political science and economics” (Clifton, Diaz Fuentes 2011: 297)

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# THE EUROPEAN UNION AND MULTI-LEVEL GOVERNANCE IN THE WORLD: CONCEPTUAL REFLECTIONS

## Abstract

*In the fast changing global landscape, Europe is confronted with the preoccupation, but also with the moral responsibility to maintain its model of integration and diversity within a radically transforming world system. The paper presents some conceptual reflections concerning the European Union in a changing world, in particular in its external relations. The paper is structured along three main parts. The first section focuses on two major new concepts in international relations studies, i.e. multi-level governance and sustainable statehood. Moreover, it proposes a human-centric approach to the interaction between globalisation and Europeanisation at the global and European level. The second part applies the conceptual content to the European context, in particular to Europe's role and its model of society within the globalising world. Finally, this is verified for the EU's external relations as to its major characteristics and human-centric perspective.*

**Keywords:** multi-level governance, sustainable statehood, human rights, cosmopolitanism, EU foreign and security policy

## 1. Conceptual Content: Multi-level Governance and Sustainable Statehood

### 1.1. Multi-level Governance in Perspective

Governance is one of the main keys to the success of the process of European integration. Europe will be strong, its institutions legitimate, its policies effective, and its citizens feeling involved and engaged if its mode of governance guarantees

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cooperation between different tiers of government, in order to meet the European Union's political agenda and face global challenges. The MLG-concept refers to a process whereby elements/actors/layers in a society at various international, European, national, regional and local levels (institutions and civil society) wield power and authority, influence and enact policies and decisions concerning public life, economic, social and cultural development (Marks 1993: 391–410).

## **1.2. Changed International Context: from Multilateralism and Multipolar World Order (Telò 2009) to MLG Structures**

International political and economic reality presents a complex and heterogeneous governance structure. Firstly, there is no single top level in the emerging new multilateralism. The UN and the Bretton Woods institutions, together with new fora such as the G20, stand for plurality of top levels. Secondly, at the regional level there is no perfect match between a regional territory and a regional organisation. On the contrary, in most cases one can identify many different regional organisations that cover more or less the same territory. Thirdly, at the level of continents, regions or states there is no fixed set of poles, which instead are diverse and shifting. Fourthly, as the multilateral system is no longer uniquely the playing ground of states, a possibility opened up for a civil society's increased participation in governance. And finally, states are not necessarily the lowest level, as in some cases subnational entities can have their own direct relations with the regional or global level without interfering with the state level.

What are the main characteristics of the emerging multipolar world?

### **1.2.1. Diversification of Multilateral Organisations**

The first characteristic of multilateralism is the diversification of multilateral organisations. In recent years there has been a dramatic rise in all kinds of international organisations and regimes. The number of intergovernmental organisations has grown drastically in the recent decades. They often operate in a network base, in line with transnationalisation of policies and overlapping competences (Stone 2004: 545–566). Therefore, the emerging multilateral system implies the rise of transnational policy networks (Djelic 2003). In summary, states, international and regional organisations, transnational policy networks and nongovernmental actors are the building blocks of the multilateral system (Van Langenhove 2010: 32). Moreover, it is no longer possible to make a clear distinction between states and international organisations, as some of the latter have statehood properties as well. Furthermore, interactions between all these actors are not organised in a hierarchical way, but in a more networked way.



This implies that there is no single decisionmaking centre in terms of governance, but that various contexts of multilateral relations exist. A nation-state is no longer the only place for coping with global and transnational problems. Governance in the areas of changing statehood refers to multi-level governance, which links inter- and transnational actors to local ones in a variety of rule and authority structures.

What does it imply?

A multilateralism that operates in a multipolar world could offer good prospects for generating a non-hegemonic world order. Instead, one can expect a fluid web of multi-stakeholder partnerships between different types of actors at different levels of governance. According to Newman and Thakur, many multilateral processes work most effectively at the regional level, based upon their shared values, identity and regional leadership (Newman, Thakur 2006: 539); regions then become major nodes in the system. On the one hand, they are to be considered sub-global entities characterised by a dense intensity of economic and political relations that can be relatively autonomous of the rest of the world. On the other hand, they have a centre of gravity that can act as a pole in a multipolar world.

### **1.2.2. The Growing Importance of Non-State Actors in the International System at Supra- and Subnational Level**

Secondly, there is the growing importance of non-state actors in the international system. States have by now created a large number of global and regional institutions that have themselves become players in the international order. Some of these new players, although not states, do resemble states. An international organisation like the EU exemplifies this trend (e.g. its presence as an observer in the UN, its voting rights at the IMF and its membership in the G8, etc.) (Gstöhl 2008: 30). Other regional organisations take the EU as an example– although not to the same extent. We are witnessing a transition from a world exclusively of states to a world of regions and states (Van Langenhove, Marchesi 2008).

This trend is further reinforced by the phenomenon of devolution, whereby state powers are in some states transferred to subnational regions. Both supra- and subnational governance entities are created by states and can therefore be regarded as dependent agencies of those states. The sub- and supranational entities have a tendency to behave “as if” they were states. All of this challenges sovereignty, as both the supranational and subnational regions do indeed to some extent have statehood properties. The EU is exemplary, as it is the only international organisation that grants citizenship to the citizens of its Member States. Together, it has weakened the Westphalian relation between the state and sovereignty.

### 1.2.3. The Growing Horizontal Interconnectivity between Policy Domains

Thirdly, in addition to the increased relations between vertical levels of governance, there is a growing horizontal interconnectivity between policy domains. Finance cannot be divorced from trade, security, climate, etc. The boundaries between policy domains (and the organisations dealing with them) are becoming more and more blurred. Instead of clearly separated areas of policy concerns and separated institutions to deal with them, there are now communities of different actors and layers that together form a global gathering place of multiple audiences and plural institutions (Stone 2008). However, the overlapping of competences and the mixed scope and structure of (formal and informal) international organisations have made the current international relations rather unpredictable and full of uncertainties and risks. A responsible, shared management of governance structures at all levels is more than ever needed to deal with different issues and actors involved.

### 1.2.4. The Involvement of Citizens in the Old Multilateral System

Finally, the involvement of citizens in the old multilateral system is largely limited to their democratic representation at the state level. The supranational governance layer does not predict any direct involvement of civil society or any other nongovernmental actors. This has resulted in increased room for nongovernmental actors at all levels, focusing on the social dimension of current developments and taking advantage of social media.

Organising multilateralism in a state-centric way has only been possible through treating the postulates of all the states as equal. This means that irrespective of the differences in territorial size, the size of the population, military power or economic strength, all states have the same legal personality. Or in other words, the Westphalian principle of sovereign equality means that one state equals one vote. This postulate no longer corresponds with reality, therefore a more flexible form of multilateralism is needed, one which could eventually also lead to a more just system with a more equal balance of powers. The social fora, active at all levels of citizens' participation, have become an important instrument in the multilevel governance structures of the multilateral and multipolar world (see World and European Social Forum, the existence of targeted civil society organisations such as Human Rights Watch and Avaaz).

What is the impact of these changes?

This current multidimensional process of globalisation has a paradoxical impact on external and internal relations of the states. The dominant spatial paradigm of territoriality and identity building is being undermined by the globalising forces. This paradigm has placed boundaries between some of the most fundamental

characteristics of the modern world, notably community, security, nationality, identity and citizenship. Still, the power of the territorial narrative remains strong through the re-emergence of communal, nationalist and ethnic identities, a misconceived interpretation of sovereignty and the exclusive focus of locally based communities on sustaining social solidarity. In summary, the globalising world is characterised by a partial asymmetry between the growing extraterritorial nature of its enormous power and the continued territoriality of the ways in which people live their everyday lives. Its seemingly contradictory nature reveals new opportunities for institutional structures, along with new forms of politics and civility.

### **1.3. Sustainable Statehood**

#### **1.3.1. Point of Departure**

The social sciences' debate on governance implicitly or explicitly remains connected to a specific type of modern statehood, exhibiting full domestic sovereignty and a capacity to make, implement and enforce decisions. This traditional statehood consists of five monopolistic dimensions, i.e. security, territory/borders, (national) citizenship, the practice of democracy and cultural identity. However, the traditional monopoly of statehood exhibited by a national sovereign state has historically been broken down *de facto* e *de jure*. The contemporary international political system introduces multiple (pooled) sovereignties with changing statehood.

The changed global setting has moved a multipolar world towards a complex web of relations between four types of actors with statehood properties (i.e. global institutions, regional organisations, states and subnational regional entities) together with non-state actors such as NGOs or transnational policy networks. This new conceptualisation of governance, citizenship and dialogue in international/global relations therefore requires a multiplicity of citizenships as political-legal statuses (i.e. post-nationalism), recognition of diverse and multiple identities (i.e. multiculturalism vs interculturalism) and citizens' participation on all levels of sovereignty (i.e. transnationalism). Furthermore, it requires a growing awareness of the need for global knowledge and global planning to realise global goods, and the recognition of a shared future, favours an interest in universal values of belonging and institutional expressions of global norms.

The new dimensions of statehood are: the international legal recognition of human rights, the development of intergovernmental and nongovernmental international organisations, the era of planetary interdependence and plural citizenship. These properties seem to have a greater governance capacity, both on the macro and micro

level of the multipolar system. Yet the available conceptual apparatus, referred to as “methodological nationalism”, is not adequately equipped to deal with governance issues in the rapidly changing international system.

### 1.3.2. Conceptual Framework

The nucleus of the conceptual framework of the sustainable statehood refers to the theories/approaches of federalism, human development, public goods and multi-level governance. The driving forces in societal development, shaped by seemingly contradictory globalising and localising trends, challenge the characteristics of traditional statehood. Hence, they induce new paradoxes which, due to their magnitude of scale and intensity, are unprecedented and require new insights and innovative approaches to deal with complex issues such as territorial sovereignty vs. responsibility of the international community, the need for global rules vs. the need for local enforcement, global world culture vs. local identity, the universality of human rights vs. the particularity of their application, etc. It is clear that these manifestations all have an implicit tendency to generate conflict and constitute the driving forces for change in the international system.

The reconversion of the nationally defined and border-based statehood passes through the structural reform of the modern state. The principles and structural conditions which make up the constitutive elements of a sustainable state are: (1) the recognition of the primacy of International Law of Human Rights over Internal Law; (2) the strengthening of the principles of the rule of law in view of their interdependence with the requirements of the welfare state: all human rights (i.e. civil, political, economic, social and cultural) are in fact interdependent and indivisible; (3) the realisation of forms of large functional autonomy, which implies the application of the principle of pluralism in the case of political parties and trade unions, as well as in the case of other legitimate formations of civil society (nongovernmental associations, voluntary groups, ethical banks, etc.); (4) the realisation of pronounced and diffused forms of territorial autonomy: more functions and powers to communities, provinces, regions, Länder, etc. based on the premise that local autonomy originates, not derives from the above; (5) the application of the principle of pluralism beyond the market economy principles; (6) active membership in supranational systems of collective security: strengthening the UN system; and (7) the protection and valorisation of the natural environment and cultural goods as a transversal objective of various public policies.

### 1.3.3. A Human-Centric Approach to Sustainable Statehood

#### 1.3.3.1. Diagnosis of Departure

The underlying paradigm of a human-centric approach to international relations is the qualitative inadequacy or capacity deficit of the state-centric structure of the international system, and the reference to the human rights paradigm as a parameter for a human-centric transformation of the system. This approach focuses on forms of humanly sustainable statehood.

The old national, sovereign-armed, border form of the state is no longer capable of exclusively covering and managing the contents of statehood. This criticism is based on the fact that the law-enforcing power is no longer an exclusive sovereign function of the state. Other law-making structures of authority exist beyond and above the state, which makes laws, even those containing constitutional norms, and adopts legally binding decisions. As a consequence, the current status of traditional statehood, also concerning its territorial dimension, displays the characteristics of pronounced porosity in respect to the variables that are external to the traditional domain reserved to the state.

This diagnosis also refers to a crisis of democracy, the main cause of which is linked to the limits of the capacity space in which its experience has been previously circumscribed, i.e. the domestic jurisdiction of a capacity reserved to a single state. A democracy that is only internally defined is therefore an insufficient democracy, and in the end useless, because it runs pointless in the presence of the undeniable fact that big decisions are often made beyond a single state. It is to these enlarged international and transnational frameworks that the democratic experience has to be taken. Of particular relevance in this respect are the political and normative implications that derive from the recognition of the international legal subjectivity of a human being.

Starting from the vital needs of individual persons and communities, legal obligation and rational convenience seem to complement each other to realise a new division of politics, going from the micro-local context to the macro-planetary level. The functional space of sustainable statehood finally coincides with the constitutional space of human rights. In virtue of the international recognition of fundamental rights, the operational space is widened from the internal legal sphere to the global legal sphere.

In short, the International Law of Human Rights, with the applied support of subsidiarity, is the compass that guides the transfer and distribution of functions and structures of democratic statehood along the scale of sustainable statehood, moving from the city, the village, the region, the state, Europe and finally to the supranational

institutions. Human rights need therefore to be situation-specific. In other words, they have to be localised or as locally relevant as possible. The contribution of local communities to the interpretation and further normative development of human rights is therefore conceived as essential.

### **1.3.3.2. Basic Fundamentals**

The mutually reinforcing conceptual building blocks of a human-centric approach to building sustainable statehood, applied to the European setting, are the universality and indivisibility of human rights and the cosmopolitan perspective of multi-level governance in relation to its local relevance and the importance of global public goods in relation to transnational democratic practices.

#### **1.3.3.2.1. The Human Rights Paradigm**

The universality of human rights rests on the recognition of the equal importance and interdependence of civil, political, economic, social and cultural rights. Within the current globalisation debate this implies localising human rights as much as developing a common responsibility across borders of states. The human rights paradigm is conceived as a powerful and universal transcultural and transnational facilitator for human-centric governance and sustainable statehood. This recognition will favour a move from the (increasingly) conflicting stage of multiculturalism to the dialogic stage of interculturality in globalising societies.

Anchored to the paradigm of human rights are human security and human development (Papisca 2008). They are the new frontiers of global multi-level governance. Both hold the human being as their primary subject. In broad terms, human security shifts our focus from traditional territorial security to that of a person. Human security recognises that an individual's personal protection and preservation comes not just from the safeguarding of the state as a political unit, but also from the individual's access to welfare and their quality of life. The security policies of states should be instrumental to the objectives of human security and human development.

#### **1.3.3.2.2 The Cosmopolitan Perspective of Multi-level Governance in Europe**

(Beck, Grande 1995; Archibugi, Held 1995a; Archibugi 2009)

The apparent contradiction between the growing extra-territorial nature of power and the continuing territoriality of the ways in which people live their everyday lives reveals new opportunities for institutional structures along with new forms of management of politics and dialogue at various levels of the globalising landscape. This perspective refers to a cosmopolitan shaping and understanding of the emerging European polity of multi-level governance structures. According to Ulrich Beck, the cosmopolitan state

is both a political answer and a useful tool for managing political identities and ethnic fragmentation in the era of globalisation and pluralism (Beck 2006). The European integration process is first of all a peace project.

The point of departure is the weakening of the spatial paradigm of territoriality and identity building by the globalisation forces. European integration has developed into a much more complex and mixed political project, evolving into a “common citizenship” and a transnational democracy. It is characterised by a flexible spatial structure, composed of vertical and horizontal links between models of sovereignty in a transformative interdependence. The European integration process presents an asymmetrical integrative order based on a mixture of intergovernmental and supranational forms of cooperation, in which civil society is becoming a shaping factor and a meeting place of social and political aggregations.

#### 1.3.3.2.3. Global Public Goods and Transnational Democracy

(Kaul, Grunberg 1999; Kaul et al. 2003)

We all live in an increasingly unified world, so that individuals, groups, nations and continents become interdependent in a so-called “global village”. Various political, economic, cultural and social factors are shaping the process of globalisation, with drastic consequences on the human development relations between nations, peoples and persons. Today they refer to pervasive and complex global policy challenges such as poverty, the development of climate change, justice, peace and security, etc. Many of these global challenges and threats result from under-provision of global public goods, such as international financial stability, equality, health, environmental sustainability, respect for human rights.

The global public goods approach takes into account the core systemic features of globalisation, such as spatial extension and compression, increasing interconnectedness, temporal acceleration and a growing awareness of its consequences on states and people. It recognises multiple locations of governance, multiple dimensions of integration, multiple modes of interaction and an increasing institutionalisation of the process of globalisation. Such an approach contributes to a better analysis of global policy challenges, including sustainable statehood for good human governance and may offer strategies for true global policymaking. New opportunities for enhanced networked governance have been created among states, regions and civil society actors.

Global governance is generally defined as “the management of global problems and the pursuit of global objectives through the concerted efforts of states and other international organisations” (Ortega 2007: 46). The public goods perspective departs from the need of international democracy for internal democracy in a deterritorialised (global) space. Therefore, today’s open and interdependent world

requires a principle of responsible sovereignty that encompasses both the internal and the external dimensions of governance responsibility. This implies remodelling of the role of the state that encompasses collective self-interest. A research consequence of this perspective is the focus on the creation, protection and management of global public goods, the subsequent dimensions of global democracy and global democratic community or society, the institutional diversity to promote the common good, and the importance of regional and international organisations as the building blocks of a global community, i.e. a re-invention of democracy in a global context.

The need for managing global public goods requires international/transnational democratic structures. Today's passionate and creative reality of civil society organisations and social movements, and of local governments acting across and beyond state borders, demonstrate that civic and political roles, that is active citizenship, are no longer limited to the intra-state space, and the geometry of democracy is extending and growing in the world space. The traditional inter-state system has always been an exclusive club of "rulers for rulers". Now it is citizens, especially through their transnational organisations and movements, who are claiming a legitimate role, and increasing their visibility in the world's constitutional space. Democratising international institutions and politics in the true sense of democracy – this does not mean "one country, one vote" (a procedural translation of the old principle of sovereign state equality), but more direct legitimacy of the relevant multilateral bodies and more effective political participation in their functioning – has become the new frontier for any significant human-centric and peaceful development of governance.

## **2. Multi-level Governance and Sustainable Statehood in the European Perspective**

As Europe is the most regionalised territory in the world, with a regional organisation (EU) that aspires to be a global power, it could play a central role in the transformation of the current multilateral system. Actually, it might also be that Europe needs to play that role in order to safeguard its own position and not be reduced to a mere spectator in global affairs (Renard 2009: 41). The EU's plea for a more "effective multilateralism" is heading in that direction and can be seen as a (timid) attempt to influence the multilateral playing field (Rogers 2011: 31). But there is still a long way to go. At the level of the WTO, the EU is talking in one voice: it is the EU Commissioner for Trade who negotiated on behalf of all EU Member States at the Doha Development Round.



But at the IMF or the World Bank, Europe is not yet at that point. Giving a bigger role to regional organisations in the multilateral system might be the innovation to pursue.

## **2.1. European Setting in the Global World**

### **2.1.1. A Weakened Position of the EU as a Global Actor: External and Internal Factors**

For a long time the EU has had the ambition and capacity to play a global role, especially in the first pillar domains such as trade, development, environment and social issues (Orbie 2008). More recently, the EU has also been increasingly developing its security strategy and architecture, focusing on its global ambitions (Tardy 2009). With the Lisbon Treaty, the EU has made an even more important step forward towards realising its global aspirations (Van Langenhove, Marchesi 2008). This can be called the process of Europeanisation, as a response to the globalisation process (Bekemans 2013). Indeed, ever since the birth of the Industrial Revolution, Europe, and by extension “the West”, has been the centre of the world. Along with the scientific and technological inventions that gave rise to unprecedented boosts in productivity, new institutional and political inventions arose in Europe, such as the birth of the liberal state and the idea that peace and trade were interlinked. Combined with new ideas about sovereignty, legitimacy of state power and nationalism, this resulted in a system of interstate competition with dramatic economic and geopolitical consequences. Meanwhile, western values and assumptions have been internalised to a great extent in almost every other major culture (Roberts 1985: 278). Today, the international system is more complex, more interdependent and more fragmented, with diverse actors involved.

Although the EU is still the world's leading exporter of goods, the largest trader of services and the biggest provider of development and humanitarian aid, the second largest foreign investor and the second largest destination for foreign migrants, there is now more competition in those areas. But, with the current global economic and financial crisis, one can easily speak of a European malaise and a decline of its economic and political power, even of a systemic crisis. This can be related to a combination of various factors which existed before the crisis: external factors like the increasing competition at the global level and the management of complexity, and internal factors like demographic developments and EU governance deficit, in particular the lack of economic or fiscal governance.

In carefully managing the global crisis, the EU is slowly taking measures for greater economic, fiscal and financial convergent policies, first in the framework of

the previous Stability and Growth Pact and now, since 1st January 2013, with the Fiscal Compact (formally the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union; or more plainly the Fiscal Stability Treaty). Much greater fiscal union, at least in the Euro zone, is seen as a necessary solution to the current European sovereign debt crisis, as well as a natural next step in European integration. As the financial crisis evolved and has turned into the Eurozone debt crisis, deeper integration of the banking system was needed. As of 2014, the emerging European Bank Union consists of a Single Supervisory Mechanism (ECB) and a Single Resolution Mechanism for banks, representing another step towards European financial governance.

### **2.1.2. The EU as an International Reference or a “Model of Society”**

Two essential and distinctive dimensions of the EU’s contribution to global governance can be distinguished: the EU’s internal/external influence as a model of national and supranational democracy and its impact on international democratisation (Magnette, Nicoalaidis 2009).

Since its creation in the 1950s, the European Community (and now the EU) has played a key role in underpinning and strengthening democratic processes throughout its several enlargements, from the Mediterranean to the Central and Eastern enlargements. Furthermore, the EU represents regional democratic political integration *sui generis*. Its regional democratic polity is already offering a twofold international reference of democratic practice: for democracy within the state and for democracy between states.

Finally, for centuries the global implications of the European contribution towards peacebuilding has been addressed by political thinkers, from Immanuel Kant to Jürgen Habermas. Jean-Marc Ferry analyses the modern cosmopolitan perspective in the light of the European structural peace and democratic transnationalism (Ferry 2005). Even for realist scholars, such as Christopher Hill, the EU is already a regional form of international society (Telò 2009), marked by reconciliation, recognition and deep cooperation among former enemies. Some idealist social scientists, such as Ulrich Beck, have professed the EU to be a cosmopolitan Empire within the Westphalian world (Beck, Grande 1995). Different names have been given by international relations’ scholars to the European integration model, mainly stressing its changing characteristics in comparison with the traditional international organisations (Börzel 2013). All these views and concepts imply new challenges in terms of the distinctive, international European identity, its external policymaking and innovative notions of power.

## **2.2. Future Paths**

If Europe wants to respond adequately to the global challenges and to the newly emerging world order, it needs a strengthened vision and a new storyline (Fritz-Vannahme 2009). One can point to many possible issues that could become part of such a new storyline. Given the working hypotheses of this first section, one can think of two (interrelated) tracks that could further strengthen Europe's position in the multipolar world of tomorrow: (1) deepening western integration and (2) acting as a change agent within the multilateral system.

### **2.2.1. Deepening Integration: the Road to European Federalism**

Europe, and the EU in particular, is seriously handicapped in its ambition to be a global actor. As size matters, both for economic and political power, being divided into a multiplicity of small actors does not help. Of course, it has come a long way since the start of the integration process, after the First World War. But much more needs to be done. Notwithstanding the euro as common currency, economic policy is still, to a large extent, the national policy of the Member States. The same holds for security policy. Although there are EU-wide security policy documents, the major Member States still have their own national security strategies.

Increased European integration seems therefore to be the only way forward. Only then will the national interest of all Member States become part of the overall European interest. But perhaps an increased European integration will not be enough to counterbalance the fact that Europe's relevance in the world is shrinking. Perhaps even a fully integrated Europe will not be enough to allow for the realisation of its global ambitions. In this context, transatlantic relations are gaining importance. Moreover, since 2001 the primary contextual rationale for articulating the European identity within the EU has increasingly become the idea of a common foreign policy. A new grand project for making Europe a true global player is being sought for (Kolvraa 2004).

### **2.2.2. Acting as a Change-agent in the International System**

In the emerging new international world order, states, international and regional organisations, transnational policy networks and non-governmental actors are the building blocks of the multilateral system. In other words, states are merely players amongst others. Moreover, it is no longer possible to make a clear distinction between states and international organisations, as some of the latter have statehood properties as well. Furthermore, the interactions between all these actors are not organised in a hierarchical way, but as a network. This implies that there is no single "centre of the

universe” in terms of governance. It also implies that there are no sufficient “spaces of multilateral relations”. Instead, one can expect a fluid web of multi-stakeholder partnerships between different types of actors at different levels of governance, including the regional level. Already in 1997 Moravcsik wrote that “the EU provides the best laboratory for studying theoretical issues only just emerging elsewhere, such as [...] binding interstate legislative procedures, multi-level system and legal dispute resolution” (Moravcsik 1997). Also for policymakers, lessons from the EU experience are directly applicable to the problems facing the WTO, Mercosur, NAFTA or other international organisations.

### **2.2.3. Building the European Statehood in a MLG Structure**

The European Union, as previously stated, proposes itself as a new form of statehood at the international level in which the adaptation process seems to be ongoing. Still, the architecture of the new global and European governance can only be structured according to the scheme of multi-level and supranational governance, linking the territorial and vertical dimension of subsidiarity with its functional and horizontal dimension. In this sense, the EU can be conceived as a container of sustainable statehood, exhibiting a double responsibility, i.e. an internal responsibility to guide the Member States in the process of adaptation and an external responsibility to be a civil actor promoting global governance (Howorth 2010: 454–475).

The multi-directional building process of formal and informal governance in the European and international system assumes various levels of governance (up, down, across and beyond) with institutional, political, educational, sociological and legal consequences. In Europe, a four-fold process of cooperation/integration can be observed: the building up of a joint management of pooled sovereignty; the building down to regions in Europe, including some border regions; the building across, that is the fostering and consolidating of ties between groups on a transnational basis, often with an important functional and thematic connotation; and finally the building beyond, in the form of a variety of cooperation agreements in the European and global landscape (such as the EU, Mercosur, ASEAN, ECOWAS, AU, NAFTA, Andean Community, G20, etc.). These interlinkages have an impact on changing statehood and governance, illustrating the growing importance of interregional governance relations.

The European Union is a specific regional integration model and a *sui generis* political system with a European layer, a national and a regional layer with implications in governance. These multi-level governance structures have gradually been institutionalised and stepped up by EU practices. In line with the EU’s White Paper on European Governance (European Commission 2001), the Committee of the Regions published in 2009 a White Paper on Multi-level Governance (Committee of

the Regions 2009), reflecting its determination to “build Europe in partnership”. The principle of multi-level governance was defined as “coordinated action by the European Union, the Member States and local and regional authorities, based on partnership, taking the form of operational and institutionalised cooperation in the drawing up and implementing of the EU policies”(Commission of the Regions 2009). This is done according to the principles of subsidiarity and proportionality.

Two main strategic objectives were clearly set: encouraging participation in the European process and reinforcing the efficiency of Community action. Several proposals were suggested, such as Regional Action Plans, tools, territorial pacts, inclusive methods of coordination, and vertical and horizontal partnerships. Regional Practices of European multi-level governance were established. The European Grouping of Territorial Cooperation (EGTC) was created in 2006 as a legal and financial tool to facilitate cross-border, trans-national or inter-regional cooperation; in 2008–2010, the Committee of the Regions organised workshops to strengthen the multi-level governance approach; the European Union Charter on MLG (Committee of the Regions 2014) was launched in May 2014 as a collaborative process. As a follow-up to its 2009 White Paper on Multilevel Governance, a scoreboard (Committee of the Regions 2012) was introduced as a tool to monitor the development of MLG at the European Union level on a yearly basis. So far two editions of the Scoreboard have been produced, covering the period 2010–2012. Each of these scoreboards provides a comparative assessment of the MLG performance at EU level under four priority policy strategies of the EU.

### **3. Multi-level Governance in EU’s External Relations**

Since its birth in the 1950s, the European Union, created as a peace project by its founding Members, has been developing relations with the rest of the world through a common policy on trade, development assistance and formal trade and cooperation agreements with individual countries or regional groups. It has become a global player in the changing international economic and political landscape. Its main strategic foreign policy objectives are: building a stable Europe with a strong(er) voice in the world, securing its international competitiveness through promoting global commerce and consolidating its socio-economic model of society. In order to conduct its external relations, the EU has a complex institutional and decision-making framework, now fully embedded in the Lisbon Treaty.

The EU foreign policy is contextualised in a European and global setting. Firstly, we focus on the main characteristics of its external relations, in particular the phased development of the EU common foreign and security policy. Secondly, we propose an assessment of the EU's external relations from the human-centric perspective, as was explained earlier, referring to the basic fundamentals of the human rights paradigm, the cosmopolitan perspective of multi-level governance and the global public goods approach.

### **3.1. Main Characteristics: a Dynamic Management of the EU's External Relations**

The EU is a globally important trade power, still accounting for nearly 20% of global exports and imports and generating a quarter of global wealth. Open trade among the members of the EU has led to the so-called single European market, with freedom of movement for people, goods, services and capital. The Union has always taken the lead in pushing for further trade liberalisation at world level. Therefore, trade sanctions (such as removing trade preferences or limiting or freezing trade with a partner in breach of human rights or other international standards of behaviour) have always been the tools of European foreign policy.

The EU has always been a generous provider of aid to developing countries in various ways. Development assistance and cooperation, originally concentrated in Africa, was extended to Asia, Latin America and the southern and eastern Mediterranean countries in the mid-1970s. The special trade and aid relationship between the EU and the 79 countries of the African-Caribbean-Pacific (ACP) group dates back to the Lomé Agreements of 1975. This relationship is now being further developed through the "economic partnership agreements" (EPA), combining the EU's trade and aid in a new way. The ACP countries are encouraged to foster economic integration with regional neighbours as a step towards their global integration, while more aid is focused on institution-building and good governance. Under the EPA the development dimension has become the cornerstone of the EU-ACP relationship. Through its external aid programmes, managed by Europe Aid, the EU and its Member States still provide more than half of all official development assistance and 2/3 of grant aid. The primary objective of EU development cooperation is the eradication of poverty in the context of sustainable development, including the pursuit of the millennium development goals.

The EU began providing humanitarian aid to those in need around the world in the 1970s. Assistance is unconditional: it does not matter whether the disaster is natural or man-made. The aim is to provide help to the victims as quickly as possible,

irrespective of their race, religion or political convictions of their government. The EU channels emergency relief funding through the Commission's European Community Humanitarian Office, its humanitarian aid department (ECHO). Since it was set up in 1992, ECHO has been active in more than 100 countries around the world, getting essential equipment and emergency supplies to disaster victims as soon as possible. From its budget of more than 700 million EUR a year, ECHO also funds medical teams, mine-clearance experts, transport and communications, food aid and logistical support.

## **3.2. European Union Foreign and Security Policy**

### **3.2.1. Global Context: Challenges**

The complexities of the globalising world and various acute policy dilemmas (the Ukraine crisis, the Mediterranean turmoil with the dramatic flow of refugees and IS- slaughters, etc.) challenge the pursuit of the five objectives of the EU foreign policy (i.e. the encouragement of regional cooperation, the advancement of human rights, the promotion of democracy and good governance, the prevention of violent conflicts and the fight against international crime, including terrorism).

The world has increasingly become globalised and interdependent. There is a permanent tensed interaction between global trends (i.e. global politics, global economy and global culture) and global threats (i.e. economic and social inequality, environmental degradation, climate change and global warming, and organised crime and terrorism). A new multipolar world is emerging where power is more diffused, international dynamics more complex and management of global goods and bads the major challenge. It is within this context that the EU has to face up to the world's dramatic transformations and develop its foreign policy. The thematic priorities refer to enhanced EU credibility in conflict prevention, crisis management and peace building, a broad, comprehensive and UN-legitimised policy of fighting against terrorism, a structured support for the International Criminal Court, a normative Human Rights policy, credible security guarantees for non-proliferation and stronger control against arms export.

The EU is also facing new challenges. Global warming is one of the main environmental, social and economic challenges facing humanity. The Lisbon Treaty identifies measures to tackle these problems. One of the Union's objectives is to promote sustainable development in Europe, based on high-level of environmental protection and enhancement. Measures are promoted at the international level to tackle regional or global environmental problems, in particular climate change.

Europe has also to guarantee secure, competitive and clean sources of energy. The Lisbon Treaty clarifies and complements the rules governing the energy policy in the current Treaties with a new section on energy. The EU has taken the international lead in seeking to limit the effects of global warming by cutting its carbon emissions and greenhouse gas emissions in this area. Its objective is to ensure that the energy market functions well, in particular as regards energy supply, and to ensure energy efficiency and energy savings, as well as the development of new and renewable energy sources.

### **3.2.2. Human-centric Assessment**

The impact of the Lisbon Treaty provisions on the EU's foreign and security policies can be assessed, using as reference points the building blocks of the human-centric approach to sustainable statehood, i.e. the human rights paradigm, the cosmopolitan perspective and the public goods focus. The Lisbon Treaty strengthens citizens' rights from the human rights perspective, renews the democratic fundamentals of the European Union in a globalising world and introduces a greater concern for the public good.

#### **3.2.2.1. Human Rights and Citizenship**

The European Union sees human rights as universal and indivisible. It actively promotes and defends them both within its borders and when engaging in relations with non-EU countries. Human rights, democracy and the rule of law are core values of the European Union's external relations. Embedded in its founding Treaty, they were reinforced when the EU adopted the Charter of Fundamental Rights in 2000, and strengthened even further when the Charter became legally binding with the entry into force of the Lisbon Treaty in 2009.

Article 21 of the Treaty on European Union reaffirmed the EU's determination to promote human rights and democracy through all its external actions. The Union's action on the international scene shall be guided by the principles which have inspired its own creation ... 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. It implies that countries seeking to join the EU must respect human rights. Furthermore, all trade and cooperation agreements with third countries contain a clause stipulating that human rights are an essential element in relations between the parties. In other words, human rights have become an explicit EU Foreign Policy Objective.

The Union's human rights policy encompasses civil, political, economic, social and cultural rights. It also seeks to promote the rights of women, of children, of minorities and of displaced people. With a budget of 1.1 billion EUR between 2007 and 2013, the



European Instrument for Democracy and Human Rights supported non-governmental organisations, in particular those promoting human rights, democracy and the rule of law, abolishing the death penalty, combating torture and fighting racism and other forms of discrimination.

### **3.2.2.2. The Cosmopolitan Perspective of the European Union**

The cosmopolitan perspective refers to the place and role of the EU in the world. The EU has to defend its interests in a changing world order. Defending responsible interdependence requires in turn a world where the major players support and agree to work within a system of multilateral governance. Therefore, the Union needs to become a much more assertive player on the international scene. From increasing Europe's competitiveness in its external economic relations to advancing the knowledge society and providing its citizens with freedom and security, the challenges at stake are global. The EU needs to become a driving force in shaping new rules of global governance. The Lisbon Treaty has reinforced the principles on which the Union's action is based: democracy, the rule of law, human rights and fundamental freedoms, respect for human dignity and the principles of equality and solidarity.

Moreover, the reinforcement of actors involved in the EU's foreign affairs might help to develop an EU approach to global governance reform that responds to the cosmopolitan view. The institutional strengthening of the position of the High Representative of the Union for Foreign and Security Policy should lend greater consistency to the Union's external action beyond national borders and increase its visibility worldwide. The High Representative has also access to an external action service, which should favour more effective implementation of the policies of the Union and its Member States. Finally, the President of the European Council represents the Union at the international level on the issues associated with the common foreign and security policy, adding to the gradual cosmopolitisation of the EU multi-level governance structure in external relations.

Europe is thus perceived as a new kind of transnational, cosmopolitan, quasi-state structure which draws its political strength specifically from the affirmation and management of diversities. In reality, this requires a political Europe that seeks to reconstitute its power at the intersection of global, national, regional and local systems of governance. Its application to the practice of European governance suggests that the EU is a multilayered system of decisionmaking in dealing with complex problems in the European and global risk society. Such a forward-looking vision of a state structure should be firmly based on the recognition and integration of differences. It implies that the institutional distribution of competences is not based on the territorial dimension but on the functional and issue-related criteria. The result is the emergence of complex

and hybrid systems of governance and policy networks, termed by Jeremy Rifkin in his “European dream” as the characteristics of a soft world power (Rifkin 2004).

### 3.2.2.3. Global/European Public Goods and Social Democracy and Responsibility

Article 2 of the Lisbon Treaty defines explicitly and clearly the values on which the Union is founded: “respect for human dignity, freedom, democracy, equality, the rule of law and respect for human rights, including the rights of persons belonging to minorities. These values are common to the Member States in a society in which pluralism, non-discrimination, tolerance, justice, solidarity and equality between women and men prevail”. Respect for them is not only a condition *sine-qua-non* for EU membership, but should also be a guideline for developing a common strategy in the EU’s external relations.

Much is related to Europe’s role and responsibility at the global level. The globalisation of an increasingly unipolar world urges Europe to claim a bigger role in global governance structures and to start speaking with one single voice. Europe has the responsibility to conduct a more daring and coherent common security and foreign policy and, subsequently, actually favour the culture of peace, genuine dialogue, solidarity and sustainable development. This does not seem to be easy, given the present international developments and diverging viewpoints. Yet, a modest institutional step was made by the Treaty of Lisbon: it created the function of a High Representative of Foreign Affairs of the Union, who is also the vice-president of the European Commission. With a courageous foreign policy Europe can develop into a strong and trustful partner in a multilateral world order through a series of new cooperation structures. Of course this requires the pursuit of common strategies in high-priority foreign policy areas within the international law framework.

The provision of European public goods is also strongly related to the concept of social democracy. The Lisbon Treaty has stepped up the Union’s social objectives and introduced new social concepts in European law and policymaking. At the heart of the European Union is a distinctive economic and social model, now referred to as the sustainable social market economy. The Union has to work towards the social dimension of sustainable development, based on balanced economic growth, price stability and a highly competitive social market economy, with the aim of achieving economic and social progress. This also implies a carefully applied consideration of the social dimension of the globalisation process in its external relations.

## Conclusion

Europe has the moral responsibility to defend its values and principles of solidarity, tolerance, democracy in the needful but open dialogue between cultures and peoples within and outside Europe. This requires a change in mentality, a lot of imagination and active thinking and acting from the basis, but also political leadership and particularly education that focuses on learning to take responsibility. However, the question has to be put (the answer is unsure) if Europe, within a still unifying European economic space, can guarantee an acceptable common institutional basis in which states, regions and communities can maintain their diversity (the guarantee of internal solidarity) and if Europe can offer an open societal model within the process of further globalisation (guarantee of external solidarity vs. the European fortress).

The challenge for further European integration is the search for a new equilibrium between diversity and unity in a globalising world. The European model should take into account the economic, historic, social and political changes which have taken place at the international level, but it must be faithful to its principles of internal and external solidarity. In short, Europe is in need of bridge builders who can definitely complete the rhetoric of the European story and the European ideals of peace, unity in diversity, freedom and solidarity, and mobilise the young people for the European model of society.

The role of education is herein fundamental. The learning environment has drastically changed; it is more competitive, complex and fragmented, with a wide diversity of learning sources. It should prepare (young) people to learn to live together by acting together in order to tackle complex issues, and to deal with diversity. This requires a variety of life competences, which range from values, attitudes, skills and behaviour (Bekemans 2013). The educational governance should therefore take into account different levels and actors of education involved in formal, informal and non-formal education. In the ongoing process of transformation, the actual educational challenges are related to the search for a new “and/or” balance in curriculum building between theory and practice, as well as between general and specialised studies. Competence building through new pedagogical methods should therefore be a priority in the learning trajectories. To overcome the danger of exclusive, employment-driven learning, education policies should focus on co-ownership of integral human development in order to prepare people to become responsible citizens in any given societal and economic context. This also has an impact on the role of research. Research space should be created for studying and analysing societal problems under inadequate institutional and educational global arrangements.

This radical process of transformation also assumes that new forms and places of dialogue, active citizenship and cooperation can develop outside the existing institutionalised structures of representation. The European civil society becomes emancipated and develops opportunities in the globalising society for persons, peoples and cultures within and outside Europe to meet peacefully and respectfully.

Finally, globalisation and the subsequent re-balancing of power in the world provide an important new rationale for joint EU action on the global scene (Reflection Group 2010). However, this requires political courage, collective ambition, solid pragmatism and a clear sense of community with shared values and ideals. The Lisbon Treaty has introduced some political and legal changes which may become further steps towards the development of the EU as a global, responsible and cosmopolitan player in the changing international political landscape.

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## THE EXTERNAL DIMENSION OF THE EUROPEAN UNION'S AREA OF FREEDOM, SECURITY AND JUSTICE

### Abstract

*The paper covers the External Dimension (ED) of the European Union's Area of Freedom, Security and Justice (AFSJ) and discusses the matter by the point of view of the nature and determinants of the dimension's functioning. The author discusses problems of the perception of ED AFSJ by Europeans and analyzes the very concept of Europeanism. He examines also the truth of the existence of the ED both from the perspective of EU Member States and the European Union itself which, however, is not a subject of international law and may not always represent the unified attitude to the problems of EU countries outside the EU (as the ED AFSJ). As examples of the lack of the European identity (without which the ED AFSJ can neither be consistent nor realistic), the author draws attention to the signs of the Islamic extremism, the "egoism" of EU nation-states and so on. As the conclusion, the paper proposes to answer some questions that can help to improve EU policies in the matter of ED AFSJ.*

**Keywords:** external dimension area, freedom, security, justice, muslim, extremism, european

### Introduction

This paper does not concern the legal aspects of the External Dimension of the European Union's Area of Freedom, Security and Justice (ED AFSJ), because the matter is so extensive that I decided to focus only on a small "slice": the nature and determinants of the functioning of ED AFSJ.

A huge number of scientific and political treatises and quasi-treatises highlight some questions which can help to fully understand the meaning of ED AFSJ.

As evidenced in EU documents:

- the Union shall constitute an area of freedom, security and justice with respect for the fundamental rights and different legal systems and traditions of the Member States;

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- EU shall ascertain the absence of internal border controls for persons and shall frame a common policy on sanctuary, immigration and external border control, based on solidarity between the Member States, which would be fair towards Third Country Nationals (stateless persons shall be treated as Third Country Nationals).
- the Community has to endeavour to ensure a high level of security through measures for preventing and combating crime, racism and xenophobia, and through measures for coordination and cooperation between the police, judicial authorities and other competent authorities, as well as through mutual recognition of judgments in criminal matters and, if necessary, through the standardization of criminal laws (Consolidated ... 2012).

Considering these commitments, a serious question arises: does the EU have the resources to ensure these liabilities, is it able to achieve its objectives in that area, spending extensive funds on different procedures “to guarantee” the ED AFSJ?

## 1. Where is the AFSJ?

At the beginning of 2010s, the EU experienced two basic changes in the areas of freedom, security and justice:

- the *Lisbon* Treaty was ratified (structural changes of the EU regulatory powers in ED AFSJ came into effect);
- the five-year Stockholm Programme (establishing the EU’s work programme in the general perception of AFSJ for 2011–2014) was agreed as the key issue for the EU’s medium-term activity (Šlosarcík 2011: 205–206).

Unfortunately, the visibility of AFSJ and its profile in the political debate (in the meaning of internal and external “ventures”) seemed to decrease significantly in 2010 only and the AFSJ agenda received only relatively modest attention in the Presidency programmes of 2011–2012 (Šlosarcík 2011: 205–206). Under these circumstances, some fundamental doubts can bother the EU citizens:

- why are other EU actions more important than external security (yet ... ED AFSJ is fundamental to the smooth and efficient functioning of each Member State of the EU)?
- why, in particular, is the ED of EU’s AFSJ still in the background?
- does any ED AFSJ exist as a common activity for the EU Member States or is it only a sophisticated political trick to pretend that something is being done in the field of EU’s (supranational) security?



In the light of the abovementioned questions we can recognize the possible presumption that the ED AFSJ makes sense only if the EU is at least a federal or (better!) a unitary<sup>1</sup> state because, in order to act outside (i.e. outside the EU countries), the EU has to have an “international legal personality” (Craven 1998: 142–162; Shukalo 2011; Kammin 1996: 469–488) and the authority over each Member State.

As emphasized in Vara (2008: 577–599), one of the changes with the potential to have a more positive impact on the external projection of the AFSJ is the explicit recognition of the EU's international personality. As a consequence of the abovementioned actions, we have the situation when the Member States are not willing to transfer their external competences on these important issues completely to the EU. A brilliant example is Ukraine: in the international area the EU (as a full power body) is unable to do much, because Russia negotiates not with the EU (as an international legal entity) but with France and Germany. Of course, “the AFSJ appears to be a new legal concept, or legal construction, tailored to the specific nature of the subject area. [...] Yet, the AFSJ is not an intergovernmental area of cooperation, but one in which the Member States clearly allow the Union as such to play a normative role” (Wessel, Marin, Matera 2011: 274).

## 2. National Identity ... Against ED AFSJ

The phenomena of ED AFSJ “is not an objective in itself. Its primary purpose is to contribute to the establishment of an area of freedom, security and justice” (Wessel, Marin, Matera 2011: 280), including the external dimension. But the question is: for whom does the ED AFSJ exist?

- for the EU or the whole Europe – something like the “screen” against external dangers?
- for the *Europeans*? However, this explanation automatically creates another dilemma: who are the *Europeans* or what does a *European* mean? Do they have any common identity/identities?

It is obvious that having only separate national identities, we are not able to ensure any external security of the EU (in the meantime just taking care of our so-called nation-state). So, “can an entity, founded on nations of wildly different customs, expectations and economies long endure and share a common fate?” (Friedman 2015).

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<sup>1</sup> The aim of this paper is not to discuss which government system is better – federal or unitary, so I will not analyze that matter.

Regrettably, the idea of identity has seldom been defined in a clear and explicit way, because the question is: “Do we mean a collective identity, a variety of interlinking collective identities, an aggregation of personal identities, a broadly defined cultural category, or an official cultural or political EU identity? Whether Europe is unable to compete with national societies because national identities are more real or powerful than collective ones depends on what kind of collective identity we mean when we refer to largescale social groups or societal complexes having an identity” (Delanty 2003).

The relationships between the national identities in the EU and ED AFSJ are so strong that we should take into account the fact that “the idea of a European identity is a discourse in which competing claims are worked out, and this idea has been part of many national traditions” (Delanty 2003). Some authors consider that “as a result of globalisation, multiculturalism, global civil society and cosmopolitan political and cultural currents, societies are becoming more and more pluralised and interpenetrating, and less and less discrete wholes anchored in unique cultures and territorial nation-states” (Delanty 2003; see also: Migrants ... 2010; Parekh 1998). Unfortunately, it is a fact that there are only some examples of the definition of the common European identity which are not the expression of the nations’ consciousness but the efforts of Europeanists to create one (Delanty 2003; Wang 2009; Paasi 2001; Laflan 2004). A special place in these efforts belongs to The Declaration on European Identity which was signed in 1973 in Copenhagen by nine Member States of the contemporary European Community (Document ... 1973) – Germany, France, Italy, the Netherlands, Belgium, Luxembourg, Denmark, Ireland and the United Kingdom. That attempt was probably justified at that time but in the last 40 years the EU has undergone so many changes that the attempt reflects neither the internal, nor the external realities of modern Europe and its environment. “However, one point can be made: the European identity is not exclusively constructed on the basis of a collective “Us” who define themselves against an alien “Other”, for the simple reason that, as a result of three decades of cultural diffusion and mixing, there is no clearly definable “Us”. In most European countries the opposition to the Iraq War showed very clearly that the values that define Europe are not Islamophobic. Although xenophobia is a major problem in European societies, it has not become the dominant social imaginary” (Delanty 2003; comp: Neumann 2006; Woolf 2000; Passerini 2012; Patrutiu-Baltes 2013).

So, how to understand the ED AFSJ common for the EU when in the European identities we have the Others against Us? Having the Others instead of Us, we could not treat the ED as common unite, but only as the boundaries of particular Member

States. Though in reality what is external to the EU (as a whole unit) is paradoxically twice external for the EU Member States:

- the EU's external actions, functions etc. (common externality) are common for all Member States,
- each Member State (as a separate nation-state) has its own relations with the other ones and the so-called third countries (particular externality).

To be able to solve the problems of the ED AFSJ, we have to visualize that “as a result of the ongoing process of Europeanisation as well as wider processes of globalisation and the cross-fertilisation of cultures, there is an increase in the number of European personal identities within the populations of European societies; but there is less evidence for the existence of a European collective identity” (Delanty 2003).

## 2. New Factor of ED of ASFJ

There is no doubt that the ED AFSJ has become more important after the Muslim extremist attacks in the USA and Europe. It is also obvious that the EU tries to build a European identity (the base for external perception as the common dimension of AFSJ) on democracy and democratic values which is unfortunately very often just a misunderstanding, especially for a certain number of immigrants from the Muslim countries (Tyler 2008; Friedman 2015; Elgvin 2011; Flood, Hutchings, Nickels, Miazhevich 2007). “The research, conducted by the Motivaction group in Amsterdam, concerns the attitude of Dutch Turks (...) about the Islamic State (also known as ISIS) and found that ‘80% saw nothing wrong in jihad, or holy war, against nonbelievers’. (...) The survey found 90% of young Turks think those fighting against Syrian president Assad's troops are ‘heroes’ and half thought it would be a good thing if Dutch Muslims went to join the fight” (Duke 2014). The greater part of Muslims in Netherlands, Germany, France, Belgium, Austria and Sweden (~65%) believe that Islamic Sharia law (Islamic religious law) should have the supremacy over the secular constitutions and laws of their European host countries: according to a new study, Islamic fundamentalism is widespread and rising sharply in Western Europe (Kern 2013, see also Ersanilli, Koopmans 2013).

The conflict between the European identity and the extremist perception of the separate Islamic identity is obvious, because almost 60% of Muslims believe their community should return to its ‘Islamic roots’. 44% of the Moroccans and Turks in the abovementioned EU Member States can even be defined as fundamentalists (Koopmans 2013; Kern 2015; How ... 2015; Harrod 2013; Molschky 2014).

In these circumstances, “asserting the EU’s identity on the international scene is one of the core objectives of the European Union. (...) It is (...) a difficult task in view of the number of actors (...)” (Hillion 2008: 10). Basically it is hard to speak about a coherent European identity and, as a result, about the common ED AFSJ. To have an integrated ED AFSJ, the EU has to also have the integrated society which is absolutely impossible – there isn’t even any multiculturalism or multicultural integration processes, especially for a huge number of Muslim immigrants in the EU. “While about one in five natives (European people – G.M.) can be considered as Islamophobic, the level of phobia against the West among Muslims (in Europe – G.M.) – for which, oddly enough, there is no word; one might call it ‘Occidentophobia’ – is much higher still, with 54 per cent believing that the West is out to destroy Islam” (Koopmans 2013: 3).

These results clearly say the opposite to the often-heard argument that Islamic religious fundamentalism is an insignificant incident in Western Europe (Koopmans 2013: 3). It is a knotty phenomenon which can influence not only the external, but also internal dimensions of AFSJ (when things are wrong inside they can never be right outside). To achieve an ED AFSJ efficient and common for the EU all Member Countries’ citizens, we have to answer the question “(...) why Europe found it so difficult to assimilate immigrants and why it resorted to multiculturalism” (Friedman 2015). One of the possible answers is: “the customs of the nation-state made it impossible to imagine someone born outside the customs of the nation-state to truly become part of its brotherhood” (Friedman 2015).

Do we lose the European supranational identity (Stanley 2013; Kiratli 2015)? Actually, there is no supranational European identity, because that idea worked only for some time, especially at the economic level, where institutions quickly achieved integration (Europe ... 2015).

### **3. Conclusion (or Which Values the ED AFSJ has to Protect?)**

In 2010 the EU officially declared that “internal and external security are inseparable [...] even far away from our continent” (The Stockholm ... 2010: 33). Indeed, to have ED AFSJ, the Union must at least:

- have “a single external relations policy” (The Stockholm ... 2010: 33) (which is unluckily only a declaration without any specifics or actual actions: the case of Ukraine is an undeniable proof of that);

- realize that “the Union and the Member States will actively develop and promote European and international standards” (The Stockholm ... 2010: 34) (where? for whom? how? – there is no answer besides declarative sentences);
- take into consideration that “as regards the situation in the Mediterranean area, the European Council considers that a stronger partnership with third countries of transit and of origin is necessary, based on reciprocal requirements and operational support, including border control, fight against organised crime, return and readmission. Rapid action to face the challenges in this region is a priority” (The Stockholm ... 2010: 36) (the present situation of immigrants coming to Italy testifies on something entirely different – we can rather talk about humanitarian tragedy and the loss of control of the EU borders (Kingsley 2014; Charat 2015) etc.

In fact, the main concept of the ED AFSJ doesn't have to be what to do outside of the EU, but how to react to what happens (under the influence of the exterior) on the inside (like in the case of illegal migration) and how to protect the EU (like in the case of fundamentalist terrorism).

To achieve the effects of the abovementioned measures, the following questions need to be answered in the nearest future:

- do the priorities of ED AFSJ have to be changed when we see that “the world can either accept periodic attacks or see the entire Muslim community as a potential threat until proved otherwise” (Friedman 2015), taking into consideration that a considerable part of it are new immigrants, who have appeared as a result of warfare imposed on them (also by the EU)?
- should the EU allow the Member States' Intelligence Services to cooperate with external partners (as they want) or should there be strict regulations? (keeping in mind “Snowden revelations of mass-surveillance by the EU Member States, and their cooperation with the US and other states' intelligence communities” (Carrera, Guild 2014: 8–9);
- despite the fact that “the Lisbon Treaty effectively creates a legal framework in which European institutions can adopt legal instruments and operative actions that respond efficiently to the challenges that affect the external dimension of the AFSJ, without infringing upon the protection of human rights and the respect for democratic values” (Vara 2009), can we say that the EU Member States implement these instruments? Where and how?

The lack of answers to these and a number of other questions complicates and blocks the construction of the EU's common ED for AFSJ.

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## HAS THE EUROPEAN UNION SUCCEEDED IN ITS PRIMARY MISSION OF SECURING PEACE?

### Abstract

*Since the first ideas of a federal Europe pursued by the “EU’s founding fathers”, European integration’s primary objective was to secure peace in Europe. This policy was extended after the end of the Cold War through new instruments, namely the enlargement policy and the association process. It helped stabilise the newly democratised Central European states through a policy of conditionality, and financial and technical aid safeguarding the transformation. This policy failed in the case of the Eastern Partnership countries due to the external pressure from Russia, relative lack of interest from the strongest Member States and a high degree of heteronormativity among the EU’s neighbours themselves.*

**Keywords:** European integration, EU enlargement, peace, neighbourhood, Russia

### Introduction

In the aftermath of the Second World War, military aggression, once a primary method of resolving interstate differences in Europe, was relegated to the margins of history. To be clear: it did not disappear entirely, as proved by the 1968 invasion of Czechoslovakia by the Warsaw Pact countries, the 1974 Cypriot war and the bloodshed in the Balkans following the fall of the Communist rule in the Yugoslavia. Yet it was no longer accepted as a legitimate instrument of foreign policy; neither by international law (Griffiths 2002) nor, following the Helsinki final Act of 1975, by the European states themselves. It was certainly not seen as a viable political alternative in Western Europe, despite centuries of enmity that fuelled British, French or German foreign policies in the 19<sup>th</sup> and early 20<sup>th</sup> century. A number of competing theories

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emerged to explain this phenomenon, including the democratic peace theory (Russett 1993), a nuclear peace theory (Waltz 1979) and approaches underlining the crucial role played by American hegemony (Mearsheimer 2010). I would like to point out to the fundamental role played by the European Union and its predecessors; while this approach does not exclude the aforementioned theories, it complements them, offering a perspective on the conceptual and institutional framework behind the EU's actorness in the security sphere. More importantly, this approach takes into account the systematic transformation of the international order that took place after the end of the Cold War. Finally, it is the most forward-looking one: peace, seen as a constituting *raison d'être* of the EU, is under mounting challenges in our Eastern neighbourhood. The assessment of the EU's role in securing peace on the continent is a necessary step in planning the European foreign policy vis-à-vis Ukraine and the Russian threat.

## 1. European Integration as a Peace Process

The "long European civil war" left the continent in ruin. The Second World War took a death toll reaching 39 million victims in the European Union alone (Kesternich et. al. 2012). Half of the casualties were civilians. 70% of European industrial infrastructure was in shambles, economy collapsed and populations were threatened with hunger (Pilisuk, Rountree 2008: 136). While economic recovery was pressing at the time, the need for a long-term solution to avoid future wars was evident to the political, intellectual and economic elites, as well as to the general public.

Yet even before the end of the Second World War, Altiero Spinelli and Ernesto Rossi wrote the Ventotene Manifesto (1941), laying the intellectual foundations for what would become a movement for united Europe. Their diagnosis rested on two pillars: the bankruptcy of the old model based on the anarchical competition between nation-states, leading to military conflicts, economic protectionism and colonialism, and the proposed solution – a European unity, with a supranational authority vested with limited, albeit real powers to overcome the international anarchy (Levi 2007). European integration was aimed at quelling the rivalry in Western Europe, solving the famous German question and ensuring peace. Soon, several popular movements sharing the goal of a united Europe emerged, like the Union of European Federalists and the European Movement International, to name just a few.

These foundations resulted in the institutional framework of uniting Europe, starting with the integration of heavy industry in the Community of Coal and Steel. The functionalist approach adopted by the founding fathers was based on the strategy

of small steps. The immediate goal was to promote growth and prevent arms race and cartelisation by putting the coal and steel industries under common governance. Yet political unity and lasting peace were always a present, if concealed, final aim (Rosamond 2000). Soon, the nuclear industry and the rest of European economies were to follow in the form of the European Economic Community. Historical animosities were quelled, both within the framework of institutional integration and increased policy coherence (starting with the 1970 European Political Cooperation) and through the accompanying reconciliation between nations, like the 1963 Élysée Treaty. Military bonds were honed in the North Atlantic Alliance and, to a lesser degree, the West European Union.

The European integration and its peace-inducing role were abided by two external factors. The United States pursued an overtly pro-integrationist policy, aimed at helping integrate the continent to prevent the return of Franco–German rivalry and increase the burden-sharing in the face of the Cold War (Lundestad 1998). On the other hand, the aggressive posturing of the Soviet Union, acting not only as a geopolitical enemy of the West, but also the ideological antithesis of the liberal democratic and Christian values contributed to the sense of European unity and to the urgency of political decisions. In this sense, the European integration was more than just a process of pooling and sharing economic and political resources in the face of the threat from the USSR and its satellites – it was also conveyed as an instrument of strengthening the internal peace and stability in Western Europe by providing sustainable growth and an ideological alternative to the supposed “international communism”.

## **2. Safeguarding the Peace After the Cold War – the Enlargement**

The end of the Cold War surprised everyone, not least the Member States of the European Economic Community, busy with their institutional transformation towards a closer union. However, the need to step in to fill the power vacuum created by the fall of the communist governments, the dissolution of the Warsaw Pact and COMECON, as well as the geopolitical withdrawal of the Soviet Union, was evident. Initially wary, some Member States sought to institutionalise their relationships with the CEE countries outside the EU framework, such as Mitterrand’s European Confederation or cooperation within the OSCE framework. However, these institutions lacked the attracting power of the EU and were met with little interest in Central Europe (Czaputowicz 1998). Instead, a policy of gradual rapprochement was pursued through

the so-called Europe Agreements, associating new democracies with the EU. What followed was the opening up of economies, the establishment of permanent political dialogue and clear enlargement conditions, the Copenhagen criteria, encompassing the stability of institutions guaranteeing democracy, the rule of law, human rights and respect for minorities, a functioning market economy and an institutional capacity of effectively taking on the obligations and legal *acquis* of the membership.

In effect, the negotiations and subsequent enlargement had a threefold result:

- It helped to consolidate the democratic transition in Central Europe. This was achieved through the process of Europeanization, defined as “a construction, diffusion and institutionalisation of formal and informal rules, procedures, shared beliefs and norms consolidated in the EU policy process” (Radaelli 2003: 30). Europeanization should be viewed as a long-term process, reaching further than just institutional “downloading” of structures. It is rather a substantial change of culture and perceptions, to which candidate countries had been exposed long before the formal accession, both through political dialogue and cooperation and legal harmonisation with the *acquis* (Kamińska 2011). On one level, it introduced a legalistic, gradual and negotiable procedure of resolving political conflicts between states. On the other hand, in the short-term perspective, external European pressure aided the governments in pursuing a policy of reforms and, to a large degree, generated a consensus among the political class on the direction of change. The content of this paradigm change included the strengthening of parliamentary democracy, personal freedoms, decentralisation of the government and safeguarding minority rights – thus helping complete the regime transformation. Following Russett’s assertions on democratic peace theory (1993), it is important to highlight that these internal reforms not only resulted in better governance and human rights record, but also had a lasting impact on regional stability and lack of military conflicts.
- It resulted in a period of unprecedented economic growth and convergence with Western Europe, stabilising the situation and preventing potential growth of radical movements. There is significant research pointing out that in times of economic crisis or social discontent, the ruling elites may often divert the frustration into hostility against the “other” (Russett, Barzilai 1992). Relative market stability, constant growth and overall improvement of life conditions have prevented a rise of militant nationalism, preying on real or constructed grievances of national minorities, historical enmities or economic and political competition among the states. Instead, even in the periods of economic downturn, voters reverted to the mainstream opposition parties, providing for manageable democratic transitions.
- It facilitated historical reconciliations between nations; the emergence of Polish–German “*Interessengemeinschaft*” serves as the best example. Similar to the

French-German reconciliation serving as both the underlying reason and the main engine of Western European integration, the rapprochement between Poland and Germany after the end of the Cold War was a prerequisite for a stable Central Europe and one of the main vehicles of enlargement (Koszel 2011; Czachur 2011). The EU integration, strengthening personal exchanges, commerce and historical dialogue, facilitated a rapid erosion of negative historical stereotypes and reduced the margin of manoeuvre of potential nationalist-minded politicians from both sides. In consequence, the Polish–German “Interessengemeinschaft” was not only one of the pillars of the enlargement, but also proved indispensable for the larger peace-building project in Central and Eastern Europe in the shape of the Neighbourhood Policy. However, the legacy of the latter remains unclear.

#### **4. The Failure in the Neighbourhood and the Consequences for Peace**

While the outcomes of the EU policies are largely positive, both for the states which had already accessed the EU in 2004 and 2007, as well as the candidate countries from the Balkans, their record in the Eastern Neighbourhood has been much worse. As Boonstra and Shapolava (2010: 9) note, the Eastern Partnership did not “accommodate for their security concerns” and played a rather “ill-defined role”. This goes contrary to the basic European interest: EU needs a “ring of friends” and “friends among themselves” in its neighbourhood, providing for peace, stability and sustainable growth, and preventing any negative spillover effects. Otherwise, the EU Member States will face not only the immediate consequences of the crisis, such as waves of refugees, but also the undermining of the regional, post-Cold War order based on the inviolability of the national border and the rejection of war as an instrument of international politics.

Instead of pursuing a clearly defined policy based on the prospects of enlargement, conditionality and local ownership, which in turn is based on the EU’s normative and transformative power, the EU EaP strategy was constrained by the reservations of several Member States, treating the Eastern Europe and Caucasus as a zone of Russia’s preferential geopolitical interests. This was caused by diverging geopolitical interests of the EU Member States, as well as the negligence on the European part, enabling the creation of a coalition of various interest groups, employing representatives of energy and finance sectors doing business in Russia to act as its unofficial lobbyists (Gressel 2015). The internal pressure culminated in the form of “Russlandversther”,

a German term for political, business and cultural representatives with a distinct sense of apologetic “understanding” of Russia in its current, autocratic form. As a consequence, the EU was reluctant or unable to fully dedicate sufficient resources to the pursuit of the Neighbourhood Policy truly based on rules and principles defining its external actions, such as peace, security and solidarity.

This resulted in paradoxical situations: in several EaP states, public opinion sought the very benefits associated with the EU’s enlargement process: strengthening the efficiency and transparency of the states’ institutions, a free market economy, democracy and rule of law. Yet the post-Soviet elites were uninterested in a genuine reform that might undermine their positions in the crony capitalism. Alternatively, put under security pressure (e.g. through frozen conflicts) or tempted with financial benefits from Russia, they pursued a policy of faux engagement, neither wholly abandoning the European ambitions, nor embracing them. In consequence, a “no-man’s land” emerged, enabling revisionist states like Russia to gradually undermine the post-Cold War order in Europe and re-establish its full zone of influence.

When the status quo met with opposition from the mass protest movements in Georgia and Ukraine, Russia resorted to military force. Its actions were possible due to the lack of credibility of Western deterrence: after years of relying on the peace dividend to diminish military spending, the EU could not be perceived as projecting sufficient will or ability to defend the international status quo in Europe. Russia, acting as a revisionist power, was able to exploit this weakness and pursue a strategy of gradually intensifying aggression against Georgia and Ukraine, carefully gauging reactions in the major Member States of the Union to its advantage (Wright 2015). While the EU was able to impose significant costs on Russia for the aggression, the reactivity of the policy induced significant losses in Ukraine, both when it comes to military personnel, internal stability and territorial integrity.

The belief that the EU can shield itself from the conflicts in its neighbourhood is misguided; it ignores the staggering number of refugees from the south or Internally Displaced Persons from Ukraine (Curtis 2014), as well as the systemic repercussions of the erosion of the post-Cold War order in Europe. As Krastev (2014: 79) put it, “Russia’s willingness to violate Ukraine’s territorial sovereignty is the gravest challenge to the European order in over half a century”.

The ultimate goal and the ultimate challenge for the EU’s peace mission is to maintain a stable and just international order against the attack of revisionist powers. Should the policy of gradual erosion of the post-Cold War order continue, Russia will follow the path of the reconstruction of its sphere of influence, extending to the Central European EU Members. The threat against the Baltic States is the most imminent and best reported (Hyndle-Hussein 2015), yet it also extends to other frontline countries:



Poland, Czech Republic, Slovakia, Hungary, Bulgaria and Romania. In case of an attack against an EU Member State, not only the Union's mission to secure peace would be undermined, but the stability and security of the whole European integration structures themselves would be questioned. For the EU policy to get back on the right track, the Member States have to rethink the peace foundations of the European integration in a wider context of the neighbourhood.

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## THE EUROPEAN UNION'S DEVELOPMENT COOPERATION POLICY AFTER 2004

### Abstract

*The aim of the present paper is to analyse the evolution of EU's development policy after 1<sup>st</sup> May 2004, that is after the biggest enlargement of the number of Member States. The structure of the paper reflects its aim, as it includes analyses of the genesis and institutionalisation of EU's development policy and its increasing importance in the EU budget, including recent changes in the EU policy to stimulate development of underdeveloped states. The development policy is de facto one of more important EU policies. Although the development policy has only been functioning since 1<sup>st</sup> November 1993, that is the date of the entry into force of the Maastricht Treaty, similar actions had already been taken owing to bilateral agreements between the EU and developing countries. The paper ends with a presentation of conclusions and author's opinions on the perspectives of development policy in the changing geopolitical environment of the European Union.*

**Keywords:** development policy, developing states, cooperation for development, cohesion of development activities, Doha round, economic partnership agreements, strategy for Africa

### Introduction

In recent years, the issue of development aid, i.e. the transfer of tangible or intangible assets for an entity, has become a matter of interest in the field of economics and social sciences both in the world and in Poland. As globalisation continues, problems arise that individual countries cannot handle alone and the occurrence of problems due to accrued interdependencies can be felt in most countries of the world. Bridging the development divide between countries is currently one of the main global challenges. It is both a challenge in itself and a source of a multitude of problems. The discrepancies

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in the level of economic development between countries are the cause of many domestic and international conflicts, terrorism, illegal migration and environmental degradation. Therefore, actions to reduce the development gap on a global scale became the focus of institutionalised international cooperation, including the EU structures as well. As a result of this cooperation, a series of mechanisms has been developed, out of which the development cooperation policy is of key importance, as it entails donors' actions aimed at improving the situation of the beneficiaries (Zajączkowski 2012: 428).

For a number of years scholars have been arguing over the essence of development policy and development cooperation. Nevertheless, there is no doubt that it is of great importance for sustainable development of the global economy. It is an evolving notion due to ongoing changes in the global environment. Therefore, studies on the issues of development cooperation policy require a multidimensional approach. The primary goal of this paper is to examine the evolution of the EU development cooperation policy following the enlargement of the Union in 2004.

Analysis and synthesis were applied interchangeably in the research, as the disadvantages of any exclusive choice of one of these were recognised. The analysis and synthesis were based on official documents of the EU and the Ministry of Foreign Affairs and on professional literature on the subject. The conceptual apparatus employed in the paper is typical for research in the field of international relations and economics. Due to the complexity of these issues, the paper was subject to limitations. In line with the underlying assumptions, the research is a study of selected issues and does not aspire to exhaust the assorted issues of this topic. An attempt to cover all issues related to the development cooperation policy of the EU would undoubtedly exceed the framework of this paper.

## **1. The Development Cooperation Policy of the European Union in the Years 2004–2009**

During the EU accession negotiations of Central and Eastern Europe countries, including Poland, the issue of development cooperation was of secondary importance and was treated as marginal by both the EU Member and Candidate States. In 2004, the new members of the EU did not have effective mechanisms or structures for the transfer of development aid. Nevertheless, the 2004 enlargement had a significant impact on the direction of the transfer of development aid in the EU – including the shifting of its priorities to the east of Europe. It also became the basis for amendments

and adaptation of the EU development cooperation policy to the new conditions within and outside the EU.

In May 2004, i.e. just after the accession of new Member States (including Poland) to the EU, negotiations on the revision of the Cotonou Agreement were launched at the joint council of the African, Caribbean and Pacific Group of States with the European Union in Gaborone. The main objective of the revision process was to enhance the effectiveness and quality of the ACP-EU partnership while reaffirming the fundamental *acquis* of the agreement.

Also in May 2004 (on 12<sup>th</sup> May), the Council of the European Union approved the European Neighbourhood Policy with the aim to share the benefits of the EU enlargement with neighbouring countries by offering them stakes in the internal market (The European Commission 2004). By strengthening stability, security and wellbeing for all partners involved, the ENP aims to prevent the emergence of new dividing lines between the enlarged Union and its neighbours. It is a cooperation network based on a common set of values yet adapted to each partner's specific needs on a bilateral basis and based on adopted action plans (The European Commission 2005a).

At the end of 2004, the European Commission launched a debate on the implementation of the declaration on the development cooperation policy and its importance in the light of substantial changes that took place both within the EU – especially in the context of the recent enlargement – and outside its borders. In order to meet the new challenges, the EU took measures to: improve relations with neighbouring countries through the European Neighbouring Policy; accelerate trade and economic negotiations with other countries; reinforce the international consensus on the Millennium Development Goals and deal with rising security concerns. It was therefore decided that international debate was due in order to clarify the role of the development policy in the wider context of the EU's external actions, as well as to fully deploy the potential of this policy as an instrument of the fight with poverty and inequalities (The European Commission 2005a: 18).

In February 2005, an amendment to the Cotonou Agreement, which formed the frameworks for EU relations with African, Caribbean and Pacific Group of States, was signed. It created opportunities to strengthen the political dimension of the partnership by means of a more systematic, formal, effective and result-oriented political dialogue based on well established principles of partnership and ownership. The ACP-EU partners also introduced a reference to cooperation in countering the proliferation of weapons of mass destruction. Moreover, the revised agreement contained a clause confirming the ACP-EU international cooperation against terrorism (The European Commission 2006: 8a). It also raised the question of including prevention and treatment of poverty-related diseases into the priorities supported by development

aid, as well as making the financial instrument managed by the European Investment Bank more flexible.

In May 2005 the Paris declaration on aid effectiveness for the period until 2015 was adopted. The agreement was signed by 35 donor governments, 26 multilateral institutions, 56 aid recipients and 14 observers of civil society. Among them were the EU Member States and the European Commission (Burall, Maxwell 2006: 2). The declaration defined five primary obligations of the agreement parties in order to improve the effectiveness of development aid. Those are (The European Commission 2006: 50–51):

- the donors respect the priorities and the needs of recipients by giving them ownership of development initiatives (ownership);
- the donors must align their aid behind the priorities outlined in the strategies of the beneficiaries (alignment);
- the donors must coordinate and simplify the procedures (harmonisation);
- all parties must shift focus to the results of the aid (managing the results);
- both the donors and the beneficiaries must take responsibility for the results of the aid (mutual accountability).

The adopted principles are complemented by a set of actions that is subject to constant supervision and control with the application of 12 indicators (Deszczyński 2011: 92.) of progress and designed to distribute aid in a way that best supports the realisation of the Millennium Development Goals (Rogosz 2010: 249).

From the point of view of effectiveness of development aid financing, it was highly significant that EU Member States not only commit themselves to fully implementing the provisions of the Paris declaration, but also pledge to fulfil by 2010 the following commitments (Bagiński: 116):

- to provide all capacity building assistance through coordinated programmes;
- to channel 50% of government-to-government assistance through the institutions of partner countries;
- to avoid the establishment of any new project implementation units (*Project Implementation Units*);
- to reduce the number of uncoordinated missions by 50%.

As a result of the Paris Commitments and prior preparations, on 20<sup>th</sup> December 2005 the President of the European Commission, the President of the European Council and the President of the European Parliament approved the new declaration on the EU development policy – the European Consensus on Development, which is a landmark in the history of the EU cooperation for development (The European Commission and the European Council of the EU 2005). For the first time in fifty years, common values, principles, goals and means were defined at the EU level with

the aim of eradicating poverty and achieving the Millennium Development Goals. The document introduces common principles according to which the EU as well as its Member States should implement national development policies based on the principle of complementarity, and development cooperation is to be carried out on a *shared responsibility* basis between the Members and the EU. The development cooperation policy was considered to be the foundation for relations with developing countries while respecting common values such as ownership, partnership, enhanced political dialogue, participation of civil society, gender equality and remedying state fragility. The declaration consists of two parts. The first part encompasses the policy of the EU *en bloc*, as well as the policy of the EU Member States focusing on the common vision for development cooperation, while the second part consists of guidelines for the implementation of the EU policy. In the first part, the competencies of the new and old Member States were separated along with the amount of commitments towards the Official Development Assistance (ODA). Old Member States (the EU-15) committed to providing 0,51% of their GNIs in 2010 (European Commission 2005b) and 0,7% in 2015, while new Member States obliged to increase the level of ODA to 0,17% of the GNI until 2010 and to 0,33% until 2015 (developmentportal.eu 2014). Also, a decision on the appropriation of half of the funds for Sub-Saharan Africa was made (Sobotka 2009: 171). The procedure for granting sectoral support aid was changed and developing countries were assured that they would be given assistance to build their commercial capacity and conclude negotiations within the WTO round in Doha and on the Economic Partnership Agreement with ACP Group of States (Jakubowska 2007/2008: 45).

The second part of the consensus determined the factors which ensured the EU's comparative advantages in development cooperation and which included the worldwide presence of the EU, the introduction of the provisions of the Paris Declaration by the European Commission and the promotion of the best practices. It was also assured that the development cooperation policy would take into account the coherence of development activities (Policy Coherence for Development). The idea relies on ensuring that other EU policies (for instance the commercial or agricultural policy) do not suppress the effects of the development policy but instead support the development of poor countries. Such coordination of EU policies is supposed to contribute to the synergy effect for support actions, which would facilitate the accomplishment of development goals (DFID 2015). Compliance with the criterion of Policy Coherence for Development should be guaranteed at every stage of the decisionmaking process and assistance management – ranging from programming through implementation to the evaluation of the initiatives taken (MSZ 2007: 21). The

EU committed itself to observing the principles of Coherence in the following areas (The European Commission 2009):

- trade and regional integration;
- environment and sustainable management of natural resources;
- infrastructure, transport and communication;
- water and energy;
- rural area development, land use planning, agriculture and food security;
- governance, democracy, human rights and support for economic and institutional reforms;
- conflict prevention and fragile states;
- human development – health, education, culture and gender equality;
- social cohesion and employment.

The document highlighted the crucial role of the European Commission as the biggest aid donor and the promotion of good development practices, i.e. budget aid and untied aid. The consensus obliged the European Commission to prepare a work programme for the Policy Coherence for Development every two years, and introduced preferential treatment for budget aid allocated to supporting economic and fiscal reforms in beneficiary countries (Jakubowska 2007: 45–46).

In December 2005, the EU also adopted a strategy for Africa, which became the first practical application of the European Consensus on Development. The strategy defined the framework for the EU Member States' and the European Commission's actions to support the efforts of African states in achieving the Millennium Development Goals (The European Commission 2006a). The strategy envisaged increased EU involvement in specific areas, including the strengthening of security and the rule of law in Africa, preventing and solving conflicts, combating corruption and promoting human rights. The EU strategy proposes to sign economic partnership agreements between the EU and African regions and to establish an EU-Africa partnership for infrastructure (PISM 2015).

As an important element of long-term strategy for poverty eradication, also in December 2005, during the Sixth World Trade Organisation Ministerial Conference held in Hong Kong, the EU pledged to increase its expenditures on Trade-Related Assistance. The developing countries were offered assistance in combating the so-called supply side constraints, such as lack of knowledge, excessive bureaucracy, inadequate financing and poor infrastructure. The TRA has a well-defined objective: to assist the developing countries, especially the least developed countries, in active participation in the world trade system and in using trade for economic growth, thereby reducing poverty (WTO 2014). According to the arrangements, the following categories of action can be classified as aid for trade: commercial policy (for instance the explanation of its principles and regulations), trade development (e.g. promoting



investments, market analysis), trade-related infrastructure (for instance storing, transportation), building productive capacities, international trade-related adjustments (for instance the adaptation to other countries' trade policy instruments) (Higgins, Prowse 2010: 3–4).

In 2006, aspects of the EU policy on development aid were included in the course of preparatory works regarding new financial instruments that were part of the overall review of the Union's structure for external cooperation and simplified frameworks for assistance for the period of 2007–2013. A number of existing mechanisms of geographic or thematic scope were replaced with nine financing instruments – six of which supported specific policy areas of geographic or thematic nature, i.e. (European Commission 2007: 3):

- The Instrument for Pre-accession Assistance;
- The European Neighbourhood and Partnership Instrument (ENPI);
- The Development Cooperation Instrument (DCI);
- The Instrument for Cooperation with Industrialised Countries (ICI);
- The European Instrument for Democracy and Human Rights (EIDHR);
- The Instrument for Nuclear Safety Cooperation (INSC);
- And three that are applicable in crisis situations, i.e.:
- The Instrument for Stability (IFS);
- Humanitarian aid including emergency food aid under the new financial perspectives;
- Instruments of macro-financial assistance.

In April 2006, in order to translate the EU commitments on aid effectiveness into deeds, a new Action Plan (“EU aid: delivering more, faster and better”) was approved. It included definite goals to be achieved by the end of 2010, especially the regular mapping of EU aid at the global, regional and local levels, as well as a proposal for establishing a framework for joint EU financial programming. The 13-page document consisted of three parts (The European Commission 2007: 5). Part One contained a collection and revision of the nine commitments on development policy which the EU Member States had committed to implement by 2011. Part Two presented four tasks which were developed and ready for immediate implementation, i.e. publishing a new atlas of donors, creating a monitoring system of EU commitments on development policy; improving the process of drafting and defining road maps; drafting the multiannual joint programming framework, firstly for the ACP Group of States and then for the rest of the signatories of the Paris Declaration. Part Three focused on the remaining five tasks, which should have been prepared for implementation by the end of 2006 and implemented by 2011 (i.e. adopting guidelines regulating the issues of operational complementarity; increasing the number of joint actions based

on the adoption of principles for managing them by the European Commission, strengthening the development vision of the EU; joint determinations with local representatives; developing the four compendia of EU aid procedures (European Commission 2006b).

Developed in May 2007, the Code of Conduct on Complementarity and the Division of Labour in Development Policy was an important document for the EU development cooperation. The Code of Conduct put forward eleven principles to be observed by the Member States to ensure better cooperation at the EU level and to make the EU development aid more effective and beneficial (MSZ 2008: 43). Its aim is to facilitate the partnership between EU donor institutions based on Joint Assistance Strategies (WECA 2008) and the so-called delegated cooperation, which assumes the secondment of EU development agencies to each recipient country and obligating them to take lead in development efforts.

Then in October 2007, the EU Council adopted a new strategy – Aid for Trade – for the sake of trade exchange and access to the EU, taking into account competitiveness and social and environmental issues, further integration of the ACP Group of States with the WTO and the conclusion of negotiations on economic agreements. According to the Council, the Aid for Trade is a “key complement to trade negotiations within the *Doha Development Agenda*, enhancing potential benefits (The European 2008: 11). for developing countries”, since the degree to which the ACP countries can benefit from AfT is independent of the results of negotiations of agreements on economic cooperation (The Council of EU 2007). The European Union Member States were the first highly developed economies of the world which began to implement a clear and precise strategy of Aid for Trade based on Hong Kong declarations. As for the European AfT, the following was decided: to increase the volume of resources dedicated to initiatives facilitating the participation of developing countries in world trade, to support the process of regional integration in the ACP Group of States and to ensure effective monitoring of the fulfilled commitments (European Commission 2008b: 3).

The year 2008 was a period full of challenges for the European Union and its partners acting for development in various parts of the globe. Rapidly rising food and energy prices, coupled with the global financial crisis, put to proof the EU's capacity of fulfilling aid-related obligations on schedule, as well as its ability to respond to new needs. Therefore, the European Commission took immediate actions designed to offset the effects of high food prices in poor countries. The European Union demonstrated its reliability by setting up a 1 billion EUR Food Facility for 2008–2010 from the general EU budget by the end of December. Meanwhile, the Commission increased its budget for humanitarian food aid by an amount of 140 million EUR from the emergency

aid reserve, and also transferred the money earmarked for food security to the most vulnerable countries (The European Commission 2009a: 8).

During the Third High Level Forum on Aid Effectiveness, which took place in September 2008 in Accra, Ghana, the world body of donors, including EU Member States and recipients decided to undertake further reforms and intensified actions, which would enable them to fulfil their obligations and achieve objectives regarding the quality of aid envisioned for 2010 (MDDCRPDHMBDI 2008: 1–7). Then, great emphasis was placed on: division of work among the donors, increasing the predictability of aid transfers (predictability), using developing countries' own systems (country systems), conditions for granting aid based on development strategies and their implementation in each country (conditionality), reducing tied aid (untying), as well as the involvement of new entities (other than donors and recipients) in the process of increasing aid effectiveness (inclusive partnerships) (OECD 2015). The result of the forum – the Accra Agenda for Action (AAA) – is aligned with EU objectives. It encompasses a more numerous than ever participation of partners, donors and recipients in the implementation of the plan. Also, partner countries, emerging-country donors, middle-income countries and non-state entities, all will play an increasingly important role (The European Commission 2009a: 10).

In December 2008, the European Commission and the French EU Presidency organised a conference on EU donor coordination in Latin America. In turn, in Afghanistan, a joint EU contribution on aid effectiveness was prepared as part of a response to the Afghan National Development Strategy. In the Occupied Palestine Territory, the EU created an efficient financial instrument to deliver aid, including contributions by EU Member States (The European Commission 2009a: 12).

In May 2009, official negotiations of the EU with the African, Caribbean and Pacific Group of States were launched concerning the second revision of the Cotonou Agreement. Concurrently in 2009, the EU kept strengthening its political relations with Latin America. In September, the European Commission adopted a communication setting out a new policy framework for relations between the EU and Latin America. In December, the Latin America Investment Facility was adopted with the aim to attract additional investments in favour of transport, energy and environment, as well as to support private and social sectors (The European Commission 2010a: 6–7):

Concurrently in November 2009, in order to accelerate progress and demonstrate concrete results in time for the next forum on aid effectiveness (in 2011 in Seoul), the Council of the European Union adopted an EU operational framework which focused on three main aid effectiveness priorities, agreed upon at the Forum in Accra in 2008, i.e. reducing aid fragmentation through division of donor labour, increasing the use

of country systems, as well as improving the quality of technical cooperation (The European Commission 2010a: 9–10).

## **2. Institutional Framework of the European Union Development Policy Following the Entry Into Force of the Lisbon Treaty**

The Lisbon Treaty, which came into force on 1<sup>st</sup> December 2009, was fundamental for the functioning of the EU development policy. According to the document, the EU actions in international fora aim to integrate the world economy by, among others, removing restrictions to trade and assisting nations, countries, and regions affected by natural or man-made disasters. The task of the EU development cooperation policy is to solve regional and global environmental problems, in particular to combat climate change. As stated in the Treaty, the Union and the Member States coordinate their development cooperation policies and their aid programmes should be mutually consulted, and should complement and strengthen one another. In the long run, such solutions should lead to greater harmonisation and effectiveness of the actions taken. The Treaty divided the competencies of the General Affairs and External Relations Council (GAERC) between two separate councils: the General Affairs Council (GAC) and the Foreign Affairs Council (FAC). It also instituted the office of the President of the European Council and the office of the High Representative of the Union for Foreign Affairs and Security Policy. The High Representative is the chief of the EU diplomacy and his duties include coordinating the EU development cooperation policy, chairing the Foreign Affairs Council, holding the post of the Vice President of the Commission and ensuring the consistency of the EU's external actions<sup>1</sup>. He is also in charge of the supervision of external relations and coordination of other aspects of the EU's external actions. Also, under the Treaty, the shape of the European Commission was transformed and as of February 2010 it consists of the Commissioner for Development and the Commissioner for International Cooperation, Humanitarian Aid and Crisis Response (MSZ 2010: 18–19). By increasing the EU capacity to influence global affairs, the EU's commitment to the problem of global development has been confirmed. Moreover, the instrumentation of means beyond traditional development aid mechanisms has also been reinforced. The Treaty established a new

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<sup>1</sup> As of 1st January 2009, the post of the High Representative of the Union for Foreign Affairs and Security Policy was held by a Briton – Catherine Ashton.

institution – the European External Action Service, which is of high importance for the emerging structure of the European development aid, as it shares the responsibility for programming and funds allocation. The changes introduced by the Lisbon Treaty should contribute to better programming and better management of EU development aid. The most significant of the amended elements of the development policy under the Treaty include (European Commission 2011: 16):

- the nomination of the High Representative for Foreign Affairs and Security Policy who, as the Vice President of the European Commission, is responsible for ensuring the consistency of the EU's external actions and who also chairs the Foreign Affairs Council;
- the creation of the European External Action Service, which serves the High Representative/Vice-President of the Commission, the President of the European Council and the European Commission;
- new possibilities for enhanced cooperation among EU Member States and joint programming.

### **3. The European Union Development Policy as of 2010**

In April 2010, the European Commission issued a set of concrete proposals for the EU actions to help developing countries achieve their Millennium Development Goals on schedule (Zajączkowski 2013: 634). The 12-point action plan gives priority to the least developed countries, including those in conflict or other vulnerable situations. The plan was accompanied by five working papers that analysed further progress on the Millennium Development Goals, finance for development, aid effectiveness, aid for trade and policy coherence. Other proposals of the Commission on food security, global health, and tax for development, education and gender equality were included in the EU position paper for the UN review summit on the Millennium Development Goals (Zajączkowski 2013: 7).

In April 2010, the European Commission also adopted a communication (The European Commission 2010b) to strengthen the link between taxes and development policies and to enhance good governance in the tax area (transparency, information exchange and fair tax competition). The Commission also published its work programme for policy coherence for development for the period of 2010–2013 in order to further improve the convergence between development aid and other relevant EU policy areas that impact external relations, e.g. trade exchange, taxation and finances, food security, climate change, migration and security (The European Commission

2011a: 7). The European Commission also undertook a number of initiatives to improve its own development strategies. Those included public consultation on the role of the EU aid in supporting inclusive growth and sustainable development or on the role of external financial instruments of the EU. The Commission also launched public consultation on the use of the EU budget support for the needs of development aid for underdeveloped countries. The objective was to draw conclusions from more than ten years of transferring budget aid. The Commission was invited to express views and opinions regarding the opportunities related to this tool, as well as ways to improve its quality, obtaining greater effects in relation to invested resources and achieved results (The European Commission 2010c).

In November 2010, the Commission published a green paper entitled “EU Development Policy in Support of Inclusive Growth and Sustainable Development” (The European Commission 2011a: 7). The document presents the ways to make the EU development cooperation policy a catalyst for building their own capacities by developing countries to generate inclusive growth and sustainable development, as well as to mobilise their own economic, natural and human resources in order to support the strategy for poverty reduction. The possibility of creating partnerships for inclusive growth, involving both the public and private sectors, was taken into consideration. The spheres regarding the policies on climate change, energy and environment were analysed as drivers of sustainable development. Also, the roles of agriculture and biodiversity in achieving food security and boosting growth were reviewed.

Also in November 2010, the revised Cotonou Agreement came into force. The revision adapted the partnership to global changes and a growing importance of regional integration. The new agreement emphasised the interdependence between development and international security, and presented the agreed joint approach to solving the problems of AIDS, food security and sustainable fishery. The revised agreement confirmed the role of Economic Partnership Agreements and it departed from EU-tied aid for the ACP group of states and from the reduction of transactional costs. It also recognised the African Union as the main partner in Africa<sup>2</sup>. For the first time, the role of the other EU policies in the development of ACP Group of States was emphasised and a commitment was made to achieve greater EU consistency in that area (ec.europa.eu 2014).

In November 2011, in Busan, South Korea, during a forum which was the most important worldwide meeting devoted to issues of development aid, attention was once again drawn to the importance of greater effectiveness and coordination, as well

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<sup>2</sup> A kind of assistance within which aid measures are allocated for purchase of goods and services in the country which received assistance.

as to channelling aid via national systems. The meeting featured a communication of the European Commission setting out the future approach to EU budget support to third countries (The European Commission 2011b), which is *de facto* one of the most important aid instruments of the EU (The European Commission 2011a: 6).

Conclusions on the financing of external aid and development that outlined the expenditures for new priorities were published in December 2011 as part of the multiannual financial framework for 2014–2020. Two fundamental elements of the initiatives are, on the one hand, human rights, democracy and good governance, on the other hand, sustainable and inclusive economic growth stimulated by promoting social inclusion and social development, decent work, entrepreneurship and regional integration, sustainable agriculture, energy supply and access to energy. Moreover, a diversified approach to funding of development aid was also proposed. This means that the amount of aid provided to certain countries will be lower or some of them will not receive aid at all – they will, however, be offered alternative forms of cooperation instead. The new approach should create better opportunities for the EU in supporting and protecting fundamental values and international commitments towards the neighbouring countries, in particular countries in the pre-accession phase or in the process of transformation, as well as the poorest and the most vulnerable countries in the world. Furthermore, the new policy is characterised by increased donor coordination, in particular the EU Member States, which is to prevent the duplication of efforts and ensure greater coherence and impact (The European Commission 2011a).

The “Agenda for Change”, approved by the Council of the European Union on 14<sup>th</sup> May 2012, sets out a more strategic approach to poverty reduction that aims at further increasing the impact on the problem by the EU development policy (consilium.europa.eu 2014). To this end, a series of significant changes were put forward regarding the way EU assistance is provided. The changes include, *inter alia*, a diversified approach, so that grant aid is directed where it is most needed and can have the greatest impact in terms of poverty reduction; concentration on a maximum of three sectors per country; clearer focus on good governance, democracy and human rights, and inclusive and sustainable economic growth; greater use of innovative financing mechanisms, such as blending grants and loans and private sector participation; improved policy coherence and increased coordination and joint actions with the Member States (The European Commission 2013a: 6).

During the United Nations Conference on Sustainable Development (Rio+20), which took place in June 2012, the EU secured commitments in areas such as water, oceans, land and ecosystems, decent work, social protection, energy, sustainable agriculture and food security. The conference adopted the declaration “The Future We Want” (UN 2014). For the first time it was recognised that an inclusive “green

economy” is an important tool in achieving sustainable development and reducing poverty. It was also acknowledged that urgent action is needed to develop policies for green economy. Finally, it was decided to establish sustainable development goals and options for an effective sustainable development finance strategy.

Year 2013 was crucial for shaping the discussion on the framework of development policy after 2015. In June of that year, the EU Council adopted a document “A Decent Life for All: Ending Poverty and Giving the World a Sustainable Future”, which is a consolidated EU approach to the debates on this topic after 2015 (The European Commission 2013). The general objective of the new EU policy framework after 2015 is to ensure a “decent life for all” by 2030, eradicate poverty in all its dimensions (economic, social and environmental) and ensure a sustainable future for the world. In December 2013, conclusions of the EU Council in response to a communication of the European Commission entitled “Beyond 2015: Towards a Comprehensive and Integrated Approach to Financing Poverty Eradication and Sustainable Development” were adopted (The European Commission 2013bb).

Then, in 2014, conclusions of the EU Council on a common EU position on effective development cooperation were drawn up for the first high level meeting of the Busan Partnership, which took place in Mexico City on 15–18<sup>th</sup> April 2014. Also, regulations on external financial instruments for the new financial perspective for 2014–2020 were issued. It was agreed that financial resources would be spent through three geographical mechanisms and three thematic ones. Eventually, the majority of funds come from the geographic instruments. The most important one is the European Development Fund (EDF) and it is supposed to assist the African, Caribbean and Pacific Group of States. The Development Cooperation Instrument in turn covers countries from Latin America, Asia, Central Asia, the Middle East and South Africa. It consists of five thematic programmes dedicated to global problems, such as environmental protection, the role of non-state actors, food security, migration and human development. The cooperation with countries of the European Neighbourhood Policy is financed by the European Neighbourhood Instrument. Those mechanisms are complemented by thematic instruments intended for all developing countries. The instruments include:

- The European Instrument for Democracy and Human Rights (EIDHR);
- The Instrument contributing to Stability and Peace (IcSP);
- The Instrument for Nuclear Safety Cooperation (INSC).

The EU development policy and bilateral cooperation for development with partner countries, undertaken by the EU countries, complement each other. EU actions in the area of development policy encompass many key issues for the less developed regions – from food security through environmental issues to social issues



and human rights. The basic priorities of cooperation for development include such matters as: democratic governance, agriculture development and food security, trade-generated economic growth in the countries that are most in need of aid, improved access to drinking water, access to energy and universal access to sustainable energy, protection of the environment and natural resources.

## Conclusions

The current five-year period will be of crucial importance for international cooperation and development. One of the most important challenges will be the negotiations on developing a universal framework for combating poverty and promoting sustainable development. The new framework should define the basic standard of living, support sustainable and inclusive economic growth, contribute to optimal natural resources management – in accordance with the principles of sustainable development – ensure justice and equality, and take into account the particular situation of the least developed and politically unstable countries.

As the deadline for achieving the Millennium Development Goals is this year, the year 2015 has been proclaimed the European Year for Development. The progress made so far in the implementation of the Millennium Development Goals clearly shows that while part of the key goals have been, to a large extent, achieved, many tasks will not be completed on schedule. The EU contribution to the implementation of the existing actions is significant, however to achieve the concept of sustainable development on a global scale requires intensified work and increased amounts of development aid. Undeniably, one of the biggest challenges of the modern world, for the EU in particular, is migration. It involves great challenges for host countries. Properly realised development policies could in the future become one of the most important instruments for combating migration by increasing development opportunities and political stability, as well as economic and social stability in the developing countries, which cannot be achieved without listening to their voice while solving their problems by international organisations – including the EU.

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Roman Petrov\*

## THE NEW GENERATION OF THE EUROPEAN UNION ASSOCIATION AGREEMENTS WITH UKRAINE, MOLDOVA AND GEORGIA

### Abstract

*This paper analyses the EU Association Agreements (AAs) with Ukraine, Moldova and Georgia. It argues that this new legal framework, the objective of which is to establish a unique form of political association and economic integration, is characterised by three specific features: comprehensiveness, complexity and conditionality. After a brief overview of the background of the EU's relations with Ukraine, Moldova and Georgia, the following aspects are scrutinised: legal basis and objectives, institutional framework and mechanisms of enhanced conditionality and legislative approximation. Based upon a comparison with other EU external agreements, it is demonstrated that the AAs are innovative legal instruments providing for a new type of integration without membership.*

**Keywords:** European Neighbourhood Policy, Eastern Partnership, association agreement, EU *acquis*

### Introduction

Association Agreements between the EU and third countries have become one of the most recognisable brands of the EU external policy. In particular, this relates to the countries of the EU's eastern neighbourhood (Ukraine, Moldova and Georgia), which have either already signed Association Agreements with the EU (Ukraine), or are about to do so in the near future. The new generation of the EU Association Agreements (AAs) with the EU's eastern neighbours will substitute outdated partnership and the Association Agreements which were concluded in 1994-1998 (Ott, Inglis 2002:

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175–194). The solemn signing of the AAs between the EU and Ukraine, Moldova and Georgia took place at the EU Summit in Brussels on 27<sup>th</sup> June 2014, followed by ratifications by national parliaments in Moldova, Georgia and Ukraine<sup>1</sup>. This long awaited event culminated a very long negotiation and signature process that had lasted since 2008. Ukraine's road towards signing the AA was extremely dramatic. Due to mounting economic and political pressure from Russia, the government of Ukraine decided to suspend the process of preparation for signature of the EU-Ukraine AA on 21<sup>st</sup> November 2013<sup>2</sup>. Following this news, hundreds of thousands of Ukrainians went to the streets. The “Maidan” revolution, which claimed more than a hundred victims, resulted in the dismissal of President Victor Yanukovich on 22<sup>nd</sup> February 2014 and the election of a new pro-European president Petro Poroshenko on 25<sup>th</sup> May 2014. As a consequence, the “most ambitious agreement the EU has ever offered to a partner country” (Rompuy 2013) is back on the agenda and was signed along with the Moldovan and Georgian AAs on 27<sup>th</sup> June 2014 (European Council 2014).

Entering into force of the AAs will inevitably lead to the consideration of the legal effect and impact of these agreements on the legal systems of Ukraine, Moldova and Georgia. Yet there is no straightforward clarification of these issues because the AAs are going to be the very first framework international agreements in the modern history of Ukraine, Moldova and Georgia which imply their deep and far-reaching integration into the legal order of supranational international organisation.

Taking the above as a starting point, the aim of this paper is to analyse what constitutional challenges will arise before Ukraine, Moldova and Georgia in the course of implementation of the AAs into their legal systems. The paper focuses on two major challenges to this intricate process. The first challenge is how to ensure effective implementation and application of the AAs within the Ukrainian, Moldovan and Georgian legal orders. The second challenge is how to solve potential conflicts between the AAs and the Constitutions of Ukraine, Moldova and Georgia.

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<sup>1</sup> The Moldovan Parliament expediently ratified the Association Agreement on 2<sup>nd</sup> July 2014. It was shortly followed by ratification by the Georgian Parliament on 18<sup>th</sup> July 2014. The final accord was played during the simultaneous ratification of the Association Agreement by the Ukrainian Parliament and the European Parliament (ratified all three agreements) on 16<sup>th</sup> September 2014. Meanwhile, all three Association Agreements are under a lengthy process of ratification by parliaments of the EU Member States. Therefore, the interim application of the Association Agreements is taking place in accordance with the EU Council's decisions (Council Decision 2014/295/EU of 17<sup>th</sup> March 2014 and COM(2014)609). Application of Title IV (deep and comprehensive free trade area) of the EU-Ukraine Association Agreement has been postponed till 1<sup>st</sup> January 2016, due to political and security pressure of the Russian Federation.

<sup>2</sup> The Ukrainian government's decision cannot be disconnected from the Russian proposal to establish a Eurasian Union building upon the already existing Customs Union between Russia, Belarus and Kazakhstan. On the background of this initiative and its implications for the EU-Ukraine relations, see: Van der Loo, Van Elsuwege (2012): 421–447.

## 1. Objectives and Specific Features of the Association Agreements with Ukraine, Moldova and Georgia

The AAs between the EU and Ukraine, Moldova and Georgia are the most voluminous and ambitious among all EU Association Agreements with third countries<sup>3</sup>. These are comprehensive mixed agreements based on Article 217 TFEU (Association Agreements) and Articles 31(1) and 37 TEU (EU action in area of Common Foreign and Security Policy) (Official Journal of the EU 2014; European Commission 2014a; European Commission 2014b). There are many amendments introduced to these agreements. Most prominent of them are strong emphasis on comprehensive regulatory convergence between the parties and possibility of application of a vast scope of the EU *acquis* within the Ukrainian, Moldovan and Georgian legal orders. Of particular significance in the AAs is the ambition to set up a Deep and Comprehensive Free Trade Areas (DCFTA), leading to gradual and partial integration of Ukraine, Moldova and Georgia into the EU Internal Market. Accordingly, the AAs belong to the selected group of “integration-oriented agreements”, i.e. agreements including principles, concepts and provisions which are to be interpreted and applied as if the third country is part of the EU. It is argued that the AAs are unique in many respects and, therefore, provide a new model of integration without membership.

The AAs with Ukraine, Moldova and Georgia are innovative legal instruments which are characterised by three specific features: comprehensiveness, complexity and conditionality<sup>4</sup>. The AAs are comprehensive framework agreements which embrace the whole spectrum of EU activities, from setting up deep and comprehensive free trade areas (DCFTA) to cooperation and convergence in the field of foreign and security policy, as well as cooperation in the area of freedom, security and justice (AFSJ) (Ibidem; Title II and III of the AAs).

The complexity of the AAs reflects a high level of ambition of Ukraine, Moldova and Georgia to achieve economic integration in the EU Internal Market through the establishment of the DCFTAs and to share principles of the EU’s common policies. This objective requires comprehensive legislative and regulatory approximation, including advanced mechanisms to secure the uniform interpretation and effective implementation of relevant EU legislation into national legal orders of Ukraine, Moldova and Georgia. In order to achieve this objective, the AAs are equipped with multiple specific provisions on legislative and regulatory approximation, including

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<sup>3</sup> For example, the EU-Ukraine AA comprises 7 titles, 28 chapters, 486 articles, 43 annexes of about 1000 pages.

<sup>4</sup> These features of the AAs were described for first time by Van Elsuwege (2014).

detailed annexes specifying the procedure and the pace of the approximation process for different policy areas in more than 40 annexes and based on specific commitments and mechanisms identified in both the annexes and specific titles to the agreement.

Furthermore, the AAs are founded on a strict conditionality approach, which links the third country's performance and the deepening of its integration with the EU<sup>5</sup>. In addition to the standard reference to democratic principles, human rights and fundamental freedoms as defined by international legal instruments (Helsinki Final Act, the Charter of Paris for a New Europe, the UN Universal Declaration on Human Rights and the European Convention on Human Rights and Fundamental Freedoms) (Ibidem, Arts. 2). The AAs contain common values that go beyond classic human rights and also include very strong security elements, such as the "promotion of respect for the principles of sovereignty and territorial integrity, inviolability of borders and independence, as well as countering the proliferation of weapons of mass destruction, related materials and their means of delivery" (Ibidem).

Apart from the more general "common values" conditionality, the AAs contain a specific form of "market access" conditionality, which is explicitly linked to the process of legislative approximation. Hence, it is one of the specific mechanisms introduced to tackle the challenges of integration without membership. Of particular significance is the far-reaching monitoring of Ukraine's, Moldova's and Georgia's efforts to approximate national legislation to the EU law, including aspects of implementation and enforcement (Official Journal of the EU 2014: Art. 475 (2); European Commission 2014a: arts. 414–415; European Commission 2014b: arts. 448–449).

To facilitate the assessment process, the governments of Ukraine, Moldova and Georgia are obliged to provide reports to the EU in line with approximation deadlines specified in the Agreements. In addition to the drafting of progress reports, which is a common practice within the EU's pre-accession strategy and the ENP, the monitoring procedure may include "on-the-spot missions, with the participation of EU institutions, bodies and agencies, non-governmental bodies, supervisory authorities, independent experts and others as needed" (Ibidem).

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<sup>5</sup> For example, the preamble to the EU-Ukraine AA explicitly states that "political association and economic integration of Ukraine within the European Union will depend on progress in the implementation of the current agreement as well as *Ukraine's track record in ensuring respect for common values, and progress in achieving convergence with the EU in political, economic and legal areas* [emphasis added].



## 2. Effective Implementation and Application of the AAs Within the Ukrainian, Moldovan and Georgian Legal Orders

Implementation and application of the AAs within the legal systems of Ukraine, Georgia and Moldova will be governed by their national constitutional laws. Provisions of the constitutions of Ukraine, Georgia and Moldova on application of international agreements follow the same approach and provide that in case of conflict of the AAs provisions with their national legislation (excluding national constitutions), the former prevails. Once duly ratified by the Parliaments of Ukraine, Georgia and Moldova, the AAs will become an inherent part of their national legal systems as any other duly ratified international agreement<sup>6</sup>.

Relevant provisions of the Constitutions of Ukraine, Georgia and Moldova imply that on the one hand, properly ratified AAs will not only be equated to the same status as national laws, but will also enjoy a priority over conflicting national legislation<sup>7</sup>. On the other hand, the AAs cannot overrule conflicting provisions of the national constitutions, and the legal systems of Ukraine, Georgia and Moldova do not envisage direct enforceability of international agreements in the national legal order.

The AAs are not just ordinary international agreements, but complex framework legal structures that contain not only specific norms that govern the functioning of the

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<sup>6</sup> Article 9 of the Ukrainian Constitution of 1996 provides that: "International treaties in force, consented by the Verkhovna Rada of Ukraine [Ukrainian Parliament] as binding, shall be an integral part of the national legislation of Ukraine. Conclusion of international treaties, contravening the Constitution of Ukraine, shall be possible only after introducing relevant amendments to the Constitution of Ukraine". Full text in English is available at <http://www.president.gov.ua/en/content/constitution.html>, accessed on 10<sup>th</sup> July 2014. Article 8 of the Moldovan Constitution of 1994 provides that: "The Republic of Moldova pledges to respect the Charter of the United Nations and the treaties to which she is a party, to observe in her relations with other states the unanimously recognized principles and norms of international law. The coming into force of an international treaty containing provisions contrary to the Constitution shall be preceded by a revision of the latter". Full text in English is available at [http://ijc.md/Publicatii/mlu/legislatie/Constitution\\_of\\_RM.pdf](http://ijc.md/Publicatii/mlu/legislatie/Constitution_of_RM.pdf), accessed on 10<sup>th</sup> July 2014. According to Article 6(2) of the Constitution of Georgia, an international treaty or agreement of Georgia, unless it contradicts the Constitution of Georgia, the Constitutional Agreement shall take precedence over domestic normative acts. Full text in English is available at [http://www.parliament.ge/files/68\\_1944\\_951190\\_CONSTIT\\_27\\_12.06.pdf](http://www.parliament.ge/files/68_1944_951190_CONSTIT_27_12.06.pdf) [accessed 10<sup>th</sup> July 2014].

<sup>7</sup> Article 19(2) of Law of Ukraine "On International Treaties of Ukraine" provides that "If duly ratified international treaty of Ukraine contains other rules then relevant national legal act of Ukraine, rules of the respective international treaty should be applied". Article 19 of the Moldovan Law No. 595-XIV "On International Treaties" of 24<sup>th</sup> September 1999 states: "international treaties shall be complied with in good faith, following the principle of *pacta sunt servanda*. The Republic of Moldova shall not refer to provisions of its domestic legislation to justify its failure to comply with a treaty it is a party to" (*Monitorul Oficial*, 2 March 2000, No. 24). Article 6 (1) of the Law of Georgia "On International Treaties" states that an international treaty of Georgia is an inseparable part of the Georgian legislation. "Parlamentis Utskebani", 44, 11/11/1997.

association relations and DCFTA between the EU and Ukraine, Moldova and Georgia, but also envisage a possibility of application of a vast scope of the “pre-signature” and “post-signature” EU acquis<sup>8</sup> within the legal system of the eastern neighbouring countries. The scope of the EU acquis to be applied by Ukraine, Moldova and Georgia covers not only primary and secondary EU laws, but also EU legal principles, common values, and even case law of the ECJ, as well as specific methods of interpretation of the relevant EU acquis within their legal systems. Hitherto, the Ukrainian, Moldovan and Georgian legal systems have not faced the necessity to implement and effectively apply a dynamic legal heritage of an international supranational organisation<sup>9</sup>. Subsequently, adherence of Ukraine, Moldova and Georgia to the dynamic EU acquis via the AAs will encapsulate a plethora of challenges to their national legal orders.

One of the serious challenges to be faced by the eastern neighbouring countries is the reluctance of the judiciaries in the eastern neighbouring countries to apply and effectively implement international law sources in their own judgments (Petrov Kalinichenko 2011: 325–353)<sup>10</sup>. In practice, the Ukrainian, Moldovan and Georgian courts refer mainly to the international agreements which are duly signed and ratified by their national parliaments and which are self-executing within the Ukrainian legal system. Even in these cases, the correct application of international agreements is not guaranteed. It happens because one of the most important impediments for the application of international law by the Ukrainian, Moldovan and Georgian judiciaries is the correct understanding of these international conventions by national judges. The application of the AAs by the eastern neighbouring countries’ judiciaries will increase through increasing familiarity with the AAs and the EU legal order as well, due to claims on behalf of the Ukrainian, Moldovan and Georgian nationals, based on provisions of the AAs and the EU “acquis”<sup>11</sup>.

In the writer’s opinion, the objective of effective implementation and application of the AAs may be achieved by issuing a special implementation law that will clarify all potential conflicts of provisions of this agreement with Ukrainian, Moldovan and Georgian legislative acts. For example, Ukraine has already gained some experience

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<sup>8</sup> For more on application of “pre-signature” and “post-signature” EU acquis in the EU external agreements, see Petrov 2011.

<sup>9</sup> May be with exemption of the application of the EU sectoral “energy” acquis under the framework of the Energy Community which Ukraine joined in 2010. See Petrov 2012: 331–335.

<sup>10</sup> This happens mainly due to: 1) the belief that international case law is not relevant to civil law systems; 2) the translation of case law and jurisprudence; 3) the lack of translation of case law into Ukrainian to help judges adjust their decisions to best European standards. Furthermore, the Verkhovna Rada of Ukraine is not always expedient in solving conflicts between ratified international agreements and national legislation.

<sup>11</sup> More on judicial activism and voluntary application of the EU acquis in the eastern neighbouring countries see Van Elsuwege, Petrov 2014.

in ensuring the implementation and application of the European Convention of Human Rights (ECHR), which Ukraine ratified in 1997. The ratification of the ECHR by Ukraine took place by means of two laws. The first law was the law on ratification of the ECHR, wherein Ukraine recognised the jurisdiction of the European Court on Human Rights (ECtHR) (*On Ratification...* 1997). The second law was a special law on application of case law of the ECtHR in Ukraine. It imposed on Ukraine a duty of mandatory and timely execution of all judgments of the ECtHR related to this country (*On Execution...* 2006). In accordance with these laws, judgments of the ECtHR are being formally accepted by the national judiciary as sources of law and Ukrainian judges frequently refer to the ECtHR judgments in their decisions. However, the rate of effective application of the ECtHR case law in Ukraine is considered as unsatisfactory and lags far behind other European countries (Committee of Ministers 2014).

The special law on implementation of the AAs may solve much more complicated issues than the Ukrainian law on ratification of the ECHR in 1997. For instance, this law will face the necessity to clarify how binding decisions of the Association Councils should be applied in Ukraine, Moldova and Georgia. Direct applicability of the Association Councils' decisions will depend on their undisputed acceptance by national judiciaries. The special law on implementation of the AAs must clarify whether the ECJ case law constitutes a part of the EU sectoral *acquis* contained in the AAs' annexes. This issue is of prime importance for the Ukrainian, Moldovan and Georgian governmental agencies and the judiciaries which will deal with the interpretation of various elements of the EU sectoral *acquis* within their national legal orders. Another challenge is to clarify how the EU directives listed in the annexes to the AAs should be implemented into the legal system of Ukraine, Moldova and Georgia. In other words, may this process take into account the choice of form and method of implementation of the EU directives listed in the annexes to the AAs? Last but not least, what are the legal means of transposing the EU dynamic *acquis* into the Ukrainian, Moldovan and Georgian legal systems? All these issues will be novel for the relatively immature legal systems of Ukraine, Moldova and Georgia and, therefore, have to be answered in the special law on implementation of the AAs.

Ukraine, Moldova and Georgia may study and apply the experiences of other third countries which signed Association Agreements with the EU and issued national laws on implementation of these agreements. For instance, in 2001 the Croatian Parliament ratified the Stabilization and Association Agreement (SAA) and at the same time enacted the Act on Implementation of the SAA, which required implementation of all secondary association *acquis*, but did not envisage its direct effect within the Croatian legal order (Rodin 2011). The Norwegian Parliament adopted a statutory law on implementation of the EEA Agreement in 1992. This law granted provisions of the EEA

Agreement and its secondary law a supremacy over conflicting national legislation. The Norwegian law on implementation of the EEA Agreement clarified that relevant EU regulations are to be implemented without change, but the implementation of EU directives must take into account the choice of form and method of implementation (*Statute* 1992). In order to ensure effective application of the relevant EU acquis within myriad of sectoral agreements with the EU, Switzerland adopted several implementation laws too. For example, Federal Law on Swiss Internal Market in 1996 mirrors most of the relevant EU acquis and Swiss Law on Federal Parliament ensures “euro compatibility” of Swiss law drafts with the EU acquis (Maiani 2009: 111–123).

## Conclusions

To conclude, we have set out a number of considerations which lead us to believe that the signature of the AAs with the EU will trigger significant internal reforms in the eastern neighbouring countries. First of all, the future AAs will serve as a template for further political and economic reforms in these countries. The obligation to share the EU’s common democratic values will imply regular monitoring by the EU institutions. Thereby this should prevent the eastern neighbouring countries from undemocratic practices. The new joint institutions set up under the framework of the AAs will help to pursue the programme of approximating the laws with the help of their binding decisions. The process of effective implementation of the AAs will constitute the greatest challenge for Ukraine, Moldova and Georgia. These countries have to prove their adherence to the EU’s common democratic and economic values, and ensure the proper functioning of their deep and comprehensive free trade areas. The latter objective may be achieved only under the condition of establishing truly competitive market economies and the adoption of international and EU legal standards. Ukraine, Moldova and Georgia will be bound by decisions of the dispute settlement body established by the AAs. Following the widely used practice in the EU’s external agreements, the AAs contain so-called “evolutionary” and “conditionality” clauses. These are provisions in the EU’s external agreements with specific objectives (for instance, granting a visa-free regime, access to all freedoms of the EU Internal Market), the attainment of which is conditional either on certain actions on behalf of a party to an agreement (such as the elimination of trade barriers and uncompetitive practices) or the effective functioning of democratic and market-economy standards (such as free and fair elections and fighting corruption).

Looking at the pattern of future implementation and application of the AAs and their impact on the Ukrainian, Moldovan and Georgian legal systems we may be concluded with a suggestion that the success of this process is threefold. First, the efficient implementation and application of the AAs implies considerable constitutional reforms in Ukraine, Moldova and Georgia in order to enhance the direct enforceability of international agreements. Second, effective application of the AAs requires Ukraine, Moldova and Georgia to issue implementation laws that will clarify all potential challenges of this process for their national legal systems. Third, the scope of the EU acquis to be adopted by Ukraine, Moldova and Georgia is massive and covers not only EU laws, but fundamental EU principles, doctrines and the ECJ case law. Ukrainian, Moldovan and Georgian civil servants and judges will require in-depth training in EU law in order to be able to apply the EU acquis in their everyday activities. In case these challenges are successfully met, Ukraine, Moldova and Georgia could claim the fruits of closer European integration and to engage into an expanding European Legal Space.

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## THE EASTERN POLICY OF THE EUROPEAN UNION – A CHALLENGE FOR POLAND’S FOREIGN POLICY

### Abstract

*The paper analyses the European Union’s Eastern Policy, taking into consideration its definition, main goals, historical and geographical dimensions, as well as its genesis and mechanisms. It is presented against the background of broader instruments of the EU’s foreign policy, such as the European Neighbourhood Policy (ENP), as the Eastern policy is one of the two essential components of the ENP. The Eastern Policy itself is further divided into the strategic partnership with Russia and a new, specific instrument – the Eastern Partnership (EaP). The goals, instruments and principles of the latter are discussed in detail. The paper furthermore analyses the role of Polish diplomacy, whose active participation in the development and execution of the EU Eastern policy is one of the key elements securing Polish national interests. In this context, it presents the main Polish undertakings in this field, including the initiative of establishing the Eastern Partnership. The paper concludes with an attempt to briefly evaluate the achievements and shortcomings of the EU’s Eastern policy, as well as Poland’s pivotal role of in this respect.*

**Keywords:** European Union, EU’s foreign policy; EU’s Eastern policy; Poland’s foreign policy; Eastern dimension of the EU; European Neighbourhood Policy; Eastern Partnership

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## Introduction

Twenty six years after the famous Autumn of Nations and the fall of the communist system, Poland still faces important challenges. Its membership in the European Union, acquired 11 years ago, as well as its accession to NATO earlier on, combined for a qualitatively new situation in every area of Polish political, economic and social life. This especially relates to the area of foreign policy which has quite naturally become the fundamental forum upon which the Poles have to redefine and reformulate their vital national interests following the accession to those important structures of the Euro-Atlantic integration (Adamczyk, Milczarek 2003).

On the other hand, the European Union and its Member States have long considered the relations with Poland and other Central and Eastern European countries an important element of their overall foreign policy, encapsulated in the so-called EU's Eastern policy (Barburska, Milczarek 2014; Milczarek 2008; Pełczyńska-Nałęcz 2011). The significance of this policy was driven home by the consequences of the crisis that broke out in Ukraine in 2013. Along with many other issues (like the evidently worsening relations between the European Union and Russia), this crisis has also raised the question of the effectiveness of the EU's Eastern policy. An equally important issue was the role that Poland plays in formulating and implementing this policy. From the outset, the European Union was doubtlessly one of the most involved players in the Ukrainian conflict; similarly Poland, whose role was significant at certain stages of this conflict. The tragic events in Ukraine, one of the most important target countries of the UE's Eastern policy, highlighted the achievements, as well as numerous weaknesses of this policy.

In order to attempt an evaluation of the so-called Eastern policy, one needs to primarily focus on the definitions, genesis, main goals and instruments, as well as implementation methods. Only then one can one endeavour to evaluate the scale and effectiveness of Poland's involvement.

### 1. What is the EU's Eastern Policy?

To precisely define what the European Union's Eastern policy actually entails is not an easy task. The European Union has to this day failed to develop a clear and consistent position to this region that would be supported by all Member States. Subsequently, the policy represents a conglomeration of various undertakings which

comprise of different projects, initiatives, programmes and actions that, in addition, have been undergoing dynamic changes over the years. Some of them overlap; others simply compete with each other. There are also no commonly adopted and accepted classifications, typologies or nomenclature. This creates problems for both the scholars who study this complex subject matter and the decision-makers on the national and the EU level, involved in the implementation of the EU's foreign policy.

Nevertheless, one can still strive to define what the EU's Eastern policy actually means. It covers the European Union's approach to the countries of Eastern Europe, that is the objectives, principles, instruments and means of pursuing a certain policy towards specific recipients. Thus defined, the EU policy comprises various elements, including broad and more or less vague political concepts (like the EU's Eastern Dimension), as well as more specific undertakings with concrete legal and organisational forms, such as the Eastern Partnership. More precisely, the EU's Eastern policy can be described as joint formulation of specific principles, development of institutional solutions and execution specific undertakings and actions by EU organs and institutions, as well as the Member States under their broadly understood relations with the countries of Eastern Europe.

Another aspect in need of definition is the geographical reach of the Eastern policy. From the historical perspective, the extent of this reach keeps changing. Initially it covered a much larger group of targeted countries in Central and Eastern Europe, but following the EU accession of a significant number of these countries, it now encompasses merely the countries actually located in the eastern part of the continent. Therefore, it can be argued that the definition 'the policy towards Eastern Europe' is not entirely precise. One of many signs of this ambiguity is the fact that the term seems to include adjacent areas, such as the Balkans and according to some analysts, also Turkey. Moreover, the evolution of the EU's Eastern policy means that the concept of Eastern Europe in its context should be treated very broadly, encompassing areas in the Caucasus and on the shores of the Black Sea, as well as the Russian Federation. Seen from this angle – and this should be strongly emphasised – the concept of Eastern Europe is certainly a more geopolitical, rather than a strictly geographical one.

This is related to the historical and chronological aspects of the EU's Eastern policy. The turning point marking the launch of this policy were the events which took place during the Autumn of Nations at the turn of the 1980s and 1990s, when the Euro-Atlantic integration structures faced the issue of establishing relations with the newly emerging democracies in Central and Eastern Europe. The second milestone was the year 2004, when eight countries of this region accessed the European Union; this process continued during 2007 and 2013 with the accession of the next three states. At that point, the Eastern policy turned to the remaining countries of Eastern Europe

only, creating several special action measures for that purpose. It meant that until 2004, the EU's Eastern policy was addressed both to the candidate countries from Central and Eastern Europe (in a more concrete and involved way) and the remaining Eastern European countries. After the EU accession of the first group, the EU's Eastern policy was targeted at Eastern Europe only.

### 1.1. The Genesis of the EU's Eastern Policy

The history of the attempts of the European Community Member States to formulate a more or less coherent policy towards Eastern Europe is as long as the functioning of these integration structures. However, during the peak of the Cold War tension, East-West relations were driven by the logic of confrontation. It was only the 1960s and 1970s that brought some normalising measures. The symbolic examples of such measures were the political initiatives launched by the leaders of France and Germany – in the case of general Charles de Gaulle it was the 'Europe from Atlantic to Ural' concept, and for the German Chancellor, Willy Brandt, his 'Eastern policy' (*Ostpolitik*).

The most important milestone, however, was the Autumn of Nations at the turn of the 1980s and the 1990s, which led to the collapse of the communist system in Central and Eastern Europe. These changes had a historically significant meaning not only for the countries of this region, but for the whole of Europe, too. As a result of this unprecedentedly peaceful revolution, the Cold War's international system of power was destroyed, first on the European continent and then on the global scale. From the point of view of the European Communities and the emerging EU, these changes raised the urgency of the need for redefinition of the European integration objectives (Barburska 2013). From the point of view of the Central and Eastern European countries, in turn, it was important that most of them – both the already existing countries, such as Poland, and the newly formed ones, such as Ukraine – entered the path of political transformations aimed at establishing liberal democracy and free market economy. In the new situation, they had to make a historic choice of rapprochement either with Russia or the Euro-Atlantic integration structures: NATO and the European Union.

In a relatively short time, two groups of states emerged. The first one, composed of the Central European countries of the former communist bloc and the post-Soviet Baltic states, was clearly in favour of integration with the West. What followed was more than a decade of adjustment to western standards in all areas of life and, eventually, their accession to NATO and, between 2004 and 2013, to the EU.

The second group of newly formed states in Eastern Europe (Ukraine, Belarus and Moldova) proved politically less stable and economically less developed, and their governance systems were considerably different from the western standards. While

these countries expressed some interest in rapprochement with the EU, they were and largely still are politically and economically dependent on Russia. Of course, this hampers their efforts towards integration with the EU. The cooperation established between Russia and the EU and the unclear and inconsistent policy of the Union, which first had to determine for itself whether Eastern Europe was important to it and how it would like the relations with to develop, were additional complications.

Despite the fact that in the entire post-World War II period the members of the European Community supported democratic opposition in the communist bloc (very actively at times, as in the case of supporting the Solidarity movement in Poland), at the beginning of the 1990s they showed certain hesitation and concerns about the course of political transformations in the eastern part of the continent. There were concerns, among others, that the new democracies would only be 'seasonal entities', unable to ensure stabilisation and security in the region, which could result in scenarios similar to what happened in former Yugoslavia.

However, relatively quickly, western decision-makers largely accepted both the pragmatic and the political-ideological necessity to continue the past commitments and support the processes of democratisation and economic transformation in the East. Thus, the European Communities engaged in treaty-based relations with the new democracies, in some cases even before the changes in the formal system took place. Between 1988 and 1992, the EC signed trade and economic cooperation agreements (called the first generation agreements) with most of them. More advanced agreements with some of these countries followed, providing deeper forms of mutual relations, i.e. association with the Communities (called the Europe Agreements). The first agreement of this kind was signed in 1991 with Poland, Hungary and Czechoslovakia, the countries that most strongly expressed their integration aspirations.

The key issue in the development of the EU's approach to Eastern Europe was the strategic decision on offering full membership instead of loose forms of cooperation, at least to selected countries of the region. This way the idea of eastward enlargement was born (Milczarek 2014, Milczarek 2010). This long and complex process of a political, economic, legal, and social nature, etc., eventually led to the accession of 13 new members to the EU in 2004, 2007 and 2013, of which only two (Cyprus and Malta) are outside the region of Central and Eastern Europe.

## **1.2. Evolution of the EU's Eastern Policy**

It should be emphasised that the EU's enlargement to the East was an important but ultimately only one of many elements of its Eastern policy because only the members of the first of the aforementioned groups of countries, those that expressed such

aspirations from the beginning of the transformation process, took advantage of the opportunity to become EU members. (One of the most pro-European countries in this context was Poland – the proof was that even though the Europe Agreements did not explicitly mention possible future membership in the EU, Poland was officially expressing the will to join the organisation.) It means that the years 2004–2013 constituted important landmark in the EU's Eastern policy because in that period the countries from Central Europe admitted to the EU gradually stopped being subject to the Eastern policy. Their relations no longer belong to the sphere of the EU's foreign policy but to internal relations. At best, they may still be affected by the EU's Eastern Dimension, treated as a sort of preference for their regional specificity, similar to the Northern Dimension, which concerns mostly the Nordic countries, most of which are also members of the EU.

For the remaining Eastern European countries the European Union needed to create new mechanisms and forms of cooperation that would better reflect the specificity of the mutual relations. At present, the EU Eastern policy *de facto* concerns only relations with the non-EU countries of Eastern Europe, which have become its main recipients and subjects. The countries of this group are very diverse and primarily include the immediate neighbourhood of the EU: Ukraine, Belarus and Moldova, gradually joined by countries located further away, in Transcaucasia – Armenia, Azerbaijan or Georgia. Apart from that, one has to take into account the Russian Federation, which has very specific ties to the EU's Eastern policy under the strategic partnership. Under this approach, it should be strongly emphasised once again, Eastern Europe is much more a geopolitical notion than a geographical one.

Thus, the EU Eastern policy can be divided into two separate, although interconnected parts: the Eastern Partnership and the Strategic Partnership with Russia. In our inevitably abridged discussion, only the Eastern Partnership will be analysed, because it represents an excellent example of the implementation of the entire EU Eastern policy; its merits and its shortcomings.

It should be reiterated that at the same time, the EU's Eastern policy has become the eastern component of the European Neighbourhood Policy – ENP (Casier 2012; Maurer, Simão 2013; Pietraś and al. 2012). While this policy was established in order to pursue broader goals, it was undeniably to a great extent a response to the challenges coming from the East. Leaving aside any deeper analyses of this broad subject, let it suffice to say that the ENP, officially established in 2004, is addressed to two groups of states: seven abovementioned countries of Eastern Europe and ten countries of Mediterranean Basin (namely: Morocco, Algeria, Tunisia, Libya, Egypt, Israel, the Palestinian Authority, Jordan, Lebanon, and Syria). The ENP thus covers a total of 17 countries territorially spanning the area from Gibraltar to the Caucasus, inhabited

by some 400 million people representing very diverse civilisations, levels of socio-economic development, political systems, etc. (Kapuśniak 2010; Lyubashenko 2012).

It was fundamental to the ENP to support the cooperation between the EU and its neighbours in the spheres of economy, politics, culture and security. This cooperation should be based on shared political values (such as democracy, the rule of law, protection of human rights) as well as on the principles of free market economy. Thus, the EU offered to its neighbours both privileged political relations and deepened economic cooperation. It should be stressed, however, that participation in the ENP by no means implied inviting the recipients of this policy to become members of the EU (Marcinkowska 2014).

Therefore, the EU's Eastern policy should be viewed in this broader context. The primary legal basis for the cooperation with Eastern European countries are the Partnership and Cooperation Agreements (PCAs). Agreements of this type were first concluded in 1994, and they have different characters, such as, for example, the special strategic partnership agreement with Russia. Given the more or less resolutely expressed aspiration of some countries to join the EU (as it is the case with Ukraine and Moldova), it has been proposed to try to meet these expectations. Usually these proposals do not go as far as to actually suggest accession, which would be a very far-reaching solution because the Union itself seems to suffer from enlargement fatigue after the last wave of enlargement process, and apart from that, the ENP principles do not provide for such a possibility.

Nonetheless, some options of concluding the Association Agreements between the EU and the Eastern European countries are being discussed. This would facilitate the development of economic cooperation and political dialogue, leading to mutual rapprochement and more comprehensive adjustment of the countries concerned to EU standards. In other words, the idea is to encourage the integration of Eastern European countries with the EU in a form that goes beyond the framework of PCAs.

## **2. A New Instrument of the EU's Eastern Policy: Eastern Partnership**

The shortcomings of the European Neighbourhood Policy's eastern component forced the EU's decision-makers to look for new forms and instruments to implement the policy. The development of disturbing events in Eastern Europe, characterised by the failure of the 2004 Orange Revolution in Ukraine and the intensification of authoritarian tendencies in Belarus, provided additional impulse. However, the

predominant reason for concern was Russia's evident return to a neo-imperialist policy in relation to its neighbours, evidenced by the armed conflict in Georgia in 2008.

## 2.1. Principles and Evolution of the Eastern Partnership

Given the circumstances, a new undertaking was established under the name Eastern Partnership (EaP). In the context of this chapter's topic it should be stressed that it was the Polish diplomacy who initiated the undertaking (Adamczyk 2010). The role of Poland will be presented in more detail further on in the paper, but for now it must suffice to say that the involvement of Polish diplomacy in creating the EU's Eastern policy was not accidental. Among all the new EU members from Central Europe, Poland is one of those countries that are most interested in the development of the EU's Eastern policy, which is considered very important for the realisation of the country's national geostrategic interests.

Upon obtaining support from several EU partners, the Polish government, acting in conjunction with Sweden, officially put forward a proposal at the EU summit in June 2008, where this proposition was accepted. As stated in the conclusion from this meeting: 'The European Council welcomes the proposals for developing the Eastern Dimension of the European Neighbourhood Policy, which will aim at enhancing the EU policy towards eastern ENP partners in bilateral and multilateral formats' (*Eastern Partnership* 2008).

It meant that from the very beginning the concept of the Eastern Partnership had been a part of the broader ENP context. It was addressed to a specific group of recipient countries: Ukraine, Moldova, Armenia, Azerbaijan, Georgia, as well as Belarus (although full membership of the latter in the EaP depends on whether it manages to restore democracy). However, it needs to be firmly stressed that this idea was also based on original principles and rules, making the EaP largely a new quality within the entire EU policy towards the countries of Eastern Europe (Jesień 2008, *Eastern Partnership* 2012; Szeptycki 2011).

This was reflected in the selection of partners – a group of states of a key geopolitical region, with more than 75 million inhabitants and a total territory of approximately 1 million square kilometres. As the Eastern Partnership does not anticipate the participation of Russia – traditionally mistrustful towards the EU – it seems that the main criterion for the formation of this target group was readiness to engage in closer integration with the European Union (authoritarian Belarus may be an exception, although it is also a beneficiary of the measures dispensed within the framework of the Partnership). In 2010, the then President of the European Commission José Manuel Barroso commented quite frankly: '[t]he Eastern Partnership



offers these countries the chance of making a strategic choice: a pro-European orientation' (Barroso 2010).

The inaugural summit of the Eastern Partnership was held in Prague in May 2009, and the Joint Declaration adopted there became the EaP's principal founding document. It stated that: 'the main goal of the Eastern Partnership is to create the necessary conditions to accelerate political association and further economic integration between the European Union and interested partner countries' (*Joint Declaration* 2009). This goal was to be achieved through the conclusion of Association Agreements containing, among others, deep and comprehensive free trade agreements. Furthermore, the Partnership was to improve the ties among the partner countries and encourage peaceful conflict resolution, as well as to promote increased mobility of their citizens through visa facilitations and ultimately the abolishment of visas.

The second summit of the EaP was held in Warsaw in September 2011, which once again emphasised Poland's dedication to the issue. The Joint Declaration adopted at the summit constituted a clear political signal proving readiness to deepen integration between the EU and its Eastern partners (*Joint Declaration* 2011). The process was to take place in both the political and the economic sphere, as proven by the declaration that the EU was ready for integration of the partner countries with the EU Single Market and in the future even for establishing a common economic area. Apart from that, the participating countries confirmed the intention to eventually abolish visas and strengthen sectoral integration, and decided to establish new instruments for supporting the development of a civil society in the region (namely the European Endowment for Democracy and the Civil Society Facility).

The third summit, held in Vilnius in November 2013, went down in history largely due to the turbulences in the context of the Association Agreement. The Ukrainian president of that time, Viktor Yanukovych, delayed the decision until the last possible moment, probably – in accordance with his policy of dodging between Europe and Russia – with the intent to achieve maximum benefits from both sides. In the end, he decided not to sign the agreement with the EU, but this caused the outbreak of the crisis that Ukraine has been struggling with until this day. In the shadow of this crisis, however, other important events took place at the Vilnius summit, namely the initialisation of the Association Agreements by Moldova and Georgia. While these two countries have been showing, as it would seem, a great deal of determination in their striving to integrate with the EU, the same cannot be said of Armenia, which refused to sign the agreement, clearly aiming for integration with Russia instead of the EU (within the Eurasian Economic Union established in 2015).

The fourth summit of the Eastern Partnership, held in Riga in May 2015, was the occasion to demonstrate the EU's determination to pursue closer, differentiated

relations with its partners. In the Joint Declaration adopted at the summit, participants declared their willingness to develop their relationship by strengthening institutions and good governance, enhancing mobility and contacts between people, ensuring energy security and developing market opportunities by improving the business environment. (To achieve this aim, the European Commission launched a special programme for small and medium enterprises in Georgia, Moldova and Ukraine.) Conflict resolution in the region was also high on the agenda of the summit. All its participants agreed to pursue all efforts aiming at de-escalation, a political solution to the crisis in Ukraine and peaceful settlement of other unresolved conflicts in the region. However, the final results were less than expected and critics have voiced opinions that the European Union should be more supportive towards Ukraine and other Eastern Partners.

## **2.2. Institutions and Mechanisms of the Eastern Partnership**

According to the principles of the Partnership, it was to be implemented at two levels: bilateral involvement and development of multilateral cooperation. This meant that it should not only facilitate the development of the EU's relations with the EaP countries, but also the development of regional relations among the Eastern European Partners. This would fortify closer cooperation between these countries within the framework of integration with the EU.

As regards the EaP's institutions, formally the most important ones are the summits of the heads of state and government, gathering representatives of the highest authorities of the EU Member States and the partner countries. Another instance are meetings of the ministers of foreign affairs, which act more like working groups. Another institution is the multilateral Euronest Parliamentary Assembly, consisting of the Members of the European Parliament and members of the national parliaments of the partner countries. Amongst other EaP institutions are the Conference of the Regional and Local Authorities for the Eastern Partnership (CORLEAP), the Civil Society Forum (connecting nearly 300 NGOs) and the Eastern Partnership Business Forum.

The most important mechanisms of the functioning of the EaP on the bilateral level include: Association Agreements, free trade area and liberalisation of the visa regime.

Undoubtedly the most important one among these is the signing of Association Agreements between the EU and the partner countries. Replacing the Partnership and Association Agreements, they create new and much stronger political and economic ties. On the one hand, they give an Eastern Partner a privileged position, but on the other hand, they require that the partner fully adjusts to EU standards, especially as regards the observance of human rights and democracy.

A strictly economic part of the Association Agreement, which is negotiated separately, is the Deep and Comprehensive Free Trade Agreement (DCFTA). It is more significant than a standard free trade agreement because it includes liberalisation of the flow of not only goods, but also services, capital and to a certain extent workforce, as well as adjusting the economic laws of the partner countries to the *acquis communautaire*. It gives the beneficiary countries an opportunity to engage in far-reaching economic integration with the EU Single Market, with all the resulting benefits: the inflow of foreign investments and capital, access to innovative technologies, etc.

Most of the EaP partner countries have already commenced their negotiations on the conclusion of the Association Agreement and the DCFTA. So far, three countries have managed to sign these agreements. Following political changes, which will be discussed in the further part of this paper, in March 2014 Ukraine signed the political part of the Association Agreement and towards the end of June 2014 it also signed the economic part. Around the same time, Moldova and Georgia signed these agreements as well, after having initialled them, as mentioned above, at the Eastern Partnership summit in 2013. Association Agreements and DCFTAs concluded with these countries started to work at the Riga summit in 2015 – as the President of the European Commission, Jean-Claude Juncker said: “They are a sign of the EU’s strong commitment to further deepen our cooperation with our eastern partners” (*Eastern Partnership* 2015).

Another particularly important issue, especially from the point of view of regular citizens, is the liberalisation of the visa regime. It is possible to facilitate visa procedures, and eventually also abolish visas entirely. This, however, involves the requirement for the EaP countries to meet many conditions ensuring safety and control of the UE’s borders, including combating corruption, organised crime or illegal migration. In this respect, Moldova managed to achieve the best results: in April 2014 the EU abolished the visa requirement for its citizens (those holding biometric passports). Ukraine and, to a lesser extent, Georgia and Azerbaijan, are at an advanced stage of cooperation with respect to visa-free travel.

As regards the mechanisms of the functioning of the Eastern Partnership under multilateral cooperation, they mainly cover the functioning of the aforementioned most important EaP institutions: the summits of the heads of state and government and the ministerial level meetings. Their activities are conducted i.a. on four thematic platforms, covering such issues as: democracy, good governance and stability; economic integration and convergence with EU policies; energy security and interpersonal contacts. Operations of the platforms involve planning, arranging and coordinating joint undertakings on the basis of jointly developed lists of priorities

and action programmes. Furthermore, there are five flagship initiatives, covering the priority areas of multilateral cooperation, usually executed within the platforms. These initiatives include, among others: an integrated border management programme, support for small and medium enterprises, environmental management, etc. (Kaca et al. 2014).

Another example are the measures adopted to facilitate interpersonal contacts: supporting intercultural dialogue and cooperation in the areas of culture and student exchange, among others. With this in mind, the European Commission has established the Eastern Partnership Culture Programme, whose main task is to institutionally strengthen the culture sectors in the partner countries and make it easier for them to gain access to EU cultural programmes. The development of contacts among schools and universities, in turn, takes place under eTwinning and student and academic staff exchanges within the framework of the Tempus and Erasmus Mundus programmes. Some new initiatives were proposed in order to intensify cooperation of this type, including the establishment of the Eastern Partnership Youth Programme, and there also appeared the idea of establishing a Common Knowledge and Innovation Space in the area of education and scientific research.

These types of initiatives create a relatively dense network of interrelations, which turn not only the Eastern Partnership, but the entire EU Eastern policy into an important instrument that endows the EU with influence over the political, economic and social situation in Europe. Poland plays a significant role in this respect.

### **3. The Role of Poland in Shaping the EU's Eastern Policy**

As already mentioned, there is no question that amongst all Central European countries that strive for participation in the structures of the Euro-Atlantic integration, Poland was and is the most interested in the formation and implementation of an effective EU policy towards its eastern neighbours. The reasons for this include both Poland's historical experience (showing Poles the significance of the relations with the East, in particular Russia) and the contemporary perception of vital national interests in the areas of politics, economy and security. Therefore, what is of key importance for ensuring the fulfilment of these interests is formation behind the Polish eastern border of a group of friendly and allied countries, which would be connected by close ties to the European Union and constitute a counterbalance to Russia's neo-imperial ambitions (Adamczyk 2014; Barburska 2013; Gil, Kapuśniak 2009).

### 3.1. Poland as an Initiator of the EU's Eastern Policy

After 1989, Polish involvement was apparent at all developmental stages of the EU policy towards Eastern Europe. On the outset, this involvement took the form of producing various ideas pertaining to the initial principal concept of the EU's Eastern Dimension, which was treated as an expression of the EU commitment to Central and Eastern Europe. The very concept was formulated by Polish diplomacy and Polish think-tanks and was presented for the first time in 1998, during the opening of Polish accession negotiations. The concept envisaged the formation of the Eastern Dimension to European integration, which was understood as providing the possibility of extending the cooperation to the future new Member States from the Central and Eastern Europe.

In 2001, the Polish Ministry of Foreign Affairs published a special report which contained recommendations on the need to tighten cooperation with the EU's eastern neighbours and the post-Soviet countries (*Polityka wschodnia* 2001). Not only did Warsaw issue political statements, but also undertook concrete actions, such as abolishing visa fees for citizens of Ukraine. In 2002, Poland submitted the so-called Riga Initiative, which provided for the establishment of broad regional cooperation in Central and Eastern Europe. Such cooperation was to encompass 17 states, with the aim to support transformation processes and the common battle against organised international crime. A detailed presentation of the Polish ideas on Eastern policy can be found in the document, presented by Poland in 2002. It contained a proposition for the development of a new strategy which would allow for a better coordination of assistance endeavours allocated to Eastern Europe. The strategy considered differentiating EU relations with the countries of this region, depending on the degree of their interest in cooperation with the European Union.

Once again, Polish diplomacy presented the concept of the EU's Eastern Dimension in February 2003. (The European Commission's communiqué, initiating the European Neighbourhood Policy, was published a month later). Warsaw postulated that the Eastern Dimension concept served as an instrument of the EU's foreign policy towards its eastern neighbours. It was to take the form of a coherent policy, sufficiently flexible to provide for an individual nature of relations with singular Eastern European countries, including not only political and economic, but also human and social aspects. Simultaneously, Poland professed willingness to share its unique know-how and experience in pursuit of a policy towards Eastern European countries, for which it could have become a 'bridge to Europe', and an advocate of the interests of the entire region.

But at that time, Polish diplomacy's propositions failed to gain the European Union's acceptance. The concept of the European Neighbourhood Policy, officially adopted in 2004, was based on different assumptions and dealt primarily with the geographic extent (a region much larger than the Eastern European region alone), relatively small differentiations in policies towards individual partner countries and finally, a very important issue, the lack of EU membership perspectives for partner countries.

Poland did, however, not resign from promoting its concepts of establishing closer ties with Eastern European countries, and after gaining formal EU membership, the opportunities of giving its concept a voice, undoubtedly increased. The noticeable 'centre of gravity' move of the European integration processes closer to the East meant that the entire EU Eastern policy underwent an evolution in this new political configuration. It ceased to focus on relations with Russia and became increasingly more open towards other countries in this region. Taking advantage of this new attitude, Warsaw supported Ukraine's Orange Revolution in 2004 with full determination. It was the first time that Poland achieved significant success in the role of an important – and perhaps even key – initiator of the EU policy towards the East. It must be acknowledged that the consistent and determined stance of Warsaw, supported by some EU partners, in particular the Czech Republic, Lithuania, and Scandinavian countries, contributed to the consolidation of the EU policy towards the Ukrainian question (Nowak, Milczarek 2007; Barburska 2007).

The Polish support was to send a clear signal that Warsaw wanted to help its eastern neighbours in implementing reforms necessary to bring them closer to European standards, regardless of the ongoing debate on a further eastward enlargement of the EU. Poland was concerned that remaining inactive in this respect may lead to a division of Europe into privileged countries and those that would have to cope with their own problems. For these reasons Poland, as pointed out above, put forward an initiative to establish the Eastern Partnership.

### **3.2. The Eastern Partnership – a Polish Initiative**

In order to achieve this ambitious goal, Polish diplomacy started its endeavours to gain the support of the EU Members in 2007. First it managed to involve Sweden, who became the official co-author of the entire concept; consultation with the European Commission was carried out at the same time. An important issue was to attract support from other Member States, especially Germany and France. In the case of Berlin, who had become more and more aware of the importance of relations with the East, the mission was a success. As to Paris, the acceptance of the French

idea to establish the so-called Union for the Mediterranean was an important issue and prevented all objections on the French part (having gained support for its own initiative, it was difficult for France to block analogous actions of other countries).

Finally, Polish and Swedish diplomats managed to gain wide support for their project. Among some of the countries were Great Britain, the Baltic states and the Visegrad Group countries, especially the Czech Republic, who made the Partnership concept one of the priorities of its Presidency in the first half of 2009. The Eastern Partnership concept started to be promoted in spring 2008 as a result, and was officially launched by Poland at the Brussels meeting of the European Council in June 2008. (As already mentioned, the official inauguration of the EaP took place in May 2009 in Prague.)

From then onwards, Poland was strongly engaged in the implementation of the Partnership, while at the same time working on expanding and enriching the initiative with new schemes. On the initiative of the Polish government in 2010, for example, the Group of Friends of the Eastern Partnership (now known as the Information and Cooperation Group) was established with the aim of gaining support for the Partnership from non-EU Members. Another step in this direction was the decision on the establishment of the Eastern Partnership Academy of Public Administration in Warsaw, which provides a multiannual training programme for civil servants from EaP partner countries. There is also an EU institution, the SALTO EECA Resource Centre, supporting youth cooperation within the framework of the Eastern Partnership Youth Programme, in the Polish capital.

One of the priorities of the Polish Presidency in the second half of 2011 was to ensure further development of the EaP. During that time the second Eastern Partnership summit took place in Warsaw in September. The Warsaw Declaration, adopted at the summit, constituted a clear political gesture that indicated readiness to deepen the integration between the European Union and its eastern partners. In pursuit of this aim, Poland consistently supported the establishment of new cooperation mechanism and the strengthening of sectorial cooperation within the framework of already existing EU programmes and institutions.

Warsaw supported the establishment of new vehicles that would facilitate the functioning of civil society in EaP countries, like the abovementioned European Endowment for Democracy and the Civil Society Facility, which may serve as an example of Polish involvement. Moreover, Poland initiated the formation of the Eastern Partnership Business Forum, and in 2011 helped organise the third Civil Society Forum. It also hosted inaugural meetings of EaP institutions, such as the *Conference of Regional and Local Authorities for the Eastern Partnership*, the EuroNest Parliamentary Assembly, and the Eastern Partnership Culture Congress. The first

Eastern Partnership Culture Congress took place in Poland in 2011, where several innovative cultural programmes were initiated.

Aimed at deepening the sectorial collaboration under the Polish Presidency, a range of meetings with the participation of various levels of officials and experts was organised. These included conferences of the ministers of economy, transport and agriculture; a debate of the ministers of higher education of the Eastern Partnership; meetings of the heads of customs services on subjects such as fighting corruption, environmental protection, energy, etc. One of the results of these activities was the development of a 'road map' for the implementation of individual measures in the period preceding the next Eastern Partnership summit.

Apart from being involved in EU activities, Poland also realises its own projects. The Polish government allocates a significant part of foreign aid funds to strengthening the Eastern Partnership. Hundreds of various projects involving joint undertakings in the fields of, among others, science and education, were implemented in the EaP partner countries. For example, in 2012 Poland established a new scholarship programme for citizens of EaP partner countries who undertook doctoral studies in the areas of Humanities and Social Sciences in Poland. Moreover, several cultural projects, such as the East European Performing Arts Platform in Lublin or the Culture Orchestra formed by musicians from Poland and EaP countries, emerged during the Polish Presidency.

### **3.3. Poland and the Ukrainian Crisis**

Poland's stance with respect to the crisis which hit Ukraine in the end of 2013 was most significant (Hud' 2013). The direct cause of this crisis was the fact that Ukraine failed to sign the EU Association Agreement, which was supposed to take place at the November Eastern Partnership summit in Vilnius. This situation elicited a strong reaction from the Ukrainian pro-European opposition, supported by a significant part of society, particularly in the western part of the country. At the news of the Vilnius summit fiasco, anti-government protests broke out in several cities, taking the form of demonstrations or occupation of public buildings; their best known symbol was the formation of a protest city called Maidan or Euromaidan in Kiev's central square. Attempts to suppress the demonstrations by force did not succeed. The scale of public discontent reached an unprecedented high, surpassing even that of the Orange Revolution in 2004 and giving an insight into the extent of Ukrainian pro-Union sympathies.

Even the conclusion of the agreement between the opposition and the president which ended the bloody repressions against protestors did not calm the situation.



President Yanukovych left the country, while the opposition forces that came to power faced the enormous problems of a rapid increase in separatist tendencies in the eastern regions of Ukraine, actively supported by Russia. Finally, in 2014 the Crimea was annexed by Russia and fierce fights broke out between pro-Russian separatists and the army, loyal to the government in Kiev. (One of the tragic events of this conflict, which has led to its internationalisation, was the shooting down of a Malaysia Airlines plane by separatists in July 2014.) It is worth stressing that in this situation, President Poroshenko, democratically elected in May of the same year, decisively continued a clearly pro-European course of foreign policy, which was evidenced by the conclusion of the Association Agreement with the EU.

During the crisis, Polish diplomacy, the political class and the broad majority of society supported the activities of the Ukrainian opposition and the new government. What was most important, apart from manifestations of sympathy and material assistance, was active political support: some Polish politicians openly associated with the protestors and appeared at Maidan. But above all, it was the government in Warsaw that initiated a wide diplomatic action aimed at mobilising the European Union to take a decisive position. There are many more examples of such activities, but it is sufficient to say that Polish diplomacy initiatives contributed crucially to the attempts at solving the Ukrainian crisis. On the other hand, it must also be pointed out that there were some failures – undoubtedly one of them was the fact that Poland failed to create a united front with the countries of the Central European Visegrad Group, as some of them even supported Russia's stance, in particular Hungary under the governance of its Prime Minister, Viktor Orbán.

## **4. Conclusions: The EU's Eastern Policy – More Successes or Failures?**

Trying to comprehensively evaluate the effectiveness of the EU Eastern policy, one has to point out that, despite achieving certain successes, this policy is characterised by several structural weaknesses. These come to the fore when analysing its flagship programme, the Eastern Partnership.

There is no doubt that the authoritarian tendencies observed in the political life of almost all of the EaP partner countries constitute an obstacle to the implementation of the programme. It weakens their creditability in terms of complying with democratic standards and thus restrict the room to manoeuvre for the EU. Another hindrance may be the fact that the EU runs a grand programme on strategic partnership with Russia

simultaneously. With the unwritten rule 'Russia first', this may push efforts undertaken within the framework of the Eastern Partnership into the background; although, on the other hand, the Ukrainian crisis plainly prompted the EU to significantly revise its policy towards Russia. The additional problem arising in relation to the entire European Neighbourhood Policy, i.e. the lack of official EU membership perspective for countries that nurture such aspirations, remains still unsolved. Another serious concern is the insufficient financing of the Eastern Partnership by the EU institutions which, for the time being, allocate much larger funds to the Mediterranean than to the East European component of the ENP.

There are quite distinctly differing opinions on the effectiveness of the Eastern Partnership amongst politicians and analysts. Some claim that the entire European Neighbourhood Policy, together with the EaP, is merely a kind of political ephemeron, which effects few changes both in the relations between the EU and Eastern Europe and in the domestic situations and foreign policies of the target countries. Although it is generally emphasised that the European Union's presence and influence in the East was never as strong and visible as it is at present, there is no shortage of voices critical of this involvement.

This type of criticism arises from the development of events in many of the EaP partner countries. Clearly, it is the development of events in Ukraine that constitutes the prevalent problem, but there were also other occurrences and tendencies unfavourable to the Union, such as the Armenian policy of adopting a pro-Russia option. Armenia had obviously ceased to strive for convergence with European integration structures, refused to sign the EU Association Agreement at the Vilnius summit and joined the Euro-Asian Economic Union established by Russia in 2015. Moreover, measures undertaken within the framework of the EaP and the entire EU Eastern policy did not result in any significant changes in the domestic and external policies of Belarus.

Nevertheless, it seems that placing any fervent blame against the Eastern Partnership or the entire Eastern policy should be considered too excessive. It must be remembered that several institutions and operating mechanisms, which were discussed above, were established within the framework of the Partnership and although some function within the European Neighbourhood Policy, they either supplement it or are specific to the EaP. The fact that they are not constantly fully effective does not entirely depend on the good will or determination of their creators and implementers, since they are also effected by more general conditions of objective nature. Yet one must also point out cases where positive effects were achieved, predominantly due to the functioning of the Partnership. Good examples would be the changes in Ukraine's

foreign policy, as well as the noticeable intensification of rapprochement efforts towards the EU, evident from the policies of Moldova and Georgia.

Summarising the role of Poland in creating and pursuing the EU policy towards Eastern Europe, it can be argued that despite weaknesses and shortcomings, this role ultimately matches Warsaw's aspirations and abilities. As mentioned, it is essentially in Poland's geostrategic interest to ensure that a group of states, connected to the EU by the closest possible integration ties, is formed at its eastern borders. At the same time, it must be clearly emphasised that this approach does not entail prioritising some neo-Jagiellonian ideas of directing Polish policy towards the East. Poland's involvement in strengthening the EU's influence in Eastern Europe should rather be treated as acting in accordance with the Polish reason of state, representing a rational and logical supplement to the principal priority, the fullest possible participation of Poland in the Euro-Atlantic integration structures.

Looking at the latest signs of Poland's involvement in the EU's Eastern policy, like the attempts to participate in solving the conflict in Ukraine, assessments have to be well-balanced. Despite achieving some success, especially the effective support of pro-Union attitudes among the Ukrainian elite and large parts of society, one must not fail to see significant limitations, which reduce the effectiveness of Warsaw's undertakings. These are not only due to the mistakes and shortcomings of Polish diplomacy (such as lacking adequate financial means to be a significant donor to Ukraine's economy), but equally, or perhaps even first of all, to various objective international conditions.

The fact that Poland did not fully manage to garner the interest of all EU Member States (as was the case of Ukraine), and ensure their viable and coherent support, results from Poland's objective possibilities and position on the international scene and within the EU. For instance, Poles are not yet sufficiently influential to overcome the traditional reluctance of many Western European capitals to come into conflict with Russia. The subsequent stages of Ukraine crisis disclosed the real position of Warsaw in the rankings of the EU. Even though Poland was able to achieve certain diplomatic success in the initial stages of the crisis, as the conflict grew and appeared to become a danger to European security, only the great powers: the USA, Russia, Germany and France were taken into account. It does, however, not change the fact that the pursuits of Polish diplomacy once again proved great willingness and involvement on the part of Poland to develop EU relations with our eastern neighbours.

Generally speaking, in today's political configuration of Europe, Poland has a historical chance to become a kind of bridge between western and northern parts of the continent (to which it already belongs organisationally) and a range of East European countries. As such, it may contribute to the resolution of past divisions between European nations, many of which date much further back than the Cold

War's 'Iron Curtain'. In the case of those East European partners who aspire to form closer links with the European Union, Poland may play a pivotal role as their advocate in Brussels, helping them to achieve European standards.

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## TURKEY – A RISING POWER BETWEEN EUROPE AND ASIA

### Abstract

*Turkey has a number of attributes which make it a perfect state to play the role of a regional power in the Middle East. From a geopolitical point of view, Turkey is ideally located, i.e. at the intersection of three continents: Europe, Asia and Africa, which enables it to act as a bridge in economic, political and raw-material affairs between those parts of the world. Despite the economic crisis, which reached even the Bosphorus, Turkey pursues constant economic development and within a few years will become one of the richest states in the world. Compared to other countries in the region, Turkey maintains a well-trained and modern army. Its location ensures stable energy resource supplies from the neighbouring countries, which are indispensable for its economic growth. Turkey's expansion in the Middle East is mainly curtailed by the specificity of that part of the world - the unpredictability of events in the region.*

**Keywords:** Turkey, regional power, foreign policy, Middle East

### Introduction

In accordance with the international law, all countries are equal. Formal equality, however, diverges from the real situation in international relations. The most important participants in those relations, i.e. countries, differ in terms of the size of their territory, population, economic potential, access to energy resources, political system, military capability, organisational efficiency and “a number of other factors which create diverse possibilities for them to have a specified position and role in international relations” (Cziomer, Zyblikiewicz 2000: 47). Due to these diversities we can observe state hierarchy in international relations, where the most important are the world powers capable of domination and which are able to efficiently influence other participants in international relations globally. Second-highest in the hierarchy are regional powers

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with economic and military advantages that may influence the political processes in a particular region. In order to play an active role, a power must skilfully utilise its potential, its advantages and optimally exploit the whole range of methods and instruments in foreign policy, such as diplomatic initiatives in a region, participation in mediations to resolve regional conflicts and disputes, and to build cooperation by undertaking regional integrative projects. The influence of those powers means “the possibility to shape a region, to curtail the autonomy of other countries, to impose their will on other participants of international relations” (Bieleń, Mrozek 1996: 12).

In historical terms, the main attributes of a country in international relations were its power, territory and population. However, the prerequisites for a power have depreciated over the years. The most important international factor that determines the status of a country nowadays is its economic and raw-material potential, as well as the volume of import and export. Naturally, it cannot be understood that a country’s military power is of lesser importance. Armed forces still remain a country’s potential significant strength in international relations. There are, however, other factors that determine the global and regional domination of a particular state, such as e.g. cultural appeal (Pietraś 2007: 83).

Not only is the role of powers in international environment dependent on their potential and the evolution of the attributes of a particular power, but it is also related to the changes in both global and regional reconstruction of the international system, i.e. changes in the climate surrounding the powers (Milczarek 2003). The role and position of a state in the international community is not the only determining factor of the potential of this country; the weaknesses and shortcomings of its competitors in the region play an important part too.

This article constitutes an attempt to analyse the evolution of the role of Turkey as a regional power in the Middle East. The author’s intention is to present the attributes of Turkey as a power, to analyze the country’s behaviour within the region with regard to dynamic and unforeseeable changes in the international environment in the Middle East.

## **1. Attributes of Turkey’s Regional Power**

### **1.1. Geopolitical and Demographic Factor**

Turkey is located in an important place on the world map from the geostrategic point of view, so it can, or indeed must, pursue a multi-directional policy. Turkey



can be described in a multi-dimensional way: it is a European and an Asian country, it is a Mediterranean and a Black Sea state, it is also a country that is Caucasian, Middle-Eastern, as well as Balkan at the same time. The Turkish Straits are the only waterway linking the Mediterranean Sea with the Black Sea and other sea transport routes. At the same time, the Turkish Straits constitute the border of two continents, Europe and Asia, therefore Turkey can be assigned neither to the East nor to the West with regard to cultural, ideological or political matters. In its relations with the countries of “the Orient”, Turkey reiterates its Eastern and Muslim attributes. However, in its relations with the western countries it emphasises its European values. Turkish politicians have taken advantage of the country’s location by calling it a “bridge” between Europe and Asia or a passage between the East and the West. Turkey also belongs to a number of international organisations, such as the United Nations, the North Atlantic Treaty Organisation, the Organisation for Security and Cooperation in Europe, the Council of Europe, the Organisation for Economic Cooperation and Development, the Organisation of the Black Sea Economic Cooperation, as well as the Organisation of Islamic Cooperation. Also, Turkey is a member of the Group of Twenty (G-20), which associates the richest countries of the world.

In terms of geographical potential, Turkey is a medium-size country worldwide, but in the region it is among large countries. Its total area is smaller than that of other Middle-Eastern countries with ambitions to be regional powers, such as Iran or Saudi Arabia (see Table 1). The difference, however, is not so significant and meaningful as to prevent Turkey’s strong influence in the region. An important advantage for Turkey is the fact that, compared to Iran or Saudi Arabia, Turkey supports better conditions for human existence; especially crucial are potable water resources, which are far larger than in other Middle-Eastern countries.

**Table 1. Basic geographical determinants of Turkey’s international potential**

Area	Turkey	Iran	Saudi Arabia
In mln km <sup>2</sup>	783 562	1 628 771	2 149 690
Place in the world	37	18	13
% of world area	0.53	1.1	1.4

Source: self-study based on the information from: Turkish Statistical Institute (Turkstat), Saudi Arabia Central Department of Statistics, and Information and Statistical Centre of Iran.

In world-population terms, the Turkish population is steadily growing. In terms of population, Turkey (almost 78 mln) occupies 18<sup>th</sup> position on the list of the world’s most populated countries. The population is comparable to Iran (over 78 mln), though it is far greater than in Saudi Arabia (see Table 2). The high ratio of average annual population growth is characteristic for the Middle East, which indicates that

the population of all the countries in the region will steadily increase. According to Turkstat forecasts, the population of Turkey in 2025 will have reached almost 87 million (respectively in Saudi Arabia 37.5 million people, Iran – no data), however in 2075 it will be approximately 119.5 million (see Table 3). The forecast naturally does not account for Turkish emigration, which is significant, but even in that case the demographic ratio is still impressive.

**Table 2. Basic demographic determinants of Turkey's international potential (data for 2014)**

Population	Turkey	Iran	Saudi Arabia
Population in million	77 695 904	78 285 000	31 521 418
Place in the world	18	17	40
% of world population	1.07	1.08	0.43
Population density(persons/km <sup>2</sup> )	101.00	48.00	13.34
Total fertility rate	2.13	1.87	2.26

Source: self-study based on the information from: Turkish Statistical Institute (Turkstat), Saudi Arabia Central Department of Statistics, and Information and Statistical Centre of Iran.

**Table 3. Turkey's population growth forecast by 2075**

Year	Population in mln	Year	Population in mln
2020	82 535 851	2050	104 309 596
2025	86 854 339	2055	107 452 196
2030	90 874 077	2060	110 458 050
2035	94 585 203	2065	113 346 937
2040	97 964 644	2070	116 251 718
2045	101 149 183	2075	119 344 690

Source: self-study based on the information from: Turkish Statistical Institute (Turkstat).

The demographic factor is crucial in shaping the position and the international role of states, since it is directly related to their volume and workforce potential. In this respect Turkey has enormous potential, since its society is very young (people of working age account for almost 70% of the society). Demographic determinants also indicate the state's military position because it manifests how great the power of a country is under threat, when there is need to introduce general mobilisation.

## 1.2. Military Capability

In recent years the Turkish army has been reduced from 510,000 to approx. 410,000 soldiers. The reduction resulted from the fact that Turkish military forces were to be based on efficiency, experience and modernity rather than the actual number of

soldiers. The Turkish army is modern and features the latest military technologies and weapons in their armed forces, irrespective of whether on land, at sea or in the air. Due to the ongoing precarious situation in its immediate vicinity (the dispute with Greece over the delimitation of the continental shelf, the lack of diplomatic relations with Armenia), and especially in the Middle East (the civil war in Syria, the evolution of the Islamic State), Turkey maintains compulsory military service which ranges from 6 to 15 months in length. In the event of a threat Turkey has the possibility to mobilise 41 mln people compared to Iran's 46 mln, and Saudi Arabia's approx. 15 mln (see Table 4). Turkey is also one of the 20 countries that spend the most on armament.

**Table 4. Turkey's military capability**

Category	Turkey	Iran	Saudi Arabia
Available manpower (2014)	41 637 773	46 247 556	15 246 507
Active frontline personnel (2014)	410 500 + 100 000 paramilitary troops	545 000	505 868
Military spending in mln US \$ (2012)	26 000	15 705	80 762
Military expenditure, percentage of GDP (2012)	2.7	2.67	7.7

Source: self-study based on the information from Global Fire Power and Military Spendings, as well as Arms Sales In the Gulf. Centre for Strategic and International Studies.

### 1.3. Turkey's Economic Position

Turkey's economic situation has changed significantly over the last three decades. In the early 1980s Turkey was still an agro-industrial state with limited exchange with the outside world. The beginning of the 1990s brought significant economic changes resulting from the process of economic liberalisation. The free market regulations that were introduced in Turkey increased its possibility to participate in the international economic cycle. At the turn of the 20<sup>th</sup> and 21<sup>st</sup> centuries there have been vital changes in the structure of Turkey's GDP, which was manifested by a significant decline of the share of agriculture in GDP and a rapid growth of the share of services and industrial development in GDP. "The structure of Turkey's GDP is similar to that in other middle-income countries, but it is gradually approaching the services-based economy model characteristic of well-developed countries (where services account for at least 70% of total business activity)" (Zajączkowski 2012: 66). Turkey's economic success is particularly evident following the year 2002, when Turkey was governed by the Justice and Development Party (AKP). It was the leaders of this party who decided to strengthen Turkey's economic position by taking advantage of its strategic location

and opened the state to foreign trade with its proximal and distal neighbours. The development of economic contacts was to enable the country from the Bosphorus to build its soft power. As a result of the economic changes, such as market liberalisation and deregulation, as well as intensification of international relations, Turkey made its name as the most important economic partner in the Middle East and became a member of G-20.

The efforts of the Turkish government and society to curtail inflation, along with the implementation of restrictive fiscal and monetary policy, resulted in steady economic growth. This economic growth, however, decelerated due to the worldwide financial crisis in the years 2008–2009, but the Turkish economic growth rate is still visible. The current economic growth accounts for almost 3% of GDP and, according to the World Bank's forecasts, it is to reach 4% in the following years (see Table 6). For the sake of comparison, according to the same sources, Iran's GDP growth was 3.7 % in 2014, but in subsequent years it should fluctuate around a mere 2%. In Saudi Arabia, the GDP growth was 4.3% in 2014 and it should maintain this level over the next three years.

**Table 5. Turkey's basic macroeconomic rates**

Rate	2002	2012	2013
GDP (at current prices, mld USD)	233	789	822
GDP per capita (USD)	3 576	10 661	10 972
Export (%PKB)	25.2	26.3	25.6
Import (% PKB)	23.6	31.5	32.3
Agriculture (% PKB)	11.7	9.0	8.5
Industry (% PKB)	28.6	27.1	27.1
Services (% PKB)	59.7	63.9	64.4
Unemployment (%)	10.4	9.2	10.0

Source: self-study based on the information from the World Bank.

**Table 6. GDP growth in Turkey (%)**

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016f	2017f
GDP growth	8.4	6.9	4.7	0.7	−4.8	9.2	8.8	2.1	4.1	2.9	3	3.9	3.7

Source: self-study based on the information from the World Bank.

The opening of the Turkish economy to the world contributed to the increase of direct investment in the country. The biggest investors in Turkey were the Netherlands, Great Britain, Russia, Azerbaijan, Germany, Italy, the US, France and Kuwait.

Investment was mostly in production, financial and insurance services, gas and electricity sectors and mining.

**Table 7. Foreign Direct Investment in Turkey**

FDI Inward Flow (million US \$)	2011	2012	2013
Turkey	16.17	13.22	12.87
Saudi Arabia	16.31	12.18	9.3
Iran	NA	NA	NA

Source: self-study based on the information from: Turkish Statistical Institute (Turkstat).

As a result of globalisation and economic interdependence, the volume of Turkish import and export has increased. In 2014 Turkey's main export partners were Germany, Iraq, Great Britain, Italy, France, Russia, Spain, Iran and the Netherlands. The main suppliers of imported goods were Russia, China, Germany, Italy, Iran, France, India and South Korea (Turkstat). Turkey's export is dominated by motor vehicles, machinery and equipment, as well as steel and iron.

According to a World Bank ranking, in 2013 Turkey was number 18 in the world in terms of GDP measured by purchasing power parity (World Bank). Economists forecast that in approx. 2050 Turkish economy will be ranked 10–12<sup>th</sup> in the world, which will certainly increase Ankara's international position in the Middle East.

#### 1.4. Access to Energy Resources

It has to be remembered that Turkey's rapid economic growth entails enormous demand for energy resources, which are scarce in Turkey. The state's dependence on crude oil and natural gas imports amounts to 90%, therefore Turkey seeks to diversify the suppliers of energy resources in order to avoid dependence on only one supplier and to negotiate the lowest prices. Fortunately for Turkey, the neighbouring regions hold massive hydrogen deposits. In that respect the Turkish government perfectly exploits the benefits of its location. A vast number of energy resource exporters and producers are located in Turkey's vicinity, in the Middle East and the Caucasus (Azerbaijan, Iraq, Iran, Egypt, Russia, Turkmenistan). The main recipients of the resources (besides Turkey itself) are highly-developed European countries. Due to the situation of correlation and interdependence, the Anatolian Peninsula (Asia Minor) became the major transit area for energy resources from Russia, the Persian Gulf and the Caspian Sea to Europe (Ulchenko 2015). As a result, Turkey is the main centre of energy resource redistribution and the focus of attention for both importers and exporters of natural gas and crude oil. The situation in the "raw material transport system" further strengthens Turkey's position as a strong regional player that may influence other Middle-Eastern states.

## 2. Turkey's Foreign Policy Evolution in the Middle East

In the second half of the 20<sup>th</sup> century the main objective of Turkish foreign policy towards the Middle-Eastern countries was to maintain the *status quo* in the region. The government in Ankara sought to maintain the areas of influence and state borders as they were established in the first years following the end of World War II. The main principle to maintain the *status quo* in the Middle East was the respect for the states' territorial integrity and non-interference in their internal matters (Altunışık 2007: 69). In view of the government in Ankara the maintenance of the *status quo* in the region overlapped with the distribution of the areas of influence between two global political blocks. Turkey, as a member of NATO, sought the influence of the western states in the Middle East.

The second main principle that Turkey applied in their foreign policy in the Middle East was non-involvement in the affairs of the region, which was – and still is – conflict-ridden. Following the World War II, Turkish politicians' resentment to engage in the middle-eastern affairs was noticeable, which was connected with the fact that Turkey perceived itself as a western, rather than eastern state. Therefore, any Turkish activity in the region during the Cold War was the result – more or less – of coordinated actions of the western block, rather than its individuals' actions (Altunışık 2007: 70).

The situation in the region changed radically following the fall of the bipolar system. The implementation of Turkish policy geared towards the maintenance of the *status quo* became extremely difficult after the Persian Gulf crisis in 1990-1991. As a result of the US intervention and the weakening of Iraq's position in the Middle East, the geopolitical situation has changed significantly in that part of the world. From the point of view of the government in Ankara, the depreciation of Iraq's political role was linked to the intensification of Iraqi Kurdish aspirations to independence and the growth of Iran and Syria's magnitude in the region. In the 1990s Turkey redefined its foreign policy. During the Cold War the threat to Turkey was mostly in the North – from the Soviet Union. Following the dissolution of the Soviet Union, the greatest threat was then perceived to be in the South, where the situation became precarious and unpredictable (Ergüven 1998: 32–40). Turkish politicians saw the greatest threat to Turkey's security in the Kurdish separatism, which endangered the territorial integrity of the state.

It was in the 1990s when the Turkish political elite started a discussion on the future of the state, its foreign policy and security. The debate was also related to the political identity of the country – to what extent Turkey was a European state and to

what extent an Asian one. Due to the new geopolitical situation the Turkish people realized that it was not enough to be a member of NATO in order to belong to the European circle. It became even more apparent when the discrepancies between the US and Turkey's interests in the Middle East became increasingly prominent. What is more, Turkish attempts at accession to the European Community were successively rejected by western countries, which forced the Turkish elite to redefine its foreign policy objectives. The first fundamental attempts to change Turkish foreign policy were undertaken by president Turgut Özal. His vision of foreign policy involved close cooperation with the US and European countries, but at the same time Ankara was to strengthen its role in the regions of the Middle East, the Black Sea and the Caucasus. Özal's aim was to strengthen Turkey's position in the world as a regional political leader who bases its relations with neighbouring countries on economic cooperation (Flanagan, Brannen 2008: 8).

Following the 2002 elections, which were won by the Justice and Development Party (AKP), subsequent changes in Turkey's foreign policy were introduced. A new doctrine in Ankara's diplomatic relations called "strategic depth" arose, the basis of which was to exploit Turkey's geostrategic position in order to implement a multi-directional and multi-sectorial foreign policy. According to the doctrine, Turkey would pursue a multilateral policy based on establishing good relations with all partners from the proximal and distal neighbourhood, both the West, i.e. the EU and the US, and other regions such as the Middle East, the Persian Gulf, the Balkans, the South Caucasus along with countries located by the Mediterranean Sea, the Black Sea and the Caspian Sea. The main component of the doctrine, devised by Ahmet Davutoğlu, future Minister of Foreign Affairs and Turkish Prime Minister, was the "zero problems" principle – a *good neighbourhood policy* which, when implemented, would improve the image of Turkey as a stable, predictable and attractive country to both its neighbours and distal partners (Adamczyk, Dubel 2014: 421). To achieve this, Turkey intended to use its soft policy attributes, i.e. to take advantage of its economic and cultural contacts so as to gain as much influence as possible in its environment. The "strategic depth" doctrine was based on the neo-Ottomanism and Pan-Turkism concepts, which involved greater engagement of the Turkish government in the affairs of countries formed in the territories of the former Ottoman Empire inhabited by Turkish-speaking people (Flanagan, Brannen 2008: 8). Even though the concept is present in Turkey's foreign policy to this day, the diplomats from Ankara were reluctant to admit it, fearing accusations of "imperial ambitions".

After several years of AKP government one could see that the policy of "zero problems with neighbours" brought Turkey only success. As a result of the improvement of bilateral relations in the region combined with an outstanding economic situation,

Turkey's international position increased significantly and it began to be perceived as a regional power. The government in Ankara strengthened its relations with Syria and developed both economic and military relations. Furthermore, relations with Iran were normalised, which resulted in Turkey signing a number of contracts for the supply of hydrogen from there. Iraq, or rather the Kurdish Regional Government in northern Iraq, where Turkey located a number of its direct investments, became Turkey's most important trade partner in the region.

The thaw in the relations between the countries of the region resulted in the idea of regional integration based on the European model. Turkey suggested establishing a free trade area and visa liberalisation for Syria, Jordan and Lebanon (Cirlig 2013). Work on the project, however, was suspended due to the Arab Spring. Turkey was also engaged in mediation to resolve regional problems. It acted as a mediator in negotiations between Israel and the US, Syria and Israel, and Israel and Hamas. Turkish politicians were also actively involved in the Arab League, the Gulf Cooperation Council and the Organisation of Islamic States. Unfortunately, the close relations of Turkey with Syria and Iran aggravated relations between Ankara and Israel. The climax of strained relations between Turkey and Israel took place in 2010 following the Mavi Marmara incident.

The phenomenon of the Arab Spring at the turn of 2010 and 2011 initially strengthened Turkey's international image. Prime Minister Erdoğan was engaged in resolving political conflicts in Northern Africa and the Middle East, which were touched by the revolutionary wave. His activity was visible in Turkey, Lebanon and Egypt, where he acted as a leader of a democratic, modern, but at the same time Muslim state that was to constitute a model for constitutional foundations in those countries. Turkey's involvement, however, led to deterioration in relations with Iran, which claimed its right to influence these processes. Tehran construed the social riots as the awakening of Islam. The dispute on the influence in the region initially concerned Iran, but later Syria as well. Turkey expressed its negative attitude towards Iran's involvement in Iraqi affairs, where the Ayatollah regime supported Shiite Prime Minister Maliki, who lead a political and religious purge there. Turkey began to act as a leader of Sunni Islam, which threatened the interests of Shiite Tehran (Gurzel 2014). The greatest problem however concerned Syria, where both neighbours were on the opposite sides. The government in Ankara supported the anti-government opposition while Iran expressed its support for Bashar al Asad's regime. It appeared that Turkish foreign policy based on "zero problems with neighbours" could not be implemented due to unstable international climate in the Middle East. Ironically, it can be said that Turkey has zero neighbours without problems (Wódka 2013).



It appears that the international affairs in the region overwhelmed the possibilities of the Turkish foreign policy. Turkey overestimated its position and possibilities to act as a regional leader. In 2009 Turkey was hit by the economic crisis, its macroeconomic rate deteriorated and its economic growth decelerated. As it turned out, the Arab Spring countries are uninterested in the Turkish model since Turkey is by far too secular a country for them (Quilliam Report 2013: 10). Arab countries were more interested in the reasons behind Turkey's earlier economic boom and quality of life improvement rather than emulating their political model. Ironically, for certain Arab countries Turkey is too secular to constitute an example but for others the government of Islamic AKP party demonstrates the islamisation of the country. This is the reason why Turkey's excessive involvement and support of the Muslim Brotherhood in Egypt resulted in deterioration of its relations with the military junta in Cairo once president Mohamed Morsi was overthrown in 2013.

Unexpectedly, in 2014 a new piece in the Middle-Eastern jigsaw appeared which greatly complicated the situation in the region and caused further problems to Turkish diplomacy. In June 2014 fighters from a terrorist organisation - the Islamist State of Iraq and Levant (ISIL) began their attacks. They seized the north-western part of Iraq and western Syria. Political crisis in those counties and Jihadist activities naturally constitute a great threat to Turkey as well as other Middle-Eastern states: Syria, Iraq, Iran, Jordan and Lebanon. Due to Islamic State activity Saudi Arabia (supported by the US) also became involved in Middle-Eastern affairs in an attempt to gain interests in the region. The political situation is *in statu nascendi* but Turkey still gives the impression of a country that cannot recover from the shock caused by the emergence of the Islamic State and lacks a new foreign policy doctrine.

## Conclusions

Turkey has a number of attributes that predestine it to play the role of a regional power in the Middle East. It has an excellent geopolitical location between three continents: Europe, Asia and Africa, which enables the country to constitute an economic, political and raw material bridge between these parts of the world. Notwithstanding the economic crisis, Turkey pursues constant economic development and within a few years will become one of the richest states in the world. Compared to other countries in the region, Turkey has a vast, well-trained, modern army. Its location facilitates supplies of energy resources from neighbouring countries indispensable for its development. What is more, Turkey has no strong competitor with regards

to regional influence. Iran, Turkey's main competitor, is weakened by international sanctions. The second growing competitor is Saudi Arabia which is still developing its position. Turkey's only real opponent is the specificity of the Middle East, particularly the precarious, unexpected and unforeseeable international situation which prevents the Turkish diplomacy from "spreading their wings". Turkey's attempts to build a new order in the Middle East without the US were to no avail. The emergence of the Islamic State completely destroyed the existing balance of power. Turkey seems to lack reliable partners in its environment. The main tendency in current relations between the Middle-Eastern countries is the growth of distrust and such political climate makes it difficult for Turkey to build its position as a regional power.

Turkey, however, still plays a vital role in the European security system. Having Turkey as a significant ally in such an unstable region is an extremely important feature in shaping the foreign policy of European countries, the majority of which belong to the European Union. Being aware of that, Turkey has sought membership in this organisation for a number of years. In 1999 Turkey acquired the status of an EU candidate and in 2005 accession negotiations began. Turkey's ties with the "powerful and rich" European Union constituted also one of the attributes of building its influence among the societies in the Arab states.

Paradoxically, the significant geostrategic location of Turkey became its "curse" on the way to become a member of the European Union. The Member States fear that the accession of Turkey, which has threatening and unstable neighbours, and which borders with Middle East marked with permanent conflicts, illegal immigration and terrorism, may involve them in a number of international problems. Therefore, the attitude of the Member States towards Turkey's European aspirations is ambiguous. The European states need Turkey as a strategic partner, but at the same time they attempt to delay its integration processes. When in 1993 the Member States officially defined membership criteria in Copenhagen (the so-called Copenhagen criteria) they also defined unofficial criteria that must be fulfilled by a candidate state. One prerequisite is that a state must not burden the European Union with its problems which may cause deterioration in the relations between the EU and the Member States.

In addition to the abovementioned international problems related to its location, Turkey also has unsettled disputes with some Member States. It concerns Greek and Turkish relations with regard to unregulated borders on the Aegean Sea and the Cyprus issue with regard to northern Cyprus still being occupied by the Turkish army. The violation of the territorial integrity of Cyprus is symbolically identified with an occupation of a part of the European Union. What is more, Turkey does not internationally recognise the Republic of Cyprus. It is therefore difficult to imagine Turkey's EU membership without resolving the Cyprus dispute.

Turkey's political elites have indicated explicitly that Turkey and its society are tired of always knocking on the EU's door. Erdoğan has even proposed the date of Turkey's accession to the EU – the 100<sup>th</sup> anniversary of the establishment of the Republic of Turkey, namely in 2023. He has even threatened that if the European Union fails to accelerate the process, Turkey would no longer strive to approach Europe.

It seems however that the Turkish President's stance resulting from temporary Turkish success was far too unequivocal. The Middle-Eastern direction is neither a political nor economic alternative for Turkey, mainly due to the instability of the region. One may have the impression that the only international stable and foreseeable group among Turkey's partners is the European Union, i.e. the proverbial West. Therefore, one may struggle to comprehend that the government in Ankara would abandon the pro-European direction, especially while the EU remains the most significant trade partner for Turkey.

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## **THE EUROPEAN UNION AND EMERGING MARKETS. CHINA'S NEW SILK ROAD STRATEGY – CHALLENGES AND OPPORTUNITIES FOR THE EU**

### **Abstract**

*After decades of self-contained economic development, China realised that future growth depends on closer international cooperation. Therefore Beijing enforces a new strategy of multilateral partnership called the New Silk Road, consisting of two sister initiatives: the Silk Road Economic Belt and the 21<sup>st</sup> Century Maritime Silk Road. The strategy is directed to all interested countries of East, South and Central Asia, the Middle East and Europe. For crisis-hit European countries, China has become a valuable partner due to unprecedentedly fast economic development, stable economy and significant financial reserves. As multilateral cooperation aims at the construction of maritime and land transport routes, oil and gas pipelines, as well as power grids, Internet networks and maritime links stretched from Beijing to European capitals, the European countries should make the best use of the Chinese initiative by engaging in its realisation and wisely using it to their own growth. Economic development, growing trade and prosperity, as well as deeper people-to-people ties will strengthen multilateral relations and enforce stabilisation to the benefits of all.*

**Keywords:** China, European Union, New Silk Road, cooperation

### **Introduction**

The new millennium, which began over a decade ago, has brought important challenges to the world. As well-advanced process of globalisation led the distances between remote countries and continents to shrink, the advancement of technology has even enforced the phenomenon of the barriers between countries disappearing. In such a smaller, globalised world there are constant and varied interactions between all the actors involved in trade, politics or security issues.

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The new reality has unveiled the rising importance of Asia – and particularly the People's Republic of China (China) – for world economy. In 2014 the Asian continent produced 31.5% of world GDP, and China was the biggest economy on the continent, with the input of 42%, ahead of Japan, India or South Korea. Since November 2014 China is the second biggest economy behind the United States of America (U.S.), with total workforce of over 800 million people, and foreign exchange reserves of \$3.821 trillion. Rich in natural resources, well-educated workforce, immense financial possibilities and impressive drive to work, China has all the qualities to succeed.

After decades of self-contained development, China realised that future growth depends on closer international partnership. Therefore Beijing enforces a new strategy of multilateral cooperation called the New Silk Road, directed to all interested countries of East, South and Central Asia, the Middle East and Europe. If successful, this initiative may redefine China's status in the world order.

## **Present EU–China Relations**

Bilateral cooperation between the European Union and China has long been based on economic issues, especially trade. The European countries are important partners to China, considering their technology advancement, financial possibilities, huge internal market and membership in important international organisations, e.g. the International Monetary Fund (IMF). On the other hand, Europe has always valued the insatiable demand for technologically advanced European products, as well as the access to rare soil and traditional Chinese products, such as silk or tea.

The EU–China trade has increased dramatically in recent years. Both China and the EU are by themselves the biggest sources of import and the fastest growing export markets, with trade turnover of more than \$1 billion a day. As China's level of development rose, trade flows consisted of more and more technologically advanced commodities. Nowadays the EU imports mostly industrial products (98% in 2014), including machinery and transport equipment, electrical machinery and electronic components. China's imports consist of manufactures (84%), especially transport equipment and automotive products (Directorate-General for Trade, European Commission, 2015). There is also a huge potential for investment growth, as partners account for only 2–3% of overall investments abroad. Yet, according to a study by Deutsche Bank, the Chinese investment stock in Europe grew from €6.1 to €27 billion between 2010 and 2014 (Hansakul, Levinger 2014).

The EU–China cooperation developed on a bilateral basis. Neither China nor the European partners were interested in widening the scope and putting it on a multilateral level. The reasons for such policy were diverse. Due to its specific development needs, China concentrated on fruitful cooperation with the most technologically advanced countries, such as Germany and France, neglecting other members of the European community. The chosen countries enjoyed beneficial cooperation, and jealously cultivated those exceptional bilateral relations. As a result Germany remains the most important European partner with 29% of trade (2013), followed by the Netherlands and the United Kingdom (UK) (13% each), and France (9%). Meanwhile, all Central and Eastern European (CEE) countries achieved only 9.6% of trade with China. Such disparity is a result of the Cold War, lack of cooperation between China and the Soviet Union with allied countries, as well as relatively lower attractiveness in comparison to the West European partners.

The scope of bilateral will for cooperation is well represented by the number of diplomatic visits of Chinese and European representatives. China's president Xi Jinping made a trip to Europe in March 2014, where he visited the Netherlands and attended the Nuclear Security Summit in the Hague, followed by France, Germany, and Belgium. The Chinese President also paid a short visit to Greece in July 2014 and oversaw the signing of trade and investment deals worth around EUR 6.5 billion while pledging to increase China's purchase of Greek government bonds (Glass 2014). In 2014 the Chinese Prime Minister Li Keqiang visited Europe twice: in June he was in the UK and Greece, and in October in Germany and Italy, where he visited the UN Food and Agriculture Organisation (FAO) headquarters. Li Keqiang also attended the 10<sup>th</sup> Asia–Europe Meeting (ASEM) summit in Milan. On the other hand, we have innumerable and frequent visits of European diplomats, politicians and businessmen in Beijing. Almost all visits of high-level representatives brought numerous contracts worth billions.

## **The “One Belt One Road” Initiative**

This pattern of cooperation was broken by the financial crisis of 2008. Due to unprecedentedly fast economic development, stable economy and significant financial reserves, China has become a valuable partner for crisis-hit European countries. Therefore, Beijing's new sister initiatives: the Silk Road Economic Belt and the 21<sup>st</sup> Century Maritime Silk Road should be taken into serious consideration in all European capitals. The idea has since been called the “one belt one road” (OBOR) strategy, aiming

at the construction of land and maritime transport routes (railways, highways), oil and gas pipelines, as well as power grids, Internet networks and maritime links stretched from Beijing to European capitals. The 21<sup>st</sup> Century Maritime Silk Road is a connection from China to the Mediterranean Sea via the Indian Ocean and the Suez Canal, while the Silk Road Economic Belt will lead through East and Central Asian and Middle Eastern countries to Central and Eastern Europe. The project will supposedly influence living conditions of up to 3 billion people living in concerned areas.

The new idea of Beijing has all the characteristics of a foreign policy strategy with directly entwined domestic goals. In all official speeches, Chinese representatives underline its positive effects for all engaged countries, accentuating its win-win characteristics that should boost the annual trade among the involved countries to \$2.5 trillion in a decade (Sui-Lee Wee 2015). Beijing explains this shift in foreign policy as willingness to share its economic success with other countries of the region, and to prove that it is a responsible stakeholder in the international system. When asked what kind of role China hopes to play in the world, the Chinese President Xi Jinping said that China wants to “be more active to uphold world peace, advocate common, comprehensive, cooperative and sustainable security and commit to peacefully resolving disputes through consultation and negotiation.” [...] Beijing hopes to “play a more active role in international affairs, commit [...] to improving international governance system, and make vigorous efforts to increase the representation and voice of developing countries in international affairs [...]”. China will “provide the international community with more public goods [...], actively promote common development, [...] North-South dialogue and South-South cooperation. In particular, [...] help other developing countries achieve self and sustainable development” (Xinhua 2014d).

To assure neighbouring countries of its friendly intentions, China will provide 20,000 places for training “connectivity professionals” over the next five years (Reuters 2014b). Beijing is also trying to address the apprehensions in the region that its economic expansion will change its foreign policy from peaceful development to a more assertive diplomacy. The first signs seem to be confirming those fears, as China is escalating territorial disputes regarding East and South China Sea.

Notwithstanding, the OBOR strategy has numerous advantages for China itself. It will surely facilitate China’s integration in the global economy, as well as enable reaching economic goals by outputting its industrial overcapacity overseas (Forbes 2015), as in 2015 China faces the slowest economic growth since 1991. Investment associated with the OBOR projects could be a new positive driver for slowing down Chinese economy. By investing in neighbouring countries, China will get access to internal markets, new technologies, secure transportation routes, and access



to resources. Regional cooperation will also help to improve the image of China, a country with a poor human rights record, low labour and environment standards, yet a powerful investor. Despite Beijing's efforts in improving its image in the West, China remains unpopular in most European countries. Recent report of Pew Research Center showed that, in Europe, people in Germany and Italy have the highest unfavourable views of China (60% and 57%, respectively), even though Germany is China's biggest trade partner in the EU. A slight improvement was noticed in France and Poland, where people are almost equally divided. In the UK slightly more respondents have a positive opinion of China (45%) than a negative one (37%) (Wike, Stokes, Poushter 2015). Against such backdrop, Greece is one of Beijing's strongest supporters, with 59% of positive views (2013) (Pew Research Center 2013).

Yet, Beijing appears to be seriously committed to the OBOR strategy. According to Chinese Foreign Minister Wang Yi, the OBOR initiative will be a "central focus" of China's foreign policy in the year 2015 (Ministry of Foreign Affairs of the People's Republic of China 2015). In March 2015 the National Development and Reform Commission issued a document entitled "Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road", calling for greater connectivity, policy coordination, unimpeded trade, and strengthening people-to-people bonds so as to create a community with shared interests (National Development and Reform Commission 2015). This action plan gives a new impetus to the process of implementation of the project.

There are also some particular initiatives of Chinese governmental agencies. The Chinese Ministry of Culture has adopted a programme aimed at improving multilateral cooperation in the fields of entertainment business, tourism, protection of cultural heritage and sport. The programme will include an annual cultural forum, joint production of TV shows, films and animation, trade centres and exhibitions of cultural products, as well as cultural events (Xinhua 2014a).

The Chinese investment in the OBOR cooperation is expected to reach \$1.6 trillion (Shaohua Yan 2015). To prepare the grounds for the strategy, China has implemented several measures.

The new \$40 billion China's Silk Road Fund was created in December 2014 to "break the connectivity bottleneck" in Asia, as President Xi Jinping stressed. Recently the fund has announced its first investment in a Karot hydropower in Pakistan worth \$1.65 billion. In order to upgrade power supply and improve Pakistani economic performance there will be other investments in hydropower projects in the region (Xinhua 2015c).

An initiative clearly indicating the Chinese aspirations is the Asian Infrastructure Investment Bank (AIIB), established in October 2014 and headquartered in Beijing.

The AIIB bank will start operations in late 2015. China invited all interested countries to become founding charter members of the bank, and got a positive response from 111 members, out of which 12 came from Europe. Neither the U.S. nor Japan joined the initiative, though their reluctance didn't discourage the European members, such as France or even the UK. According to the Chinese state news agency Xinhua, "the world has sensibly voted for more inclusive, balanced and mutually beneficial international economic order" (Zhang 2015). China's argument for the creation of a new international financing institution was unequal division of rights in the World Bank or the IMF, due to outdated mechanisms not reflecting the rising economic strength of emerging Asian countries. Furthermore, China ratified the BRICS New Development Bank (NDB) in June 2015 (The Brics Post 2015b). The bank will be headquartered in Shanghai and provide financing alternative to the World Bank, just as AIIB. Thanks to both initiatives, China will not only strengthen its position as a regional and global power, but also enable financing of such projects as the OBOR strategy.

Beijing has also continued to direct the flow of Chinese foreign direct investment to Europe. China's enterprises are present in all European countries in different sectors: clean energy, finance, transport, infrastructure, just to mention the Port of Piraeus in Greece, national grids in Portugal, Italy, the airports of Toulouse and Heathrow, as well as the water holding company in London. China holds considerable amount of European national bonds, though the amount remains unknown. The government in Beijing consequently works on its vision by investing in road and railway connections between European ports (e.g. Piraeus) and inland European cities. In December 2014 China, Serbia and Hungary signed a memorandum of understanding on the construction of 370 km rail route between Belgrade and Budapest (Reuters 2014a). By further improving the supply chain network in Europe, all engaged European countries will receive investment, jobs and business opportunities they need to recover from the current financial crisis.

Another sign of Chinese determination is the growing activity in relations with the Central and Eastern European countries. Chinese operations in the region lie in the conviction that these countries hold several advantages that can be fruitful in the future. First, these are – in majority – the European Union Member States with full rights of access to the internal market. Second, even non-member countries of the Western Balkans still have good prospects for joining the community. Third, the majority of CEE countries comprises a lucrative market for Chinese goods, as well as huge investment possibilities due to low wages (in comparison to Western Europe), access to modern technology, educated and relatively cheap workforce. Therefore the

region is treated as a bridgehead to the rest of the European community and China has escalated its operations there.

A new “16+1” mechanism enables intensification of the cooperation between the CEE region and China. Among the successes there is a direct railway connection between Łódź in Poland and Chengdu in Sichuan province. In December 2014, during the meeting with the leaders of 16 CEE countries in Belgrade, Prime Minister Li Keqiang announced a new investment fund of \$3 billion to facilitate financing investments in the region (The Brics Post 2014a). This is the second fund created by China after having established a \$10 billion special credit line to support cooperative projects in 2012. Li Keqiang offered active participation in the construction of factories and industrial parks in CEE, and added that “China’s high capacity in producing the equipment for high-speed railways, nuclear power and telecommunication, as well as raw materials including steel, cement and plate glass, could satisfy the enormous demands of CEE countries’ large-scale projects” (Xinhua 2014b).

Closer cooperation between China and CEE countries is eagerly accepted in the region, as Western European countries have fewer financial possibilities due to financial problems and Beijing has grown to be an important source of capital, alternative to traditional donors.

## European Challenges

China’s OBOR initiative appears to be the answer to many development problems and financial needs of the engaged countries. According to Xinhua estimates, by 2020 the infrastructure demand in Asia will close in over \$700 billion each year (Zhang 2015). Such level of investment will not be possible without the engagement of the biggest international financial institutions and investors. However, as the western countries still struggle with financial problems, the World Bank, the IMF and the Asian Bank of Development (ADB) cannot cover all the needs of the region due to limited resources or, sometimes, political decisions.

Considering the enormous scope of projected operations and China’s commitment, all the countries concerned, including the European Union Members, should undertake dialogue with Beijing to make these initiatives successful. As the 2008 financial crisis has severely touched almost all members of the European community, the project should help in economic recovery. The OBOR strategy is dedicated to economically weaker CEE countries and Greece, as well as to the developing, sometimes unstable regions in the Middle East and Central and South-East Asia, therefore the countries

that will appreciate Chinese financial assistance. Yet not much appears to be done on the European side.

The reluctance of Europe may be the result of the immaturity of the project, as well as internal financial problems of the EU. It may also be the consequence of the characteristic European lack of cooperation. As the Chinese offer affects only some EU Member States and the biggest players cannot hope for big profits, there is no drive to engagement, especially that some financial input will be necessary.

However the OBOR strategy has some interesting aspects that need to be discussed. The most obvious advantage is the growth of trade and investment between the continents. Trade has always been the basis of the EU–China relations, and as the OBOR initiative aims at improving transport infrastructure, the countries along the line will benefit not only from shorter and easier shipment possibilities, but also from the construction process itself, as China admits it expects the interested countries to engage actively in investment. Extended cooperation will most likely result in bigger trade and economic growth of the countries engaged. Multinational cooperation should be beneficial not only financially, but also politically, giving foundation for peace and stability, as well as future cooperation. As the Silk Belt will come across many unstable countries of Central Asia (e.g. Afghanistan) and the Middle East (e.g. Iran), it is in the European interest that those countries are involved in cooperation, thanks to which they will hopefully continue growth and peaceful development.

The European access to the China-led Asian Infrastructure Investment Bank (AIIB) is a good sign of a rising consciousness towards bilateral cooperation. During the Sino-European summit that took place in June 2015, Prime Minister Li Keqiang announced that China was ready to invest in the European Union's new €315 billion infrastructure fund, however declined to declare the exact amount of Chinese engagement (Emmott 2015). This decision was interpreted as a friendly gesture in response to the European engagement in the AIIB project, in defiance to the U.S.

Last but not least are the social consequences of multilateral cooperation. Due to the distance between Europe and China, people-to-people relations are presently based on tourism. According to the Economist, nearly one in ten international tourists worldwide is now Chinese. The Chinese travel mostly for leisure, and enjoy buying luxury goods: in 2013 they spent more than the Americans (\$129 billion against \$86 billion). As only about 5% of China's population owns passports, the number of Chinese tourists is expected to grow dramatically in the future (The Economist 2014). Yet, to attract more tourists from the Middle Kingdom, Europe should make some effort. Besides developing air connections with China, the biggest obstacle for the Chinese is the European visa system. Therefore, simplifying the visa procedures

or even introducing the American visa-waiver programme should enhance the rise in entrances.

Another factor is creating a friendly background for the incoming tourists, such as the knowledge of the Chinese language in tourist areas, shopping centres, disseminating Chinese customs, enabling the tourists to watch TV in Chinese and withdraw money from terminals without extra fees. Such small though important gestures should be regarded as incentives and result in a growing number of tourists from the Middle Kingdom.

A very important aspect of closer cooperation is the growing number of Chinese students in Europe that can help to bridge the gap caused by lower number of students in many European universities. Europe should also promote learning the Chinese language, which may be useful in strengthening bilateral cooperation, people-to-people exchanges and improving investment possibilities for both sides.

## Conclusions

As a new initiative, the OBOR strategy needs time to prove its effectiveness. Given the number of countries involved, it will be a real challenge for all participants. China seems to be truly committed to the idea of convincing so many countries to give up sometimes long conflicts and cooperate closely for mutual benefits.

The growing importance and strength of the Middle Kingdom compels the European Union to work on developing bilateral and multilateral relations with the region, and China in particular. This shift to the East may be crucial for future development of the Old World. European countries should make the best use of the Chinese initiative by letting Beijing continue the project, engage in its realisation and wisely use it to their own good. Economic development, growing trade and prosperity, as well as deeper people-to-people ties will strengthen multilateral relations and enforce stabilisation to the benefits of all.

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## EUROPEAN UNION DIALOGUE ON REGIONAL POLICY WITH MERCOSUR. THE CASE OF CROSS-BORDER COOPERATION

### Abstract

*The Regional/Cohesion Policy of the European Union is one of the policies that aim at supporting integration processes and creating opportunities for the development of less developed countries and regions. It is also an interesting field of cooperation between the EU and other countries and organizations. The main aim of the present article is to identify whether the policy transfer between the EU and MERCOSUR in one of the areas of Regional Policy – a Cross-border Cooperation – has taken place. In the paper the concept of policy transfer was used and the methods comprise: analyses of legislation, strategic documents and semi-structured interviews with various stakeholders.*

**Keywords:** Regional Policy, European Union, MERCOSUR, Latin America, Cross-border Cooperation

### Introduction

In the contemporary world the problem of disparities between countries and regions (understood as sub-national units) is still one of the main impediments to development. In the European Union (EU) one of the instruments aimed at cohesion and the spurring of regional potential is it's the Regional/Cohesion Policy. The interest in the European integration model and governance has started to be noticed by international organizations and third countries that are seeking effective, efficient solutions which may be applied on their own territories. In the times of the current crisis, the European Union itself has started to strengthen its diplomatic and para-

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diplomatic relations in order to reinforce its position on the global arena and has even more intensively exported its modes of operation and values (Musiałkowska, Dąbrowski 2013, Musiałkowska, Dąbrowski, Polverari 2014). Many policies conducted on the European territory can be a valuable source of policy learning for many countries and international organisations due to the accumulated knowledge of the EU and the efficiency of its policies. The arrangements with each of these countries differ, they can focus on a range of sectors of their industry and include provisions for the harmonization of economic and regulatory policies, and for wider cooperation across different policy areas. Existing studies (e.g. Falkner and Müller 2014; Dimitrova and Dragneva 2009; Knill and Tosun 2009; Barbé et al., 2009) tend to focus on the EU's influence on the outwards-oriented policy areas, e.g. security, the energy trade, agriculture, financial regulation, migration, air transport and the environment. The European Commission has, however, started a dialogue on the Regional Policy (an inwards-oriented policy) with third parties through which the policy transfer can be observed.

There are many theoretical approaches towards international learning from each other (policy convergence, isomorphism, policy transfer, policy diffusion or policy export, see Knill 2005; Faulkner and Müller 2014; Musiałkowska and Dąbrowski 2013; Musiałkowska, Dąbrowski and Polverari 2014). Each concept focuses on different analytical and empirical aspects and dependent variables (i.e. the process itself, the outcomes or the organizational structures). In the scope of this article the concept of policy transfer is used due to quite an early stage of dialogue and cooperation in the field of Regional Policy. Most important are the reasons why an organisation/country might want to adopt a certain policy model that has proved to be successful and effective elsewhere (Dolowitz and Marsh 2000; Rose 1991). In the case of a transfer from developed to developing countries/organizations, the reasons for the transfer can be: political, pragmatic, related to the efficiency level in other countries, voluntary, or oriented on the legitimization of their pursued or already achieved aims (Evans 2004). There are also numerous actors of the transfer, i.e.: civil servants, policymakers, consultants/experts, the society. The forms of transfer answer the question of how well it has been achieved. They may be: inspiration, adaptation, emulation, drawing of conclusions and own policymaking based on the experiences of other countries. (Evans 2004, Dolowitz and Marsh 2000, Rose 1991) In the case of regional policy, the subject of the transfer can comprise the whole policy cycle or a cycle phase, a strategic management introduction, planning/multi-level governance, the use of financial instruments, etc.

The main aim of the current article is to examine the process of possible EU Regional Policy transfer and policy-formulation in MERCOSUR<sup>1</sup> (Southern Common Market created in 1991) with the main focus on the Cross-border Cooperation (CBC) of regions.

## **1. EU-MERCOSUR Cooperation in the Aspects of Regional/Cohesion Policymaking**

With regard to the European Union's relations with MERCOSUR, one may say that the institutional model of the latter is somehow inspired by the EU model. The European Union (its Commission and Parliament) has supported the functioning of this organization through e.g. the strategic framework for cooperation. For the years 2007–2013 alone, the cooperation policy of the Commission was based on four elements: the intensification of political dialogue; the creation of an environment for trade and investment (e.g. through the creation of an Association Agreement based on a region-to-region approach); the support for Latin America in gaining stability and prosperity; a better cooperation to improve mutual understanding (Lombaerde, Schulz 2009: 18). The Regional Strategy Paper for 2007–2013 allocated ca. 50 million EUR to support projects in: MERCOSUR institutional strengthening, preparing the implementation of the Association Agreement and fostering the participation of the civil society in the MERCOSUR integration process (Lombaerde, Schulz 2009: 21–22). Even if the process of cooperation between the EU and MERCOSUR has undergone different phases (including the rejection to follow the European model, Malamud 2013, Musiałkowska 2012a, Musiałkowska 2011) and the process of integration in MERCOSUR has had some downturns (Sanahuja 2011), there is still a lot of evidence of cooperation whilst referring to the transfer of regional policy: structural interventions have been undertaken in order to strengthen the completion of the common market (Dabene 2009). Looking at the Regional Policy of the EU, its complexity, multilevel governance, principles, objectives and financial instruments, one may observe that similar elements have been introduced in MERCOSUR: the introduction of FOCES (Structural

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<sup>1</sup> Currently the Member States of MERCOSUR are: Argentina, Brazil, Uruguay, Paraguay, Venezuela, and Bolivia [[www.mercosur.int](http://www.mercosur.int) (accessed on 13.08.2015)].

Convergence Fund of MERCOSUR<sup>2</sup>) in 2005, the eligibility criteria for obtaining funding (with a solidarity principle visible in contributions to FOCEM that are based on the level of wealth in each Member State)<sup>3</sup>, programming and the beginnings of strategic/multiannual planning etc. (Musiałkowska 2012b).

The regular input of the European Commission into promoting Regional Policies in Latin America has played a crucial role in the interest in the model of the European Regional Policy (AEBR 2010).

The first action undertaken by the European Commission was “problem mapping”, where the main areas of possible policy transfer to MERCOSUR were identified, i.e. growth, competitiveness, employment and to achieve a better and sustainable territorial balance in the framework of a market economy, urban, rural and border areas, multilevel governance and multiannual programming (European Commission 2009).

## **2. Cross-border Cooperation (CBC) in MERCOSUR as an Outcome of Policy Transfer**

In Latin American regions, cross-border cooperation is one of the most evident elements of policy transfer and of the design of their own solutions inspired by European experiences. The EU is treated as a place where the transfer process starts due to its accumulated knowledge and experiences in the area of regional/cohesion policymaking. CBC is the subject of the transfer, the recipient – MERCOSUR. The moment of the transfer’s beginning can be traced back to the official document’s signing by the EU, i.e. the Regional Strategy Paper for 2007–2013, and the previous Communication from the Commission to the Council and the European Parliament COM (2005) 636 final. Other instruments and channels of transfer are: the EU - Inter-American Development Bank (IDB) Cooperation, URBELAC (Urban European and Latin American and Caribbean cities) – a network supported by DG REGIO and the (IDB) since 2011<sup>4</sup> (European Commission, DG REGIO website); the Cooperation of the AEBR (Association of European Border Regions) with the countries/regions of

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<sup>2</sup> Decisión CMC N° 45/04, Decisión CMC N° 18/05 and final Decisión CMC N° 01/10 [www.mercosur.int](http://www.mercosur.int), accessed on 7.05.2015

<sup>3</sup> The richest countries are the payers, the poorest – the beneficiaries of FOCEM.

<sup>4</sup> The network aims at promoting sustainable development in cities and to help to meet the challenges of promoting social development, higher urban productivity and greater environmental protection through the creation of networks, the exchange of experiences, benchmarking and the preparation of action plans in Latin American cities.

Latin America/MERCOSUR – in the area of exchange of information on Cross-border Cooperation (compare the next section); the CBC projects between the EU countries and its overseas territories or the memoranda of understanding/dialogues on regional policy cooperation with selected MERCOSUR countries (European Commission, DG REGIO website).

The EU Cross-border Cooperation can be characterized by a *sui generis* institutional setting (see Table 1).

**Table 1. Characteristics of Cross-border Cooperation (CBC) in the EU (2007–2013 and 2014–2020)**

Characteristics	Practice
Place in EU policymaking	EU – CBC – a separate objective of the EU Cohesion Policy Included in strategic/financial programming of the EU Possible CBC between EU and non-EU regions under the European Neighbourhood Policy (ENP)
Institutions responsible for CBC at the EU level	the European Commission, the Committee of the Regions
Legal base	The Treaty on Functioning of the European Union – TFEU Regulations of the European Parliament and the Council on the European Groupings of Territorial Cooperation (EGTC)
Territorial level eligible for cooperation and financial support	NUTS 3 regions
Financial instruments	European Regional Development Fund European Neighbourhood Partnership Instrument national/regional/local budgetary resources programme for non-EU countries: IPA (previously TACIS/MEDA)
Examples of types of projects	safe and efficient borders (international logistic chains, safety) local development, e.g. under the European Neighbourhood Policy – education, cultural and social projects that can also promote the EU values abroad; – institutional capacity building; – land border programmes between two or more countries sharing a border (or short sea crossing) and multilateral programmes covering the sea basin

Source: Own work.

Despite differences in geographic location, distances and economic development<sup>5</sup>, the Latin American regions started a cooperation based on the European Union INTERREG projects and the objective of the Regional Policy – the European Territorial

<sup>5</sup> “The total border lines of South America are less than in the EU, while the surface of the European Union covers only half of Brazil. With the exception of Buenos Aires the economic centers in Latin America are settled more in the interior of the states. Also important ports and metropolises at the seaside are far away from the borders. In Europe some important economic centers are located close to the border (Vienna, Bratislava, Berlin, and Copenhagen), some of them having already established cross-border metropolitan areas. Compared with Europe, the distances are much longer while transport infrastructure is less developed.” (AEBR 2010)

Cooperation. Many European regions established contacts with their Latin American partners and started with an exchange of experiences, study visits and sharing knowledge on regional development in the EU. These were mainly the Spanish, Portuguese, Italian and German regions that also employed consultants, local and regional authorities and research institutes in order to help with international projects<sup>6</sup>. However, in many previous cases the cooperation was informal.

The European Commission has also created a possibility to present the results of such cooperation, and enforces the dialogue during e.g. the Open Days – a conference for regional and local authorities, practitioners and academia, co-organized with the Committee of Regions in Brussels.

The national and subnational actors' growing awareness of the necessity to enhance or establish the institutional and legal structures for the Cross-border Cooperation resulted in the issue being raised in the works of many groups working in MERCOSUR (Table 2).

**Table 2. Institutional setting of Cross-border Cooperation in MERCOSUR**

<b>Consejo Mercado Común (CMC)/Council of Common Market</b>
Grupo Ad Hoc de Alto Nivel para la Reforma Institucional (GANRI). Dec. CMC N° 21/05./Ad Hoc High-Level Group for Institutional Reform
Grupo de Alto Nivel para la elaboración de un Programa de Cooperación Sur-Sur (GANASUR). XXXV CMC, Acta 01/08, Punto 17.11. High-Level Committee on South-South Cooperation
<b>Grupo Mercado Común (GMC)/Group of Common Market</b>
Subgrupo de Trabajo N° 6 Medio Ambiente (SGT N° 6). Res. GMC N° 20/95, Dec. CMC N° 59/00. Grupo Ad Hoc Manejo Adecuado de Caza de Especies Migratorias y Comunes en áreas Transfronterizas (GAGCAT). XXXVIII SGT N° 6./Working Sub-group No. 6 for Environment/Ad Hoc Group for the Hunting of Migrating Species in the Transborder Areas
Grupo Ad Hoc de Expertos "Fondos para la Convergencia Estructural del MERCOSUR" (GAHE-FOCEM). Dec. CMC N° 24/05 Reg. Art. 25. Coordinado por la Comisión de Representantes Permanentes del MERCOSUR (CRPM) creada por la Dec. CMC N° 11/03./Ad Hoc Group of Experts on the Fund for Structural Convergence in MERCOSUR"
Foro Consultivo de Municipios, Estados Federados, Provincias y Departamentos del MERCOSUR (FCCR). Dec. CMC N° 41/04. Grupo de Trabajo de Integración Fronteriza (GTIF). VII FCCR-CN, Acta 01/08. Consultative Forum of Municipalities, Federal States, Provinces and Departments of MERCOSUR
Reunión Especializada de Infraestructura de la Integración (REII). Res. GMC N° 89/00, Dec. CMC N° 59/00./Meetings for Infrastructure Integration

<sup>6</sup> Spain and Italy are mostly focused on protecting indigenous communities and the environment. The Spanish Agency for International Cooperation has promoted some interventions to this effect. Another relevant project is *Fronteras Abiertas* (Open Borders), supported by the Italian government and implemented by *Centro Studi di Politica Internazionale* (CeSPI) and *Istituto Italo-Latino Americano* (ILLA), with the aim to build an interregional network for Latin American Cross-border Cooperation and Integration (AEBR 2010: 7–8)

<b>Comisión de Comercio del MERCOSUR (CCM)/Trade Commission of MERCOSUR</b>
Comité Técnico N° 2 Asuntos Aduaneros (CT N° 2). Dir. CCM N° 01/95, Dec. CMC N° 59/00./ Technical Committee on the Frontier Issues Sub Comité Técnico de Controles y Operativa de Frontera (SCTCOF)/Technical Sub-committee for the Control of Actions on the Borders
<b>Secretaría del MERCOSUR (SM)/Secretariate of MERCOSUR</b>
Dirección de la SM. /Directorate of SM Unidad Técnica FOCEM. Dec. CMC N° 24/05 Regl. Art. 19./Technical Unit of FOCEM

Source: Musiałkowska, Oddone 2012.

Documents that mainly refer to the development of the CBC in Latin America are the following:

- Communication from the Commission to the Council and the European Parliament (COM(2005) 636 final): *A stronger partnership between the European Union and Latin America, in which the European Commission underlines the importance of Cross-border Cooperation concerning sustainable development: regarding water resources, energy and planning of transport axes;*
- *Sugerencias de políticas públicas de integración fronteriza en el MERCOSUR: el proyecto “Integración Fronteriza en el MERCOSUR 2009–2011”* (suggested public policies for border integration in MERCOSUR: the project “Border Integration in MERCOSUR 2009–2011”. Its main objective is to define the action lines to design and manage border integration policies;
- Decisions of the Andean Council of Foreign Ministers on *Zonas de Integración Fronteriza (ZIF) en la Comunidad Andina*.

In the case of MERCOSUR, the biggest financial contributions come from the national budgets (with a top-down approach). The recent opening up of the possibility to use the FOCEM resources for establishing the CBC and the implementation of projects has given, in experts' opinions, a big impetus for development. Also financial institutions such as the Andean Development Corporation (*Corporación Andina de Fomento*, CAF) and the Inter-American Development Bank (IDB) include CBC in their agendas to promote development and integration on the continent (AEBR 2010).

Taking into consideration the regional and social imbalances and the fact of the lagging behind of border regions, CBC's formal interventions should be divided into three main axes: the environment, human development and trade. MERCOSUR<sup>7</sup> and the network of MERCOCIUDADES include these lines in their programmes. The development of CBC is linked fundamentally to supranational and national/

<sup>7</sup> Also the Andean Community of Nations, SICA, Organization of American States OAS/OEA included CBC in their declarations.

sub-national political processes. Multilevel governance and subsidiarity are the key issues. The strong need for bigger involvement at the local administrative level is also stressed in the Latin American CBC (AEBR 2010: 28).

Another example of adoption of the EU's way of thinking on territorial co-operation is the set of interventions towards CBC listed in the Brazilian "National Policy of Regional Development". "The Development Programme for the Frontier Strip – PDFF (150 kilometres wide) was established along the borderline between Brazil and its 11 neighbours, defining objectives and lines of action. The frontier strip is now considered a priority area instead of an area of national defence, with plenty of barriers and restrictions, particularly after the redefinition of the Development Programme for the Border Strip. The focus is on sustainable regional development and integrated growth. It should be implemented in conjunction and compliance with the neighbouring states of Brazil in order to achieve its objectives. The programme concentrates on the development of twin cities, intra- and intergovernmental structures, and integrated actions with the priorities of several 'meso-regions'. The size of these regions is going beyond European ideas of border areas, but they have to be taken into account if CBC is concerned. Within the programme also a transnational strand exists." (NPRD 2010; AEBR 2010)

The Brazilian government is developing and supporting many activities i.e. (AEBR 2010):

- the constitution of an inter-federal working group on border integration in 2008 with participation of federal departments, involving also municipalities and regions, in order to make proposals to develop and implement border integration activities with neighbouring countries, particularly with MERCOSUR;
- a pilot project between the EU, French Guyana and the Federal Government of Brazil, the States of Amapá, Amazonas and Pará, and Surinam. This project, in the framework of the Operational Programme Amazonia (European Territorial Objective, European Regional Development Fund), is aimed at the territorial development of border areas, the protection of Amazonian natural and cultural heritage and the development of cross-border economic activities and social cohesion, where the DG Regio of the European Commission is involved;
- support for the "Interregional Cross-Border Cooperation and Latin American Integration Network" (Open Borders). An Italian programme aiming to build an interregional network for Cross-border Cooperation and Latin American integration through the implication of sub-national authorities. It focuses on the triple border Brazil-Argentina-Paraguay;
- border municipalities, developing special measures (education, labour, social services) for the citizens living in border areas.



Brazil is also perceived as a country with the biggest impact on cohesion in MERCOSUR and a leader in the promotion of CBC. Whilst using the European experiences, the Brazilian authorities have already begun a process of regionalization and the exchange of information with the EU, developing the concept of border areas with shared competences between national and sub-national governments. Further decentralized CBC at the regional/local level in partnership with national governments and supra-national organizations seems to be the most suitable instrument to create the path for a new quality of borders as meeting places offering a wide range of opportunities.

It is also underlined that thanks to the functioning of MERCOSUR and the agreement between Brazil and Uruguay, mobility connected to cross-border working has been enhanced. As regards veterinary and food control, a programme to strengthen these activities and a special capacity building programme for people involved in this field are available. Uruguay and Paraguay have also developed their own regulations and bi-national treaties for border control. The biggest problem is finding and harmonizing the common funding. In each country the national funds are allocated for national projects (Brazil, Uruguay, Argentina, and Paraguay), but originally, a real common funding did not exist. This is why the FOCEM opening seems to be promising.

Some scientists highlight the relationship between formal and operational integration, while others stress the relationship between the populations across the borders (AEBR 2010). One of the best examples is the Uruguayan–Brazilian cooperation which aims to develop border areas as “free trade zones”, and they have proposed to create a “border citizenship” (a border statute), which means: the free movement of people, manpower, goods, services and capitals; common services for urban infrastructure, more flexible controls, single customs at check points, tax exemptions for personal goods, simplification of trade, elimination of double taxation for citizens, cultural integration, etc. There are, though, many juridical, institutional, financial and structural gaps. This process can be seen in twin cities (laboratories for integration), where very important lessons can be learned and new actions can be planned.

In the AEBR report (2010: 43–44), the SWOT analysis also identifies strong and weak parts as threats and opportunities for the LA CBC. The strongest part of the cooperation is the political will to continue the CBC, the operation of the SMEs and the development of rural areas and twinning among administrative units. Opportunities lie in further opening of the trade in MERCOSUR and the development of business environment and financial institutions plus access to capital for both the private and the public sector.

The contacts with the EU representatives and the reference to the European experiences are also highlighted as potential opportunities for the CBC development in Latin America. Similarly to the EU, it can also be observed that national governments tend to support the implementation of sensitive infrastructural and economic projects in border areas. Currently the tendency (with the support of MERCOSUR) is more to change national development policies in border areas in favour of supporting the CBC. The experts stress that the Latin American CBC faces multiple challenges, i.e. (AEBR 2010: 43–44, 48–49, interviews with local authorities 2010):

- the traditional concept of sovereignty;
- individual national priorities;
- lack of subsidiarity;
- the consideration of border areas as marginal (only few national investments);
- long-lasting border disputes;
- the need to increase the autonomy of territorial authorities;
- the need to ameliorate citizens' life conditions;
- low local capacities;
- permanent and temporary migrations control;
- the need to protect the natural and cultural heritage.

At the same time there is a chance to transform the national peripheral situation of the border areas in Latin America into a more favourable internal position within the continent (see also Oddone 2013). CBC is not about abolishing borders, but reducing them to administrative limits like those between provinces and departments.

After analyzing the SWOT, a set of recommendations was prepared, and as a result certain objectives have been developed: short-term objectives (concrete projects, need of decentralized cooperation, establishment of partnerships, informal structures for CBC in general); mid-term objectives (to increase local/regional/national capacities for sustainable CBC, to elaborate joint strategies/programmes and projects, as well as to strengthen cross-border institutions); and long-term objectives (with a view to the regional integration process throughout Latin America). Summing up, the first visible changes have been detected: strategic planning and concrete measures written down in the short-, mid- and long-term strategy for CBC in MERCOSUR<sup>8</sup>.

Also the actors of transfer in CBC have been identified, namely: the national, regional and local authorities, from both sides of the (selected) borders; supranational structures; universities and research institutes, businesses from selected economic sectors, social and cultural organizations, trade unions and employers organizations,

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<sup>8</sup> The short term strategy was planned to be implemented until 2011, mid-term 2012–2014, and long term until 2016.

and third sector organizations in concrete cases or organizations responsible for infrastructures (AEBR 2010: 60).

Moreover, the key elements for successful CBC in Europe that could be adapted to the needs on the ground in LA were enumerated (interviews with stakeholders 2010, 2011, 2012):

- step-by-step development (first the tasks, then the structure);
- the strengthening of regional and local tasks and responsibilities;
- strategic/programmatic approach;
- real joint projects;
- a permanent working structure per cross-border area (informal, later formal) as the main player (with joint decision making bodies, joint secretariat and staff);
- joint financial resources.

This requires, however (AEBR 2010: 64):

- the political will of all states concerned;
- a bottom-up approach, where regional/local actors are playing the main role in the partnership with the national government (external partnership, avoiding conflicts of competences);
- the involvement of politicians at all levels from both sides of the border to build up a lobby in favour of the CBC;
- participation of all the actors on both sides of the border (public/private and public-equivalent bodies, NGOs, etc.) in order to create a solid basis for the CBC by using the already existing knowledge (internal partnership, avoiding conflicts of competences);
- the awareness that socio-cultural cooperation is as important as economic cooperation (and often a precondition for successful CBC as a whole);
- in the starting phase, informal cooperation based on private law;
- in the end, the creation of permanent cross-border structures based on public law.

With regard to the further increase in capacity building, the monitoring of results and the exchange of experiences, the use of the following instruments has also been recommended for LA:

- permanent advisory support and training;
- exchange of experiences on best practices and information;
- workshops/seminars, including targeted training;
- international conferences.

Through step-by-step capacity building at regional/local level, the following practical results might be achieved:

- a stronger bottom-up approach;
- better distribution of tasks and responsibilities;

- genuine cross-border programmes and projects;
- solutions for daily border problems;
- solutions for social problems;
- improving of CBC of SMEs;
- the development of new CBC between manufacturers and suppliers;
- intensified cooperation in sectors like health, the environment, innovation and research and tourism;
- improved cooperation in education, especially bilingual schools (borders with Brazil);
- a more prominent role of universities through cooperation in targeted analyses and studies (cross-border infrastructure, environment, diversification of the economy, service sector, development of city centres, spatial planning);
- the creation of a network for a cross-border labour market through the cooperation between workers, trade unions and public authorities;
- the promotion of cross-border vocational training and the mutual acknowledgement of national qualifications;
- the creation of cross-border commercial sites;
- long-term cross-border development plans taken into account in national programmes;
- CBC between police, customs and border police departments.

## Conclusions

To conclude, the European Union is treated as the most advanced organisation in terms of integration. Moreover, it has accumulated knowledge in many policy areas. Therefore, despite the crisis, the EU is a source of inspiration for other international organizations and third countries. One of the policies that nowadays has been in the centre of interest of many actors is the Regional Policy pursued by the European Union. It is characterised by the use of an integrated approach, as well as multilevel governance and principles that can be valuable to implement (with necessary modifications) in other parts of the world. The European Commission also highlights the most important facts that can be taken into consideration by third countries and international organizations while analyzing the EU Regional Policy, enumerating, among others: Cross-border Cooperation, institutional capacity building and the long term strategic approach (European Commission 2009). MERCOSUR is certainly an organization in which the transfer of the elements of the analyzed policy can be observable, having

introduced regional interventions in order to deepen the integration process on its own territory. A set of activities was undertaken by the organisation: strategic planning, especially visible in the area of Cross-border Cooperation, the introduction of the structural funds-like-instrument: FOCEM, or the involvement of many national and regional actors in the development policy (see more Table 3).

**Table 3. EU Regional/Cohesion Policy transfer with regard to Cross-border Cooperation from the European Union to MERCOSUR**

Policy transfer elements to MERCOSUR
<b>Reasons of transfer:</b> <ul style="list-style-type: none"> <li>• Exchange of information and good practices on CBC</li> <li>• Efficiency in other states</li> <li>• Political – strengthening the dialogue between EU-LA regions</li> </ul>
<b>Forms of transfer:</b> <ul style="list-style-type: none"> <li>• Inspiration</li> <li>• Lesson-drawing from the experience of other countries/regions/organizations for the purpose of the reform of countries/regions' own policies</li> <li>• creation of institutions of CBC dialogue in MEROCUR should lead to an improvement of the efficiency of public institutions of bordering States and regions</li> <li>• objective: taken from EU CBC – institutions and structures should address a common challenge</li> </ul>
<b>Subject of transfer:</b> <ul style="list-style-type: none"> <li>• legal and institutional setting (including multilevel governance issues)</li> <li>• strategic planning (introduction of short, medium and long-term strategy on CBC: 2010–2012, up to 2014, up to 2016 followed by CBC projects)</li> <li>• the design of financial instruments for CBC (FOCEM, resources of Inter-American Development Bank, national, regional and local budgets, resources of Corporación Andina de Fomento)</li> </ul>
<b>Actors of the transfer</b> MERCOSUR actors: <ul style="list-style-type: none"> <li>• Supranational organisation: MERCOSUR</li> <li>• National, regional and local authorities</li> <li>• Academia</li> <li>• Consultants</li> <li>• Businesses from different sectors</li> <li>• Social and cultural organisations</li> <li>• Trade unions and employers organisations</li> <li>• NGOs</li> <li>• Organizations responsible for infrastructure</li> </ul> EU actors: <ul style="list-style-type: none"> <li>• EC DG REGIO, EEAS, EUROPEAID</li> <li>• the Committee of the Regions</li> <li>• AEER</li> <li>• Regional and local authorities</li> <li>• Academia</li> <li>• Consultants</li> <li>• Businesses from different sectors</li> <li>• NGOs</li> </ul>

Source: Own work.

The role of the EU seems to be the facilitator of the whole process through intensifying political contacts and the allocation of some financial resources enabling the implementation of recommendations. As the first step, the EU activities are more concentrated on providing advice, training and exchange of staff and politicians. But, in the long run, advice and training will not be enough to cover the high expectations placed on Europe (AEBR 2010).

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## ECONOMIC RELATIONS BETWEEN THE EUROPEAN UNION AND SUB-SAHARAN AFRICA

### Abstract

*The changes which have been taking place in the European Communities/European Union and on the African continent make it necessary to search for new principles and forms of legal and political relations between the EC/EU and Africa. The EU's international activities towards Sub-Saharan Africa are driven by underlying political and economic interests, common to member states of the EU, which are often parallel to the colonial past of many of those countries. These activities also confirm the role of integrated Europe as a global actor of international relations. Since the first decade of the 21st century, African countries have been experiencing a stable and systematic economic growth. Despite many unsolved development problems, Africa is becoming an attractive partner in global economy, especially the Sub-Saharan part. This dynamism of the African economy determines the trade relations with the EU as well. Further in this article, we will discuss the economic cooperation between the regions as well as the legal and institutional framework regulating the relations between them.*

**Keywords:** Sub-Saharan Africa, the European Union, economic growth, emerging markets, trade relations

### Introduction

In the early 21<sup>st</sup> century, Africa is undergoing a considerable and deep economic transformation. In the last decade, the African continent achieved a highly dynamic economic growth, with economic growth rate twice as high as in developed countries. Studies show that in the coming years, global economic growth will be increasingly

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generated by emerging economies and developing countries. Forecasts highlight their advantageous demographic structure, processes of urbanisation and industrialisation, the right use of technological progress and growth of human capital, all of which should ensure further dynamic growth. This is, of course, also true of Africa, especially its Sub-Saharan part. Next to China and the countries of the Asia-Pacific region, as well as the traditional emerging markets such as Brazil and India, most countries of Sub-Saharan Africa should now also be counted among countries experiencing constant and systematic growth. Although Africa is a region plagued by poverty and other threats (e.g. terrorism, conflicts and wars), it is also a region of huge potential and bright economic prospects, as confirmed by the analyses, studies and recommendations of international financial institutions and global consulting firms.

The early 21<sup>st</sup> century brought an essential redefinition of the EU's relations with African countries, as evidenced by the conclusion of a strategic partnership between the two regions. Apart from that, the European Union signed free trade agreements (albeit limited to certain narrow issues) with some African countries: with the countries of North Africa under Euro-Mediterranean Association Agreements and with the countries of Sub-Saharan Africa under Economic Partnership Agreements (EPA). Furthermore, there is increasing trade between the EU and Africa, as well as increasing European foreign trade investments in this part of the world. It seems that this trend will keep increasing, which is connected with the structural changes in the economic international order in 2008.

The relations of both the European Community and the European Union with the Sub-Saharan countries<sup>1</sup> have undergone an evolution over the years. Further in this article, we will discuss the economic cooperation between the regions as well as the legal and institutional framework regulating the relations between them.

## **1. Institutionalisation Process – from the Treaty of Rome to the Cotonou Agreement and EU-Africa Summits**

The earliest institutional relations between the European Community and a group of Sub-Saharan African states were established already in the Treaty of Rome in 1957. The provisions of Articles 131–136 of the Treaty stipulated for the association of overseas countries and territories with the Community. After most colonial countries

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<sup>1</sup> By Sub-Saharan African states we mean the 49 African states. North African countries include: Algeria, Egypt, Libya, Morocco, and Tunisia.

gained independence, the European Community's relations with the countries of Sub-Saharan Africa were transformed into contractual relations, as manifested by the Yaoundé Conventions of 1963 and 1969<sup>2</sup> (Zajączkowski 2005; *Council of the European Union* 1969), followed by the Lomé I (1975), Lomé II (1979), Lomé III (1984) and Lomé IV (1989) Conventions. Apart from Sub-Saharan African states, signatories of the Lomé Conventions also included some Caribbean and Pacific countries, so that all of them began to be regarded as a uniform group – the African, Caribbean and Pacific Group of States<sup>3</sup>.

As a result of changes occurring in the international balance of power, the gradual decline of the bipolar world order and deep transformations in international economic relations, since the mid-1990s efforts have been undertaken to redefine the model of relations between the EU and the ACP countries. Following 18 months of negotiation, on 23<sup>rd</sup> June 2000 the Partnership Agreement between 77 members of the African, Caribbean and Pacific Group of States<sup>4</sup> (*The Africa-EU Partnership* 2013; European Commission 2000) and the European Community and its Member States was signed in Cotonou (Benin) (*Partnership Agreement... 2000*; Martenczuk 2000). It was concluded for 20 years – from March 2000 to February 2020<sup>5</sup>. The Agreement entered into force on 1<sup>st</sup> April 2003, after the process of ratification. It was revised in 2005 in Luxembourg and in 2010 in Ouagadougou<sup>6</sup>.

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<sup>2</sup> The Yaoundé conventions (of 1963 and 1969) were concluded with eighteen African countries (including Madagascar). That group of countries has been called the Association of African and Malagasy States (AAMS).

<sup>3</sup> The African, Caribbean and Pacific Group of States was formed in 1975 under the so-called Georgetown Agreement. The document was signed by representatives of 46 countries. At present (as of 30 July 2013) the ACP Group consist of 79 States (48 countries from Sub-Saharan Africa, 16 from the Caribbean and 15 from the Pacific). The 80<sup>th</sup> member will be the Republic of South Sudan – for the time being, South Sudan has been granted observer status in the ACP Group of States since 20 November 2012. It should also be mentioned that despite having many things in common, the ACP countries have never formed a monolith.

<sup>4</sup> Cuba is not a signatory of the ACP-EC Partnership Agreement. Somalia has signed the Partnership but has not ratified it. Since the signing of the Partnership Agreement, the group of signatories has expanded. Timor-Leste became an ACP Member State in 2003, shortly after its independence, and ratified the ACP-EC Partnership Agreement on 19 December 2005. Somalia's political transformation has influenced the decision of the country as regards the EU. On February 2013, Somalia presented a request for accession in accordance with Article 94 of the ACP-EC Partnership Agreement and a request for observer status enabling it to participate in the joint institutions set up by that Agreement, until the accession procedure is completed. The ACP-EU Council of Ministers approved this request in Brussels in June 2013. The Republic of South Sudan made the same request a bit earlier, on 20 March 2012. It was approved by the ACP-EU Council of Ministers in Vanuatu in June 2012. South Sudan has been granted observer status in the Partnership since 20 November 2012.

<sup>5</sup> The Agreement came into force before the actual date of signing – on 1 March 2000. The retroactive date was set in order to ensure continuity with the previous agreements (Article 95 of the Cotonou Agreement).

<sup>6</sup> The Agreements (Article 95) provide for the option of revision every five years.

The Cotonou Agreement focuses upon three areas: economic, development and political. In line with the basic arrangement, its objective is to reduce poverty and to ensure social and economic development of the ACP countries.

The EU showed its deep interest in cooperation with Africa by the first Africa-Europe (EU) Summit held in Cairo on 3–4<sup>th</sup> April 2000. It was agreed there that the two groups of countries would build a global dialogue based on strategic and interregional partnership consisting of many dimensions of mutual relations (European Commission 2000). The second Africa–EU Summit took place in December 2007 in Lisbon and included the establishment of the Strategic Partnership and the adoption of the Joint Africa–EU Strategy (JAES). The JAES defines eight specific areas of cooperation: 1. Peace and Security; 2. Democratic Governance and Human Rights; 3. Trade, Regional Integration and Infrastructure; 4. Millennium Development Goals (MDGs); 5. Energy; 6. Climate Change and Environment; 7. Migration, Mobility and Employment; 8. Science, Information Society and Space. The third Africa–EU Summit was held in November 2010 in Tripoli. The leaders renewed their commitments, calling for reinforced cooperation in the eight priority areas and the setting up of support mechanisms to facilitate the process (European Commission 2013b). The implementation of the JAES and its thematic partnerships has been pursued through two successive action plans (2008–2010 and 2011–2013). In April 2014, the 4<sup>th</sup> EU-Africa Summit took place under the theme “Investing in People, Prosperity and Peace”. The Summit agreed that the implementation of the Joint Strategy during 2014–2017 should focus on five priority areas: Peace and Security; Democracy, Good Governance and Human Rights; Human Development; Sustainable and Inclusive Developmental Growth and Continental Integration; Global and Emerging Issues. These five priority areas replace the eight thematic partnerships.

## **2. Countries of Sub-Saharan Africa as emerging markets**

Since the first decade of the 21st century, African countries have been experiencing a stable and systematic economic growth (the average growth in 2002–2008 was 5.6%) (AfDB et al. 2011). Despite many unsolved development problems, Africa is becoming an attractive partner in global economy, especially the sub-Saharan part – according to the IMF, the average growth in this part of the world in 2004–2008 was 6.4% (IMF 2013a); after a decline to 2.8% in 2009, the region has again been showing high economic growth. The sub-Saharan region’s economic outlook shows its healthy resilience to internal (Arab Spring) and external (global economic crisis) shocks and

its role as a growth pole in global economy (AfDB et al. 2012). The growing importance of Africa in international economic relations is confirmed by data and analyses of the World Bank, the IMF, annual reports of the African Economic Outlook and the UN Economic Commission for Africa (UNECA) and the Ernst&Young report (Ernst&Young 2013, 2014).

Since the first decade of the 21<sup>st</sup> century, African countries have been experiencing constant and systematic economic growth; between 2000 and 2014 it was more than 5% on average (AfDB et al. 2013, 2014, 2015).

It should also be noted that compared to other developing regions or regions undergoing transformation, Africa has higher economic growth than Latin America and Southeast Asia (United Nations Economic Commission for Africa 2015; AfDB et al. 2014; AfDB et al. 2015).

According to the African Economic Outlook, the economic growth in Africa in 2014 was 3.9% – 5.2% for Sub-Saharan Africa and as much as 1.7% for the northern part of the continent. The report also predicts that Africa's economy will grow by 4.5% in 2015 and accelerate further to 5.0% in 2016. For Sub-Saharan Africa, the following figures are expected: in 2015 – 4.6%, in 2016 – 5.4%. For North Africa<sup>7</sup>: in 2015 – 4.5 %, in 2016 – 4.4 % (AfDB et al. 2013)<sup>8</sup>.

The leading regions of Africa in terms of economic growth are its western and eastern parts. According to an AEO report of 2012, they recorded a 6% and 7.1% growth respectively. In the coming years, this tendency is expected to continue. It is predicted, however, that in 2015 both regions will experience a slight decrease in growth. In the case of West Africa, the main reason for this are the consequences of the Ebola epidemic that broke out at the turn of 2014 and 2015 (AfDB 2015; United Nations Economic Commission for Africa 2015)<sup>9</sup>.

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<sup>7</sup> In the statistical data quoted in the African Economic Outlook, North Africa is considered to consist of: Algeria, Egypt, Libya, Mauritania, Morocco, and Tunisia. The reports of 2012 and 2013 take into account 53 out of 54 African countries, excluding Somalia. Since 2014, reports include all 54 African countries.

<sup>8</sup> The data is based on the assumption that the situation in North Africa will stabilise. According to the AEO of 2013: "Two years after the revolutions in Tunisia, Egypt and Libya, political stability in the region remains elusive and social tensions linger on", which is proved, for example, by the events of June/July 2013 in Egypt.

<sup>9</sup> The Ebola epidemic hotbeds were three countries of West Africa (Liberia, Sierra Leone and Guinea) and by March 2015 the virus caused some 10,000 deaths and 25,000 infections. It also caused shrinking of the three countries' economies – in total by approx. 1.4 billion USD GDP PPP. It is estimated that only in 2016 will these three economies fully enter the path of growth. At the same time, the outbreak of the Ebola epidemic had only a rather minor effect on the entire subregion of West Africa. The reason for this is that in 2013 the said three countries accounted only for some 2.4% of West Africa's GDP and 0.7% of the GDP of the entire continent.

The rather high level of economic growth, especially in the sub-Saharan part, prevailing despite falling oil prices (Ibidem)<sup>10</sup> and a fairly unstable financial situation in the euro zone (for most African economies being one of the key economic partners), is determined primarily by internal demand, including private consumption and public infrastructure investments as well as the ever-closer trade ties between Africa and the emerging markets.

The consumer market of Sub-Saharan countries is increasing two to three times faster than in OECD countries, and its value is estimated at 1 trillion USD. The African middle class is predicted to increase to 1.1 billion people by 2060, which is approximately 50% of the continent's population (Ibidem; AfDB et al. 2012). By that time, people living below the poverty threshold will be a minority (33%). The number of young inhabitants of cities is increasing as well. Economists believe that demography is one of the keys to Africa's economic success. Educated young people are the continent's driving force. To investors, they are a huge sales market, but also a workforce (United Nations Economic Commission for Africa 2015)<sup>11</sup>. Cities are also starting to play an increasingly important role in the entire economy. It is estimated that by 2030 the 18 largest cities of the continent will reach 1.3 billion USD in cumulative spending power and that the number of cities above 3 million inhabitants will increase from 16 in 2012 to 34, becoming thriving urban agglomerations (Ernst&Young 2014).

Analyses of the World Bank point out that many among the world's economies that have most improved the conditions for business are countries of Sub-Saharan Africa; in its latest report, the World Bank commends such countries as: Benin, Ivory Coast, the DRC, Senegal, and Togo (AfDB et al. 2015).

Africa's dynamic development is confirmed by its systematic advance in Ernst&Young reports, primarily due to the economic results of Sub-Saharan Africa; in the last report, for 2014, the institution's readers and analysts awarded this region the second place in the most attractive market category, right after North America (Ernst&Young 2014).

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<sup>10</sup> The UNECA report notes that while a decrease in oil prices could affect the income from foreign trade of oil-exporting countries, it has only a small impact on the GDP of Africa. The GDP of African exporters decreased by 0.17% following the first drop in oil prices in 2008 and by approximately 0.15% following the drop of 2014/2015. The minimum security level for African oil exporters is 33.75 USD per barrel.

<sup>11</sup> The UNECA report observes that urbanisation and dynamic demographic changes constitute both a challenge and a huge opportunity for the continent. It emphasises that African governments should take advantage of, among others, the increase in labour costs in China and throughout Asia, as well as actively encourage investments in Africa. By 2100, Africa's population in working age will rise to more than 2 billion and will constitute 41% of total global working age population (in 2010 it was 12.6%).

In the early 2010s, the African market is characterised by considerable growth of FDI and foreign trade. These factors also affect the economic growth in Africa and the continent's development.

In the last 15 years, Africa's global trade has increased. According to the UNCTAD report, lately "African merchandise trade has been rising faster than those of the developed and developing economies". The level of African merchandise trade (exports and imports) with the world rose from 251 billion USD in 1996 to 1,151 billion USD in 2011. In 2011, exports and imports for Africa totalled 582 billion USD and 569 billion USD respectively (UNCTAD 2013). In 2012, African exports were growing at a rate of 6.1%, which was the highest growth rate on the global scale (at the same time, North America had 4.5% and Asia 2.8%). The value of African exports in 2012 was 626 billion USD, while the value of imports – 604 billion USD. In 2013, however, African exports dropped by 5.8 % to 602 billion USD, and imports grew slightly (by 2.2%) to 628 billion USD (AfDB et al. 2014; AfDB et al. 2015).

Despite its fast growth in merchandise trade, Africa accounts for only about 3% of world trade. However, economists highlight the dynamics of trade and Africa's significant potential in this respect (for example, the dynamically developing middle class) (AfDB et al. 2012; United Nations Economic Commission for Africa 2013).

African exports are mainly dominated by fuels (oil) and raw materials (ores, precious metals, precious stones, etc.), which account for some 75% of total exports. In 2012, the value of oil exports was 330 billion USD. Processed goods account for approximately 13% of exports. The leading exporters are Nigeria and South Africa, the latter being also the leading importer (AfDB 2015).

Moreover, Africa experiences a considerable FDI growth. In 2001, FDI in Africa amounted to 20 billion USD in current prices and in 2008 it reached the record value of 57.8 billion USD. After the temporary decrease in FDI caused by the global crisis, there was again an increase and FDI reached 55 billion USD in 2012, 56 billion USD in 2013 (World Investment Report 2013, 2014)<sup>12</sup> and 55 billion USD in 2014. Although Africa enjoys only around 3.7% of all global FDI inflows, the annual UNCTAD report of 2013 calls Africa "a bright spot for FDI" (UNCTAD 2013b). The sub-Saharan region is particularly attractive to investors. The FDI inflows to Sub-Saharan Africa increased from around 27 billion USD in 2007 to 42.5 billion USD in 2014 (UNCTAD 2013b)<sup>13</sup>. It is worth stressing that not so long ago, in 2006, over 50% of all FDI inflows to Africa

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<sup>12</sup> In 2013, the top recipients of FDI (FDI inflows) in Africa were: South Africa (more than 8 billion USD), Mozambique (approx. 6 billion USD; Nigeria and Egypt (approx. 5.5 billion USD), Morocco (more than 3 billion USD). The top investors (FDI outflows) from Africa in 2013 were: South Africa (approx. 5.5 billion USD); Angola (2 billion USD), Nigeria (1.3 billion USD).

<sup>13</sup> The WIR defines North Africa as: Algeria, Egypt, Libya, Morocco, Sudan, and Tunisia.

went to North Africa, and since 2007 a gradual change of the trend to Sub-Saharan Africa has been observed. According to the authors of the report titled *Africa-Europe on the Global Chessboard: The New Opening*: “Sub-Saharan Africa now offers the greatest overall investment potential of all frontier markets, beating East and South Asia, Eastern Europe, and Latin America” (CEED 2013).

In the recent years, Africa – especially its sub-Saharan part – has been experiencing a significant economic success in the form of constant and systematic economic growth, growing foreign trade and increasing interest of foreign investors in this part of the world. At the same time, we need to note the challenges and threats faced by the African economy, both the local (internal) and the global ones. The local ones include: the lack of stability in the Sahel and the Horn of Africa and its consequences, including the rise of international terrorism and the wave of illegal migration on the continent; development disparities, as well as social policy weaknesses and insufficient regional integration in Africa, both in political and economic terms (the share of intra-African trade goes only up to 13% of total African foreign trade). Global challenges, in turn, include the possible further decrease in fuel prices in the world markets, the global economic slowdown (it is estimated that the economic growth of the G20 countries between 2010 and 2060 will amount to 2.7%, compared to 3.4% between 1996 and 2010) (AfDB et al. 2015), in particular the uncertain macroeconomic situation in the euro zone, as well as the possible too rapid and greater-than-expected economic slowdown in China – which could result in a decrease in Beijing’s imports of African oil and other raw materials – and in other emerging markets (*Africa’s Pulse* 2015; Baffes et al. 2015).

### 3. EU-Africa economic relations

This dynamism of the African economy determines the trade relations with the EU as well. From 2004, the value of the EU’s trade in goods with Africa rose substantially, but the economic crisis abruptly ended this trend. Since 2010, we have been again observing an increase in trade. In 2011, it reached the record value of 287.8 billion EUR (Eurostat 2014). Estimations for 2012 indicate another record in mutual trade – 336 billion EUR<sup>14</sup>. To illustrate the difference, in 2000 the trade volume was 151.4 billion EUR, and in the peak period before the 2008 crisis – 280.5 billion EUR (Eurostat 2010, 2014).

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<sup>14</sup> Eurostat defines North African countries as: Algeria, Egypt, Libya, Morocco, and Tunisia.



In 2013 and 2014, there was a slight decrease in mutual trade exchange. Its value was 320.9 billion EUR and 310.6 billion EUR respectively (European Commission 2015). The reason for this was the decrease in value of EU imports from Africa, mainly caused by dropping oil prices in the world markets and the still fairly unstable situation in North Africa. At the same time – and this needs to be stressed – there is no such tendency in EU exports to Africa; in the last two years (2013 and 2014) its value was growing. In the long run, all this could lead to a change in the trade balance in mutual relations. It seems that the demand for African goods in the EU countries will be decreasing, while African imports of end products (industrial goods) from the EU will be increasing – which is connected with the dynamic development of the market and the growing needs of African consumers. In 2008, the EU's deficit in trade with Africa was more than 40 billion EUR, but in 2013 it was only 15 billion EUR and in 2014 approximately 1.4 billion EUR.

The five countries of North Africa as well as Nigeria and South Africa are the key African partners to the European Union, and they account for approximately 75% of the EU's entire trade with Africa. This trend is a lasting one, as confirmed by data for 2000 as well as for 2013 and 2014. For example, in 2013 this group of states accounted for approximately 235 billion EUR out of the 321 billion EUR of the total trade with the EU, and in 2014 it was 227 billion EUR out of 310 billion EUR (European Commission 2015).

In 2013, the main directions of EU exports to Africa were: South Africa (24.5 billion EUR; 16% of total EU exports to Africa), Algeria (22.3 billion EUR; 15%), Morocco (17.3 billion EUR; 11%), Egypt (15 billion EUR; 10%), Nigeria (11.7 billion EUR; 8%), and Tunisia (11.1 billion EUR; 7%). As regards imports from Africa, in turn, the EU's main partners in 2013 were: Algeria (32 billion EUR; 19% of total imports from Africa), Nigeria (28.6 billion EUR; 17%), Libya (23 billion EUR; 14%), South Africa (15.5 billion EUR; 9%), and Morocco (10 billion EUR; 6%) (Eurostat 2014), and the data for 2014 is only slightly different. The said countries are dominant in the EU's policy towards Africa in terms of both exports and imports, and their position has not been experiencing any greater changes throughout the years.

The situation with the EU's activity in Africa is quite similar. The majority of trade with Africa is done by only a small number of EU Member States: France, Italy, Germany, Spain, the Netherlands, the UK, and Belgium. In 2013, the top exporters to Africa were: France (27.8 billion EUR; 18% of total exports), Germany (22 billion EUR; 14%), Italy (20.4 billion EUR; 13%), and Spain (16.4 billion EUR; 11%). The top importers, in turn, were Spain (28 billion EUR; 17% of total imports), Italy (27 billion EUR; 16%), France (26 billion EUR; 16%), the United Kingdom (21.6 billion EUR; 13%), and Germany (20.5 billion EUR; 12%) (Eurostat 2014).

End products (industrial goods) account for approximately 70% of the goods exported by the EU Member States to Africa, while fuels constitute more than 64% of goods imported from Africa.

In 2014, the EU28 imported 94 billion USD worth of crude oil from Africa, accounting for 45% of the group's total imports from the continent. EU28 imports of other mineral fuels (such as gas) amounted to 27 billion USD last year, with imports of gold (4.9 billion USD), diamonds (4.6 billion USD) and platinum (1.9 billion USD) together accounting for just under 20% of total imports. Adding total ore (copper, manganese, titanium, etc.) imports of 4 billion USD, as well as copper (2.1 billion USD) and aluminium (2.3 billion USD), the total share of commodities in African exports to Europe in 2014 lifts to 70% (Freemantle 2015).

The commodity structure remains a lasting one and it is unlikely to undergo any significant changes in the near future.

Africa accounts for approximately 9% of the EU's total external trade in goods. Despite considerable dynamism of mutual trade, the share of African countries in the EU's external trade remains steady. In the regional perspective, Africa is the EU's fourth partner – after Asia, Europe (non-EU) and North America.

African countries also influence the economic relations between the EU and the ACP countries. In 2012, the volume of trade with the ACP reached 185.84 billion EUR, of which approximately 173 billion EUR (ca. 90%) was generated by the African members of the ACP. The top ten ACP trading partners are African countries. South Africa, Nigeria and, to a lesser extent, Angola account for more than 60% of the total EU-27 trade in goods with the ACP countries (Eurostat 2011). Due to the essentially African character of the ACP group, the trade structure of the EU-ACP exchange is identical to the trade structure of Africa in general. However, we should also stress the increased role and importance of the United Kingdom. It has the highest share in trade with the ACP (in particular with North Africa) among the EU members, next to France and Germany (Eurostat 2012).

In the relations between the EU and Africa, the trade in services plays a considerably lesser role than the trade in goods. Sub-Saharan Africa accounts for approximately 4.3%, while North Africa for 2.5% in the EU's service transactions with the rest of the world. In total, the entire continent accounts for 3.2%, and this tendency has been remaining constant for the last several years.

The European Union with its Member States remains one of the main FDI providers to Africa. The EU was especially active in this field between 2007 and 2010, when average inflow of European FDI was approximately 20 billion EUR. The years 2011 and 2012, in turn, saw a huge decrease of FDI, which was related to the events in the Mediterranean Basin and the socio-economic problems in South Africa (the

main recipient of the EU's FDI). They amounted to, respectively: 14 billion EUR (North Africa 7.7 billion EUR; Sub-Saharan Africa 6.3 billion EUR) and 11 billion EUR (6.26 billion EUR; 4.75 billion EUR) (Eurostat 2015a). It seems, however, that in the coming years the inflow of FDI from the EU will increase. In 2012, the top investors in Africa in the context of FDI inflow were, according to Eurostat and OECD data: the United Kingdom (5.8 billion EUR/ca. 7.4 billion USD), the United States (2.8 billion EUR/3.7 billion USD), Italy (2.7 billion EUR/3.6 billion USD), France (3.5 billion EUR), Luxembourg (1.2 billion EUR), the Netherlands (1.1 billion EUR) (*African Economic Outlook* 2014; OECD 2014a). In 2012, the top recipients of European investments were: South Africa (2.9 billion EUR), Egypt (2.8 billion EUR), Nigeria (0.9 billion EUR), and Morocco (0.8 billion EUR) (Eurostat 2015a). It is worth noting that there was a considerable growth of capital imports from Africa, from 4 billion EUR to 18 billion EUR, of which Sub-Saharan Africa accounted for 16.5 billion EUR.

As regards the total outward stocks, two regularities need to be pointed out. First of all, the EU maintains a rather stable position in this regard, and the value of its FDI outward stocks is on average more than 200 billion EUR, with the record level in 2012 – 220.8 billion EUR, of which the UK and France accounted for 45.7 and 45.3 billion EUR respectively, and the United States for 46.5 billion EUR. In Africa, the main destinations for outward stocks of EU-28 FDI are South Africa (55.9 billion EUR), followed by Egypt (30.8), Nigeria (26.7) and Morocco (15.7 billion EUR). Sub-Saharan Africa accounted for 155.5 billion EUR, and Northern Africa for 65.2 billion EUR (Eurostat 2015b; Eurostat 2014).

Eurostat and OECD data for several years shows a clear domination of the United Kingdom and France in EU FDI (AfDB et al. 2014; Eurostat 2013). European countries have also a prominent position in statistical figures taking into account the number of projects or the value of the so called greenfield investments.

According to Ernst&Young data, between 2004 and 2013, the US was the largest investor in Africa, with 768 FDI projects (12.2% of the total). The UK was in the second place. In 2012, British and American companies tied in first position, with the UK taking the lead in 2013. The British entered into High-Level Prosperity Partnerships (HLPP) in November 2013 with five African countries – Angola, Côte d'Ivoire, Ghana, Mozambique and Tanzania. The UK has also been supporting infrastructure projects in Africa. France has always been a key investor in Africa. It was the third-most active investor by projects between 2004 and 2013, with 584 projects. However, since 2010, France's share has declined, as a result of political upheaval across North Africa – Morocco, Tunisia, Algeria and Egypt are its primary investment destinations. In December 2013, the French President announced a target to double trade with Africa by 2018, in a bid to win back France's share of African trade (Ernst&Young 2014).

In 2013 and 2014, the top investor in Africa in terms of the value of greenfield investments were the UAE (45.6 billion USD), France (21 billion USD), the United States (10.7 billion USD), Greece (10 billion USD), the United Kingdom (6.9 billion USD), and Belgium (5.2 billion USD). In 2003–2008 and 2009–2014, the European Union executed the largest number of greenfield investment projects – 44 and 41% of all projects respectively (AfDB et al. 2015).

#### **4. The EU and emerging markets in Africa**

The EU is already Africa's biggest trading partner, accounting for about 35% of imports and exports (in goods). The United States was overtaken by China in 2009 as Africa's major trading partner, both these countries, however, remain behind the level of trade volumes with the EU total. If we count only the sub-Saharan countries, Europe's share in their trade is around 25% on average (China – 14%, US – 12%) (CEED 2013).

At the same time, we should emphasise the increasing diversification of African trade. Back in the 1960s and for a long time afterwards, the Community's share was 2/3, but today the role of China and countries of the South is growing. One of the reports has a very convincing and much-telling chapter title: "Europe is taking a nap, while others are waking up" (CEED 2013). On the other hand, according to the OECD, the members of this organisation still dominate African trade and continue growing, although less rapidly than the other emerging partners. Africa's trade volumes with its emerging partners have doubled in nominal value over the decade. According to the AEO of 2013, "The emerging economies are steadily eating into the lion's share of the African export market held by Europe and the United States" (AfDB et al. 2013). The emerging economies took 8% of Africa's exports in 2000. This had mushroomed to 22% in 2011. The European Union and the United States saw their share of Africa's exports fall – from 47% in 2000 to 33% in 2011 in the case of Europe and from 17% to 10% for the United States. China increased its share of African exports from 3.2% in 2000 to 13% in 2011; India from 2.8 to 6%; Brazil from 2 to 3% (Ibidem). The EU's share in Africa's imports in 2011 was around 34%, as compared to around 42% in 2001. The American share remains at around 8–10%. Imports from China rose three-fold from 3 to 10% and that from India doubled from 1 to 2% (UNECA 2012; United Nations Economic Commission for Africa 2013). Africa's bilateral trade with China almost doubled over the last years, from 91 billion USD in 2009 to 166 billion USD in 2011. In 2014, China's trade with Africa hit 222 billion USD.

In 2014, three out of Africa's ten top trade partners were countries of the South (emerging markets) – China, India, South Africa (in 2001, it was only China, which was at the 7<sup>th</sup> position at that time). In the broader perspective, the value of Africa's trade exchange with its 20 top trade partners in 2014 was approximately 940 billion USD, half of which, approximately 465 billion USD, was with the emerging markets (in 2001, this ratio was 175 billion USD to 45 billion USD, with the balance tilted in favour of the West). Of this, as much as 376 billion USD was the value of the trade exchange between Africa and the BRICS group (Freemantle 2015).

The extent of changes in Africa's global trade map is evidenced by the fact that in 2001, the top three key trade partners were: France, the United States, the United Kingdom; in 2014: China, India, the United States. Apart from China and India that experience a considerable increase in trade exchange, we should also note the dynamism of trade exchange with other emerging markets; this is especially true of South Korea, the United Arab Emirates and Turkey.

Comparing the commodity structure of African exports to China and to the EU, we need to point out certain regularities. Exports to Europe are more diversified. Although mineral fuels (including oil and natural gas) and raw materials constitute more than 70%, the African offer for the European market also includes food as well as industrial products and machinery. Exports to China are dominated in more than 90% by oil as well as metals and mineral raw materials (and in 1990 China was not yet importing oil from Africa).

In terms of foreign direct investment (FDI), the European Union and the United States still dominate FDI to African countries, accounting for about 60% of FDI flows – 41% and over 20% respectively. However, the share of non-OECD countries has risen. In this context, the BRICS countries are becoming significant investors in Africa – in 2010 the share of BRICS in FDI inward stock to Africa reached 14% and their share in inflows reached 25%. As the UNCTAD special report puts it: "This trend is likely to be reinforced in the future" (UNCTAD 2013a). In 2011, four of the BRICS countries – South Africa, China, India, and the Russian Federation – have grown to rank among the top investing countries in Africa on FDI stock and flows. The share of BRICS countries in the total FDI value in Africa increased from 8% in 2009 to 12% in 2012, going up to 67.7 billion USD. China is particularly active among the BRICS countries, accounting for 1/3 of BRICS FDI in Africa; in 2012 Chinese FDI inflows to Africa reached over 2.5 billion USD (in 2011 it was 3.2 billion USD) (UNCTAD 2013a; Yuanyuan 2012; AfDB et al. 2015). For comparison, in 2005 the value of Chinese

investment inflows was 392 million USD. If we exclude the OECD countries, China is presently the top investor in Africa. Chinese investment stock in Africa increased from 500 million USD in 2003 to 22.9 billion USD in 2012 (Hanauer, Morris 2014; Johnston, Cheng Yuan 2014)<sup>15</sup>.

To sum up, Africa's economic map is now more divided and diverse than it was 10 years ago. Next to Africa's traditional partners – primarily the former colonial powers: France and the United Kingdom, but also the other Western European countries and the United States – an increasingly stronger group of countries involved in economic relations with Africa are developing countries/emerging markets, among whom the most active player in the African arena is China.

## 5. Economic Partnership Agreements (EPAs)

The Cotonou Agreement provides for Economic Partnership Agreements (EPAs) that will set up an entirely new framework for trade and investment flows between the EU and the contracting ACP states. They were essentially meant to be free trade agreements, in accordance with the aims of the EU, helping developing countries fully integrate with the global economy. The EPAs negotiations were commenced in Brussels in September 2002.

The first phase included problems and issues characteristic of the entire ACP group. The second one concerned issues specific for the individual regional groups within the ACP. The ACP EPA group divided themselves into seven regions: five in Africa, one in the Caribbean (CARIFORUM group) and one in the Pacific. The African ones are: Eastern African Community (EAC)<sup>16</sup>, Eastern and Southern Africa (ESA), West Africa, Central Africa, Southern African Development Community (SADC).

Under the Cotonou Agreement, the ACP states which would fail to negotiate an EPA by 2007 would lose the preferences given to them by the Lomé conventions and would only remain the beneficiaries of the GSP system (European Commission 2015)<sup>17</sup>. Only fifteen Caribbean countries which are parties to the ACP–EC Cotonou

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<sup>15</sup> Chinese investments in Africa are dominated by the mining industry (more than 30% of all Chinese investments). The role of other sectors is growing, however – e.g. in 2012 more than 17% of Chinese investments in Africa went into the financial sector and 16% to industry and production.

<sup>16</sup> In 2005, the seventh group emerged from the ESA regional group – the Eastern African Community (EAC). This division took place in consequence of the EAC countries establishing a customs union in January 2005.

<sup>17</sup> The EU's Generalised System of Preferences (GSP) allows developing country exporters to pay lower duties on their exports to the EU. The new system was put in place in January 2014.

Partnership Agreement (Cuba is not a party to the Agreement) signed a comprehensive EU-CARIFORUM Economic Partnership Agreement. They concluded the EPA in December 2007, and the next one was signed in October 2008 (Haiti signed it on 11<sup>th</sup> December 2009) and approved by the EP in March 2009. The other regional groups did not decide to conclude comprehensive EPAs. As a temporary solution, the EU initiated the conclusion of Interim Economic Partnership Agreements, concerning, for example, trade exchange. The interim agreements were signed with 21 ACP countries (19 African countries and Fiji and Papua New Guinea) (European Commission 2013). As a result, the 36 ACP countries that managed to negotiate comprehensive or interim EPAs by the end of 2007 are covered by the duty/quota free access system to the European market, in accordance with the Market Access Regulation (MAR) adopted by the Council on 20<sup>th</sup> December 2007 (European Commission). The ACP countries that failed to conclude the EPAs and that are not beneficiaries of the “Everything But Arms” arrangement (EBA) (European Commission 2013a)<sup>18</sup>, have been exporting to the EU market under the GSP rules since 1<sup>st</sup> January 2008. This was true of Nigeria, the Republic of the Congo and Gabon.

South Africa was a special case; as a member of the SADC it felt no pressure to change its trade relations with the EU as it signed the Trade, Development and Cooperation Agreement with the EU, which entered into force on 1<sup>st</sup> May 2004 and established a free trade area, among others.

Since 2008, the countries of Sub-Saharan Africa and the ACP group found themselves in four different trade systems determined by comprehensive EPAs, transitional EPAs, the EBA initiative, and the GSP.

The aim of transitional EPAs was to ensure access to the EU market to ACP countries interested in EPAs as well as to allow further work on detailed provisions of the comprehensive agreements. Under transitional EPAs, the following African countries retained tariff-free access to the EU market (although some of them would have retained it anyway, as they belonged to the LDC group): from the EAC – Burundi, Kenya, Rwanda, Tanzania, Uganda; from the ESA – the Comoros, Madagascar, Mauritius, the Seychelles, Zambia, Zimbabwe; from Middle Africa – Cameroon; from the SADC – Botswana, Lesotho, Mozambique, Namibia, Swaziland; from West Africa – Ivory Coast, Ghana. With this, under the MAR, 19 African countries benefited from tariff-free access to the EU goods market. However, they were not taking any steps towards the ratification of the transitional agreements.

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<sup>18</sup> “Everything But Arms” arrangement (EBA) was set up in 2001 to give all LDCs full duty free and quota-free access to the EU for all their exports, with the exception of arms and armaments. There are currently 49 beneficiaries under this arrangement (July 2015), of which 34 are from Sub-Saharan Africa.

On 30<sup>th</sup> September 2011, the European Commission adopted a proposal amending the MAR. It provides that unless one of the countries covered by it ratifies and implements the EPAs by January 2014, they will lose the duty/quota free access of their goods to the European market. In the end, the European Parliament agreed on 17<sup>th</sup> April 2013 to extend the deadline by nine months until 1<sup>st</sup> October 2014.

At the same time, the amended principles of the GSP mechanism entered into force on 1<sup>st</sup> January 2014. According to these principles, countries which according to the World Bank's classification are counted among high income or upper middle income countries were excluded from the list of beneficiaries of preferential access to the EU market. The new GSP mechanism may only be benefited from by low income or lower middle income countries. As a result, the countries that did not sign and ratify EPAs and do not meet the criteria of EU tariff preferences would fall in the order of preference in access to the EU market to the MFN level.

Failing to undertake the "necessary" actions towards ratification of EPAs by 1<sup>st</sup> October 2014 and the resultant possible removal from the list of countries benefiting from MAR would give rise to different consequences for different countries subject to this regulation. Nine of them – Burundi, the Comoros, Lesotho, Mozambique, Rwanda, Tanzania, Uganda, Zambia, and additionally Haiti (who failed to ratify the comprehensive EPA) – would retain tariff-free access to the EU market under the Everything But Arms (EBA) programme, as they are on the LDC list. Six of them – Ghana, Ivory Coast, Cameroon, Kenya, Swaziland, and Fiji – are low income or lower middle income countries and thus would be subject to the solutions introduced by the new GSP. Botswana and Namibia, in turn, would have access to the EU market under the MFN clause as they are upper middle income countries.

Because of the African countries' fear of losing tariff-free access to the EU market and pressure exerted by the European Commission, the negotiations of EPAs were hastened. In July 2014, new EPAs were agreed upon with the SADC and West Africa regional groups. Cameroon and the EAC countries, in turn, ratified the transitional EPAs concluded earlier on 28<sup>th</sup> July and 16<sup>th</sup> October 2014 respectively (Ramdoo 2014; European Commission 2015).

The long and difficult negotiations between countries of Sub-Saharan Africa and the EU were finalised in 2014. EPAs have always given rise to many doubts among the African partners. Since 1<sup>st</sup> October 2014, the European Union has been developing a new architecture in the economic relations with the ACP countries, including Sub-Saharan Africa. The main goal behind it is to change the nature of the trade relations between the parties from a system of one-sided preferences for ACP countries to mutual benefits and concessions in market access. At the same time, it needs to be pointed out that apart from the comprehensive EPA with the Caribbean, which covers



all aspects of economic relations, the remaining agreements concern primarily trade in goods because contrary to the EU's goals, the parties have not managed to address such areas as services, investments or public procurement. It can hardly be expected that the African party will agree to include them in future agreements. With this, it seems that EPAs with African countries will constitute the legal framework for trade in goods between the regions.

## Conclusions

Nowadays, we are witnessing the development of a new international order. Although its precise framework and characteristics have not yet been specified, it is still certain that it will differ considerably from what we had in the last two decades. Even now we can see a significant fall of the western domination in world economy in relation to selected emerging markets – as evidenced by their ever-greater share in global trade, investments, production, and GDP. Consequently, the West is “fading” and the emerging markets are becoming ever stronger (especially in economic terms). The world is becoming multipolar. Western domination is no longer self-evident. A historical process is taking place of transition to a new multipolar structure of international relations, in which the economic potentials will probably be distributed more evenly between several centres, with no clear domination of the West (the EU and the USA). This was already pointed out by Zbigniew Brzezinski in *The Grand Chessboard: American Primacy and Its Geostrategic Imperatives* and later restated in his latest book *Strategic Vision: America and the Crisis of Global Power*. The thesis is also confirmed by analytical and strategic centres based in the USA (Shanker 2012). In this context, it seems highly justified that the EU is developing and consolidating relations with non-European developing countries, particularly countries of Sub-Saharan Africa.

These regions exhibit a considerable economic growth and have a huge potential (although we also have to note that they are facing serious problems and challenges). It seems that the evolution of the economic relations between the European Union and Sub-Saharan Africa will be the resultant of: on the one hand, the EU's striving to retain the leading position on the economic map of Africa, and on the other hand, Africa's considerable dynamism of modernisation and considerable development potential, as well as its striving to become one of the most competitive economies in the world. These elements create favourable conditions for intensifying mutual cooperation. The analysis of the trade exchange between the EU and Africa shows systematic growth. This is a permanent tendency that would be hard to reverse in the near future, all the

more so because Africa's potential will be growing progressively. At the same time, the continent will become a huge sales market for foreign goods and services, because as long as necessary economic reforms are implemented, its human potential guarantees a strong workforce and a considerable internal market – particularly important given the cyclical crises in the global economy.

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## INDIA AND THE EUROPEAN UNION: STRATEGIC YET DISTANT PARTNERS?

### Abstract

*Critics often point out that the EU-India cooperation is far below potential targets. One key factor behind this is the tendency on the part of Indian policymakers (often receiving intellectual confirmation and support) to diversify Europe into several categories instead of trying to engage with the continent as a whole. Such tilts could be explained in terms of diversified (and sometimes mismatched) strategic views of global and local affairs. Institutionalising the cooperation through steps like strategic partnership and the proposed EU India FTA could thus only succeed if both sides work together to create a matching and somewhat synchronous worldview.*

**Keywords:** European Union, India, trade, bilateralism, world order

### Introduction

While India's engagement with the continent of Europe dates back to pre-colonial and colonial times, the nature of the engagement was never comprehensive. The subcontinent's colonial experience had restricted such engagement between the colonised and the colonisers to certain specific areas, and not very comprehensive in nature. While India since its independence became one of the first countries to establish relations with the European Economic Community (EEC) in 1962, bilateral engagement with the organisation and its later avatar, the European Union (EU) remained at best ephemeral. It has been argued that India's European engagement continued to be dominated by the colonial linkages with the United Kingdom (UK), which explains India's little engagement with the organisation:

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“The ‘regionalistic approach’ of France became the initial guideline of the EU’s development policy, by which Germany in particular as well as the Netherlands had to abide. Since the United Kingdom was not a member of the early Community, it was in no position to defend the interests of its old colonies in general” (Vandenborre 1998: 269).

The institutionalising process of the relationship through annual ministerial meetings, the Summits initiated since 2000 and subsequently, in September 2004, during the Dutch presidency of the European Union, the upgrading process of the relationship into a Strategic Partnership and given a well-rounded policy perspective with a Joint Action Plan in 2005, which was reviewed in 2008 (Mukherjee 2015) have resulted in providing a certain degree of momentum and vitality to the relationship. And yet, it has to be admitted that the relationship remains far below potential. The rest of the essay tries to briefly focus on the reasons and the chances of infusion of fresh vitality into the relationship as part of the new Indian government’s global initiatives.

## Fading Relevance of Europe?

Recurrent economic crises and political instability has generated considerable Euroscepticism in recent decades within policymaking and academic circles. Theoretical lamentation for the decline was perhaps most succinctly presented in the manifesto of Habermas and Derrida, composed in 2003, which mentioned that the attempts to generate an alternative worldview have been marred by internal latent contradictions like that existing between continental Europe and Anglo-American countries, along with the divergence between “old Europe” and new members (and aspirants) from Central and Eastern Europe (Habermas and Derrida 2003: 292).

For a long time, the European Union (EU) has been regarded as a major normative power in international relations. As one scholar notes:

“Perhaps the hallmark of the EU’s democracy projects around the world has been its emphasis on using soft power (as opposed to hard power, which circumvents diplomacy and dialogue) and civilian involvement in nation-building or democratization. This has allowed it to tailor its agenda to local contexts, and ... allowed it to experience ‘far greater success’” (Sobhan 2009: 8).

Even now, as the organisation is in the midst of its most serious institutional crisis since the 1957 Rome Treaties, the EU still offers a credible alternative model of postmodern governance which favours soft security tools such as trade policy, economic and humanitarian aid, and public diplomacy over the traditional hard

tools of military power (Sarfety 2011: 9). This is along with the closest approximation and retention of the theoretical model of the welfare state, managing to survive the onslaught of the globalised world order. But Eurosceptics, particularly encouraged by the recurrent economic crises plaguing the EU have pointed out the inefficacy and ineffectual nature of the organisation in danger of losing its global relevance. According to one author:

“Asian diplomats quite often refer to the European Union with a mixture of condescension and incredulity. Europe, as they see it, is a spent force, a customs union that never seriously intended to become a global power. They find it strange that Europe seems to be unaware of its reduced status in world affairs and that it has not come to terms with it” (Laqueur 2012: 264).

It has also been argued, for instance, that coherence may be necessary for the EU to exert its influence abroad, but it clearly is not sufficient in a multi-centric world order where many others do not share the EU's collective policy preferences and are ready to deploy vast resources in pursuit of their goals. The tendency of the EU leaders to link the Union's frequent lack of coherence to its frequent lack of effectiveness on foreign and security policy is thus either misinformed or misleading, or perhaps both (Thomas 2012: 472).

The process of Europeanisation of policymaking or of following of the European model, in this context, supposedly includes the following: changes in external boundaries; developing institutions at the European level; central penetration of national systems of governance; exporting forms of political organisation; and a political unification project (Olsen 2002: 923–924). National foreign policymakers will choose to incorporate the EU foreign policy norms, practices and procedures into their policies either because they have become convinced it is appropriate or because they have calculated it is utility-maximizing to do so (Moumoutzis 2011: 624). The perceived decline in terms of hard power, however, has led to the weakening of the EU as a model to be emulated globally.

The EU is often described as an inconsistent actor which, while reiterating the importance of the fight against poverty and the quest for sustainable development in its public statements, continues to perpetuate poverty in the so-called developing world through unfair practices and double standards in some of the most sensitive sectors for developing economies (Fioramonti, Poletti 2008: 171). As another scholar points out: “The scale of this agenda, of rebuilding the polity of southern states ‘from the bottom up’, is enormous, uneven and problematic but has not prevented donors, the EU included, from institutionalizing these aims in their regimes of development co-operation” (Brown 2002: 190).

It should not be forgotten, however, that the weakening of Europe does not mean its irrelevance in global politics. Europe as a continent, and the EU as its core organisation, continues to be a major actor in international relations and within global economy. Although Europe represents only 5% of the world's population, it still populates 25% of the world's power networks. In other words, Europe remains a central node in the world (Merand 2015: 11). A developing power like India, thus, has to enhance the level of its engagement with the EU in its efforts to sustain a multilateral global order.

## India and the European Union

While India's economic interactions with the EU lags far behind in terms of scale and volume in comparison with China, the institutionalisation of the relations reached a take-off point since the upgrading of the relationship status to a strategic partnership. But government level involvement in making the relations more viable is still tardy. Indian External Affairs Ministry, for instance, is yet to have a specific bureau or division dealing with the EU as it is clubbed together with several other countries within the Europe West (EW) Division. The number of Indian diplomats stationed in Brussels is also far less than that of China. The Annual Year Book (2014–2015) produced by the Indian External Affairs Ministry only makes casual reference to the country's burgeoning relations with Europe:

“We share common values of democracy, rule of law and civil liberties with the countries of Western Europe ... India continued its policy of broad-based engagement, deepening and diversification of relations with Central and Eastern Europe” (MEA Annual Report 2014–2014).

In terms of economic relations, while the value of EU–India trade grew from €28.6 billion in 2003 to €72.5 billion in 2014 along with the EU investment stock in India rising to €34.7 billion in 2013. But this is far below actual potential targets. EU policy of targeting Indian exports has also affected the prospects of enhancing economic cooperation.

In 2014, the EU, for instance, banned import of items like alphonso mangoes and vegetables like bitter gourd (*karela*), eggplant (*brinjal*), taro plant (*arbi*) and snake gourd (*chichinda*). Indian efforts to revoke the ban have worked in case of mangoes as the ban has been revoked from January 2015 but negotiations are still on in case of the vegetable import. In 2015, again, the European Union's decision to ban the marketing of around 700 generic medicines for alleged manipulation of clinical trials



conducted by India's pharmaceutical research company GVK Biosciences (Business Standard 2015) affected bilateral economic relations. The European Union's ban on 700 generic drug products based on data integrity issues would impact exports worth at least \$1 billion from India, according to the Pharmaceutical Export Promotion Council of India (Pharmexcil) (Business Standard 2015). The Indian government is toying with the option of appealing to the World Trade Organisation (WTO) against such a ban. The EU-India bilateral differences over generic drugs are not new. In 2011 for instance, some of the EU Customs authorities, mainly from the Netherlands and France, confiscated several Indian off-patent generic drug consignments headed for Brazil via European ports and airports over alleged infringement of EU intellectual property rights (IPR). After India voiced protest, the EU members agreed not to seize Indian medicines passing through Europe (Economic Times 2015).

With such problems, there should be little wonder that the negotiations over the EU-India Free Trade Agreement (FTA) have not progressed, even though it was launched in 2007. The negotiation process became stalled after 15 rounds over key differences since 2013. The present Indian government has recently shown its willingness to adopt a "flexibility approach", which generates promises to re-start negotiations over the stalled FTA (Seth 2015). It has been reported that New Delhi has expressed willingness to accommodate the EU's demands for lowering of duties on wines, spirits and automobiles, provided Brussels relents to grant India "data secure nation" status besides facilitating easier movement of skilled Indian professionals in Europe (The Indian Express 2015). The EU ambassador in India Joao Cravinho has also expressed hope that the FTA deadlock would be broken soon and negotiations would be resumed (Ramachandran 2015). Two areas which are being looked upon as potential areas are the prime minister Modi's plan of creating hundred smart cities in India and the launching of the "Make in India" campaign to facilitate business and foreign investments and cut red tape (Khandekar 2015). During prime Minister Modi's recent trip to Europe, important deals have been signed with Germany and France. Greater EU involvement could lead to the participation of other smaller members of the EU in the negotiation process.

It has been argued that what causes bilateral trust-deficit are considerable difficulties in comprehending the essential character of the EU leading to an information deficit as most Indians confront the "3 Ds" – distant, difficult, different – in trying to understand a complex entity like the EU (Jain, Pandey 2012: 333). As another analyst argues, the "Indian policy makers and analysts remain sceptical about Europe's role in global affairs. As a result, they have not bothered to use European capacities to promote their own interests through this partnership (Sachdeva 2014: 427). Several Indian policymakers also have complained about the preferential

treatment meted out to China in comparison with a democratic country like India. While Europeans aspire for a multipolar world, they seem to endorse Chinese views of a unipolar Asia, and not a multipolar Asia (Jain 2009: 142). India, on the other hand, accords greater importance to the United States than the EU because as the principal foreign policy interlocutor it is perceived as having the biggest impact on our national security environment (Jain 2009: 143).

Bilateral issues with individual countries like Italy over the case of detained Italian marines also have tended to affect overall EU-India relations. Former Italian foreign minister Federica Mogherini, the EU's foreign policy head, took a leading role in being critical of India and commented in the European Parliament: "it's good for everyone to be fully aware of how much of an impact the unresolved dispute of the two Italian Navy officials can have on relations between the EU and India. It is putting them to the test" (Pubby 2015). It could be insinuated that such critical build-up played a leading role in the postponement of the EU-India bilateral Summit proposed in March 2015. The Indian proposal to hold the Summit as a part of the Indian Prime Minister Modi's tour in Europe had to be cancelled as the EU could not confirm dates leading to the postponement of the Summit.

## Conclusions

India has not been treating the EU as the priority partner, and the decision to launch the strategic partnership has remained largely declarative instead of shaping India's international strategy in the post Cold War period (Goralczyk et. al. 2013: 596). To an extent, India's low prioritisation of Europe was on expected lines. One analyst, writing about one year back when the Modi government had just assumed power, commented:

"The stark absence of any reference so far to relations with Europe cannot be read as a simple oversight. While relations with some EU member states, like Germany, France or the UK, will eventually be picked up by India, faltering relations with the EU look likely to dwindle further" (Khandekar 2014).

One cannot expect any dramatic overnight change. But with common beliefs in sustaining a multilateral global order along with protecting democratic institutions, India and the EU should make efforts to sustain and enhance bilateral engagement, which would strengthen their own positions within the global order.

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## **Part III. Regional Development for Economic and Social Cohesion in the European Union**



Willem Molle\*

## **COHESION AND GROWTH: IS THE EUROPEAN UNION SYSTEM FIT TO FACE THE CHALLENGES BEYOND 2020?**

### **Abstract**

*The EU is confronted with very persistent cohesion problems. We assess the likely evolution of the problems in the present decade to obtain a picture of the challenges the cohesion and growth policy has to face in the period between 2020 and 2030. We next discuss the alternative policy options the EU has in order to face these challenges; we proceed by stage in the policy cycle. We find that mainly for political economy reasons it is likely that the EU will continue to work with a slightly adapted version of the present policy setup. The analysis has revealed a big dilemma; the chances for successful support are highest for those who least need it, while those who most need support cannot turn it into success. We therefore suggest to introduce a check on quality governance before funds are committed, coupled with a considerably stepped up effort by the ESI funds to support projects that improve the quality of government in convergence countries.*

**Keywords:** Cohesion, balanced growth, quality of governance, European Union

### **Introduction**

The European Union is confronted with very persistent problems. Assuming a reasonable degree of effectiveness of the policy in the present programming period, one can assess the magnitude of problems that will still prevail by 2020. Having complemented this picture with the major new problems that are likely to emerge between now and 2020, one obtains a picture of the challenges the policy has to face in the period between 2020 and 2030.

Many are now involved in putting into practice the new policy setup. However, this preoccupation should not divert attention from the fact that in the foreseeable future another overhaul of the EU cohesion policy setup may be necessary. In that perspective

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it is good to ask ourselves already the question of what alternative policy options the EU has in order to face the challenges beyond 2020. In the following sections we set out to give an answer to this question.

The approach we follow is to detail the challenges and policy alternatives by stage in the policy cycle. In the following sections we analyse first the main challenge and next the (in)adequacy of alternative options to meet that challenge<sup>1</sup>. We round off the paper with some general conclusions.

## Stage 1. Assessing the Problems and Defining Main Policy Orientations

### 1.1. Continued Convergence Efforts

The main long-term objective of cohesion policy is the decrease of wealth disparities. We have made a detailed analysis by country of the evolution of wealth indicators. We have also made a projection of these figures for 2020. We have summarized the results (grouped by large geographical areas of the EU<sup>2</sup>) in the left hand part of Table 1. We have added (in the right hand part of the Table) the results of two alternative scenarios for the development beyond 2020. These scenarios are based on existing studies and our own calculations<sup>3</sup>.

In a first “pessimistic” scenario we do assume for the North a moderate growth; for the South a slow recovery and for the East a fairly dramatic reversal of past trends<sup>4</sup>. Under this pessimistic scenario, significant disparities between countries persist, reflected in quite important differences between the large geographical groups.

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<sup>1</sup> Unfortunately there are not many studies on which to base these future oriented analyses. One such study is Hinarejos (2013) that distinguishes two options: the surveillance model and the fiscal federalism model. The latter has inspired section 3.4 and the former sections 4.3 and 4.4.

<sup>2</sup> Into the North we have grouped all countries in the North and North West of the EU; the South consists of the Mediterranean countries (Portugal, Spain, Italy, Greece, Malta and Cyprus). To the East we group the Member States of Central and Eastern Europe. Mind that these groups are of different size: the North has some half of the EU population; the South and the East have each about one quarter.

<sup>3</sup> In elaborating these simplified scenarios we have borrowed extensively from considerations presented in two studies that have explored very long term trends, viz.: EC (2012) and OECD (2012). We have also consulted ESPON (2013). However, we have translated these considerations in our own assumptions about different growth figures to show the effect of alternative scenarios on the key variable: disparity.

<sup>4</sup> This low growth is based on the assumption that major countries from the Eastern group lose competitiveness, due to rises in unit labour cost, real estate bubbles, too much concentration of growth in capital cities, a negative demography, severe macro-economic tensions and finally various institutional blockages.



**Table 1. Development of GDP/P (index EU-28 = 100), by Area (2000–2030)**

	Past trend			Future	Scenarios for 2030	
Region/year	2000	2007	2012	2020	Pessimist	Optimist
North	121	116	116	115	110	109
South	105	102	95	90	95	93
East	45	56	65	72	78	84
EU 28	100	100	100	100	100	100

Source: Molle 2015: 282.

In the “optimistic” scenario we assume that the past trends of catching up of the East are coupled with a very moderate growth of the North and a recovery from the crisis of the South. This scenario produces quite an important decrease in the disparity between EU Member States.

However, one sees that even in this optimistic scenario considerable disparities in wealth will remain. The detailed national figures that lie at the basis of our calculations show that for most of the present convergence countries and regions the time needed for them to catch up with the EU mean will by far exceed the 2030 horizon.

Such disparities are found to be economically inefficient and morally unjust and thus politically unacceptable. So, we may conclude that in the future the objective of convergence will still be very relevant and that continuation of the cohesion effort is fully justified and likely.

## 1.2. Maintenance of the Overarching Policy Objectives

The EU has started to formulate an overall long-term strategy in 2000 (the so-called Lisbon strategy). It did set a very high objective: to become by 2010 “the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion”. The strategy has been reviewed in 2004, which identified a strong discrepancy between ambitions and means. A number of changes were made to limit that gap.

By 2010 it had become clear that many of the targets would not be met. So a new strategy was adopted for the present decade, called Europe 2020. It set three overarching EU policy objectives: smart (competitiveness, innovation), sustainable (environment, climate) and inclusive (employment, social) growth. These objectives have been detailed in specific targets. In view of the limited progress realized up till now on several scores, it is probable that important disparities are likely to persist by 2020. So the EU finds itself back in a similar position as it was in a decade ago; it will have to find a new match between its stated ambitions and its intervention capacity.

For the decade beyond 2020 the main problems and challenges are very likely to be similar to the present ones. Smart growth will remain a central objective, as external openness and continued technical progress force the EU to improve its competitiveness. Sustainable growth will remain very relevant, as the negative effects of climate change will persist and probably become more severe. Finally, unemployment and poverty are likely to stay very widespread (risk of jobless growth), so inclusive growth is still of utmost importance.

All this suggests a certain continuity of priority objectives of European integrated policymaking: the triad of smart, sustainable and inclusive growth. So the continuation of a balanced growth strategy seems fully justified (albeit with new and realistic targets).

### **1.3. No Major Adaptations Required for Either Deepening or Widening of the European Union**

In the past decades the EU has assumed many major new responsibilities and in so doing has gradually moved into ever higher stages of integration. Now it has reached the stage of Economic and Monetary Union. This EMU has been reinforced and more changes are being discussed. The Genuine Economic and Monetary Union (GEMU) would comprise mainly three elements: the completion of the Banking Union, some mutualisation of public debt and a European Stabilization Fund<sup>5</sup>. These changes will not bring a need for adaptation as a short assessment of the GEMU shows that all three elements would have mainly pro-cohesion effects and would enhance the capacity of the weakest countries to create balanced growth.

In the past, the EU was able to integrate new members successfully; some of them with particularly strong cohesion and other problems. In the future (the period of 2020–2030) the challenge of widening is likely to be limited. This can be seen from the analysis of the situation of various potential candidate countries (EC 2013). The countries in the Western Balkan will not be ready to become members in the period up to 2020. Even if we assume they will be ready in the decade after 2020, they will not require a major change given their small size and the similarity of their problems to the ones the EU knows very well. Due to large political problems, we do not envisage the accession of large countries<sup>6</sup>.

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<sup>5</sup> The propositions have been made by the top of the EU executive institutions; they are discussed in detail in Begg et al (2014, chapter 5).

<sup>6</sup> The accession of Turkey is unlikely and pleas are now made for other solutions than full membership (see e.g. Karakas 2013). For the Ukraine the political situation is so involved that membership is very uncertain.

## Stage 2. Designing a Solution-Oriented Intervention System

### 2.1. Continuity in Basics, Flexibility in Modalities

The essential features of the architecture of the EU cohesion and growth policy date from the 1980s. So, the system is very robust; it has been able to accommodate important increases in the size of the EU, in the degree of integration, in openness to global developments, in severity of crises, etc. The more detailed parts of the architecture have been adapted every seven years. These have taken account of new challenges, changes in political priorities and new insights from academic work<sup>7</sup>.

Will such an adaptation to new challenges also be possible in the post-2020 period? The answer is very probably yes. Indeed, the past sections have made clear that the main challenges that are likely to confront the EU cohesion and growth policy in the future are similar to the present ones; they concern both the convergence of the least developed parts of the European Union and the creation of synergies between the cohesion policy and the other strategic policies of the EU. As there is no fundamental change in the type and size of the objectives, there is no reason to call for a systemic change either. Yet the pressure for more effectiveness and efficiency may require a systemic change. We will discuss three options.

### 2.2. Light and Heavy Versions of the System

Some think that the applicability of the complex EU system for all parts of Europe is inadequate. A lighter system would suffice in the more developed northern countries because these countries are confronted with relatively small problems and have a good intervention capacity. This leads to pleas for a partial or complete repatriation of the integrated growth policy<sup>8</sup>.

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<sup>7</sup> See for the long term development of the policy: Bachtler et al (2013), for the basic design and application in practice: Molle (2007) and for the most recent changes: Barca et al. (2009) and McCann (2015).

<sup>8</sup> See: Begg (2009) for a more elaborate treatment of this subject. One advocate of repatriation is the United Kingdom government. See also: DTI (2003). In practice this could mean that the more developed countries would net their contribution to the EU budget with their entitlement to the ESI funds. The Member States that would fall under this light regime might then participate in the total EU cohesion and growth policy through some variant of the Open Method of Coordination. An alternative would be to limit the allocations to these countries to grants to ease for instance inner city social problems related to migration, as the latter is seen by many as a European problem (see also section 3.2).

The advantage of the adoption of a light version for the more developed countries (mainly the North) would stem first from a gain in efficiency by saving on transaction cost (no pumping around of money; no cumbersome procedures), next from welfare gains (because the prioritization of projects would not have been “distorted” by EU considerations).

However, the adoption of a split regime also has a number of disadvantages. The main one is the risk of stigmatization of poor countries (mainly in the South and the East) that such a dual system would create. For that reason, the EU did not go along that road in the past.

In future it is likely that this political trade-off will be maintained. Moreover, the EU has now decided to mobilise all countries and regions in the effort to contribute to the Europe 2020 strategy. It implies both growth-enhancing investments by the ESI funds and strong EU oversight of the relevant policies in all countries.

### 2.3. Inter-Jurisdictional Fiscal Equalization

The EU has entered the stage of the Economic and Monetary Union. Already in the early writings about the creation of a European EMU the question was asked what form of redistributive scheme would be most adequate to deliver simultaneously macro-stability and spatial and social equity<sup>9</sup>. One of the responses to that question has been fiscal equalization.

The aim of fiscal equalization is to provide citizens of poor regions with similar public services at a tax burden that is broadly similar to other regions. It can be done in many forms. Most systems use specific purpose grants to sub-central governments to pay for the provision of specific services<sup>10</sup>.

The system would have the advantage of free financing capacity with local governments of the less developed areas that can be devoted to productive public investments. Moreover, it has the advantage to maintain in less favoured areas a minimum of services and spending capacity. However, it has also a major disadvantage: the system is not easy to use in terms of the factors that determine competitiveness of the productive system.

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<sup>9</sup> See in this respect the famous reports by MacDougall (1977) and Delors (1989). See also the various contributions to EC (1990) and EC (1993).

<sup>10</sup> In most countries the differences between regions are relatively limited and it means that with a level of some 4% of GDP or some 8% of government revenue most of such interregional differences can be offset. Moreover such interregional flows of public money have indirect effects; in many cases they were found to have reduced inter-regional per capita income differentials by 25 to 50%. See for further details Bloechliger and Charbit (2008) and Rodden (2009).

As the balance between advantages and disadvantages is rather uncertain, it is not likely that this option will be adopted by the EU. Moreover, the lack of solidarity between EU Member States precludes any tax claims for a common financing of the provision of identical service levels all over the EU<sup>11</sup>.

## 2.4. Further Horizons (Fiscal Federalism)

At present, the EU does have a very limited own fiscal capacity (customs duties). On its way to a full union, taxes with a European dimension will be centralised. One candidate is carbon tax, as combating climate change transcends the national level. Another candidate is corporate tax, as the present differentiated national systems create many distortions. In a change-over to such a system of EU taxation capacity one would abandon the present system of national contributions that are largely proportional to Gross Domestic Product.

On the spending side, it is mainly the EU's responsibility for stabilisation that would lead to some changes. One might think of the creation on the EU level of systems dealing with asymmetric shocks and with the inherent imbalances in the financial sector<sup>12</sup>. For the equity function, a system change is not directly needed; indeed the present EU cohesion system of dealing with equity measures, together with concern for many other aspects of balanced growth, may in first instance be maintained. However, in a somewhat more far-reaching perspective, one could also think of a European social security system<sup>13</sup>.

The economic advantages and disadvantages of various forms of fiscal redistribution systems are complicated and depend very much on the level of development and institutional arrangements of a country or federation. The main advantage is in enhanced stabilisation that permits economies to smoothly adjust to economic shocks. The main disadvantage is distorted allocation due to increased taxation and moral hazard. The measurement of both the positive and the negative element is difficult (Checherita et al. 2009).

The political feasibility of a system change depends on many factors. On the positive side one can mention the fact that a system of own resources for the EU

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<sup>11</sup> The economic crisis and the rescue packages that have been put in place for many Southern European countries have put a very heavy strain on intra-European solidarity; only under the considerable threat of a breakdown of the euro have governments been able to mobilize sufficient support (e.g. Fernando and Rubio, 2012).

<sup>12</sup> A large number of proposals have been made in the framework of the completion of the Genuine Economic and Monetary Union. See for instance: Belke (2013), Colignon (2012) and Allard et al (2013).

<sup>13</sup> Such systems are indeed very effective; in a sample of EU countries they reduced interpersonal income inequality on average by one third and deprivation and poverty by one half (OECD 2008).

would do away with the poisonous debates about the justification of the relative size of national contributions to the EU budget. On the negative side, however, much stronger political arguments prevail. The main one is the limits to international solidarity. Indeed, many surveys have recurrently shown that a vast majority of the European citizens prefer to stick to national solutions<sup>14</sup>.

## **Stage 3. Specifying Objectives and Matching These With Instruments**

### **3.1. Further Development of the Toolkit**

The integration of cohesion and other balanced growth policies requires the coordinated input of a number of instruments. These have evolved over time both in their variety and in the intensity with which they have been deployed. The fundamentals of the policy, such as reliance on the financial method (specific purpose grants), supported by strict regulation (including partnership, programming and evaluation) and coordination (both horizontal and vertical) have shown their adequacy in the past decades.

We recall that during the 2013 review a set of adaptations was made. They have put a stronger emphasis on 1) the concentration of efforts on a limited number of EU strategic objectives, 2) increased commitments on realising the proposed results entailing enhanced checks on performance, 3) stronger and more adequate instruments, such as stricter forms of regulation (e.g. on conditionality), and 4) a place-based approach that makes the best of the regional potential in view of a strategic specialisation. These changes are meant to better match the objectives with the means. They have to give proof of their effectiveness in the present programming period.

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<sup>14</sup> Both tax and expenditure systems are the result of complicated arbitrages between different segments of the national society. They are very resistant to fundamental change, which makes even a European harmonization of key features difficult. For these reasons the EU is unlikely to embrace ideas for a European Social Security System or a European Unemployment Insurance Scheme. See e.g. van Vliet (2010), Graziano et al (2011), Hemerijck (2012), Kammer et al (2012) and Clays et al (2014).

### 3.2. Financial Support

From the assessments of the alternative scenarios for the future (see section 1.) no strong arguments emerge to change either the total level of cohesion and growth-related expenditure or the distribution of the budget to counter newly emerging problems.

However, a major change could be necessary in case the more developed Member States take care of their internal cohesion and structural growth problems themselves and EU money is only available to support the convergence of the less developed Member States (see section 2.2)<sup>15</sup>.

At the moment, the main instrument is the specific purpose grant. Some factors drive towards a shift in the choice of instruments. The main factor is the increased focus on efficiency in the delivery of the policy. Another factor is the pressure on available funds. So we may assume an increased role for new financial instruments, in particular the use of loans from revolving funds. This tendency might become particularly relevant in a split system (as discussed in section 2.2), as the more developed Member States might make use of a loan facility, while the less developed Member States would continue to benefit from grants.

### 3.3. Regulation

Regulatory instruments forbid certain actions of private and public actors that may have a negative effect on growth and cohesion or prescribe other actions that may enhance growth and cohesion. Over the past programming periods the EU regulation in matters of cohesion and growth has become very encompassing, detailed, complex and rigid. It has been the price to pay for meeting the challenges of consistency, effectiveness and accountability. For the future we envisage two scenarios.

In the first scenario we see a continuation of the trend towards stricter and more encompassing regulation. The forces that tend to step up complexity refer mainly to extended conditionality. This can be in the economic field<sup>16</sup>, but also in the

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<sup>15</sup> See again Begg (2009) for a more elaborate treatment of the subject; See EC (2011) that explains how these policy choices have been confirmed in the latest review of the cohesion policy.

<sup>16</sup> In the economic field the present conditionality applies to the public budget deficit criterion of the Stability and Growth Pact. However there is evidence that its application to the debt situation would be justified as well. Indeed, empirical evidence shows that above a certain debt level (60–80%) growth tends to become negatively affected. See for evidence for the EU: Baum et al (2013) and Checherita-Westphal and Rother (2012). This is corroborated by evidence for the OECD and world levels; see Afonso and Jalles (2013).

social field<sup>17</sup>. This leads to increased strictness of the present surveillance model. In order to stay effective, the EU will have to regulate ever more segments of national policymaking and frame in ever more detail the actions of Member States.

In the second scenario some dominant tendencies force the pendulum to go back, and this involves a decrease in the strictness and complexity of regulation. Lack of acceptance of the constraints (and perceived inroads into national sovereignty) is building up in the public sector. Potential beneficiaries (both in the public and private sector) increasingly fail to react to financial stimuli. For one, because there are too many strings attached with respect to the use of the money. For another, because they entail high cost in complying with rules about application, management and justification.

### 3.4. Coordination

Coordination is the third instrument to improve the effectiveness and consistency of policymaking. In a similar way as for regulation, one may envisage two scenarios for the future development of the use of the tool of coordination: “more” and “less”.

In the first scenario, one sees a continuation of the past tendency of an increase in regulation-based coordination mechanisms in order to increase effectiveness in a range of policy domains. One may thus assume the system to produce progressively more detailed policy prescriptions resulting from the coordination of issues such as the tax system, the entitlements to social security, the priorities of the infrastructure investments, the reform of labour markets, etc<sup>18</sup>.

In the second scenario, Member States stem the forces that push towards European intrusion in many of their policy domains. In cases where the stability of the system is at stake this would happen because Member States would respect the main criteria that the EU has set for its most important policies (for instance on macro-economic stability and budget equilibrium). In other cases (where the EU does not have the capacity to deliver due to limitations in its toolkit) such a scenario could develop by a limitation of the ambitions formulated at the EU level.

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<sup>17</sup> In the social sector the lack of results in the fight against unemployment and poverty has led to pleas for strengthening the commitment to targets of both the EU and the Member States by using more detailed regulation coupled with conditionality. They imply the application of the carrot and stick approach of the macro-economic conditionality mechanism to the realization of social policy targets by Member States. These come notably from the European Trade union Congress (<http://www.etuc.org/documents/etuc-resolution-towards-mid-term-evaluation-europe-2020-strategy>).

<sup>18</sup> The increasingly dense coordination networks cover not only cohesion and growth policies but also other policies, such as macro-economics, etc. See Molle (2011a).



## **Stage 4. Implementing Actions and Delivering Results**

### **4.1. Complexity Required for Accountability**

Over the years the EU has identified a number of requirements for a good delivery system to be operated by the Member States. They have been translated into basic principles, general rules, institutional structures and detailed administrative procedures. Member States and regional authorities have to respect these constraints while delivering the integrated cohesion and growth policy.

Quite a few actors have difficulties to comply for a variety of reasons. Some have difficulties in producing sufficiently good projects. Others have problems in justifying the expenses made. All complain about excessive complexity. The present setup entails high cost. First a loss of efficiency as programming, monitoring, evaluation and auditing are all fairly voracious in terms of human resources. Second, a loss of effectiveness, as countries that cannot live up to the EU demands underutilise resources, miss opportunities for growth and hence slow down the pace of convergence and the pace of overall growth of the EU.

Yet the EU wants to maintain the essentials of this system. The main reason is that the European Commission is accountable to the European taxpayers who want to be sure that the substantial amounts of money that it transfers via the ESI funds are well spent. The elaborate EU system regulating the access to and the spending of EU money is needed to prevent problems. The EU has tried to limit the loss of efficiency by simplification measures and the loss of effectiveness by support to capacity building.

Mind that the EU delivery system has also had some side benefits: it has improved the practices of quite some Member States (both old and new) in matters of policy design, programming, implementation and control.

### **4.2. Improving Quality Government**

Successful integrated policymaking is critically dependent on the quality of the national and regional administrations. Many Member States of the EU are confronted with quite a persistent and endemic lack of quality governance. We give some figures that describe the development for the large regions in Table 2.

**Table 2. Governance Quality (Index) by Region (1996–2020)**

GEO	1996	2004	2012	2020
Northern Europe	66	67	64	65
Southern Europe	40	38	26	31
Eastern Europe	15	18	21	24
European Union	49	50	45	<i>n.a.</i>

Source: *World Governance Indicators* 1996–2012.

The table shows that the scores of the northern group are high and relatively stable over time. The southern groups' moderate performance has significantly deteriorated over time (heavily influenced by the figures for Italy). The eastern group as a whole has caught up by adapting institutions and government practices to modern EU standards<sup>19</sup>.

We have made some estimates for 2020 (see right hand part of Table 2). One sees that the convergence countries (grouped together in the southern and eastern regions) are likely to suffer even in 2020 from very big problems as to the quality of their governance. On the contrary, the countries of the North are likely to perform on average rather well on this score<sup>20</sup>.

The EU will, in the period beyond 2020, face the considerable challenge to reinforce very significantly the institutional and administrative capacity of the major beneficiaries of the policy. As quality government is an important condition for balanced growth, the EU will have to step up considerably its efforts in the matters of enhancement of government quality (both on the national and regional level) and to modulate them in proportion to the gravity of the problem.

<sup>19</sup> The low initial figures of the East can be explained by the considerable difficulties of transition of these countries. Although the development is positive there is nevertheless a reason for concern given the long time period needed to come to improvement on one hand and the possibility of a reverse development on the other (Verheijen 2007).

<sup>20</sup> In some countries the improvement of the quality of the government has been recognised as a prerequisite for overcoming the effects of the crisis and regaining competitiveness. The EU is somewhat reluctant to play a very active role in this matter. However, the OECD makes regular Public Governance Reviews of its member countries and gives guidance for reform. The OECD has made a series of concrete recommendations concerning the capacity of the Polish public sector to set, steer, operationalise, monitor and evaluate strategies (OECD 2013). The OECD (2014) has suggested to Spain (that has adopted an ambitious programme for government reform) not to limit itself to a one off reform but to work in a systematic and programmed way on a continuous improvement of its governance.

### **4.3. Some Further Horizons**

The discussion in the two previous sections is based on the continuation of the basic setup of the delivery system. If one assumes (as suggested in sections 2.2 and 2.3) other systemic set-ups, the picture becomes different. For instance, if the areal coverage of the present setup was limited to the areas that are most in need and if the choice of instruments was shifted from grants to loans, a much less elaborate system of delivery (programming, monitoring and evaluation) would suffice.

It would slim the involvement of many actors. It could limit the involvement of the EU to a bankers' role. European loans would be provided to projects that are likely to contribute to the realisation of the major policy objectives of the EU. Preferential interest rates could be modulated according to the development level of the area in question. Public authorities (such as local authorities, national ministries) would integrate the management of these loans in their regular budgetary and administrative procedures. Private firms would have simplified access to finance, e.g. through financing vehicles such as revolving funds. The role and cost of intermediate organizations (such as lobbyists, chambers of commerce, advisors, etc.) would be severely limited. At the moment they are involved in all stages of the process in order to support the initiation of projects, the linking of beneficiaries, etc. In many countries they have developed into an increasingly thick layer of aid-dependent organizations that operate during decades without any proof of a positive effect on sustainable development.

The realisation of this shift seems unlikely in the foreseeable future for many political reasons. However, a gradual shift in this direction would be feasible and would add to efficiency.

## **Stage 5. Checking Effectiveness and Consistency**

### **5.1. A Reasonably Effective European Union Policy**

The EU systematically evaluates whether its efforts have brought it closer to its targets. These evaluations have to serve two main goals. First, accountability; they have to provide evidence to all stakeholders that money was well spent. Second, learning; evaluation has to contribute to improving various parts of the policy cycle due to which future programmes and projects will be better geared to the stated goals.

In broad outline, the EU evaluation system has served these goals; it is adjusted to the systemic aspects of the whole policy system. Its results have formed the basis for a regular recast of the policy. By and large, the policy has indeed helped to bring the EU closer to its main objectives, but on each objective much remains to be done. However, a particularly difficult problem remains; the lack of development of some regions in the South of Europe, notwithstanding decades of EU support.

The past experience has also revealed a big dilemma. Successful integrated policymaking is critically dependent on the quality of the national and regional administrations. The convergence countries (that are the largest beneficiaries because they have the biggest gaps in income) tend to show big problems as to the quality of their governance and their macro-economic conditions. The competitiveness countries, on the contrary, perform on average rather well on these scores. So it seems that the chances for successful support are highest for those who least need it, while those who most need support cannot turn it into success.

## 5.2. Consequences for Lack of Effectiveness; Cohesion

Convergence countries by themselves are not able to overcome their intricate problems. Important deficiencies limit their receptiveness and their absorption capacity. So, the mere stepping up of aid to these countries is not a good option, as this extra input has no effect as long as the deficiencies persist. Then, what means can the EU deploy to improve the situation without making serious inroads into national sovereignty?

One way is to impose strict conditionality with respect to quality governance and thereby force a change in political and administrative culture. It would involve the introduction of a conditionality check on quality governance before funds are committed, coupled with compulsory participation in a considerably stepped up participation in programmes financed by the ESI funds to improve the quality of government in convergence countries. The problem with this solution is, however, that “conditionality” works best when the beneficiary of the funds accepts it as necessary; in other words, when it is not imposed but “owned”. Therefore, incentives are likely to be a better alternative<sup>21</sup>.

Another way would be to push the consequences of the claim for sovereignty to its extreme by limiting aid to a certain package for a certain period. It would do away with the unsatisfactory situation in which regions (such as Southern Italy) that have been beneficiaries of very high amounts of aid (both from their own country and from the

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<sup>21</sup> Mind that the option of conditionality has been proposed for the present programming period but finally not adopted on the argument that piling up conditions would make the whole instrument ineffective. See for instance Molle (2011b).

EU) for a very long period (more than half a century) show little or no signs of structural improvements. On the contrary, they seem to have become addicted to aid and seem to have developed a thick layer of costly semi-public intermediaries that suffocate potential growth instead of stimulating it. Under a “defined benefit period” system such lack of effectiveness (and hence the persistence of problems) would no longer be a reason for continuing aid. This notwithstanding the loss of efficiency and equity that such a decision may entail<sup>22</sup>.

### 5.3. Consequences for Lack of Effectiveness. Balanced Growth

Balanced growth is the other main challenge of the policy. In the past the EU and its Member States were able to steer their efforts towards the objectives of smart, sustainable and inclusive growth and on many scores progress has been made. However, there are blatant mismatches between objectives and results; in particular in matters of (un)employment. Indeed, on this issue the various EU and national policy tools have hardly been effective<sup>23</sup>.

The question is in how far the same recipe as we envisaged for lack of cohesion should be applied here. In this case: to abandon the EU ambition in order to realise impossible social targets and envisage to stop the EU financing of projects that can only marginally improve the unemployment and exclusion situation as long as economic growth does not pick up. The argument for continued EU involvement in social equity issues is that the EU needs support for its growth-enhancing policies. Such popular support is at risk in case the EU is perceived by the wider public as an organisation that is only dealing with economics in a neo-liberal fashion without caring for the needs of the ordinary citizens. However, as practically all the instruments for realising the social dimension of the EU are in the hands of the Member States, the EU has no capacity to come up to unrealistic expectations. Assuming that politicians will want the EU to stay involved, the EU can only act on the expectation side by making sure that the ambitions set for the EU correspond to its capacity to influence the national socio-economic systems.

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<sup>22</sup> Such a system can be made operational. For instance Spain operated in the 1970s and 1980s a system of support to growth poles that successfully phased out aid to a specific growth pole after an agreed support period. There are reasons to doubt the steadiness of the political decision makers to implement such a system in the EU context. Indeed, in matters of international development aid lack of success has seldom been sanctioned by a stop on aid flows. The arguments have always been that such a stop would lead to a decrease in the economic base, to social unrest and possibly to a downward spiral of political chaos, crime and misery. Such arguments may also have their relevance in the EU context.

<sup>23</sup> See for instance Copeland and ter Haar (2013).

## Conclusion

The EU is confronted with very persistent cohesion problems. We have assessed the likely evolution of the problems in the present decade to obtain a picture of the challenges the cohesion and growth policy has to face in the period between 2020 and 2030. We have then discussed the alternative policy options the EU has in order to face these challenges; we have detailed these by stage in the policy cycle. We have found that mainly for political economy reasons it is unlikely that such alternatives that lead to a fundamental system change will be adopted. However, we show the feasibility of a number of less drastic changes.

The analysis has stressed a big dilemma. The convergence countries (that are the largest beneficiaries) cope with big problems as to the quality of their governance and are likely to still suffer from this problem around 2020. On the contrary, the competitiveness countries perform on average rather well on this score. So it seems that the chances for success are highest for those who least need the EU support, while those who need the EU support most cannot realise their success. We therefore suggest to introduce a check on quality governance before funds are committed, coupled with a considerably stepped up effort by the ESI funds to support schemes that improve quality government in convergence countries.

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*Ioan Horga\**

## **THE STATE AS THE MOST IMPORTANT PARTNER OF THE EUROPEAN UNION IN THE FIELD OF REGIONAL POLICY IN CENTRAL AND EASTERN EUROPE**

### **Abstract**

*During the accession process and after they became members of the European Union, in the Central and Eastern Europe, the states have an important role in the process of decentralization at the local and the regional level. Although the process had not been complete, in the context of the financial crisis, these states started to develop a recentralization process that decreased the competences of local and regional authorities. The present article argues that, undeniably, in the field of regional policy, the states from Central and Eastern Europe represent the most important partners of the European Commission in implementing the regional policy. However, there is a number of different issues resulting from the particularity of each state from this region.*

**Keywords:** Regional Policy, European Union, MERCOSUR, Latin America, Cross-border Cooperation

### **Introduction**

Following, in general, the processes of association and accession, as well as the steps towards integration of Central and Eastern European states during the past 25 years of structural changes in the region, the authors' papers emphasize the fact that, from the point of view of the report between the nation-state with the supranational structure represented by the EU, "the state remains at the epicentre of the economic activity" (Koktsidis, Katsikides, 2015). If we regard these statements from the perspective of regional policy, we can claim that the state has represented and will continue to represent a solid partner of the EU in all dimensions of regional policy, even if there is a declared common interest of the two structures, but certain nuances can be

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noticed in the intentions. In fact, the states are also parts of the same European federal construction (Bărbulescu 2015: 421).

The present article argues that undeniably, in the field of regional policy, the states from Central and Eastern Europe represent the most important partners of the European Commission in implementing the regional policy, as one of the aspects of Europeanization before and after the enlargement. However, there is a number of different issues resulting from the particularity of each state from this region. The regular evaluation and monitoring of progress analysis for the countries from Central Eastern Europe highlights the role of the state in the regional developments that took place at the level of administration and public management system (Iancu 2010: 126–127).

In the current analysis, we will start from three theoretical perspectives, which will help us understand the general relation between the nation-states and the supranational framework (EU structure).

Firstly, we will regard Pollitt's and Bouckaert's five different reform models on the administration and management of public systems. Choosing one of these models has tremendous practical implications for the content of the reform programme, for the choice of reform projects, but also for the sequence and timing of the reform portfolio. It also requires different tactical choices to be made. One of the issues that can arise here is the number of the degrees of freedom which can be distinguished while reforming the public sector (Pollitt, Bouckaert 2004).

The first proposed model has a scope of reform which is limited to single organizations within the public sector. In this sense, the "public management is a merger of the normative orientation of traditional public administration and the instrumental orientation of general management" (Perry, Kraemer 1983: X) In practice, this means that private-sector management techniques are imported into the public sector (Pollitt, Bouckaert 2004: 97).

The second model has a broader scope of reform, which looks beyond single organisations to clusters of public sector organisations. In order to have good delivery service and policy implementation, the issue of relationships (e.g. hierarchies of organisations) has to be addressed. This requires a vision of the architecture and the mapping of the public sector (Ibidem).

The third model includes the interface of the public sector and the civil society. This interface also needs to be reformed, which in some cases requires civil society to be (re)built. This requires the recognition of the civil society as a partner in reform. Therefore, platforms for exchange, transparent discussions and contradictory debates are necessary to reform the public sector in a sustainable, legitimate, and transparent way (Ibidem).

The fourth model goes beyond the infrastructural level and includes the supra-structure that is also involved in the reform process. The scope of this reform includes the realm of ideas and ideologies, culture and values within a society. Reforming the public sector includes not just its infrastructure (organisations and their interactions within the public sector and its civil society) but also its supra-structure. Although this does not mean that identities of communities or nations need to change, it does imply that practices are based on the belief in the systems containing norms and values, cultures and ideas (Bouckaert 2007).

The fifth model goes beyond the fourth one and includes all elements of the system. This requires a reform strategy which includes the major steering mechanisms in society, depending on the state structure itself. Market mechanisms are obvious within the private sector. Budget mechanisms are clear within the public sector. In a mixed economy, you also may have consensual allocation of resources amongst non-profit organisations. It also affects the allocation mechanisms within the public sector using hierarchies (budgetary top-down distribution with e.g. envelopes), markets (market type mechanisms such as vouchers or competitive tendering) or networks (consensual distribution) (Bouckaert 2009: 98).

Looking to see which of the five aforementioned models had been implemented in the public administration reform and management from Central and Eastern Europe states, we started our analysis from Bouckaert's finding that the public administration and public management system in this region present themselves with chosen mixed models of 'public-sector reform and these choices have changed over time' (Bouckaert 2009: 98).

Secondly, we will look at the relation between the nation-states in the CEE region and the supranational framework of Europe from the point of view of Europeanization, which "deals with the relationship with European Integration" (Gora, Zielinska 2011a: 14) and the different changes introduced due to European integration, according to Johan P. Olson (2002: 921–952).

Olson distinguishes between five research perspectives necessary for the analysis of Europeanization. The first step looks at the broadening of frontiers within which the EU policies can work. The second step regards the development of the European institutions which will acquire competences in order to influence the national level directly. The third step refers to the adaptation of the national governance system for "European Political centre and European wide-norms" (Gora, Zielinska 2011a: 924) by creating a specific system of multilevel governance (MLG) (Gora, Zielinska 2011a: 14). The fourth step refers to the export of governance forms created at the European level to the entire continent. Lastly, the final step implies the unification of policies, thus creating a new type of policy in the EU space (Olson 2002: 924). "The stronger

results and an important contribution to research come from the area covered by the supranational Community method in governance. Less strict is the open method of coordination, as well as intergovernmental procedures such as in the area of common foreign policy” (Gora, Zielinska 2011a: 15). Considering this assertion, it can be stated that, consequently, regional policy has certain differences in relation to the other policies, related to the means in which it is accomplished and through which the EU and the Member States define it.

Thirdly, we will look into the research that has been conducted on the Europeanization phenomenon in Central and Eastern Europe (Gora, Zielinska 2011b). The Europeanization process in CEE was studied by authors directly connected to Eastern Enlargement. The transition from authoritarian societies and centralized economies to democratic societies and liberal economies that has taken place in the past 25 years in CEE was accomplished with a double impact. On the one side, this refers to globalization, which has been felt here from 1985-1986, with a boom after 1990. On the other hand, it refers to Europeanization, which started along with the association of the CEE states to the EU (1994–1996), as a form of globalization in general and, in particular, as an expression of the regional integration of the European continent within the process of globalization (Şoproni, Horga 2015).

Following the process of Europeanization within CEE, Frank Schimmelfenning and Ulrich Sedelmeier consider that the EU has played the role of initiator/facilitating agent for the changes, while CEE actors are responsible for inducing the changes. Depending on these two dimensions, they propose three models of explaining this process during the EU enlargement process (Schimmelfenning, Sedelmeier 2005: 10).

The external incentive model stresses the centrality of the role of the EU (Gora, Zielinska 2011: 17) in the framing of changes that have taken place in the CEE states. This process started along with the adoption of the Copenhagen criteria, with the signing of the association treaties and the beginning of the association process. The main mechanism of the process of Europeanization in the context of the enlargement process is the policy of conditionality developed by the EU to assist the candidate countries (Ibidem:18). The efficiency of conditionality depends on many variables, among others the level of domestic political cost or credibility of the promises given to the candidate countries (Schimmelfenning, Sedelmeier 2005: 10).

The second model of Schimmelfenning and Sedelmeier involves social learning and it is perceived as a community of values in which candidate countries want to join and want to adapt the norms and rules because they perceive them as good (Ibidem: 18; Gora, Zielinska 2011: 19).

The third model reconciles the rational perspective of the first model with the constructivist perspective of the second model.

Finally, the last lesson-driving model relies on the observation that a significant part of the changes in the candidate countries happened without compulsory or coercive means (Gora, Zielinska 2011: 19).

Based on this theoretical foundation we will take an in-depth look at three manifestations of the EU – nation-state relations in regional policy: integrated top-down policies of regionalisation and decentralisation; recentralization as the bottom-up initiative of the states; re-adjustments between the top-down policies and the bottom-up initiatives. Given the limited capacity of this paper, we will follow these three manifestations by means of regional construction and functioning and of local public authorities, as well as the way in which these are perceived: the legal recognition of rights and obligations of regional and local administrative authorities that are necessary in order to manage the interests of the represented communities; the existing transfer of powers, responsibilities and resources from central to local and regional administrative authorities (Iancu 2010: 127).

## **1. Integrated Top – Down Policies**

The regional policy design is the result of the process of multi-level decision-making between supra-national, national and sub-national actors (Molle 2015). The implementation of this policy in Central and Eastern Europe varies greatly (Palermo, Parolari 2013). In some countries, like Poland and the Czech Republic, decentralized power creates strong and independent regional governments. Others, like Romania, Hungary or Bulgaria, only delegate administrative responsibilities to regional offices, failing to devolve power and create regional governments. The cause of this variation lies in the actors' diffused role in decision-making on regional policies (Uniță 2011: 66). To understand the meaning of regionalisation within the new Member States, we should take into account a number of economic and structural factors, namely the changes in productive systems, accelerated market integration on sector bases, as well as the increasing competition between different economic areas after the abolition of most barriers regarding the circulation of goods and capitals (Tatur 2004: 15).

The principle of local autonomy and decentralization, generally sketched with direct reference to regional policy, multilevel governance and efficient allocation of structural

funds (Loughlin, Hendriks, Lidstrom 2011), is considered to be an appropriate presence regarding the reforms from the EU Member States and candidate countries<sup>1</sup>.

As mentioned before, the first steps of departure from the centralized administration model, inherited from the communist period, was done differently from country to country in Central and Eastern Europe (Kruglashov 2013: 8–34). The tendency towards maintaining some degree of centralism or even towards certain recentralization can be observed in the region throughout the 25 year-long period of transition. According to Enlander (1995) during the early transition period, there were mainly four causes which stemmed from the specific situations of the countries in transition: a) the need of the central government to maintain control of the economic and political development within the still volatile post-communist transformation; b) the need to control the distribution of scarce resources during a transformational recession or outright crisis; c) the need to control the economic and social differences between territorial units, so as to prevent the marginalization of some regions which could result in social and political tensions that would endanger the new regime; and d) the need to formulate policies aimed at maintaining national integration in a general atmosphere of societal fragmentation, resulting from the transformation processes (Illner 1997: 23–45). Looking at the four aforementioned factors throughout the 25 years of transition period, we can notice that regarding the first factor, on the spur of the Europeanization process, the tendency towards maintaining some degree of centralism has been limited, while the other factors continued to influence the decentralization process as part of the EU accession process. They even intensified during the economic crisis, particularly after 2007.

If we analyze each country, we can notice that decentralization addressed by national governments in Central and Eastern Europe, at least at the level of discourse, after the events of 1989–1990, the introduction of *local autonomy and decentralization* was done after signing the Association Agreements with the EU and with financial assistance from the EU. The topic of the impact of Europeanization on the introduction of local autonomy and decentralization in Central and Eastern Europe is seen by scholars as a top-down action (Keating, Hughes, 2003) which translates to some as an external pressure (Bouckaert 2009: 96) or for others as part of the imposed conditionalities (Keating, Hughes 2003)<sup>2</sup>.

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<sup>1</sup> The European Parliament resolution on Agenda 2000 and Council Regulation no. 1659/98 on decentralized cooperation, as last amended by Council Regulation no. 625/2004/189, as amended and supplemented.

<sup>2</sup> These conditionalities were rather unclear due to the lack of a regionalization model that the EU would promote (See: Hughes, Sasse, Gordon 2004: 69–88).

Out of the large number of countries in the 2004 accession wave, with a strong assistance from PHARE, Hungary was the first to create the NUTS regions in 1994. Still a candidate, Romania adopted the necessary legislation only in 1998. Hughes underlines that as Hungary never had regions and never considered it needed them, regionalization was a great challenge. The same was perceived by Romanian politicians. It was felt that the pressure to adopt the *acquis comunitaire* implied regionalization following the NUTS classification (Hughes, Sasse, Gordon 2003: 75). This implicit pressure was mainly felt through the comments of the Country Regular Reports. These reports can moreover be considered guiding documents as to what results are expected from the regionalization process. The repeated criticism of the administration's insufficient capacity in implementing regional policy can be understood as insufficient decentralization or weak regional administrative capacity. For instance, in its 1998 report, the European Commission emphasized the national progress in the public administration reforms from the Czech Republic and listed among the successful actions the creation of regions and among failures, the lack of authorities' interest to sign the European Charter of Local Self-Government (European Commission 1998... *Czech Republik*: 8).

The 1998 report emphasizes that Hungary needed to implement the objective and the principle of partnership and to reinforce the administrative and institutional capacity (European Commission 1998... *Hungary*: 32). Although it received substantial assistance through the PHARE program in paving the way to the implementation of a regional policy, the seven established regions had limited success. In 2001, the European Commission emphasized the fact that the transfer of local responsibilities should be sustained by a proportional allocation of resources (European Commission 2001... *Hungary*: 16). The reports from 2002 and 2003 emphasized the positive evolution of decentralization as a more transparent and efficient way (European Commission 2002... *Hungary*: 21; European Commission 2003... *Hungary*: 12).

In the case of Bulgaria in the Commission's 2004 report, there is a specified need to clarify the powers/competences and budgets of central and local administrations (European Commission 2004... *Bulgaria*: 16). Similar comments were subsequently offered by the Country Reports from 2005 and 2006 (European Commission 2005... *Bulgaria*: 7–8; European Commission 2006... *Bulgaria*: 6).

In the case of Poland, in 1999 the European Commission considered the regionalisation as a success (European Commission (2000) 1999... *Poland*). Poland is considered to be the only country among the new Member States where there is clear correlation between NUTS II and the meso-level of government (Yoder 2003: 263–286). Apparently the reformed framework of regional policy from Poland seemed to largely reflect the idea of decentralisation, subsidiarity and partnership. In fact, by

means of regional contracts, sub-national self governments through the marshals (democratically-elected voivodships' representative bodies) have been enabled to participate in the process of decision-making in all issues concerning regional development (Glowacki 2002: 105–137).

Regarding Romania, the Commission Report from 2003, taking into consideration the decentralized process, that there is a considerable lack of transparency in the financial transfer to the local county level, believes there is a threat to the very existence of local autonomy (European Commission 2003... *Romania*: 17). The same document highlighted that the current legal framework was unclear, Romania lacking a strategy for managing the process of decentralization in a transparent and stable way (Ibidem).

In 2004, the Commission reiterated Romania's still unsolved problem of the transfer of responsibilities to the local level, showing that they were not accompanied by adequate financial transfers. Decentralization and the need to clarify the allocation of responsibilities and the financial resources to the various levels of government remain points of interest, and in 2005 the Commission emphasized that „the transfer of powers to local authorities is far from completion” and local financial autonomy “is still limited” (European Commission 2005... *Romania*: 8, 25).

Analysing these examples we can notice that the impulse for procedural regionalization and decentralization reached all countries from Central and Eastern Europe, at least in procedural terms. Firstly, intermediate levels were created between central government and administrative structures. But even here there are many issues to be raised, given the fact that the map of the regions is not correlated with the upper structures of the sub-national levels of government. Except for Poland, there is no correlation between the two territorial divisions<sup>3</sup> regarding the other countries. Secondly, in all these countries legislative packets were given in order to pave the way towards decentralization, stressing the reforms in Poland, Hungary and the Czech Republic.

Speaking from the perspective of *functional regionalization and decentralization*, the reports of the European Commission show that until the moment of accession, no state demonstrated the normal functioning of the regional structures. However, there are notable differences. For instance, if we can say about Poland that, at the time of accession and in the following two years until the entry into the financial

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<sup>3</sup> Bulgaria had 6 NUTS II regions and 28 regions at the upper level of the sub-national government; the Czech Republic had 8 NUTS II regions and 14 regions at the upper level of the sub-national government; Hungary had recognised 7 NUTS II regions, but it had 41 regions at the upper levels of the sub-national government; Romania had 8 NUTS II regions and 42 (41+ Bucharest) regions at the upper level of the sub-national government; Slovakia has 4 NUTS II regions and 8 regions at the upper level of the sub-national government.



cycle from 2007 to 2013, it reached an optimal level of functional regionalization and decentralization, in the case of Bulgaria and Romania, the two countries registered “undeveloped regionalization and different decentralization” (Boullineau, Suciu 2008: 357). We cannot say that the two countries have reached a functional regionalization, as stated by Boullineau & Suciu, but we agree that it is the result of a technocratic reflection, which is necessary in order to facilitate the managements of the European funds (Boullineau, Suciu 2008: 357).

## **2. Recentralization as the Bottom-up Initiatives of the States**

Going through the previous chapter, we can say that the process of Europeanization of the new EU member states from Central and Eastern Europe, seen through the regionalization and decentralization process, was a linear and solid trend. It is well known that the internal changes in the integration process depend on several indicators, such as the size of the state, the political process and how the country's domestic policy requires adaptation; reforms, capacity of state; domestic political cost and finally discourse (Gora, Zielinska 2011: 18) There were many elements which suggested that this process rather regressed, if not stopped. Looking from a longer time perspective (two decades 1994–2004), our opinion leans towards a process in which one can distinguish two periods: a period of evolution towards decentralization, conducted in the framework of the EU accession (up in 2004–2007), followed by a period in which we can observe recentralization trends that become evident after 2007.

The process of “centralization” is analysed in our work through the following phenomena: unfinished or mimic decentralization; the Commission's ambiguities and vagueness in its own regionalist agenda and institutional adaptations; administrative restrictions that occurred during the economic crisis or the assertion of authoritarian trends regarding the assessment process of the development of regional policies and programs.

### **2.1. The Unfinished or Mimic Decentralization**

It has been observed that despite their intentions, the EU policies have not yet led to significant decentralization or the empowerment of regional actors in countries with highly centralised political systems (Marek, Baun 2002: 914).

It is accurate to say that the current territorial map of the majority of Central and Eastern European countries is the result of a compromise not easily reached after intensive and passionate political debates involving conflicting interests and a variety of pressures, the European Commission being just one of them (Kerlin 2001: 14–18). The new territorial organisation came into effect bringing about an unprecedented modernization of the Central and Eastern European countries in terms of institutional and administrative systems. Some states succeeded in accomplishing successful regionalization projects. It can be argued that political, historical and cultural conceptions of Poland's regional framework have had at least as much to do with the shaping of the regional map of Poland as the pursuit of goal and principles set by the Commission with its conditionality criteria. Other states also accomplished their tasks, but only after 2004, or achieved “the limited level of decentralization freeze” (the case of Hungary) (Pogatsa 2013: 147–174). Other states have reached rather a modest development stage. For instance, in Romania the establishment of these eight regions assumes also the development of new institutions. In terms of effectiveness, their functions are being questioned taking into consideration the loose connections with the local level, a fact that affects both the local and central authorities' ability to represent the needs and the interests of their citizens (Horga 2011a: 281–302; Matiuta 2013: 135–150). Additionally, we can legitimately raise the question of the inability to influence the national strategies regarding the regions as it was demonstrated over 2000–2006 and 2007–2013 (Horga, Ghimiş 2014).

The most recent report regarding Romania in what it concerns the local and regional democracy dates from March 2011. The study report highlights the positive dynamics in Romania's development, but still draws attention to the reforms that are needed due to the fact that there are no consultation mechanisms for the local authorities on the subjects of their concern, such as the financial and social aspects (Răducanu 2013: 48).

In 2013 in Romania there could be noticed a pro-regionalization movement, as well as a movement for decentralisation and preparation for the transformation of eight statistical regions into regional authorities that have their own rights. These new regions would benefit from a large-scale transfer of competences from the central state, from the counties (*judeţ*) and from the municipalities. The existence of these new regional entities may also trigger the restructuring of services and changes in the number of civil servants. It is also worth noting that the presidents of these new regions are proposed to be elected by direct vote (The Council of European Municipalities and Regions 2013). There is rather the perception that these agglomerations are nothing more than a form of recentralization as a masked result of the financial crisis effects. But looking from another perspective, in the case of Romania and other countries from

the region, the post-crisis effects can constitute an engine for the creation of functional regions, because the major plans to reduce costs and improve public administration efficiency may affect the traditional (county) organisation of the local and regional authorities in Romania in favour of regions.

The new regional authorities were given a wide range of competences and responsibilities for conducting regional development policies. When drawing up the reform the central governments have secured certain strategic dispositions allowing them to preserve a significant degree of control over regions. If the regional institutions theoretically have responsibilities in the field of programming regional economic development, their activities are subordinated to the control of a government-appointed entity. For instance, the *wojewoda* which represents the central government in Poland or *prefectul* in the case of Romania are designed to safeguard the state's interests not only by controlling the legality of the decisions that are taken by the elected regional authorities, but also by ascertaining that they are in line with the priorities defined at the national level. Also in Poland, the *powiat* has become largely dependent on the regional level, which is responsible for making the final decisions on the allocation of the EU structural funds (Bertrana, Heinelt 2013: 77). Moreover, what is even more important to note, being the representatives of the state treasury they also maintain financial control at the sub-national level.

The decentralisation of competences has not been followed by an adequate degree of financial decentralisation. The regions still remain to a large extent financially dependent on the central government, and this fact poses severe restrictions to regional authorities when elaborating their own strategies of local development, hence it contradicts their statutory functions. As a result the Ministries of Finance with the power to provide specific grants and subsidies to sub-national authorities exercise significant control over their functions in all Central Eastern European countries. The dominant position of the centre over the regions in terms of finance undermines the validity of the regional contract as a symbol of a new, regionalised approach to regional policymaking.

Another example is that the central government still clearly has the upper hand in fields like regional development, which has increasingly become a major element of European domestic policy. The latter should not be surprising, since the sub-national authorities are playing the leading role in the regional programming within the EU Cohesion policy framework.

In conclusion, the regionalization and decentralization processes from Central Eastern states have led towards three major evolutions. Firstly, the new sub-national governments have been granted with increasing competences for regional development in the majority of states. Secondly, within all countries we can notice a centralisation

of procedures; the lack of coordination between different levels, as a consequence of an unclear division of competences does represent a serious problem. Finally, there are severe constraints that block the efficient implementation of the EU's co-financed programmes, which, as widely known, require the complementary participation of authorities from all administrative levels.

If during the 2000–2006 financial cycle these developments affected more than the relationship between Central and Eastern European countries and Brussels due to the low volume of funds to which they had access, during the 2007–2013 financial cycle – in which the states of the region had access to over 70% of cohesion funding – contradictory developments in decentralization and local and regional autonomy determined the relationship between these states and Brussels that paradoxically will be translated through making regional policy without regions.

## **2.2. The Need for Central Administrative Structures to be Consolidated in Order to Develop a Solid Capacity for the Absorption of Community Funds<sup>4</sup>**

Having been conceived within a regional dimension, the EU cohesion policy brought for the first time into the EU vocabulary notions such as *partnership*, *subsidiarity* and *decentralisation*. These concepts have been cultivated by the European Commission since the first reform of Structural Funds on order to foster innovative strategies and to promote more decentralised approaches to take place in regional policy formulation and implementation.

Throughout the 90s, the “Europe of the Regions” vision was moving in parallel with the gradual integration of Central Eastern countries, which were encouraged to develop decentralised regional development policies according to the partnership principle, as well as to establish autonomous sub-national administrative bodies and possibly political authorities which would implement the Structural and Cohesion Funds programmes. However, as noted by a number of scholars, for various reasons, from the late 90s onwards, Commission's own regionalist agenda started to be affected by ambiguities, vagueness (Marek, Baun 2002: 895–919) and “presion adaptative” (Bafoil 2006; Schimmelfennig, Sedelmeier 2005: 256; Boulineau, Suciu 2008: 357). In particular, Commission has begun to stress a clear preference for the centralised management of the Community assistance (Ferry 2003: 1109–1111). Putting it differently, on the one hand, the Commission proved not to be willing to deal with centralised states in which regional levels are largely subordinated to the central

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<sup>4</sup> See Barnier 2001.

government, while, on the other hand, the adoption of the *acquis*, the implementation, the efficient use of pre-accession funding in light of a trustworthy management of Structural and Cohesion funds, seem to demand the strengthening of the upper level of government.

It might be upheld that such approach is the consequence of the fact that the European Commission does not have a regionalism model to propose. More specifically, with regard to the creation of the sub-national institutions that are essential for the administration of the regional aid funds, several ambiguities arise in terms of whether these should be governmental or purely administrative. Considering that there is no provision within the treaties, nor within the secondary legislation, it cannot be interpreted as stipulating a specific type of territorial organisation. It is not even legally entitled to take a position on this issue (Marcou 2002: 131–167).

An investigation of the implementation of the *partnership* principle within the Central and Eastern European countries' approach towards the implementation of the EU co-financed programmes leads to unclear conclusions. Undoubtedly, the introduction of EU decision-making practices has brought about positive adjustments with proliferation of partnerships as well as noticeable mobilisation of regional actors cultivating new relationships and establishing networks potentially advantageous for regional development. Nevertheless, regional self-governments, just like the central governments, seem to have taken advantage of the opportunity offered by the imprecision of the EU prescriptions to favour their own interests and given preference to the participation of certain actors from the private sector at the expense of representatives from the civil society. However, as long as the EU's regulations let the Member States decide whether, and if so to what extent, they implement the EU co-financed programmes in accordance with the *partnership* principle, any expectation to change the *status quo* will be nothing more than futile. Consequently, it should not be surprising if Central and Eastern European countries in general are regarded as the most disappointing EU Member States in terms of involvement of public and private sub-national actors in both the formulation and implementation of the EU Cohesion policy. Propensity to concentrate the management of the EU funds in the hands of few Ministries resulting from decades of administrative centralism and distrust of self-governments located at lower administrative levels. It can be argued that these tendencies have been even reinforced by the Commission's attitude towards sub-national authorities. In fact, the latter has always demonstrated to be reluctant in accepting programming at a regional level for the structural funds being afraid of the sub-national insufficient administrative capacity.

Regional authorities, in particular those belonging to the new Member States, articulated several concerns arguing that further decentralisation of the EU Regional

Policy might lead to nothing but to the re-nationalisation of the regional policy, since there were no binding rules at the EU level precluding central governments from monopolising the realisation of structural funds<sup>5</sup>. Having endowed the Member States with more responsibilities regarding the implementation of the EU Regional Policy without having provided the partnership principle with any significant enhancement and more generally without having granted the Commission with any meaningful power to have control over the Member States simply makes it impossible for both the Commission and sub-national authorities to challenge the hegemony of the state executive. Consequently, high concentrated management of the EU co-financed programmes at the upper institutional level at the expense of the role of sub-national authorities will be unavoidable. Even the Operational Programmes that are to be implemented at the regional level would remain an empty shell if regional or sub-national authorities remained embedded in centralised territorial organisation systems.

To sum up, undeniably the European Commission through its regional policy has been an important driving force regarding the process of territorial decentralisation in Central and Eastern European countries. However, this influence has generated different outcomes. There is little question about the fact that the imposition of the Cohesion policy framework has pushed the regional authorities to adjust their practices in what regards the management of the regional development policy. It is out of doubt that the position of sub-national authorities within the national institutional structure, if weighted against that existing during the communist system, has been largely reinforced. However, the ambiguity of the Commission's own regionalist agenda regarding the territorial and administrative reforms along with its reluctance to allow the regions to formulate and manage regional operational programmes, have given the central government the opportunity to impose solutions suiting its own interest and have made the re-centralisation of power much easier.

Therefore, we can say the EU Regional Policy model that was developed in order to manage the Structural Funds has provided incentives for the mobilisation of local and regional interests in Central and Eastern Europe. However, the strength and impact of empowerment depends on whether local or regional interest groups existed as organised political actors rooted in the regional communities or identities, and

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<sup>5</sup> Another signal of decentralization of implementation of EU Cohesion policy in favour of Member States is the inclusion of the Communitarian Initiatives (CIs) and Innovative Actions (IAs) into the Operational Programmes. In the previous three programming period the Commission used to reserve 10% of Cohesion policy's global allocation outside the priority objectives for the promotion of the sectoral action. It was widely recognised that the Commission enjoyed much more power over these specific actions than the various objectives.

whether they formed broader pro-regional advocacy coalitions with other political actors and participated in government (Brusis 2009: 70–89).

### **2.3. The Administrative Coercions Developed Within the Economic Crisis and Authoritarian Trends Frameworks**

The general movement of decentralisation initiated before the crisis has been jeopardised in some countries by the centralising tendencies of the state. Such reforms are now linked more to the goal of achieving greater economies amidst a climate of austerity and public expenditure cuts. They may also serve as means for the states to regain political control of the powers that were delegated to local and regional authorities (for example Hungary, where water distribution is now to be managed by a governmental agency) (The Council of European Municipalities and Regions 2014: 10).

This recentralisation trend can also occur by ways of a loss of competences for the smaller authorities in favour of the larger ones. In the Czech Republic it has been decreed that many services for citizens are only to be managed by the larger local authorities. Lastly, the law in Hungary requires municipalities to group their services together in order to be able to close the municipal offices of the smaller municipalities while maintaining their political and administrative existence – while there is no guarantee that a strict control over costs will be achieved by opting to proceed in this way. These efforts are also hazardous for local self-governments since they impose new regulations without any prior consultation. They also have weakened the ties of proximity established between the citizens and local authorities (Ibidem).

In Bulgaria, the government has imposed stricter rules for budget management and increased the dependence of the municipal and regional authorities' budgetary process on the financial ministry's by-laws. In addition to stricter budget controls, a law on public finance has reduced the level of indebtedness that the municipalities can attain to 15% of revenue (compared to 25%). The government also requested a 15% reduction in the number of local civil servants from each municipality. The financial transfers from the central level were frozen since 2009 (except the general equalising subsidy and the transfers for education) and generally have not been reviewed to take inflation into account (Ibidem: 24).

Among the reforms adopted in reaction to the economic financial crisis, the central government has reduced the share of public expenses at the municipal level. As a result of greatly reduced municipal revenues and practically frozen financial transfers to local authorities, the financial autonomy of local authorities in Bulgaria faces severe difficulties (Ibidem).

The public administration reforms drafted by the Czech Republic government in 2011–2012 have not been approved. The local government association strongly disagreed with the draft proposals and aimed to start further negotiations with the government on a new shape of the reforms. The reform, which should have been brought into force partially in 2014 and completely in 2016, calls for the re-concentration of certain delegated competences in favour of designated municipalities, of which there are 205 in the country out of a total of 249. These reforms will also have an impact on the organisation of certain municipal services, which will be merged together with those of several other municipalities. Programmes to improve public administration efficiency, led by these new larger municipalities, have also been set up (Ibidem: 27).

Even though the *European Charter of Local Self-Government* seems to be respected, the reforms resulting from the crisis, along with the austerity measures, may negatively impact the smallest municipalities. Local public services run the risk of becoming too distant from the citizens, which may raise a number of problems, particularly in the country's rural zones (Ibidem).

The government of Hungary has adopted a series of measures, mostly aimed at recentralising competences and keeping a closer watch over local activities. From 2010 onward, Hungary took a sharp U-turn toward recentralization. The radical shift of power in Hungary can be understood as a response to the failure of the neoliberal model of economic development (Pogatsa 2013: 147–174). The 175 old administrative districts representing the state, abolished in 1984 (*járás*), were re-established on 1<sup>st</sup> January 2013 and were charged with managing certain public services as well as carrying out administrative supervision of local authorities. At the same time, county councils were divested of some of their competences, for example the management of public institutions such as secondary schools, hospitals, social centres, cultural centres or museums [The Council of European Municipalities and Regions (CEMR) 2013: 36].

The report of the Congress of Local and Regional Authorities from 31<sup>st</sup> October 2013 expressed regret that the positive step was overshadowed by the recent reforms, which led to a deterioration of the legislative framework on local and regional issues. In particular the report underlined a deep concern about the overall trend towards recentralisation of competences and the low level of protection afforded, at the constitutional level, to the principle of local self-government. It also underlined the fact that the local authorities in Hungary remain strongly dependent on government grants, and that the consultation procedure needs reinforcement, bringing it in line with Charter provisions on timely and appropriate consultation practices (Report Congress... 2013: 1). The Congress of Local and Regional Authorities recommended notably that the Hungarian authorities take steps to guarantee the implementation



of the principle of self-government and the financial autonomy of local and regional authorities as set out in the Charter (Ibidem).

Political discussions are underway in Poland to envisage increasing local autonomy and flexibility of the organisation of some services. These changes should help to increase efficiency and reduce costs, as well as to introduce fiscal incentives or voluntary amalgamations of municipalities. The envisaged changes do not modify the overall structure of the territorial organisation in Poland, but would enhance the autonomy and flexibility of local governments. A draft amendment on the reform of local public finance was proposed by the national association of cities with the support of 300 000 citizens' signatures, but the national government expressed its disagreement with the proposal.

Another debate concerns the organisation of metropolitan areas, with many contributions calling for special governance arrangements around several major urban centres in the country, where 65 cities already exercise the powers otherwise vested in the second-tier level (*powiat*) of local government. Bottom-up arrangements have taken place in response to a dismissed draft act on metropolitan areas, with the creation in 2007 of the Upper Silesian Metropolitan Union, joined by 14 cities with county-level powers, concerning over two million inhabitants in total, or with the signature in the same year of the *Tricity Charter* on co-operation between three urban areas at the Baltic coast. Lastly, the competences of Polish regions are to be strengthened under a 2009 law.

While the financial autonomy of the Polish local and regional authorities has been undermined as a result of the crisis and austerity measures, the proposed draft amendment could reinforce this autonomy. The *European Charter of Local Self-Government*, ratified without reservations, seems to be well adhered to in the country (Ibidem: 48).

Romania presents itself with particular features because the Romanian state has not yet implemented the regions. *Judete* (counties) are the main "intermediate level" between the municipalities and the national government in a highly centralised country where the second tier of local government is subject to relatively rigid expediency controls in a local democracy greatly influenced by more than a century of centralist tradition (Bertrana, Heinelt 2013: 78).

The decentralisation processes and the democratic reforms (for example, the introduction of directly elected presidents of the *judete* in 2008) seem to empower the second level of local self-government but, at the same time, the growth of earmarked grants, the "burden of administrative responsibilities" (Stanus, Pop 2011: 217) still fulfilled by the *judete* and the aforementioned expediency control result in major constraints and

challenges for local autonomy (Stanus, Pop 2011). After 2009 this process deepened even more through the accession of the dependence towards the government.

Thus, we can emphasize several factors that led over 5–6 years to the emergence of a centrifugal phenomenon against decentralization – re-centralization in Central and Eastern countries<sup>6</sup>: firstly, the need to control the distribution of scarce resources during a transformational recession or outright crisis; secondly, the need to control economic and social differences among territorial units, so as to prevent the marginalization of some regions and the resulting social and political tensions that would endanger the new regime; lastly, the need to formulate policies aimed at maintaining national integration in a general atmosphere of societal fragmentation, resulting from the transformation processes. Nevertheless, certain governmental actions run counter to the principle of subsidiarity. Moreover, they often seem to result in the recentralisation of competences, the forsaking of the proximity of local governments to the citizens as a result of new territorial organisations and in extensive budgetary and operational restrictions (The Council of European Municipalities and Regions (CEMR), 2013: 18).

These developments from Central and Eastern Europe were not foreign to the affirmation of the European construction process even before the economic and financial crisis erupted, but still amplified it. It is what Jurgen Habermas calls the “supranational paternalism” (Habermas 2014a: 184) (Habermas 2014b: 85–94), which trained, we argue, through mimicry the re-centralization phenomenon in the EU member states from Central and Eastern Europe.

### **3. The Perspective of Regional Policy as the Constant Re-adjustments Between the top-Down Policies and the Bottom-up Initiatives**

Following the evolution of regional policy within the CEE states from the point of view of top–down policies as regionalisation and decentralisation, and recentralization as

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<sup>6</sup> G. Gorzelak identified six myths about local government in the post-socialist countries that contributed to false expectations, that can be applied to the re-centralization process (1) the myth of local autonomy (unrealistic expectations towards the potential of local autonomy and the rejection of any central involvement in local affairs); (2) the myth of prosperity (the belief that economic autarky will guarantee the prosperity of local communities); (3) the myth of property (the belief that the restoration of municipal property will in itself guarantee local development); (4) the myth of omnipotence (the belief that municipalities are both entitled to and capable of deciding all local problems by themselves); (5) the myth of eagerness (the belief that zeal can compensate for knowledge and skills in local politics and administration); and (6) the myth of stabilization (the belief that stable conditions are what local governments should and can attempt to reach) (Gorzelak 1992; apud Illner 1997: 27).

the bottom-up initiative of the states, as well as from the point of view of the actual results which the EU is expecting and the states are foreseeing, we consider that the future of regional policy in the CEE region consists of the constant re-adjustments between the top-down policies and the bottom-up initiatives. This implies multiple aspects, from which we will choose several for further analysis.

Firstly, the MLG (multilevel governance) is considered as overlapping competences and the interactions among the EU, states, regional and local actors should be variable, dynamic and constant (Thalassinos, Dafnos 2015: 19). As we could see from our analysis, even if a continuous strengthening of the EU impact in the field of regional policy is felt in general, practically we are assisting a *modus operandi* of MLG, "which though is stretched to its limits as the number of member-states expands" (Ibidem). According to certain authors, states are not in a subordinated relationship between the internal politics and the intergovernmental bargaining in the EU, as those are the result of multilevel policy networks and policy (Marks, Nielsen, Ray, Salk 1996: 41). Because of the economic and financial crisis and its consequences, some states have diverging responses regarding the expansion of the EU competences in the sense of reducing the role of sovereign states, responses that can be framed in a regional perspective in recentralization processes. However, they must not worry us; on the contrary, they can create the conditions to set the relation between the European institutions and the nation-states regarding the issue of regional policy. In other words, there is a need for an optimum report between top-down policies and bottom-up initiatives.

Secondly, the real democratization of regional policy must remain only an elite-drive process (Ekert 2011: 40). There is a need for a complementary relation between the aspects tied to European integration and to the requests for democratic consolidation in the CEE states, including those regarding the decentralization process. The political pressures and the threats of exclusion from the negotiation process in certain moments within the enlargement process must be cancelled in favour of democratic procedures and guarantees of equal political rights (Ekert 2011: 29).

Extending the political debates referring to decentralization, regionalization or public management represents not only a resource by which European and national institutions succeed to harmonize potential differences or conflicts on these subjects, but also a means to include the society in this process, even if this is individualized, or structured, thus contributing to the consolidation of democracy in CEE states. The involvement of popular actors in the regional policy decision-making will be possible through the exclusion of confrontations between the nation-states and EU institutions and the actors will not be tempted anymore to follow one side or the other of these confrontations, thus creating fissures, which provoke re-centralist and Eurosceptic reactions with the large support of non-state actors.

Paradoxically, until now the EU has been exporting part of the democratic deficit by stimulating adverse reactions from society and states. But the two decades of experience demonstrate that the EU needs powerful states which must be partners in the promotion of its policies, including in the regional domain.

Thirdly, it is necessary to return to good intentions and commitment, like the ones from the period when the regional policy chapters were negotiated (Malova, Dolny 2011: 68–69). It is obvious that direct influence by means of the conditionality mechanism has provoked numerous changes in institutions and policies from CEE states, but most authors argue that their impact was much more efficient in these policies where the conditions were specified very well and technical support was granted to “the applicant states and where the states were rewarded for their actions and above all when the EU offered a real and credible prospect of membership” (Malova, Dolny 2011: 68–69).

Unfortunately, even if regional policy enjoyed certain attention and understanding, as it is demonstrated by annual reports referring to the progress of aspiring states, which were presented in the first chapter of the present paper, it has not been one of the European policies where conditions were very clear and technical support very obvious so that their impact could have lead to real decentralization and to an increase of the autonomy of regional and local actors in relation to national actors. The EU impact varied across policy areas depending both on the density of the *acquis* and on domestic conditions (Malova, Dolny 2011: 68–69; Schimmelfenning, Sedelmeier 2005; Haughton 2007: 233–246).

According to Jacoby, “the preferences of domestic actors and external influences matter precisely where they best connect with the domestic processes, not where they act independently” (Jacoby 2006: 639–640).

In the pre-accession period, most authors stressed the dimension of conditionality in promoting certain changes to societies from CEE states. But in recent years, in the context of the dimension of conditionality, CEE states have developed their own policies, except for Romania and Bulgaria, which are still under the MCV mechanism, with various results from one state to another, depending on the cultural, political and democratic traditions they possess, but without any profound slips, including in the regional policy. Even the recentralization process, which we talked about in the previous chapter, does not abandon the useful patterns.

Taking into consideration the data from above, we can conclude that only the continuation of the European integration process as “supranational democracy” (Habermas 2014: 186) could continue the process of decentralization in Central and Eastern Europe. The Lisbon Treaty recognizes the equal character of states in relation

to treaties and their national identity, including with regard to the local and regional autonomy (Bărbulescu 2015: 423).

There are signs that show the fact that the financial, economic and social crisis has not remodelled the overall architecture of local and regional authorities in Europe. It has nevertheless had a major impact on Europe's approach to the organisation of services and the question of financial independence. The territorial reforms currently underway seem to take into account the desire for greater decentralisation and the principle of subsidiarity advocated by the European Union and the Council of Europe.

But this model, from which a readjustment relation between top-down policies and bottom-up initiatives of the states should be created, must be conceived only within a soft federation – a strong but limited centre with highly autonomous national members, based on the reconciliation between integration and democracy (Berggruen, Gardels 2013: 170, 173).

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## EUROPEANISATION OF THE POLISH PUBLIC POLICY IN THE CONTEXT OF STATE OFFICIALS' COMPLIANCE WITH ETHICAL STANDARDS

### Abstract

*The paper analyses the modernisation process of public administration and public policy-making in Poland during the systemic transformation, preparation for the enlargement of the EU and in the early years of Poland's EU membership. The development of theoretical approaches and the history of implementation of certain solutions is summarized in the paper and supplemented with a short review of scientific literature in the field. Particular emphasis is put on the progress Poland has made in introducing and enforcing European ethical standards in public administration, as well as on the critique of neoliberal approach to policymaking.*

**Keywords:** Europeanisation, public policy, Poland, ethics, neoliberal

The Europeanisation of Polish public administration as an adjusting process started long before the accession of Poland to the European Union. Accepting new standards, norms and procedures, and adapting a new set of values as a foundation of the functioning of public administration ensued gradually as an essential element of the advancing transformation of the political system. A public debate on the subject of qualitative changes in this respect had been initiated long before the Polish Round Table sessions, i.e. before 1989 and was of endogenous character. On the basis of legal, political and economic knowledge of the opposition, supported by a numerous group of academics and experienced specialists, the first act on the local government was formulated and adopted in a relatively short period – the Gmina Self-government Act of 8 March 1990. Subsequent documents, prepared by political and expert bodies, pertained to administrative reforms on different levels, particularly on the central level,

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and were not supposed to be published too quickly. Because of the conflicts of interests within the transforming system of power, the endogenous potential was neutralised, politically blocked or simply exhausted in the course of time<sup>1</sup>.

As of 1996, internal factors determining the reforms of public administration started to coincide with external factors motivated *inter alia* by the membership in OECD (as of 1996) and the commencement of accession negotiations with the European Union (31<sup>st</sup> of March 1998), preceded by the so-called screening, i.e. an inspection of conformity of the internal law with the EU Community Law, by the NATO membership (1999) and eventually the EU membership (1<sup>st</sup> May 2004). Certainly, each of the aforementioned events (as well as the other ones) affected to different degrees the process of Europeanisation of the Polish public administration, although the EU membership of Poland was of the utmost importance (Rydlewski 2004/2005).

Many researchers, including the author himself, hoped that integration with the European Union institutions would induce more willingness in the Polish political class to undertake rational reforms of public administration in all possible respects, starting from the adoption of democratic and pro-citizen axiology in administration, to broader consideration of factors and economic parameters in the process of formation of structures, most of all in the self-governmental administration of various levels, to popularisation of innovative information and communication technologies (ICT) in the offices of central, regional and local administration, improving the effectiveness of the functioning of public administration, to the implementation of new functional concepts improving the level of provision of public services to residents of a given administrative unit, as well as for the improvement of proficiency and efficiency of the functioning of public administration on the national scale (Osiński 2000: 55–70). At the time, secondary sources indicated the necessary directions and examples of changes which were also supposed to form structural and functional advantages of the Polish administrative and territorial units in applying for funding from the established

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<sup>1</sup> The following documents might serve as an example: “Initial assumptions for restructuring public administration”, dated on March 1992, prepared by the team for Public Administration Reorganisation, under the direction of J. Stępień, “Assumptions and directions for public administration reforms” (4 subsequent versions), “The functioning and the apparatus of the Council of Ministers and the Prime Minister”, prepared in December 1992 and August 1993 in the Office of the Government Plenipotentiary for the Reform of Public Administration, directed by M. Kulesza. Since the project was not examined by the Sejm of the 10th term, the bill on the National Public Service fell flat. Cf. materials on Public Administration Reform published by the Government Plenipotentiary for the Reform of Public Administration (Warszawa 1993). Even the “flagship” reform of the Economic and Administrative Governmental Centre from the period of 1995–1997 was not consequently implemented because of the advancing process of decomposition of the team in charge of the reform, which started in May 1997, although some goals of the reform were achieved cf. Jackiewicz 2004: 66–85.

EU programmes. Particularly in 1997, when the Constitution of the Republic of Poland confirmed the importance of territorial self-governance (Chapter VII of the Constitution) and founded the basis for the completion of self-government reform, and thus the completion of the reform of public administration. Comparative studies revealed that having accessed to the EU or to the EEC, other countries also commenced or accelerated the process of modernisation of the structures of public administration. "Currently, the modernisation heads most of all towards rationalization of the costs of maintenance of public administration and improvement of its efficiency, as well as strengthening its autonomy from political parties and groups of particular interests" (Osiński 2000: 69).

The reform of public administration implemented in Poland in 1998–1999, which should have provided for the aforementioned context of impending accession to the European Union, met with divided opinions among both regular citizens and individual researchers or research teams. The harshest assessment was made by W. Kieżun, a rather critical one was made by A. Piekara and his team, and a highly favourable one was made by M. Kulesza and J. Regulski, which is hardly surprising<sup>2</sup>. My own assessment, made in 2000, has not depreciated since then; moreover, the subsequent events and processes complement the arguments then expressed. "The Polish administrative reform repeated a series of erroneous solutions which the countries of West Europe had abandoned more than a decade earlier. These experiences should be taken into account, since we will have to 'complete' the reform of public administration soon. This, however, does not seem to be the biggest threat to building effective structures of public administration. It is a peculiar state of complacency among the political elites and decision-making bodies responsible for country modernisation" (Osiński 2000: 69). Today, the shortcomings of that reform are obvious; its structural defects have consumed (and still do) substantial financial resources and have been hindering economic and social development of many little homelands in Poland, which has serious side effects, for instance, higher unemployment rate or increased emigration rate in some regions of Poland<sup>3</sup>.

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<sup>2</sup> One of the most comprehensive analysis of the state of Polish public administration after the reform at the end of the 1990s was formulated by a research team in 2001 *Diagnoza stanu terytorialnej administracji publicznej w Polsce* [Diagnosis of the State of territorial public administration in Poland] The list of authors included: D. Kijowski, M. Kulesza, W. Misiąg, S. Prutis, M. Stec, J. Szlachta and J. Zaleski.

<sup>3</sup> According to the research and analysis which has been carried out as of 2000 in the Chair of Public Administration in the Collegium of Socio-Economics of the Warsaw School of Economy, developmental loss generated by structural faults in the system of public administration in Poland are estimated from 0.3 to 0.7 of percentage point annually. In other words, the economic development would have been roughly by 6.0 up to 8.0 percentage point higher than what was achieved in that period 15 past years.

Among various defects of the aforementioned reform there are, besides the covert character of numerous administrative decisions, including a series of licences and concessions, a faulty mechanism of public contracts, fixed procedures and anti-civic mechanisms in financial planning (the so-called participatory budget, a chance for citizens to have a say in decisions on spending the budgets of self-government units – still in its early phase in Poland – is one of the results of Europeanisation of public administration) or red-tape blockades of “civic investments”, as well as lack of a stable system of values at the foundation of the functioning of public administration. Axiology of public administration, and self-government administration in particular, is the foundation of efficient, effective and civic-minded functioning of the discussed bodies. The concept or the principle of a ‘democratic state of law’ is not conclusive, since its application to the mental and communicative side of the functioning of public administration is only limited.

In the first case I mean the necessity of deep conviction and recognition by the officials of public administration of the fact that their job is public service, validated by the residents and performed for their benefit and protection of public interests. The notion of a civil servant serving the citizens comes as a cliché in many countries of the EU and other European countries, such as Norway, Iceland or Switzerland, but not in Poland where it is widely believed that an officer is supposed to “rule” or even worse, “manage” the people, moveable and immovable property. Among frequently oligarchic offices and officials of public administration it is a common notion that citizens are subordinate to them but not conversely! This also refers to the central level, on which the majority of state authorities are disconnected from the needs and problems of ordinary citizens. This is an atavism of the previous, thankfully gone, era, but sociological research confirms the existence of this kind of mentality and its domination within the discussed groups<sup>4</sup>. In part, I am convinced that it also reflects the philosophy of “corporate management”, which some people, without any consideration for distinct disparities between those two kinds of institutions, try to instil in public administration, professing the neoliberal dogmas of “new public management”, according to which citizens are most often perceived as suppliants, clients or human resources.

In the second case – communicative aspect – it results in lack of civic ties between residents and public offices and progressing alienation of some of the offices of public administration from residents and citizens on a national scale. It is a very bad omen if self-government bodies, civil servants and elected representatives of *gmina* or *powiat*

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<sup>4</sup> I think the attitude of voters during the Polish presidential elections in May 2015 was the best confirmation of this thesis. I am convinced that this will also be confirmed in the parliamentary elections in October 2015, though I do formulate my opinion six months before the date.

authorities do not communicate with residents in various possible ways, including electronic communication devices. A paradox often occurs when "stewards" of gminas, powiaty or cities try to curb civil rights pertaining to, for instance, citizens attending sessions of collective bodies – *rady gmin*, *rady powiatów*, or voivodeship assemblies (*sejmiki wojewódzkie*). After Polish newspapers, one can even talk about the officials' apprehensions towards contacts with "demanding and critical attitudes" of citizens. This is one of the reasons why problems with citizens' access to public information still occur and actions of some public administration bodies are not as transparent as they should be. This is the effect of a certain "closed" character of public offices and their personnel, who officially declare their openness for interactions with citizens. It is worth looking at in the context of Poland's membership in the EU and the increasing role of public administration bodies, which are in charge of management and administration of the EU funding, and thus are of significant importance for economic and social development both at the central and regional or local levels (Osiński 2008: 31–36). The poll conducted by the Public Opinion Research Center in December 1999, concerning society's expectations of the reform of public administration showed that 90% of respondents expected to retain the option of free higher education while 94% expected free of charge (i.e. state-funded) health care, over 97% of respondents wanted to have state-guaranteed minimal wage and old-age or disability pension allowing for decent existence; over 90% of respondents were convinced that the state should help the unemployed, even though the state was not their "producer", but the mechanism of "free" market<sup>5</sup>.

Both the abovementioned issues are constituent elements of the public administration axiology, hence their perception should be based on the firm values which we intend to realise in Poland through the public administration bodies fulfilling their mission. Similar to other EU countries, all levels of public administration in Poland play the essential role in the implementation of public policy<sup>6</sup>. I assume that public policy is deemed as the full scope of decisions, actions, and organizational and executive activities undertaken by the official authority directly or on its behalf by

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<sup>5</sup> It should be mentioned that 99% of the interviewees expected national institutions to provide citizens with security and protection against crime, cf. Communiqué of the Public Opinion Research Center following the research *Państwo i obywatel* [State and citizen] carried out between 3<sup>rd</sup> and 15<sup>th</sup> of December 1999.

<sup>6</sup> Pursuant to the Regulation of the Minister of Science and Higher Education from 8<sup>th</sup> August 2011 on areas of knowledge, disciplines of science and art, and artistic and academic fields (Journal of laws 2011, no 179 item 1065), in the sphere of social sciences a new discipline has been appointed: public policy science. Thus, a reference to American and Western European experience was made. The aforementioned discipline has existed there for a long time and had led to professionalization of country rule and realisation of its policy in various spheres on all levels of democratic states. Public policy science examines political processes related to realisation of various spheres of state policymaking. Within its framework a public authority undertakes the implementation of plans, programmes and strategies in order to achieve the expected effects of the actions for the common good of all citizens.

various public and private bodies, aimed to accomplish defined development goals on different national levels according to the state's obligation to create optimum conditions for civilisational development of a given society. The aforementioned decisions and actions should refer to defining public expectations and needs, as well as the ways of satisfying them by entities acting as official authority (Osiński 2014: 7)<sup>7</sup>. At the same time, they should be analysed by the aforementioned entities in the context of a catalogue of values characteristic for a given society and its level of civilizational development.

The catalogue of values which includes such ideals as: common good (public good), transparency, respect for human rights and freedom, equality, honesty, social justice, and shared authority and participation differ distinctively from the set of ad hoc imperatives and headwords proposed within various ideologies and political and economic concepts forged in the world of politics or in academic circles. The catalogue of values, interrelated with actively formulating and implementing public policy (and its generic, specific or trade variations) by public administration bodies, contains universal values, as well as those specific to a given country or region of Europe. A certain benchmark referred to in Europe are the Scandinavian (Nordic) countries, both those which are members of the EU (Denmark, Finland and Sweden) and those outside the EU (Norway and Iceland) and their autonomous territories: Greenland, the Faroes, Svalbard and The Åland Islands. The deep-rooted values of the residents and whole societies are stable and present in the actions of central authorities, particularly in the implementation of public policy by bodies of territorial self-government – and first and foremost by self-government administration (Osiński 1999: 59–71). Conducted research has concluded that a defined catalogue of values cannot be “decreed” even by constitutional regulations of the highest order. Constitutional regulations can create foundations for territorial self-government axiology or for decentralization of public authorities but their actual function manifests itself in solving problems of local and regional communities and of all citizens in the course of creating conditions for civil development of those societies (Osiński 1999: 61). That means that the axiology and the values it includes, also those of ethical nature, are fundamental for the implementation of public policy and are simultaneously expressed by the health care, education, social security and labour market policies realised within its framework.

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<sup>7</sup> Authors of classical definitions include H.D. Lasswell, who defines public policy as ‘the most important decisions made in the organisational sphere or in private life’ (Lasswell 1951: 5; Zybała, 2012, Zawicki 2014), where definitions and designations are also presented. At least a part of them are very disputable and do not correspond with the current stage of state institution development and its role under the conditions of distinctive interactions of globalisation processes and integration, as well as economic, social and political changes within existing, individual states.



Polish reforms of public administration put too little emphasis, if any, on the values and ethical principles connected to the execution of official authority on all levels of our country, and on principles and relations with citizens based on such values<sup>8</sup>. I suppose however that it was understood that good functioning of public administration (efficient, ethical and effective) depends on the trust citizens put into it. Most often, as research has revealed, it stems from the conviction that civil servants are professionals, honest, fair and kind to citizens. The citizens' conviction that public good is the underlying premise for the decisions made and actions taken by the officials is equally important. These beliefs are crucial for efficiency and approval of particular undertakings within the framework of public policy. Any traces of paternalism, superiority, familiarity, nepotism, lack of transparency, other forms of dishonesty or bribery leave imprints in mentality which are difficult to neutralise and practically eliminate any chance of citizens placing any trust in officials, authorities or the state understood as an institution<sup>9</sup>.

In this respect, broadly defined Europeanisation denotes gradual pervasion of the ruling standards and norms of international and European law (the process of formation of a "common administrative space") into the Polish administrative practice and provisions of law. It was due to acts developed and adopted by the Council of Europe or institutions of the European Union that ethical issues related to holding a public office were presented to Polish citizens as belonging to policy, but not binding. For instance, the European Code of Good Administrative Behaviour was passed by the European Parliament on 6<sup>th</sup> September 2001. In this document of 27 articles, the fundamental administrative practices were defined as, among others, principles based on ethical standards: non-discrimination (Article 5), absence of abuse of powers by public authority (Article 7), impartiality and independence (Article 8), fairness (Article 11), courtesy (Article 12), advising on possible proceedings and the method of settling cases (Article 10) or adhering to deadlines on making decisions (Article 17). Beside the aforementioned, the document covers legal, organizational and managerial principles. In spite of the fact that the majority of the abovementioned principles correspond with the general principles of the Polish Administrative Procedure Code (although the principle of courtesy does not occur), the document has broader

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<sup>8</sup> One may ask for instance why the effective Constituion of the Republic of Poland of 1997, in Chapter VII titled *Territorial government* consisting of 10 articles does not ever refer to the functioning of units of territorial government in accordance with ethical standards, and in particular this question refers to people employed in legislative and executive bodies. In protocols from the meetings of the Constitutional committee no trace of discussion on this subject is left, whereas the protocols are full of minutes taken during long debates about "Christianity values" which does not imply anything in terms of political practice.

<sup>9</sup> Those issues were presented in one out of a few publications on this subject (Czaputowicz 2012).

application, pertaining to all contacts between institutions and their administration and an individual, unless those contacts are subject to specific provisions, in which case the principles of the Code (as opposed to the regulations of Administrative Procedure Code), are not limited to administrative proceedings, in which the rights and obligations of an individual are substantiated as administrative decisions, but encompass all relations occurring between the administrative apparatus and entities operating in the public sphere (Cherka 2011: 322; Świątkiewicz 2005: 9).

The limited volume of this paper does not allow to analyse further examples of this issue, for instance the decision of the European Ombudsman issued in June 2012 which defines the ethical standards effective in the public administration of the EU (Kmieciak 2010). The findings are as follows: the first one is obvious and refers to the influence of the regulations made on the EU level on the solutions adopted in the Member States regarding the administrative structures and their officials (Rydlewski 2015: 86–91). The second one pertains to 25 years of the Republic of Poland (1989–2014) in the course of which the subsequent governing cabinets, committees and counselling bodies did not produce a relevant document on categorical observance of ethical principles by public officers and offices within the framework of decisions made and actions undertaken. From this point of view, those years can be deemed as wasted, and in addition, they put the subsequent ideological formations (also those adhering to Christian values) in a bad light, which did not manage to stop adverse events and pathological processes occurring within the public administration and other national authorities. The seriousness of the situation is reflected in annual ratings of corruption perception in the public life, in which Poland is placed far from positions deemed as acceptable (Table 1).

**Table 1. Corruption Perception Index – CPI**

Position	Country	Score in points		
		2014	2013	2012
1	Denmark	92	91	90
2	New Zealand	91	91	90
3	Finland	89	89	90
4	Sweden	87	89	88
5	Norway	86	86	85
5	Switzerland	86	85	86
7	Singapore	84	86	87
8	Holland	83	83	84
9	Luxembourg	82	80	80
10	Canada	81	81	84
11	Australia	80	81	85

12	Germany	79	78	79
12	Iceland	79	78	82
14	Great Britain	78	76	74
15	Belgium	76	75	75
15	Japan	76	74	74
17	Barbados	74	75	76
17	Hong Kong	74	75	77
17	Ireland	74	72	69
17	The United States of America	74	73	73
21	Chile	73	71	72
21	Uruguay	73	73	72
23	Austria	72	69	69
35	Poland	61	60	58

Source: own work based on: <http://www.transparency.org>

The ongoing process of Europeanisation of public administration and the undertaken organisational and institutional actions have been yielding some positive results in recent years and Poland has been gradually approaching the group of countries deemed as free of corruption in public life. It is worth remembering though that it is only one of the indexes (although possibly the most important one) which allow to monitor the state of Polish public administration.

## Conclusions

Modern public administration should be not only efficient, but also effective and citizen-friendly. Within the framework of actions and decisions which constitute the public policy implemented on every level of the state, it should inspire confidence among citizens with its compliance with ethical standards in personal and institutional aspects. This aspect is accentuated in numerous studies in the field of public policy sciences (cf. for instance Mintrom 2012, chapter 7. *Doing Ethical Policy Analysis*: 95–108; Plante 2004: chapter 2). The time of Polish and European elites indiscriminately accepting false values proposed by neoliberal ideology, such as egoism, avarice, self-interest, commercialization of non-commercial human activities, attempts to take over cultural sphere or promotion of excessive individualism is to a large extent behind us. Nevertheless, it is currently difficult to estimate the losses made by neoliberal axiology in individual societies, but in Europe the range of those is quite substantial – from the smallest in the Nordic region to the biggest in the Central European countries. In the Polish society the losses are currently being estimated.

Therefore, the restoration of relations based on traditional ethical values between citizens and public administration bodies seems to be one of the most essential challenges in public policy for the upcoming years, which cannot be faced without citizens' trust, indispensable both in the phase of designing and execution, and during its evaluation and modernisation. All attempts made in Poland to transfer the so-called business ethics to public institutions will be more damaging than beneficial in spite of more or less noble intentions of politicians and researchers who postulate such actions

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## REGIONAL STATE AID AND CONVERGENCE OF REGIONS IN THE VISEGRAD GROUP COUNTRIES AFTER ACCESSION TO THE EUROPEAN UNION

### Abstract

*Regional state aid has been aimed at reducing the additional costs incurred by entrepreneurs who decide to invest in underdeveloped regions, typically with low-skilled labour force, poor transport and telecommunication infrastructure, and lack of networks of suppliers and buyers. Entrepreneurs were offered the opportunity to induce additional investment or economic activity in selected regions. Regional state aid was offered in all NUTS-2 regions in the Visegrad Group countries, however in the period of 2007–2013, the maximum ceiling on this kind of public support was defined under EU rules in order to adjust it to real needs of regions and ensure a level playing fields for all investors. It means that the maximum ceilings on regional state aid depended on the level of economic and social development of a given region: it was higher in the poorest and lower in more developed areas. Therefore, we expected measurable evidences of positive correlation between ceilings on regional state aid in regions and indices of social and economic development of assisted areas in the Visegrad Group countries. However, on the basis of our research we observed no clear connection between ceilings on regional state aid and changes in economic activities rate, employment and unemployment rate, and the ratio of GDP per capita to the EU average. Thus, we concluded the lack of statistical proof of a need for more regional state aid in the lagging regions.*

**Keywords:** regional state aid, regional development, convergence, divergence, region, GDP, employment, unemployment, European Union, the Visegrad Group countries

### Introduction

The EU law of 1998 applied in the years 2000–2006 provided a clear approach towards territorial support: regional aid was conceivable only if it was used sparingly and remained concentrated on the most disadvantaged regions (Guidelines 1998: 9).

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However, it is worth noting that only the rules for the next period 2007–2013 specified the global aim of regional interventions: the promotion of the economic, social and territorial cohesion of the Member States and the European Union as a whole (Guidelines 2006: 13). That approach derived from the provisions of the Treaty on the functioning of the European Union (previously the Treaty establishing the European Community). On the one hand, it states in art. 107.1 that any aid granted by a Member State or through State resources in any form which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods is, in so far as it affects trade between Member States, incompatible with the internal market. On the other hand, the Treaty allows granting regional state aid, saying that both: [art. 107.3(a)] the aid to promote the economic development of the areas where the standard of living is abnormally low or where there is serious underemployment and [art. 107.3(c)] the aid to facilitate the development of certain economic areas if it does not adversely affect trading conditions to the extent contrary to the common interest, might be considered to be compatible with the internal market.

The Commission argued that regional state aid should promote the expansion, modernisation and diversification of the activities of the establishments located in those regions and encourage new firms to settle there. Thus it aimed at reducing the additional costs incurred by entrepreneurs who decide to invest in underdeveloped regions, typically with low-skilled labour force, poor transport and telecommunication infrastructure, and the lack of networks of suppliers and buyers and offered entrepreneurs the opportunity to induce additional investment or economic activity in selected regions. The object of regional aid was to secure either productive investment or job creation linked to investment (Guidelines 1998, 2006).

Regional state aid is one of the forms of public intervention in the market. The Member States of the EU used this kind of state aid as a tool improving regional attractiveness to investors in order to enhance economic and social development of the lagging areas (Ambroziak 2015a). However, there are many arguments for and against governmental actions at the regional level (Ambroziak 2014b). On the one hand, there are many political (Martin 2003; Camagni and Capello 2010) and economic arguments (van Dijk et al. 2009; Armstrong and Taylor 1999; Parr 2014; Markusen 1996) claiming the need for regional interventions. Many researchers argued that market mechanisms not only cannot induce economic convergence, but they can rather exacerbate the existing inequality (Boldrin and Canova 2001). Therefore some authors noted that national output would be raised if regional differences were diminished and that the market mechanism on its own is an ineffective means of reducing these differences (Needleman and Scott 1964). On the other hand, there is a wide range of studies showing that overall results of late regional policy were disappointing (OECD 2009a,

2009b; World Bank 2009). The recent debate on regional policy focuses also on whether policies should be pro-equity or pro-efficiency. Therefore the aim of new regional policy should be to maximise national output by assisting and encouraging each individual region to reach their growth potential endogenously. New regional policy differs from the 'old approach' whose objective was compensating for regional differences in unit capital costs (due to productivity gaps) and rebalancing labour and capital flows. It should cover the production of bundles of integrated, place-tailored public-goods and services, designed and implemented by eliciting and aggregating local preferences and knowledge through participatory political institutions, and by establishing linkages with other places (Barca 2009). It seems that although many reports and analysis on effectiveness of regional state aid were published, recently adopted rules for the years 2014–2020, similar to previous guidelines for the period of 2007–2013, did not fully accommodate a new paradigm of regional policy (Ambroziak 2014a).

Bearing in mind that state aid can distort competition, even as it was granted in underdeveloped areas, the permissible ceilings on regional state aid were established. They should reflect the relative seriousness of the problems affecting the development of the regions concerned (Guidelines 2006: 13). Taking this into account, regional state aid map for each Member State was adopted by the Commission as an integral part of relevant guidelines. It identified assisted regions, their classification according to their relative development level and the ceilings on state aid for initial investment. To this end, the Commission considered that the region should be assisted if, being a NUTS 2 geographical unit, it has a per capita gross domestic product (GDP), measured in purchasing power standard (PPS) of less than 75% of the Community average. Moreover, the regional state aid guidelines provided possibilities to attract investors to the poorest regions, offering them more state aid in comparison to better developed regions, where the maximum admissible intensity ceilings were lower (Guidelines 2006). After enlargement in 2004, almost all regions from new Member States, including the Visegrad Group countries, offered the highest ceilings on regional state aid. However, in subsequent years, the European Commission differentiated ceilings and changed a classification of regions to enhance support to entrepreneurs in the poorest areas and assist them in a convergence process.

The main objective of this paper is to answer the question whether regional state aid ceilings in the Visegrad Group countries after accession to the European Union had a substantial impact on the economic and social development of NUTS 2 regions (including changes in an economic operators' concentration, labour market and their national convergence or divergence). Due to the fact that the V4 countries, with the exemption of Poland, did not collect data on regional state aid at the regional level, but only at the national/central level, we decided to analyse the admissible ceilings

on regional state aid which, as we assumed, showed a relative potential power of subsidies offered and granted to entrepreneurs in a given area. According to the recent research, the nominal value of regional state aid in NUTS 2 regions in Poland significantly differed in the period of 2005–2012. However, taking into consideration ceilings on regional state aid and the number of economic operators in a given area, the distribution of regional support in terms of relative values was equal in all regions (with the exemption of the best developed) (Ambroziak 2015b). Bearing in mind that (1) a cumulated value of regional state aid in relation to GDP was comparable in the Visegrad Group countries in the period of 2004–2013, (2) all rules concerning public assistance and EU funds were identical in all NUTS 2 regions in the Member States of the EU, we assumed that the impact of regional state aid on the economic and social development in assisted territories, broken down by their level of development in terms of GDP *per capita* in relation to the EU average, depended on the ceilings of public aid in regions.

## **1. Regional State Aid in the Visegrad Group Countries in the Years 2004–2013**

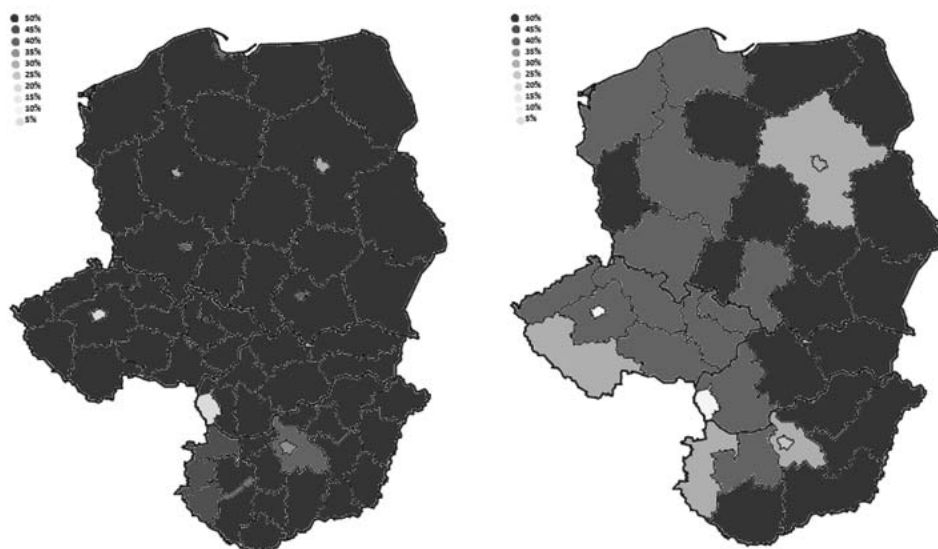
The Visegrad Group (V4) countries had already partially applied the EU law on state aid under their association agreements before the accession to the European Union. According to their respective Europe agreements, any public aid which distorted or threatened to distort competition by favouring certain undertakings or the production of certain goods was treated as incompatible with the association agreements. However, before the accession to the EU, any public aid granted by respective candidate countries was assessed taking into account the fact that they were regarded as areas identical to those territories of the Community described in Article 107.3(a) TFEU [then 92.3(a) TEC]. On that basis the V4 countries prepared their respective regional state aid maps before accession, which were prolonged after joining the EU till the end of the then financial perspective 2000–2006.

For the period of 2004–2006, the V4 countries regions were classified for regional state aid on the basis of an average of GDP *per capita* for 2000–2002, when the last trade barriers were being eliminated in import from the EU and a fast and radical restructuring process was being conducted. Then the level of GDP *per capita* in comparison to the EU average was extremely low. It effected that almost all NUTS II regions of the V4 countries were qualified to apply maximum ceilings on regional aid to large companies up to 50% of the Gross Grant Equivalent (GGE). However,



there were some exemptions for the biggest cities and capitals in Poland and the Czech Republic, where admissible ceilings were lowered to 40% (Kraków), 35% (Budapest), 30% (Warsaw) and even to 20% (Prague in the Czech Republic, and for the whole region surrounding the capital city of Bratislava in Slovakia). In case of small and medium-sized enterprises, the aforementioned ceilings were increased by 15 percentage points gross (Map 1).

**Map 1. Ceilings on Regional State Aid in NUTS 2 Regions from the Visegrad Group Countries in the Period of 2001–2006 and 2007–2013**

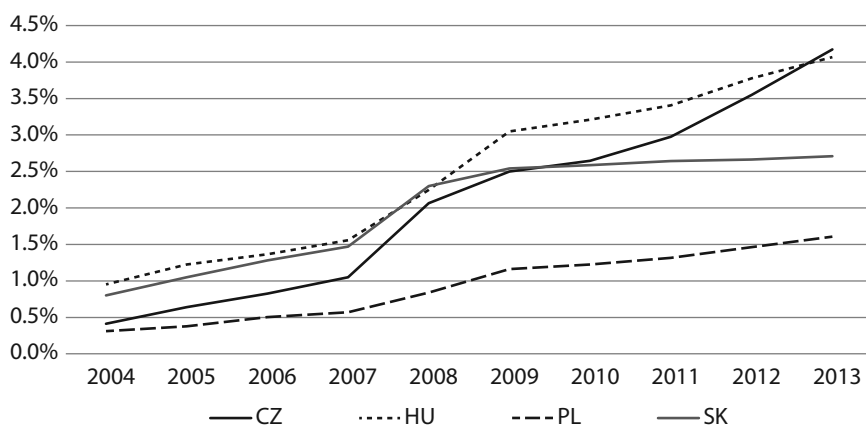


Sources: Own drawing on the basis of Guidelines 1998, 2006.

The new regional state aid rules came into force two years after the big enlargement of 2004. First, the previous guidelines expired by the end of 2006; second, the New Financial Perspectives for the period of 2007–2013, which provided i.a. the V4 countries with a huge amount of financial sources in the form of European funds, were agreed, thus there were concerns regarding the consequences for competition within the internal market of the EU. They resulted in making the guidelines more restrictive and lowering the maximum admissible ceilings on public support for the majority of regions. However, the poorest areas from the V4 countries were still allowed to offer regional state aid at the maximum level of 50% GGE. This concerned: Eastern Poland, some regions in Central Poland and just one in Western Poland, Eastern Slovakia, and Eastern and South Hungary. For the period 2007–2013 the maximum admissible ceiling on regional state aid in many better developed regions in the V4

countries was lowered to 30–40%. The biggest change (in comparison to the period of 2001–2006) and the reduction of the admissible intensity of regional aid concerned the Czech Republic, Western Hungary, and Western Poland. It is also worth noting that many better developed regions, mainly including the capitals of the V4 countries, either lost eligibility to grant regional state aid or their admissible intensity ceilings were substantially decreased.

**Figure 1. Ratio of a Cumulated Value of Regional State aid (Excluding EU Sources within EU Funds) to Gross Domestic Product in the Visegrad Group Countries in 2004–2013**



Sources: Own calculation on the basis of data from DG COMP.

The potential impact power of public support<sup>1</sup> on economy can be observed by analysing the ratio of financial assistance to GDP. Taking into account the ratio of the cumulated value of regional state aid to GDP, it increased evenly for all the V4 countries from 2004 to 2007. Then, as the new Financial Perspective was implemented, and new rules on regional state aid entered into force, the situation in the Visegrad Group countries slightly changed. As regards the Czech Republic and Hungary, one could observe a substantial increase in the ratio of the cumulated value of regional state aid to the annual value of GDP reaching over 4% in 2013. At the same time, Slovakia and

<sup>1</sup> It should be underlined that it was the period of time when donors and beneficiaries, as well as authorities collecting data on state aid, were learning on the notion of public intervention, its recognition, classifications and assessment. Thus data after the enlargement in 2004 are much more reliable and complete. Data on state aid provided by the European Commission (DG COMPET) cover only the value of public support granted to entrepreneurs by national/local authority from the national/local budget, including part of EU funds co-financed by the national budget. It means that a huge amount of money distributed by the national/local authorities within the EU funds, which came from the EU budget, were not included in statistics on state aid provided by the Commission.

Poland also recorded an increase, although slightly lower, up to respectively 2.7 and 1.6% of GDP (Figure 1). However, we can assume that potential relative impact of regional state aid should be almost exactly the same in the case of the Czech Republic, Hungary and Slovakia, while slightly smaller in Poland.

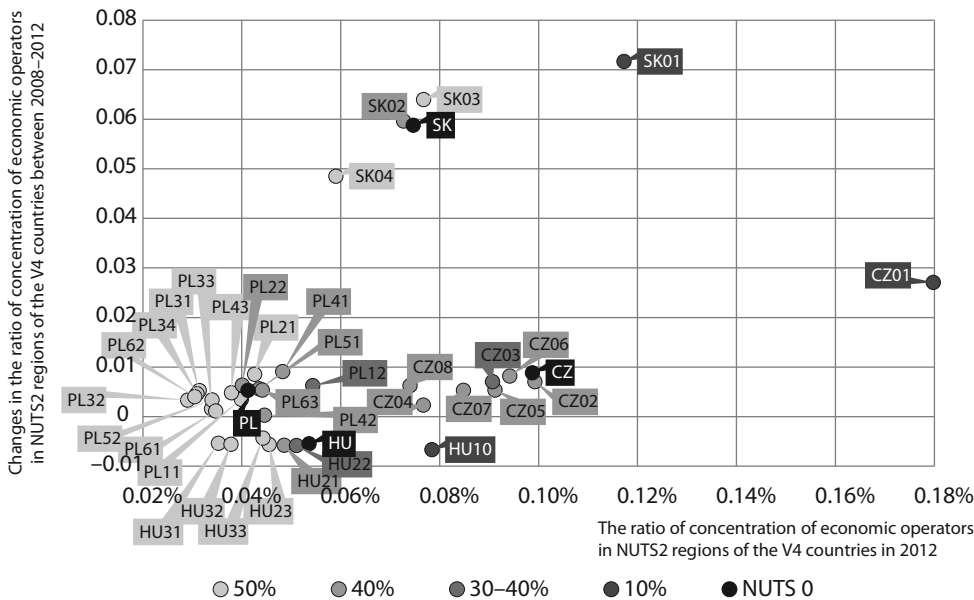
## **2. Impact on Economic Activities**

### **2.1. Economic Activity Concentration**

Regional state aid aimed at improving business conditions for new investors who should be attracted to locate their companies in assisted areas. However, public intervention did not have an impact on beneficiaries, but on other companies as well, which could represent suppliers, service providers, business customers or even competitors. Therefore, we analysed the changes in the concentration of economic operators (in terms of the relation of the number of economic units to population) in NUTS 2 regions in the Visegrad Group countries in the period of 2008–2012 (the period was shortened due to data availability). We expected, taking into consideration the regional state aid objectives, that the change in concentration should be bigger in the poorest regions with lower initial value of the indicator (but with much higher ceilings on regional state aid) in comparison to better developed areas (with lower ceilings on public assistance).

The highest levels and the biggest changes of the economic activity concentration in 2012, in comparison to 2008, were observed in the most developed capital regions in the Czech Republic and Slovakia, where the intensity of regional state aid was the lowest (10% of GGE). Moreover, in case of Slovakia, all its regions recorded a change 5–7 times bigger in comparison to other regions of the V4 countries. However, they reached the ratio of concentration in the middle of the scale. It is worth noting that due to the fact that all levels of ceilings on regional state were represented in those areas, one can state that for the maximum intensity of public support, the concentration rate change did not matter (Figure 2).

**Figure 2. Changes in the Concentration of Economic Operators in NUTS 2 Regions in the Visegrad Group Countries 2008–2012**



Notes: abbreviations in annex.  
Source: Own studies, Eurostat.

Another group of regions consisted of territories mainly from the Czech Republic, whose GDP *per capita* was between 30–40% of the EU average. They recorded a smaller change in the economic activity concentration rate in 2012 in comparison to 2008, however the final values were 2–3 times higher in comparison to the poorest regions in the V4 countries, while the ceiling of admissible regional state aid was lower and ranged in the middle of the scale (between 30–40%).

As regards the majority of Polish regions, we can observe that changes in the concentration ratio were not correlated with a ceiling on regional state aid. All of them, irrespectively of what admissible state aid ceilings were applied, recorded the lowest increase in the ratio of the number of economic operators to population in 2012. However, the worst situation was noted in NUTS 2 regions from Hungary. Although their level of concentration was close to majority of Polish regions, they recorded decrease in the concentration of economic operators in comparison to 2008.

Thus, one can observe different changes in and levels of the concentration rate of economic operators in NUTS 2 regions of the Visegrad Group countries, irrespectively of applicable ceilings on regional state aid. The biggest changes and the highest final

values were reached by the most developed regions (mainly capital areas), while the smallest increase (or even decrease) in the poorest areas, where ceilings were the highest. It may prove that regional state aid, dedicated to the poorest regions, did not have a substantial effect on the ratio of the number of economic operators to population in NUTS 2 regions of the V4 countries.

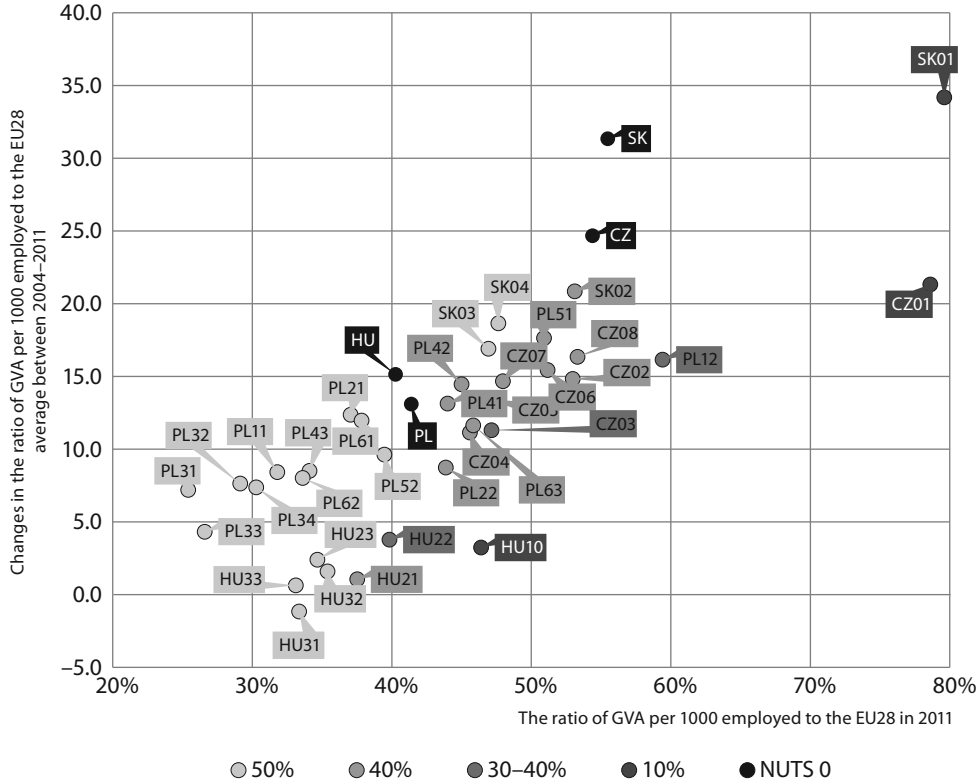
## 2.2. Productivity

According to our assumption, higher concentration and higher economic activity concentration rate should lead to the improvement of labour productivity in a given region. Although we did not find a measurable impact of regional state aid on changes in the level of economic activity concentration, we expected that higher ceilings on admissible public support should lead to an increase in productivity due to financial injections and inflow of new investments.

As regards the regional distribution of changes in productivity in relation to the EU average, we found a linear correlation between the value of the ratio of Gross Value Added (GVA) per 1000 employed and changes in this indicator in regions in the Visegrad Group countries. The biggest increase (almost 35 p.p.) and the highest ratio of GVA per 1000 employed (slightly less than 80% of the EU average) in the period of 2004–2011 were accounted for by the two most developed capital regions of Slovakia and the Czech Republic, where the ceiling on regional state aid was the lowest (Figure 3).

The level of productivity in relation to the EU average of the next group of NUTS 2 regions ranged between 40–60%. This group mainly consisted of territories whose GDP *per capita* was between 45–75% of the EU average, and the intensity of public support was slightly lower compared to the aforementioned, relatively best developed regions. However, it is worth noting that there were two other capital-regions from Poland and Hungary, as well as the two poorest regions from Slovakia in this group. That shows a high differentiation in this group of regions in terms of maximum ceilings on regional state aid. The last observed category of regions consisted of the poorest territories with GDP *per capita* below 45% of the EU average, where a ceiling of admissible regional state aid was the highest. Although the change in the ratio of GVA per 1000 employed was positive, the level of productivity remains the lowest among regions in the V4 countries (with the exemption of Slovak's regions).

**Figure 3. Changes in the Ratio of GVA per 1000 Employed in NUTS 2 Regions of the Visegrad Group Countries to the EU Average Between 2004–2011**



Notes: abbreviations in annex.  
Source: Own studies, Eurostat.

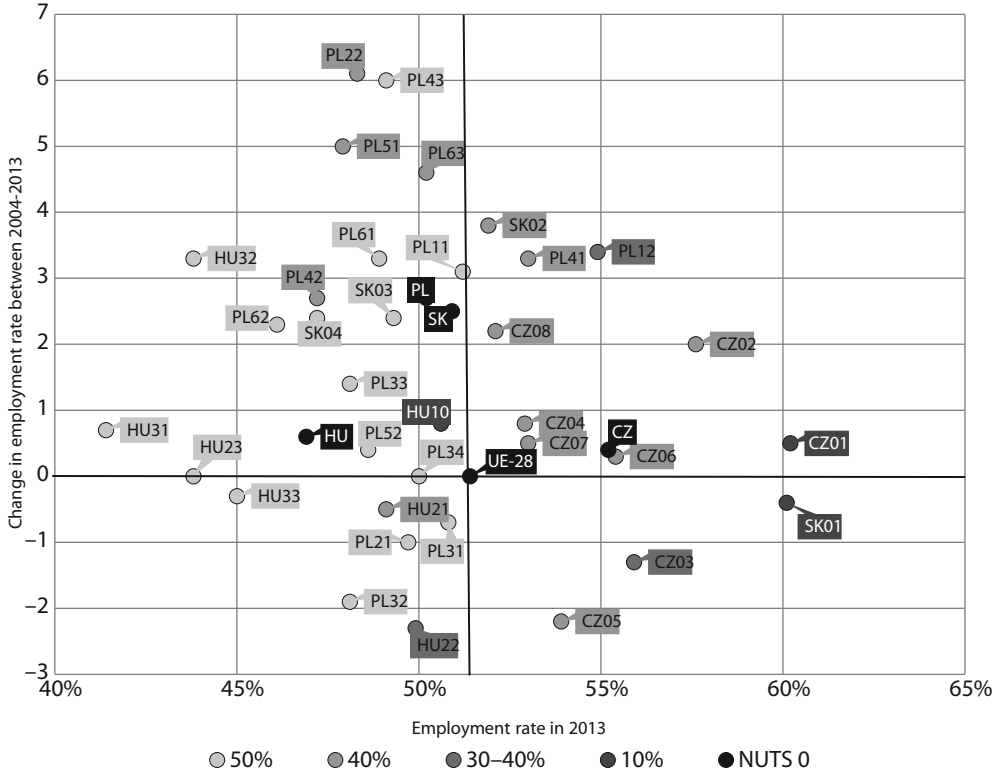
This analysis proves a weak correlation between the ceilings on regional state aid and the changes in and final levels of productivity in regions in the V4 countries. Although the highest ceilings on regional support were applied in the poorest regions, the territories whose GDP per capita was below 45% of the EU average recorded the smallest increase in 2011 in comparison to 2000 and reached the lowest level of productivity in the V4 countries. Moreover, one observed a substantial change in two the richest capita regions, where the ceilings on public support were the lowest. Finally one observed that an increase in productivity was positively related with the initial value in all regions: the highest increase was noted in regions whose productivity was the highest, and the lowest in the poorest areas whose productivity was the lowest.

### 2.3. Labour market

As mentioned before, one of the most important goals of regional state aid was regional development, which can be measured also in terms of changes in the labour market. Therefore, it is worth analysing the potential consequences of regional state aid on employment and unemployment rates in lagging regions in the V4 countries. According to Eurostat, the economic activity rate represents the employed and unemployed persons as a percentage of the population living in private households. Taking into account the potential effects of public support, we assumed that the improvement of investment attractiveness of regions to entrepreneurs (through higher ceilings on regional state aid) should increase the economic activity rate in a given region. The analysis of the changes in the employment rate and ceilings on regional state aid applied in the NUTS 2 regions should allow us to formulate conclusions on possible relations between these variables. We expected that higher intensity of regional state aid should attract inflow of new investment to a given region and induce entrepreneurs to create new jobs. Thus, the employment rate should increase.

The highest rate of employment was recorded in two capital-regions of Slovakia and the Czech Republic in 2013, where the ceiling on regional state aid was the lowest (only up to 10% of GGE) (Figure 4). The observed change in this index was respectively slightly positive and slightly negative in 2013 in comparison to 2004. A substantial increase in the employment rate (4.5–6 p.p. in the period of 2004–2013) was noted in Polish regions, where the ceilings on regional state aid ranged from 40% in Śląskie, Dolnośląskie and Pomorskie to 50% in Lubuskie. An increase ranging between 2–4 p.p. was observed in regions either moderately developed with the ceiling up to 40% (Wielkopolskie in Poland, Západné Slovensko in Slovakia, Strední Čechy and Moravskoslezsko in the Czech Republic), or in less and the least developed areas with the highest admissible ceiling on public support up to 50% (e.g. Kujawsko-Pomorskie and Warmińsko-Mazurskie in Poland, Stredné Slovensko and Východné Slovensko in Slovakia, Észak-Alföld in Hungary). There is also a group of regions which recorded only a slight increase or even a drop in the employment rate in the period of 2004–2013, although many of them offered the highest ceiling on regional state aid up to 50% of GGE (e.g. Małopolskie, Lubelskie, Podkarpackie in Poland, Dél-Alföld in Hungary) or slightly less, up to 40% (e.g. Közép-Dunántúl in Hungary and Severovýchod in the Czech Republic).

**Figure 4. Changes in the Employment Rate in the NUTS 2 Regions in the Visegrad Group Countries in the Period of 2004–2013**



Notes: abbreviations in annex.  
Source: Own studies, Eurostat.

Thus, one could not find a clear relation between ceilings on regional state aid and changes in employment rate, although this kind of public subsidies should induce entrepreneurs to invest and create new jobs. Either a substantial increase or a dramatic decrease in employment rate was observed in the regions no matter what maximum ceilings on regional state aid were applied.

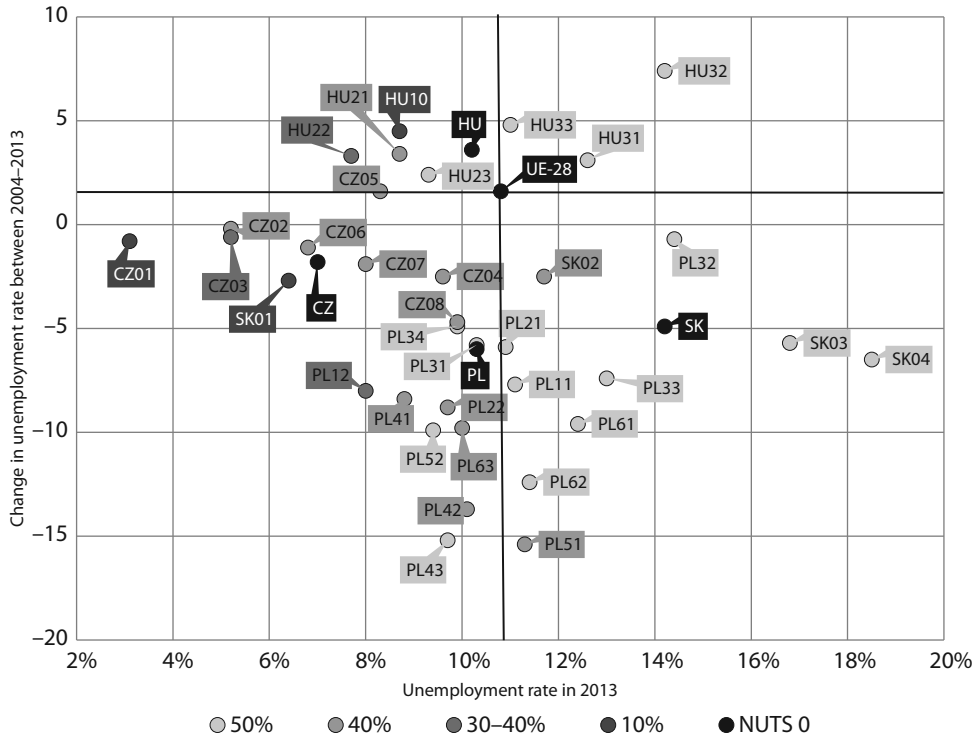
It was also assumed that an increase in the employment rate should lead to a decrease in unemployment rate through the creation of new jobs, either by new investors induced by public subsidies, or by entrepreneurs expanding their businesses in cooperation with new companies attracted to a given region due to a higher ceiling on regional state aid offered there.

The biggest drop in the unemployment rate (ranged between 10–16 p.p. in the period of 2004–2013) was noted in Polish regions (for example: Lubuskie and



Warmińsko-Mazurskie, where intensity of regional state aid was up to 50%, and Dolnośląskie and Zachodniopomorskie with ceiling on public subsidies up to 40% and in capital-region Mazowieckie with much lower intensity up to 30%) and Slovak regions (Stredné Slovensko and Východné Slovensko), however the latter's unemployment rate amounted to the highest level of 17–18.5% (Figure 5). The remaining regions in the Visegrad Group countries can be divided into two groups. The first one mainly consists of areas from the Czech Republic and Slovakia, where the unemployment rate decreased only slightly in comparison to the EU average in the period of 2004–2013. The second group includes regions from Hungary, offering all levels of ceilings on state aid (from 10 up to 50%), where the unemployment rate grew by 2.4–7.4 p.p. in 2013 compared to 2004.

**Figure 5. Changes in the Unemployment Rate in the NUTS 2 Regions in the Visegrad Group Countries in the Period of 2004–2013**



Notes: abbreviations in annex.  
Source: Own studies, Eurostat.

It shows again that it is impossible to identify a clear relation between the intensity of regional state aid and economic development of the NUTS 2 regions in the Visegrad Group countries in terms of unemployment rate. In the period of 2004–2013, there were regions which offered the highest ceiling on regional state aid and recorded an increase in unemployment rate. At the same time, some regions were found where, although admissible ceilings on public subsidies were lower, the unemployment rate decreased in the period of the study.

### 3. The Process of Convergence in Terms of GDP

The outcome of granting regional state aid, which should improve economic conditions in assisted regions, can have an influence on economic development at both regional and national levels and an impact on convergence and divergence of assisted regions. The European Commission classified the EU Member States according to the ratio of their Gross Domestic Product *per capita* to the EU average. As of 2013, the group of less developed Member States consisted only of those who joined the EU in or after 2004, including two of the V4 countries: Poland and Hungary. They recorded the ratio of GDP *per capita* to the EU average in 2013 respectively 68% and 66.8%. Two other Visegrad Countries: the Czech Republic and Slovakia reached much higher levels, respectively 76.3% and 79.9%, and they were included in the group of moderately developed Member States (GDP *per head* between 75% and 90%).

As mentioned before, the primary objective of regional state aid granted to entrepreneurs was not linked to the EU cohesion, but rather to national (interregional) convergence. The lagging regions, assisted by public resources offered to companies, should have caught up with more developed areas. In order to grasp the effects of convergence or divergence in the regions in the V4 countries, the dispersion of regional GDP *per capita* (at NUTS level 2) was analysed. This index is calculated by the sum of the absolute differences between regional and national GDP *per inhabitant*, weighted with the share of population and expressed in percent of the national GDP *per capita*. The value of the dispersion of GDP *per inhabitant* is zero, if the values of regional GDP are identical in all regions of the country, and it will show, *ceteris paribus*, an increase if the differences between the values of regional GDP *per inhabitant* among regions are rising. Following the Eurostat definition, The European Commission used a formula which summarised the differences in GDP *per inhabitant* across the regions of the same country:

$$D = 100 \frac{1}{Y} \sum_{i=1}^n |y_i - Y| (p_i / P)$$

where:

$y_i$  is the regional GDP per inhabitant of region  $i$ ,

$Y$  is the national average GDP per inhabitant,

$p_i$  is the population of the region  $i$ ,

$P$  is the population of the country,

$n$  is the number of regions of the country.

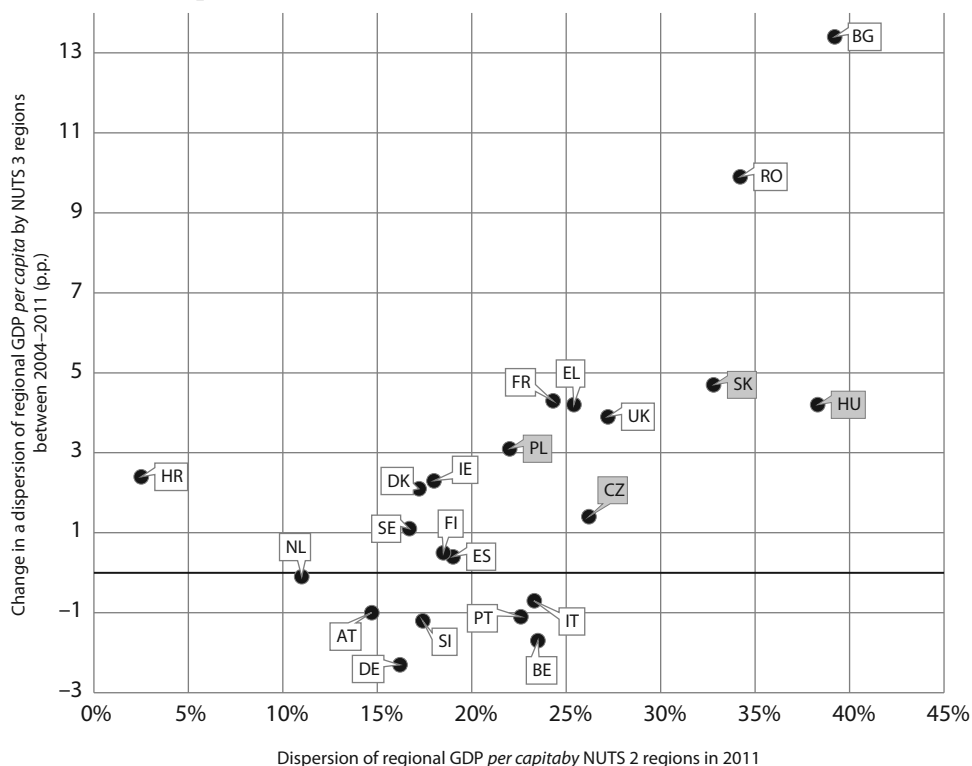
According to available data, we can say that the highest level of dispersion of regional GDP *per capita* was observed in the countries which joined the EU in or after 2004 (Figure 6). There were Romania, Bulgaria and two of the V4 countries: Hungary and Slovakia, who reached indices respectively 38% and 33% in 2011. It means that the GDP of all regions of the latter countries, weighted up on the basis of regional population, differs from the national value by an average of 38% and 33%. In the case of Poland and the Czech Republic, the level of divergence was much lower: 22% and 24.8%. Similar results were observed in other Member States, for example: France, the United Kingdom, Greece, Portugal, Italy and Belgium. However, it should be noted that in the case of all Visegrad Group countries, the dispersion of regional GDP *per capita* at NUTS 2 level increased up to 4.7 percentage points in the period of 2004–2011. The aforementioned rise is worrisome, while the poorest regions in these countries, which should have caught up with the more developed ones, offered much higher ceilings on regional state aid aimed at reduction of regional disparities in the EU Member States. In contrast to new Member States, the majority of old EU Members recorded lower indices of dispersion of regional GDP *per capita* and a decreasing dispersion index, although state aid in their regions was much more restricted in the observed period.

Taking into consideration the abovementioned conclusions, it is worth analysing the position of selected NUTS 2 regions in the V4 countries in relation to the EU average. To this end, we divided all NUTS 2 regions in the Visegrad Group countries into 4 categories, whose GDP *per capita* was below 45%, ranging between 45–60%, and amounting to 60–75% and was above 75% of the EU average in 2005 (when the decision on regional state aid map, including ceilings on public support for the period of 2007–2013, was made) (Figure 7).

The richest NUTS 2 areas in the V4 countries were capital-regions (above 100% of the EU average), where the intensity of regional state aid was the lowest – 10–30% of investment. The biggest increase resulting in the highest rate of GDP *per capita* in relation to the EU average was recorded in two countries in 2011 (Bratislavský kraj

in Slovakia and Praha in the Czech Republic), where indices of regional development disparities were the highest.

**Figure 6. The Dispersion of Regional GDP per Inhabitant at NUTS 2 Level in Member States of the European Union in 2004–2011**



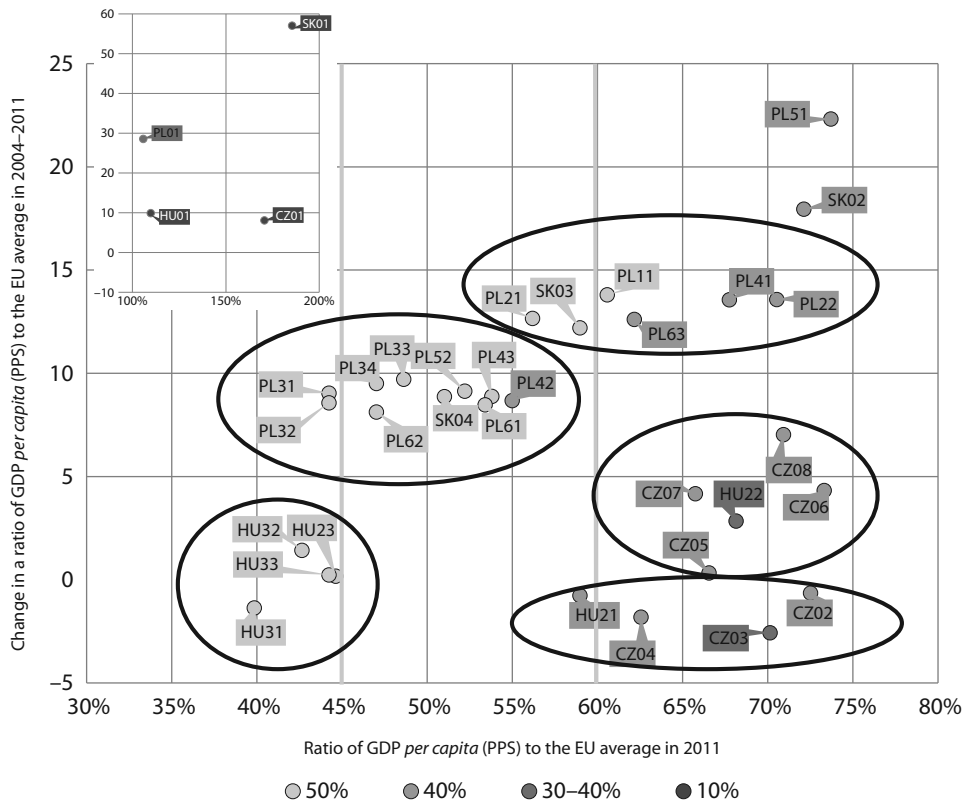
Notes: abbreviations in annex.

Source: Own studies, Eurostat.

The next category covers regions, where a ceiling on regional state aid was slightly lower and ranged between 30–40% of GGE in the period of 2007–2013. The biggest increase in GDP *per capita* in relation to the EU average was observed in Dolnośląskie (Poland), Západoé Slovensko (Slovakia), by respectively 22 p.p. and 18 p.p. in 2011 in comparison to 2004. Three other Polish regions with 40% regional state aid ceiling (Śląskie, Wielkopolskie, Pomorskie) and two with the highest (50%) state aid ceiling (Łódzkie i Małopolskie) and one Slovak region (Stredné Slovensko) recorded an increase in GDP *per capita* in relation to the EU average by 12–14%. Much lower growth of GDP *per capita* (up to only 7 p.p. in 2011 compared to 2004) was noted in four regions from the Czech Republic (Severovýchod, Jihovýchod, Strední Morava,

Moravskoslezsko) and one from Hungary (Nyugat-Dunántúl). However, although the ceilings on regional state aid in the aforementioned regions were applied at the level of 30–40%, the ratio of GDP *per capita* to the EU average decreased slightly in three regions in the Czech Republic (Jihozápad, Severozápad, Střední Čechy) and one in Hungary (Közép-Dunántúl).

**Figure 7. Convergence of Visegrad Group Countries Regions in Terms of Changes in a Ratio of GDP *per capita* (PPS) to the EU Average at Current Market Prices in 2004–2011**



Notes: abbreviations in annex.

Source: Own calculations, Eurostat.

As regards the least developed regions, regional state aid map provided the highest ceilings on public subsidies. Nonetheless, lagging areas where the aforementioned subsidies were offered at the highest admissible level, experienced much lower changes in their development. There is a group of NUTS 2 regions (mainly from Poland, with the exemption for Slovak Východné Slovensko) whose ratio of GDP *per capita* to

the EU average increased by 8–10 p.p. in 2011 compared to 2004). However, there is also a group of the poorest Hungarian regions, where this same ceiling on state aid was available, whose GDP *per capita* in relation to the EU average did not change substantially, or even decreased (Észak-Magyarország).

On the basis of the above analysis one could not find a direct relation between ceilings on regional state aid and changes in the ratio of GDP *per capita* to the EU average in NUTS 2 regions in the V4 countries. The biggest increase in regional development in terms of GDP *per inhabitant* was observed in the richest regions, where a ceiling on regional state aid was the lowest. In group of less developed regions, where medium level of ceilings on regional aid was applied, one found areas with a high positive growth of GDP *per capita*, as well as areas with a decrease in this index. Similar situation was observed in the poorest regions with the highest ceiling on state aid. However one could observe that in case of moderately developed regions with ceilings on regional state aid between 30–40% of GGE an increase in GDP *per capita* in relation to the EU average was twice as much as in the poorest regions with the highest ceiling on public support. That leads us to a conclusion on the lack of measurable evidence of a direct link between regional state aid ceilings and the economic growth of NUTS 2 regions in terms of GDP *per capita*.

## Conclusions

In summary, on the basis of the abovementioned findings we can draw five conclusions:

- almost all regions in the V4 countries positively contributed to the convergence of the state as a whole to the EU average in the period of 2004–2013. Due to the fact that much better developed Member States expanded their economy, this achievement of the V4 countries was not pre-ordained;
- the biggest economic and social development in terms of an increase in GDP *per capita* and a decrease in unemployment rate was observed in the best developed regions in the Visegrad Group countries. This concerns mainly the regions where either the capital or large cities and industrial agglomerations were located. This tendency confirmed Krugman's thesis that entrepreneurs tend to locate close to each other, looking for agglomeration benefits in cities or industrial agglomerations, or near transport routes in better developed regions, even though the ceilings on subsidies applied there were lower in comparison to the least developed areas. It seems that they did not rely on assistance from the government, but rather were looking for a higher qualified labour force, a good telecommunication and transport

infrastructure, and a good network of suppliers and buyers. This means that public aid was not a decisive factor in entrepreneurs' location decisions;

- the poorest regions remained the poorest. Even though ceilings on regional state aid were the highest in the poorest regions in comparison to other territories, there was a lower increase or sometimes even a decrease in economic and social indices in comparison to better developed areas, where ceilings on public support were lower. This means that the European funds and other public sources offered within the regional state aid rules were not, by themselves, sufficient factors to attract new investors and boost the economic and social development in the poorest, ill-prepared regions. However, it should be underlined that there is still an open question on effects of the lagging regions without public support on economic development;
- substantial differences in the outcomes of economic and social development in the poorest and moderately (and more) developed regions leads to a divergence within the V4 countries;
- taking into consideration the recent social and economic performance of regions in the V4 countries in the period of 2004–2013, there are many doubts whether the highest ceilings on public subsidies in the poorest territories and much lower in the most developed cities or industrial agglomerations are tailored to the needs and goals of the V4 countries: convergence in relation to both the EU and national averages. On that basis we can argue that the continuation of that kind of regional policy can rather distort competition within the internal market of the EU and stimulate divergence within the V4 countries, instead of improving the overall economic growth and assisting convergence at the regional level.

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## Annex

### **CZ – Czech Republic**

CZ01 Praha  
CZ02 Střední Čechy  
CZ03 Jihozápad  
CZ04 Severozápad  
CZ05 Severovýchod  
CZ06 Jihovýchod  
CZ07 Střední Morava  
CZ08 Moravskoslezsko

### **HU – Hungary**

HU10 Közép-Magyarország  
HU21 Közép-Dunántúl  
HU22 Nyugat-Dunántúl  
HU23 Dél-Dunántúl  
HU31 Észak-Magyarország  
HU32 Észak-Alföld  
HU33 Dél-Alföld

### **PL – Poland**

PL11 Łódzkie  
PL12 Mazowieckie  
PL21 Małopolskie  
PL22 Śląskie  
PL31 Lubelskie  
PL32 Podkarpackie  
PL33 Świętokrzyskie  
PL34 Podlaskie  
PL41 Wielkopolskie  
PL42 Zachodniopomorskie  
PL43 Lubuskie  
PL51 Dolnośląskie  
PL52 Opolskie  
PL61 Kujawsko-Pomorskie  
PL62 Warmińsko-Mazurskie  
PL63 Pomorskie

### **SK – Slovakia**

SK01 Bratislavský kraj  
SK02 Západné Slovensko  
SK03 Stredné Slovensko  
SK04 Východné Slovensko

### **Member States of the European Union**

AT – Austria  
BE – Belgium  
CZ – Czech Republic  
DE – Germany  
DK – Denmark  
EL – Greece  
ES – Spain  
FI – Finland  
FR – France  
HR – Croatia  
HU – Hungary  
IE – Ireland  
IT – Italy  
NL – Netherlands  
PL – Poland  
PT – Portugal  
RO – Romania  
SE – Sweden  
SI – Slovenia  
SK – Slovakia  
UK – United Kingdom



## THE ROLE OF REPAYABLE FINANCIAL INSTRUMENTS IN THE IMPLEMENTATION PROCESS OF THE COHESION POLICY

### Abstract

*The aim of the paper is to present the essence of public aid, its role in the implementation of cohesion policy, the characteristics of non-repayable and repayable financial instruments used for the implementation of cohesion policy in the European Union. The article presents general schemes for the implementation of repayable financial instruments, types of financial engineering instruments implemented at the EU and national level, problems and barriers associated with the implementation of financial engineering instruments in Poland in the financial perspective for 2007–2013 and to determine the role of non-grant financing in achieving the objectives of cohesion policy 2014–2020.*

**Keywords:** public aid, cohesion policy, financial instruments

### Introduction

Repayable financial instruments were first used in the implementation of the cohesion policy in the years 2007–2013. At the time, 2% of the European Union resource allocation was granted to those pilot activities within the aforementioned financial perspective. The Multiannual Financial Framework of the European Union for 2014–2020 envisages the continuation of such actions, i.e. it envisages the continuation of financing the implementation of cohesion policy objectives, not only by means of grants but also by using the repayable financing mechanism. Non-grant instruments, which include credits, loans and guarantees, are considered to be of particular importance.

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The purpose of this article is to present the essence of the public aid, its role in the implementation process of the cohesion policy, the characteristics of non-repayable and repayable financial instruments used for the implementation the cohesion policy in the European Union, and to indicate the existing general schemes for implementation of repayable financial instruments and the existing types of financial engineering instruments implemented at the EU or national level. The paper also discusses the problems and barriers related to the implementation of financial instruments in Poland in the previous financial perspective, i.e. in the years 2007–2013, and defines the role of non-grant financing in the implementation of the objectives of cohesion policy in the years 2014–2020. Professional literature, analyses, reports, information documents and legal acts where used for the purpose of this research.

## **1. Public Aid in the Implementation Process of Cohesion Policy**

Public aid is an important aspect of funding under the cohesion policy support for businesses. At the same time, it is an issue that generates problems for both public entities providing such support and private entities receiving this support. During the implementation of the cohesion policy for the 2014–2020 period, public support is to occur more often than before (Eurofundusze 2015).

The basic regulations on state aid are provided in Article 107 of the Treaty on the Functioning of the European Union, according to which state aid is “...any aid granted by a Member State or through State resources in any form whatsoever...”. Public aid may only be granted if it is compatible with the common market, i.e. if the aid is:

- intended to promote economic development of areas where the standard of living is abnormally low or where serious underemployment occurs;
- intended to promote the execution of important projects of common European interest or to remedy a serious disturbance of the economy of a Member State;
- intended to facilitate the development of certain economic activities or of certain economic areas where such aid does not adversely affect trading conditions to an extent that is contrary to the common interest;
- intended to promote culture and heritage conservation where such aid does not affect trading conditions and competition in the Union to an extent that is contrary to the common interest;
- other categories of aid, as may be specified by the decision of the Council on a proposal from the Commission (Official Journal 2012).

State aid in the meaning of the aforementioned Treaty is very widely defined.

Public aid is any kind of aid regardless of the form. It is, therefore, financial support for entrepreneurs, which involves the use of public resources complemented with the entrepreneur's own contribution. The essence of granting public aid is to facilitate the achievement of a specific objective which will benefit the enterprise, local society and the economy while safeguarding competition.

There are three categories of public aid:

- regional, with the criterion for recognition being the place of business;
- horizontal, which is addressed to all entrepreneurs who – when granted financial support – will contribute to the improvement of operating conditions without conflicting the purposefulness of horizontal support;
- sectoral – the admissibility of which is determined on the basis of whether a given enterprise belongs to the sector to which that aid is addressed (Kozuch 2011: 70).

Public aid issues in cohesion policy for the period of 2014–2020 are regulated in detail by the Commission Regulation (EU) No. 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market under Articles 107 and 108 of the Treaty. The regulation replaced the Commission regulation (EC) No. 800/2008. It specifies the conditions for granting public aid (branches of the economy), its types, procedures to be followed, parties to the process and their obligations. This regulation governs the application of the following categories of public aid:

- regional;
- for SMEs in the form of investment aid and operational aid and in access of SMEs to financing;
- for environmental protection;
- for research, development and innovations;
- for trainings;
- for the recruitment and employment of disadvantaged workers, in particular of disabled workers;
- to make good the damage caused by certain natural disasters;
- of social nature in the field of transport for residents from remote regions;
- for broadband infrastructure;
- for culture and preservation of cultural heritage;
- for sport infrastructure and multifunctional recreational infrastructure;
- for local infrastructure of various types (Eurofundusze 2015).

In Poland, The Ministry of Infrastructure and Development prepared drafts of regulations governing the granting of public aid in the abovementioned categories, as given in the EU regulation. The aid will be transferred to entrepreneurs under the Regional Operational Programmes in the form of:

- regional investment aid for the enhancement of competitiveness of micro, small and medium-sized enterprises (SMEs), and
- public aid for entrepreneurs’ investments in culture, energy efficiency and systems of high-efficiency cogeneration, as well as the promotion of energy from renewable sources.

Accordingly to the flows of public funds, state support may take various forms, i.e. the form of direct aid if the aid is transferred from resources of state budget, local/regional authorities or other financial institutions, and the form of indirect aid if the enterprise receives tax exemptions, tax relief or tax deferrals. In the European Union, any support for entrepreneurs coming from public resources registers as public aid and must be subject to strict control (that including subsidies from EU funds).

2. Characteristics of Non-repayable and Repayable Instruments of Public Aid

The European Union’s guidelines allow for non-repayable and repayable forms of public aid: grants and tax rebates, capital-investment subsidies, soft loans, credit sureties and guarantees. The division between repayable and non-repayable forms of public aid is presented in Table 1.

Table 1. The Division Between Repayable and Non-Repayable Instruments

Repayable instruments		Non-repayable instruments	
capital	debt	direct	indirect
venture capital	loans	grants	interest subsidy
seed capital	surety	subventions	callable loans
	preferential credits	exemptions or tax reductions	

Source: Kryskova 2013: 5.

The form of non-repayable public aid is based on the grant facility. The beneficiary who applies for investment subsidy form EU funds can count on support in the form of a non-repayable grant. The biggest recipients of this form of aid are enterprises, regional/local authorities and farms (agricultural enterprises). This support is targeted at investment activities which facilitate economic development and aim to reduce socio-economic disparities in relation to other EU countries. Whereas the repayable form of aid refers to products known as financial engineering instruments that are

offered by financial intermediaries such as banks, loan or guarantee funds (Pełka 2012: 224). The term “financial engineering instruments” is specified in Article 44 of the Regulation of the Council of the European Union No. 1083/2006, according to which – as part of the operational programme – the structural funds can be allocated to financing contributions in support of financial engineering instruments for enterprises – primarily small and medium-sized ones, such as<sup>1</sup>:

- venture capital funds;
- guarantee funds and loan funds;
- urban development funds, that is funds investing in public-private partnerships;
- other projects included in an integrated plan for sustainable urban development.

A characteristic feature of financial engineering instruments is its renewal feature for future beneficiaries through the revolving support system. Therefore, in contrast to the grant support system hitherto in force, the final beneficiary cannot count on non-repayable aid, but can gain easier access to financial services offered on terms more favourable than usual. However, the received funds must be returned and then redistributed by the financial intermediary to the SME sector or to regional/local authorities (Instytut Badań nad Gospodarką Rynkową 2010: 10). The fundamental differences between the aforementioned forms of aid refer to such issues as: the repayability of funds, the kind of entity applying for support, the impact on competitive conditions and the economic efficiency of the use of a given source of financing. The facility of non-repayable subsidies can cause distortion in competitive conditions (Pełka 2012: 224–225). The entities which received the subsidy could eliminate from the market the companies that did not receive such support. This does not occur when implementing the new financial instruments as the acquired financial resources are to be returned on conditions comparable to commercial terms. The peculiarity of repayable financing, in comparison with subsidies, is the ability to extort economic efficiency of the projects in which the funds were invested. The investor benefiting from the loan is obliged to maintain such profitability of the investment that secures the repayment of the debt (Pełka 2012: 225–226).

M. Szczepański points to the positive and negative aspects of the use of financial engineering instruments. Proper use of financial engineering enables, *inter alia*, to:

- increase the sustainability of the EU cohesion policy through the ability to reinvest the resources;

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<sup>1</sup> Council Regulation (EC) No. 1083/2006 of 11 July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No. 1260/1999 Section 4 financial engineering instruments Article 43–46. For each of the aforementioned areas at the Community’s level, separate principles of implementation were defined in the COCOF notes (Committee of the Coordination of Funds)

- strengthen the cooperation between administration, enterprises and financial institutions;
- build institutional capacity – partnership and trust between public and private sectors;
- provide stronger incentive for efficiency of public spending;
- use the financial leverage effect.

Beside the abovementioned advantages, attention should also be paid to certain limitations, such as:

- repayable instruments are, on principle, less favourable to beneficiaries/investors than subsidies. The obligation to return obtained support is one of the reasons some entrepreneurs are disappointed by the gradual reduction of the subsidy system;
- repayable instruments are more difficult to set up and service. In case of grants, the problem of return, on principle, does not exist and it is easier to control the sustainability of the project;
- repayable instruments can and should finance revenue-generating projects. Whereas, within the framework of cohesion policy, the majority of implemented projects are non-profit projects;
- not all potential beneficiaries, at least in the Polish conditions, are qualifiable for external financing offered by financial institutions, e.g. such is the case of small or newly formed non-governmental organisations;
- for effective launching of repayable instruments it is necessary to involve a series of public and commercial institutions such as banks, loan and venture capital funds etc. into the institutional system. Currently, under the conditions of the Polish environment, the support is granted mostly by public institutions (such as ministries and other entities of the public finance sector) or regional development agencies, which are mostly public liability companies with the majority shareholding of local/regional authorities (Szczepański 2011: 8–9).

It is worth noting that, in contrast to the non-repayable grants system, in case of repayable mechanisms it is not the entrepreneur who applies for the EU funding, but financial intermediaries which thereupon distribute the funds to enterprises from the SME sector and local/regional governments in the form of loans (including micro-credits), sureties or re-guarantees and capital entry (equity type) (Lepczyński, Penczar 2013: 85).



### 3. Financial Instruments Implementation Schemes

The Community's regulations indicate two basic schemes for creating financial engineering instruments within the operational programmes. The first scheme involves making a direct contribution to the financial engineering instrument (fund), which then – as part of its activities – makes funding available to final beneficiaries (e.g. enterprises or investors implementing urban projects). Noteworthy, in this model the criteria for the selection of financial intermediaries, i.e. the institutions participating in the distribution of repayable financial instruments to the final beneficiaries, are subject to approval by the monitoring committee for the operational programme. In Poland, this scheme was implemented by the majority of managing authorities (MAs) of the regional operational programmes (ROP), which made public funds available to the operating loan and guarantee funds. The second scheme involves the appointment by a Member State or a managing authority of a holding fund (HF), i.e. a fund set up to invest in financial engineering instruments. The functions of a holding fund can be conducted by:

- an entity that was awarded the contract in accordance with applicable public procurement law;
- the European Investment Bank or the European Investment Fund, in which case the managing authority does not need to compare offers of other institutions and can limit the contract negotiations to those two institutions.

A financial institution which can be selected without a tender procedure, if that is pursuant to national law and the Treaty. In Poland, this model was used in the case of measure 3.2 of the Operational Programme Innovative Economy (OPIE) – the beneficiary of the individual project of supporting venture capital funds is the National Capital Fund, which, in this case, *de facto*, performs the function of a holding fund. What is important from the point of view of the managing authorities for the operating programmes under which the financial instruments are implemented, the holding funds are not subject to the compliance audits as defined in Article 71 of Regulation 1083/2006 (i.e. their internal procedures are not examined) (Szczeptański 2011: 10).

## **4. Financial Engineering Instruments Implemented at the EU and National Levels**

Financial engineering instruments can be implemented at the EU and national levels. At the EU level, projects JOSEFIN (JOint SmE Finance for INnovation, in other words, common funding for SMEs' innovations) and JASMINE were implemented within the framework of the International Cooperation Programme. JOSEFIN was a pilot project implemented within the framework of the Baltic Sea Region Programme 2007–2013 under the European territorial cooperation co-financed by the European Union from the resources of the European Regional Development Fund. JOSEFIN was formed by 23 partners from the Baltic Sea Region (Germany, Sweden, Latvia, Lithuania, Poland, Estonia and Norway) and is addressed to entrepreneurs from those regions that look to open subsidiary companies in other countries with the aim to develop a given product or service and to penetrate international markets, or that wish to establish a cooperation with foreign enterprises fostering joint development of a new product, service or technology (region.zgora.pl 2015), whereas JASMINE is the forth joint initiative of the Commission, the European Investment Bank and the European Investment Fund. The initiative was created to increase the potential of microcredit/micro-finance institutions (<http://ec.europa.eu> 2015) – in various areas, for instance in the area of good governance, information systems, risk management and strategic planning, and to help those entities become sustainable and viable players in the market of microcredits. Moreover, at the EU level and under framework programmes, the following were implemented:

- The High Growth and Innovative SME Facility (GIF) – an instrument for financing small and medium-sized enterprises and reducing the gap in demand for venture capital. One of the priorities is to support innovative companies with high growth potential, in particular those that undertake research innovation activities. The instrument consists of two elements: GIF1 and GIF2. The first element concerns investments made in the early stage of company development, while the second covers investments at the expansion stage. The instrument is managed by the European Investment Fund. The support is addressed to venture capital funds, which in turn make the funds available to the enterprises (Pelka 2012: 233).
- The SME Guarantee Facility (SMEG) – a system of guarantees for the SME sector. It encompasses guarantees for credits, loans, leases, microcredits and capital investments. It is addressed to financial intermediaries such as banks, loan funds, guarantee loans, leasing institutions and all financial institutions involved in the financing of small and medium-sized enterprises. The European Investment Fund,

which is the managing authority, carries out pre-selection of submitted applications. In case an application is accepted, visits to the headquarters of the applying financial institution are organized. Once the applicant has complied with all the conditions, the EIF proposes the acceptance of the application to the European Commission and the Commission takes the final decision on the approval of a financial institution and its project (Pelka 2012: 233).

- The Capacity Building Scheme (CBS) – a system of capacity development for financial intermediaries by increasing credit supply to small and medium-sized enterprises and improving the credit appraisal procedures. The programme aims to promote investments, implementing technologies and providing knowledge about the funds and financial intermediaries investing in the SME sector. This instrument is managed with the involvement of international financial institutions, including the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (Pelka 2012: 234).

In the Financial Perspective 2007–2013, for the first time, actions were introduced that were carried out under operational programmes and financed with instruments of repayable nature of the EU financial engineering. The scale of use of repayable instruments in the aforementioned period was insignificant and oscillated around 2% of the overall EU support for Poland. It is important, however, that the experience acquired in the process of implementation of financial instruments can be put to use in the Financial Perspective 2014–2020, in which the share of repayable mechanisms in the structure of financing instruments for EU projects is considerably higher. At the level of national programmes under the Operational Programme Innovative Economy, technological credit and support for the venture capital market were implemented. The technological credit was an instrument designed to support investments consisting in the implementation of new technologies in micro, small and medium-sized enterprises. The subject of the investment concerned the implementation of own or acquired new technology (in the form of ownership of industrial property rights), research and development services or unpatented technical knowledge that could lead to the production of new or significantly improved products, processes or services. The technological credit was granted under the Act of 30 May 2008 on some forms of support for innovative activity (Journal of Laws 2008). The beneficiaries of the aid were companies from the sector of small and medium-sized enterprises. The credit was granted by the banks cooperating with the National Economy Bank, which served as the implementing authority. The maximum amount of the credit was 50 million EUR, whilst there was a possibility of a partial repayment in the form of the technological bonus, which could not exceed 4 million PLN. The beneficiary was obliged to demonstrate own contributions of at least 25% of eligible expenditure. Due to a very

positive reception of this form of aid by entrepreneurs, the technological credit is to be implemented in the financial perspective 2014–2020 as well.

Under the national Operational Programme Development of Eastern Poland, sureties and guarantees were offered in the form of re-guarantees for guarantee funds in support of SME sector in five voivodeships of Eastern Poland, i.e. the Voivodeship of Lublin, the Voivodeship of Sub-Carpathia, the Voivodeship of Podlaskia, the Voivodeship of Kielce and the Voivodeship of Varmia and Masuria.

Under the Operational Programme Human Capital loans were granted to social economy entities. The entities could apply for a loan if they had been conducting business activities for at least 12 months before the date of submission of the application. The loans were addressed to:

- workers cooperatives;
- cooperatives of the blind and disabled;
- non-governmental organizations or entities listed in Article 3(3) of the Act of 24<sup>th</sup> of April 2003 on Public Benefit and Volunteer Activities (Journal of Laws dated 29<sup>th</sup> May 2003 as amended ), i.e.:
- legal persons or organizational units acting on the basis of regulations on the relations between the State and the Catholic Church in the Republic of Poland and on the relations between the State and other churches and religious associations and on the guarantee of liberty of conscience and religion, if their statutory goals include carrying out public benefit activities;
- social cooperatives;
- public limited companies or private limited liability companies or sports clubs operating as a company on the basis of the provisions of Act of 25<sup>th</sup> June 2010 on sports that do not operate for profit and spend all their income on implementing the statutory objectives and do not distribute the profits between their stakeholders, members and employees.

The loans could be allocated exclusively to undertakings influencing the development of social business through actions aimed at generating or increasing profits, or a balance surplus, or an increase of employment, according to the information provided in the applications for the loan.

Financial engineering instruments were also implemented within the frameworks of initiatives JESSICA and JEREMIE under the regional programmes at the level of selected regions. The JEREMIE initiative (Joint European Resources for Micro-to-Medium Enterprises) is a new form of EU support for micro, small and medium-sized enterprises. The initiative is intended to depart from traditional non-repayable instruments and substitute them with repayable financial instruments – credits, loans and guarantees. Grant facilities and the JEREMIE initiative have a common objective.

First and foremost, JEREMIE is intended to support those enterprises that would have difficulties in obtaining commercial credits in banks, thus those starting their business activities, not having a credit history or appropriate means to secure the credit according to a bank's standards. Resources available within the JEREMIE initiative are of repayable character, whereby funds provided to the beneficiary are returned to the pool once the beneficiary completes his intended undertaking (that was the subject of support), and can then be reused for investments undertaken by another entrepreneur. As a result, the resources are in constant use and function as a kind of flywheel for the development of entrepreneurship in the regions. In Poland the JEREMIE initiative is implemented by the managing authority of the regional operational programme by means of regional JEREMIE holding funds. Having completed the procedure laid down in Article 44 of Regulation 1083/2006, the managing authorities of the regional operational programmes entrusted the National Economy Bank (Bank Gospodarki Krajowej) with the role of the manager of the JEREMIE holding fund in five regions (Samitowska, Mielczarek 2013: 469–470), i.e. the Voivodeship of Greater Poland, the Voivodeship of West Pomerania, the Voivodeship of Łódź, and the Voivodeship of Pomerania.

JESSICA is an initiative of the European Commission and the European Investment Bank. This initiative enables Member States to finance sustainable investments in urban areas. Funding of the investments is provided in the form of repayable instruments, for instance loans, so that once-invested funds can be used repeatedly. The initiative is intended to complement the traditional model of using structural funds (subsidies) and enable Member States to invest part of the resources within the framework of repayable instruments for investment in projects included in integrated plans for sustainable urban development. As part of the JESSICA initiative, the funding is also provided to investments that render beneficial social effects – by dint of this initiative it should be possible to support revitalisation projects, which previously might have faced difficulties in obtaining financing on market terms. Revitalisation projects encounter barriers in financing, primarily because of their relatively low profitability (Szczepeński 2011: 15) (which is mainly attributed to their social component, which negatively affects the return on investment) and thereby the lack of possibility to generate financial surplus that would be sufficient to repay a loan granted on market terms. Within the JESSICA initiative, the National Economy Bank (BGK) performs the role of the Urban Development Fund for the Voivodeship of Greater Poland and the cities with powiat status in the Voivodeship of Pomerania. Performing the role of the Urban Development Fund, the bank offers the investors implementing urban projects preferential financial support under the JESSICA initiative implemented with funds available within the framework of the Regional Operative Programme 2007–2013 for

the aforementioned regions. The initiative is being carried out in five regions (bgk.pl 2015): the Voivodeship of Greater Poland, the Voivodeship of West Pomerania, the Voivodeship of Silesia, the Voivodeship of Pomerania and the Voivodeship of Masovia.

## **5. Problems and Barriers Related to the Implementation of Financial Engineering Instruments in Poland 2007–2013**

The implementation of financial engineering instruments was welcomed by the SME sector in Poland. Research on the effectiveness of this form of support indicates positive effects for both the beneficiaries and the regions. For instance, research shows that in the Voivodeship of West Pomerania the beneficiaries allocated the funds primarily to investments in fixed assets. The purchases of machinery and equipment clearly prevailed over others and comprised almost 82% of the projects. Relatively few beneficiaries purchased entire technological lines, arguably because of the high costs usually involved. The beneficiaries also used the resources to buy software and computer hardware. Hardly ever did the beneficiaries decide to purchase consultancy services or intellectual property rights. Machinery and technical equipment are the predominant group in the structure of expenditures on the innovative activities, with the second most frequent being investment expenditures on fixed assets – buildings, premises, offices, civil engineering structures and land (PSDB 2013: 50–51).

In the Voivodeship of Varmia and Masuria over 60% of beneficiaries allocated the funds to fixed assets, investments, purchases of means of transport. The effectiveness of support consisted in the introduction of a new product to the offer and the improvement of the existing product or service, which translated into increased revenues for the beneficiaries. Research revealed that loans (and to a lesser extent, guarantees) are economically effective tools, as they yield better results than bank financing on commercial terms. Financial engineering tools improved the competitive position of the sector of small and medium-size enterprises (enhanced product and process innovativeness). Financial instruments in the form of loans also prompted an increase of employment. Among the beneficiaries of the loans a substantially smaller decline in employment was observed. In addition to the aforementioned positive phenomena, the research showed that, unfortunately, loans and guarantees do not have a distinguishable impact on territorial extension of selling markets. This is due to two reasons: firstly, the existence of limitation on the amounts of available loans, and secondly, the local nature of business activities of the beneficiaries. Analysis showed

that in the group of beneficiaries involved in export an increase of export (by 44%) indeed did ensue (PSDB 2013: 119–128).

Meanwhile, in the Voivodeship of Silesia over half of the loan agreements were signed with micro entrepreneurs. However, due to higher amounts of the loans for small and medium-sized enterprises, it was those entities that were granted the majority of overall funds. The strongest interest in loans was exhibited by enterprises operating in services and manufacturing and 64% of value of all loans was allocated to those businesses. The remaining part was transferred to trade companies (22%) and construction companies (8%, with 6% being distributed among companies other than those mentioned. Research revealed that enterprises took loans on investments on average 3–4 times more often than on the functioning of their current business activities (*Analiza ...* 2012: 43–47).

In addition to the abovementioned positive effects, which actually occurred in the regions implementing financial engineering instruments, attention should also be given to fundamental problems and barriers related to existing legal acts regulating these issues. A study regarding the assessment of the implementation of financial engineering instruments, conducted within the framework NSRO 2007–2013, indicated that one of the essential problems related to financial engineering instruments, supported from the resources of the European Union, was a very small number of regulations on the functioning of the instruments and the high degree of generality of those regulations. Hence aroused the need for additional support in the form of the so-called COCOF notes (the Coordination Committee of the Funds). The notes never were legal acts, but a kind of guidelines for Member States. Unfortunately, in the absence of adequate regulations, many managing authorities included COCOF notes in their agreements with financial intermediaries as means of regulation of their activities. Considering the very wording of the notes (e.g. “it is advisable”) and the fact that they were addressed *de facto* to the governments of Member States and relevant managing authorities, it should have been clear that the notes were rather guidelines than binding legal acts – such an approach had to lead to grave misunderstandings and confusion (Program Innowacyjna Gospodarka 2013: 126).

Another very important problem occurring in the programming period 2007–2013 was the prohibition of the so-called duplicate financing, which had significant negative impact on the operations of loan and guarantee funds (an impact on operations of capital funds and their portfolio companies was also identified, but to a lesser extent). This principle is quite obvious in the case of subsidy programmes and prohibits double financing of the same expenditure from public sources. In the case of repayable instruments, however, the interpretations of this principle are very divergent. In its most restrictive and quite prevalent but also disputable version, the

principle referred to the prohibition to combine different types of financing from EU resources within a single undertaking. Such an approach generated a certain specific problems as listed below:

- most often the guarantee funds – which received support under a given regional operational programme – lacked the ability to guarantee loans granted by loans funds – which also received support under a given regional operational programme. The ban, however, pertained only to financing within one regional operating programme, thus it was possible to guarantee such a loan if one of the instruments was financed within the regional operating programme and the other instrument was financed from own resources of the fund. However, due to the fact that many funds wanted to first and foremost implement the project, they had limited willingness to give loans/guarantees from own resources. In general, the majority of funds (depending on the stance of respective managing authority) shunned such a combination of financing. Conducted analyses have shown that in the case of guarantee funds, which received support under a regional operating programme (excluding JEREMIE), the share of guarantees granted from own resources was actually quite significant, reaching the levels of 70–80%. This was most probably caused by the limitations on the possibilities of providing support of strictly circulating nature. In the case of loan funds, the share of loans granted from the resources of regional operational programmes was very significant and varied between 50 and 100% of the total portfolio of individual funds;
- the lack of possibility to merge guarantees given within the ROP with grant financing. Divergent decisions were made regarding this issue. In some cases, it was suggested that such merging is possible as long as a determined level of public aid intensity is not exceeded. In other regions, the possibility of combining debt financing with grants within one undertaking was not admitted on principle;
- the matter of combining the support provided under the multiannual Competitiveness and Innovation Programme (CIP) and the support obtained from other EU resources. The rules regarding these issues were very unclear. On the one hand, it was possible, for instance, to guarantee a credit within the scheme of the CIP from the credit lines of the European Investment Bank. Then on the other hand, to approach the issue of the transfer of monies to the funds implementing projects financed under the regional operational programmes was very unclear. The case study presents the instance of the Polish Guarantee Fund LLC (Polski Fundusz Gwarancyjny Sp. z o.o.). This was a clear case of the impossibility of providing re-guarantees of the European Investment Fund to the guarantees provided from the resources of the regional operating programmes. However, the EIF's stance went even further as it claimed that if a fund is receiving support within the regional operating



programme in a given area/region, it is eligible for re-guarantees of the EIF only in other areas/regions (Program Innowacyjna Gospodarka 2013: 127).

The diverse approaches among the managing authorities and the funds themselves coupled with the lack of clear interpretations on the issue, resulting from, on the one hand, a rather restrictive approach of the European Commission, on the other hand, quite understandable concerns of the Polish administration regarding the loosening of requirements – all of this caused adverse diversity of approaches of the various managing authorities and relevant financial intermediaries (Program Innowacyjna Gospodarka 2013: 128).

Within the framework of the JEREMIE initiative and the Operational Programme Development of Eastern Poland the role of financial intermediaries could be performed by both banks and other institutions (non-banks), such as loan and guarantee funds. Due to different legal regulations regarding banks and non-bank institutions, sometimes problems did arise. It is indeed very difficult to formulate identical procedures (e.g. recovery procedures) for both kinds of institutions. The existence of uniform procedures for both has caused (and still causes) certain specific legal problems. Therefore, the researchers who had perused the report recommended the following alternative solutions for the future:

- developing competition documentation (or of its more “sensitive” parts) in two versions: one for banks and another for non-bank institutions. Such a solution will surely prove to be very labour-intensive, but it may well be the only feasible one.
- developing appropriate procedures (reporting, billing and recovery-related) at the stage preceding the official announcement of a competition and consulting such procedures with potential financial intermediaries. Such a solution, though certainly not easy, would allow to avoid at least some of the problems at the stage of project implementation (Program Innowacyjna Gospodarka 2013: 128).

A major problem for many funds was the issue of tax obligations regarding corporate income tax on financial income (interest on deposits and loans, and commissions) from transferred funds. The problem concerned many of the funds. Its essence boiled down to the status of the transferred funds. In the case of agreements concluded with respective managing authorities of the operational programmes, the transferred resources were of unequivocally or potentially repayable character and many institutions addressed the relevant tax offices with a request for interpretation whether they should pay corporate income tax on the income derived from the transferred funds. The funds were of the opinion that because those were not actually their property, they did not have to pay tax on said income. Unfortunately, in many cases, the decisions of tax offices were negative, which obviously initiated a lingering appeal procedure, which fortunately sometimes ended in success. The

essence of the problem was the status of the transferred resources – whose property they were, and therefore whose obligation it was to pay the related tax. According to the research, this problem did not occur at the level of financial intermediary within the JEREMIE initiative. The transferred funds were entirely and unambiguously of repayable character, with the exception of the so-called incentives, which in turn were deemed as income that is subject to taxation. This issue unquestionably requires to be regulated in the subsequent programming period. In the case of all resources the status of which is not unequivocally clear (for instance, no return of resources upon fulfilment of certain conditions), it should be unambiguously determined who in a given situation is responsible for paying corporate income tax on any income related to the transferred funds or (in cases where this would be the duty of the fund) it should be made possible to finance them from the financial incomes (Program Innowacyjna Gospodarka 2013: 129).

The examination of the implementation of financial engineering instruments in the years 2007–2013 in Poland revealed that regulations on public finances are not adapted to the specificities of repayable instruments. Of fundamental importance here are the provisions of Article no 207(1) of the Act on public finances, which mentions the necessity to return transferred funds together with interest as from tax arrears (their rate in March 2013 stood at 12.5% annually) in cases where provided European funds were used contrary to their purpose or without observing relevant procedures. If this regulation is applied, for instance, to using a loan or a credit guaranteed under the regional operating programme for purposes other than development purposes (as it is usually required), then a very serious legal issue emerges. If a loan is put in foreclosure, very serious problems on the side of the entrepreneur may arise and in the case of smaller enterprises this could even lead to bankruptcy. Another problem is the issue of whether the regulation on interest applies – after all, the majority of loans are interest-bearing. An even bigger problem arises in the case of sureties which are non-renounceable and monies can be asserted after its expiry or independently of it. Also in case of guarantees “the amount to be returned” poses a major problem. If the guarantee has not been paid, the final beneficiary has not been given any funds whatsoever. Unfortunately, the most logical though at the same time fairly absurd approach might be (in the case of guarantees that are *de minimis* aid) to assume that the amount to be returned is equal to gross grant equivalent, which – considering the horrendously high EDB conversion factor of 13.3% of the value of the guarantee – may lead to very serious problems (Program Innowacyjna Gospodarka 2013: 133).

## 6. Other Repayable Instruments in the Financial Perspective 2014–2020

The principles of financing the EU cohesion policy in the financial perspective for 2014–2020 were set out in the Multiannual Financial Framework 2014–2020, which is closely related to the Europe 2020 Strategy. The plan assumes that non-grant instruments are to be a relevant element of cohesion policy financing. Particular importance is attributed to such instruments as credits, loans, guarantees and participating equities (The European Commission 2011: 4). Solutions in this sphere are provided in the regulation (EU) No. 1303/2013 of the European Parliament and of the EU Council dated 17<sup>th</sup> December 2013, which lay down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund, and also lay down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund, and which repeal the Council Regulation (EC) No 1083/2006. The regulation assumes (UE L 347/320):

- the use of financial engineering instruments in relation to all thematic objectives and priorities envisaged in the new programmes in the event of demand for investments or when irregularities in the functioning of the market occur;
- consent to combine financial repayable instruments with grant support, in which case separate documentation will be required for each form of financing;
- commitment of Member States to make thorough assessment and determine the actual financial gap. On this basis, it will be possible to develop and implement specific instruments and the resources invested in this kind of support will serve the beneficiaries for at least 10 years after the closure of a given programme. Financial instruments set at the EU level will be managed by the European Commission, while those established at the national, regional or cross-border level will be subject to the supervision of relevant managing authorities;
- the strengthening of coordination and control of new instruments in order to avoid an overlap of various means of support.

Additionally, it is also planned to launch repayable instruments heretofore not in use in the Common Agricultural and Fisheries Policies. In the financial perspective 2014–2020 15% of allocation is planned to be assigned to financial engineering instruments, which may account for even 10 billion EUR and is a disproportionate amount when compared with amounts hitherto earmarked for this purpose, which amounted to 1 billion EUR – this is equal to 2% of allocation. As in the previous

financial perspective, repayable instruments will also be available at the European Union level.

## Conclusions

In the years 2007–2013 financial engineering instruments attracted a lot of interest on the side of entrepreneurs. By dint of cheaper and more accessible capital, both micro, small and medium-sized enterprises could develop their business activities, and thus contribute to the achievement of the national objectives set within the framework of the EU cohesion policy. The European Commission proposed, in addition to financing through grants, to make possible the provision of support for enterprises and other entities in the form of repayable financial instruments for the years 2014–2020. The European Commission decided to assign 15% of allocations for this purpose. The advantages of financial engineering instruments argue for the increasing of their share in financing within the framework of EU funds. Unlike non-repayable instruments, repayable instruments can still be used even in subsequent years when they have already been repaid and can therefore stimulate economic growth. According to the assumptions of the European Commission on the implementation of the cohesion policy in the years 2014–2020, these instruments can be applied to all kinds of investments, which expands the possibilities of their use.

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## **SMART REGIONS AND CITIES SUPPORTING CLUSTER DEVELOPMENT AND INDUSTRIAL COMPETITIVENESS IN THE EUROPEAN UNION. AFRICA'S SMART REGION DEVELOPMENT INFLUENCING GLOBAL COMPETITIVENESS**

### **Abstract**

*Smart city solutions are proving to be effective in socio-economic development worldwide. Europe's smart city initiatives have a positive effect on cluster development, which in turn benefits Europe's economy by integrating private, public and educational institutions. Most clusters today are focusing on growth in key strategic industries, e.g. initiatives developing the so-called Key Enabling Technologies in order to bring innovative market solutions. Nevertheless, the European Union isn't an isolated case and many European enterprises and innovators need to adapt to a fast-changing world. In order to stay competitive, European enterprises need to acknowledge rapidly growing Asian-based organisations. In the changing world, Africa is quickly rising as the next economic frontier, where most global leaders are looking to invest due to favourable future predictions. Africa, seeing its opportunity, is opening up to new industrial solutions that could further attract many more investors to a continent historically ravaged by poor performance.*

**Keywords:** smart city, smart region, clusters, global competitiveness, Sub-Saharan Africa

### **Introduction**

In its Europe 2020 Strategy, the European Commission has outlined a vision for becoming a smart, sustainable and inclusive economy (European Commission 2015). As explained in its official documents, the EC stresses the importance of these three mutually reinforcing priorities helping the EU with its Member States to deliver high levels of employment, productivity and social cohesion in the changing world.

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In succeeding with this vision strategy, the EC initiative titled “An industrial policy for the globalisation era” further maintains a view on the importance of developing Europe’s industry to enable economic recovery and sustained growth. Regions and cities that focus on creating a favourable environment and supporting a diversified, competitive and sustainable industrial base are the cornerstone of realising this strategy.

At a time when the world is experiencing dramatic changes, the need of intercontinental economic cooperation and integration is becoming ever more crucial. The European Centre for Development Policy Management (ECDPM) has highlighted in its analyses how a joint cooperation between the EU and Africa is essential for both continents. By engaging in Africa’s development, the EU has a chance to prove that it is still a global player (Mackie and Williams 2015). The EU–African relationship is leaning further to one based more on trade rather than aid. The USA, China and the UK are leading the way in economic trade and development in Africa (Financial Times 2015). Africa’s capital investment surges by 65% in 2014 to a sum total estimated at 87 billion USD.

On top of that, the Sub-Saharan Africa is undergoing a major urbanisation trend (African Development Bank 2012). Smart cities in Africa, more than anywhere else in the world, can offer major improvements in living conditions to their citizens.

## 1. Smart Cities (or Regions)

According to a Deloitte report (2014), a city or region can be defined as “smart” when investments in human and social capital, as well as traditional (transport) and modern (ICT) communication infrastructure fuel sustainable economic development and a high quality of life, with a wise management of natural resources.

In the debate on creating smart cities, it is easy to get lost in various discussions and proposals of city models and available technologies. In an effort to simplify such a complex topic, let’s focus on the “smart city”/“smart regions” main priorities:

- cost reduction (of all resources: energy, natural resources, time!);
- advancing the wellbeing of citizens;
- supporting SMEs through cluster development.

The additional challenge is that the three priorities above are to be achieved in a difficult global environment, where the human population is rapidly rising and life resources are often limited or have to be better managed, depending on the region in the world. Achieving the desired results is ever more important due to social



constraints that may endanger the security of all people if the resources and wellbeing of people aren't being looked after. Many UN studies on global economic inequality published within the last decade explain in depth the dangers of ignoring this simple fact any further.

Smart cities have the ability to properly merge the social and economic needs in order to achieve socio-economic progress. Smart city solutions may single-handedly decide about the future of the global state of economic affairs, as "smart city" concepts directly touch the largest economy sectors: energy, transport and healthcare. Crucially, this directly affects the majority of global water and waste management. By 2050, the urban economy alone will account for 6 billion people (United Nations 2011). In the energy sector alone, urban areas account for 80% of global energy consumption.

Cities around the world have become hubs for the global economy. By 2025, the 600 biggest cities in the world are projected to account for 60% of global GDP growth (McKinsey Global Institute 2011). Cities play a crucial role in the transition towards a knowledge-based economy, which is occurring in many places, not least in Europe. This is because of the fact that cities contain an increasingly larger share of the world's highly skilled, entrepreneurial and creative population. This means that they are home to concentrated and diverse pools of knowledge, which spur new economic development.

Smart city solutions are widely and positively accepted as in their essence they strive for enhancing social wellbeing that enables cities to be more sustainable, liveable, intelligent and green. This is achieved by integrating three crucial factors:

- access to data;
- intelligent tools to connect knowledge;
- people to drive the change.

The development of ICT and cross-sectoral clusters enables the active commitment in developing the three factors mentioned above. There is, however, also a growing concern about overreliance on technological solutions.

A gap remains between the opportunity to achieve changes in the system across the city and the current state of deployment, and it requires much more than new technologies. A study shows clearly that the cities in China which are growing the fastest are also the ones with the best environmental performance (Tsinghua University et al 2010), i.e: the better performing cities provide mass transit for citizens and access to clean water, as well as reducing pollution levels from factories. Those cities have achieved this through policy – not technology; through better planning of mass transit and urban services, clear targets for industry, clear monitoring standards, and coordination of policy and investments into resource efficiency.

## 2. Benefits and Challenges of Clusters within Smart Cities

A cluster with integral goals of working under the scope of a smart city may effectively release the enormous potential of digitalisation. Starting with the technological challenges, most of the solutions, which are needed in a Smart City have already been developed (DTU Risø energy Report 2011).

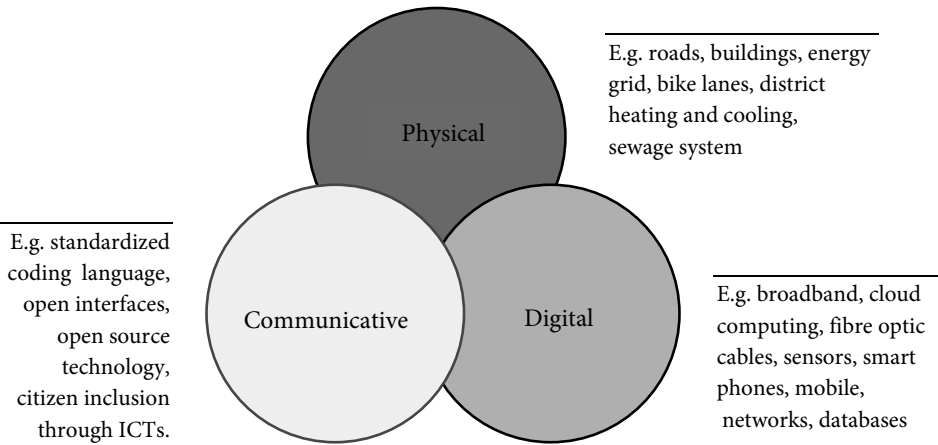
Solar panels, electric vehicles, wind turbines, smart grids, building management systems and associated technologies all have the potential to become part of the Smart City. Being a smart technology, however, is not just about using less energy or being made of smart and reusable materials. It is about being able to function as an integral part of a larger system. More importantly, societal needs have to be addressed. The problem therefore lies not so much in the individual technology, but in the fact that the Smart Cities demand that this technology should be integrated into a system – an internet of things.

According to Copenhagen Cleantech Cluster's report, there are at least three main technological challenges to overcome before technology could be integrated into the system (Copenhagen Cleantech Cluster 2012):

- enabling the technology to gather data. Technologies should continuously gather and analyse data to allow sustainable and smart behaviour. e.g. Smart Building Systems collect data for better performance to optimise energy use;
- enabling the technology to communicate. Gathering data is not sufficient, but an effective data sharing scheme between all smart city players is needed to promote interoperability. This identifies the need for a simple, common language across the smart grid;
- making the technology multifunctional. Truly smart technologies are multifunctional, meaning that they provide solutions to multiple problems, e.g. electric vehicles, not only leads to less congestion, but in connection with a smart grid it can also serve as an energy buffer, which would help level out the energy supply and demand curve.

It is of course impossible to link all the devices of a city together overnight, and the process must be regarded as step-by-step development. To further achieve desired results it is highly advisable to closely link companies, research and development units, the region's administration and contracted implementers of the system together, in order to collaborate and respond immediately to ongoing issues related to successful implementation of smart city solutions. Structured cluster organisations, with clear goals established within a city's development programme, are best suited to keeping up the dialogue regarding the implementation of solutions that need to be regularly consulted to achieve best performance of a Smart City.

**Figure 1. The Integrated Infrastructure of the Smart City**



Source: Copenhagen Cleantech Cluster 2012: 10.

### 3. Clusters Creating New Industrial Value Chains

SMEs created through cluster programmes are more innovative than non-cluster firms. Other than having a higher ability to cooperate, on average cluster firms have more registered trademarks and apply for more patents (European Commission 2006). Cluster firms are exposed to a higher degree of cross-sectoral collaboration, often with direct, regular access to collaborating partners from other sectors of the market or industry. This offers a higher number of opportunities for new knowledge combinations and innovation, and shapes new products, value chains and industries. This, more crucially, diversifies specialisation patterns that are more likely to boost economic and scientific prosperity (European Commission 2013).

A city's "smartness" should not be viewed in terms of its infrastructural systems, but above all in terms of how its community works within the city's operations. To achieve this, a cross-sectoral dialogue is needed to determine the needs of various communities and industries. Deepening the collaboration may allow new and integrated business models to align to the interest of the city's many stakeholders. This is especially true within the areas of transport, energy management and smart buildings.

Besides the integration of the physical and digital infrastructure, the communicative infrastructure needs to be integrated as well. For Smart City system to work well,

communication should flow seamlessly between people and devices. For many different devices to work with one another, a standardised system of coding a digital language for all devices should be introduced. This allows all players to cooperate and share data. A standardised codification would also allow stakeholders from both public and private sectors collaborate more effectively (Copenhagen Cleantech Cluster 2012).

When the physical infrastructure is integrated into the digital and the communications infrastructures, the mobility of the city will be far greater. This will not only lead to huge efficiency gains, it will also spur creativity and innovation among the city's many stakeholders. Studies by the Copenhagen Cleantech Cluster further demonstrate that the development of smart cities presents a number of technological, infrastructural, and governance-related, as well as social challenges. The greatest challenge is to redesign the existing technologies and to integrate new inventions, technologies or solutions into the existing system (Copenhagen Cleantech Cluster 2012).

All this leads to the increase in the mobility and effectiveness of the city and the administrative systems, which connect its many stakeholders (the public sector, the private sector, knowledge institutions, citizens). In turn, looking at all the challenges and solutions to be made of a smart city progress spur a large amount of people working together creating solutions and in effect setting up companies for commercial reasons. Industrial clusters within smart city programmes rapidly increase the number of established enterprises (Brenner 2004) – generating employment and knowledge-sharing schemes that further spin the industrial wheel.

Generating competitiveness is deeply dependent on good regional and local governance. Smart regions and cities are key when it comes to the adaptation of the industry to structural change, to developing clusters, creating a business-friendly environment, and to linking research and innovation policies to regional economies, namely in view of supporting SMEs (European Commission 2010).

#### **4. Africa – the Potential for European Cluster Development (Rwanda and Kenya Case)**

Rwanda has embarked on a programme to modernise its legislative and regulatory framework for trade and investment, with the aim of fostering a modern and competitive private sector. Rwanda Vision 2020 focuses on job creation and poverty reduction. The leading goal is strong private and public sector integration, with the government playing its part in maintaining and strengthening the SME sector

through facilitating cluster development (MINICOM 2010). The establishment census confirmed that SMEs have a critical role to play in creating jobs for Rwandans, whereby SMEs comprise approximately 98% of the total businesses and account for 41% of all private sector employment.

The SME sector, with formal and informal businesses, plays a crucial role in the country's development; it has a potential to lower Rwanda's trade imbalance and generate off-farm employment. Strengthening this sector has been highlighted as a successful tool in achieving economic goals; that is why the Rwandan government has taken the lead in the SME sector's development.

Cluster-based intervention engenders collective action, dialogue, trust, experience transfer and capacity building within clusters and with other linked organisations and sectors. A cluster organisation can also offer a useful entry point for stakeholders seeking to support business and private sector development. The fact is that firms working together in a cluster should be able to respond to the challenges of global market better to isolated ones; that is the Ministry of Trade and Industry's motive in this run of linking SMEs together in cluster.

Rwanda's capital city, Kigali, with its "Smart Kigali" initiative has become the first city in East Africa to provide free WiFi for its citizens in specific areas (The East African 2013). Kigali, like many larger African cities, is in a race to remodel the image of to "modern, smart city", similar to initiatives happening in Asia and the Middle-East. Draped in the rhetoric of "smart cities" and "eco-cities", these plans promise to modernise African cities and turn them into gateways for international investors and showpieces for ambitious politicians (Watson 2014).

Much anticipated projects are those from around Nairobi (the capital city of Kenya). Nairobi, with a metropolitan population of 6.5 million inhabitants and strong economic credentials, has become the "magnet" hub for designing "smart" satellite cities such as Tatu City, Machakos New City or Konza Technology City. Konza Tech City has garnered the most media attention, but is yet in its infant stage of development. Labelled as the future "Savannah Silicon Valley", Konza will be built on 5 thousand acres of land, 64 km south of Nairobi and will facilitate BPO ventures, a science park, a convention centre, shopping malls, hotels, international schools and a health facility project, and is planned for 30 thousand residents.

Africa is gaining momentum in the global economy. European companies should have in mind that Africa's favourable geographical presence, natural and mineral resource wealth and a demographic boost (expected population of 2 billion by 2050; 2.7 billion by 2060 according to African Development Bank) are Africa's greatest selling points. Africa has recorded continuous average GDP growth of 5–8% since 2002 and is further expected to grow annually by 6–7% for the next two decades.

Africa's agricultural potential is immense and is the target for future operation by food industry giants. Africa is also focusing on providing more resources in building much-needed logistical infrastructure with new cargo port and rail/road networks. African Development Bank analyses and predicts Africa's economy (GDP) to be valued at around 11 trillion USD by 2050. In addition, 10<sup>th</sup> June 2015 saw the signing of the programme by three economic partnership regions of COMESA (Common Market for Eastern and Southern Africa), SADC (South African Development Community) and EAC (East African Community) to establish a free-trade zone spanning across 26 countries in Africa by 2017.

## **5. Gauteng – Africa's Economic Powerhouse and its Growth of Smart Specialisation**

A smart region to truly activate “smart” growth needs to have established research and development institutions (technical colleges, science parks, collaboration clusters) that can enable technology in practice. To further commercialise possible solutions, the technology enablers need a large local market that can feasibly test solutions in an existing urban environment. Gauteng Province in South Africa is certainly regarded as the major prospective “smart” region in the context of Africa's rising development.

Gauteng Province is a densely populated metropolitan region numbering 12 million inhabitants, covering cities of Johannesburg, Pretoria and a number of smaller satellite towns in their vicinities. With only 1.4% of South Africa's land area, the tiny province punches way above its weight, contributing more than 33% to the national economy and a phenomenal 10% to the GDP of the entire African continent.

The region's economy is moving away from traditional heavy industry markets and low value-added production towards sophisticated high value-added production, particularly in information technology, telecoms and other high-tech industries. Gauteng thrives on its financial and business services sector, well developed logistical infrastructure and still existing, strong metallurgy, chemical and mining sectors (i.a. 40% of the world's gold reserves). Despite being a metropolitan region, Gauteng is surrounded by rich neighbouring agricultural provinces and therefore home to more than half of South Africa's agro-processing companies.

To further its ambitions, the provincial government set up the Gauteng Growth and Development Agency (GGDA), evolving from early provincial initiatives like Blue IQ, which was a spatial development programme focusing on innovation-related industries, committed to enhancing the country's first regional “Smart Centre”. Today,

GGDA has significantly improved economic integration in the region, promoting strategic private sector investment in key growth sectors of the regional economy (GGDA 2015) – most notably in automotive manufacturing, ICT, construction, creative industries, pharmaceuticals, mineral beneficiation and agro-processing.

Gauteng's modern cluster activities, which enable key technology developments, are mainly grouped in several well-funded and strategically designed areas, such as:

- Gauteng Industrial Development Zone – adjacent to South Africa's largest airport OR Tambo Airport, the Gauteng IDZ focuses mainly on the precious metals and advanced materials industries. Commercialised through its prosperous jewellery manufacturing precinct, the IDZ stimulates economic activity in the precious metals sector linked with various smart specialised industries;
- Automotive Industry Development Centre – spearheading Gauteng's strong automotive cluster initiatives, such as Automotive Learning Centre, three automotive incubation centres and an enterprise hub that all address skill-shortages and socio-economic challenges in the industry. It also opened a 130 ha big Automotive Supplier Park in the natural automotive cluster in Rosslyn (Pretoria) - home to OEM plants such as BMW, Nissan, Renault, TATA and Ford/Mazda;
- The Innovation Hub – Africa's first Science and Technology Park by international standards located in Centurion, with a provincial ecosystem focusing on smart specialisation strategies in the areas of ICT, biotechnology, renewable energies and low carbon economy technologies (green technology). With its state-of-the-art lab facilities, it hosts the province's leading industry SMEs and institutions.

The abovementioned development programmes focus only on smart specialisation strategies for developing strategic markets, however due to their favourable educational and economic environment gauging, they are attracting major investors looking to set foot in the promising African market. Gauteng Province has invested in many infrastructural projects that strongly integrate cities within the province, e.g. "Gautrain" – an 80 km long high-speed rail link between Pretoria and Johannesburg.

Gauteng Province also attracts large-scale independent "smart city" initiative investments, such as the Chinese-financed 7.5 billion USD construction of a brand new 1600 ha city in eastern Johannesburg (SAPA 2015). Chinese firm Shanghai Zendai has approved plans for a new financial hub with a high-class educational centre and medical park in the new city near OR Tambo Airport. Many more "smart" satellite city projects are to be announced in the coming years, making Gauteng an increasingly strategic investment region.

## Conclusions

The relationship between innovation-focused industrial and technological clusters and regional governance is growing in Europe. The result of this is the idea of developing Europe's urban regions into "smart" networked cities that intelligently lower the cost of resources, improve the wellbeing of their citizens and, importantly, create wealth through SME activities being more effective through cluster collaboration. The link between the development of both smart cities and industrial/technological clusters is a circular one, where one spins the other and vice versa.

The continuous improvement on systems thinking enhanced by smart city solutions is additionally well received worldwide as it addresses societal issues that can't be ignored. Global population is growing faster than ever and with it, the need to better manage resources. Lack of resource management may lead to social unrest and a growing struggle for decent living conditions. Cluster initiatives have the chance to come up with viable solutions to the growing problems that could lead to many more economic, political and humanitarian disasters.

Africa is an area ravaged by poor resource-management performance, and as a resource- and human-rich continent has the potential to integrate global players in regions based on "smart" design. If European enterprises want to continue growing, they ought to take Africa's potential more seriously and take full advantage of the continent's promising potential. Through cluster collaborations, joint African and European enterprises can generate resourceful solutions by linking many industrial sectors in a unified vision of smart, sustainable solutions.

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## THE ROLE OF REGIONS IN SMART SPECIALISATION STRATEGIES IN POLAND<sup>1</sup>

### Abstract

*Mazovia – the most innovative region of Poland – is merely average when compared with other European regions, and worse still, the European Union does not perform well in terms of innovativeness if compared with the United States of America, Japan or several Asian countries. Therefore, in the perspective of 2014–2020, increasing innovativeness became one of the top development priorities of the European Union and was included in the Europe 2020 strategy. Smart development and the development of knowledge and innovation-based economy are to be realized within one of seven flagship initiatives of the strategy – the Innovation Union. The concept of smart specialisation of regions is closely related to the abovementioned initiative and is based on identifying industries and areas for specialisation at the regional level and on diagnosing weaknesses and strengths in the context of specific socio-economic conditions. Moreover, the strategies should fit into regional innovation strategies. It should be stressed that the formulation of their own specialisation by European regions, including Polish regions, will condition the access to the EU funding in the financial perspective 2014–2020. It is the remit of regional authorities (regional Marshal offices) to develop appropriate strategies and implement them with all local academic, business and social partners involved in this process.*

**Keywords:** regional specialisation, cohesion policy, Europe 2020, European funds 2014–2020, Innovation Union, innovations, local government, regional innovation strategy, regions, smart specialisation

### Introduction

The EU Member States ascribe the reasons for the economic downturn in the EU to its, *inter alia*, lower innovativeness as compared with the USA, Japan or Eastern Asian countries, which is reflected in the EU growth strategy Europe 2020. Alongside

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sustainable and inclusive development, smart development (that is the development of a knowledge- and innovation-based economy) became one of the European Union's development priorities until the year 2020. The growth of the EU innovativeness is to be fostered by a cohesion policy that supports investment in innovation and R+D activities and by defining smart specialisations in the regions of the EU – including Poland. Local government authorities may play a significant role in this regard in Poland in the 2014–2020 period, as they are responsible for both the implementation of substantial part of the European Regional Development Fund (ERDF) and the European Social Fund (ESF), as well as for the creation of regional specialisation. The concept of smart specialisation is based on the assumption that the optimal use of each region's potential owing to the best possible match of the directions of their development and their specific socio-economic conditions is supposed to enable their development and increase their innovativeness.

The purpose of this paper is to present the role of local government in Poland regarding the accomplishment of EU's development objectives (mainly in the sphere of smart development based on knowledge and innovations) set out in the Europe 2020 strategy by designing regional specialisations. Moreover, the author would like to draw attention to the importance of regional specialisation in the process of increasing competitiveness and innovativeness of Polish and European regions.

Part I of the paper presents the essence of the concept of regional specialisation and its relation to the EU's crucial social and economic strategy – Europe 2020, along with one of its seven flagship initiatives – the Innovation Union. Further, the article takes a closer look at the status of implementation of the concept in Poland and the contribution of local and regional government authorities to this process in Poland. The paper consists of the analysis of the literature on the subject, the analysis of official documentation and the analysis of contents.

## 1. Smart Specialisation

Smart specialisation of regions refers to an optimal use of capacities of given regions and an increase of their innovativeness through best matching their development directions with specific socio-economic conditions. In its essence, it relates to one of the strategic objectives of the European Union, included in Europe 2020 strategy – smart growth, or in other words, development based on knowledge and innovation, which corresponds to the Innovation Union – one of the European Union's flagship initiatives of the aforementioned strategy.

The concept of smart specialisation was developed for the needs of the European Union by the Expert Group “Knowledge for Growth” (2005), in which professor Dominique Forey (Sztorc) took active participation. The group was chaired by the then European Commissioner for Science and Research Janez Potočnik. Several factors led the Expert Group to commence works on the idea of smart specialisation, those factors being, among others: expert opinions largely based on well-known theories of regional development, the hitherto experience of the European Union (especially of the European Commission) gathered over many years of cooperation with regions, as well as the experience based on the assessment of hitherto existing national and regional innovation strategies in given regions of the EU Member States (Słodowa-Hełpa 2013: 11). Thence, it is worth emphasising that the concept of regional specialisation – though only recently implemented into the EU cohesion policy – is not a new one and largely refers to well-known endogenous theories on regional development. Indeed, its creators drew on such theories of regional development as (Dobrzycka 2014a): H. Innis’ staples thesis, the concept of flexible specialisation, Marshall’s theory of industrial districts, Porter’s concept of clusters or the strategy of endogenous development. The endogenous development strategy indicates that growth is based on internal resources and capacities, also in the case of regions (Grosse 2002: 27–33; Strzelecki et al. 2008: 87; Porter 2001: 206). These capacities can be interpreted as additional development opportunities for the region enclosed in investment and innovation capabilities.

## **2. The Concept of Regional Specialisation and the Innovativeness of the European Union**

The annual report of the European Commission, Innovation Union Competitiveness Report 2013, indicates that in terms of innovation and expenditures on research and development the EU differs considerably from such countries as the United States, Japan or some Asian countries (Innovation Union Competitiveness Report 2013). As it is stated in the diagnosis included in the document “The Europe 2020 strategy for smart, sustainable and inclusive growth”, the European Union perceives said differences as one of the reasons of economic slowdown that affected the majority of the Community’s states. Therefore, as set out in the Strategy, the level of expenditures on research and development should increase to 3% of EU’s GDP by 2020. Investments into smart development, i.e. development based on knowledge and innovation, are expected to contribute to the strengthening of the EU economy, as indicated in the Strategy. The implementation of the abovementioned objectives is to be conducted

within the framework of one of seven flagship initiatives of the strategy Europe 2020 (European Commission 2010a) – the “Innovation Union”, which aims to improve the conditions and access to research financing in order to transform innovative ideas into new products and services, thus propelling the economic growth and the creation of new jobs. Within the framework of “Innovation Union” the role of the European instruments supporting this development direction is to be strengthened mainly by increasing investment in research and putting emphasis on developing regional specialisations. The list of said instruments includes the Structural Funds, the Rural Development Funds and the programmes for competitiveness. The idea of smart specialisation emerged in the European Union back in 2010 in the context of the document “The Europe 2020 strategy for smart, sustainable and inclusive growth” and refers both to specialisations at country and at regional level. Its origins can be traced back to the want to link science and innovation policies (the so-called new industrial policy) with cohesion policy, addressed not only to states but regions as well (David, Foray, Hall 2007). The essence of the concept of regional specialisation is based on identifying industries for specialisation at the regional level and diagnosing their weaknesses and strengths, which should result in concentrating the financial resources on those selected areas, which in turn should lead to increased added value in the economy and its improved competitiveness in the global market (Krajowa Strategia Inteligentnej Specjalizacji – National Smart Specialisation Strategy). Specialisation is also supposed to contribute to the transformation of economies of individual EU Member States by dint of modernisation, structural transformation, diversification of products and services and creation of innovative socio-economic solutions. Moreover, smart specialisation puts emphasis on improving coordination and synergy between initiatives taken at the EU, national and regional levels as well as on greater concentration and more efficient use of EU funds<sup>2</sup>.

It is worth pointing out that, following 2013, defining their specialisations by states and regions is what conditions the access to the EU funding. In the 2014–2020 perspective, in order to obtain support for Thematic Objective No 1, which pertains to the strengthening of research, technological development and innovations (Regulation No 1303/2013) and is included in the Partnership Agreement (*Umowa Partnerstwa*), an *ex-ante* condition for smart specialisation must be met, which is to demonstrate the existence of national or regional smart specialisation strategies in line with the National Reform Program, to leverage private research and innovation expenditures,

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<sup>2</sup> According to Article 18 of Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17th December Member States shall concentrate support, in accordance with fund-specific rules, on interventions that bring the greatest added value in relation to the Union's strategy for smart, sustainable and inclusive growth.

which – as indicated in the document – is the hallmark of well-performing national or regional systems of research and innovations (Regulation No 1303/2013).

For the 2014–2020 period, Poland is to be given 72.9 billion EUR from the budget of cohesion policy. The major recipients of the EU aid are entrepreneurs and local governments, same as they were in the period of 2007–2013. A substantial part of those funds is to be dedicated to investments in transport infrastructure (both in railways and road networks), however the biggest increase of expenditure – according to the estimates of the Ministry of Infrastructure and Development – is to occur in the sphere of innovativeness and aid for entrepreneurs. What is more, support will also be provided to investments in the field of environmental protection and energy, as well as to various projects from the sphere of culture, education, employment or prevention of social exclusion. In Poland, the European Union funding for the period of 2014–2020 is to be implemented within the framework of six national operational programmes managed by the Ministry of Infrastructure and Development and sixteen regional programmes managed by the voivodeship Marshal offices. The EU funds that are to be implemented in Polish regions account for nearly 40% of all allocations for Poland and amount to 31.27 billion EUR (cf. Table 1.). The largest share of the funds is to be implemented under the Silesian Regional Operational Programme while the Voivodeship of Lubusz was allocated the smallest share.

**Table 1. Division of the European Union Funds (The European Regional Development Fund) for the Period of 2014–2020 Among Individual Regions of Poland**

Voivodeship	Total allocation for Regional Operational Programme (current prices) in EUR
The Voivodeship of Lower Silesia	2 252 546 589
The Voivodeship of Cuiavia and Pomerania	1 903 540 287
The Voivodeship of Lublin	2 230 958 174
The Voivodeship of Lubusz	906 929 693
The Voivodeship of Łódź	2 256 049 115
The Voivodeship of Lesser Poland	2 878 215 972
The Voivodeship of Mazovia	2 089 840 138
The Voivodeship of Opole	944 967 792
The Voivodeship of Sub-Carpathia	2 114 243 760
The Voivodeship of Podlassia	1 213 595 877
The Voivodeship of Pomerania	1 864 811 698
The Voivodeship of Silesia	3 476 937 134
The Voivodeship of Kielce	1 364 543 593
The Voivodeship of Varmia and Masuria	1 728 272 095
The Voivodeship of Greater Poland	2 450 206 417
The Voivodeship of Western Pomerania	1 601 239 216
<b>Total</b>	<b>31 276 897 550</b>

Source: The author's own elaboration, Ministry of Infrastructure and Development.

### 3. Implementation of the Concept of Smart Specialisation in Poland

The implementation of the concept of smart specialisation in Poland is not only related to the access to EU funds, but it is expected to contribute to increasing Poland's regional and national innovativeness. As indicated in the Deloitte report "Analysis of innovativeness benchmarking of Polish regions", the most innovative region of Poland is the Voivodeship of Mazovia, which compared with other European regions performs averagely at best (Deloitte 2013). In addition, Poland as a country is not among the leaders in terms of innovativeness. And though according to the Index of Economic Freedom<sup>3</sup> 2013 ranking, prepared by the Heritage Foundation and the Wall Street Journal, out of the 215 researched countries Poland ranked 24th, ahead of – among others – Ireland, Portugal, Hungary, China or Israel; in turn, in the ratings of the European Commission – Innovation Union Competitiveness Report 2013 – the country performed much worse, deemed as one of the least innovative states of the EU and surpassing only Bulgaria, Romania and Lithuania. This is why Poland's objective for the upcoming years is to raise expenditures on R+D activities from 0.77 % of GDP to 1.7 % of GDP and to increase the co-financing of these expenditures by private enterprises to the level of 0.6–0.8% of GDP.

In Poland, the general strategic frameworks for national smart specialisation are included in one of nine strategies integrated under the Strategy for Innovation and Economic Efficiency "Dynamic Poland 2020" (SIEG)<sup>4</sup>. In terms of assumptions, this

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<sup>3</sup> In the report the list of arguments justifying the low level of Poland's innovativeness included: relatively low quality of the system of research, low level of cooperation and entrepreneurship or a small number of innovators, which are the weakest elements of the Polish system of innovation as confronted with the EU. Moreover, Poland's expenditures on research and development need to be increased along with the increase of the number of scientists involved in the research and the development actions and improvement in the efficiency of scientists' work. Additionally, the unfavourable structure of expenditures on research and development actions poses another hindrance – its biggest burden is shouldered by the nation, whereas in other Member States private companies actively participate in this kind of actions.

<sup>4</sup> The starting point for the development of Polish strategic documents in the sphere of development policy (including documents pertaining to the EU funding or smart specialisation) was the Report *Polska 2030. Wyzwania rozwojowe* prepared by the team of the Prime Minister's advisers. Among the development challenges Poland will have faced by 2030, the report features: growth and competitiveness, demographic situation, high professional activity and adaptability of employees; adequate infrastructure capabilities, climate and energy security, knowledge based economy and development of intellectual capital; solidarity and regional cohesion; improvement of social cohesion; effective governing; increase of social capital of Poland. The list of cardinal documents on the base of which the development policy is conducted in Poland includes: *Długookresowa Strategia Rozwoju Kraju Polska 2030. Trzecia fala nowoczesności* – a document defining the main trends in challenges and the concept of country development in the long term approved by the Council of Ministers on 5<sup>th</sup> February 2013, *Strategia Rozwoju Kraju 2020. Aktywne społeczeństwo, konkurencyjna gospodarka, sprawne państwo* (SRK 2020) – a document instituting an



strategy is consistent not only with the provisions of Mid-Term National Development Strategy 2020, but also with the objectives of the Europe 2020 strategy. The implementing document for the Strategy for Innovation and Economic Efficiency is the Enterprise Development Programme 2020, which contains a comprehensive catalogue of instruments supporting the development of innovations and entrepreneurship in Poland. The National Smart Specialisation Strategy (KSIS) is an integral part of the Enterprise Development Programme. Two documents provide a basis for determining national specialisation in Poland: Technology Foresight for Polish Industry – InSight 2030 (commissioned by the Ministry of Economy) and the National Research Programme (prepared by the Ministry of Science and Higher Education). At regional level specialisations should be included in regional innovation strategies (RSI), the preparation of which is the responsibility of voivodeship Marshal offices.

## 4. Smart Specialisation in the Regions of Poland

According to the guidelines in the Guide to Research and Innovation Strategies for Smart Specialisation, national and regional innovation strategies for smart specialisation are integrated, locally-defined programmes that:

- “allow to focus support, in terms of conducted policy and investments, on key priorities, challenges and needs that are crucial to a country or region for the sake of knowledge-based development, including ICT-related measures; built on a given country or region’s strengths, competitive advantages and potential for excellence; support practice-based and technological innovations and stimulate private sector investments;
- are aimed at full involvement of all stakeholders and encourage innovation and experimentation;
- are evidence-based and include robust monitoring and evaluation systems” (Ibidem).

The smart specialisation in regions should take into account, among others, the involvement of various stakeholders in the process of its creation. The bringing closer of sectors based on the emerging knowledge with their stakeholders both within and beyond a given region, and the principles of prescription and similarity<sup>5</sup>. It should also

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update of *Strategia Rozwoju Kraju 2007–2015*, approved on 25<sup>th</sup> September 2012 by the Council of Ministers and development strategies – so called integrated strategies which numbers nine.

<sup>5</sup> The principle of usucaption also pertains to existence of sectors adjusted to the present socio-economic conditions which have appropriately trained, local workforce at their disposal and experience of regional cooperation Whereas the principle of consanguinity is subject to diversification.

incorporate the integration of programmes and policies at the regional level (McCann, Ortega-Argiles 2001: 11–13). According to the Guide to Research and Innovation Strategies for Smart Specialisation (Guide to Research and Innovation Strategies for Smart Specialisation 2012: 18), designing local specialisation should be based on four fundamental principles defined as the “Four Cs”:

- the consequences of tough choices and critical mass – a limited number of priorities based on one’s own strengths and international specialisation; the avoidance of duplication and fragmentation in the European Research Area (ERA); concentration of financial resources ensuring more effective budgetary management;
- competitive advantage – mobilising talent by matching R&D&I capacities with business needs through the process of entrepreneurial discovery;
- connectivity and clusters – developing world class clusters and building platforms for various forms of interaction between industries within and beyond a region, with the aim to drive specialised technological diversification – in other words: match what we have to what the rest of the world has;
- collaborative leadership – efficient innovation systems as a collective endeavour based on public-private partnership (the Quadruple Helix Model); experimental platform where all stakeholders – including unexpected/unusual ones – are given voice.

Based on the abovementioned guidelines and principles, the Guide recommends the following six-step process of selecting smart regional specialisations:

- 1) analysing of the regional context and potential for innovation;
- 2) setting up of a strong governance structure with involvement of various stakeholders;
- 3) developing a shared vision of the region’s future;
- 4) selecting a limited number of priorities for regional development;
- 5) preparing a suitable set of policies and programmes, incorporating monitoring and evaluation mechanisms.

In practice, as opposed to the top-down imposed strategies, local governments should engage as many partners as possible in the process of identifying regional specialisation (Słodowa-Hełpa 2013: 96), including stakeholders such as public authorities and offices (e.g. regional development agencies, municipal and communal authorities), investors (e.g. banks, business angels), enterprises, international experts, academic circles and civil society. Then, the regional authorities (Marshal offices) should draw up a document setting out the proposed strategy for the given region, which would also contain a list of projected public and private investments, including investments financed from EU resources, investments in research, technology development and innovations.

At the regional level, the identified specialisations are included in updated strategies of regional (voivodeship) development or in the Regional Innovation Strategies (cf.

Table 2). In general, the Regional Innovation Strategies are usually formulated along with the strategies of regional development in the form of a complementary parent document. In Poland, the relations between the documents are laid down in Article 11 of Act no. 1 of 5<sup>th</sup> June 1998 on government at the voivodeship level (Journal of Law 1998/91), according to which the objectives of the development strategy should be defined in a way that allows for improving the competitiveness and the innovativeness of a voivodeship's economy. The progress of works on regional smart specialisation varies across Polish regions (for more on the progress of particular regions regarding smart specialisation see Słodowa-Hełpa 2013). Interesting conclusions can be drawn from comparing the specialisations chosen by the Polish voivodeships. More than half of them have chosen the same specialisations, technologies and industries, such as energy, biotechnology or ICT. Thus, a question arises of whether the specialisations of the regions were indeed selected as their own and unique, and to what extent this selection was made with the involvement of local academic and business communities. Doubts have also been raised regarding the admission to the Regional Operational Programmes of the investments that extend beyond the areas defined in the smart specialisation framework.

**Table 2. Smart Specialisation in Poland by Regions (as at December 2014)**

Voivodeship	Specialisation
The Voivodeship of Lower Silesia	Environmental technologies, chemical sciences (including material engineering and nanotechnology), medical sciences, biology and biotechnology, pharmaceuticals, nutritional sciences, measuring technologies, communication and information technologies, mechanical engineering, automation and civil engineering.
The Voivodeship of Gdansk and Pomerania	Safe and healthy food, industrial processing, artificial fertilisers, packaging, medicine, medical services and health tourism, automotive industry, transport equipment and industrial automation; Industrial tools, injection moulds, plastic material and articles; processing of information, multimedia, coding, ICT services; nature-oriented specialisation – natural potential, environment, energy, transport logistics and trade – aquatic and terrestrial routes; cultural heritage – art and creative industries.
The Voivodeship of Lublin	Bio-economy (the key specialisation), medical and pro-health services (supplementary specialisation), low-emission energy production (emerging specialisation), computer science and automation technology (supplementary specialisation).
The Voivodeship of Lubusz	Automotive-related production and services. Manufacturing of equipment, devices, components and metal parts and constructions and welded products (metal industry), environmental technologies and services; pro-health technologies and services; social-industrial cooperation.
The Voivodeship of Łódź	Medical industry, pharmaceuticals and cosmetics, energy (including renewable resources), production of advanced textiles, clothing industry; highly engineered building materials; processing of food and agriculture products.
The Voivodeship of Lesser Poland	Life sciences; renewable energy, communication and information technologies; chemistry; manufacturing of metals and fabricated metal products and manufacture of other non-metallic mineral products; electrotechnics and mechanical engineering, creative and leisure industries.

The Voivodeship of Mazovia	Health and safe food; smart management systems; innovative services for business; high quality of life.
The Voivodeship of Opole	Chemical technologies; sustainable technologies for construction and wood processing; technologies of steel and engineering industries; technologies of energy industry (including renewable energy) Technologies of food and agriculture products processing; health and environment protection products and processes (possible specialisation).
The Voivodeship of Sub-Carpathia	Aerospace (the leading specialisation), quality of life (the leading specialisation) including eco technologies such as renewable energy sources, low energy contribution, smart buildings; information technologies (supplementary specialisation).
The Voivodeship of Podlassia	Green industry, Eastern Market specialisation.
The Voivodeship of Pomerania	Work in progress.
The Voivodeship of Silesia	Energy, medicine, information and communication technologies.
The Voivodeship of Kielce	Main specialisations – resource-efficient construction, metal and foundry industry, pro-health tourism and innovative agriculture and food processing Horizontal specialisations communication and information technologies, sustainable energy development, fair and conference sector.
The Voivodeship of Varmia and Masuria	Wood and furniture. High quality food, water economy.
The Voivodeship of Greater Poland	Bio resources and food for informed consumers, spaces of tomorrow (including energy saving technologies) Factories of tomorrow; specialised logistics processes; ICT-based development, innovative medical technologies.
The Voivodeship of Western Pomerania	Bio economy; maritime and logistic operations; machinery and metal industries; services of tomorrow; tourism and health.
Nationwide	Healthy society, bio-economy in the field of agriculture and environment; sustainable energy; natural resources and wastage management; innovative technologies and industrial processes.

Author's own elaboration on the basis of the national smart specialisation strategies, 16<sup>th</sup> Regional Operational Programme for the years 2014–2020 (approved by the European Commission), projects of Regional Innovation Strategies of each regions and presentations and reports commissioned by the Province Marshal' offices as cited in Dobrzycka (2014).

## 5. The Role of Regions in Building European Union Innovation

There is no doubt that smart specialisations should be defined by local authorities at the regional level. Already during the works on the Innovation Union project, regional and local authorities were regarded as key actors in the process of its implementation, which was reflected in the resolution of the European Parliament of 12 May 2011 on Innovation Union (The European Parliament 2011). According to point 158 of the Resolution, “full engagement of the regional and local authorities is crucial to achieving the goals of the Innovation Union, as they have an important role in bringing together businesses, knowledge institutions, public authorities and

the citizen". Moreover, the role of such authorities is to mobilise the full innovation potential of a region in order to meet the objectives of the Europe 2020 strategy by – among others – creating regional specialisations. The resolution therefore emphasised that regional and local authorities should be fully aware of the potential for economic growth that research and innovation activities can offer all regions. However, as Słodowa-Helpa suggests, decisionmakers in the regions are not aware of said potential. On the contrary, they consider local authorities to be bereft of influence on the level of regional innovativeness and competitiveness (Słodowa-Helpa 2013: 108). Research revealed that such an attitude is due to, among other factors, a vague definition of innovativeness, limited access to financial resources for innovations and a top-down imposition of instruments for innovation support (Dziemianowicz 2013: 108). According to Słodowa-Helpa (2013), three arguments advocate for the increasing role of regional authorities in supporting innovations and, hence, implementing smart specialisations. Firstly, a substantial part of activities supporting innovations in regions depends on the decisions of regional government. Secondly, ongoing processes of the so-called globalization stimulate cooperation within regions. Thirdly, social expectations towards local and regional authorities regarding taking responsibility for regional development have been increasing (Słodowa-Helpa 2013: 108–109).

Regional authorities should therefore act as leaders, supporting the development of innovativeness in the region and initiating pro-innovation activities themselves, as well as supporting other entities in such endeavours. In this context, the role of local authorities in the process of implementing the concept of regional specialisation in Poland grows in importance. As mentioned before, according to the guidelines of the Guide to Research and Innovation Strategies for Smart Specialisation, local government authorities should initiate the process of specialisation selection and engage in it as many partners as possible: social partners, entrepreneurs and scientific institutions. It is also their task, in the further stages, to monitor and update the specialisations that were selected in that process. In this context, the competences of individual decisionmakers regarding innovativeness are particularly important. The authorities must be aware that, as confirmed by numerous studies, the innovativeness of their regions is largely dependent on their own competences, the knowledge/expertise of their administration employees and the quality of customer service (Słodowa-Helpa 2006: 227–257). Although it is still too early to assess the effects of the implementation of smart specialisation in Poland, and thus to evaluate its impact on EU innovativeness, the importance of this issue and the challenges associated with it should be clearly emphasised. All the more so as the debates and consultations preceding the process of implementation of the concept of regional specialisation in Poland have revealed that the awareness of regional authorities and officials regarding the issue of innovation is

not sufficient. Moreover, as David Forey and Hall pointed out, there is a shortage of instruments that would allow to unambiguously assess the impact of specialisation on regional innovativeness and competitiveness.

## Conclusions

The concept of smart regional specialisation is both an element of the new EU approach to policies towards regions and an instrument for improving the effectiveness of cohesion policy in the 2014–2020 period. The concept is closely related to one of the three main priorities of the Europe 2020 strategy – smart development and the development of knowledge and innovation-based economy, and to one of seven flagship initiatives of the Strategy – the Innovation Union. Its essence relies on improving the innovativeness and competitiveness of regions based on their internal potential and the industries already functioning within them. The concept of smart specialisation must be incorporated in the Regional Innovative Strategies which is an *ex-ante* condition for receiving EU funds for the years 2014–2020. This is reflected, among others, in the regional innovation strategies – Regional Innovation Strategies for Smart Specialisation, RIS3 – developed by voivodeships in Poland. One of the most difficult elements in the process of formulating smart specialisation at the regional level is to define the socio-economic identity of the region and to determine the most promising areas of specialisation. While bearing in mind the benefits related to the concentration of resources on industries and technologies selected in the process of smart specialisation identification, it is important to take into account the risks and hazards associated with this process as well. Local governments must remember to include as many social, business and academic partners as possible in the process of defining specialisations for their region. Their role is to create a platform for cooperation and coordinate it.

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## THE EUROPEAN UNION COMPETITION POLICY IN THE CONTEXT OF GLOBALISATION OF THE WORLD ECONOMY

### Abstract

*The aim of the article is to present the essence of competition policy and its implementation in the European Union in the context of ongoing globalisation of the world economy. The paper discusses selected factors that stimulate the process of globalisation, the main objectives and tools to support the functioning of the EU internal market, and the role of the European Commission as a body that enforces compliance with the rules of competition by companies and Member States.*

**Key words:** competition policy, globalization, internal market

### Introduction

Competition is considered the biggest and most effective driving force of free market development. It is regarded as the prerequisite for effective market functioning, being beneficial both to economic growth and consumer welfare. In today's world, mutual economic ties, an increasing role of enterprises operating on a global scale, as well as the interdependence resulting from the implementation of national economic policies and commercial links, pose a challenge to antitrust authorities. Intensified efforts in

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regard to complying with competition rules are being made by major international organisations, including the European Union via the European Commission and the Directorate-General for Competition, which is the guardian of respect for the rules of competition within the single internal market and towards third countries and the World Trade Organization, which – in addition to the liberalisation of trade – also takes part in projects related to the observance of competition rules on a global scale.

The purpose of this article is to present the implementation of the European Union competition policy in a globalised world economy. This article deals with issues such as the competencies of control authorities, operational procedures in case of infringement of competition rules, the implementation of the competition policy towards third countries, the role of the World Trade Organization in the coordination process of competition policy and instances of cases of recent EC decisions on the abuse of a dominant market position against companies whose headquarters are located outside the EU territories.

Professional literature, information documents and legal acts were used for the purpose of this analysis.

## **1. The Essence of Globalisation of the World Economy**

The concept of globalisation of the world economy refers to the process of forming a single market for goods, services and production factors, thus as well for capital, labour, technologies and natural resources covering all countries and economic regions (Bożyk, Misala, Puławski 2001: 395). Hence, both national and international markets are combined into one single whole. From a theoretical viewpoint, globalisation means unlimited access to those markets for all interested entities irrespective of the country or economic region of origin. It also implies an increase in feedback between those markets (Bożyk 2006: 16–20).

The unification of economic mechanisms governing the functioning of national and international markets is a condition, as well as a result, of globalisation. Without the approximation of these mechanisms, globalisation would not have been possible. However, at the same time, those global uniform mechanisms of the world market would not have been possible without globalisation. Today those uniform mechanisms are founded on the mechanisms of free market and free trade. For this reason, globalisation is defined as a process of formation of a liberalized market of goods, services or production factors in the world as a whole (Bożyk 2006: 16–20).

Globalisation is characterized by a fundamental revaluation of criteria for the international division of labour and consequent deep qualitative changes in foreign and international economic policies conducted by individual countries and groups of countries as well as international economic organizations. In the mid-twentieth century the dominant view was that the patterns of development of economic cooperation with foreign countries should vary according to the level of socio-economic development, possessed natural resources, demographic potential, the state of the balance of trade and balance of payments of a given country. Depending on the economic situation of a country in question, a diversified economic policy towards abroad is conducted with appropriate goals and using the right set of tools to implement the selected concept. Nevertheless, the changes taking place in structural transformation of global economy enforce constant adjustments to the shape of foreign economic policy. Whereas the range of external dependence that is taken into account becomes broader and deeper, which becomes particularly important in the conditions of progressing globalisation (Polak, Polak 2013: 12). The process of globalisation has dominated the changes in international economic cooperation and occasioned that profits and opportunities resulting from the process are not equally available, which results in progressive and dangerous for the future polarisation of people and countries into those who benefit from globalisation and those who merely witness its effects, but do not actively participate in the process (Polak, Polak 2013: 12–13).

One manifestation of globalisation is regional integration, which is a transitional form between doing business in a single country and on a global scale. In this sense, integration and globalisation can be perceived as complementary phenomena. Integration is largely a phenomenon programmed by a group of countries, which is reflected in worked out institutional solutions that determine the direction of its development. As pointed out by P. Bożyk, integration is a territorially restricted form of globalisation created “on demand” for the countries involved. While globalisation is a spontaneous process which has not been institutionally programmed by any country subject to mechanisms regulating the functioning of the global economy. Both integration and globalisation ensue as a result of the liberalisation of the economy. In the case of integration, the liberalisation refers exclusively to the flow of goods, services or production factors within a specific group while relations with third countries remain limited. In contrast, in the case of globalisation, liberalisation (Bożyk 2006: 16–20) refers to the flow of goods, services and production factors in the world as a whole and by definition, no limitations or restrictions whatsoever apply.

The actual profits which a country or an international organisation participating in the global system might draw depend on its position and international capacity, on its ability to exploit opportunities that accompany globalisation, as well as on its ability

to selectively assimilate its achievements and control the mechanisms that govern it. It is also important that the profits derived by a country or international organisation should “trickle down” to all levels of society (Polak, Polak 2013: 34; Lipiński, Orłowski 2001: 129–143).

Dynamic development of the economic globalisation process and the multidimensional consequences of this phenomenon should lead to the development of a well-functioning mechanism of competition, which is crucial for economic development. If globalisation causes the market to free itself of border barriers, it thereby eliminates all restraints on competition – both internal, within a given international organisation, and external competition, i.e. towards other states or other international organisations. Thus, the process of liberalisation of the flow of goods, services, capital and labour should be accompanied by the process of defining and implementing an effective competition policy.

## **2. The Nature and Objectives of the European Union Competition Policy**

For the European Union as an international organisation, competition policy is instrumental to achieving the objectives of economic integration of its Member States. It is a natural consequence of the principles of free trade within the European single market. Competition rules were implemented by the European Commission, which – together with the Court of Justice of the European Union – is responsible for their observance. The legal basis for the functioning of competition policy are:

- Articles 101–109 of the Treaty on the Functioning of the European Union and Protocol (No. 27) on the internal market and competition, which states that the internal market as set out in Article 3 of the Treaty on European Union includes a system ensuring that competition is not distorted;
- the Council Regulation (EC) No. 139/2004 on the control of concentrations between undertakings (“the Merger Regulation”);
- Articles 37, 106 and 345 of the Treaty of the Functioning of the European Union with regard to public undertakings, and
- Articles 14, 59, 93, 106, 107, 108 and 114 of the Treaty with regard to public services, services of general interests and services of general economic interest; Protocol (No. 26) on services of general interest, as well as
- Article 36 of the Charter of Fundamental Rights of the European Union (Honnefelder 2015: 1).

Through various forms of cooperation, the European Union intends to promote solutions that are applicable under *acquis communautaire*. The articles of the Treaty regarding anti-competitive practices or agreements between businesses that could have an impact on the internal market of the EU and the functioning of the single European market, pursuant to bilateral agreements of the EU, are also applicable beyond the territory of its Member States (Michalski 2004: 433–443).

Articles 101–109 of the Treaty lay down competition rules within the common market. According to the rules, all agreements between undertakings that may distort or restrict competition are prohibited. Businesses of a dominant position are strictly prohibited to abuse their position or undertake actions that may adversely affect trade between Member States. The European Commission monitors cases of mergers and acquisitions on an EU scale and, in certain circumstances, it can prohibit them. State aid for certain undertakings or goods which might lead to a distortion of competition is illicit, although it may be allowed in some cases. Regulations on competition also apply to public undertakings, public services and services of general interest, however in cases when the objectives of those particular services are at risk of not being met, the rules of competition can be waived. The main objective of the EU competition rules is the protection of competition rules against distortions. Effective competition is not an end in itself, but rather the condition for the realization of a free and vibrant internal market and it is one of many tools for supporting common economic prosperity. Since the entry into force of the Treaty of Lisbon, the protection of competition against distortion is no longer directly mentioned in Article 3 of the Treaty, but in accordance with Protocol (No. 27) it is an element within the concept of internal market. This should not, however, entail significant changes in practice since the rules of competition have remained unchanged. The conditions of application of these rules and their legal effects have already been established in the long-standing administrative practice of the European Commission and the judicature of European courts and can thus be considered stable (Honnefelder 2015: 1).

Community law strives to defend the common market and stimulate competition within the boundaries of the vast economic area. It is not applicable unless trade between Member States is affected by certain practices of undertakings in question. Prohibition on restricting freedom of trade between Member States is central to all Community provisions (Komisja Europejska 2002: 10; Jurczyk 2012: 67–104). The EU's competition policy consolidates the industrial and commercial structure of the Union, which enables it to confront the competitiveness abilities of its most important partners and to place the EU enterprises in a position to succeed in markets around the whole world (Komisja Europejska 2002: 7).

### **3. The Authorities Monitoring Compliance With the European Union Competition Rules**

In the Treaty establishing the European Economic Community and the Merger Treaty establishing common bodies of the EC, Member States designated the right of scrutiny to the European Parliament, the Council, the Court of Justice, the Court of First Instance and the Commission. The European Parliament is most frequently involved in the formulation of competition law only through the consultation procedure. Therefore, the Parliament is not as influential in this issue as the European Commission or the Council, and thus the main role of the Parliament is scrutiny over executive bodies. The member of the Commission in charge of competition policy is obliged to appear before the Committee on Economic and Monetary Affairs (ECON) in order to justify their policy and discuss individual decisions. Every year the European Parliament passes the resolution on the annual report of the European Commission on competition policy. As of 2011, the resolution is no longer merely a response to the results of the Committee's works conducted in the previous reporting period, but it also raises the most important current issues regarding competition law and its application. At the beginning of 2012 the Parliament, in the interest of better consumer protection, passed a resolution which calls for adoption of uniform legal framework regulating the issue of consumer collective redress (Honnefelder 2015: 4). The powers of the Council relating to competition are reflected in legislative prerogatives. The Council issues regulations after consultations with the European Parliament regarding the provisions of Article 81 and Article 82 in order to define the principles laid down therein. Other institutions, i.e. the Commission, the Court of First Instance and the Court of Justice, were entrusted with monitoring the compliance with competition rules and were given special entitlements. The Commission exercises general supervision over the observance – by Member States and individuals – of the terms of the Treaty and measures taken under those terms. Additionally, the Commission issues implementing provisions and interpretations. The Commission's activities are complementary to legal acts issued by the Council and it is the investigating authority at the preliminary stage of proceedings in cases regarding law infringement. The Court of Justice – and in some cases also the Court of First Instance affiliated to it – is a superior and supervising body over the Commission. The Court's role is to ensure the observance of law in the interpretation and application of the provisions of the Treaties and regulations adopted on the basis thereof. Any of the interested parties may appeal to these bodies against the decisions of the Commission other than recommendations and opinions.



## 4. European Union Competition Policy Towards Third Countries

The combination of a well thought-out market intervention which takes into account and promotes the spirit of competitiveness in the long run, along with a growing liberalisation of hitherto monopolised sectors, set the direction of actions undertaken on the grounds of the international harmonisation of law and competition policy. The European Union provided the scope of application of its regulations on competition by means of numerous bilateral agreements, the Agreement on the European Economic Area with EFTA states, as well as Association Agreements concluded with, *inter alia*, the countries of Central and Eastern Europe (European Agreements) (Michalski 2004).

An additional result of signing free trade area agreements with third countries is the enhanced EU competitiveness in the global economy. Those areas are designed to increase export opportunities for EU producers. In practice, free trade areas are also intended to ensure favourable conditions for the sales of EU goods and services in non-EU markets and their competitiveness on the EU market, while respecting the principles defined in the framework of the competition policy. Negotiations of free trade agreements are conducted with selected partners. The selection is determined by elements such as: the potential of their markets, the level of protection of EU goods and negotiations of free trade areas already being conducted by those countries with states and regions competing with the EU. Apart from standard free trade area agreements, the European Commission can make one of the three following kinds of agreements with third countries:

- the Economic and Trade Agreement, also referred to as the Partnership and Cooperation Agreement;
- the Association Agreement;
- Sectoral agreements, which refer to specific spheres.

Currently, the European Commission on behalf of the European Union and its Member States negotiates agreements with the following countries and regions: the Transatlantic Trade and Investment Partnership (TTIP) with the USA, an investment agreement with China, the Comprehensive Economic and Trade Agreement (CETA) with Canada, the Free Trade Agreement with Japan and the Association of South East Asian Nations (ASEAN), the Deep and Comprehensive Free Trade Area with Morocco, Tunisia, Jordan and Egypt, Free Trade Area with India, and the Association Agreement with Mercosur countries (Piątek, Kubel-Grabau 2015).

## **5. The World Trade Organisation as a Forum for Cooperation Within the European Union Competition Policy**

Since it was established in 1995, the World Trade Organisation has played a significant role in the process of creating a rule-based international trading system. However, the objective of creating a multilateral trading system based on common principles has proved difficult to achieve in an increasingly multipolar world. Efforts to conclude another round of development-focused negotiations (the so-called Doha Development Round) remained fruitless, which in turn frustrated the efforts of many members of the WTO, including the EU, to find common ground, and induced several countries to prioritise concluding bilateral trade agreements (Bendini 2015).

The WTO is also a kind of ground for coordination of competition policy in relation to trading partners of the European Union. The most favoured nation clause is a cornerstone for the functioning of the WTO (Previously the General Agreement on Tariffs and Trade 1947 – GATT). It relies on granting the most favourable treatment to all countries, including countries not associated with the WTO. Translating the application of the abovementioned principle of reciprocity (the most favoured nation clause) into the area of competition policy, it would be expected that countries that are parties to the agreement conduct in accordance with the aforementioned principle analysing all cases of anti-competitive practices which have a direct impact on economic relations or undermine important interests of the country affected by the results of such proceedings. Another principle – national treatment principle – comes down to requiring all members of the WTO not to create competition barriers to goods and services of another member of the organisation in relation to their own (including the EU, which is a member of the WTO as of 1995). The interpretation of the aforementioned principles revolved around the concept that requires equality of competitive opportunities between domestic and imported goods and prohibits to use any measures that might adversely affect the conditions of competition facing imported goods relative to domestic products (Michalski 2004). On the basis of this principle, the mutual recognition of norms and standards was introduced in the EU within the single internal market.

The WTO put emphasis on the importance of an efficient flow of information, which provides a good basis for conflict prevention and prompt elimination of sources of potential disputes. One of the principal achievements of the WTO is the reinforcement of the Dispute Settlement Body authorized to resolve commercial disputes and enforce its own decisions (Michalski 2004; Hoekman, Kostecki 2002: 45). The Trade Dispute Settlement Mechanism is a system of predetermined principles

enabling the WTO members – irrespective of their political power and economic importance – to file a complaint involving alleged infringements of the WTO principles and to demand compensation for such violations. This mechanism limits unilateral defensive mechanisms which some countries had previously attempted to introduce, thereby provoking retaliatory measures from countries that were targeted, which in turn often led to open trade wars. Since the establishment of the WTO the EU is one of parties most frequently referring to the Dispute Settlement System of the WTO. The European Union was involved in 167 disputes, in 90 of which it was the plaintiff and in 77 cases it acted as the defendant. In further 141 cases, the EU filed requests to be granted third party status, which enables the WTO members to monitor disputes between other parties (data from 01.04.2014). The EU, represented by the Commission, has often strived for improvement and clarification of the WTO agreements by appealing to the panels and the WTO Appellate Body to issue rulings (Bendini 2015: 2).

The European Parliament closely follows the course of disputes in which the EU is involved. In the past, the Committee on International Trade of the European Parliament presented its standpoint on trade disputes, delivering reports and organising public hearings or tabling oral questions to the Commission and the Council – as, for instance, in the case of the ongoing dispute between the European Union and the United States regarding Airbus and Boeing (Bendini 2015: 2).

## **6. Proceedings of The European Commission in Cases of Competition Policy Infringement**

Council Regulation (EC) No. 1/2003 of 16<sup>th</sup> December 2002 on the implementation of the rules on competition laid down in Articles 81 and 82 of the Treaty introduces a system of parallel powers under which the Commission and competition authorities of Member States may apply these articles. Acting together, national competition authorities and the Commission form a network of public authorities, acting in the public interest and closely cooperating with the aim of competition protection. The network is called the European Competition Network (ECN). The structure of national competition authorities varies between Member States. In some countries of the EU one body is in charge of investigating cases and making all kinds of decisions, whereas in other countries the functions are divided between two bodies – one is in charge of conducting investigation of given cases, while the other, often in the form of a collegial body, is responsible for deciding the case. Moreover, in some Member States, decisions

ordering the termination of an infringement and/or decisions imposing fines can only be made by courts. Subject to the general principle of effectiveness, Article 35 of the Regulation allows Member States to designate a national body of competition or national competition authorities and provide them with appropriate powers (European Competition Network 2015).

Cases can be handled by a single national competition authority, by several such bodies acting in parallel or by the Commission. In most of the cases the body that receives a request (complaint) or commences an *ex officio* procedure is also responsible for conducting that case. An authority is considered competent to conduct a given case, if a relevant connection exists between the infringement and the territory of a Member State in which the body in question operates to bring about an effective and complete termination of an infringement. Parallel actions of two or three national competition authorities may be appropriate in cases where an agreement or practice has significant impact on competition, mainly in their respective territories and when the action of only one body would be insufficient to terminate the infringement entirely and/or to impose appropriate sanctions. The authorities dealing with a case in parallel action endeavour to coordinate their actions to the extent possible. Meanwhile, the Commission is likely to be in the best position to carry out actions if agreements and practices affect the competitive structure in more than three Member States. Moreover, the Commission is particularly well placed to deal with a case if it is closely linked to other provisions of the EU community, which may be exclusively or more effectively applied by the Commission or if the interest of the Community requires the Commission to make a decision on developing a Community competition policy when a new competition issue arises to ensure effective law enforcement (European Competition Network 2015).

The competition authorities inform the Commission in writing before or promptly after commencing the first formal investigative measures in cases when they act under Article 81 of the Treaty (now Article 101 of the Treaty) and deem agreements between undertakings, decisions by associations of undertakings and any concerted practices which may affect trade between Member States as incompatible with the internal market, or when they act under Article 82 of the Treaty (now 102 of the Treaty) and consider that one or more undertakings have abused their dominant position in the internal market or in its considerable part. The information provided to the Commission can also be accessed by competition authorities of other Member States.

Two kinds of situations may occur:

- 1) the Commission is the first competition authority to instigate proceedings in cases for the adoption of a decision under the terms of the regulation and national competition authorities should no longer deal with the case, or

- 2) when one or more national competition authorities have informed the network that they are acting on a given case. In the initial phase of allocating of the case (approximately two months) the Commission can initiate proceedings after having asked for the opinion of the authorities concerned.

If a national competition authority is already acting on a case, the Commission shall explain in writing its reasons for taking over the case to the national authority concerned and other members of the network. The Commission shall notify the network in advance about its intention to transfer the case from national to the EU level (European Competition Network 2015).

An example of the application of competition policy in the global economy is the press release made on the 15 April 2015, in which the European Commission informed about the sending of a Statement of Objections to Google on its comparison shopping service. The Commission has also formally opened a separate antitrust investigation into Google's conduct as regards the mobile operating system Android. The company has been accused of abusing its dominant position in the markets for general internet search services in the European Economic Area (EEA) by systematically favouring its own comparison shopping product in its general search results pages. The Commission's preliminary view was that such conduct infringed EU antitrust rules because it stifles competition and harms consumers. Sending a Statement of Objections does not prejudice the outcome of the investigation. The separate antitrust investigation into Google's conduct regarded the mobile operating system Android. The investigation has been focusing on whether Google had entered into anti-competitive agreements or abused a possible dominant position in the field of operating systems, applications and services for smart mobile devices. EU Commissioner in charge of competition policy Margrethe Vestager said: "The Commission's objective is to apply EU antitrust rules to ensure that companies operating in Europe, wherever they may be based, do not artificially deny European consumers a choice as wide as possible or stifle innovation" (The European Commission 2015).

Another example of the application of competition policy is the case of the Gazprom enterprise. The Commission opened formal proceedings against Gazprom on 31<sup>st</sup> August 2012. Then, on 22<sup>nd</sup> April 2015, it informed that it had sent a Statement of Objections to Gazprom alleging that some of its business practices in Central and Eastern European gas markets constitute an abuse of its dominant market position in breach of EU antitrust rules. On the basis of its investigation, the Commission's preliminary view is that Gazprom has been breaking EU antitrust rules by pursuing an overall strategy to partition Central and Eastern European gas markets, for example, by limiting cross-border gas reselling by its customers. This may have enabled Gazprom to charge unfair prices in certain Member States. Gazprom may also have abused its

dominant market position by making gas supplies dependent on obtaining unrelated commitments from wholesalers concerning gas transport infrastructure. Gazprom was given 12 weeks to reply to the Statement of Objections and could also request an oral hearing to present its arguments. The Commission fully respects Gazprom's rights of defence and will carefully consider its comments before issuing a decision in the case. Sending a Statement of Objections does not prejudice the final outcome of the investigation. The EU Commissioner in charge of competition policy said: "Gas is an essential commodity in our daily life: it heats our homes, we use it for cooking and to produce electricity. Maintaining fair competition in European gas markets is therefore of utmost importance. All companies that operate in the European market – no matter if they are European or not – have to play by our EU rules. I am concerned that Gazprom is breaking EU antitrust rules by abusing its dominant position on EU gas markets. We find that it may have built artificial barriers preventing gas from flowing from certain Central Eastern European countries to others, hindering cross-border competition. Keeping national gas markets separate also allowed Gazprom to charge prices that we at this stage consider to be unfair. If our concerns were confirmed, Gazprom would have to face the legal consequences of its behaviour" (The European Commission 2015).

## Conclusion

The competition policy of the European Union is instrumental to accomplishing objectives of economic integration of its Member States. It is a natural consequence of principles on free trade within the single European market. Competition is an effective means to guarantee all consumers of Member States a certain level of excellence in terms of quality and prices of goods and services. It constitutes a kind of stimulus for enterprises to undertake more efforts aiming to achieve competitiveness and economic efficiency. Thus, competition consolidates the industrial and commercial structure of the European Union, which – as a result – allows to confront the competitiveness of EU's most important partners.

In the conditions of global economy, it is essential to mutually respect laws formulated in this field not only in the EU, but also in the WTO, which – despite being instrumental in the creation of the international trading system – is also an organization that serves as a ground for coordination of competition policy on a global scale with regard to trade partners of the EU.

Each country, whether a member of the EU or a third country or a trade partner, is obliged to comply with the EU regulations on competition. Similarly, each undertaking, regardless of whether its place of activity is within the EU area or not, shall also respect the rules formulated within the framework of competition policy.

The possibilities for cooperation of economic entities and national economies of individual Member States along with respecting the jointly developed principles can contribute to overall economic growth, not only of the European Union, but on a global scale as well.

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# **SOLIDARITY AND SECURITY AS ELEMENTS OF THE EUROPEAN UNION'S COMMON ENERGY POLICY. CHALLENGES AND PROSPECTS FOR DEVELOPMENT ON THE GAS MARKET**

## **Abstract**

*The process of development of common energy policy of the European Union, including the aspect of energy security and solidarity, is not close to completion yet. Despite the legal basis for creation of such policy being expressed in Article 194 of TFEU, what is lacking at the current stage of integration, especially among the EU's largest Member States, is political will. The lack of common position among Member States as regards, for instance, security of gas supply to the EU or external policy in general seriously hinders the development process of consistent common policy at the EU level in the area of energy security and solidarity. With the above taken into account, the creation of a common gas market based upon free trade of goods (free movement of gas) between Member States and free access to infrastructure for all (suppliers) may enable the EU countries to acquire comparable energy mixes and import dependencies in addition to similar interests and expectations as regards common energy policy in the area of energy security and energy solidarity.*

## **1. General Remarks**

The need to establish a common energy policy capable of providing guarantees for both energy security (security of supply) and energy solidarity among Member States stems from provisions of the treaties establishing the EU. However, not a single effective common energy policy emerged over the initial years of European integration (i.e. the fifties or sixties), nor did any binding legislation in this area (Hassan and Duncan 1994: 164). Still, it is important to note that as early as the mid-sixties European energy policy ranked among the most intensely discussed subjects in the Community forum, mainly within the context of oil.

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Accordingly, it was quite a typical phenomenon over the past decades, until the mid-eighties, that the energy sector and gas in particular was dominated by public monopolies strongly dependent upon state regulation and control and therefore very resistant to change. Facing this situation, it was hardly surprising that actions undertaken by the European Commission until the mid-eighties with the intention to develop common energy policy, in particular within the context of the gas market, a policy that would promote energy solidarity among Member States, including security of supply to the European Union, brought no significant progress in that field (Cameron 2002: 39). It is not an exaggeration to say that for many years application of provisions of the EC Treaty concerning the energy industry, and gas in particular, did not exist in reality. As a result, the principal role in regulating the energy sector was taken by national legislation, thus pushing the community law to the background. According to some researchers, the lack of progress in the area of creating a common energy policy was also influenced to a certain degree by the lack of a specific chapter in the EC Treaty dedicated to issues of energy (Swann 1988: 242; Cross 2007: 225). This was despite proposals being submitted to include energy policy in the Single European Act (SEA) or in the Treaty on the European Union, Treaty of Maastricht. Nevertheless, even within the doctrine there are opinions opposed to the view that creation, at that time, of a separate chapter in the EC Treaty dedicated to the energy sector could have overcome or remedied the problems related to the development of a common energy policy in the European Union (Rashbrooke 2004: 375–377). However, there was little support given by Member States to the introduction of a new chapter on energy that reflected their obvious motivation, manifested at national level, to maintain as great control as possible over the energy sector. Furthermore, even in the European Commission, the key propagator of energy market liberalisation and advocate of creation of a common energy policy, the opinions as to whether it was advisable to add a new chapter to EC Treaty were highly divided. Those favouring such a solution pointed out that this would equip the Commission with additional powers to carry out necessary legal actions for the development of a common energy market and policy. On the other hand, experts in the field of competition law argued that the fundamental treaty principles were lucid enough so there was no need to supplement them with another separate chapter dealing with energy (Ehlermann 1994: 346–347).

It was only recently that the Constitution Treaty<sup>1</sup> was provided with a new opportunity to seriously reconsider the idea of a separate energy-related chapter as

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<sup>1</sup> See Article 176 A concerning the energy industry in the Treaty establishing a Constitution for Europe signed in Rome on 29<sup>th</sup> October 2004 – never entered into force – Treaty establishing a Constitution for Europe (OJ C310/1 from 16.12.2004).

part of the fundamental Treaty. However, according to some researchers (Hancher 2005: 4; Haghighi 2008), even the introduction of a dedicated chapter on energy to the new Constitution for Europe in effect to the Treaty of Lisbon (the Treaty on the Functioning of the European Union) fails to solve all the legal problems surrounding the issue of the Commission's powers to address energy-related issues, including the security of supply for individual states. On the other hand, however, creating a chapter concerning energy in the Treaty on the Functioning of the European Union (TFEU) or, more specifically, Article 194 TFEU, provides a legal basis for the development of a common energy policy in the spirit of solidarity among Member States. The aim of which is, among others, to provide security of supplies to the EU (Kurze 2010: 5).

Moreover, a new chapter of the Treaty, dedicated to energy matters, indirectly strengthens the role played by the European Commission as an initiator of legislative changes in national energy markets. However, it would also require the willingness to change on the part of individual states rather than a solely legal base, for the process to be successful. Unless such good will, including mainly political will, is truly manifested, the present energy-related treaty Article may, unfortunately, remain an unimplemented declaration. Indeed, the lack of such political will may inactivate even the most ambitious and weighty legislative drafts. Unfortunately, the will to implement depends largely on the geopolitical conditions of Member States regarding energy sources.

With the above taken into account, the aim of this paper is to address the lingering question: whether the energy policy of the European Union covering aspects of energy security (security of supply) and energy solidarity, especially with regard to natural gas, can be realized in practice.

## **2. Geopolitical Background of the EU's Energy Security**

### **– Gas Market as an Example**

Geopolitical conditions concerning energy security in terms of diversification of the sources shall be seen from the perspective of the European Union as a whole, especially in relation to supplies of gas. The common policy, together with the common, market does offer the possibilities of diversification of energy sources due to both closer integration and cooperation of national gas markets. Therefore, the advantage of the integrated market lies with greater strength and a bargaining position of the EU's energy businesses, which ensures sources of energy on global markets, which in turn results in a better choice of supply routes and easier access to end users. This is particularly important within the context of the EU's (especially new members)

strong dependence on a single gas supplier. While in 2001 supplies from abroad covered 31% of the EU's demand for natural gas, it is estimated that by 2025 the EU's need to import gas will increase to roughly 60% of consumption (Comwall 2006: 45). Furthermore, competitive markets, which constitute the objective of the energy market liberalisation, favour diversification since they are capable of reacting more flexibly to any changes of supply and demand in global markets (Nowak 2010a: 30). However, one serious problem which complicates the efficient operation of an integrated European gas market is that of cross-border connections and the lack of adequate LNG infrastructure in countries with access to the sea. Yet, having such infrastructure in place would be equal to freeing a given country and the entire European Union from dependence upon a single supplier. Apart from this technological issue, there is another fundamental problem of the lack of common position among Member States in relation to gas supplies from outside the EU, which seriously handicaps the potential to create consistent energy policy, especially in terms of external relations at the Union level. Several EU countries have been involved in negotiating the long-term contracts, in most cases with incumbent upstream suppliers. In reality, these countries appear to be motivated by their national political considerations rather than by concern for the security of supplies as seen from a pan-European perspective. Another point is that the problems of energy security are not seen as the basis of the Community's Common Foreign and Security Policy. Riedel (2010: 12) indicates that many proposals for deepening the cooperation in this field are met with profound scepticism by certain Member States, often creating or aggravating the existing divisions among them. It is paradoxical that the European Union, whilst being in charge of foreign policy from the outset, does not even have one binding document to date specifying its entire foreign policy, including that relating to energy security or to the broad foreign dimension of energy policy. As emphasized in the Solana report<sup>2</sup>, the European Union has to face some of its old unsolved challenges, both those recurring in augmented form and the newly emerging ones, such as energy security or climate change. This requires a search for consistent and effective solutions on a European scale. It is within this context that the second strategic energy review, in the form of a Communication from the Commission to the European Parliament and the Council on the EU energy security and solidarity action plan (European Commission 2008), mentions an increased emphasis on energy-related issues in international relations as one of the EU's five

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<sup>2</sup> A report resented by the EU's High Representative for CFSP Javier Solana on the implementation of the Common Foreign and Security Policy. The document, entitled "*Providing Security in a Changing World*" was accepted by the European Council in December 2008. The report evaluates implementation of the European Security Strategy of 2003, also including proposals aimed at improvement of its implementation and its enrichment with some advisable points.

priorities for the area of energy. From a new member's perspective, it is a declaration on regulating energy relations with Russia. This seems noteworthy, although inevitably a difficult challenge due to varying relations with Russia among Member States. Another document that notes the importance of relations with Russia, the European Union's largest trade partner in gas, is the Communication from the Commission on security of energy supply and international cooperation, "The EU Energy Policy: Engaging with Partners Beyond Our Borders" (European Commission 2011). This document highlights the EU's foreign energy policy having crucial importance for the creation of an internal energy market. Yet, the author of the study does not agree with this statement considering that it is the common internal energy market that is going to determine the development of an external energy policy, rather than vice versa. The common liberalised market acts as a guarantor of free trade within the Union in energy products, including gas. Free trade in gas among Member States and free access to infrastructure for all sellers (suppliers) should gradually eliminate Member States' various dependencies upon imports and encourage them to have similar interests in terms of an external energy policy. However, in order to achieve this objective, free trade in gas products between Member States shall be allowed. In fact, it should be noted that exports in the gas sector have been dependent on the extracted source of the energy carrier. At present only two European countries, Norway and Russia, possess ample gas resources enabling them to export and neither of them is an EU Member State. All 28 Member States of the present European Union have to import gas. Trade between Member States, while possible, is in practice restricted by the structure of national markets that are protected by dominant entities. Gas monopolies, existing in almost all EU Member States, largely preclude independent players from entering their national gas markets. Furthermore, contracts signed by EU countries (and more specifically, by their energy enterprises) with other global upstream suppliers, especially with Gazprom, still include prohibition of resale of Russian gas by national gas trading companies to other Member States of the EU. These actions violate one of the fundamental freedoms in the EU economic law, the rule of free movement of goods within the Union. Perhaps this will change in the foreseeable future, but it will require collective action by the EU countries in conjunction with their other partners. An example which shows that change may be coming can be found in the contract signed by the European Commission with an Algerian state-owned gas company, Sonatrach, which waives destination clauses and enables all EU-based traders to resale Algerian gas within the EU<sup>3</sup>.

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<sup>3</sup> On 9<sup>th</sup> July 2007, Algeria and the EU finalized an agreement dealing with territorial restrictions, allowing companies of EU Member States that import Algerian gas the right to resell it either within their

With the above considerations taken into account, a broader context of relations with Russia should include, for example, a plan for negotiating a complex agreement as a solid legal basis which would ensure cooperation in the area of energy and replace the partnership and cooperation agreement of 1997. This is tricky under the present conflict between Russia and Ukraine, yet important. Russia will remain the EU's key partner in the field of energy for a long time to come. Accordingly, efforts should be made in order to develop proper economic relations with Russia within the gas sector. Consolidation of crucial principles upon which the partnership between the EU and Russia could be founded in one legal act would be of advantage to both parties. Bearing this in mind, negotiations concerning a new agreement between the EU and Russia could cover a number of pivotal issues, including: access to energy resources, access to transit networks and export markets, protection of investments, prevention of crises, provision of equal conditions of operation and specification of prices for energy resources. It is also necessary to provide for the predictability of transport of Russian gas to the EU and to clarify the principles with which Russian gas companies could make investments in energy-related activities in the EU. Most importantly, such an agreement with Russia needs to contribute to the development of binding and effective provisions concerning the resale of Russian gas by all European businesses inside the EU, which is lacking to date.

Taking into account the need to create a new agreement between the EU and Russia, one should remember that since natural gas was perceived as an instrument for exerting political pressure, European gas security has been put in jeopardy. Indeed, the EU has recently found itself in quite a complex situation because of this. The lack of solidarity or common policy towards external partners at the Union level gives external suppliers better opportunities for negotiating long term contracts for gas supplies with individual EU Member States. Unfortunately, it appears that the EU is responsible for this, at least to some extent. It was a mistake, in author's estimation, following the conclusion of the Energy Charter Treaty, to allow the EU's momentum in pursuing proper back-up in the gas sector and that of energy-related negotiations with Russia in the late nineties to deteriorate. During that period the prices paid for gas were relatively low and Russia was greatly in need of an inflow of foreign investment (Nowak 2004: 63). This constituted a perfect opportunity for EU-sited gas companies to secure their interests in the field of supply and to begin cooperation with state-owned Russian enterprises. Presently, with the high price of gas (which largely results from the high price of oil), demand increases constantly. This enables Russia to either develop its technologies independently or to buy the same from "independent" contractors,

without diminishing its resources for the benefit of foreign businesses. In effect, the future of international agreements, such as the Energy Charter Treaty, obliging states-parties which ratified it, to open their energy markets to foreign companies, seems rather bleak, at least while prices of gas in the EU remain high. For Russian authorities, who refused to ratify the Energy Charter Treaty, the main obstacle has been the Energy Charter Protocol regarding transit, in which the access to transmission infrastructure takes place in line with internal tariffs. Ratification of the Treaty by Russia would also enable such countries as Azerbaijan, Georgia, Kazakhstan or Turkmenistan, which have already ratified the Treaty, to transport oil and gas to the EU via Russian transit networks on the same conditions as those enjoyed by Russian businesses. Therefore, Russia is concerned that ratification of the Treaty could increase the role of Central Asian countries in international trade in energy carriers. This could result in the weakening of Russia's control over their transit to the EU and in decreasing the influence and predominance Russia has in that region (Nowak 2010b: 60). Considering the strong position of Russia in the raw materials market and their use as an element of foreign policy, it seems that the need to develop common policy regarding solidarity and security of gas supply to the EU has become, at the present stage of European integration, an issue of crucial importance.

Issues of supply security and energy solidarity are at the forefront of debate in Central and Eastern European countries (CEE). The sensitive geo-political situation of these CEE countries coupled with strong dependence on Russian energy carriers (gas and oil) is additionally complicated by the fact that Russia largely, and especially in the case of the Baltic states, views that part of the EU as the former zone of its influence. However, dependence on just a single supplier is not by choice of the CEE countries. Rather, it is a burden and a consequence of having "inherited" from the previous Soviet block the infrastructural network whose supplier sources were situated in the territory of the former Soviet Union. Transit gas pipelines, such as Yamal or Brotherhood, which transport gas from the East towards the West, that is from Russia to other European countries, clearly indicate the supplier. This way, the inherited infrastructure precisely defines the direction in which gas transit takes place, especially for Central and Eastern European countries. Therefore, the clause concerning energy solidarity in the case of a crisis of energy carriers supply (as expressed in Regulation no. 994/2010/EU) is perceived by leaders of CEE countries as an instrument of protection against Russia's ambitions. Additionally, new EU Member States are much more dependent on Russia as the one source of gas supply than older Member States. This, in turn, determines a different approach to relations with Russia as the EU strategic partner in gas trade. Historically, relations between Russia and Central and Eastern European countries were fundamentally complex. This can be seen in Russia's present policy towards the

Baltic states or Ukraine, which has had a negative influence upon the way the new EU Member States perceive Russia as the EU's principal trading partner in gas. Russia is seen as benefitting from its position and its access to energy carriers and seemingly interested in using gas as a political weapon in its relations with neighbouring countries (Nowak 2012: 102).

It appears, however, that the fears of new Member States are not entirely appreciated or taken into account by old EU members, which is particularly true for Italy, Spain, Germany and France. For these countries the import of gas from Russia accounts for only 20–30% of the entire import, while in new Member States it amounts to as much as 60–100%. This difference is quite understandable, considering relatively advanced projects of gas connections between Southern and Western Europe and countries of Africa. Already existing gas pipelines, such as Green Stream (Libya–Italy), Trans-Mediterranean (Algeria–Italy), or Maghreb-Europe (Algeria – Spain and Portugal) are in the process of being supplemented by, among others, gas pipelines Medgaz (Algeria – Spain), Galsi (Algeria–Italy) and Trans-Saharan, connecting rich deposits in Nigeria with existing transit gas pipelines in Algeria and towards Europe. The opening of the latter has been announced to take place in 2015.

Strict cooperation between Germany and Russia in gas-related issues is hardly acceptable to Poland and to the Baltic states, who fear renewed Russian domination in the region. In effect, the matter of supply security became even more contentious following the German Government's decision to strengthen the relations with Russia by forming a consortium responsible for the construction of the Nord Stream pipeline running around the bottom of the Baltic sea. Until recently, the project was perceived as offensive by political decision-makers from Central and Eastern European countries and termed an egoistic solution to the problem faced by the entire Union. In fact, Poland, which was bypassed by the Nord Stream, views this project as a threat to its energy security, as often shown in opinions given by Polish politicians. Some scholars, however, argue that the construction of the Nord Stream pipeline will undermine the idea of energy solidarity and become an obstacle to the creation of a common external energy policy at the Union level (Wyciszkievicz 2007). However, the reality of such a prospect is diminishing, as the Nord Stream project is increasingly perceived by EU institutions as an investment of strategic importance for European energy security.

From Poland's perspective, the most negative aspect of the construction of the Nord Stream gas pipeline is the fact that Poland will suffer serious losses with respect to its position as a transit country; the status upon which it has relied in its policy of negotiating prices of energy carriers with its Russian partner. Moreover, if and when the operation of Nord Stream is finally fully operational, it can be expected that a gradual limitation of gas transit will occur via the Yamal gas pipeline to Germany with



a redirection into the Nord Stream. Such a solution will cause negative consequences for Poland. It appears that if this becomes reality, Poland will face little choice but prompt completion of the LNG terminal, which will partly diversify supply sources and directions.

In conclusion, new EU Member States, even though similarly dependent on energy supplies as the older ones, face different challenges stemming from their proximity to and relationship with the EU's principal gas partner, Russia. Important differences can be seen in several areas: the structure of energy consumption, energy dependence, development of infrastructure, and the politicization of the issue. The first noteworthy difference between the energy situation of new versus old Member States of the EU concerns the fact that the former have a much higher level of dependence on a single source of energy in Russia than the latter. While in the older countries the level of dependency on a single source of energy barely exceeds 30%, the level of energy dependency on Russian gas in the new countries oscillates between 60 to 100%. The difference between Eastern and Western Europe is further marked with disparity concerning the effectiveness and quality of infrastructure and facilities, and the role energy plays in politics. The legacy of strained relations with the former Soviet Union makes it very difficult to operate trade exchange with Russia as compared to trade with any other country. For new Member States both mistrust and fear damage the perception of their relationship with their crucial gas supplier, which is an element not present in the relationship between old Member States and their suppliers, whether it is Norway or Algeria. Additionally, the role energy plays in politics and the disparity in the relationship with Russia among the EU countries in general makes the whole process of creating external energy policy even more demanding. For example, relations between the UK and Russia are more likely to involve conflicts than in the case of Germany, Italy or France. This became particularly evident when the British government declared itself decisively against Gazprom entering the British market through the purchase of assets in Centrica. A similar model of relations can be observed between Russia and Poland, the latter driven by concerns for its energy security repeatedly blocked Gazprom's attempts to acquire assets in Polish energy companies.

### **3. Security and Solidarity in the Treaty on the Functioning of the European Union as the Foundation of the EU Common Energy Policy**

The Treaty on the Functioning of the European Union introduces important change to the common energy policy at the EU level. The energy industry has been recognised as one of over a dozen key areas in which the Union shares its scope of powers with Member States (Article 4 TFEU). Inclusion of the energy industry in TFEU as an area of shared competence may be perceived, with the evidently reluctant attitude of Member States towards changes in the energy sector and their loss of some powers in that area, as an attempt to provide for a special mode of cooperation in that field between the European Union and governments of individual Member States. This is not only in the interest of greater transparency in energy markets, but most of all in the interest of creating effective common energy policy including the gas market. Of course, this is not meant to imply that Member States are deprived of any control over energy resources or over the issue of supply in terms of energy carriers. On the contrary, these issues constitute the domain of the Member States in which potential decisions at the European level require unanimity pursuant to Article 192(2c) TFEU.

The above effectively means that, for example, potential block purchase of gas by the EU (one of the postulates submitted by Poland and other states during the present Russian–Ukraine crisis) from third countries would require unanimity among Member States. This issue concerns the choice (adoption of measures which seriously determine the choice) between various energy sources and the general structure of a country's supply in energy, where unanimity is essential. In reality, it is difficult to expect such unanimity to occur, as for example within the context of the price for gas. This makes the joint purchase of gas rather unlikely at the present stage of integration. Theoretically, the purchase of gas by the EU might belong within the EU's scope of exclusive competence, the common commercial policy, Article 3(1) TFEU, and as such would be subject to the qualified majority procedure in the Council, where it is easier for a uniform position to be achieved. However, such a solution seems to be in contradiction to the fact that the energy industry as such constitutes a field of shared competence, according to Article 4(2) TFEU, where the Union and its Member States may jointly conclude an international contract, such contracts having a status of mixed agreements. This implies both the necessity to complete the procedure of entering a binding agreement by the Union and to ratify the agreement by the parties involved (the Member States) according to their own ratification requirements.

It is apposite at this juncture to question whether, in a situation where it is for Member States to decide about choices between various energy sources and the general structure of energy supply, as to whether this may influence the process of developing a common energy policy and affect it negatively. Such negativity may be perceptible. However, the point of the common gas market based on the principle of unrestricted circulation of goods between Member States is to minimize these threats. Furthermore, according to the author, construction and extension of gas infrastructure, including LNG terminals, underground gas storage facilities and gas pipelines in combination with a liberalized European common gas market (e.g. full legal and economic integration as regards gas markets) will enable Member States to develop comparable energy mixes and import dependencies. This should further translate into their similar interests and expectations concerning common energy policy in its external dimension, including security of supply and energy solidarity. Yet from a purely legal perspective, in spite of the fact that article 192(2) in combination with article 194(2) TFEU allows Member States a certain degree of discretion as regards the choice of energy sources and general structure of energy supply, it should be noted that advocates of strict integration and federalization of the European Union will or may endeavour to exploit Article 114 TFEU as the legal base for harmonisation, and approximation of national legislations in the area in question (Bjornebye 2010: 142).

Coming back to solidarity, one may point out that the Treaty objective referred to in Article 194(1b): "... in the context of the establishment and functioning of the internal market ... the Union policy on energy shall aim to: ensure security of energy supply in the Union" should be achieved in the spirit of solidarity between Member States. Although the notion of solidarity appears both in TEU and in TFEU, as well as in the Directive 2009/73/EC, Regulation no. 715/2009/EC and Regulation no. 994/2010/EU, a single uniform and complete definition of this term is lacking. According to some researchers, the notion of solidarity indicates that Member States are responsible for maintaining a community of interests, objectives and values and, under the conditions of economic integration, remain in an ever-increasing dependence upon each other (Mik 2009: 46). With regards to strengthening relations between markets, their ever-growing mutual dependence and the establishment of a common market for gas, overall cooperation among Member States, including between neighbouring areas within Member States under regional cooperation, may improve both individual and collective security of gas supply. Moreover, increasing interdependence between Member States should determine the policy of energy security of the European Union as a whole, as indicated in Article 122 TFEU. The Council, on a proposal from the Commission and in the spirit of solidarity between Member States, may decide upon the measures appropriate to the economic situation, in particular if severe difficulties

arise in the supply of certain products, notably in the area of energy. What seems indispensable in this context is the development and collection of gas reserves by EU Member States in addition to the exchange of information on the stocks held, which will enable them to undertake coordinated and effective measures should a crisis arise. The principle of solidarity, proposed by the Commission in the Green Paper (European Commission 2006) should apply as obligatory in case of an energy crisis affecting one or several EU members, a crisis caused by physical threat arising in energy infrastructure (as a result of a terrorist attack or natural calamity), as well as in case of political interruption of supplies from third countries. According to the Commission, this is mainly intended to ensure the practice of the countries involved mutually informing each other about threats and their present state of stock of fuels, mutual technological assistance and the development of infrastructure facilitating potential gas transit between Member States.

Such notion of energy solidarity, together with an anti-crisis mechanism, is identical with the notion of energy solidarity expressed in Regulation no 994/2010/EU which, in principle, requires Member States to be involved in cooperation and to develop appropriate plans, and thereby to undertake crisis-prevention measures. However, in order for such plans to be implemented it is necessary to create perfectly functional internal gas markets and effective competition within that market. Market-based mechanisms are, to a considerable degree, measures capable of ensuring, with support from national regulators and system operators, a high level of security of supply to the EU and to all its Member States. An integrated common market will be allowed to function fully in the event of disruption of supply affecting parts of the Union, whatever the cause of the disruption. To this end, a comprehensive and effective common approach to energy security is required, particularly transparency, solidarity and non-discriminatory policies compatible with the functioning of the internal market.

## Conclusions

The energy policy of the European Union covering aspects of energy security and energy solidarity between the EU Member States is an area which is fraught with many problems and imperfections. It seems to reflect well the general processes taking place in the European Communities, and in consequence in the European Union, with periods typical for integration, stagnation and conflict followed by ultimate breakthrough and rather radical changes over the recent decade. Legislative changes

that took place both at the EU (TFEU and the third energy package) and national levels significantly enhanced the prospects of creation of a common energy policy by the EU in the spirit of solidarity, ensuring at the same time secure supplies of energy carriers to economies. Nevertheless, one should be quite clear in assessing that the European Union is only at an initial stage of developing such policy. While legal instruments are already in place, including in particular the treaty basis as expressed in Article 194 TFEU, what remains missing and very much needed is the true willingness to change, most of all political will on the part of Member States.

The creation of the EU's common energy policy, especially towards external parties, is currently of crucial importance, as Europe is heavily dependent on external energy resources, such as gas. Moreover, the EU's increasing energy dependence, together with a decrease of its energy production and limited contribution from renewables in many Member States, add further doubts and increase the feeling of urgency for a common energy policy. In fact, the Commission's Green Paper on Secure, Competitive and Sustainable Energy considers coherent external energy policy with security of supply as a priority area for the overall EU energy policy. In this, enhanced security of gas supply to the EU requires diversification. The best way to achieve diversification of energy supplies is through the creation of additional infrastructure and finding new upstream suppliers. To achieve this, liberalisation leading to the establishment of a competitive internal energy market is of paramount importance. Competition fosters innovative solutions, as well as investment in new infrastructure, research and development leading to new technologies. As competition develops, the number of upstream producers and suppliers supplying EU gas markets will continue to increase, both as regards pipelines and LNG supplies, linking Europe with new supply regions and routes. The common liberalised market shall act as a guarantor of free trade within the Union in energy products, including gas. Free trade in gas among Member States and free access to infrastructure for all sellers (suppliers) should gradually eliminate Member States' various dependencies upon imports and encourage them to have similar interests in terms of an external energy policy.

In fact, the combination of a well-functioning internal energy market and the formation of partnerships with the EU's main energy partners-suppliers (especially Russia and in the future perhaps also Caspian countries), constitutes a solid EU energy policy in its external dimension.

However, in order to live up to such a model, Member States need to cooperate together. Unfortunately, as regards gas supplies the EU is not speaking as one or with one voice yet. As a result, the EU goals are pushed aside, giving priority to domestic goals, thus often creating tensions between Member States. Moreover, extensive dependence on imports on the part of certain Member States and the lack of a coherent

European strategy to ensure security of supply significantly affects the bargaining position of the entire EU, which in turn gives Russia good opportunities to use gas supplies as a bargaining chip increasing Russia's power in negotiation with individual Member States.

Finally, the gas crisis in 2009 and the present Russia–Ukraine conflict have increased the feeling of urgency concerning a common energy policy at the EU level. However, even though nobody questions the obvious need for a cohesive, EU-wide energy policy to ensure security of supply and reduce demand, thereby reducing Europe's dependence on foreign gas supply, the actual creation of such a policy remains a difficult task. Forces at play, such as the Member States' sovereignty, protection of national industries and different approaches to Russia among Member States, all pose obstacles to establishing an effective energy policy, especially in its external dimension.

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## MARINE MAZE: MEANDERS OF THE EU'S COMMON FISHERIES POLICY IN THE VIEW OF COHESION POLICY

### Abstract

*Nowadays, the cohesion policy becomes a key objective for many regions. In the new financial framework, it translates to regional development, agriculture and fisheries. In the European Union (EU), there are numerous countries for which fishing was one of the most important industries. As a result of their negotiations in this area, the Common Fisheries Policy was established in the 1970s. Later this policy became subject to severe criticism from politicians, fishermen and scientists. The goal of the paper is to analyse the changes in the EU fisheries management from the perspective of cohesion policy.*

**Keywords:** Common Fisheries Policy, fisheries, public policy, European Union, common goods

### Introduction

In this paper, the author analyses the CFP, its objectives, challenges and instruments, and compares two financial perspectives (2007–2013 and 2014–2020) in order to see how the instruments evolved.

The cohesion policy assists in obtaining economic and social cohesion in the EU Member States. In 1986, the Single European Act defined economic and social cohesion as “reducing disparities between the various regions and the backwardness of the least-favored regions”. The Lisbon Treaty referred to “economic, social and territorial cohesion” and added territorial aspect which translates into promotion of more sustainable development of regions. Achieving these goals is supported by various projects which are presently funded through the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the Cohesion Fund (European Commission 2014).

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In the new financial perspective, 2014–2020, the cohesion policy is linked with other EU policies: rural development, fisheries and maritime policy to obtain synergy effects. This is enabled by the common provisions for the funds: the ERDF, the ESF, the Cohesion Fund, the European Agricultural Fund for Rural Development (EAFRD), and the European Maritime and Fisheries Fund (EMFF), the so-called European Structural and Investment (ESI) Funds<sup>1</sup>. In this way the common EU fisheries policy (CFP)<sup>2</sup> became more integrated with the cohesion policy.

Fishery is one of the most traditional industries. For centuries, it served as a source of nutrition, labour and knowledge about sea. In the 20<sup>th</sup> century, its role began to diminish in Europe due to progressive industrialization. Alternative sources of food and income were more attractive for fishermen and states. Still fisheries remain not only a European heritage, but also an industry that may bring benefits for the economy and for environment. However, they are a particularly difficult resource to manage.

The management of fisheries has always posed a challenge due to their nature. Fisheries are a specific type of common good, which can be compared to the tragedy of the commons<sup>3</sup> (Hardin 1968). Whether a fishery is operated in an optimal way depends on the structure of the market (perfect competition/monopoly), as noted by A.O. Sykes (Sykes 2004)<sup>4</sup>. Fisheries which are a common good<sup>5</sup> raise the necessity to negotiate the possibility of using them, which creates transaction costs. A number of cases related to this situation was described by J.K. Murnighan, who takes the Coase theorem as a subject of verification (Murnighan 1993). In addition to the problems associated with the use of common resources, challenges arise for control, protection and liability for damages, which are explained by Calabresi and Melamed (Calabresi, Melamed 1972). One of the proposed solutions introduces ownership or the regulations which led to the CFP<sup>6</sup>.

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<sup>1</sup> Regulation (EU) No 1303/2013 Of The European Parliament And Of The Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund, and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund, and repealing the Council Regulation (EC) No 1083/2006.

<sup>2</sup> CFP is a framework which enables the management of the EU fleet and conservation of marine resources.

<sup>3</sup> Tragedy of the commons – a phenomenon described by G. Hardin, in which the entity using the common good causes damage to others' ability to harvest it, leading up to overexploitation of the good.

<sup>4</sup> It turned out that monopoly structure of the market is better for stocks conservation, as the company does not have to take into account the operations of others.

<sup>5</sup> Common good (*res communis*) – a type of goods from which other users can benefit and cannot be excluded. Using them reduces the stock of goods available to other users. No one's good (*res nullius*) is a type which is not a property of anyone, no one has the rights to own it. Public goods are goods the use of which individuals cannot be deprived of, but their resource consumption does not diminish the good.

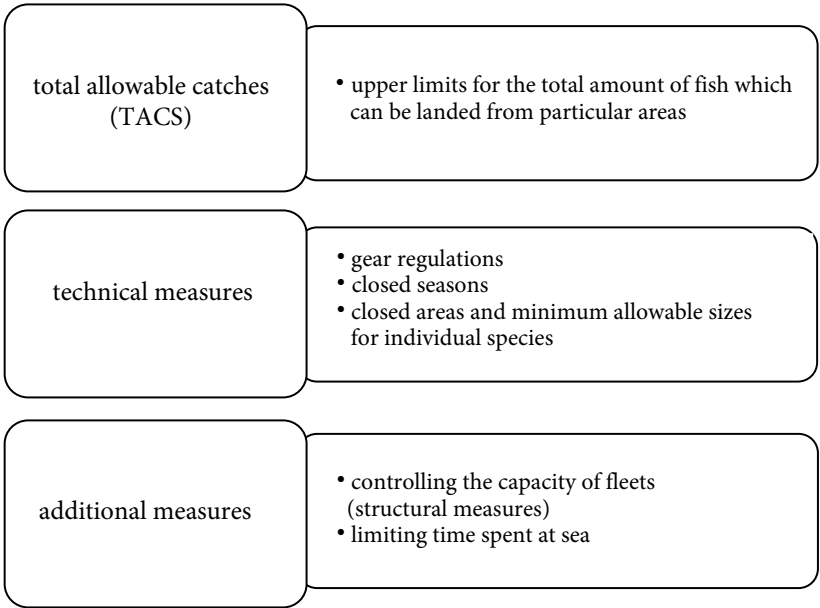
<sup>6</sup> An alternative solution is to manage and control without the implementation of these instruments. The Nobel Prize winner, professor in political science E. Ostrom, conducted research on fisheries in Canada (Ostrom 1990). She identified eight conditions to manage the common goods without defining ownership or management.

# 1. The Rough Seas of Policy-changing Goals and Instruments

To deal with numerous problems related to fisheries, in the 1970s the CFP was introduced. As most of the EU countries have access to the sea, managing fishing fleets and setting rules for conserving fish soon became an EU priority. The policy is based on the assumptions that all fleets have equal access to EU waters, which enables fair competition between them (European Commission 2015d).

Before 2011, CFP employed two kinds of measures to protect stocks, plus tried to limit the number of boats and the time they spend on the sea (see Figure 1).

**Figure 1. CFP Instruments Used to Conserve Fish**



Source: Own work based on (Daw, Gray 2005: 189).

The European Council was advised by the International Council for the Exploration of the Seas' (ICES) Advisory Committee on Fishery Management (ACFM). Member States research institutes provided data to the working groups of ICES ACFM. Proposals were and are constructed based on information from numerous bodies, including the Scientific, Technical and Economic Committee on Fisheries (STECF) and the European Parliament Fisheries Committee, and are further sent to the Council of Ministers which negotiates and formulates fishery regulations (Daw, Gray 2005: 190). This procedure turned out to be partly ineffective and extensively criticized (Franchino,

Rahming 2003). European countries faced major challenges related to fisheries, which included depletion of important commercial stocks, e.g. cod; ineffective management instruments; an oversized European fleet with comparison to existing natural resources (Daw, Gray 2005: 2; Laxe 1999: 13–20). As the authors suggest, the inability to address these problems resulted from both the clashing objectives of the scientists (looking for objective knowledge) and politics (the need for data to manage fisheries successfully) (Daw, Gray 2005: 191–195). The shortcomings of the CFP are summarized as in Table 1.

**Table 1. The Shortcomings of Politics and the Science in Shaping CFP**

Politics	Fishery science
1. Following the rationale of the tragedy of the commons and economic discounting theory 2. Popularity (and future in politics) bias in case of democratically elected ministers from Member States during the decision-making process 3. Acting regardless of scientific advice 4. Over-simplifying advice 5. Hidden political objectives behind the scientific advice 6. Exaggerated scientific advice due to assumed reductions in the consultation process 7. Influence of political situation on the research results	1. High levels of uncertainty in assessing fish stocks 2. Scope limitations to chosen species – lack of ecosystem assessments 3. Lack of dialogue with stakeholders 4. Limited number of field studies

Source: Own work based on (Daw and Gray 2005: 191–195).

Wide disagreement with the shape of the CFP led to a reform process. Most recent changes started in 2007 and resulted in policy reforms in 2011<sup>7</sup> (see Figure 2) and following amendments (the last one in 2014).

**Figure 2. Recent Reforms in CFP**



Source: Own work based on (European Commission 2015b).

<sup>7</sup> Official documents: Regulation (EU) 2015/812 of the European Parliament and of the Council of 20 May 2015 amending Council Regulations (EC) No 850/98, (EC) No 2187/2005, (EC) No 1967/2006, (EC) No 1098/2007, (EC) No 254/2002, (EC) No 2347/2002 and (EC) No 1224/2009, and Regulations (EU) No 1379/2013 and (EU) No 1380/2013 of the European Parliament and of the Council, as regards the landing obligation, and repealing the Council Regulation (EC) No 1434/98. Regulation (EU) No 1380/2013 of the European Parliament and of the Council of 11 December 2013 on the Common Fisheries Policy, amending Council Regulations (EC) No 1954/2003 and (EC) No 1224/2009 and repealing Council Regulations (EC) No 2371/2002 and (EC) No 639/2004 and Council Decision 2004/585/EC.

The process of reforms of the CFP addressed its previous failures. The most important changes related to the consultation process and its relations with the cohesion policy which will be elaborated on later in the paper. The previously ineffective system of scientific advisory was substituted by the Advisory Councils (ACs), stakeholder-led organisations which provide recommendations. Their scope includes socio-economic issues of fisheries management, the establishment and simplification of the rules, data collection. Seven AC correspond to marine regions in Europe<sup>8</sup> (European Commission 2015a). The second body responsible for providing high quality scientific advice is the Scientific, Technical and Economic Committee for Fisheries (STECF)<sup>9</sup>, which consists of “highly qualified scientific personnel, particularly in the fields of marine biology, marine ecology, fisheries science, fishing gear technology and fishery economics”. The cooperation of scientists from various fields enables a holistic approach and analysis of entire ecosystems (European Commission 2015c).

The outline of the CFP was also modified during the reforms. Currently (2015) it consists of four areas, which are: fisheries management, international policy, market and trade policy, funding of the policy (EFF 2007–2013, EMFF 2014–2020), plus it regulates the aquaculture and stakeholder involvement, which were previously neglected (European Commission 2015d). It is based on achieving the maximum sustainable yield (harvesting the largest amount of fish in the long term), regionalisation (representation of stakeholders from different regions in setting and changing the rules), fisheries science based on the productivity of the fish stocks, long-term plans (instruments for fish stock management).

The measures used by the new CFP were subject to change as well. In 2015, they include (European Commission 2015d):

- Total Allowable Catches (TAC);
- fishing licenses;
- boat capacity management;
- reducing environmental impact;
- minimum fish and mesh sizes;
- design and use of gears;
- closed areas of seasons.

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<sup>8</sup> North-western waters AC, South-western waters AC, North Sea AC, Mediterranean Sea AC, Baltic Sea AC, Long Distance AC, Pelagic Advisory Council (blue whiting, mackerel, horse mackerel, herring) AC.

<sup>9</sup> It was founded by the Commission Decision 93/619/EC, renewed in 2005 by the Commission Decision 2005/629/EC, amended by the Commission Decision 2010/74/EU and the Commission Decision 2012/C 72/06.

## 2. Constructing Tight Nets – CFP and Cohesion Policy Together

However, one may argue that the most important change for the CFP in the past years was to combine it with the cohesion policy. This step enabled obtaining synergy effects in particular areas, as the goals of the CFP are in line with economic and social cohesion. They include:

- environmentally, economically and socially sustainable fishing and aquaculture;
- providing a source of healthy food for EU citizens;
- fostering a dynamic fishing industry;
- ensuring a fair standard of living for fishing communities.

In these aims, one may see the economic and social aspects, supplemented by the environmental one. From the point of view of cohesion, the last and the penultimate ones seem to be the most important. Fishing industries used to be the base of some EU countries' economies, but at present their role has diminished and many fishing communities are looking for measures to survive.

From the cohesion policy's perspective, the new measures of the CFP may be more effective. Targeted funding and development of aquaculture are particularly beneficial for the projects. The former assists small communities and fleets in low-impact fishing and supports employment. The latter addresses the issue of natural stocks overuse. Control performed by the Member States provides reliable data that may be further used in the planning.

The change in the relationship between the two policies is also visible in the financial aspect. In the Financial Perspective 2007–2013, fisheries are mentioned a few times. For the first time, in the Heading 2: Preservation and Management of Natural Resources, together with agriculture and rural development. They fluctuated between 43,1 million EUR (2007) and 40,6 million EUR (2013), which shows that this budget was steadily reduced. However, the budget for the new fisheries instrument totalled 3,8 billion EUR. It was aimed at supporting regional convergence, competitiveness and employment. Transfers to existing fisheries instruments were defined by Member States basing on past expenditures (European Council 2005). No special link to cohesion was highlighted.

In the communication for Multiannual Financial Framework (2014–2020), the major change was to establish common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund, covered by the Common Strategic Framework (European Commission 2012:

3). Fisheries also appear in the annex enumerating the main points of the scoreboard in all policy areas as a clear priority objective with the reference to the Maritime and Fisheries Fund. Both in cohesion policy and EMMF, the Commission proposed to change the delegated acts into implemented acts in order to restore control to the Member States (European Commission 2012: 18)<sup>10</sup>.

Cohesion policy for 2014–2020 will be strictly linked to fisheries. Together with efficiency and rural development, the fisheries fund will be related to economic governance in order to rise Member States' compliance. Common provisions ensure financial cushion for fisheries, stating that "In order to facilitate the focus on performance and attainment of the objectives of the Union strategy for smart, sustainable and inclusive growth, a performance reserve consisting of 6% of the total allocation for the Investment for growth and jobs goal, as well as for the EARDF and for measures financed under shared management in accordance with a future Union legal act establishing the conditions for the financial support for maritime and fisheries policy for the 2014–2020 programming period (the 'EMFF Regulation'), should be established for each Member State. Due to their diversity and multi-country character, there should be no performance reserve for programmes under the European territorial cooperation goal" (Official Journal of the European Union 2013: 23). The relationship between cohesion and fisheries is best described by the article 11 e) which summarizes the content of CSF: "arrangements to address the key territorial challenges for urban, rural, coastal and fisheries' areas, the demographic challenges of regions or specific needs of geographical areas which suffer from severe and permanent natural or demographic handicaps as referred to in Article 174 TFEU, and the specific challenges of outermost regions within the meaning of Article 349 TFEU" (Official Journal of the European Union 2013). Also the new territorial aspect of cohesion directly relates to fisheries, as Annex I point 6.5 reads: "In order to take into account the objective of territorial cohesion, the Member States and regions shall, in particular, ensure that the overall approach to promoting smart, sustainable and inclusive growth in the areas concerned: (a) reflects the role of cities, urban and rural areas, fisheries and coastal areas, and areas facing specific geographical or demographic handicaps..." (Official Journal of the European Union 2013).

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<sup>10</sup> See: Article 6 COM (2011) 804 final.

### 3. Cohesion of the European Fisheries: a Sweet Dream or a Realistic Goal?

The widely criticized CFP was subject to multiple changes in the 2010s. Thanks to them, not only did it manage to address the highlighted shortcomings, but also served as an attempt to solve economic problems and link CFP to the cohesion policy. In the past, the CFP was described as short-term, driven by the particular interests of politicians. It did not minimise the effect of the tragedy of the commons or discounting theories. Fishers and coastal communities were not included in the dialogue, which resulted in biased reports and limited accuracy of the data used for further modelling. Critics emphasised that it was often ineffective and far from reality.

The EU undertook the goal of reforming the CFP by relating it to the cohesion policy. The process reflected the goals, measures and administrative procedures, as well as in financial support. As the changes were introduced fairly recently, we need time to assess whether the new arrangements will work. One should remember about old threats, inefficient cooperation with scientists or particular interests of politicians, which previously drowned the CFP's chances for success. However, at present the forecasts are more promising – new mechanisms and the importance of cohesion policy for the EU should help developing the CFP to its ultimate position.

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## **Part IV. Towards Better Finance Governance in the European Union**



László Csaba\*

## GOVERNING EMU AFTER THE CRISIS – SENSE AND NONSENSE OF THE NEW PRACTICES

### Abstract

*Managing the crisis of the euro zone, triggered primarily<sup>1</sup> by the spillover of the global financial meltdown, has brought about more supranational solutions than anybody could have guessed at the time of signing the latest Treaty on the European Union (TEU) in Lisbon in 2009. While the latter is firmly anchored in enhanced intergovernmentalism, innovations in crisis management have brought about giant steps towards supranational solutions. The creation of a permanent mechanism for crisis management, the European Stability Mechanism (ESM), vesting the European Central Bank (ECB) with the non-trivial and largely fiscal function of supervising systemically relevant large private banks, the creation of the Single Resolution Mechanism (SRM) and the European semester all follow the “discipline for money” logic. Furthermore, the ECB reinterpreted its mandate in September 2012. By providing unlimited liquidity “to save the euro”, furthered by launching a 1.17 trillion worth of stimulus package in January 2015, it has been transformed into a full-blooded federal central bank. While parallel fiscal and monetary easing have not yielded the desired effects by generating robust growth, the disciplinary devices of the EMU have fallen short of deterring notorious trespassers, from Greece to France and Italy, from continuing their malpractices. By contrast, successfully adjusting small economies, like Luxemburg, Latvia and Slovakia, have all shown the primacy of commitment/domestic ownership of reforms over supranational straight-jackets in successfully managing public finances. This experience calls for the rethinking of the predominant politico-bureaucratic logic of European governance – the sooner, the better. The anti-austerity debate seems to be positively misleading in terms of theory and policy alike.*

**Keywords:** austerity debate; discipline for money; Grexit; sovereignty sharing

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<sup>1</sup> True, it would be hard to deny the contribution of internal factors. The latter includes avoiding major reforms in most – especially large – EU states, profligate public finances, limited if any regulation of the private financial sector, underinvestment in research, development and good quality education, overtaxation and lack of liberalisation of the service sector, accounting for 75% of wealth creation in the EU, according to Eurostat.

## Introduction

While the currently effective Treaty on the European Union (the Lisbon Treaty) is built on enhanced intergovernmentalism, management of the financial crisis in 2010–2015 has triggered a series of changes that clearly move towards supranationalism. Managing the financial crisis followed the conventional logic of corporate control in terms of top-down decisionmaking. Furthermore, it also follows the logic of controlling packets, where minority shareholders and stakeholders can, and often do, get voted down. While such options are largely inevitable in the corporate world, this logic defies the mechanism of political decisionmaking, as it emerged historically in the European Union. The latter is built on symbolism and unanimity, perhaps at the expense of efficiency. But the fact is that even half of a country – southern Cyprus – can veto major policies of the Union, say on Turkey or on bailouts. All common policies rest on observing the unanimity principle and are based on sophisticated and often non-transparent intergovernmental bargains (Wallace, Pollack, Young 2014). By contrast, most if not all crisis management has vested decision rights in unelected bodies that are not accountable either to the European Parliament or directly to any of the national legislations. In short, the economics and politics of European integration have diverged. In the following paper we try to address its consequences and offer a more effective way out than the series of improvised decisions have produced to date.

## 1. Summary of Available Evidence: Discipline for Money

There has been a feeling of overwhelming gloom over the European Monetary System (EMS) ever since the outburst of the global financial crisis of 2008–2009. Eurostat/ECB data indicate no sign of a crisis. The latter means either inflation over 3% or deflation. The latter is defined by the statutes of the ECB as a 4 quarter decline of the overall price level expressed in the harmonised index of consumer prices/HICP<sup>2</sup>. Actual numbers fluctuated between 2.6% and 0.7% in the past 15 years. Still, the mounting – and sustaining – domestic socio-economic difficulties of several Member States tend to be blamed on the EU in general and on its monetary model in particular. While in the academia the straightforward and all-encompassing anti-austerity position (Blyth

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<sup>2</sup> This is an average of national rates, calculated with single methodology, and reflects the performance of the euro zone as a whole, which is the target of activity for the joint central bank, the ECB. National rates may and do converge, both inside and outside the area of the single currency.

2015) counts as extreme, in the political discourse in many countries, and increasingly also in the Union itself, it has gained respectability.

Several governments – such as the French, the Italian and most prominently the Greek – have been elected on a wholesale anti-austerity platform. The largely heterogenous Eurosceptic group in the European Parliament, representing about 25% of the votes, is allied not only on anti-elitist and anti-capitalist sentiments, but also on rejecting what they perceive as harmful and useless fiscal overzeal. The latter is certainly not born out by statistics, since the debt/GDP ratio of the euro zone grew from 67% in 2007 to 92.7% by 2013 (ECB 2014: 7), which grew further to 95% according to preliminary estimates by the end of 2014. In nearly all countries of the EU – except for Germany, Hungary, Latvia, Lithuania – the debt/GDP ratio continued to deteriorate, in the case of Bulgaria and Romania it stagnated, according to the same source. Since the economy contracted only in 2009 and 2012, in all other years a decline of the debt/GDP ratio could have been warranted. The only exceptions are the cases such as Ireland and, to a lesser degree, Spain, when the public authorities were forced to bail out large financial institutions, as they had proven unable to cope with the problems they generated for themselves (Lucey et al. 2014).

The governance of the EMU has evolved in peaceful periods of incremental changes, with everybody complying voluntarily. In other words: it was not meant to manage crises, as it was seen as a culmination of the victory of conventional economic rationality over arbitrary politics. It has been built on gentlemen's agreement and voluntary joint compliance of the like-minded. Joining the single currency has never been seen as a technical exercise, let alone a trick to ensure cheap external funding for profligate politics<sup>3</sup>. EMU has always been seen as the formalization and institutionalization of the voluntary conversion to fiscal orthodoxy by all participants (Cassel 1998). These included such countries as France, Italy and Spain, none possessing a track record of solid public finance. Inserting the no-bail-out clause into the Amsterdam Treaty of 1997, making each state responsible for the health of its own public finances, was a clear sign of it. Fiscal surveillance thus was based on indicative rather than compelling procedures. The latter included the Broad Economic Policy Guidelines, as well as the Stability and Convergence Programmes, none of them binding international agreements. The entire process was built on “naming and shaming”, i.e. on

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<sup>3</sup> The latter – cynical – reading prevails in much of the technical literature, especially in the UK and the US. In this reading low ECB rates invite profligacy rather than open up an opportunity for poorer countries to fund productive investment, as conventional development economics – and common sense – would have it. Thus crime becomes normalcy and virtue – stupidity. The axiomatic economic consideration – i.e. governments usually follow political goals and commit to public purpose, not to micro-economic incentives and rationality – have long been going under.

the deterrence of wide publicity of malpractices against a broadly based professional and political consensus over what sound economic policies should look like.

Thus, when the Greek crisis erupted in December 2009, followed by the Irish, Portuguese and Italian fiscal collapses, the Union was found largely unprepared and defenceless against those challenges. Faced with a largely unexpected spill-over of the Greek crisis into other countries peripheral to the Union, the core countries – most notably Germany – declared, as early as in the spring of 2010, a *de facto* no-bankruptcy clause. This was a sign of traditional political solidarity, as an unspoken foundation for political and economic integration in Europe. However, the economic and legal instruments for acting jointly, and especially acting in time, were largely non-existent. Furthermore, the available liquidity was not matching the size of the demand<sup>4</sup>. Neither buffer funds nor rapid reaction forces were available to bail out large banks. The ECB was proscribed by its statute to act as a lender of last resort, let alone to monetise public debt by purchasing the bonds issued by EMS member-governments.

Involving the IMF in the rescue packages for the previously troubled countries, such as Latvia, Hungary and Romania, was not a surprise, as these countries – like Poland with its special arrangement<sup>5</sup> – were outside the EMU framework. But the fall of prestigious EMU members, for whom the euro zone was supposed to create an umbrella for the rainy days, was a real shock. Reliance on the IMF and turning intra-EMU affairs into a *ménage à trois* by creating and empowering the *troika* to manage the crisis, was a heavy blow to the prestige of European arrangements.

The reaction to this embarrassing situation was largely improvised, as the EU clearly has not possessed with a plan B for unexpected shocks. The growing number of non-compliers and the immediate spill-over of the crisis of confidence on formally solid economies, like Spain, Ireland and Portugal, shook the foundations of the architecture. This is not the place to reiterate the bits and pieces of the crisis in various areas and countries (Dallago, McGowan 2015; Daianu et al. 2014). Let us offer just a brief summary of only the major institutional innovations that have taken place – hardly by chance – outside the scope of Treaty regulations, as they all move towards more, rather than less, supranationalism<sup>6</sup>.

Introducing the European Semester in 2011 implied that fiscal plans are being scrutinized, in greatest detail, by the peer organisations and also primarily the

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<sup>4</sup> If we take Hungary, the 20 billion EUR bailout package of October 2008 could not be covered from the then 120 billion (and even from the 2015's 153 billion EUR) total Community budget, assigned already to a series of other objectives, from farm support to immigration control. The ECB and the European investment bank had neither the mandate nor the ability to mobilise such big sums a matter of in days rather than months.

<sup>5</sup> The Precautionary Credit Facility, which was devised specifically for countries with a sound economy affected by panicking markets, without the usual strict conditionality of stand-by agreements.

<sup>6</sup> While supranationalism, or the lack of it, is a problem, both in its own right and as a political construct and legal arrangement of the EU, cf the edited volume by Fehrmann (2015).



Commission, even prior to formal submission to (let alone approval by) national legislations. This is an attempt of *ex ante* prevention of trespassing. Second, the Fiscal Compact of March 2012 contains a series of quantitative and procedural measures to enhance compliance. In a way, this is a severed new edition of the original Stability and Growth Pact of 1997, but it also contains obligatory measures for reducing the public debt and degrees to which it could be reduced, as well as detailed ways and means of coping with recurring fiscal imbalances. While the Compact is obligatory for EMU members, outsiders like Hungary in 2012 and Denmark in 2015 could also join. The basic innovation of the Compact is twofold. By envisioning pre-set multi-annual fiscal targets – which are not subject to *ad-hoc* negotiations – it sets the course for adjustment in terms of public deficits and debt/GDP ratios alike, should major derailments come forth. Moreover, it imposes a series of sanctions on non-compliers, up to the point of suspending voting rights in the Eurogroup. At the end of the day, the Compact returns to the original vision of the Stability and Growth Pact by reverting the softening which has eroded its effect since 2003–2005.

Third, establishing incrementally what is by now the European Stability Mechanism (ESM), i.e. a permanent bailout fund in the range of 705 billion EUR (against the seven-year framework of 980 billion EUR) aims at pre-empting speculative attacks on banks and governments alike. Run by a technocratic board, it is clearly outside the meticulous controls of checks and balances otherwise featuring in the EU institutions.

Fourth, the Single Resolution Mechanism, a 55 billion EUR fund to manage cross-border strains arising from potential and actual banking failures, was set up.

Fifth, a joint supranational level regulation of systemically relevant large banks has been created and vested in the European Central Bank.

Sixth, the European Central Bank has silently but effectively changed its own mandate. By initiating the “unlimited provision of liquidity” ever since September 2012, and getting away with it<sup>7</sup> the ECB has become a fully-fledged lender of last resort (cf. also Hu 2014). Furthermore – defying the explicit stipulations of its statutes – it is involved in direct and indirect purchases of government bonds of indebted countries, and it approved the Greek government’s purchase of T-bills in spring 2015 – both constituting monetisation of public debt. This is more of a replica of the American FED than of the original role model, the Bundesbank.

Let us note: all of the above listed changes are following the logic of more “discipline for money”. This is, however, a bureaucratic rather than an economic

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<sup>7</sup> To the surprise of many observers, both the German Constitutional Court and the European Court of Justice approved the direct purchases by the ECB as legal in their verdicts of September 2014 and January 2015 respectively. The numerous additional provisions attached to it by both courts in legal fingerprint did not seem to have impressed decision-makers.

concept. For it is pretty well documented – most elaborately and extensively in Kopits, ed. (2013) – that international agencies have very limited capacity in imposing discipline on non-complying national actors. Moreover, the countries' fiscal discipline is largely conditioned by domestic balance of forces and professional convictions.

As the abovementioned volume documents in detail, the Congressional Budget Office, set up back in 1974, has proven completely defenceless against the spending spree of successive American administrations. All the less so, as the major part of the US economic profession, both on the Right and the Left, have adopted a grandfatherish approach to exploding public debts. While the Republicans were preaching the unconditional growth and employment benefits of tax cuts<sup>8</sup>, irrespective of macroeconomic numbers regularly refuting the claim in 2000–2008, the Democrats were reviving old-fashioned vulgar-Keynesian ideas about the virtues of “tax and spend” policies. Furthermore, federal deficits in the range of 10% of GDP, or 25% of expenditures, have been tolerated and even boasted about by the Obama Administration in 2010–2015. This was indeed unprecedented at times of peace, and required a fair dose of belief in the impossible, namely that exploding debts did not matter. While the latter claim – that debt is an unimportant nominal variable with no influence on real growth – is just the conventional textbook view on the issue (both in the new classical and new Keynesian editions), historical experience is quite different. Debts do suppress growth in the longer run, in any country and at any time<sup>9</sup>. By contrast, in countries like Slovakia and the UK fiscal discipline could be introduced prior to setting up independent fiscal councils, when professional and political support could be built up in its favour.

In line with this insight we might well not be that surprised to observe that the institutional innovations in the EMU have failed to produce the expected outcomes. On the contrary, trespassing goes on. Moreover, not only as a peripheral, occasional derailment, a sin of the old days. Contemporary trespassing is massive and is being committed by the largest Member States<sup>10</sup>. Let us note: Greece, accounting for about 1% of total EU GNP, and being a closed economy, with exports and imports together accounting for only 60% of Greek GDP in 2008, growing to a mere 68% by 2014<sup>11</sup>, cannot be the trigger or the major culprit.

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<sup>8</sup> The ritual reference to the Laffer curve has been used *ad nauseam*.

<sup>9</sup> For detailed evidence cf. the extensive articles of Reinhart and Rogoff (2011, 2012), not questioned in the numerical debate over whether or not their 90% threshold is the right one. The latter used to be a hot topic for some newspapers, not however for the academe.

<sup>10</sup> Should the UK be an EMU member, it would also count among the sinners, with public debt/GDP climbing up from 78.4 to 91.1% in 2010–2014, and annual deficit running between 10 and 5.8% under the Conservatives, according to ECB.

<sup>11</sup> Cf. with 200% ratio for Hungary or the Benelux countries according to Eurostat.

## 2. Diagnosis and Therapy

If our basic observations summarized above hold, much of the debate in and around Europe seems to have been misplaced. If we tried to browse the related literature, we would find most contributions revolving around two claims:

- nominal convergence criteria are arbitrary and/or not achievable, and if achievable, only at too high a cost in terms of real variables;
- sanctions elaborated at the EU level do not bite, thus what is needed is to sever them. Punishing the sinners, say via suspension of cohesion or farm payments, or even suspending their veto rights at various EU fora is the way ahead.

The latter stipulations have been firmly anchored in the Pluri-annual Financing Framework for 2014–2020 in the form of cross-conditionality. Namely, the missing fiscal criteria may indeed lead to suspension of unrelated payments – as in farming or cohesion spending.

Let me re-state: solid public finance is a virtue in its own right and it is also a necessary condition for the EMU to function in the form we have known it. The question is different. Do we diagnose the macro-economic problems properly if we constrain ourselves to a few selected conventional macro-economic indicators? Observing the illness says nothing yet about the ways of overcoming it.

The bulky volumes cited above seem to agree on the diagnosis: missing consecutive targets in a row is a sign of bad governance rather than of mishaps. If this is the case, the question is not whether the 90% or 60% benchmark for debt/GDP ratio is appropriate. The issue is if it is indeed the feebleness of the EMU-level sanctions that positively invite repeated derailments? Is it not the domestic political economy which is at stake? Is it not the quality of domestic institutions which matters in the end? Is it not the existence or lack of professional and social consensus over the state of affairs and the desirable ways out which will be decisive? Finally, is it not the domestic political economy and its dynamics, far beyond the usual analytical framework of technocratic agencies which will settle the outcomes of competing expectations and projects? This finding arises from self-contained sectoral analyses of major expenditure areas of the EU, such as cohesion spending (Molle 2015) and agricultural policies (Daubjerg 2013).

If we accept those findings, the focal question in macro-economic adjustment at both the EU level and at the level of the EMU Member States can not revolve around the proper size and composition of the austerity package. Unless the root causes of the illness are addressed, there is no hope for a sustainable, lasting solution. The spiral of austerity, which was first observed in Communist economies (Antal 1983) may easily

replicate itself – basically for the same reasons: poor quality institutions, misaligned incentives and the ensuing lack of micro-economic adjustment to changes in demand.

Therefore: square one of therapy is to discontinue the fixation on numbers. If the roots are being attacked, those must include the work – size, quality, performance, cost-benefit – of local institutions. In most cases I am unaware of the *ex ante* conduct of not even the simplest SWOT analysis, taught in any business school, to have taken place, but arrangements are doctored so as to reach – even if temporarily, for the day of measurement – quantitative financial targets. This of course is a myopic option leading to follow-up softening and derailments.

Second, if the root of the above listed problems is structural or regulatory in nature, even staunch Keynesians would call for restructuring, not for more money. What we have observed in the period of the provision of “unlimited amounts of liquidity” by the ECB has been anything but a boom in crediting, especially to SMEs and the productive sector. Commercial banks tended to buy government bonds or park the newly obtained liquidity with the ECB proper. This is prudent from their private shareholders’ perspective – zero risk with modestly positive returns. However, at the level of “collective rationality”, it is exactly the opposite of what regulators and the ECB aim at.

Third, even the classical argument may be raised in which more liquidity may actually worsen rather than remedy a structural crisis. It does so via allowing for inefficient firms to survive and further postpone the long-delayed – and inevitable – structural adjustment of their output and employment pattern. Actually, as a recent study of the Buba notes (*Monatsbericht* 2015: 26), more productivity is the key, which may lead to more adjustment, more innovation and through that more employment – not only in Greece, where all of these show signs of decay.

Fourth, the focus on punishment may be misleading. It is reassuring to read that the Minister of Finance, Wolfgang Schauble, has come out resolutely against proposals/threats/speculations of excluding Greece from the euro zone – this would create more trouble than it would solve<sup>12</sup>. The nature of European architecture, as well as the long overdue structural therapy, would all presuppose a co-operative solution. First, Grexit would qualify seven years of effort and sacrifice as meaningless. Second, European political cohesion would be discredited. Third, the new drachma would quickly lose in value, thus further exacerbating the domestic chaos. Finally, it would be hard to avoid an authoritarian solution – and that to be blamed on the incapacity of the Community to manage the crisis in a coherent and efficient way.

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<sup>12</sup> Later, under the impact of the rather unconventional negotiating behaviour of the Tsipras government he has changed his mind, advocating a *de-facto* Grexit later in the year. But my conviction remains unchanged: Grexit would do more harm than good, allowing for the pauperization of Greek people and sell-out of the country to adventuresome investors from abroad (*Frankfurter Allgemeine Zeitung* 2015a).

The most acute case for European monetary and fiscal governance is, however, not Greece. In reality, it is probably France, where not meeting any of the nominal convergence targets over the past 5–6 years has been compounded by the equally weak and worsening situation in the real economy in terms of growth and employment. Since the French governments over the period can by no means be accused of overdoing austerity, theirs is clearly a case in point: no amount of easy money is likely to improve a structural weakness. While the French GDP hardly grew – between 0.2 and 0.8% p.a. – since 2010, unemployment increased from 9.2 to 10.3%, general government deficit fluctuated between 7 and 4.3% and public debt exploded from 82.7 to 96.6%. Thus, the talk about extreme austerity lacks statistical foundation, while the ineffectiveness of easy money can be easily seen as proven.

As the euro zone is not composed of chronic crises only – from Luxemburg to Estonia many bright spots emerge – it seems premature to conduct debates on changing the architecture of the EMU. It seems, on the contrary, that national reform projects hold the key. Instead of sharing/pooling more sovereignty, as advocated by the ECB President Mario Draghi<sup>13</sup>, the “charity begins at home” principle should be heeded.

## Conclusions and Prospects

In this short paper we have advanced additional arguments to our previous reasoning (Csaba 2014) on why the focus on austerity and the overemphasis on quantitative targets over structural and institutional factors not only may be, but has, in reality, been positively harmful to the improvement of European governance. As economics is the science of numbers, this is not a call for a flat disregard of fiscal realities, including the worsening macro-economic situation in many large Member States. It goes without saying that money matters. Large quantities of money should not be wasted on imprecise, murky or sometimes even lunatic projects. Furthermore, the ongoing drifting, which has been observable ever since the launching of the euro, should finally come to an end, and well designed and sequenced reforms should finally be introduced, not only contemplated.

Our finding echoes earlier – much proven – insight of the Austro-American economist, Rüdiger Dornbusch (1993) who was the first to observe the following: though markets are rational, market players are not necessarily so. Thus perceptions, fashions, subjective judgements play as important a role as fundamentals and

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<sup>13</sup> Draghi calls for a “quantum leap” in European integration (*Euractiv* 2015a).

communication matters. However, as he noted, one leg, that of delivering the right policy measures, one by one, as in classroom exercises on economic theory, would not do alone. Concerted actions and their clear and also credible communication together may be effective. If this holds, access to private capital markets will be restored and the issue whether you have actually delivered on your fiscal or business plan to the decimal point might not even be raised, let alone be subjected to sanctions.

Thus we may conclude: the “discipline for money” approach is a dead end street, or in the wording of the title, nonsense. It has not yielded improved performance, and that for inherent reasons of construction and incentives. A more sensible option would thus be to use the newly created instruments aligned to the Treaty on the EU<sup>14</sup>, which circumscribes the current political realities. The threat of Brexit – following the referendum perhaps already scheduled for 2016 in the UK – renders any federalist attempts, implying actual rather than formal “sovereignty sharing” unlikely to be enforceable in this climate.

As David Cameron made it clear after his re-election: his actual priority is not to exit the Union (nicknamed as Brexit in the press). His basic target seems to be a replica of Ms Thatcher’s move of 1984. Namely: three decades ago, the Iron Lady pressed for and attained treaty changes that allowed the UK to benefit in terms of limiting its payments to the farm budget – this is the famous and still surviving British rebate. This time, the UK aims at explicit limitation of any federalist – supranational – arrangement that would put limits on national sovereignty. The latter holds for a series of areas, not confined to the economy and finances: from immigration through social rights, from the immediate effect of rulings of the European Court of Justice to the mandate of the ECB as the joint organ for banking supervision. These attempts are in fact in line with the wording and the spirit of the currently effective Treaty on the EU, thus the baseline scenario looks attainable.

What is then the most probable outcome of the foreseeable changes in the governance of the Community? In short: the reversal of some, if not all, of the supranational innovations of the 2009–2014 period is likely to take place. All the more so since the Scandinavians and a number of small countries all tacitly align themselves with the British<sup>15</sup>. On the one hand, many of the innovations are irreversible – such as the ESM and the SRM, and so seems to be the supranational regulation of major, systemically relevant banks. The sheer size and mechanism of those arrangements discourages speculation against major European banks, while the ECB practices

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<sup>14</sup> Note again: most if not all supra-national innovations, from ESM to SRM and Banking Union all had to be established with separate treaties, i.e. outside of the formal framework of the TEU!

<sup>15</sup> This has become manifest in the debate over EU quotas on migrants proposed by the Commission in 2015.

provide shelter from external shocks for EMU – Member-States – but not to EU members outside the euro zone. Since these are more vulnerable, smaller states anyway, the lack of protection may become a problem in its own right, both on the political and the economic planes. In the case of the – foreseeable – emergence of a new financial crisis, the challenge of solidarity and also of financial solidity will test again the incompletely and unevenly evolving governance mechanisms of the European Union. In short, a pre-emptive and rescue mechanism for non-euro zone members would be needed, else the replication of 2008–2009, with a financial tremor spilling over from non-EMU to EMU members, is unlikely to be avoided.

Therefore, much of the institutional innovations are likely to last, one way or another. However, the accountability and transparency mechanisms in each of these might and actually must be strengthened, in line with established principles and EU traditions. Sure, the devil is in the detail, but checks and balances need to be established at all levels. The very special political, institutional and economic nature of the EU, which is not even a composite state, must be reflected in the procedures, checks and balances, transparency and accountability of EMU governance. While both the European Semester and the Fiscal Compact should be retained, the automatic sanctioning mechanism as well as cross-compliance – punishing someone for misdeeds he has not committed – should be discontinued<sup>16</sup>.

Betting on the provenly inefficient card of unlimited liquidity provision, as well as on allowing for the moral hazard inherent in repeated bailouts of private players, being “too big to fail” is the wrong option. The currently stalled initiative of chopping up too large financial institutions in exchange for their bailout by public funds<sup>17</sup> should indeed be realised rather than, as currently in the European Parliament, hindered. While this action seems obviously belated by now (thus its implementation is improbable), this should not pre-judge the future. On the contrary, a prescription on quasi-automatic de-monopolisation in exchange for injecting any future public money in banking, could be legislated and later also imposed, supervised by the joint regulatory arm of the ECB. In addition, cutting back to size the ambitions of the ECB, returning its practices to the stipulations of its original mandate laid down in its statutes, would be of avail. But what makes perfect economic sense is not always politically feasible, as we may observe in this case as well.

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<sup>16</sup> As long as a Greek or a French farmer has only one vote to impress his government, the suspension of farm payment as a sanction on fiscal misbehavior looks misplaced and contradicting to basic concepts of rule of law. Those punished have neither caused the problem, nor do they have an opportunity to improve on it.

<sup>17</sup> Lawmakers fail EU plans to split up large banks (*Euractiv* 2015)

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## CONVERGENCE CAPABILITY AS AN IMPERATIVE FOR THE ENDURANCE OF THE EURO ZONE

### Abstract

*The Economic and Monetary Union – called the euro zone – is undergoing profound changes. The economy of the euro zone Member States struggles to overcome the recession that followed the most recent crisis. Economic tensions also resulted in aggravating political disputes. The aim of this paper is to discuss the major changes in the euro zone as well as their underlying conditions. The Authors also formulate a set of remedies for the European Union. The new priority for the EU is a strategy of par excellence economic nature that at the same time takes social values seriously and encourages the acceleration of real convergence of the euro zone Member States.*

**Keywords:** euro, euro zone, economic policy, convergence, the Economic and Monetary Union.

### Introduction

The economy of euro zone Member States struggles to overcome the recession that followed the most recent crisis. The crisis neither originated from the euro zone nor even from Europe as a whole. However, as it reached the euro zone, its impact turned out to be quite devastating. The majority of euro zone countries have since then recorded GDPs at levels considerably lower than their potential would suggest, in some cases even lower than the levels seen prior to the crisis. Countries of Southern Europe, with their relatively poorer levels of development, were most seriously affected – ironically, it was the group of countries which had hoped to increase the rates of their development within the euro zone, expecting benefits to be enjoyed in the wake

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of adoption of the common currency. Economic tensions also resulted in aggravating political disputes. Voices were heard heralding the decline of the euro zone while the ranks of Eurosceptical politicians and experts augmented, including economists previously in favour of the common currency. While the sheer number of euro zone Member States keeps increasing, other EU countries, in particular the larger ones, are experiencing visibly shrinking enthusiasm towards their accession. It seems that political arguments started prevailing over the economic ones in their respective debates upon accession. The Economic and Monetary Union – the entity we refer to in short as the euro zone – is thus undergoing profound changes. Let us then consider some of these changes and their underlying conditions.

## 1. The Mechanism of Convergence and Free Market

The establishment of a common currency in the euro zone was supposed to foster the economic growth of less developed countries, mainly those situated in the southern part of Europe. The operation of the convergence mechanism, on the other hand, was to emerge from free market forces. Less developed countries had comparative advantages in the form of lower wages, larger labour force, resources and lower capitalisation, all of which contributed to a rather beneficial situation:

- cheap and unused resources of production factors from the South;
- abundance of capital from the northern euro zone countries;
- low interest rates and readily available bank credit.

These factors would accelerate the rate of economic growth in less developed countries and over time, it was hoped, would lead to the equalisation of GDP levels throughout the zone. Of course, countries of the wealthy North were also expected to benefit from the faster growth of the South.

Unfortunately, these hopes have not been fulfilled. The invisible hand of free market has mismanaged investments as additional streams of capital flow have surged. Instead of much-desired convergence, what followed was actually divergence (which still continues). The economies of the southern states have become uncompetitive in comparison with the Northern European Member States and their global trade partners. This is due in part to higher euro exchange rates, shaped by the economically sound North, but “too high” for the southerners.

Several problems affect the shortfall in real convergence:

- abundant capital inflow from the North, accompanied by scarce inflow of foreign direct investments; relatively meagre increase of direct trade exchange within the euro zone;
- any investments missing the mark, financed with credit from capital inflow and directed into sectors subject to speculative bubbles, as in Spain and Ireland (real estate bubbles in particular);
- cheap financing of public debt increases with low euro interest rates, for example Greece, Portugal and Italy;
- increasing labour costs in terms of goods and non-tradable services, which resulted in the Balassa-Samuelson effect – in some cases, a growth of inflation;
- the strengthening of euro exchange rate led to the loss of competitiveness, as compared to other trade partners;
- open global economy, beneficial for the wealthy northern part of the euro zone, proved disastrous to the South;
- the southern part of the zone suffered from deindustrialisation.

The last point above is due to the fact that the investment which has been financed by capital inflow from the North ended up largely in the South in the non-tradable sector, while the tradable goods sector could not compete with the leading manufacturers from the North and cheap producers from Eastern Europe.

Macroeconomic problems caused by this process of divergence were disguised under the scope of generally sound business practices at micro level. However, the recent global crisis unravelled the real scale of the macro effects on the southern economies. There has been no recovery from the crisis which hit in the years of 2007–2009, despite some symptoms of rebound.

The need to bail out the banking system using government funds clearly evidenced the weakness of the economy in the southern countries. Public debt soared, as did the level of indebtedness to the creditors from the northern countries. George Soros described the situation that emerged quite brutally, but aptly all the same. In his opinion, at the beginning, the European Union was meant to be a voluntary association of equal states, which sacrificed some of their sovereignty for the sake of common benefit. However, he argues that the crisis of the euro zone turned into a union of unequal states divided into debtors and creditors, where the latter have the power to dictate economics policies.

The relationship between debtors and creditors reflects the essence of dependence between weak and strong economies. Additionally, high public debt undermines the debtors' position and leads to cuts in government expenditures, thereby in turn to a deflation of aggregate demand in the debtors' economy and so to lower tax proceeds,

and potentially to irresolution of the initial public debt problem. Economies like Germany with its strong tradable goods sector and much less debt drag are able to maintain their economies' growth by increasing their exports, which compensates for decreased domestic demand in the slowdown period. In contrast, the debtors tend to suffer from uncompetitive export goods sectors, low GDP, increased unemployment and debt increase (*inter alia* the effect of higher interest rates paid in the bond market).

## 2. Is the Euro Better than a Floating Exchange Rate?

Before the euro was established and adopted as the common currency, there was a great deal of argument in scholarly discussions and political debates about the advantages of the euro and economic benefits expected to stem from it. What few people highlighted at that time were the weaknesses of a floating exchange rate system – one that the common currency was going to replace in trade and financial operations within the euro zone. It is quite understandable that more attention is paid to an emerging project than to one becoming a thing of the past. Today, however, many economists not only nostalgically remember the strengths of the system abandoned within the euro zone, but actually go as far as to postulate a reversion to floating exchange rates. What we are postulating instead is to remain very sober and reserved in this respect. To put it brutally, the floating exchange rate system leads to unpredictability in the short run and maladjustment in the long run.

Firstly, the floating rate is a rather hazardous instrument of competitive rivalry within any economic community, as it creates temptation for a country to manipulate monetary policy in order to obtain depreciation of its domestic currency in relation to the currencies of its trade partners. J.M. Keynes was quite explicit in calling such a practice an attempt to export unemployment. In order to prevent and control this in the Single Market before the euro institution, the so-called currency snake was introduced (1971–1976), with poor results; and later (with somewhat better results despite a major crisis in 1992), the European Monetary System EMS (1979–1999).

Secondly, as a floating exchange rate – through depreciation – makes it easier to achieve an external balance due to making exports cheaper and imports more expensive, it ends up pre-justifying and really absolving the lack of competitiveness, and it fails to impose the necessary real adjustments and innovativeness of production and of the export offer. The currency depreciation is just a palliative rather than real curative medicine to poor competitiveness of economy. It anaesthetises more than it cures. In this sense it may only be helpful as a painkiller at a stage when a country puts



Woods, for example). The Bretton Woods system proved successful in practice. However, it was politically costly and it did not entirely do away with devaluation, which could still be utilised in situations of fundamental disequilibrium. It was thus an adjustable peg system of fixed exchange rates. Eventually, a severe turbulence in the global economy in the early 1970's led to the dissolution of the Bretton Woods system and brought a gradual revival of flexible exchange rates. In fact, flexible exchange rates seemed to be attractive options for politicians, allowing them to conduct seemingly independent national monetary policy.

Moreover, flexible exchange rates allow politicians to avoid unpopular decisions. Where depreciation of domestic currency occurred entailing consequences related to inflation, it was easy to blame financial markets and remain clean. Governments influence currency exchange rates by using monetary policies. This intervention came to be increasingly contested by conservative economists. Under the influence of the theory of rational expectations, which justified the idea of limited effectiveness of governments' intervention in the economy, the now fully independent central banks in many developed countries targeted inflation rates and strove, above all, for price stability. As a consequence, exchange rate policies and external trade balance were entrusted to market-based mechanisms. In short, central banks were entrusted to maintain price stability, while market mechanism was expected to do all the rest.

In theory, the system of flexible exchange rates combined with central banks' inflation target policy should ensure smooth operation of markets. Reality, however, proved otherwise. Neither did the currencies' exchange rates fit the economy fundamentals, nor did the achievement of an inflation target ensure a balance in the economy. The financial crisis of 2008–2010 reveals the latter problem. Actually, the flawed nature of flexible exchange rate systems under the conditions of globalisation and financialisation had appeared earlier. In particular, flexible exchange rates became a barrier to further economic integration in the European Union and a serious reason to give up national currencies and create the common currency – the euro. Obviously, there were other reasons. They notably included political considerations with further economic integration seen as a further step towards the “ever-closer union among the peoples of Europe”, envisaged by the Rome Treaty and a profound desire to counter the continuing hegemony of the US dollar as a currency for international transactions of all kinds.

In debates held during the stage of deepening globalisation, the proponents of the introduction of the euro pointed out many expected benefits to be enjoyed by the entire global economy. The euro fits perfectly within the concepts of trade liberalisation and international cooperation. It also influences the operations of individual national economies. It was not only the liberals that could expect the common currency to

render more flexible prices and wages. The hope was that adopting the euro will lead to improved competitiveness achieved through real adaptations of sound economic policies, rather than through monetary manipulation undertaken in order to achieve lower exchange rate for domestic currency or through official devaluation. This in fact signified the return to the ultraliberal neoclassical ideas of the gold standard. Free movement of goods, services and capital, along with the benefits, brought also the supremacy of financial markets over politics. Financial markets, in line with the ultraliberal doctrine or ideology, are able to exercise control over a number of governments' "non-rational" decisions. The most significant example is the abandonment by many governments of the instrument of industrial policy and disregard for the role of industry in GDP in favour of services. Today, this error (mainly in Spain, Greece) means millions of people out of work. Now, many governments in the EU are beginning to better understand the need to rebuild or innovate in some neglected sectors of the real economy.

All the abovementioned circumstances have to be recognised as one analyses the possibility of restoring the debtor countries' competitive edge. In particular, the sectoral industrial policy surely has a central role to play in this context, and implies a return to what Roosevelt called a "socially-rooted" liberalism and what in Europe has been known as the indicative planning of the Social Market Economy.

### **3. Proposals for Repairing the Monetary Union's Operation**

One might distinguish two interpretations of the reasons for the crisis of the Monetary Union in the Eurozone. First, some governments are not responsible for allowing an excessive growth of public and/or private sectors indebtedness. The consequences of this indebtedness were painfully exposed by the crisis. As a result, the countries ruled by irresponsible politicians lost the confidence in financial markets. Secondly, the euro system has several flaws in its structure and implementation. These flaws remained partly hidden over the period of good business outlooks. This reason lent supportive arguments to many sceptics of implementing the euro zone project. Many American economists and some academic circles in Europe share this opinion (Dornbusch 2000).

Germans and other economists representing the neoliberal economy uphold the first interpretation above. A Belgian economist, Paul De Grauwe points out that less developed euro zone countries have no real control over the currency in which they become indebted. This exposes them to uncontrolled inflows or outflows of capital streams, depending on the changing confidence that financial markets accord to

them. Under such conditions, they are unable to manage their liquidity, since they do not control the money supply. This threatens to provoke a financial crisis even where no fundamental reasons are present (De Grauwe 2005). According to the “German interpretation,” the remedy to heal the system is to restore trust in the indebted countries through reduction (some may go as far as elimination) of its budgetary deficit, gradual decrease of its public debt and improvement of competitiveness through reduced production costs. This strategy requires stricter EU surveillance over economic and budgetary policy under the Stability and Growth Pact, as well as over new instruments counteracting macroeconomic disproportions (the Fiscal Compact of 2013). Germans firmly emphasise the introduction of the principle of fiscal discipline, which from past experience should remain under strict control and be subject to financial sanctions whenever it is infringed.

The point of view shared by Germany and a couple of other states – recently turned creditor countries – is based upon the belief that over the last decades, significant differences emerged among EU Member States with regard to the levels of competitiveness, as well as excessive distortions of macroeconomic balance. Strong mutual economic links often resulted in negative phenomena occurring in other Member States, thus weakening the resilience of the entire EU economy to external shocks. These factors impact the way the Economic and Monetary Union operates. According to this theory, this happened due to divergence and neglect of the provisions of the Stability and Growth Pact by some EU Member States. Therefore, according to the proponents of this theory, in order to eliminate the existing macroeconomic imbalances and counteract the emergence of subsequent ones, a special mechanism for surveillance over the EU Member States’ macroeconomic condition is required. It relies on three fundamentals:

- early warning system;
- application of precisely defined rules, included in the Excessive Imbalance Procedure (EIP);
- strict enforcement of the same, with financial sanctions imposed upon Member States of the euro zone in case of a breach.

As foreseen, the procedure of correcting actions will be launched when, based upon a detailed assessment of the situation, the European Commission finds excessive macroeconomic imbalance in a given Member State<sup>1</sup>. In such a case, the Council, instructed by the Commission, will have the right to adopt a recommendation stating the occurrence of such excessive imbalance. They can recommend a Member State

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<sup>1</sup> Regulation (EU) No. 1174/2011 of the European Parliament and of the Council of 16 November 2011 on enforcement measures to correct excessive macroeconomic imbalances in the euro zone.



concerned to undertake necessary remedies (pursuant to Article 121(4) of the EU Treaty) and define a time frame within which such Member State is obliged to present a plan for corrective measures, together with a schedule for implementation.

The Fiscal Compact thus adopted, also known as the “Six Pack” (see Chapter 6), demands rigorous sanctions for chronic infringements by a Member State belonging to the common currency area of the rules of the Stability and Growth Pact. It has become evident that the efforts of several governments, especially in southern Europe, in applying the fiscal discipline required by the “Six Pack”, are undeniable. Still, the evaluation of this policy is equivocal. While the authors of this chapter share the idea of rationalisation of state expenditure, *i.e.* avoiding living beyond one’s means, it recommends a new prescription for the problem of southern European countries. The German model is not the only basis upon which one may repair an economy. Germany does not have the same experiences as Greece in terms of fiscal integrity, country size and export potential.

Actually, there is yet another conclusion to be drawn from German experiences, suggesting a possibility to reduce the differences among euro zone Member States in terms of their competitiveness. This could be achieved by using internal income redistribution in the zone countries, considering that little room is left for external transfers, given the size and nature of the EU budget. If reduction of labour costs is considered a recipe for improving the competitiveness of the countries of the South, then it might be feasible to meet their endeavours halfway and increase real wages in the countries of the North. This postulate need not be regarded as an evidence of the authors’ caustic attitude, rather it should be seen as one ethical suggestion amid a range of moral challenges addressed at the EU outsiders. In the world as a whole, considerations of equity point to a need to increase world real wage levels, not to drive them downwards in a “race to the bottom”. It would be easier to achieve the same effect if Germany allowed for a higher domestic inflation than in the weaker partner countries. In that case, price competitiveness, lost during the stage of price adjustments, as the Balassa-Samuelson effect in the euro zone, would be restored. However, acceptance of higher inflation by Germany is admittedly unlikely.

Given this situation, we would favour a “semi-Keynesian” approach: it is postulated, first or at least in parallel, to use financial instruments to support the countries suffering from the crisis in order to enable them to stimulate economic growth and create jobs. The unused or underused financial instruments one has in mind mainly include the following:

- low-interest credits from the European Stability Mechanism (ESM),
- loans from the European Investment Bank,
- increased investments in human capital,

- further treasury bonds redemption by the European Central Bank,
- banking regulations preventing the emergence of speculative bubbles.

Eurobonds, that is to say the issue of government bonds by the euro – 18 borrowing together as a bloc – so far just a proposal, Eurobonds are not implemented due to the lack of approval, mainly on the part of Germany. Eurobonds would lower the indebtedness costs of the peripheral southern countries, but would raise the costs for the largest Northern economies.

This kind of policy re-orientation, especially the final proposal, requires a deep politico-economic integration and establishment of a new model of solidarity within the European Union. Today, in practice the Community's actions consist of a plodding implementation of the "German" option, with only certain elements of the semi-Keynesian option, perhaps better described as a solidarity variant. We believe that the currently implemented policies may alleviate the effects of the crisis, but are still insufficient to eliminate the risk of dissolution of the Economic and Monetary Union. Their implementation is not going to eradicate the roots of tensions stemming from disillusioned hopes for real convergence, that is a gradual elimination of structural economic differences occurring among the European Union Member States.

We also agree with Karol Lutkowski, who highlighted considerable differences in the levels of economic development between the geographically central areas of the EU, and the Mediterranean and Atlantic peripheries. According to Lutkowski, these gaps are accompanied by divergent production structures. Development usually translated into shrinking of the share of traditional sectors to the benefit of processing industry and the service sector. Differences of structures related to different development levels make for individual stages within any business cycle to occur asynchronously. This entails a threat to the common currency system due to asymmetric developments, depending on the stage of the cycle they are going through. The European Central Bank cannot satisfy each country while running policies of a uniform interest rate, oriented at the maintenance of a certain, rather low but still average, inflation for the entire euro zone. The problem is only going to be alleviated when gaps between development levels are significantly diminished, structures of production are more assimilated and intra-branch specialisation gains more importance. This is "real convergence." It has better opportunities to proceed faster free from exchange-rate risk, *i.e.* within the common currency system. However, as long as this process is incomplete, the common currency is under the risk of failure (Lutkowski 2012).

Thus far, both the scope and types of remedy measures, although originating from opposing diagnoses about the reasons of the euro crisis, have counted on more controlled and regulated markets to remedy the problem. We can also now cite the first attempts to evaluate the consequences of coordinated fiscal consolidation in the

European Union Member States. The International Monetary Fund, based on the work of the economists Barrell, Holland and Hurst (2012) on the National Institute Global Econometric Model (NIGEM) and upon data regarding the present crisis (Barrell, Holland, Hurst 2012) arrives at the following key conclusions (OECD 2012):

- in “normal times” fiscal consolidation would lead to a decreased index of public indebtedness with respect to GDP in the EU Member States, however in the present situation it is probably going to harm the entire European Union;
- plans for fiscal consolidation as implemented today are going to lead to an increase rather than decrease in the public debt in 2013 in relation to GDP in the entire EU;
- the same is going to happen in almost all individual EU Member States (including the United Kingdom and with Ireland as the only exception);
- coordinated programmes of budgetary cuts implemented in periods of dire economic straits actually cause contrary effects to those intended and thus are detrimental.

The three abovementioned economists, whose data are used to draw conclusions about fiscal therapy in the EU, are convinced that the present tightening economic policies in many countries, in particular in Southern Europe, are counterproductive. According to them:

1. Under normal circumstances one may expect that the effects of more restrictive fiscal policy would be alleviated by a loosened monetary policy. When monetary policy is liberalised, what follows is reduction of long-term interest rates. This stimulates investments and partially compensates the painful consequences of budgetary cuts. At present, however, interest rates are extremely low, so any further sharpening of fiscal policy is probably not going to produce a compensatory reaction in monetary policy. While programmes of so-called quantitative easing (money supply expansion) are implemented, as are those of loosening the credit policy, the effects of these efforts are limited due to low interest on “risk-free assets”;
2. Over the period of slowdown, *i.e.* a period of high unemployment and significant probability of losing a job, a larger share of households and enterprises struggle with decreased access to credit. In non-crisis periods, when perfect capital markets operate and consumers correctly anticipate the future, households are able to adequately distribute consumption over time. In such conditions, consumers’ expenses are largely independent of the economy’s condition at a given moment or on transitional shocks to fiscal policy. However, all these market reactions in normal times are not present during periods of severe economic downturns;
3. “When all countries implement contractionary fiscal policies at the same time, production in each one of them not only becomes restricted, but also – through trade and commercial links – causes contractions in other countries. In the case of

the European Union the consequences of simultaneous budgetary cuts are serious, spreading recession throughout the entire Community's economic system.

Today, many admit that applications of shock therapy in the European Union, as well as the policies advocated by the International Monetary Fund, have been a crucial mistake. Germany, which has tried to force the Southern European countries, Greece in particular, to tighten their belts, should acknowledge that such a one-sided strategy has been erroneous.

We would incline to the view that radical governmental budgetary cuts are the wrong policy measures, although we do not argue that countries undergoing such a shock therapy are without fault. However, the history of successfully developed economies indicates the efficacy of policy not restricted to monetary and fiscal areas, but including also the real sphere of the economy and people's income and living standards. At the same time, we believe that while analysing the Single Market – the great achievement of the European Union – one should also take into account the issues of productivity and competitiveness of the weak economies within the market.

#### **4. Labour Market Condition in the European Union – Dilemmas and Challenges**

The process of divergence of the euro zone economies has already happened. However, this may proceed even further, considering that temporary competitive advantages of the northern countries are augmented by high credit cost in the southern countries for governments, businesses, and households alike. The hindrance presented by the increasing costs of credit, higher than in the North of the EU, diminishes the chances of Southern countries to compete in the Single Market.

How long will debtors remain trapped in this trap? Is the economy enlivening, which is probably altering the present situation? It is difficult and troublesome to alleviate tensions occurring nowadays in the labour markets of these countries. Such tensions not only lead to social conflicts and unrest, but also undermine people's confidence in the sense of the hitherto-applied model of European integration.

In this context, the analysis of reasons underlying changes in the labour market is an important element in the dispute over the advisability of state intervention in the areas of employment and unemployment. Andrzej Wojtyna believes that "(...) where no immediate labour market compensation occurs, a room opens up for active macroeconomic policy." This author argues that limited wages flexibility prevents the private sector from reacting in the manner envisaged in neo-classical economic

models. Where a government is able to adapt its policy sooner and react to a downturn more effectively, room appears for traditional Keynesian stimulation of demand.

Experts like Janusz Heller and Kamil Kotlinski provide interesting studies about the relationship between public finance and the unemployment level. They examined 15 euro zone countries over the period 2000–2011 and conclude the following:

- firstly, the application of mistaken fiscal policy leading to excessive state indebtedness during the financial distress of 2009–2011 resulted in negative consequences for individual euro zone states. For instance, a group of countries with relatively stable public finance, such as the Netherlands, Denmark, Finland and Sweden, which remain beyond the euro zone, recorded increased unemployment rate in the years 2009–2011. The Authors emphasised that public finance stabilisation never precludes some forms of fiscal expansion, mainly those focused on maintaining low levels of unemployment. However, these countries had enough budgetary reserves to dampen the effects of negative crisis through a countercyclical fiscal policy. This enabled them to reduce the scale of increased unemployment;
- the Authors stated that countries with destabilised public finance reacted in different ways to the crisis. Greece and Portugal could not contain the accelerated increase in their unemployment rate. At the same time, these countries also recorded further deterioration of their destabilised public finance due to the costs of debt incurred. Greece and Portugal suffered from external shocks that showed their weaknesses. They could not counteract the negative consequences of the cited external shocks.

The conclusions from these studies lead to further analyses about the background of unemployment in the euro zone. According to Grzegorz Tchorek, the factors improving the ability to react to and alleviate external shocks include the mobility of production factors and flexibility of prices and wages, although the government fiscal policy plays a crucial role (Tchorek 2011). In his opinion, by applying an overly expansive fiscal policy over the period of relative stability, some countries of Southern Europe and the Baltic regions depleted their ability to use fiscal policy instruments right at the time when the first external shocks emerged. Some of the answers to these problematic shocks include: serious and socially hurtful public expenditure savings, pressure upon the EU partners to lend a helping hand in the form of debt cuts or further credit facilitations.

## 5. The Need for a New Vision in the Area of Economic Policy

A deep diagnosis of the condition of the European Union is necessary in order to guarantee its survival (which is very desirable). Members of the euro zone need fundamental changes in their economic policy. First, a more pronounced role is needed for sectoral policy, including industrial policy. In fact, it is only through active sectoral policy, implemented both at the level of the European Commission and the individual national countries that the process of real convergence in the EU can generate a new stimulus. Instead of being modelled upon old industrial policy, this sectoral policy needs to be a brand new sectoral policy, relevant to times of integration. Such broadly understood policy is not entirely unfamiliar in the European Union. After all, it concerns the support, given thereby in various forms to such sectors as:

- agriculture,
- small and medium-sized enterprises and start-ups,
- infrastructure development,
- education and human capital development,
- support for a variety of initiatives in the areas of environment protection, culture, art, etc.

All these efforts, perhaps, except for the first and the last categories, are aimed at supporting or correcting market-based mechanisms. Sectoral policy should fine-tune the operation of market mechanisms in individual economic sectors to increase employment rate, foster economic growth, foster specialisation and collaboration, and encourage higher equality. Such a policy could, if suitably defined, also protect the economy from the emergence of speculative bubbles. We do not think these are idealistic utopian solutions. It is possible, indeed necessary, to implement them.

Sectoral policy understood in this way is meant to direct the invisible hand of the market using the visible hand of the government and with the collaborative hand of other EU Member States. The target is real convergence. This can be done by targeting the areas which are crucial to stimulate the process of real convergence. Indeed, in the postulate to revert the hitherto prevailing trend of divergence we see an essential opportunity for development of the European Union and the euro zone. This, we realise, is not going to be an easy task.

The crisis in Europe reveals that one has to deal with a serious and aggravating crisis of trust in the European Union, mistrust in both the individual politicians as well as in currently existing institutions. This is accompanied by decreasing trust in the idea of European solidarity, which has been developed since the end of World War

2 and has been a centre piece of European integration. What looms and strengthens are national egoisms in euro zone members, hindering further integration.

We believe however that there is an opportunity for the European Union to create a new vision based on a sectoral policy, in which the visible hand replaces the invisible one. As mentioned above, we know many examples of effective sectoral policy, often under a simple name of industrial policy. The problem is the ideological barrier arising from the prevailing neoliberalism and the institutionalisation of pre-conditions imposed by the Economic and Monetary Union (EMU) and the World Trade Organisation (WTO).

According to typical variants of this ideology, the government usually has a dreadful reputation. State authorities are seen as lazy, cynical bureaucrats, afraid of doing anything non-schematic. Sometimes they are corrupt as well. Meanwhile, the opposite (private sector) side is perceived as hard-working, dedicated entrepreneurs or private employers, and risk takers. The black, evil image of the former is false and simplified, as opposed to the white and innocent image of the latter. There are highly competent and reliable officers as well as greedy, egoistic, short-sighted executives, quick to commit fraud and with the attitude of “grab the money and run”.

First, the euro zone countries should build quality institutions and fair competition. Second, there is not a single universal or best pattern for capitalism and the role of the government therein. The one regarded as universal is only the model preferred by the International Monetary Fund and by the financial markets.

One needs to be aware that it will not be easy to implement a proper sectoral policy within the present institutional system of the Economic and Monetary Union. However, this is crucial if one advocates for the continuous development of the euro zone. One must not overlook the trap into which some debtor countries have fallen. Resolving only the sovereign government debt problem, although necessary, is not going to restore or engender these countries' competitiveness.

At the same time, long-term unemployment is a social drama, especially for young people, because it entails fatal consequences like hysteresis, migration, economic instability and cavities in the nation's substance.

## **6. What is a Sectoral Policy?**

In order to improve competitiveness and economic growth, the following conditions are necessary:

- promote the small and medium-sized (SME) enterprise sector. A particular emphasis should be given to promote SME “market discoveries”;
- develop the sector of businesses with prospects to generate high added value, innovative production or enjoying higher probabilities of increasing export;
- create new jobs, mainly in the areas of goods but also in non-traded services, such as health service, child and elderly care, education, etc.

These proposals reveal some ideas of indicative planning, which is of course inconsistent with strict neoliberal doctrines. To rebuild their competitiveness, countries of Southern Europe need to develop instruments and measures used by “emerging markets”. This kind of approach is not easy to implement given the obligations resulting from membership in the EMU and agreements made under the WTO. Nonetheless, one needs to be aware that free market-based mechanisms are ineffective in overcoming these problems, at least within a time frame acceptable to the present generation. Today is the time to start testing the European Union institutions, agencies and the banking system before implementing new sectoral (industrial) policies.

## 7. Productivity and Economic Competitiveness

We would argue that an increase in productivity is of general benefit only if it serves almost everybody and is distributed over all layers of society, indeed the entire international community. Competitiveness refers to somebody’s advantage against someone else, usually to the other person’s detriment. For example, devaluation improves one country’s competitiveness versus its trading partner(s). This in turn weakens the latter’s competitiveness. For our partners, devaluation of our currency means appreciation of their currencies, potentially leading to retaliation in this or other manners, where eventually all countries lose. In order to avoid monetary wars under the Bretton Woods system, devaluations were agreed through arbitration by the International Monetary Fund. Countries had the right to defend their current account balance in cases of fundamental exchange rate disequilibrium and their partners were likely to agree to such currency devaluations.

While building the Common Market, Member States wanted to increase productivity and have indeed achieved this goal. The increase in productivity has been an impressive success. Member States were assisted in that attainment by the Bretton Woods system since they solved, sometimes better, sometimes not as soundly, the problems of competitiveness. When that system collapsed in the mid-70s, exchange rate battles in an effort to improve one country’s competitiveness made



it difficult to proceed with concordant cooperation among the Community partners. The Deutschmark could not replace the US dollar, nor could the Federal Republic of Germany stand in the US's shoes as "beneficial hegemony". This was not only due to historical residues or Germany's economic power, but also due to Germany's heavy reliance on exports and so on its export competitiveness.

But the problem that needs a solution is the non-competitiveness of a country within the common currency area. According to the neoliberal doctrine, when free market fails, it is the fault of the state. That is what 189 German economists had in mind as they agitated to block the initiative of establishing the European Stability Mechanism (ESM). Instead of the collective support mechanism set up in 2012 that could be made permanent in a modified form from 2013, the economists argued it would be better to let countries restructure their debts. "Restructuring allows the countries concerned to reduce their debt and start again", said the economists. However, ultimately the German Federal Constitutional Court ruled that Germany may ratify the Treaty on the ESM if their financial responsibility in this respect does not exceed the agreed 190 billion euros (Judgment... 2012).

Irresponsible governments should pay for their misconduct. At the same time, it is inappropriate to deprive countries of the right to self-defence in cases of fundamental imbalance. By becoming Member States of the European Union, countries were obligated to adopt the common currency, but to renounce any possibility of self-defence adjustment measures. Should the European Stability Mechanism play the role of an aid fund handing out charity money? The attitude of those who protested could be understood as earnest care for their own and their compatriots' interest, indeed survival. However, it is recommended that Community institutions play an intermediary role in agreeing with some protectionist actions in cases where fundamental imbalance emerges. For example, the Community could support re-industrialisation of Southern European countries or similar efforts within sectoral policy.

This is where a question may be asked: what is the purpose of the Common, Single Market if protectionism is still admissible? It should be emphasised that the Common Market is not a pure free market, as manifested by a range of existing regulations concerning its operation. It is not possible to eliminate all elements of protection because this is a common market. Hence what is crucial is rather that all the countries participating in the common market should have equal opportunities, or as is often said, should compete on a level playing field. This in turn leads to a hotly disputed debate as to how to define the institution and role of fair or non-distortive government aid in the European Union. According to the official definition, unfair government aid is any intervention by state institutions consisting of any form of aid provided to

either a single business entity or a group of businesses, which results in interference in the functioning of free markets.

Accordingly, any kind of aid accorded under the conditions noted below would be regarded as illicit public aid:

- an entrepreneur in the functional understanding of this word who is a beneficiary of any kind of government support at start-up;
- aid provided through or from government sources in any form;
- aid that is selective and serves its beneficiary;
- anything that hinders competition by favouring certain entrepreneurs;
- anything that influences trade exchange between the European Union Member States.

Rules concerning government aid tend to be selective. Thus, licenses are granted to some entities to conduct business activities but are denied to other similar enterprises. Also very common is the prohibition to provide public services by a national or regional government on the basis of a contract made beyond public procurement law.

All the abovementioned reasons for providing government aid could seem to be justified in the current conjuncture of the European Union. The problem is that there are regulations in the Single Market which undermine these principles. However, in some cases the European Commission approves various privileges and aids to companies or individual entrepreneurs based upon some superior, valid social or economic reasons.

The European Union may approve government aid that covers, among others, areas such as:

- regional policy,
- investment activities aiming at increased employment in small and medium-sized enterprises,
- aid to women's entrepreneurship,
- activities for environmental protection,
- support for advisory services in SME, their participation in training or fairs.

These are just a few examples of government aid provided by countries with approval from the European Commission. We are convinced that these postulates call for more openness and agreement with regards to supporting business entities and entrepreneurs with the aim of improving their competitiveness. We need to underline that consent given to governments' efforts to improve competitiveness is, essentially, the same as consent given to devaluation. It might be more difficult to negotiate, but should be added to the arsenal of instruments and measures for the so-called "real" devaluation, as a tool which is less painful to the society than neoclassical market

adjustments through unemployment, as well as wage and price deflation and at the same time, in our opinion, even more effective.

## **8. What is the Architecture that Better Fits the European Union?**

This section considers the appropriate architecture for European Union and its priorities. The British Prime Minister David Cameron asked the question: which integration are we going to adopt: integration involving common currency or Common Market? In fact, both variants of integration seem acceptable. We would hold that the case for economic integration is beyond doubt. Today, however, the key issue is to heal the situation in the euro zone. As important as this is for the Union itself, it is also crucial for the global market, which truly needs the euro as one of the world's major currencies.

We share the view on the need to restore stability in the EU financial sector, although the task is not easy considering how interrelated this is with the budgetary condition of many countries. From the experience thus far, a common mechanism of surveillance of the European financial sector should act as guarantor of its stability. Therefore, the Banking Union seems to be a project which should be approved in principle. Further disintegration of the European financial sector would entail a serious reduction in the scale of operations of the common European interbank market. This would constitute a major drawback to the entire real sector of economy. The European Central Bank (ECB) controlled the liquidity of inter-bank clearance between countries of the southern and northern Europe due to its intervention. Experience gathered from the EU's financial market calls for strengthening, coordinating and regulating the role of the ECB. However, the life buoy provided by the European Central Bank is no longer sufficient. Thus, the draft of the Banking Union, which actually goes much further than the establishment of new regulations for the ECB, needs to be fully implemented.

From the Polish point of view, the idea of Banking Union and the solutions to be adopted are important because Poland is probably going to become a member of the euro zone. We perceive the Banking Union as a possibility of institutional support for the sake of increased productivity and competitiveness of the economies of the European Union. It may also be assumed that changes in the system of regulations and activities within the European banking system will make it possible to overcome the crisis of trust in financial markets. While not overestimating this argument, we also know that unregulated financial markets often tend to become a hardly acceptable

compass for economic decisions and social policy (for example due to asset price bubbles and the like). However, they cannot be ignored. The only thing that should be avoided is an uncontrolled disruption of the euro zone.

## 9. Poland and the Euro Zone

The majority of those involved in debates on Polish economy agree that this is not the right time to enter the euro zone. Differences appear around more detailed questions: whether to opt for accession at all and when? Not to opt for accession. Instead, to maintain liquid exchange rate of Polish zloty, because sovereign monetary policy, which is possible in that case, is the one that serves best to sustainable economic growth. This argument is supported by other arguments, such as that close economic cooperation with an enormous economic organism protects countries from excessive fluctuation of exchange rates in any case. However, monetary sovereignty is costly. Transaction costs are higher, as are the costs of credit and debt servicing, as well as all sorts of other costs and risks. In fact, other costs and risks have been exposed by the present crisis and by the increasing consequences of global economic financialisation. Under the circumstances, exchange rates become divorced from the actual condition of economies. Meanwhile, the common trilemma: free movement of capital – freedom of monetary policy – freedom of shaping the currency exchange rate, turns into a dilemma, and actually has an alternative: free movement of capital, or freedom of monetary policy and exchange rate policy.

Even if today this tearing away of currencies exchange rates from the real sphere is not total, and the abovementioned alternative is not omnipresent yet, the trend in this direction is evident. A small open economy loses its monetary and exchange rate sovereignty at the same time (Rey 1998). Possibilities to limit the freedom of capital movement by governments are uncertain, while ways and means to evade such restrictions are aplenty. Finally, we do not really share the argument that extensive trade with a strong commercial partner contributes to stabilisation of the exchange rate of a small open economy's currency, in the sense that this gives a chance for the Polish zloty to take advantage of the "umbrella" given by the euro. In our opinion, this is only a temporary advantage to be enjoyed until the markets say: "let's check, then". Polish Zloty has already experienced the effects of such checking when, over a short period, the price of the US dollar began to oscillate within the range between PLN 2 and 4. Poland's national economy suffered from the impoverishment of households

indebted in foreign currencies and of certain businesses, either similarly indebted or losing heavily on currency options.

The most common opinion in Poland is that it is best to wait and see, observing changes occurring in the euro zone in order to decide about potential accession as a proper window of opportunity presents itself. Another variant of that strategy proposes to wait “with a loaded gun”, *i.e.* to meet the Maastricht criteria and then to wait in readiness for the final decision. However, even if it costs nothing, this may entail a loss for both Poland and the European Union. Of course, it is desirable to meet the criteria, but this should be done calmly in order not to harm the present modest rate of growth.

The best solution for Poland is to wait actively with participation. Poland is obliged to make accession to the euro zone when ready and in any case it does not contest the benefits of a common currency. A strong European Union is beneficial to Poland and to global economy, once it regains its ability to act efficiently. It is just as important to Poland – bearing in mind the negative consequences of such events – to prevent a collapse and in effect uncontrolled disruption of the euro zone. The status of a candidate to accession enables Poland to actively participate in improving the Community and obliges it at the same time to bear the costs this involves.

## 10. Our Idea for Europe

We are arguing in effect that there is still time for a solution based on more active state interventionism, less revolutionary than total dissolution of the euro and partially an alternative to the mainstream of changes occurring nowadays in the euro zone.

It should be observed that at present it would be impossible to find political consensus for a process of return to national currencies, no matter how cleverly devised. After all, almost all political forces along the Rhine share Germany's fears that the return to national currencies would entail appreciation of the Deutschmark, with all its potential consequences.

If there is something we are concerned about, it is that reforms made thus far, featuring evident domination of fiscal solutions, may expose Europe to long-standing political conflicts and social unrest. This is deepening rather than decreasing the differences in productivity and competitiveness between many euro zone countries. If this bleak scenario comes true, Europe's position would become even weaker with respect to such global powers as the USA, India, China, or recently Mexico and Brazil.

## Conclusions

In our opinion, the hitherto-existing fiscal approach should certainly be supplemented by solutions found and prepared for a new approach, which may be called *Keynesian*. Concerning the new role and importance of Brussels in the European Union, we observe, without being shocked or upset about it, that the need increases for Brussels' visible hand in order to overcome the crisis. However, our expectations from Brussels are more diversified and somehow different from those formulated by the mainstream remedies offered thus far. We welcome the European Commission's decision with regards to enlivening the labour market through an injection of the EU's structural funds. We also favour the news that the European Commission recently loosened financial discipline for six countries, including Poland, in order for them to catch a breath over a year or two before they make difficult reforms.

We essentially want to appeal to the European Union's politicians and decisionmakers for a strategy to improve competitiveness and accelerate socio-economic transformation. We claim that growth should include a combination and a dynamic continuation of efforts aimed at supporting sectors of economy. Then, a new vision is also needed in the area of economic policy. An active and well-defined role of the state will not only not hinder, but in fact help in overcoming the serious and socially dramatic economic situation experienced by many countries. The new priority for the European Union is therefore a strategy of par excellence economic nature that at the same time takes social values seriously and encourages the acceleration of real convergence of the euro zone Member States. We reckon the assumptions of nominal convergence are a strategy not ambitious and not productive enough to generate optimism towards the euro zone and its future fate.

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## ECONOMIC CRISES AND THE INTERNATIONAL POSITION OF THE EURO

### Abstract

*The international position of a currency is directly determined by the scale and the manner in which it fulfils the traditional functions of money in the international context. Despite its political character, the creation of the Economic and Monetary Union (EMU) and the introduction of a new monetary unit, the euro, met with a positive response from contemporary global economic entities. It was mostly due to the potential of the economies of the participating countries, structural determinants and the expectation to establish an international currency which would become a viable alternative to the US dollar. The prospect of diversification in the sphere of investment, reserve, reference and intervention, as well as transition and invoicing was perceived as a step towards limiting the dominance of the US dollar. The first years after the introduction of the common European currency indicated a steady trend towards strengthening the position of the euro in the international arena both in the official and private sphere. The most recent financial and economic crisis, and most of all the mistakes, including the methodological ones, made during the establishment of the EMU weakened the international position of the euro and undermined the trust in the common European currency. The lack of common fiscal policy may become a serious obstacle to efficient monetary policy and a threat to the organisation's cohesion and to the durability of the entire enterprise.*

**Keywords:** euro, monetary integration, OCA, EMU, international money, international monetary system. common fiscal policy, fiscal integration

One of the main and official reasons for monetary integration, especially in the form of a monetary union, is to stabilize and facilitate the functioning of the international monetary system. However, it seems that those official benefits of monetary integration, though so often recalled, are just additional bonuses, as it is the possibility of individual gains, including gains in prestige, which seems to be of prime importance. At the same time, the risks caused by the increasingly frequent crises weaken the interest

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of particular states in the monetary union and in support for the idea of solidarity that is fundamental to any monetary union. This has been visible in the case of the Economic and Monetary Union. It was expected that the introduction of the new regional currency – the euro – would create a viable alternative to the US dollar, as the euro would become an international currency both in official and private spheres.

Those expectations were fulfilled in the first years of the euro's existence. In a relatively short time the common European currency became the second international currency, which fuelled the speculations that it may soon become the international currency number one. Supporters of the thesis of the euro's imminent rise pointed out the specific structure of the Economic and Monetary Union and its growth prospects – of course, from the perspective of the beginning of the new millennium. The financial and economic crisis that began in the United States in many opinions provided yet another very important evidence supporting the claims of the growing importance of the euro. However, in subsequent years the international situation didn't change as the euro-optimists had expected. What's more, the weaknesses and the lack of cohesion of the euro area became more visible, and so did the methodological faults in the model construction of the monetary union. In consequence, the optimistic views on the euro's perspectives were slowly replaced by visions of a breakup of the EMU and the fall of the new currency – nowadays increasingly real. However, in recent years we have seen that in short- and mid-term perspectives, both optimists and pessimists were mistaken. This means that under the global and regional instability we have arrived at a relative stabilisation on the monetary market, thus reaching a point towards which the new monetary order had been heading for a long time. The chaos was replaced by order. The question is whether the new order will be stable or not in the long perspective.

A currency becomes international if it fulfils the traditional functions of money – measuring and storing value, and being a medium of payment/exchange – not only internally, but also internationally. What is more, those functions must be fulfilled both in the official and private spheres. In the official sphere, to be considered international a currency should be used by third countries as a reference currency, intervention currency and reserve currency, and in the private sphere a currency should be used for invoicing, transfer and investment (NBP 2011: 4). It needs to be stressed that all those functions are interconnected and must be fulfilled by the currency simultaneously.

An entity – a state or a union of states – that issues a currency must fulfil certain political and economic conditions to enable its currency to aspire to becoming and to possibly become an international currency. The economic conditions include structural factors and economic policy. Structural factors usually include the volume of production and commerce, as well as the size of the financial market of the issuer. The higher the share of the currency-issuing entity in global output and international

commerce, the higher the probability and therefore the possibility that entities from other states will use its currency for invoicing and payment, and the higher the possibility that monetary authorities of third-party states will use that currency as reference, reserve and intervention currency. The possibilities that entities from other states will use the currency as a transfer and investment currency and that monetary authorities of third-party states will use that currency as a reserve and intervention currency increase with the size of the financial market of the issuing state (NBP 2011).

Taking into account most of the economic and political conditions, one needs to agree that the Economic and Monetary Union with all its weaknesses meets the fundamental criteria for issuing a currency that fulfils the function of an international currency both in official and private spheres – but this does not mean that the EMU was an optimal currency area. For example, according to the International Monetary Fund's data, in 2001 the share of 12 euro zone Member States in global GDP (PPP) was 15.9% while that of the USA was 21.4%. The euro zone's share in international export of goods and services – including trade within the area – in the same year equalled 30.3% comparing to 13.6% of the USA (IMF 2002: 149). This might be considered a proof of relatively strong structural foundations of the new regional currency, thus making it possible to claim that the expectations for the success of the new currency issued by the European Central Bank were fully justified. It was the more so as the dominance of the US dollar among international currencies was very clear, and so were the expectations that some kind of alternative to the American currency will come to existence. The euro could become such an alternative, and thanks to seemingly strong structural foundations and a large credit of trust from the participants in the international monetary system it had all the possibilities open to become the leading international currency.

The size, liquidity and the level of the financial markets' liberalization, as well as the level and intensiveness of the capital transfer limits, need to be taken into account when evaluating perspectives of proper fulfilment by the euro of the international function of currency in the structural dimension. According to data in Table 1, at the beginning the situation of the euro zone was relatively good. What is more, considering the data up to 2009 it was wildly held that in a relatively short time the euro would become the dominant international currency and would replace the US dollar. The financial market of the enlarged euro zone before 2009, understood as stock market capitalization, debt securities and bank assets, was larger than in the United States both as absolute value (Table 1) and in proportion to the GDP. The situation changed significantly after 2009, when the American financial market became again larger in absolute value than in euro zone.

**Table 1. Capital Market Size: Selected Indicators (Billions of U.S. Dollars)**

		USA	Euro zone	Japan	United Kingdom
Stock Market Capitalization [1]	2001	13 826,6	4 276,7	2 293,8	2 164,7
	2007	19 922,3	10 040,1	4 663,8	3 851,7
	2009	15 077,3	6 576,1	3 395,6	2 796,4
	2012	16 855,6	5 845,7	3 638,6	3 415,7
	2013	22 280,7	7 539,2	4 599,3	4 035,4
Total Debt Securities [2]:	2001	18 504,3	9 492,1	6 925,1	1 748,1
	2007	30 324,2	23 004,2	9 213,7	3 841,5
	2009	31 646,6	26 485,7	11 921,0	4 710,6
	2012	35 191,7	21 822,9	14 592,4	5 778,2
	2013	34 494,3	22 461,4	12 260,7	5 750,6
Public	2001	9 698,0	4 181,3	5 317,1	447,9
	2007	6 595,9	7 606,4	7 147,7	913,5
	2009	9 478,2	8 562,5	9 657,4	1 238,5
	2012*	12 874,7	8 872,2	12 790,6	1 613,4
Private	2001	8 806,3	5 310,8	1 608,0	1 300,2
	2007	23 728,3	15 397,8	2 066,0	2 928,0
	2009	22 168,4	17 923,2	2 263,6	3 472,1
	2012*	20 826,2	16 104,0	2 578,7	3 225,8
Bank Assets [3]	2001	22 157,4	24 463,9	12 408,6	7 069,0
	2007	11 194,1	35 097,1	10 086,9	11 655,0
	2009	14 163,1	32 421,7	11 042,4	11 043,9
	2012	14 822,5	34 969,7	12 324,3	10 882,0
	2013	15 920,5	36 100,2	11 499,7	10 421,2
Total: [1], [2], [3]	2001	54 488,3	38 232,7	21 627,6	10 981,8
	2007	61 440,6	68 141,5	23 964,3	19 348,2
	2009	60 887,0	66 483,5	26 359,0	18 551,0
	2012	66 869,9	62 638,0	30 555,4	20 075,9
	2013	72 695,5	66 100,7	28 359,7	20 207,1

\* Debt securities division into public and private as in the Report for 2013. In the 2014 Report that division was no longer present.

Source: Own work based on: IMF 2003: 121, IMF 2009: 177; IMF 2011: 11; IMF 2013: 11, IMF 2014: 153, IMF 2015: 11.

But what is then the international situation of the euro, particularly after the last financial market, real economy and public debt crises? It seems that the euro fulfils the function of an international currency both in the official and private spheres, and currently the situation is stable due to the particular position of the new international currency in the regional setting. In the international context, the euro fulfils the function of measuring the value both in official and private contexts. In the official context it is the reference currency in exchange rate regimes in about 40 states (Table 2).

**Table 2. Countries and Territories with Exchange Rate Regimes Linked to the Euro**

Region	Exchange rate regimes	Countries	Monetary
EU (non-euro area)	ERM II Euro-based currency boards Managed floating regime with the euro as reference and an inflation target <i>Pro memoria</i> : Free-floating regime with an inflation target	Denmark Bulgaria Croatia, Czech Republic, Romania Hungary, Poland Sweden, United Kingdom	Exchange rate anchor Exchange rate anchor Inflation targeting framework Inflation targeting framework
EU acceding, candidate and potential candidate countries	Unilateral euroisation (no separate legal tender) Euro-based currency boards Stabilised arrangement with euro as a reference currency <i>Pro memoria</i> : Free-floating regime with an inflation target	Kosovo, Montenegro Bosnia and Herzegovina Former Yugoslav Republic of Macedonia Albania, Serbia, Turkey	Exchange rate anchor Exchange rate anchor Exchange rate anchor Inflation targeting framework
Others	Euroisation  Pegs based on the euro  Crawling peg involving the euro Pegs and managed floats based on the SDR and other currency baskets involving the euro (share of the euro)	European microstates, some French overseas collectivities CFA franc zone, CFP franc zone, Cabo Verde, Comoros, São Tomé and Príncipe Botswana Algeria, Belarus, Fiji, Iran, Kuwait, Libya, Morocco (80%), Samoa, Singapore, Syria, Tunisia, Vanuatu	Exchange rate anchor  Exchange rate anchor  Exchange rate anchor Other

\* Lithuania is a member of euro-area from 1 January 2015.

Source: EBC 2015: 67.

Using the euro as the reference currency is determined by geographical and institutional factors: it is used particularly by the states neighbouring with the EU and by the states that have signed special institutional agreements with the EU, and by its Member States. States whose monetary systems are based on the euro include the EU Member States that are not euro zone Member States, but which participate in the ERM II, Bulgaria (euro-based currency board), Romania (managed floating regime with the euro as its reference currency and an inflation target). The second group includes the EU candidate states or potential EU candidate states, such as Kosovo or Montenegro (which have already unilaterally adopted the euro), Bosnia and Herzegovina (euro-based currency board), and the Former Yugoslav Republic of Macedonia (a stabilized arrangement with the euro as a reference currency). Additionally, it needs to be stressed that the revision of the SDR (Special Drawing Rights) basket in November 2010 caused an increase in the euro share from 34% in 2005 to 37.4% in 2010<sup>1</sup>.

<sup>1</sup> Yet another revision of the SDR basket is scheduled for 2015.

The US dollar is still often used as the anchor currency in Latin America and in Asia. Some countries have officially or unofficially dollarized their currencies. Some examples of countries who have officially dollarized their currencies include Panama, which in 1904 adopted the US dollar as its official currency on par with Balboa, and Ecuador and Salvador, which adopted it in the 21st century. Guatemala and Nicaragua are currently considering this step.

The stable regional position of the euro as the measurement of wealth is also seen in the private sphere, where the euro is used for invoicing. While in the global dimension the euro is rarely, or at least less frequently than the US dollar, used for clearing transactions and measuring value in international agreements, in the regional dimension it is used much more often, as most trade within the European Union and the states linked to its structures is invoiced in the euro –Table 3.

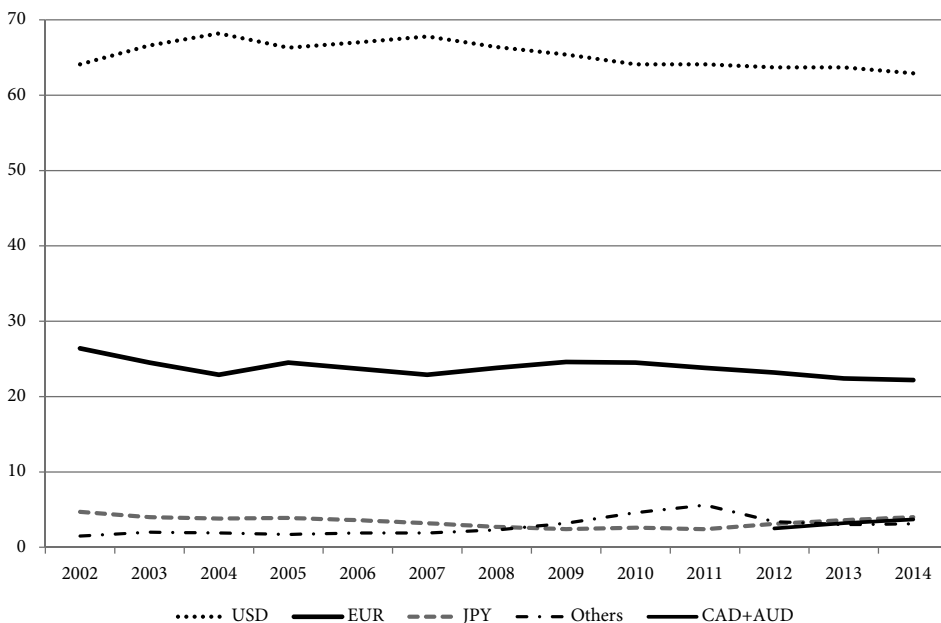
**Table 3. The Euro's Share in Total Exports and Imports in Non-Euro Area Countries**

<b>1. Exports and imports of goods</b>										
	2005	2006	2007	2008	2009	2010	2011	2011	2013	2014
<b>Exports</b>										
Bulgaria	60.4	57.7	60.5	61.5	68.6	56.2	52.9	48.6	55.9	57.9
Czech Republic	71.9	68.8	72.0	73.6	76.0	76.4	77.0	77.2	79.1	78.8
Croatia	–	–	–	–	–	–	–	81.0	80.0	–
Lithuania	51.3	56.2	56.5	55.7	60.5	59.7	58.1	59.5	60.5	65.6
Poland	70.1	69.9	69.8	68.2	66.1	–	–	–	–	–
Romania	64.3	67.6	67.7	68.5	75.9	71.3	67.1	70.1	73.2	77.0
Sweden	–	–	–	–	–	22.0	21.6	23.4	23.3	20.6
<b>Imports</b>										
Bulgaria	60.4	58.9	60.2	65.7	70.9	46.3	45.5	46.6	44.7	51.7
Czech Republic	70.6	67.8	68.0	68.3	68.9	68.5	68.0	68.0	68.9	68.5
Croatia	–	–	–	–	–	–	–	70.4	70.6	–
Lithuania	51.3	53.8	55.4	55.6	57.2	55.8	55.7	56.1	57.3	58.9
Poland	60.5	58.6	59.1	56.4	54.8	–	–	–	–	–
Romania	71.1	73.4	71.5	70.9	73.2	66.8	64.2	60.5	64.0	64.5
Sweden	–	–	–	–	–	18.8	18.5	17.3	19.0	20.3
<b>2. Exports and imports of services</b>										
	2005	2006	2007	2008	2009	2010	2011	2011	2013	2014
<b>Exports</b>										
Bulgaria	–	73.1	76.3	77.9	79.0	79.5	73.7	74.1	78.3	75.7
Czech Republic	64.6	70.3	67.2	72.3	76.0	76.9	78.5	80.5	75.9	74.0
Lithuania	51.1	51.9	53.9	54.7	59.8	58.9	54.2	53.9	56.7	58.8
Poland	70.1	69.9	69.8	68.2	66.1	–	–	–	–	–
Romania	71.0	72.0	71.2	75.2	73.8	62.2	67.0	65.1	66.3	63.0
<b>Imports</b>										
Bulgaria	–	69.9	77.1	77.1	80.8	64.8	63.1	65.4	64.1	65.9
Czech Republic	61.1	61.4	61.3	69.3	78.4	75.6	75.3	77.3	74.6	73.9
Lithuania	47.8	54.1	53.5	51.0	52.4	50.5	50.8	56.0	60.0	60.9
Poland	54.8	54.3	54.0	54.0	58.9	–	–	–	–	–
Romania	64.0	69.0	74.6	74.5	78.6	69.4	69.5	63.7	67.7	59.5

Source: EBC 2015: 76.

The key function of the international currency is to store value. In the official sphere, storing value usually means considering a currency as suitable for holding reserves. This can be easily measured as a share of the currency in the official currency reserves. Many factors influence the central bank's choice of reserve currency, such as the exchange mechanism, the anchor currency, foreign trade, the invoicing currency, the debt currency and the strategy of risk diversification. Important determinants of the monetary structure of reserves include the size and liquidity of securities market, denominated in the currency as well as exchange rate changes (NBP 2011: 14). At the end of 2014 the value of global currency reserves reached 11.601 trillion USD. Between 2002–2014 the euro's share (constant exchange rate) in the reserves of central banks that disclosed their reserves dropped from 26.4% to 22.2%. At the same time, the US dollar's share also dropped from 64.1% to 62.9%, while Japanese yen's dropped from 4.7% to 4.0% and the share of other currencies rose from 1.5% to 3.1% (since 2012 Canadian and Australian dollars – CAD, AUD – have not been included to the category "other currencies") (ECB 2012: 54; ECB 2013: 64, ECB 2014: 64, ECB 2015: 65) (Figure 1).

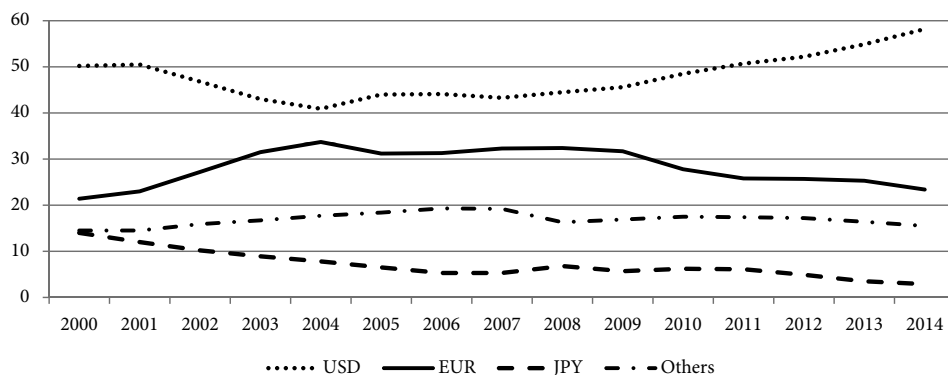
**Figure 1. Currency Shares in Foreign Exchange Reserves with Disclosed Currency Composition (at Constant Exchange Rates – in Percents)**



Source: Own work based on ECB 2012: 54, ECB 2013: 64, ECB 2014: 64, ECB 2015: 65.

In the private sphere the function of storing of value is performed through the intervention currency, for instance when issuing securities in a currency different that the currency of the state where the debtor resides. At the end of 2014 the value of debt securities (current exchange rates, narrow measure) was 12.6 trillion USD, of which 23.4% (2.956 trillion USD) was denominated in euro, 58.2% (7.336 trillion USD) in USD and 2.9% (369 billion USD) in Japanese yen (Figure 2). The share of USD was the highest since 2000, which suggested that private entities intervene in that currency disregarding the crisis. Still in the 2000s, before the economic crisis, one could observe a decline in the share of USD in issued securities (current exchange rates) and a rise in euro-denominated securities, but that changed after the crisis had begun. After 2008 one has been able to observe the “opening of scissors” and a decline in the share of securities denominated in the euro (current exchange rates) and the rise of the USD share. Although both the USA and the euro zone Member States suffered in consequence of the crisis, the issuers of debt securities prefer the US dollar to the euro, which is most probably caused by the uncertainty regarding the future and durability of the EMU. Notwithstanding those uncertainties, the euro has kept its position as the second intervention currency at the international debt securities market, while the difference between the euro and the group of the so-called other currencies has diminished.

**Figure 2. Outstanding International Debt Securities, Narrow Measure. Percentages of outstanding amounts (at Current Exchange Rates, end of Period)**



Source: Own work based on ECB 2012: 58, ECB 2013: 68, ECB 2014: 68, ECB 2015: 68.

Financial institutions are the largest issuers of securities denominated in the euro, and in comparison to issuers of securities denominated in the USD they are much more concentrated geographically. In 2010 most of the new securities denominated in the euro on the international securities market were issued by financial institutions in the United Kingdom and Scandinavia, particularly Norway, Sweden and Denmark. Among



the non-US based issuers of securities denominated in USD such geographical and organizational concentration cannot be observed. They include financial institutions and international organizations from various regions such as Europe, Australia or Canada. In 2014 the situation did not change substantially: most of the issuers of the euro-denominated securities from outside the euro zone were European financial institutions. Among the issuers of the USD-denominated securities from outside of the USA, one can observe wider geographical dispersion – the issuers include organizations from North and Latin America, as well as from Europe and other continents – Table 4.

**Table 4. The Largest Issuers of Euro-Denominated Securities from Outside the Euro Zone and the Largest Issuers of USD-Denominated Securities from Outside USD in 2014**

No	Top 20 non-euro zone Issuers of euro-denominated bonds	Value of securities (million EUR)	Top 20 non-US issuers of US dollar-denominated bonds	Value of securities (million EUR)
1	Credit Suisse Group	10 750	European Investment Bank - EIB	28 392
2	JPMorgan Chase & Co	6 751	Deutsche Bank AG	27 219
3	Banco Santander SA	6 195	KfW Bankengruppe - KfW	26 622
4	UBS AG	6 000	Credit Suisse Group	25 911
5	AT&T Inc	5 900	Banco Santander SA	20 600
6	Barclays plc	5 427	Toyota Motor Corp	16 182
7	Verizon Communications Inc	5 400	Bank of China Ltd	14 268
8	Danske Bank A/S	5 334	Bank of Nova Scotia	13 494
9	Goldman Sachs Group Inc	4 948	HSBC Holdings plc	13 216
10	Citigroup Inc	4 500	Barclays plc	12 969
11	Svenska Handelsbanken AB	4 450	Mitsubishi UFJ Financial Group Inc	12 445
12	Bank of Nova Scotia	4 415	Porsche Automobil Holding SE	12 108
13	Lloyds Banking Group plc	4 307	Royal Bank of Canada	12 098
14	National Australia Bank Ltd	4 153	UBS AG	11 874
15	Nordea Bank AB	4 108	Honda Motor Co Ltd	10 715
16	Morgan Stanley	4 000	Next LP	10 675
17	BP plc	4 000	BPCE SA	9 400
18	Toronto-Dominion Bank	3 750	Nederlandse Waterschapsbank NV	9 200
19	Sky plc	3 750	Sumitomo Mitsui Financial Group Inc	9 030
20	Bank of America Corp	3 750	Commonwealth Bank of Australia	8 948

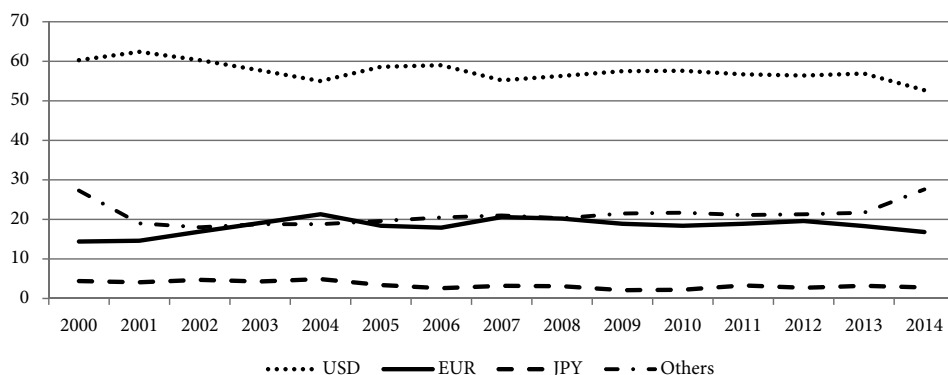
Source: ECB 2015: 72.

The analysis of the euro fulfilling the function of storing of value in the private sphere can be supplemented by the subdivision of securities issuance into euro zone residents and non-euro zone residents issuance. What needs to be stressed is the fact that a currency, in this case the euro, can be used on the international securities market when an instrument denominated in that currency is issued by a resident of a state that is not an issuer of that currency (as is the case with the euro from outside the euro zone), held by a non-resident, or both issued and held by non-resident. At the end of September 2014, 86% of euro-denominated securities (total value 14.416 billion EUR) were issued by residents while non-residents issued just 14% of securities (total value

2.4 billion EUR). These data support the conclusions drawn from the analysis of the main issuers of securities on the international markets. What is more, comparing the 2014 data with the data at the end of June 2010, one can observe a small increase in the value of securities issued by residents: at the end of June 2010 the residents' value was 13.897 billion EUR. Euro zone residents at the end of September 2014 held 73% of securities denominated in the euro (value: 12.281 billion EUR). Between June 2010 and September 2014 the share of securities issued by euro zone residents but held by non-euro zone residents increased from 18% to 21% (ECB 2014: 73, ECB 2015: 71 and NBP 2011: 25).

The share claimed by a currency in the international loans and deposits market is important in fulfilling its international function as an investment currency. The euro's position in the international area in the recent years has been stable, similar to that of "other currencies" but much weaker than that of the US dollar. Therefore, one can speculate that the expectations of the creators of the euro were much greater. Figure 3. shows that at the end of 2014 the euro's share in the currency structure (current exchange rates) of all transborder loans was 16.8%, compared to 52.7% of USD and 2.8% of Japanese yen.

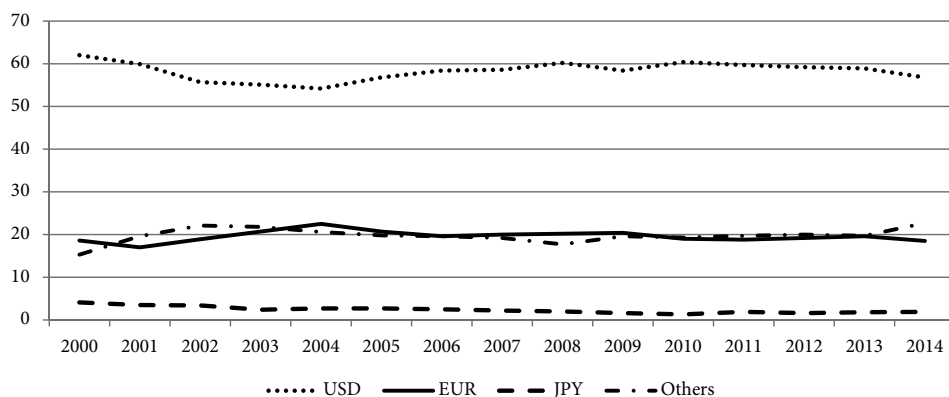
**Figure 3. International Loans by Currency 2000–2014 (at Current Exchange Rates, end of Period – in Percents)**



Source: Own work based on N 2012: 69, *The International...* 2014, European... 2014: 75, *The International...* 2014, European... 2014: 73.

Of course, the euro is also an important international deposits currency, although the dominance of the US dollar is in this case even greater than in the case of loans. At the end of 2014 the share claimed by each currency of transborder deposits was as follows: euro 18.5%, US dollar 56.8%, Japanese yen 1.9% (Figure 4). What needs to be stressed is the fact that the euro slowly loses its position to other currencies.

**Figure 4. International Deposits by Currency 2000–2014 (at current exchange rates, end of period – in percents)**



Source: Own work based on *The International...* 2012, European... 2012: 69, *The International...* 2014, European... 2014: 76, *The International ...* 2014, European... 2014: 74.

The function of a currency on the international area in the official sphere is also demonstrated in the form of intervention currency. As a result of the 2007 financial markets crisis, the principal central banks not only began using non-standard financial market instruments, but also became active in the currency market and began influencing currency exchange rates on a much larger scale. As a result of the undertaken interventions, the share of the euro in the reserves of developed economies declined from 24.5% in 2010 to 22.2% in 2014 (at constant exchange rates). Similar changes, but on a smaller scale, were observed in the case of the US dollar, which declined from 64.1% in 2010 to 62.9% in 2014. The share claimed by the Japanese yen rose from 2.6% to 4.0% and the share of other currencies declined from 4.1% to 3.8% (*The International...* 2014: 64; *The International...* 2015: 65).

The international position of a currency is directly determined by the scale and manner of fulfilment of the classic currency functions in the international context. As seems clear from the analysis in this paper, the creation of the Economic and Monetary Union and the introduction of a new currency (the euro) – even though the decision was strictly political – was well-received by the entities of contemporary international economy, including its main participants and the players on the international currency market. The reason for such reception was the potential of the economies in the euro zone, but also structural conditions and expectations for creation of an international currency that was to be a real alternative to the US dollar. The possibility of diversification in the investment and reserve spheres, as well as in reference, intervention, transfer and invoicing spheres was considered a step in the

right direction to limiting the domination of the US dollar on the market. The first years after the creation of the new European currency pointed to the existence of a permanent trend of straightening the position of the euro on the international area, both in the official and private spheres vis-a-vis not only the Japanese yen and group of the so-called “other currencies”, but especially the US dollar. It was believed that – with the favourable conditions inside the euro zone and its closest environment, and the increasing economic problems of the USA – the euro would have a chance to become a globally important currency in the mid-term perspective and would pose a threat to the US dollar.

The latest financial and economic crisis revised the opinions on the importance of the euro in contemporary economy. Moreover, it seems justified to stress that the revision of opinions was not only caused by the latest economic crisis that began in the USA, but also by the irregularities and methodological mistakes made when creating the EMU. The lack of common fiscal policy may pose a serious threat to the cohesion of the euro zone and the durability of the EMU. Therefore, claims that the latest financial and economic crisis only speeded up the unravelling of the internal problems of the euro zone and the threats which might affect the factors responsible for the international position of the currency. The analysis carried out in this paper shows that the euro, while being the second key currency, has not yet attained the position of a global currency.

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## THE IMPORTANCE OF THE EUROPEAN STABILITY MECHANISM FOR DEEPER INTEGRATION WITHIN THE ECONOMIC AND MONETARY UNION

### Abstract

*The financial crisis and the associated debt crisis demonstrated the weaknesses of the existing solutions in the management of the economic policy of the European Union and have become two of the most important challenges for the community on many levels. One of the remedies to the effects of the crisis was the creation of the European Stability Mechanism, which as a temporary aid programme has become an important pillar of the planned full integration into the Economic and Monetary Union. The emergence of the Mechanism filled the emptiness caused by the lack of instruments for crisis management in the European Union and the procedures for assistance to the communities struggling with serious financial problems. The purpose of this article is to present the role of the European Stability Mechanism and its forms in the context of planned construction of a real economic and monetary union – including a banking, fiscal and economic union. The design of the Mechanism and instruments assigned to it will be analyzed. Subsequently, these factors will be confronted with the objectives of the deepening financial integration in order to answer the question of whether it will meet the hopes vested in it and whether it will be a real element of crisis management and of the creation of a new economic policy for the European Union.*

**Keywords:** Economic and Monetary Union, European Stability Mechanism, financial crisis, crisis management

### Introduction

The creation of the European Stability Mechanism should be put in the wider context of crisis management reforms in the European Union. Their execution was necessitated by the financial crisis associated with the debt crisis of the European Union countries, which showed the lack of institutional capacity and functional communities to act in emergency situations. In addition, the debt crisis has shown that the problem

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of the European Union is not only its functioning in crisis situations, but also the coordination of economic policies within the euro area. The problems arising from the non-convergence criteria and excessive fiscal expansion of individual states were highlighted. As a result, we could see the domino effect, which created a real threat to the stability of the European Union, which in turn resulted in an increase in debt servicing costs in peripheral countries, while bonds in core countries experienced yield compression (Gasz 2013: 64).

The debt crisis in the European Union not only turned into one of the most important dilemmas of the community, but at the same time resulted in a number of other crises. One of them was a real threat of disintegration of the Economic and Monetary Union, the costs of which seemed to be too much to bear at this stage of economic integration. Hence the need to compromise and undertaking of real preventive and corrective measures in terms of fiscal discipline and economic policy. Their aim was to prevent internal and external imbalances before they become a threat to the system. One of their elements was the European Stability Mechanism.

## **1. The Concept of the Deepening Integration Within the Economic and Monetary Union**

New challenges faced by the European Union heated the debate on a new vision of the integration within the Economic and Monetary Union. The Action Plan presented in December 2012 included the creation of an integrated financial framework (unified bank supervision, deposit guarantee), budget (ceilings of the annual budget deficit and public debt, the concept of common issuance of debt) and integrated economic policies supported by the democratic legitimacy and accountability, which in turn built a banking union, a fiscal union and an economic union. The problem with deeper integration was to create a model tailored to countries' economic diversification regarding the community, specific European conditions and at the same time giving a guarantee of stability in time of systemic and asymmetric shocks. The concept of building a complete Economic and Monetary Union must be understood according to the construction of economic governance in the European Union, taking into account the crisis management system, which practically did not exist before the outbreak of the financial crisis and the associated debt crisis. Among the most important steps taken by the community towards the reform are: strengthening the Stability and Growth Pact (through the so-called 6-pack and 2-pack), the Fiscal Pact, a new procedure against undue distortions of macroeconomic imbalances, the European

Semester, the Euro Plus Pact, decisions regarding efficiency improvements in the euro area, the CRD IV /CRR and the creation of a new system of supervision of financial markets. In addition to the deepening economic integration, these elements are intended to affect the improvement of the ability to enforce the obligations imposed on the Member States, which was an important issue and one of the causes of the crisis (Pietrucha 2014: 151–158). ESM should therefore be placed as an integral part of the EU's economic reform and should build a new political culture in the field of public finance (Gasz 2013: 65).

## **2. The European Stability Mechanism in the System of Economic Governance of the European Union**

Originally the stabilizing mechanism consisted of two components: the European Financial Stabilization Mechanism (EFSM) and the European Financial Stability Facility (EFSF). It was a temporary solution, established with the signing of an agreement with Greece to grant the bilateral loans. At the same time, however, the European Commission advocated the need to create a mechanism which would be more than an *ad hoc* element of the crisis policy of the EU, but which would guarantee long-term activity to strengthen the institutional framework of EMU (Kosterna 2011: 20). With a widening group of countries in need of assistance (Spain, Ireland, Portugal and Italy) and the fear of the occurrence of spillover effect, a real need arose to create access to finance for the countries that find themselves being cut off from market funding. The creation of the European Financial Stability Mechanism was thus part of the construction sphere of crisis management in the new architecture of economic governance of the EU. "The ESM will complement the new framework of reinforced economic governance, aiming at an effective and rigorous economic surveillance, which will focus on prevention and will substantially reduce the probability of a crisis arising in the future" (Rehn 2010: 3).

ESM has been linked to strict conditions in terms of macroeconomic policy, which according to A. Trzcińska (2013: 13) was to give a guarantee that the aid will not have the nature of a fiscal transfer and will provide liquidity allowing to restore public finance sustainability and competitiveness. However, there are critical voices regarding the formula of the mechanism, which is also regarded as an attempt to communitise the southern countries' debts and to transfer the responsibility for those to other members of the community (Gasz 2013: 67). The mere introduction of EU legislation required to amend the ESM Art. 136 of the Treaty on the Functioning of

the European Union (TFEU), changes in the approach to the no-bail-out clause and the revision of the ban on the Member States' bond buying by the European Central Bank (Wancio 2011: 49).

### **3. The Instruments the European Stability Mechanism**

The objective of the ESM is make a beneficiary return to financial stability and independence in debt service. In this regard, the State applying for aid must ratify the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG) and enter into national legislation the provisions of the Fiscal Pact. Complementarity of these two instruments should be viewed positively, as it seeks to avoid any transfer of funds and the implementation of macroeconomic programmes. It is a clear signal in the direction of pointing consideration in shaping fiscal and monetary policy. Entering the reform package is in fact mandatory in most cases of the aid from the ESM, except when the beneficiary uses only the help of prudential where interference with the shape of the economy is much smaller.

Currently, the ESM instruments include: 1) prudential financial assistance in the form of prudential conditional credit line (PCCL), or supporting credit line (ECCL); 2) a loan dependent on the adoption of macroeconomic adjustment programme; 3) recapitalization of financial institutions through loans to countries belonging to the ESM; 4) purchase of government bonds on the primary market or secondary market. Prudential financial assistance PCCL and ECCL is the instrument that is the least intrusive into the macroeconomic policy of a beneficiary. The first type of loan requires only countries fulfilling the eligibility criteria, other forces also necessary to take additional measures in the field of economic policy, so as to achieve the required criteria. Using both types of credit lines, however, involves the increased scrutiny from the European Commission and a commitment to introduce measures aimed at eliminating the sources of liquidity problems and to carry out an independent audit of state finances. In the case of more serious liquidity problems, the loss of access to market financing or upon a significant increase in debt servicing costs (up to the point of threatening the solvency), ESM makes the granting of loans on condition of macroeconomic adjustment programmes. An undoubted strengthening of the effectiveness of the abovementioned lines of credit and loans is the possibility of buying government bonds or other debt securities issued by euro-area country at risk. The purchase of bonds on the primary market is to be used as the foundation at the end of the assistance granted both in the form of credit lines and loans, so that the state can



return to the financial market. Bond purchase on the secondary market is assumed to be the mechanism used exceptionally, if the beneficiary can be lead to the loss of liquidity and bond yields rise to the level of vitiating the ability to service debt.

From the point of view of post-crisis analysis, it was important to create opportunities for recapitalization of financial institutions through loans to the ESM Member States. The purpose of this instrument is to prevent the economies of the Member States from the domino effect observed in 2008 by providing the budgets of the endangered Members with cheap financing necessary for the recapitalization of the sector. The beneficiary prior to obtaining the aid must demonstrate the lack of opportunities other than financing the recapitalization of domestic financial institutions of systemic importance or posing a serious threat to the stability of the euro area. In addition, it must demonstrate that it will be able to return the funds, even when they do not receive a refund from benefiting public institutions.

The amount of the subscribed capital which the ESM is ultimately to have is 700 billion euros, of which a total of EUR 80 billion was paid in 2012–2014 (Kosterna 2011: 23). Numerous protests led to the resignation of the EMS from a preferred creditor's status (Kosterna 2011: 24). In the course of evolution of the mechanism the possibility to involve the private sector to help was introduced due to the so-called Collective Action Clause.

#### **4. The Importance of the ESM in the EMU in Its Current Form**

The flexibility in aligning the procedures for the ESM to the macroeconomic situation in the community since its creation deserves a lot of attention. It is in fact a positive aspect of showing attempts to build an effective crisis management system in the EU. At present, the EMU nature of the ESM (as well as the earlier EFSF) is clearly complementary to the broader macroeconomic adjustment of a medium and long-term plans. Nevertheless, the significance of the ESM cannot be marginalized. The provision of liquidity in the short term is in fact often necessary to stop the escalation of events destabilizing the financial system and to avoid the contagion effect. Thus, the acquisition creates the possibility of using the ESM to gain time to implement reforms and return to the financial market. According to D. Kapp (2012: 3) the ESM fills the financing gap by insuring the EMU countries against the phenomenon of sudden stop to the same extent as maintaining foreign exchange reserves by the developing countries. The thesis cannot be called into question also by evaluating the ESM against the ECB's role in combating the effects of the debt crisis by buying short-term bonds of national programmes OMT and SMP (Trzcińska 2013: 46, 47), which caused a decline

in bond yields spreads peripheral countries, because this instrument has a completely different character.

However, the same recapitalization will be ineffective as an element of aid in cases where the assessment of market beneficiary will not be able to meet its requirements. In these conditions, it is difficult to achieve the effect of a swift return to the capital market. For the programme to be effective in terms of potential insolvency of beneficiaries, according to Ch. Wyplosz and Paul de Grauwe the amount equal to the level of indebtedness of beneficiaries must be guaranteed by the ESM, which in the current situation it is not possible to achieve. The very effectiveness of the mechanism of loans for the improvement of the economies of countries in crisis has been undermined by the process of aid to Greece, and Portugal, which drew the attention of, among others, A. Wancio (2011: 52). However, to force the countries concerned to adopt austerity programmes should undoubtedly be considered a success of the mechanism.

The course of the financial crisis in the European Union has underlined how strong the link between the banking sector and the real economy is. The necessity of substantial recapitalization of the financial sector by Spain and Ireland has shown how the financial crisis could destabilize public finances of the state. Hence, the first of the executed elements, the Economic and Monetary Union, has also become integrated within the banking union, which was completed in three successive stages. The European System of Financial Supervision (ESFS) was introduced, a uniform mechanism for restructuring and resolution, a harmonized system of deposit insurance or a package of regulations on capital requirements, aiming to enhance the transparency of financial markets. According to the European Commission, the entry into force of the banking union is expected to reduce systemic risk and eliminate a vicious cycle links between banks and the finance of the country. The aim of the regulation was to reduce the potential financial intervention to preserve the stability of the financial system. Although financial institutions ceded much responsibility for liabilities, it is still necessary to ensure some aid at the community level. Thus, the possibility of limited indirect recapitalisation of institutions by the ESM (only in justified cases) was rightly kept and the ESM became a fiscal security to the resolution fund, which is part of the restructuring mechanism and bank resolution. Acquisition restrictions assistance for the financial sector should also be considered as rational approach, since it reduces the potential moral hazard on the part of the Member States and the financial institutions themselves. In the literature, however, the problem raised is the adequacy of the funds accumulated in the resolution fund, especially until achieving the targeted size of the fund. Hence, the support from the funds of the ESM will be important to ensure the safety of the system. According to A. Trzcińska (2013: 60), citing the estimates by the IMF and Bruegel Institute, the lending ability

of the ESM in the absence of a resolution fund should cover fiscal costs even in case of significant banking crisis in the euro area. In connection with the said fund, a reformed system of insolvency and restructuring, as well as increased capital requirements, the ESM can be regarded as a guarantor of the security of the first pillar of Economic and Monetary Union – the banking union.

## 5. The Importance of ESM in the Proposed Form of EMU

Closer economic cooperation and synchronization of economic and fiscal policies, i.e. the construction of real Economic and Monetary Union, should eventually reduce systemic risk within the European Union, and therefore a change in the functioning of the ESM seems to be obvious, a change of its character from an intergovernmental institution into a treaty institution. Reaching the currently distant stage of joint funding commitments by Member States will nevertheless enforce the possession of liquidity-stabilizing mechanisms, hence the experience acquired through the functioning of the ESM may be particularly useful in the case of asymmetric shocks. Although, among others, Grzegorz Tchorek (2010: 38) claims that progressive integration should reduce the risk of asymmetric shocks, it cannot completely exclude the risk of their appearance, especially in the initial stages of integration. Hence the need for a stabilizer, a role which only European Stability Mechanism can assume. Nevertheless, the existence of a crisis management mechanism such as ESM, regardless of the form which will be adopted, will not be effective without enforcement of discipline in public finances of the Member States (Kosterna 2011: 25).

## Conclusions

Given the present shape of the Economic and Monetary Union, the ESM can be regarded as an effective stabilizer of liquidity, both for the financial sector and individual states. Thus, it can significantly affect the reduction of systemic risk and thereby create the conditions for building deeper economic integration, which will also be an important element. The situation in which several systemic risks covered by the aid mechanism occur simultaneously at the time when the pool of EUR 700 billion is insufficient to perform the warranty functions entrusted to the mechanism, should be considered to be a serious problem. Although the threat seems to be unrealistic, analyzing the course of the crisis phenomena, such option should be taken

into account. This is an aspect of the ESM which should be taken into account by the mechanism creators.

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## THE EUROPEAN UNION BUDGET: THE REFORM OF OWN RESOURCES

### Abstract

*The purpose of this paper is to present the current reform of the EU budget's own resources and its importance for Poland. The paper consists of four parts, and an introduction and conclusions. Part one describes the essence of own resources; part two presents the works on the reform, part three discusses the implemented changes and the last one – part four – presents its importance for Poland. Analysis and synthesis were applied interchangeably in the research and were based on the official documents of the EU and professional literature on the subject. The new legal document on own resources of the European Union after 2014 is an attempt to create better solutions for the financing of EU activities. It didn't, however, introduce many changes or simplifications to the previously existing regulations. Therefore, the High Level Group on Own Resources was established. The group's task is to control the current system and find its shortcomings in order to conduct further work on improving the system of own resources. As a result of the provisions of 26<sup>th</sup> May 2014, Poland's contribution to the EU budget has been reduced by approximately 11 million EUR per year.*

**Keywords:** own resources reform, own resources, EU budget, EU financing, EU income

### 1. Introduction to the Issue of the European Union Budget

The budget of the European Union is a statement of EU revenues and expenditures for a given year. Currently, it is drawn up in the European currency – the euro – for a period of one calendar year. An important feature of the EU budget, which differentiates it from traditional national budgets, is the fact that “every planned expenditure is to cover the implementation of specific objectives” (Małuszyńska, Sapała 2012). The functioning of the European Union is therefore based on a balanced budget that ensures sufficient financing for its priorities and is subject to strict budgetary discipline. The EU budget obeys nine general rules, which include: the principle

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of unity, budgetary accuracy, annuality, equilibrium, unit of account, universality, specification, sound financial management and transparency. The EU budget can be looked at from two different approaches. The first one is the accrual basis it consists in designating specific amounts in the budget to the implementation of specific actions. The second is called the cash/settlement approach, where appropriations for payments represent the amount of transfers between States and the European Union budget (Cieślukowski 2013). The main source of funding for EU's activities are its own resources and the purpose of the EU's own resources system is to guarantee independence of the organisation in relation to the Member States, which is necessary for its coherent functioning. The system guarantees a stable influx of revenue in the long run. These means are indispensable for the achievement of the EU's objectives and the implementation of its policies.

The purpose of this paper is to present the current reform of the EU budget's own resources. An additional purpose is to discuss its importance for Poland. The nature of the research task is reflected in the construction of this paper, which essentially consists of four parts, an introduction and conclusions. Part one describes the essence of "own resources"; part two presents the works on the reform, part three discusses the implemented changes and the last one – part four – presents its importance for Poland.

Analysis and synthesis were applied interchangeably in the research, as the disadvantages of any exclusive choice of one were recognised. The analysis and synthesis were based on the official documents of the EU and professional literature on the subject. The conceptual apparatus employed in the paper is typical for research in the field of international finance and economics.

In line with the underlying assumptions, this research is a study of issues selected by the author and does not aspire to exhaust the numerous issues of this topic. An attempt to cover all issues related to the evolution of the EU budget would undoubtedly exceed the framework of this paper. The research was completed on 15<sup>th</sup> May 2015.

## **2. The European Union Budget: Own Resources**

The so-called national contributions were a prototype of own resources. However, this form of settlements did not last for long. Records about the intended changes to the funding mechanism for expenditures – thus a step towards introducing the collection of own resources – can be found as early as in the Treaty of Rome of 25<sup>th</sup> March 1957. Those changes were not made without reason, as the origin of the sources of EU income has a significant impact on the economic, political and social relations

of its Member States. The first attempt to reform the financing system of the activities of the European Community took place in 1965 but it was unsuccessful, as France opted against the changes. It was not until 21<sup>st</sup> April 1970 that a decision to change the financing system of the EC activities was made.

The key concept for the budget are appropriations for commitments. This item determines the maximum level of commitments which can be undertaken by the European Union within a given financial year. Appropriations for commitments include both annual and multiannual commitments and their amount does not necessarily need to correspond exactly to the amount of payments from the budget in a given year. The second limitation on the size of the budget are the appropriations for payments which determine the amount of actual expenditures from the general budget in a given year. Introducing changes to the ceilings requires an unanimous decision of all Member States. The aforementioned provisions clearly imply that commitments can exceed payments and the amounts and mutual links between the two positions should be considered within the time horizon of a few financial years. In some years appropriations for commitments can exceed appropriations for payments, while in subsequent years these proportions can be reversed in order to cover commitments from the previous years. The EU always indicates the maximum ceiling for own resources that can be disbursed in a given year. These values for commitment and payment appropriations represent upper reference limits, ones that the budgets for each given year never reach. The actual amount of own resources which are to be collected from the Member States in a given year is determined in the budget line "total appropriations for payments" and is generally lower than the maximum value. The differences between the maximum ceilings and planned figures in the budgets for given years provide a certain safety margin by the amount of which the budget can be expanded in case of unforeseen expenditures that cannot be financed within the previously determined limits. This margin also allows for possible budget amendments if the forecast for economic growth in the Member States was too optimistic and actual figures in the planned budget of the EU turned out to be too low to finance all planned expenditures. The first maximum ceiling for own resources collected by the EU was included in the Decision of 24<sup>th</sup> June 1988 and was set at 1.14% of GNP. In 1990, the ceiling was raised and set at 1.27%. Then, however, in the years 2007–2013, the ceiling was lowered and fixed at 1.24% of the total GNIs of all Member States. In the same decision the responsibilities of the system of national accounts were expanded, especially in the area of the EU budget, and changes in nomenclature were introduced. The concept of Gross National Product (GNP) was replaced by the concept of Gross National Income (GNI). In the current multiannual financial framework the ceiling for own resources is set at 1.23% of the GNI. Nowadays, own resources include:

- agricultural levies and sugar contributions;
- remaining customs duties on industrial products;
- the value added tax (VAT);
- levies based on Gross National Income of the European Union – the so-called fourth source;
- other sources of income, including tax on the salaries of persons employed in the EU institutions, interest on late payments to the budget and fines for EU-law infringements, payments on loan operations, surpluses from previous years and incomes from administrative operations of EU institutions.

Customs and sugar contributions are traditional sources of own resources and it is not without reason that they are called own resources. They are created as a result of the EU's common commercial and agricultural policies. The resources come from custom duties levied on goods imported by the Member States from trade partners outside the external borders of the EU. Custom duties are levied by every member of the European Union in accordance with the Common Customs Tariff. The instrument was created in 1968 – two years prior to the anticipated introduction of the customs union. The larger share of the collected custom duties is transferred to national accounts and then remitted to an “own resources” account opened by the Commission at each national bank. The remaining share is retained by the given Member State, where it is deemed to cover the so-called collection costs. Another budgetary resource that covers the costs of the common agricultural policy is sugar levies. They are designed to protect the system of market organisation and sugar production in the EU, including the storage cost of its stocks. As of 17<sup>th</sup> May 1977, under the terms of regulation no 1111/77 of the Council of the European Communities, levies on the production of isoglucose were imposed with the same functions as sugar contributions and are included in statistics together with them (The Official Journal 134/1977). The charges are levied on producers who are obliged to transfer due charges to the EU budget.

As of 1<sup>st</sup> January 1971, the value added tax was supposed to become – alongside custom duties and sugar levies – another source of budget revenue. The harmonisation of tax bases and tax rates was supposed to be the fundamental condition of VAT transfer to the EU budget. Works on the harmonisation of VAT dragged on despite the fact that already in April 1967 the Council of Ministers set out guidelines for the harmonisation of the value added tax as based on the French taxation principles. Due to the difficulties in implementing those provisions, the body issued four Directives in the years 1968–1973. The effective date for the system proposed in 1967 was rescheduled four times. The breakthrough came in May 1977, when the Council of Ministers issued the 6<sup>th</sup> Directive (The Official Journal 145/1977), as upon its provisions the tax bases were harmonised in the legislation of all Member States.



The Directive also put forward the rules on the harmonisation of tax bases (Strasser 1991). Its resolutions were to be included in the legislation of the Member States of the Community as of 1<sup>st</sup> February 1978. Concurrently, it was agreed that the value-added-tax-derived revenues would become a source of income once at least three countries had complied with this directive. Only Belgium complied with it within the set deadline (1<sup>st</sup> January 1978). Great Britain did it on 1<sup>st</sup> April 1978, Denmark on 1<sup>st</sup> October 1978, France and Holland on 1<sup>st</sup> January 1979 and Italy on 1<sup>st</sup> July 1979. Therefore, only in 1979 did the value-added-tax-derived revenue become the source of own resources. In 1979, Luxembourg and Germany did not remit revenues derived from VAT. Changing tax legislation took the longest in the Federal Republic of Germany. Only when a threat was made to initiate proceedings by the Commission before the Court of Justice did the Bundestag accelerate works on complying with the provisions of the VAT directive. The first time the value added tax was paid by all Member States was only in 1980.

The third category of own resources of the European Union are contributions by each country from their Gross National Income (EUR-Lex 2007). This contribution was introduced in 1988 under the terms of decision no. 376/88 of the Council of Ministers of 24<sup>th</sup> June 1988 (The Official Journal 185/1988) with the intention to cover additional budget expenditures and ensure a balanced budget (Teste 1991). In order to determine the amount of additional expenditures, the difference between all expenditures from the EU budget approved for a given year and the overall income derived from agricultural duties, sugar contributions, custom duties and VAT is taken into account. The scale of the financial burden on the Member States in the form of various contributions is determined every year. The contribution rate is equal for all and is expressed as a uniform percentage contribution from the GNI of each and all Member States. The fourth source of income is a source designed to first and foremost increase the EU budget inflow in order to balance the expenditures. The smaller the inflow from other sources the larger the inflow from the fourth source.

In addition to the aforementioned categories of own resources, there are also other sources of financing the EU budget (The Council of the UE 2015). These include taxes and other deductions under various sections. One of them is the tax deducted from EU staff remunerations. The European Union's budget is also supplied by bank interests or contributions from non-member countries to certain EU programmes (for instance, in the research area). Some of the EU's expenditures are also covered by repayments of unused EU financial assistance, fines, interest on late payments and by surpluses from the previous years. This balance is mainly derived from the difference between the outturn of own resources payments and expenditure in the previous year.

A major problem relating to the subject of own resources is the issue of specific correction mechanisms for its Member States. Back in 1984, in order to compensate the United Kingdom's inflated payments to the budget of the Community, the European Council at Fontainebleau reached an unanimous agreement and enacted the so-called UK rebate (Liberadzki 2013). The rebate is calculated based on net flows between the United Kingdom and the European Commission: the difference between the UK's share in EU expenditures allocated to the Member States and in the share of its total VAT and GNI own resources payments. The difference in percentage points is multiplied by the total amount of EU expenditure allocated to the Member and Candidate States. The UK is reimbursed by 66% of this budgetary imbalance. The UK correction mechanism is strictly interrelated to the problems of its financing. The cost of the correction is borne by the other 27 Member States. The distribution of the financing is first calculated on the basis of each country's share in the total EU GNI. The financing share of Germany, the Netherlands, Austria and Sweden is, however, restricted to one quarter of its normal value. This cost is redistributed across the remaining Member States. Several changes were introduced to the calculation of the amount of the UK fixing of the rate of call of the VAT-based own resource, which corresponds to the reduced rates temporarily granted to Germany, the Netherlands, Austria and Sweden, which do not finance the UK adjustment in their full rate as originally calculated (the so-called rebate on the rebate). On 19<sup>th</sup> March 2013, the Committee on Budgetary Control published a report on the effectiveness of recovering traditional own resources by the Member States (Hofmøkl 2004). Moreover, apart from the UK rebate and the rebate on the rebate for the biggest contributors to the EU budget, after 2007 an additional reduced VAT rate was introduced together with reduced annual own resources contributions.

Own resource payments to the EU budget are settled on a monthly basis. VAT-based and GNI-based contributions are made on the first working day of each month, the amounts being 1/12 of the relevant totals to be transferred to the European Commission in a given fiscal year. However, if need be to expeditiously collect resources, the Commission may request the Member States to bring forward their VAT or GNI-based contributions by one or two months in the period of the first quarter.

### **3. The European Union Budget: Proposals for the Own Resources Reforms**

Over time, more and more shortcomings of the system of own resources of the EU budget have been exposed. Major controversies related primarily to the UK rebate,

as the country has not been among the poorest EU Member States already for a longer while. Moreover, the VAT-derived contributions to the EU budget have been significantly reduced, thus there is no reason for maintaining the UK correction mechanism (Hofmohl 2004). Additionally, the method of calculating amounts due to the EU budget, which – among others – includes correction rates and rates for net contributors, is very complicated, lacks the desired transparency (Małuszyńska, Sapała 2012), and at the same time the income of the EU becomes increasingly dependent on the levels of the GNIs. This is of double importance, since the Gross National Income is a factor sensitive to economic fluctuations and general changes in economic trends, and as it constitutes a significant component of the overall budget of the EU, it thereby makes the budget equally susceptible to changes in the economy (Stabryła 2009). The problem of giving precedence to national interests over the common interests of the European Union is another issue worth mentioning. Sometimes, the Member States perceive the contributions to the EU budget as a deprivation of some part of their own national budgets for the sake of “Brussels” and not as the European Union’s own income; therefore, they exert significant influence on the decisions regarding budgetary expenditures (Małuszyńska, Sapała 2012). Another problem has to do with significant expansion of the EU borders, which shifted the VAT-based burdens largely to economically weaker states (Stabryła 2009). Therefore, the topic of the budget reform has been on the EU agenda for many years. The need for changes was clear and widely discussed. In the course of numerous debates a list was created that enumerated the criteria to be met by individual sources of financing and by the system as a whole. Most of those postulates contain analyses carried out on behalf of the European Commission in 2008 (Stabryła 2009). They can be organised into the following six categories (D’Alfonso 2014):

- the budgetary criterion, which emphasises that sources of financing should first of all correspond to the amount of EU expenditures and should guarantee the stability of inflows while minimizing the risk of financial difficulties;
- the criterion of democratic responsibility, which guarantees simplicity, transparency and clarity of the entire financing system, as well as its individual sources;
- the economic criterion, which is a rule stating that the financing system should interfere as little as possible in the general economic order, should be characterised by neutrality and should not discriminate against specific sectors of the economy; moreover, it should be consistent with the broad guidelines of EU policies;
- the justice criterion, which is responsible for the equal treatment of all Member States while taking into account the capabilities of each state;
- the integration criterion, bridging the EU’s common policies so as to strengthen the sense of coherence at the EU level and not just in particular regions;

- the technical-administrative criterion, i.e. the cost-effectiveness intrinsic to the aggregation of individual sources, related to low administrative costs and relatively short time required for collection of the required resource.

Some of the aforementioned criteria stand in opposition to one another, therefore, the European Union has set itself the objective of finding balance and identifying major priorities. The above postulates laid the foundations for the reform of the system.

The main focus of the works on changing the EU's own resources system was to design a simplified financing system and one that would be even more independent of the national budgets of the Member States, as well as to find independent sources of financing and to provide solutions that allow for flexible responses to new challenges. The proposals for changes in the budget included, among others, the creation of new own resources based on "a part of the value added tax", the incorporation of revenues from financial transactions taxes into the EU budget, which on the one hand would contribute to the European Union budget and on the other hand would limit the speculations on financial markets, part of carbon emission allowances and the harmonisation of corporate tax and its inclusion into the own resources of the EU (Onet.pl 2014).

On 29<sup>th</sup> June 2011, the European Commission adopted a proposal for the EU Council Decision on the system of own resources of the European Union. The proposal included the creation of new own resources based on "a share of the value added tax" on supplies of goods and services, acquisition of goods and importation of goods "subject to a standard rate of VAT in every Member State" throughout the European Union, further referred to as the "new VAT own resource" (EC 2011). When presenting its new proposals for the Multiannual Financial Framework for the years 2014-2020, the Commission concluded that the EU financing system should be more transparent and fair, and that contributions from Member States should be lowered. At the same time, a proposal was put forward to introduce financial transactions tax as a new source of own resources (EC 2012).

The new calculation method of VAT-derived own resources is divided into four main stages (EC 2011):

- the starting point for this method is the most specific and easily obtained data – the VAT receipt figures held by the Member States. In order to ensure that only VAT receipts are included, about half of the Member States would need to continue to correct their figures so as to exclude penalties and interest. Additionally, a few of the Member States would also need to continue to make adjustments to take into account their overseas territories, the particular VAT treatment granted to some peripheral regions and subsidies they deliver via the VAT system;

- in order to achieve the maximum simplicity and transparency at minimal administrative costs it was proposed that the European Commission arrange to have determined a single EU-wide average proportion of VAT receipts accruing from standard-rated supplies to final consumption (i.e. supplies made to households or other entities not entitled to deduct the VAT they have been charged), which are subject to a standard rate of VAT in every Member State. To ensure predictability, the same average would be used for the duration of a given financial framework;
- Member States would apply the single EU-wide average proportion to their adjusted receipts. The resulting chargeable VAT receipts figure would then be converted to a tax-exclusive base value using each Member State's actual VAT standard-rate;
- once the value of the chargeable base has been determined, the share set out in the Regulation implementing the own resources Decision is applied to calculate the actual contribution. There would be no artificial capping of the chargeable bases.

The above changes in calculation of the VAT own resource present very clear advantages (EC 2011), in particular:

- the number of corrections made by Member States would be significantly reduced; no need to calculate compensations;
- Member States would no longer need to calculate a weighted average rate and would be able to focus on supplies to final consumption, which would be subject to a single standard EU-wide tax rate.

The proposed method would constitute a tremendous simplification of the system while making it more transparent and predictable with only a limited loss of accuracy.

Another proposal of the own resources reform that was put forward was the introduction of a tax on financial transactions. The tax would apply to all transactions conducted between financial institutions, provided that at least one party to the transaction would have its headquarters within the European Union territory. The trading of shares and bonds would be subject to a tax rate of 0.1%, while the trade of derivatives would be subject to the tax rate of 0.01% (EC 2012). Based on 2010 data, the European Commission estimated that annual amounts collected from this tax would reach 57 billion EUR. Assuming that the number of taxable transactions would grow proportionately to the increase of the GNI in the EU, the amount of 57 billion EUR could reach 81 billion EUR in 2020. The European Commission suggested that 2/3 of the 81 billion EUR (that is 54.2 billion EUR) be allocated to financing the expenditures of the European Union. According to the Commission's proposal, GNI-based national contributions without the tax on financial transactions would amount to 110 billion EUR in 2020. However, taking into account the financial transactions tax, the Member States could thereby save 50% of their national GNI-based contributions. Financial transaction taxation could become a substantial new source of income, which would

– in addition to reducing the Member States' contributions to the EU budget – provide national governments with greater freedom of action and would largely contribute to the general efforts in the area of fiscal consolidation across the EU (EC 2012).

In addition to the proposals presented above, alternative sources of financing the EU budget were also suggested. Those proposals included: EU-ETS revenues, charges related to air transport, tax on energy/carbon, and corporate income tax. The EU's Emissions Trading Scheme is a system that combats excessive emission of greenhouse gases such as carbon dioxide, nitrous oxide and perfluorocarbons. As of 2013, the main way of allocating emission allowances is by auction sales. This means that companies buy an increasing proportion of their allowances at auctions (EC 2013). Part of the revenue from these auctions could be allocated to the EU budget. According to the estimates carried out by the European Commission, this new source could contribute to the budget with over 20 billion EUR in 2020 (D'Alfonso 2014). Meanwhile, because of a favourable taxation system and lack of the value added tax on flight tickets, a proposal was put forward to impose adequate taxes. Profits from the common EU aviation tax were estimated at approximately 20 billion EUR in 2020 (D'Alfonso 2014). Another option that was considered was the introduction of an energy tax, which would refer to a series of products such as crude oil, petrol, gas, oil etc. These proposals would complement the EU system for trading emission allowances. They would all, however, need to be well coordinated in order to eliminate the overlapping of regulations and facilitate effective combat against greenhouse gas emissions. It was estimated that revenues from the energy tax could range from 17.5 to 21.8 billion EUR (D'Alfonso 2014). Finally, a proposal to introduce a single, EU-wide corporate tax was also put forward. Part of the tax could be incorporated into the system of financing the EU budget. It was estimated that the inclusion of less than 2% of the tax could yield 15 billion EUR of contributions (D'Alfonso 2014).

#### **4. The Current Reform of the European Union Budget's Own Resources**

On 7–8<sup>th</sup> February 2013 a series of decisions regarding the system of the EU's own resources was made. The Council operated with the approach that all arrangements should be guided by general objectives of simplicity, transparency and fairness. In accordance with the provisions adopted in 1984 in Fontainebleau, no Member States should be unduly burdened with budgetary obligations. The European Council also made decisions regarding reduced rates of call in relation to resources accruing from

VAT for the Netherlands, Germany and Sweden in the years 2014–2020. It was also agreed that Denmark, the Netherlands and Sweden would benefit from rebates in their contributions based on the Gross National Income within the same time frame, while Austria was given the same rebate only for the period of 2014–2016. The United Kingdom correction mechanism was maintained. No changes were introduced into the system for collection of own resources, only the amounts retained to cover collection costs were altered. On 7–8<sup>th</sup> February 2013, as the data based on ESA 2010 (the revised European System of Accounts) was not yet available at the time, the adopted ceilings were based on the ESA 95 system, however an obligation was imposed to adapt them to the new system as soon as all Member States transmitted their data on the basis of ESA 2010. The European Council admitted that the new kind of VAT-based own resources could replace the existing type of resources, and appealed to the Council of the European Union to continue works on the proposal of the European Commission on the new type of VAT-based own resources in order to make the system simpler, more transparent and consistent with the EU's VAT policy and with actual receipts from this tax, as well as to secure equal treatment of all taxpayers in all EU Member States.

Additionally, enhanced cooperation regarding the financial transaction tax was developed. It was agreed that a regulation would be issued on implementing measures in respect to the provisions on own resources. Also the need for regulations ensuring a consistent, continuous and reliable transfer from the old to the new system was highlighted.

On 12<sup>th</sup> February 2014, the Council of the European Union adopted a regulation laying down the implementation of measures for the new system of own resources. The regulation was issued in compliance with all relevant documents of the European Union, including the proposal of the European Commission, and with the consent of the European Parliament. The adopted objective was to maintain the transparency of the system by providing information to budgetary authorities, while the Commission should be able to conduct audits in a Member State, especially when suspecting instances of irregularities or fraud. The Member States should closely cooperate with the Commission on the establishment and availability of own resources. The regulation consists of three chapters. The first one elaborates on the procedures for establishing own resources. The second one sets out the rules on control and supervision, while the third chapter contains information relating to the Advisory Committee on Own Resources and final provisions.

Under the regulation, any budget surplus should be transferred to the following budget year. The balance of a given year is determined on the basis of the difference between all income earned in the given financial year and all expenses incurred and

appropriations covered in that financial year. The amount is increased or decreased by the net balance of cancellations of appropriations carried over from the preceding years. It can also occur that the difference is increased or decreased by payments made in excess to resources transferred from the previous year, or in consequence of the euro exchange rate fluctuations and the balance resulting from exchange losses or gains during the financial year. Before the end of October in each financial year, the Commission makes an estimate of the own resources collected for the entire year on the basis of data at its disposal at that time, which could give ground for proposals of amendments to the draft budget for the subsequent year.

According to the regulation, own resources are subject to inspection. Member States are required to do everything within their power to provide the Commission with access to own resources. They also conduct checks concerning the establishment and transfer of own resources. Additional inspection measures might be carried out at the Commission's request. The Commission may also request to be provided with certain documents and may join the inspection carried out in a Member State. When the Commission is associated with an inspection, it is to be given the same access to any supporting and related documents. The inspection can also be carried out individually by the Commission and persons authorised by it. These checks may not have a negative impact on inspections conducted by the Member States under their national regulations and measures set out in the Treaty on the Functioning of the European Union. If the inspections are carried out in respect of own resources accruing from VAT, they should be carried out in accordance with Article 11 of Regulation No. 1553/89 (The EEC, Euratom). In the case of GNI-based resources, every year the Commission, together with the Member State, inspects the aggregates provided for errors in the compilation. In doing so it may, if necessary, also examine calculations and basic statistics. The Commission reserves the right to access statistical procedures and basic statistics; it also has the right to appeal to a Member State in order to acquire relevant documents and reports on the own resource system. The Commission appoints the so-called duly authorised representatives, who – in case of each inspection – receive a written scope of their mandate, stating their identity and official capacity. Persons placed at the disposal of the Commission by the Member States as national experts on secondment may participate at the inspection. With the explicit prior agreement of the Member State concerned, the Commission may seek the assistance of officials from other Member States. Authorised agents act in a manner compatible with the rules applicable to the officials of the country concerned and are bound by professional secrecy. The Commission is obliged to respect national rules on the confidentiality of statistics. All contacts with debtors are to be held by appropriate bodies, which are subject to inspection. Any information communicated or obtained



is subject to professional secrecy, it may not be communicated to persons outside the institutions of the Union or the Member States, neither may it be used for purposes other than those laid down in the Regulation without the prior consent of the Member State in which it was gathered. All personal data is also subject to protection. The information about the inspection is given by the Commission in writing and in good time, together with justification of its decision. In case of inspection of traditional own resources and own resources based on VAT, work is organised by the department which was designated by a Member State. Also, the representatives establish contacts with the officials designated by the Member States. The results of the inspection are brought to the attention of the country concerned via appropriate channels within a period of three months. The Member State may be called to submit observations on specific issues. Then the results of the inspection are made available to all Member States of the EU. In the two months following the end of each quarter, Member States are to provide the Commission with a description of the cases of fraud and irregularities detected, involving entitlements of over 10 thousand EUR concerning traditional own resources with regard to which no information was given about their recovery, cancellation or non-recovery. Member States also communicate to the Commission the annual report on their research and its results, as well as information on matters of dispute. The reports are supposed to be delivered within two months from the end of the year. On the basis of the reports received the Commission prepares a summary report, which is available to all Members of the European Union. Once every three years the Commission reports to the European Parliament and to the Council on the functioning of the inspection arrangement regarding the traditional own resources.

On 25<sup>th</sup> February 2014, in Strasbourg, the High-Level Group on Own Resources was established (EC 2014) by the president of the European Parliament, Martin Schulz, the president of the Council of the European Union, Antonis Samaras, and the president of the European Commission, José Manuel Barroso. Mario Monti was appointed to the post of the group's Chairman. The task of this group is to undertake a general review of the EU's own resources system. The work of the group is scheduled until 2016. The result will be the creation of a more transparent, democratic and more equitable system of own resources – expected to be completed by 2021. The objective of this group is to find the best solutions that could improve the system of own resources. The group aims to continue the reform of the EU budget financing. The group meetings take place at least once every six months. Extensive and detailed results of their work will be presented during the inter-institutional conference in 2016, which will be attended by representatives of all national parliaments. Then the results of the work will be discussed. The results of the talks will be assessed by the Commission, which

will then decide on possible reforms of the system of own resources that could be introduced after 2020.

After the negotiations in the framework of the working group on own resources of the EU and COREPER II, the EU's Competitiveness Council (COMPET), on 26<sup>th</sup> May 2014, adopted a new decision on the system of own resources of the EU (2014/335/UE, Euratom) (The Official Journal 168/105), which refers to the collection of revenues of the EU budget for the period of 2014–2020. It will come into force as soon as it is approved by all Member States. That means ratification by all national parliaments. Until then, the provisions on own resources from the years 2007–2013 remain applicable. If approved, the new provisions shall apply retroactively with effect from 1<sup>st</sup> January 2014. The main purpose of the decision of 26<sup>th</sup> May 2014 is to organize the Union's own resources, which under the terms of Article 311 of the Treaty on the Functioning of the European Union allow for the financing of the budget of the EU. The decision refers to all Member States of the European Union and will be applied directly. There is no need to transpose its provisions into national laws.

As already mentioned, the new decision reduces the rate of the so-called collection costs, bringing the share of traditional own resources that remain in a Member State down from 25% to 20%. That 5% will be moved from the budgets of Member States to the budget of the European Union. With this change, however, the countries receiving substantial payments from duties will be making bigger contributions to the EU budget, which, in turn, will reduce their GNI-based contributions. This action is also intended to gradually reduce the so-called hidden correction in the system of own resources (in other words, the decision taken in 2001), which increased the collection costs of traditional own resources from 10% to 25% and which was supposed to adjust the excessively negative net position of some Member States in relation to the EU budget, in particular in the case of the Netherlands.

The harmonised value added tax base, according to which the VAT rate is calculated, remained capped at the level of 50% of the Gross National Income of a given Member State. Also, the uniform VAT rate was kept at 0.3% (with the exception of some reduction granted to countries). The level and number of reductions for the reduced rates of the value added tax were limited. In 2007–2013, in order to correct budgetary imbalances, the reduced VAT rates were set for the selected Member States, i.e. Austria, Germany, the Netherlands and Sweden. Instead of the full rate of 0.3% of the harmonised VAT base, those states contributed to the EU budget respectively 0.225%, 0.15%, 0.10% and 0.10% of the VAT base (The Official Journal 2015). For 2014–2020, the reduced rates were set for Germany, the Netherlands and Sweden at 0.15%. Austria is obliged to pay the same rate as all the other Member States. Thus, the new decision introduced considerable changes in this subject. One of them is the exclusion

of Austria from the group of countries that are granted a reduced VAT rate. The second change is the reduction of the rebate for Sweden and the Netherlands. According to the new decision, those countries are obliged to make contributions to the EU budget at the VAT rate of 0.15% instead of the previous 0.1% (The Council of EU 2007). The only Member State that was not affected by the changes is Germany, which will continue to make payments to the account of own resources at the VAT rate of 0.15%.

Reductions in contributions based on the Gross National Income of Member States were granted to more countries. Within the previous financial framework, the reduction was only granted to Sweden and the Netherlands (in annual amounts of 605 million EUR and 105 million EUR respectively). The rebate was calculated based on 2004 prices (The Council of EU 2007). In the years 2014–2020, apart from those two countries, the reductions are also granted to Austria and Denmark. Austria was granted a reduction in GNI-based contribution of 30 million EUR for 2014, 20 million EUR in 2015, and 10 million EUR in 2016, while the remaining three countries were granted a reduction in their contribution for the entire period of multiannual financial framework, that is until 2020. The annual amounts of those reductions are as follows: for Denmark 130 million EUR, for Netherlands 695 million EUR and for Sweden 185 million EUR. All the amounts stated in the Council Decision were specified in 2011 prices in euro (The Official Journal 2015).

The number of new solutions is relatively small. The new decision repeals the provisions of the previous decisions and defines financial obligations towards the European Union for the years 2014–2020. Moreover, the calculation method of the Gross National Income resources was adjusted to the system of national accounts ESA 2010, and modifications were introduced regarding the transfer of payments of contributions to the correction system. The calculation method of the UK correction was not subject to any changes. It is still adjusted for non-agricultural expenditures, that is excluding agricultural direct payments, market interventions and part of rural development expenditures allocated to the Member States that accessed the European Union after 30<sup>th</sup> April 2004. The shares of Germany, the Netherlands, Austria and Sweden in the financing of the UK correction were maintained at the level of 25% of their regular share, based on calculations of contributions to this financing by the method described in the Decision.

## 5. The Effects of the Reform on Poland

In Poland, as in other Member States of the EU, the approval of the decision on the reform of own resources of the European Union involves the necessity of ratification. Pursuant to article 12 (2a) of the Act of 14<sup>th</sup> April 2000 on International Agreements (Journal of Law no. 39 item 443 as amended) all legal acts of the European Union as referred to in Article 311 (3) of the Treaty on the Functioning of the European Union are subject to ratification. The previous decision of the Council of the European Union was approved in the same way. The Decision pertained to own resources and gave ground for the transfers of the Polish contribution to the EU budget in the years 2007–2013, which were binding until the new decision came into force.

On 9<sup>th</sup> April 2015, the members of the Polish parliament conducted the vote on the ratification of the Council Decision of 26<sup>th</sup> May 2014 on the system of own resources of the European Union. 433 deputies of the Sejm voted in favour of the act, 5 deputies abstained and no one voted against the act (Biznes.pl 2015).

In the years 2014–2020 Poland is to contribute to the budget of the European Union the amount of 33.6 billion EUR. This means that annually Poland will transfer approximately 4.8 billion EUR to the European Commission's account. Payments to the EU budget are made within the budgetary part no. 84 – own resources of the European Union. The forecast is based on the calculations of the European Commission in accordance with the adopted methodology and takes into account the projected economic growth rate of the Member States. Poland's annual payments decrease by approximately 11 million EUR a year in comparison to the years 2007–2013. Every year, Poland's contribution to the EU budget is to be decreased by this sum. The exact amounts of own resource contributions to be made by Poland in 2014–2020, together with the categories of purpose due to adjustments, are presented in Table 1.

**Table 1. Poland's Contribution to the EU Budget in the Years 2014–2020**

EUR million	Total in 2014–2020	Annual average
Poland's contribution to the EU budget as laid down in Decision no. 2007/436 EC, Euratom	33604	4801
Reduced rates for VAT-based own resources	-81	-12
Reduction in annual contributions based on the GNI	45	6
Decreased collection costs for custom duties and sugar levies	-43	-6
Total effects of changes in the correction mechanisms introduced by Decision 2014/335/UE, Euratom	-80	-11
Poland's contributions to the EU budget as laid down in Decision 2014/335/EU, Euratom	33524	4789

Source: The Official Journal 168/105.

Upon completion of the ratification by all members, Poland, as well as the other Member States, will contribute retroactively to the correction mechanisms for the years 2014–2015, which in the case of Poland is a contribution estimated at approximately 206 million EUR. The transition from ESA 95 to ESA 2010 system brings on changes in how the Gross National Income of Member States is estimated. The combined overall level of resources transferred to the EU budget remains unchanged, but the amounts of contributions by individual countries do change. The preliminary analysis of GNI data for 2010–2014 suggests that the average increase in the Polish GNI, due to the transition from ESA 95 to ESA 2010, was lower than for the whole EU by approximately 1.1 percentage points, which is why the contributions made by Poland have been reduced.

## Conclusions

Since 2007 the economic situation of many Member States has changed considerably. The liberalisation of world trade had significant influence on the reduction of duties. VAT-based revenues have dropped as well. In the face of the changing situation, the EU found it necessary to reform the system of own resources. As of 2014, there is new legislation on EU own resources, which was adopted on 26<sup>th</sup> May 2014 and which aims to create better solutions for the financing of the EU.

When compared with the previous document from 2007, the general principles have remained intact. The system of accounts has been upgraded to ESA 2010; changes were made in the levels of correction mechanisms and the list of states which are granted the reduction. The aim of the reform was to simplify the system of own resources and to make it more transparent. This remains a priority also for the upcoming years and therefore the High-Level Group on Own Resources was created. Its tasks are to control the current system and identify its shortcomings. The group also works on further proposals for reforms.

On 9<sup>th</sup> April 2015 the members of the Polish parliament adopted the resolution on the ratification of Council Decision on the reform of own finances. In the near future the document is to be ratified and will come into effect retroactively as of 1<sup>st</sup> January 2014. Poland's contributions in the years 2014–2020 are estimated at 33.6 billion EUR, which constitutes an annual payment of approximately 4.8 billion EUR – according to

the methodology of the European Commission and projected economic growth rate of the Member States of the European Union.

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## **Part V. Shaping and Unfolding Innovation in the European Union**



Klaus Gretschmann\*

## **HIGH ROAD OR THORNY TRAIL? RE-DESIGNING EUROPEAN UNION INNOVATION POLICY FOR A TURBULENT WORLD**

### **Abstract**

*Innovation policy is the key tool to stimulate economic growth and strengthen competitiveness and employment opportunities. Moreover, it is considered the key tool to make the European Dream come true: a realm of freedom, welfare, security and mobility. A quantum leap is needed to enrich the presently rudimentary rather than comprehensive approach of the EU innovation policy in order to create an innovation-conducive environment.*

*We deploy the idea of innovation ecosystems, i.e. a set of interrelated ideas, institutions, instruments, policies, regulations and factors that determine the level, direction, outcome, productivity and degree of competitiveness from innovations. A realm characterized by clear, simple, efficient, smart, low-complexity, competition-based and socially accepted features will be best suited and conducive to prompt and promote innovation.*

*R&D does not automatically lead to innovation in markets; intervening and flanking factors, such as legal provisions, administrative support, entrepreneurial skills, risk propensity and public opinion, etc. – defining an environment supportive to innovation – need to be addressed and tackled simultaneously. Concomitantly, the removal of bottlenecks and obstacles to innovation are the tall order of the day. A European Decade of Innovation should be the new overarching vision for the EU, a benchmark for its actions.*

**Keywords: innovation policy, innovation principle, innovation ecosystem, European Decade of Innovation, strategic agility, governance innovation, barriers to innovation, R&D policy, culture of innovation, silo thinking, institutional arrangements, institutional reform, collaborative governance, Horizon 2020**

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## Introduction

There seems to be general agreement in politics, business and academia alike that the economic future of the EU is tied directly to its capacity to innovate its economy and society.

Why then is Europe far from reaching its 3% target of research investments? Why has it yet to make innovation work in all its policies? Why is there still confusion between R&D and the whole innovation chain to the market? And why does the latest Innovation Scoreboard show wide variations in innovation performance?

A whole set of largely unrelated individual initiatives does not make up an innovation system. Indeed, the EU and its Member States have developed policies, programs and projects to make innovation in Europe thrive. They have managed to develop an encompassing program such as Horizon 2020. However, so far the outcome is far from optimal. Stakeholders in science, business and society alike remain skeptical and critical, to say the least.

The traditional model of innovation uses scientific research as the basis of innovation, and suggests that change is linear: from research via invention to innovation, to diffusion and marketing. However, this model has been acknowledged as incomplete and misleading. Rather, innovation is a result of the interaction among an “ecology” of actors. It is the “right” interaction between the actors that is needed in order to turn an idea into a solution or a process, product or service on the market or in society.

The ecology model (Jackson 2011) provides a much richer picture of how innovation works, and how it can be stimulated and fostered. It focuses on connectedness, the dynamics and the context in which a complex interaction of actors and agents, factors, sectors and countries determining or hampering innovation is embedded. Innovation and value creation require permanent strategic agility (Doz, Kosonen 2008), scanning the global context, scouting for opportunities, and attention to continuities or discontinuities in societies and economies. Indeed, innovation is a complex process, combining curiosity, creativity, rigorous scientific method and a well-designed and smoothly working innovation ecosystem.

We have stipulated and promoted the idea of innovation ecosystems (HLG I and II 2013/2014), i.e. a set of ideas, institutions, instruments, policies, regulations and factors that determine the level, direction, outcome, productivity and degree of competitiveness from innovations. A realm characterized by clear, efficient, smart, competition-based and socially accepted features will be best suited and conducive to prompt and promote innovation. Factors such as legal provisions, administrative

structures, entrepreneurial skills, risk propensity and public opinion, etc. define an environment that is more or less conducive to innovation.

## **1. The Innovation Principle and the Unfolding of the Innovation Ecosystem as a Means for “Reclaiming the European Dream”**

Europe is not lacking in capacity; rather it is confronted with problems of leadership, coherence of vision and purpose, of creating cumulative effects and critical mass, and of a rather inflexible culture of policymaking and regulatory application (Gretschmann 2014). It suffers from organisational fragmentation, persistence of multiple barriers to innovation in markets, and the absence of an encompassing systemic approach. Worse still, some innovation that has been developed in the EU is appropriated elsewhere due to a lack of favorable framework conditions.

Innovation in its broadest and most modern sense has to be tackled as a horizontal issue, taking full advantage of the intellectual capital of Europe and by better supporting the exploitation of synergy at both European and national levels, as well as between policies related to human, structural, social and relational capital. Europe's challenge in capitalizing on its innovation potential is twofold. Firstly, underinvestment in R&D and innovation, particularly by the private sector, combined with a weak ability to turn R&D results into innovations commercialized by European companies. Reversing this trend will require much better framework conditions for innovation (e.g. access to finance, better regulation, faster setting of interoperable standardisation, more affordable and robust IPR protection, and more strategic use of public procurement). Secondly, there is too much fragmentation and overlap, with weak links between EU and national/regional research and innovation programs. At the time of important fiscal constraints, the need to ensure value for money and enhance the quality of public expenditure should be a major driver to improve the coordination of R&D efforts.

In the face of budgetary scarcity and the rise of powerful global competitors, the EU needs to build on the only resource it has in abundance: innovation potential. If we succeed in unfolding this potential, 10 to 20 years from now we may look back on the present as the dawn of a Smart Innovation Era: a time when rapid and continuous innovation changed almost everything about the way we live, how we produce, consume, communicate, interact and participate in our polities. Putting all our efforts into unfolding and inspiring innovation, making it the overarching principle of EU

policymaking will be the recipe for reclaiming the European Dream of becoming a stable, successful and sustainable model for the world.

## 2. Innovation Policy Revisited

The key objectives must be to embed innovation policies and activities into a flexible, dynamic, stimulating and enabling environment, and the creation, promotion and development of an ecosystem of innovation. Innovation is meant to create an “added value” for society by enhancing the quality of the lives of its citizens and the competitiveness of its enterprises, through intelligent interaction between a variety of stakeholders, such as companies, local, regional and national authorities, international systems, e.g. the EU and its institutions and centres of knowledge creation, such as universities and research organisations. The enhancement and advancement, the fostering and maintenance of an innovation ecosystem requires the “Five Cs”: Communication, Cooperation, Competition, Competence and Complexity. These elements can only be activated and developed effectively if there is guidance, leadership and stakeholder engagement that go beyond traditional and established practice. And we do need to understand how activities in one part of the innovation ecosystem affect other parts and vice versa, how we best engage and incentivise stakeholders and how we design fair and robust, efficient and democratic structures of governance to get the ecosystems rolling.

Against the latter aspect, the problem that modern European societies suffer from risk aversion, innovation scepticism and reform fatigue has to be tackled. Their innovation policies are either of an Icarus type, i.e. too high-flying and often falling down hard, or of the Sisyphus kind, i.e. rolling something uphill again and again but unable to hold it. This may be linked to the fact that every innovation carries both the desired and unintended collateral effects. Therefore, both corporations and governments share a common concern for healing and for outbalancing the potential, mostly the temporary, undesired social effects. Therefore, innovation ecosystems require regular, open dialogue and alignment of processes between the interests of various stakeholders (Kakabadse 2012), as well as ways and means to communicate risks and rewards, costs and benefits of inventions and innovations to the general public.

### 3. Essential Elements of Innovation Policy Redesign

To unleash innovation requires a mindset of decisionmakers which is the opposite of bureaucratic standards and thinking, the traditional standards which are usually meant to ascertain stability. Consequently, it must be part of the culture of innovation to accept experimentation and managed risk in order to allow innovation to succeed. Correctly assessing the change and driving it intentionally and purposefully is a difficult and most taxing task both in business and for the government. Unfortunately, there seems to be a generic and pertinent propensity to extrapolate from present trends and renew past experiences despite changed contexts. Recourse to and holding on to “received practice” and the status quo is a widespread attitude in public institutions, an attitude which instills inertia into the system and which needs to be broken.

To be sure, original ideas don’t just come out of nothing. It’s a combination of all the inspiration and impressions that the brain collects and then builds into new things. What is required are brain teasers, brain hubs and brain connectors. All three depend on the right, stimulating environment – the inspiring innovation ecosystem. We do need a new approach to innovation policy for good reasons: since the 1990s, as a consequence of a variety of developments, the EU policymaking and implementation have become heavily focused on following proper procedure, restricting the initiative, creativity and responsibility of otherwise highly competent officials, which in turn has led to excessive bureaucratization of problem solving. As a result, the quality and quantity of outcomes has been declining to the detriment of Europe’s innovation and competitiveness.

What is badly needed is mutual understanding, convergent interpretations of reality, collaboration between research, business, governments and the EU Commission, instead of silo thinking by each of them and mutual distrust. Just how difficult a challenge it is to understand the choices and decisions inventors, creators, innovative entrepreneurs and business leaders have to take is shown in Christensen (2011), a must-read for policymakers!

This often requires a radical overhaul of human resource policies. In order to think about what might possibly exist and to escape the entanglement in the snares of what *de facto* exists, it is essential to develop new cognitive maps, outlining many possible avenues and alternatives. At the core of any innovation ecosystem to tackle the above problems is what experts call “bold associational thinking.” Associational thinking (CereCore 2015) is the way we process information through integrating patterns, seeing contextual relationships, and connecting seemingly unrelated elements. What characterizes this type of thinking is the rapid, fluid, cross-disciplinary ability to select

and apply the appropriate thinking combination to solve any problem. However, when associational thinkers are micromanaged, involved in minutiae that have little relevance, and are in an environment with many meetings and little evidence of meaningful input or work, their effectiveness is drastically reduced. Associational thinkers need blocks of uninterrupted time to think and freedom to work in their own way. Moreover, research and centuries of experience have shown that there is a positive correlation between a society's degree of tolerance for the independent, unorthodox, creative and entrepreneurial-minded and its social benefit and economic success.

#### 4. Recent Findings in a Nutshell

Despite some degree of variation, cross-country studies found that the top performing countries in innovation were also those with the strongest performance in competitiveness and employment, indicating a strong correlation between innovation and competitiveness. They also happen to top the people's happiness indexes. Shifting emphasis from the above "bird's eye view" to a more "frog-eye" vantage point, recent research into the innovation process has shown that:

- ideas can come from the unexpected or from a structured analysis of problems;
- linking existing knowledge or capability in a new way can be a starting point;
- individuals often play a more important part than whole teams;
- technical problems are often very difficult to solve and there may be a long time between an idea and its implementation;
- market pull and technology push are equally valid trigger points;
- external sources of help may be required both in technical problem solving and in marketing;
- competition as an innovation driver can come from many directions, including suppliers and customers;
- risks can be high, both in technology and markets, but should not be considered prohibitive;
- some innovations attack existing markets, others open up completely new ones;
- an active and activating role of the State is indispensable.

All of these different elements and triggers should be inspired and promoted by a redesigned EU innovation policy in its own right. However, this is easier said than done, given the institutional rigidities, strict arrangements, and rules and regulations (such as financial control or competition policy) in the EU institutions and elsewhere.



Additionally, the above analysis pinpoints the crucial role of institutional arrangements as driving or at least supporting forces to innovation. The two forces of technological innovation and institutional innovation are deeply intertwined, since new inventions, innovations and technologies frequently are the source of disequilibria which make it profitable or even indispensable to “innovate” institutional arrangements. It was the Nobel Prize Laureate, Douglass North, who defined institutions as “humanly devised constraints that structure political, economic and social interactions” and who described constraints as devised of formal rules (constitutions, laws, property rights) and informal restraints (sanctions, taboos, customs, traditions, code of conduct), which contribute to the perpetuation of order and to change, and to innovation within a market or society. Briefly stated, his works specify the process by which social, economic or political actors perceive that some new form of organisation (institutional arrangement) will yield a stream of innovations which makes it profitable to undergo the costs of innovating organisations and institutions (North 2005). These new arrangements are typically apt to realize potential economies of scale, reduce information costs, spread risk, and internalize externalities. This is the main reason why it is the entrepreneurial state in cooperation with the private sector and NOT the markets alone which make for innovation conducive environments (Mazzucato 2013).

## **5. Innovative Governance and Institutional Reforms for a Renewed Innovation Policy**

If the Douglas North approach can withstand scrutiny, viz. that every innovative technology/process requires an adaptive and transformative government, new institutional arrangements and efficient institutional adaptability, governance innovation within the EU will be the tall order of the day.

As the ecosystem of innovations and government policies are becoming increasingly multilayered, multi-actor and hyper-complex, new modes of governance, citizen participation and transparency will be part of any innovation-promoting regime. Post-national European innovation regimes and policies are horizontally and vertically interwoven, multi-level arenas; while simultaneously there are also undiminished national “location competition” efforts, and, in addition, an increasing number of European regions entering the post-national innovation policy arena as self-confident actors, supported by political autonomy. There appears to be a necessity

of co-evolution of “political systems” and “innovation systems” as an emergent component of a new innovation ecosystem.

Governments’ roles in innovation grow: governments will increasingly become involved. The EU of today, which has acquired and been assigned numerous competences in many areas, appears in urgent need of all-encompassing governance innovation. Between the traditional Community Method and the Open Method of Coordination, it requires new instruments for innovative *Collaborative Governance*. This pinpoints the crucial role of institutional arrangements as driving, or at least supporting, forces of innovation. The two forces of technological innovation and institutional innovation are deeply intertwined, since new inventions, innovations and technologies frequently are the sources of disequilibria which make it profitable or even indispensable to redesign institutional arrangements. The relationship between different administrative units within national governments, as much as between EU Commission departments, the different interfaces between politicians and civil servants in the Member States, and last but not least, the governance capacity problems in several Member States, need urgent addressing in order to facilitate the functioning of innovation ecosystems. Outstanding exposition and critical overview of the EU Innovation Policy on the way to *Horizon 2020* can be found in Granieri and Renda (2012). The authors argue that unless existing innovation policies are streamlined and a new strategy is designed, the future will be gloomy.

We have argued in HLG I and II (2013 and 2014) that recommendations may involve the following, interdependent elements for improvement: the regular use of European Council meetings for a comprehensive discussion of citizen-centered themes; measures to reduce the innovation divide in the Single Market and assistance in building national innovation ecosystems; measures to radically improve policy coherence and impact assessments, through the design and implementation of new models for impact assessments; the option to create an EU Commission Vice-President(s) without a portfolio, responsible for strategic collaboration, mentoring and coherence in Innovation Policy Management; the strengthening of the role of independent, outside-the-box advice; the regular discussion of innovation ecosystems’ development in joint and inclusive Council meetings; a review of the “comitology” procedures and a rapid and significant reduction of regulatory rigidities and costs (HLG II 2014).

## Conclusion

As the Single Market or the Common Currency once were, a European Decade of Innovation should be the new overarching vision for the EU; a benchmark for its actions. The European Decade of Innovation is meant to serve the European Common Good: the best living and working conditions for the peoples of Europe, the modernization and maintenance of its unique societal model. It requires overcoming the system failures in a quasi-supranational governance model, such as the EU, once designed for other purposes in the less complex economic and political world of more than 50 years ago.

It's high time for the EU innovation policy to sober up, focus on essentials and make a flying new start in order to enable us to take up the challenges facing us in a turbulent global environment

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## **INNOVATION AND KNOWLEDGE DIPLOMACY – THE NEW DIMENSION OF EXTERNAL RELATIONS**

### **Abstract**

*Building its relations with external partners, the European Union strives to develop the most adequate capabilities for economic growth and for higher quality of life in Europe. In the new century of global competition, the expanding role of knowledge diplomacy in international politics affects and implies the European Union. In view of the fact that the effective use of scientific knowledge in external relations is highly important, this epistemic community can provide value-based legal, economic, diplomatic and cultural foundations for sustainable development and growth in the European Union. The research considers the layers of knowledge society in which knowledge diplomacy in external relations plays an important role for moving innovations in and out of national economies of the European Union; new diplomacy that resembles knowledge management, i.e. knowledge management is used in diplomacy; the political actors that witness a profound transformation of diplomacy, including a paradigm shift, because economic diplomacy is not self-sufficient for global competition, for free movement of knowledge, results and innovations; a fissure that is to be tackled by know-how diplomacy for reinforcing innovative tools in international relations; new diplomacy that pleads for an open diplomacy contributing and supporting knowledge economy; and how knowledge diplomacy is conducive to smart growth of Europe's societies.*

**Keywords:** the European Union, external/international relations, development, innovation, knowledge society, knowledge economy, knowledge diplomacy

### **Introduction**

The European Union became an undisputed world actor and power, although it is not yet a political union in the classical meaning of the concept. The European Union's growing role on the international arena and in international relations requires new

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abilities and capabilities which are different from those of the Members States in terms of geopolitics and diplomatic law. Diplomatic law as an area of international law also considers new practices which would fit realities in the era of globalization. Diplomacy needs adequate competences and innovative approaches in handling affairs, because the world is changing rapidly, international relations are developing, new threats evolve and specific tools need to be improved. Moreover, traditional diplomacy should serve just as a basis for modern diplomacy. Innovations should infuse the art and practice of diplomacy in a knowledge-based society.

The research aims at analyzing to what extent innovation and knowledge diplomacy rise to the new dimension of external relations. In doing that, key concepts are to be clarified, such as: innovation, knowledge, knowledge society, knowledge management, knowledge economy, knowledge diplomacy.

The basic notion that is of great scientific significance is the term *knowledge*. There are many definitions to knowledge, but a recent one tries to synthesize previous undertakings. It says that “knowledge is a fluid mix of framed experience, values, contextual information, and expert insight that provides a framework for evaluating and incorporating new experiences and information. It originates and is applied in the minds of knowers. In organizations, it often becomes embedded not only in documents or repositories, but also in organizational routines, processes, practices, and norms” (Davenport, Prusak 2000: 5). In other words, it pertains to information and experiences at the level of epistemic communities, norms, processes and human practices. Knowledge is a human act and it is socially constructed. Knowledge is a part of the human act of knowing, tacit as well as explicit, social as well as individual, and dynamic.

As for the term knowledge society, which is frequently used, a definition was proposed by P.F. Drucker, who argues that “in the knowledge society, clearly, more and more knowledge, and especially advanced knowledge, will be acquired well past the age of formal schooling and increasingly, perhaps, through educational processes that do not center on the traditional school. But at the same time, the performance of the schools and the basic values of the schools will be of increasing concern to society as a whole, rather than being considered professional matters that can safely be left to educators. We can also predict with confidence that we will redefine what it means to be an educated person. Traditionally, and especially during the past 300 years (perhaps since 1700 or so, at least in the West, and since about that time in Japan as well), an educated person was somebody who had a prescribed stock of formal knowledge. The Germans called this knowledge *allgemeine Bildung*, and the English (and, following them, the nineteenth century Americans) called it the liberal arts. Increasingly, an educated person will be somebody who has learned how to learn, and who continues

learning, especially by formal education, throughout his or her lifetime” (Drucker 1994). Education and development are crucial in a knowledge society. P.F. Drucker concludes that “the next society will be a knowledge society. Knowledge will be its key resource, and knowledge workers will be the dominant group in its workforce” (Drucker 2001).

By definition, knowledge society contributes to the well-being of individuals and community. Subsequently, knowledge in this society is a driver of economic and social development. The European Union set its goal to become “the most competitive and dynamic knowledge-based economy in the world, capable of sustaining economic growth with more and better jobs and greater social cohesion” (Lisbon European Council 2000).

Knowledge economies are referred to as “knowledge-based economies – economies which are directly based on the production, distribution and use of knowledge and information” (OECD 1996: 7). Production, distribution and use of knowledge presuppose knowledge management that is “the explicit and systematic management of vital knowledge – and its associated processes of creation, organization, diffusion, use and exploitation” (Skyrme 1998: 8).

The policy of knowledge economy, knowledge society, is the promotion of innovation. It is defined as “the implementation of a new or significantly improved product (good or service) or process, a new marketing method or a new organizational method in business practices, workplace organization or external relations” (OECD 2005: 46).

One of the major terms to be discussed is diplomacy, a central concept in the study of international relations and external relations of one’s country or organization. The concept comprises two approaches. In the narrow sense diplomacy is foreign policy (words before force). In a broader sense diplomacy is a process of negotiations and deliberations. In other words it is the art and practice of conducting negotiations and maintaining relations between nations in handling affairs by promoting peace and cooperation. In fact, diplomacy should be a dialogue among nations. Still there are a great number of international activities that do not cope with cooperation. Among them, J.C. de Magalhaes (1988) identifies unilateral acts such as propaganda, espionage, political or economic intervention, threat, deterrence, and economic war. Recently a new type of violence has been developed, the hybrid war orchestrated by Russia in Ukraine.

## 1. Knowledge Society Pillars

Europe is the cradle of the most powerful world civilization. Europe has known all development phases of human society. The history of Europe's peoples comprises several distinct types of socio-economic development: agricultural society (cyclic, seasonal), industrial society (linear, predictive), information society (information technology, networking), knowledge society (multiple scenarios, foresight).

European knowledge society is based on four pillars: education, ICT, innovation, and development. It is recognised the societal centrality of knowledge, identified in all pillars. The sustainability paradigm favours institutions, politics and the conditions for knowledge creation in a knowledge society. Moreover, the role of knowledge is quintessential in the economic growth of Europe.

The concept is enriched with the smart knowledge society: "to be a smart knowledge society, it is not enough to be rich in main assets and to take care of their development. A new sense of direction in development and a commitment to this new direction must assure high levels of ... quality of life and ... safety of life" (Bertucci 2005: 91). Knowledge society as a source of development should ultimately imply the quality and safety of life.

It can be said that Europe is better at producing high-level knowledge on the one hand. On the other hand, it faces difficulties at converting high-level knowledge into benefits of social and economic nature, taking into consideration great disparities between European countries and regions. Europe should use knowledge to innovate all its fields of activity. In this design a crucial role is played by universities. The academic world in a knowledge society should aim at producing innovations for community benefits.

### 1.1. Innovation Policy

An important step towards innovations in the European Union is *Innovation policy: updating the Union's approach in the context of the Lisbon strategy*. The act urges that "achieving an innovation performance that makes the European Union a world reference for innovation represents an enormous opportunity that can translate into raised living standards" (European Commission 2003: 4). Primarily, the act focuses on updating the concept of innovation: the multidimensional nature of the innovation phenomenon and the implications for the policy; the field of action of innovation policy; the current challenges for EU innovation policy; a coordinated framework for



innovation policy in the EU's context; and the new directions for European innovation policy development.

## 1.2. Innovation Union

The European Commission's act *Innovation Union* contains the idea that innovation leads to growth. The act answers the question why Europe needs an innovation union: to create job opportunities for all, especially the young; to get the economy back on track; to make companies more competitive in the global market; to solve the challenges of an ageing population; to secure resources like food and fuel; to fight global warming; to improve smart and green transport. The act argues that "Europe's future is connected to its power to innovate. The Innovation Union, an action-packed initiative for an innovation-friendly Europe, is the solution. It ... aims to create smart, sustainable and inclusive growth" (European Commission 2013: 2). The act provides the definition of the concept: "innovation is the ability of individuals, companies and entire nations to continuously create their desired future" (Kao 2007: 19). It tackles the issue of how the innovation union changes Europe, enumerating the benefits for European citizens. How the innovation union functions is to be presented by scoreboard indicators.

## 1.3. Knowledge Diplomacy

Knowledge diplomacy is a recently coined term referring to the new diplomacy in international relations. D. Johnston defines the diplomacy of knowledge as "ability and willingness to work together and share ... learning across disciplines and borders" (Johnston 2012). Knowledge diplomacy, continues D. Johnston, is based on three critical Cs: Creativity, Communication and Cooperation in international relations "for social benefit with the ultimate goal of making the world a better place for everyone ..., envisaging a world in which all nations (and all peoples) are eager to know and share their learning" (Johnston 2012). D. Johnston argues that knowledge diplomacy should "open up relationships between peoples at all levels and foster harmony in an interconnected world" (Johnston 2012). B. Kjellén (2007) states that "a basic feature of the new diplomacy is that actors other than foreign ministry officials become relatively more important than in traditional diplomacy in terms of interaction with other nations or with international organizations" (Sjöstedt 2009: 6).

Luc Vinet emphasizes that "in the past, a democratic, wealthy, militarily powerful country could count on having its voice heard on the international scene. Nowadays, a country's diplomatic effectiveness rests as much on the power of its institutions as

its consistent promotion of human rights and values” (Vinet 2008). Vinet underlines the role of university in developing the concept: “knowledge diplomacy, defined loosely, is the diplomacy of ideas, and ideas are the *raison d'être* of universities. ... Universities worldwide are collaborating with each other, multinational companies and governments, forging relationships that amount to a complementary diplomacy that works alongside that conducted at the state level” (Vinet 2008). Further he concludes: “by investing in knowledge diplomacy, we can ensure that our ideas, and the ideas of the bright academics we need to attract, have access to the best ideas of the wider world. Success would result in the rarest achievement in international diplomacy: a win-win situation” (Vinet 2008).

Knowledge diplomacy rethinks the actors, methods, tools, results of traditional diplomacy in an extensive manner. The uniting element of this entire concept is knowledge, which is of paramount importance in the knowledge society, both in its internal and external relations.

In knowledge diplomacy the experts “tend to take on an increasingly independent role in relation to the foreign ministry, whose supremacy in international affairs is therefore put at risk, at least over a long-term perspective. Other non-state actors have also become more important in the new diplomacy system. Non-governmental organizations (NGOs) have been given easier access to new diplomacy talks. This development is clearly visible in international environmental cooperation where NGOs have gradually taken on new tasks. For example, NGOs have provided important input information to some complex international negotiations and in other negotiations; they have been given formal monitoring tasks regarding the verification of state compliance with a binding international agreement. Businesses continue to be important players on many international arenas where states make their political choices” (Sjöstedt 2009: 6).

Knowledge diplomacy functions rather as a mediator and facilitator for traditional diplomacy fostering scientific knowledge in international relations, in international negotiations. Thus, knowledge diplomacy strives to consensual knowledge that “represents the common but specific understanding that parties have of the issues on the negotiation agenda” (Sjöstedt 2009: 5). The tendency for knowledge is captured by P.F. Drucker who mentions that “knowledge technologists are likely to become the dominant social – and perhaps also political – force over the next decades” (Drucker 2001).

Examples of good practices are the international talks on long-range air pollution, acid rains, in the context of United Nations. The most of Eastern and Western European states were formal parties to them. Canada and the United States were informal parties, but having a great influence on negotiation agenda. Leadership capabilities of Norway and Sweden resided in skilful knowledge diplomacy, because superior knowledge about

the long-range air pollution through acid rains was attained by multiple interested and concerned actors belonging to these countries.

The European Union supports financially joint projects of scientists, being nationals of various countries, to produce knowledge. This knowledge is produced in the framework of knowledge diplomacy, because it circulates and is shared in different countries, e.g. a greener Europe, a smarter economy, etc.

Internationalization of education, training and research by the European Union makes clear impulses for developing knowledge diplomacy.

Knowledge diplomacy is on the way to set other issues for the benefits of Europe and the world, for instance, new/innovative knowledge in climate warming, in fighting terrorism and criminality, in frozen and emerged conflicts, especially in Europe.

Instead of a concluding idea, it is worth mentioning that knowledge diplomacy should permeate not only informal diplomacy, but also formal diplomacy to achieve success, especially on vital and sensitive issues.

#### **1.4. Knowledge Diplomacy: Challenges**

It is more important to tackle the challenges for knowledge diplomacy as the world changes rapidly and people need swift solutions to the newly created realities.

The challenges are of horizontal and vertical nature. “An important challenge for the new diplomacy is to develop more effective mechanisms to cope with the so-called horizontal issues (e.g. trade/environment), linking the activities of different ministries and central agencies in any given setting, ... the assembly of institutions supporting the global negotiation on climate warming, or the machinery for policy coordination” (Sjöstedt 2009: 7).

The vertical challenge resides in how to identify mechanisms of cooperation between various hierarchical layers and actors both at national, regional and international levels. Another relevant question relates to the extent to which it is possible to attain consensual knowledge in more areas.

As a result of combining the horizontal and vertical challenges, it is fair to formulate a couple of questions which would describe the cooperation among various actors: which institutions need to be further developed (or created) in order to make new diplomacy more effective? How can new diplomacy support traditional diplomacy more effectively in complex international negotiations? How should the distribution of work between traditional and new diplomacy be organized best? (cf. G. Sjöstedt 2009).

On a practical level, Europe faces several challenges which refer to regional security. There are many sources of war over the European continent. The most

dangerous are those from Eastern Europe, because they are “open wounds”, affecting regional security.

A revival of negotiations on defence between North European countries – Poland, Finland, Estonia, Latvia, and Lithuania – in the framework of NATO partnership is seen only in consequence of the Russian occupation policy in Ukraine. On the other hand, how will the United Kingdom face a potential conflict on the Falkland Islands with Argentina backed by Russia?

An obvious question arises: is it possible to implement knowledge diplomacy approaches? Is it possible to use knowledge diplomacy as a counterpart to Russia's aggressive diplomacy, coercive diplomacy, diplomacy of propaganda, diplomacy of disinformation?

It is worth mentioning the role of knowledge diplomacy for further negotiations to come up with answers to the following questions: why does Russia not respect international law? Why does Russia not respect the principle of territorial integrity? Why does Russia not respect the fundamental rights and freedoms of other peoples and of its own citizens? What are the interests of Russia as such in international relations? Has Russia defined its interests at all based on co-existence?

A solution to the “terrible child” in international relations, Russia, would be to apply knowledge diplomacy towards it by means of involving more actors, formal and informal participants: great and small states, interested and concerned public and private entities, including individuals to restore the international legal order.

The access to superior knowledge will enable interested parties to come up with diplomatic solutions during negotiations over conflicts in which Russia is directly involved, irrespective of whether it recognises them or not (it is a matter of political correctness in international relations).

The reinforcement of the EU knowledge diplomacy tools, their diversification and continuous adaptation in relations with problematic international actors. Unusual diplomatic behaviour would lead to the doorstep of war between civilizations and cultures (e.g. Russian media materials present western civilization and culture in the blackest paints, the western civilization versus the Russian civilization). Unfortunately, Russia has created a great gap in its relations with Europe and the rest of the world. The effects will be catastrophic. Ordinary citizens suffer from the ideology that is used to influence them at the moment. The effects will be extremely negative on their minds, as they will become predisposed to reject any normal external cooperation.

Thus, knowledge creation and knowledge transfer in all social spheres, public and private, internal and external affairs should be a strategic mission of the knowledge society. Science must play its undeniable role in international policymaking. The diffusion and migration of knowledge can only help traditional diplomacy. Digital

diplomacy as the use of ICT can help achieve diplomatic objectives. In this case, knowledge management is crucial in dealing with Wikis, blogs, instant messaging, SharePoint, and other collaborative technologies; inter-institutional cooperation; ICT supporting collaboration; social networking. In fact, all these transform diplomacy business practices.

The creation of knowledge and innovative approaches to its use and transfer at various layers of knowledge diplomacy can be considered a new dimension in external relations of the European Union and the Member States as well. Moreover, it is the basis for new diplomacy that will work for the benefit of people, for peace and human security.

## **2. Knowledge Diplomacy: Tools**

Knowledge diplomacy needs great support and substantial contribution to be operational. The European Union increased the financing for actions in the field of education, research and innovation. It is a smart response to the knowledge society needs. For that reason, the European Union's tools of financing knowledge production and exploitation can be divided into universal programmes such as Erasmus+, Horizon 2020 and specialized ones, which are envisioned for individual areas.

## **3. Conclusions and Recommendations**

The closing remarks are open conclusions and recommendations, susceptible to developing further debates on knowledge diplomacy. However, certain conclusions can be drawn. Knowledge diplomacy stands for a better opportunity to traditional diplomacy, a new dimension in shaping external and international relations.

Even knowledge diplomacy may appear a soft diplomacy; consensual results of knowledge diplomacy can produce a high degree of authority and acceptance among parties in international relations. Strategically, consensual knowledge has a two-fold feature; it both directs and constrains concerned parties.

The topics addressed in diplomatic practice need to be assessed in scientific terms for better understanding and for the negotiations' success. Knowledge management in multiparty talks speaks for the role of scientists and science in external relations

and in international cooperation. Therefore, knowledge diplomacy is diplomacy of cooperation.

Knowledge diplomacy is extremely open to innovations, competitiveness, knowledge and human mobility. Knowledge diplomacy serves economic growth, smart growth for sustainable development in the knowledge society, a society concerned with the growing quality of life.

Last but not the least, knowledge diplomacy is in best interest of peace.

Recommendations are rather potential tasks both for the academic world and diplomacy, as the study of international relations:

- knowledge diplomacy deserves priority in academic research and international negotiations;
- the establishment of enlarged partnership epistemic communities that is made up of policymakers, diplomats, businessmen and scientists in promoting a functional knowledge diplomacy, thereby reinforcing their role in international politics;
- the creation of multinational think-tanks on problematic issues in international relations, for example on recently initiated conflicts in Europe.

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## FOREIGN DIRECT INVESTMENTS IN POLAND AND THEIR INFLUENCE ON THE TECHNOLOGICAL ADVANCEMENT OF COMPANIES

### Abstract

*In the present economy, only countries with a high level of innovation which specialise in manufacturing high technology products are able to compete on a global scale. The achievements of theoretical and empirical research emphasise the role of Foreign Direct Investment (FDI) as a channel for technology transfer in hosting countries. Since 1989 Poland has opened up to foreign capital, which was crucial in the transformation period. FDI played an important role in the privatisation and internationalisation processes. The process of technology transfer will be examined in parallel in two dimensions: comparing the effectiveness of foreign-owned and domestic companies, and presenting the gap existing between them.*

**Keywords:** Foreign Direct Investment, innovation, technology transfer

### Introduction

Foreign Direct Investment (FDI) is perceived as a crucial factor in the process of economic transformation. The inflow of FDI creates an opportunity to narrow the gap in access to capital; it may also act as a channel for the transfer of modern management methods, advanced technologies or know-how. For countries such as Poland, attracting FDI is of particular importance.

According to the UNCTAD data (2014) included in the annual “World Investment Report”, 53% of global inflow of FDI in 2013 was concentrated in developing countries. In 1990, the cumulative value of FDI in the world was estimated at 2,078 billion USD,

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while in 2013 the amount was equal to 25,464 billion USD. This is tantamount to more than a tenfold increase. The same report also indicates that in 1900 the cumulative value of FDI in Poland stood at 109 million USD, while in 2013 it amounted to 252,037 million USD.

The presence of FDI enabled facilitated supplementation of technological and capital gaps, which – along with the implementation of effective managerial and organisational practices, combined with healthy macroeconomic environment and qualified personnel – has lead to improved competitiveness of the economy of the recipient country. Transnational corporations (TNCs) that make FDI through the so-called global value change management are instrumental in the distribution of profits from worldwide trade (UNCTAD 2013: X). Meanwhile, from the point of view of local economies, large international enterprises have impact on the functioning of small enterprises – suppliers for which cooperation with transnational corporations is crucial for their development. Companies with foreign capital can act as catalysts that lead to the narrowing of the gap between domestic and foreign companies.

One of the tools mentioned in the Europe 2020 Strategy is external policy. In this area, the strategy concentrates on trade and investments. The development of a strategy in trade and investments is considered a potential source of sustainable growth in the EU. The openness of the economies of EU Member States determines the increase in production factors, the effectiveness of production, allocation and innovativeness (Śliwiński 2011: 201). This area, which includes trade and Foreign Direct Investments, addresses the priorities of the Europe 2020 Strategy, which is intended to strengthen global competitiveness of European companies.

In the European Union, the flow of the FDI has two faucets. Firstly, it can be examined as one of the aspects of free movement of capital between Member States in a single market. Secondly, it can be analysed in terms of relations between the EU and non-EU states. The EU is the biggest recipient and the second biggest investor of FDI in the world. As the data of UNCTAD shows, in 2014 the European Union maintained its leading position as an area attracting FDI, but in terms of FDI outflow it had lost its position compared to 2013 (UNCTAD 2015: A3–A6).

Taking into consideration the different aspects of FDI and their influence on companies, the European Union strives to make the policy towards potential investors more effective, as attracting FDI in the time of crisis is one of its main challenges. In this area there is a need to deepen the analysis at the level of Member States regarding the conditions and effects of FDI on their economy. This will enable them to follow best practices in the area of attracting FDI. However, it seems that the strategy towards FDI must be varied, as Member States differ in their macroeconomic situation.

Many researchers highlight that companies which internationalise their activities are more competitive. In 2007, Mayer and Ottaviano showed that internationalised companies are bigger, employ more qualified personnel, invest more capital in human resources and generate more added value. These are the companies which export, import and produce in different countries. Navaretti (et al. 2011) underlined that companies which operate globally were more resilient to the crisis of 2008–2009. According to their research, only 5–10% of European companies produce abroad or outsource, whereas the rest of them use imported inputs. There is a need to globalise production in order to maintain the competitiveness of EU companies.

Poland is one of the most popular countries attracting FDI. In many rankings it is among the top leading countries, especially in the group of Central and Eastern European Countries. From the point of view of the functioning of the single market, Poland with its population poses an important role. It is also a country that made great efforts to transform and maintain the current stage of development. Moreover, Poland's economy is closely linked to the economies of other Member States. According to data of National Bank of Poland, at the end of 2013 the share of the EU27 in the Foreign Direct Investment inflow exceeded 90%.

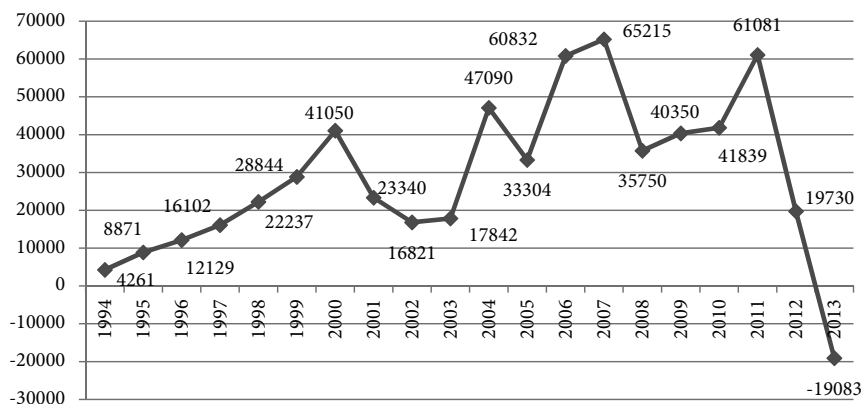
## **1. The Inflow of Foreign Direct Investments to Poland as of the mid 1990**

Since the early 1990s, the volume of inward direct investments has been increasing, which was the result of the ongoing process of opening up the Polish economy, macroeconomic stabilisation and dynamic privatisation. Particularly in the second half of the 1990s, the highest increase was observed (Figure 1.). In this period the influx of foreign capital was connected with the provision of capital, new technologies, managerial and organisational solutions and access to the distribution network. In the period of 1994–2000 the annual increase in the volume of FDI incoming to Poland stood at around 30% (see the figure 1).

As demonstrated by the figure above, 2001 was the first year when Poland recorded a decrease in the volume of incoming FDI since the introduction of the free market. In 2001 and in 2002 the volume of Foreign Direct Investment decreased as compared to the previous year, which was a consequence of global changes regarding FDI. The declines in Foreign Direct Investment in the world in 2001 and 2002 were caused by such factors as the information technology bubble burst or the events of September 11<sup>th</sup>. The main FDI investor was the USA and the companies based there, hence their

significant impact on the global situation. Additionally, the EU regulations that were introduced and required of future members of the Union resulted in an increase in costs of doing business, for instance, in the sphere of environmental protection or working conditions (Cieřlik 2005: 62–68; UNCTAD 2004: 75). Furthermore, as of 2002 (Dunning, Lundan 2008: 17–18; UNCTAD 2001; UNCTAD 2002), a slowdown in privatisation was noted in which foreign investors were taking active part by taking over privatised entities (NBP 2004: 9). Nevertheless, Poland managed to quickly come out of the period of reduced inflows of FDI and in 2004, the year it accessed the European Union, the Foreign Direct Investments in Poland exceeded 47 billion PLN.

**Figure 1. The annual value of Foreign Direct Investment Made in Poland in the Period of 1994–2013 (PLN million)**



Source: Author's own elaboration on the basis of the NBP data (*Bilans płatniczy*)

The economic crisis of 2008 affected Poland directly and the volume of incoming FDI dropped significantly. The reduced inflows of foreign capital in the period of the recent crisis affected virtually all countries of Central and Eastern Europe, which was due to the following factors (Wydymus et al. 2012: 53–57):

- reinvestment of profits, which is the result of decreased business income and a curb on new investments;
- a curb on resources for investment loans by financial institutions;
- a decrease in demand and negative forecasts on market development;
- a decline in propensity to invest among multinational corporations.

Year 2013 marked the ebb of foreign capital in the form of FDI. Concurrently, it is worth mentioning that the volume of foreign investments made by Polish companies reached 15.3 billion PLN.

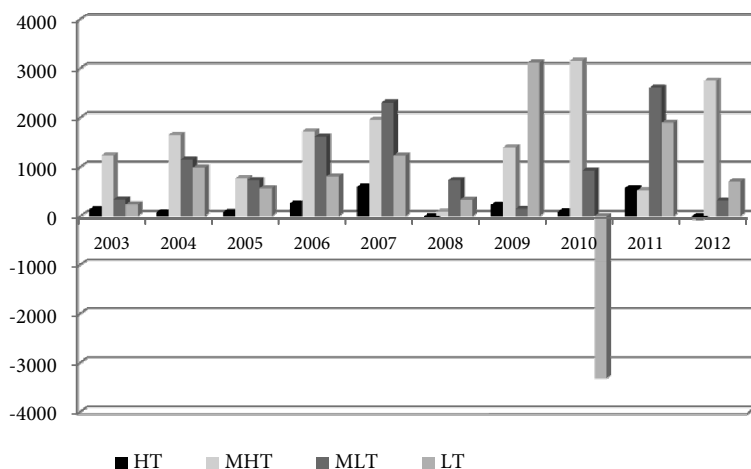
According to the classification presented by Eurostat on 14th January 2014, business activities can be divided into four categories (Eurostat 2014):

- 1) high technology (HT);
- 2) medium-high technology (MHT);
- 3) medium-low technology (MLT);
- 4) low technology (LT).

As shown in Figure 2, in the period of 2003–2006 the biggest inflow of foreign capital was noted in medium-high technology (MHT) industries. Since 2010, those businesses have been rebuilding their potential regarding FDI and they dominate over others in terms of FDI inflows. The inflow of FDI in the analysed period varies considerably between respective sectors.

Over the 2003–2012 period the dominance of medium-high technology industries in the structure of incoming FDI can be observed. Another category with a significant share in the structure is the medium-low technology sector. Both are rather labour-intensive industries. The high technology sector accounted for the lowest share, which indicates that only a minor part of FDI in Poland is being directed to innovative industries. This does not, however, detract from the importance of companies with foreign capital in creating technology-based advantages. Confining the importance of foreign investors to the nature of their business activity in terms of technological advancement would be an oversimplification.

**Figure 2. The Volume of FDI Coming Into Poland by Technological Intensity in the Period 2003–2012 (Billion USD)**

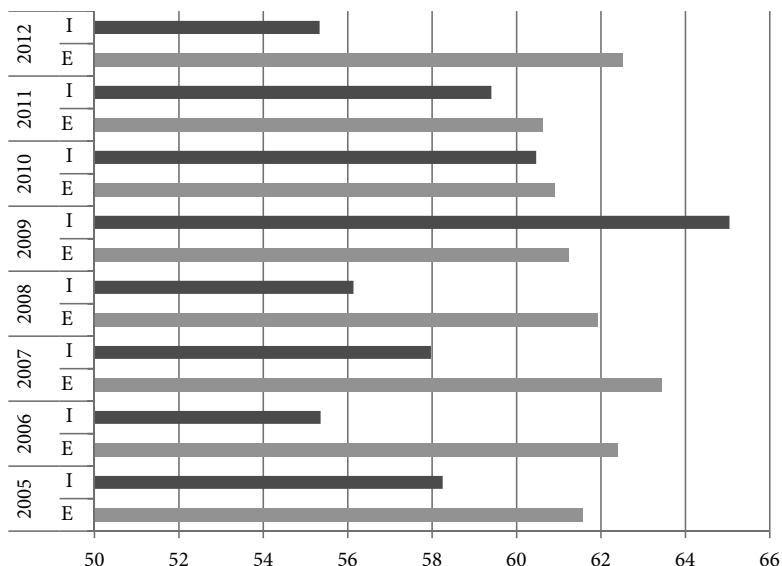


Source: Author's development on the basis of NBP data.

## 2. Foreign Capital and Domestic Enterprises. Comparative Analysis in the Selected Areas

According to the Central Statistical Office of Poland, the number of enterprises with foreign capital share increased from 15 371 to 26 128 over the span of 2002–2013. Concurrently, the companies noted an increase of employment from 1 023 427 persons to 1 628 516 persons thereby generating 11,3 per cent in 2013.

**Figure 3. Contribution of Foreign Capital Companies in the Polish Export (E) and Import (I) in the Period 2005–2012 (Percentage)**



Source: Author's development on the basis of the data of the Central Statistical Office of Poland.

As far as the size of external trade is concerned, foreign capital entities are dominant both on the export and the import side of trade. According to the data of Central Statistical Office, the contribution of foreign capital companies to export in the period of 2005–2012 remained at the high level of approximately 62%, while it decreased from 58% to 55% on the import side (see: the Figure above).

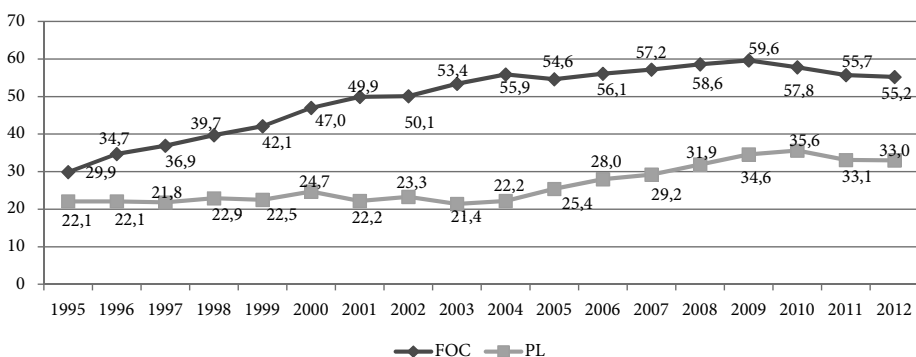
Moreover, with regard to the export structure, it should be noted that a significant difference persists between foreign capital and domestic enterprises in terms of the share of export of high and medium-high technology goods. This predominance is particularly evident for foreign capital enterprises in technologically advanced exports. Assuming that the technological advancement of the export of Polish enterprises is

100, then the respective index for foreign capital companies increased from 135 to 167 between 1995 and 2012. Currently, their export of high and medium technologies surpasses that of Polish companies by over 50%. However, since 2005 the gap between these two groups of enterprises has been gradually decreasing (Chojna 2013: 53–55).

In 1995 the difference in the share of high and medium-high technology goods in the export of enterprises with foreign capital and domestic companies amounted to 7.8 percentage points, while in 2010 this gap reached the level of 22.2 percentage points (see: Figure 4). The figure below clearly shows that divergence occurred in this area over the analysed timespan. Closer observation of the data below allows to distinguish two sub-periods in the span of 1995 to 2012. The years 1995–2004 were the time of a growing distance between foreign capital and domestic entities in the export of high and medium high technology goods. In 2004 the gap reached the level of 33.7 percentage points. Meanwhile, in the 2005–2011 period Polish companies were gradually gaining ground on foreign enterprises. The disparity between them got reduced to less than 20 percentage points. It is also visible in the figure that at the same time the growth dynamics of the share of export of high and medium-high technology goods for foreign capital enterprises slowed down in the second sub-period (see: the figure below).

Given the findings above, it can be presumed that in the upcoming years Polish enterprises will be building their advantage on innovations and technology. This, however, requires time due to existing differences in financial potential.

**Figure 4. The Share of High and Medium High Technology Goods in Export, for Foreign-Owned Companies (FOC) and Domestic Capital Entities (PL) in the Period of 1995–2012**



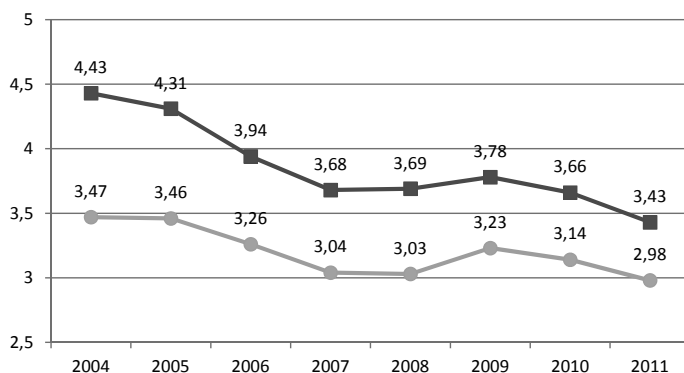
Source: Author's development on the basis of Chojna 2011: 111 and Chojna 2013: 98.

The resource competitiveness between foreign capital and domestic enterprises has also been analysed. The purpose of the analysis of resource competitiveness is to identify the differences between enterprises with foreign and with Polish capital

in terms of their tangible assets. A larger share of amortisation in operational costs results from possessing more expensive tangible assets, which in turn is linked with the fact that more innovative and more technologically advanced assets mean using more expensive production factors, such as, for instance, technology. Therefore tangible assets consist of elements of low liquidity and characterised by a high unit cost (Jóźwicki 2010: 871–880). By the same token, taking into account the fact that foreign capital enterprises are more modern and rely on more expensive production factors, it can be assumed that in the analysed period the share of amortisation in the operational costs for those companies will prove higher.

In the years 2004–2011 the share of amortisation in operational costs of foreign capital enterprises was higher than of Polish enterprises. Nevertheless, a decreasing trend for the share of amortisation has been observed in the operational costs for both groups of entities. This indicates a curb on new investment in tangible assets (the figure below). The changes of amortisation share in the operational costs show that foreign capital companies are more modern than Polish companies. On the other hand, the decreasing share of amortisation for both groups of enterprises is an unsettling phenomenon, as it may indicate that both of them are not making relevant modernisation changes to the tangible assets they possess, which in time may lead to the loss of competitive potential. In the case of foreign enterprises, it can be claimed that the biggest investments were made even before 2004, while the current economic situation limits development and investment possibilities.

**Figure 5. The Share of Amortization in Operational Cost in Foreign Owned Companies (blue) and Polish Companies (red) in 2004–2011**



Source: Author's development on the basis of the data of the Central Statistical Office of Poland.



In the span 2004–2011 the contribution of amortization to operational costs of foreign capital enterprises was higher than of the Polish enterprises. Nevertheless, in both cases of foreign and Polish enterprises a decreasing contribution of amortization to the operational costs has been observed. This indicates to a curb on new investment in tangible assets (Figure 5). The changes of share of contribution of amortization to the operational costs show that foreign capital companies are more up to date than the Polish companies, whereas, the waning contribution of amortization in both groups of enterprises is an unsettling phenomenon because it may indicate that both groups of enterprises do not make relevant upgrade to the tangible assets possessed thereby in time it may lead to the loss of competitiveness capacity. In case of the foreign enterprises, it might be said that the biggest investments were made even before 2004 while the current economic conditions limit development and investment capacities.

## Conclusions

Foreign Direct Investments are one of the crucial factors which had a positive impact on the qualitative changes occurring in the Polish economy from the beginning of 1990s. FDI also act as a channel for the transfer of management methods, know-how, organisational practices or technologies, which were important contributory factors to the modernisation of the Polish economy and the increase of competitiveness of its export. The change took place in two dimensions. On the one hand, there are foreign capital enterprises, which effectively implement their export strategies. On the other hand, by means of cooperation and the process of learning, domestic enterprises gradually reduce the distance in economic effectiveness and realisation of export strategies that separates them from foreign capital enterprises.

When observing the inflow of foreign capital to individual industries, an asymmetry can be noticed. Of particular interest to the investors are the medium-high technology and low technology industries, which says a lot about the nature of investments made over the years in Poland: most of them are not characterised by innovativeness or technological advancement. This is confirmed by the concentration of investments in industries manufacturing household and office appliances or home electronics. Undeniably, however, Foreign Direct Investments contributed to the modernisation of Polish economy and are still of significant importance in the area of Polish foreign trade. In this context, the involvement of foreign investors is indisputable – also with regard to the structure of exports and imports. This aspect is particularly important as FDI directly affect the competitiveness of Polish economy.

As for indirect influence, focusing on internationalisation of activities in the form of exports and imports, in particular high-tech ones, affects the environment in which the companies operate. Thus, Polish enterprises dynamically develop their activities through cooperation and observation, which leads to a noticeable narrowing of the gap between the two groups of enterprises in terms of effectiveness, productivity and technology.

The experience of Poland in the field of attracting FDI may be summarised as follows: the FDI were invaluable in the processes of modernisation of the economy and technology transfer. It has to be emphasised that since 1990 domestic companies have been making great efforts to learn from their partners – foreign-owned companies – and it led to the situation in which the internationalisation process in Poland starts to change. Slowly but steadily, Polish companies are seeking new markets and partnerships abroad.

Foreign Direct Investment will remain one of the main challenges for the EU in upcoming years. The EU will concentrate on the sustainable inflow of capital, which will lead to job creation and, at the same time, stimulation of technological advancement. On the other hand, the EU will concentrate on bilateral agreements, which might help to develop strategies towards better conditions for the Member States' direct investment in non-EU countries, which in turn will increase the competitiveness of European companies. Both aspects are crucial to Member States and because of that there is a real need for a better understanding of their situation in the context of FDI.

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Jan Holnicki-Szulc\*\*

## INNOVATIONS IN AEROSPACE INDUSTRY IN THE EUROPEAN UNION – THE CASE OF POLAND

### Abstract

*Nowadays, the European Union is facing great challenges in terms of formulating and developing its innovation policy. The Polish case is very peculiar – on the one hand, Poland has been struggling to boost its innovativeness by introducing new instruments and focusing on particularly promising areas, on the other hand – for many years it has occupied the lowest positions in both global and European innovation rankings. The aim of this paper is to discuss the Polish aerospace industry potential with an emphasis on major barriers that occur in Polish innovation system. The analysis has been performed in reference to the condition of the EU's economy and main characteristics of aerospace industry.*

**Keywords:** aerospace industry, technology transfer, innovation, innovation policy, SMEs

### Introduction

The European Union and its Member States are facing unprecedented challenges in terms of formulating and developing its innovation policy. The pace at which the EU's innovation capacity grows has slowed down recently. As Global Innovation Index 2014 indicates, the most innovative European countries, Sweden and Finland, have been outperformed by South Korea in terms of total expenditures on R&D. According to the 2014 Bloomberg Innovation Index, South Korea is the most innovative country worldwide. According to OECD, around 2019 China will outpace the USA in R&D spending. OECD's data indicates that all of the countries: the EU-28, Japan, the USA and China have experienced stable growth of R&D expenditures. However, China is the leader of its dynamics (OECD 2014) and this fact should give a signal to the policymakers and participants of the EU's innovation system that European innovation leadership may be at risk.

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Poland is one of the biggest EU Member States and one of the most important players among the EU-10. The Polish case is very peculiar – on the one hand, Poland has been struggling to boost its innovativeness by introducing new instruments and focusing on particularly promising areas, on the other – for many years it has occupied the lowest positions in both global and European innovation rankings. Its overall position in the Global Innovation Index has improved since the first edition of the ranking in 2007 (56<sup>th</sup> position in 2007 and 45<sup>th</sup> in 2014). However, the crucial indicators for the innovation capacity have worsened significantly. Taking into account that SMEs sector is a key driver of innovation, and that the number of Polish SMEs innovating in-house and the number of enterprises cooperating in the field of innovation are decreasing – what shall be the source of innovation for enterprises to be commercialised? Where does the potential for innovativeness lie? The aim of this paper is twofold. Firstly, to describe and assess the Polish aerospace industry potential for enhancing overall innovativeness of the Polish economy. Secondly, to present the first stage of research on the impact of the latest steps taken by the government on the capacity of Poland's and the EU's innovation systems.

## 1. The Condition of the European SMEs Sector

According to the Annual Report on European SMEs 2013/2014, 21.6 million SMEs in the non-financial business sector employed 88.8 million people and generated 3.666 trillion EUR in value added (European Commission 2014: 6). Expressed another way, 99 out of every 100 businesses are SMEs, as are 2 in every 3 employees and 58 cents in every euro of added value. This illustrates how critical to the European economy SMEs are. To five most important SME sectors belong i.a.: “manufacturing”, “construction”, and “professional, scientific and technical activities” – these three can contribute significantly to the performance of the European aerospace industry.

According to another report considering the performance of SMEs in high tech manufacturing and knowledge intense services, these two are expected to be key growth engines in the future. However, in the EU, only 2% of manufacturing SMEs are involved in high-tech. About 30% of SMEs in services industry are operating in knowledge-intensive activities, and they generate more than a 1/3 of total added value produced by SMEs in services sectors (European Commission 2014: 7). According to the Innobarometer 2014, the EU is still lagging behind global leaders when it comes to commercialisation of innovative products and services. While innovation performance overall is improving in all Member States, the commercialisation of

innovation (SMEs introducing product innovation/sales of new-to-market and new-to-firm innovations) is only making a slow progress (European Commission 2014b). Innobarometer 2014 also shows that just over one in five companies have carried out research and development (R&D) activities during the last three years – either in-house or via subcontractors (22%), but few have applied for one or more patents or trademarks (7%). The most important conclusion of the Innobarometer 2014 is that the lack of financial resources is the main problem encountered in the commercialisation of innovative goods or services (68%) (European Commission 2014b).

According to the survey carried out by OECD, in 2012 in EU-28 25 840 enterprises cooperated with private or public research institutions. About 88% of them are located in the EU-15, 12% of these enterprises have their headquarters in new Member States.

The most recent Innovation Union Scoreboard Report also presents alarming results. Considering one specific dimension called “Innovators”, which relates to the performance of innovative European SMEs, one can state that there is a big variance between defined groups of EU countries, i.e. “Moderate innovators” (like Poland, Slovakia, Hungary, Italy and so on) achieved 0.387, while “Innovation leaders” (Sweden, Denmark, Finland and Germany) scored 0.624 (European Commission 2015). The ranking shows also that EU companies’ innovative performance has worsened in years 2007–2014. The number of SMEs with product or process innovations decreased by 1,7%, while the number of companies innovating in their organisational operations decreased by over 3%. According to the “Linkages and entrepreneurship” dimension, the number of SMEs innovating in-house declined by almost 1%. Most countries, including Poland, have slightly worsened their performance over the last 8 years. Poland also recorded a 12% decline in the “Innovative SMEs collaborating with others” indicator in relation to 2014, while innovation leaders improved their performance by about 2%.

Decreasing shares of enterprises with innovation activities, reduced activity in public-private interactions, as measured by public-private co-publications, and declining venture capital investments all signal a downturn in European economy.

## **2. Barriers to Innovation in the Polish Innovation System**

According to the latest Innovation Union Scoreboard 2015, Poland belongs to the group of “Moderate innovators”. Poland is performing below the EU average for all dimensions, particularly for “Open, excellent and attractive research systems” and

“Linkages and entrepreneurship”. Polish companies, both SMEs and “big industry”, do not cooperate with research institutions. According to the Central Statistical Office of Poland (2014), the rate of innovative enterprises cooperating with other companies as well as research institutions (i.e. universities, the Polish Academy of Sciences) has been systematically decreasing. In 2006 the percentage of industrial enterprises participating in innovation activities cooperation amounted to 11.3%, in 2013 it was only 5.2% (GUS 2015). The Polish Agency for Enterprise Development also points out to the problems in building a good climate for cooperation between science and industry (PARP 2014).

The authors of this paper indicate three main reasons for the current situation. All of these tendencies are focused in aerospace industry, which is of particular interest to the Authors. First, ownership and decisionmaking process in big aerospace companies has been transferred out of Poland. In 2007 Sikorsky Aircraft Corp., a US company, acquired a 100% stake in PZL Mielec, Poland’s largest fixed-wing aircraft manufacturer. In 2010 a Polish aircraft manufacturer, PZL Świdnik, was acquired by an Anglo-Italian multinational helicopter design and manufacturing company. Also the most important aviation engineering centres in Poland (i.e. the Engineering Design Centre by GE, Pratt and Whitney) are controlled by foreign capital.

Second, consolidation and “hermetisation” in big industrial companies is progressing. According to the report of Deloitte “2014 Global Aerospace and Defense Industry Outlook” (2014), the consolidation in global aerospace industry is going to deepen. This trend may continue for the next few years in order to gain economies of scale. There is evidence that large companies collaborate with universities more often than smaller ones (Badillo et. al. 2014). Large firms are considered more reliable for R&D collaboration due to having core competencies for a specific product or service and allocation of large budgets under R&D budget heads (Fiaz, Naiding 2012). However, large companies prefer formal forms of cooperation – joint venture or contract, which can be a kind of mental obstacle for research institutions. In comparison with large, multinational companies, SMEs generally have only a few specialised scientists. Collaboration with academia provides them with an opportunity to expand the scope and quality of their research.

Third, the meaning of scientometric indicators focused on purely basic research in the evaluation process of technical universities and research institutes is overrated. This attitude based on scientometry discourages researchers from engaging in commercial activities. This is also the key element of national innovation policy, which influences both the system of allocation of public funds to universities and research institutes and the system of recruitment of academic personnel.



### 3. The Meaning and Potential of the European Aerospace Industry

Aerospace activity is very diverse, with a multitude of commercial, industrial and military applications. Aerospace industry is also defined in many different ways. One definition says that this is an assemblage of manufacturing concerns that deal with vehicular flight within (aircraft) and beyond (space industry) Earth's atmosphere (Encyclopaedia Britannica). According to another one, aerospace industry engages in research, development and production of manned and unmanned vehicles and supporting equipment for movement above the Earth's surface (Steckler 1965). It is highly concentrated, both geographically in a few EU Member States and in terms of a few larger enterprises.

In most industrial countries, the aerospace industry is strategic to its economy. Report on competitiveness of European aerospace sector (with emphasis on aircraft) presents 6 peculiarities which make the industry very special (European Commission 2009: 20–23):

- high technological level,
- technological complexity,
- high and increasing development costs,
- long break even periods and small markets,
- problematic cash flow profile,
- high interdependencies between civil and defence markets.

The high technological level of current aircraft configurations implies that a slight improvement in the technology is obtained through great efforts and a steep increase in the final costs of the vehicle. That is why the aerospace industry is characterised by heavy upfront investments and exceptionally long programme lives, which leads to a very problematic cash flow profile. What is more, the complex nature of an aircraft can be a barrier to innovation, as it implies limited possibilities to control all technologies and interdependencies. However, European aerospace industry is growing – in 2012 it achieved a turnover of 171.5 billion EUR, an increase of higher than 5% in comparison with 2010 (162.9 billion EUR), mainly pushed by civil aeronautics (+10 billion EUR) (Aerospace and Defense Industries Association of Europe 2011).

As mentioned before, since its early days the aerospace industry (both aircraft and space) has been seen as a strategically important sector of economy. Governmental support and market protection have always been instruments for the internal organisation and the financing of the industry. Two main global players in aircraft industry, Boeing and Airbus, are beneficiaries of generous public assistance. Several

countries also have a civilian space program funded by the government through tax collection, such as National Aeronautics and Space Administration in the United States, European Space Agency in Europe, the Canadian Space Agency in Canada, Indian Space Research Organisation in India, Japanese Aeronautics Exploration Agency in Japan, RKA in Russia, China National Space Administration in China, SUPARCO in Pakistan, Iranian Space Agency in Iran, and Korea Aerospace Research Institute (KARI) in South Korea.

Along with these public space programmes, many companies produce technical tools and components, such as spaceships and satellites. Some well-known companies involved in space programs include Boeing, Airbus Group, Thales Alenia, Lockheed Martin, MacDonald Dettwiler and Northrop Grumman.

Aerospace industry creates spillover effects for other high-tech sectors in terms of innovations. This involves the promotion of related industries through the supply chain, such as engines, engine parts, electrical and hydraulic components, intake and exhaust systems or even seating and interior trim manufacturing. The spillover effect can also contribute to the development of service sector (transportation, logistics, managerial services) and other high-tech manufacturing companies. According to the conclusions drew by J. Niosi and M. Zhegu, the authors of the article: "Aerospace Clusters: Local or Global Knowledge Spillovers", the spillover effects are mostly international. They analysed several examples of world leading clusters in aerospace industry (Montreal, Toronto, Toulouse) and described the peculiarities of their supply chain. Niosi and Zhegu highlighted that the "supply chain is the vehicle of knowledge spillovers in this industry" and "this chain is basically international" (Niosi, Zhegu 2005: 8). Aerospace regions are specialised, they manufacture high-value products which can be shipped from one place to another because transportation costs are only a small fraction of total costs. The geopolitical and economic ambitions strongly motivate governmental actions for the development of aerospace industry.

#### **4. Actions for Enhancing the Polish Aerospace Sector Innovations**

Poland has a long history both in aeronautics and space industry. Nowadays, Polish aerospace industry is based mainly on large western companies. The first linkages of the Polish aerospace industry with western companies had already been created during the Soviet era. In 1976 Pratt & Whitney started a cooperation with WSK "PZL Rzeszow" S.A. for the production of jet engines. Today, this company is 100% owned

by the United Technology Corporation (UTC) via the Pratt & Whitney Corporation (PWC). The largest Polish aircraft manufacturer, Polskie Zakłady Lotnicze PZL in Mielec, has been taken over by the Sikorsky Aircraft Corporation in 2007.

Up to now the Polish aerospace industry has contributed only a small portion of 0.4% to the European industry's production. As compared to all of the Polish manufacturing industries, its share does not exceed 0.5% of added value. This means that the aerospace was not of outstanding importance for the Polish economy. However, it grew significantly, well above the EU-27 average, at an annual average rate of 7.9% between 2001 and 2008 in constant prices.

The Polish aerospace industry is developing systematically. The importance of the industry is well accepted and the Ministry for Science and Higher Education, with a focus on R&D, the Ministry for Structural development, with a focus on regional and infrastructure development, and the Polish Agency for Enterprise Development, with focus on creating linkages between the Polish SMEs sector and European partners, provide support.

There have been many initiatives undertaken in the Polish aerospace sector in recent years. In 2003, the first industrial association – Aviation Valley – was started. Its main aim was to transform south-eastern Poland into one of Europe's leading aerospace regions. In 2004 the Polish Aerospace Technology Platform (PATP) was established. PATP has been coordinating R&D activities in Poland. It is also integrated in European networks, such as ACARE, and brings Polish companies and other organisations into the European research networks schemes. PATP is responsible for National Strategic Research Program for Aeronautics (2012–2035). In 2004, the Association of Polish Aviation Industry (APAI), a non-profit organisation, was launched. APAI represents the aeronautics, space, defence and security industries in Poland in all matters of common interest, with the objective of promoting and supporting the competitive development of the sector.

The pace of development of Polish space industry increased after 2010. In 2012 the government adopted strategic goals of the Polish space policy. In 2014, the National Space Sector Development Plan was launched, being a framework for implementation of the "Program for the development of space technologies and use of satellite systems in Poland". Polish Ministry of Economy acts as a coordinator of all of the actions relating to the Polish space industry. It represents Poland in the European Space Agency (ESA) and other space-related EU institutions. Other bodies involved in the space industry policy are:

- the Polish Space Agency (POLSA, which started its activities in 2015 and the main aim of which is to conduct tasks in the field of space research and the use of this

research for technology development intended for the industry, state security and science);

- Polish Space Technologies Platform (integrating the Polish space industry and research institutions, as well as preparing the INNOSPACE sectoral programme);
- National Centre of Space and Satellite Engineering (creating conditions for effective cooperation in science, research and teaching in the field of aerospace engineering and satellite applications);
- Polish Agency for Enterprise Development (PARP, the contact point for enterprises, ESA cooperation).

There are also several programmes and initiatives under construction, i.e. the Space Research Program Platform and the Space and Satellite Engineering Cluster.

Actions taken both by the governmental bodies (such as POLSA or PARP) and rank-and-file initiatives (i.e. associations) must be tailored to the sector and country's characteristics. First, as mentioned before, aerospace clusters display strong international connections, rather than local ones. Large firms dominate the aerospace sector and represent a kind of magnet for suppliers, mostly SMEs. These suppliers may diversify their markets in order to reduce their dependence on the major clients. Second, there is a large geographic dispersion of a supply chain in aerospace industry – products may be designed in one place and manufactured in another. Third, the aerospace sector is highly concentrated. However, new poles are growing in the emerging markets such as Latin America (Brazil) and South East Asia.

Polish aerospace industry policy shall concentrate on promoting highly innovative SMEs involved both in R&D and manufacturing activities. It is also reflected by the main aim of the National Space Sector Development Plan, which is to stimulate innovation and improve the competitiveness of Polish companies (PARP 2012). It involves three ways of achieving the knowledge spillover effect: R&D companies and research institutions collaboration, spinoff companies and labour mobility.

One of the recent actions was the introduction of a programme by ESA in cooperation with the leaders of European aerospace industry, addressed to Polish organisations. ESA, which announces tenders open to all its Member States, offers also a so-called Polish Industry Incentive Scheme, dedicated specifically to Polish SMEs and institutions. There have been two calls announced so far and 62 projects have been granted a contract (12 research institutions, 50 companies). Most of the contracts involve research and development activities (50% in 2013 and 68% in 2014) (Kobierzycka 2015: 16).

These actions are part of ESA's SMEs policy established in March 1997 at the meeting of the ESA Council and Ministers of ESA Member States. The objective is to guarantee the Member States a share in the Agency's technological activities,

and to facilitate their access to technical facilities and tools. As a result, ESA put in place a specific SME Policy aiming at promoting the participation of SMEs in its activities. This policy helps ESA, and the space sector generally, to make the best possible use of the wealth of technologies and expertise that European SMEs can offer. The flexibility and a high degree of specialisation of this category of companies make them invaluable partners in all space projects. The SME Policy adds a valuable dimension to the Agency's overall industrial policy, as well as to its efforts to maintain the expertise needed to develop space programmes. Taken as a whole, ESA's industrial policy portfolio aims to ensure that European industry has fair and balanced access to ESA's activities.

On 1<sup>st</sup> June 2015 the joint ESA/Poland Mid Term Review took place, during which the positive impact of Poland's accession to ESA was highlighted. The main conclusions of the report point out the increasing competitiveness of Polish industry, especially in the downstream added value industry, as well as its involvement in the development of innovative space technologies (Kosmonauta 2015). The "Joint ESA/Poland Mid Term Review Report" also presents recommendations in six fields, such as academia and industry relationship, fostering investments in space, the extension of the Industry Incentive Scheme etc.

## Conclusions

As research on the impact of the aerospace industry on the economy shows, aerospace may be a crucial component of countries' or regions' economy, both as a significant source of high-paying jobs and as an incubator for technological innovation.

Poland offers a huge potential for companies whose activities are concentrated around aerospace industry. Poland has reliable infrastructure including universities, research centres, as well as manufacturing plants and institutions supporting business. Most recent activities are focused on creating a network of associations and clusters integrating R&D and industry partners. Also human resources can be considered as a competitive advantage of Polish aerospace industry. The quality of education in the field of aviation is very high in Poland. Polish graduates offer access to a well-educated workforce.

The aerospace sector, as one of the most dynamic spillover effect providers, is usually considered as a strategic one for the whole economy. Innovation policy in Poland provides the special measures and programmes for this kind of activities. One of them is INNOLOT, the public funding programme which aims to provide funding

for R&D activities concerning the development of innovation solutions for the aviation industry. Many strategies and government supported initiatives reflect the privileged position of aerospace industry in Poland's economy.

Public policy concentrates mainly on supporting the industry, with focus on SMEs which are considered to be a backbone of a country's economy. SMEs, which are more dynamic and flexible than large companies, can stimulate collaboration with research institutions and form clusters. The largest assembly of such SMEs linked with aviation sector in Poland can be found within over 50 companies participating in the Aviation Valley Association. The Aviation Valley Association was created as an industrial cluster, gathering the key players of aeronautical sector in Poland. Following this initiative, the "Centre of Advanced Technologies AERONET – Aviation Valley" was created to gather the research institutes and technical universities that are significantly devoted to supporting the Aviation Valley cluster with its R&D experience. Thank to this initiative Rzeszów, the capital city of the cluster, was found to be the second most promising "learning city" in Poland.

As mentioned before, there are many factors identified as barriers to fostering innovation in Poland. Hopefully, the most recent actions concentrated on promoting highly innovative SMEs will trigger the spillover effect of aerospace industry and will stimulate overall innovativeness and competitiveness of Polish and European companies.

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**Part VI. Demographic Changes in the European Union  
– Questions for the Futures**



Marta Pachocka\*

# THE EUROPEAN UNION AND INTERNATIONAL MIGRATION IN THE EARLY 21<sup>ST</sup> CENTURY: FACING THE MIGRANT AND REFUGEE CRISIS IN EUROPE<sup>1</sup>

## Abstract

*International migration is a real challenge facing the European Union and its Member States today and in the near future. The EU has been one of the main destinations of increasing immigration on the regional and global scales since the beginning of the 21<sup>st</sup> century, while at the same time experiencing important migratory movements within its borders. Therefore, it has been looking for effective solutions to approach the multidimensional consequences of the growing influx of migrants into its territory. However, the events in international relations – especially in the Mediterranean Region after 2010 – raise more questions than provide answers. The aim of this paper is to present the recent immigration trends to the EU Member States, highlighting, in particular the importance of their consequences, as well as discuss the challenges they introduce together with possible solutions at the EU level.*

**Keywords:** the European Union, the EU, the Mediterranean Sea, international migration, asylum, immigrants, asylum seekers, refugees, migrant crisis, immigration crisis, refugee crisis, European Agenda on Migration, common migration and asylum policy

## Introduction

International migration is a real challenge facing the European Union and its Member States today and in the near future. The EU has been one of the main destinations of

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<sup>1</sup> The article is based on M. Pachocka's research on *Comparative study of immigration policy in selected Member States of the European Union: conditions, solutions, consequences. Conclusions and recommendations for Poland* conducted in 2014 (Part I, no. KES/BMN/15/14) and in 2015 (Part II, no. KES/BMN15/03/15) at the Collegium of Socio-Economics of Warsaw School of Economics in the framework of *The Young Scientists' Research Grants* co-financed by the Polish Ministry of Science and Higher Education.

increasing immigration on the regional and global scales since the beginning of the 21<sup>st</sup> century, while at the same time experiencing important migratory movements within its borders. Therefore, it has been looking for effective solutions to approach the multidimensional consequences of the growing influx of migrants into its territory. However, the events in international relations – especially in the Mediterranean Region after 2010 – raise more questions than provide answers.

The EU, which in recent years has often been subject to various tests, is now facing a crisis of a different nature than the global financial and economic crisis of 2008 or the political and institutional crisis of 2015 concerning a potential exit of the UK from the EU (“Brexit”) or Greek exit from the euro zone (“Grexit”). The ongoing crisis – called “migrant”, “(im)migration”, “refugee” or “asylum” crisis – is a multidimensional one. On the one hand, the first two terms should be used to underline the demographic aspect of the crisis, highlighting an increasing number of people arriving in the EU territory in a short period of time. The majority of migrating people travel to Europe across the Mediterranean Sea from Africa and Asia, often crossing the external EU borders illegally. Another reason to consider the current crisis as a migrant one refers to the consequences of this massive flows of people not only of a demographic nature, but also of socio-economic, political or cultural one, especially if the migratory movement is not transitory, but will conclude with a long-term or permanent residence. On the other hand, the current crisis is treated as refugee or asylum one, since a large part of people coming to Europe declare seeking international protection, usually understood as encompassing i.a. asylum, refugee status or subsidiary protection status<sup>2</sup>. Different concepts are applied for the purposes of defining this particular crisis depending on its assumed geographical scope (e.g. Europe’s crisis, EU’s crisis, Mediterranean crisis, etc.), emphasized aspect (e.g. demographic or humanitarian one, etc.) or the perspective adopted (e.g. EU or UNHCR context). From the point of view of the European Union it is both an (im)migration and refugee crisis and this assumption is made in this article.

The observed crisis situation provokes many doubts in terms of socio-economic and logistic capacities of the EU Members States to accept migrants and refugees and to create them the adequate conditions to integrate with host societies. These concerns are reinforced by an unequal dispersal of migrating people among EU states and the resulting consequences. Therefore, the migration and refugee crisis puts the EU to a great test of solidarity, mutual trust and shared responsibility of the Member States as well as the one of the European value system and EU moral foundations. It is also a

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<sup>2</sup> More on the subject of terms and definitions concerning international protection, asylum and refugee status, cf. Table 1.

political and institutional test – a validation of common migration and asylum policy together with its institutions, mechanisms and instruments.

The aim of this paper is to present the recent immigration trends to the EU Member States, highlighting, in particular the importance of their consequences, as well as to discuss the challenges they introduce together with possible solutions at the EU level. Therefore, this paper consists of three main parts, starting with a brief overview of terminological and definitional dilemmas in the field of international migration and asylum to show the multiplicity of terms and definitions in use and the complexity of relations between them. In the second part, the recent developments in the area of international migratory movements of different nature to the EU Member States were described, including key facts and figures on the migrant and refugee crisis in Europe. The EU response to the current crisis situation was discussed in the third part of the paper, focusing on the European Agenda on Migration proposed in May 2015 and on its two important immediate actions – the relocation and resettlement schemes. On the basis of these considerations final conclusions are formulated.

In this paper, adopting the EU approach, I usually use the expression of “(international) migration and asylum” having in mind a broader context encompassing international migration, international protection, asylum and related issues.

## 1. Terminological and Definitional Dilemmas

Analysis of the current crisis situation in Europe is complicated, in part by terminological and definitional dilemmas concerning international migration, international protection, asylum and related issues. Both, countries and international organizations (e.g. United Nations, International Organization for Migration, European Union) often use different terms and definitions which makes it difficult to conduct research in the aforementioned field.

On the one hand, terminological problems may refer to the sets of words such as: migrant – immigrant – foreigner, applicant for international protection – asylum seeker – refugee, (im)migrant – refugee, etc. On the other hand, a real challenge is to define “(international) migrant” and “immigrant” as there is no one commonly used way to understand them.

As an example, a definition of “(im)migrant” can be based on various criteria or their combinations (cf. Anderson and Blinder 2014), such as: citizenship, country of birth, country of previous usual residence, length of stay, the formal basis for staying in a host country, main cause(s) of migration, and its voluntary or forced nature.

The application of different criteria and definitions results in different sets of data on immigration in terms of flows and stocks. Groups of people brought together in this way, usually have some common part, but they are not identical i.e. not all foreigners are immigrants, because they do not have to hold citizenship of their country of birth; similarly, among immigrants there may be citizens of a given country, but born abroad; and finally, some people declaring at least a yearlong stay in a host country ultimately perceive it as a country of transit. Another related problem is the collection of the data as even within one country individual institutions themselves can obtain information about (im)migrants on the basis of different criteria: national statistical offices usually collect the data through the census of the resident population, offices for foreigners – through the lists of asylum or residence permit applications while research institutes, NGOs and opinion poll centers usually gather information from their surveys.

Definitions in the field of international migration used in the official documents and statistics of the EU do not always comply with those used by the Member States, which impedes collection of comparable data and their analysis. However, the EU has taken action to standardize the data gathered, in reference to the United Nations' *Recommendations on Statistics of International Migration* (1998a) and *Recommendations for the Censuses of Population and Housing in the ECE region* (1998b). Since 2008 the annual international migration data collection for the EU Member States is done under the requirements of *Regulation (EC) No 862/2007 of the European Parliament and of the Council on Community statistics on migration and international protection* (European Union 2007). Eurostat, in cooperation with the United Nations Statistical Division, the United Nations Economic Commission for Europe, and the Europe and the International Labor Office, requests data from national statistical institutes in the EU within the framework of the Joint Annual International Migration Data Collection. These data are sourced from administrative records or national surveys, and in the case of some datasets, statistical estimation methods are applied by Eurostat (Eurostat, Metadata). To conclude, according to the above-mentioned *Regulation (EC) No 862/2007* “immigrant” is understood as a person undertaking “the action by which a person establishes his or her usual residence in the territory of a Member State for a period that is, or is expected to be, of at least 12 months, having previously been usually resident in another Member State or a third country” (European Union 2007: art. 2).

In the Union, the definitions contained in the EU *acquis* are the priority. In *Asylum and Migration Glossary* prepared by the European Migration Network, the hierarchy of sources of definitions to be used in the Union was precisely set out (c.f. European Migration Network 2014: 7). Table 1 provides a brief overview of selected key terms relating to migration and asylum contained in the *Glossary* (2014). Each term is

shortly defined, often in both – global and EU contexts and sources of definitions are indicated. In addition, synonyms are provided together with broader, narrower and related terms. All terms are grouped into two blocks, the first of which concerns international migration and related terms, while the other one focuses on international protection, asylum and related terms. Both – in the global and EU contexts – “migration” is understood as a long-term movement lasting at least one year. However, in the global context the term “migrant” can be applied to nationals or citizens of one state residing in another country, a foreign one, while in the EU context the key criterion to recognize someone as a “migrant” is his or her previous and future place of usual residence, and not his or her nationality or citizenship. Many terms are used to indicate a migrant in an irregular situation, e.g. “irregular” migrant. Other synonyms include i.a. “clandestine”, “illegal”, “unauthorized” or “undocumented” migrant.

An analysis of the terms listed in the second block of the Table 1 shows that “international protection” is a broader term than “refugee status” and “subsidiary protection”, while “asylum” is a related term. In most EU Member States “application for international protection” and “application for asylum” are understood as synonyms, although the meaning of the latter is narrower. Also, “international protection” and “asylum” are often used interchangeably, even though they are not the same. In turn, the term “refugee” is firmly rooted in the international law, starting with *The Geneva Convention* of 1951 and *The New York Protocol* of 1967. Depending on the circumstances of a specific situation and law to be applied (if justified), different categories of refugees are identified and concepts are in use, e.g. Convention (recognized) refugee, *prima facie* refugee, *de facto* refugee, mandate refugee, [civil] war refugee or resettled refugee. In addition, refugees and displaced persons are considered to be forced migrants.

Due to the terminological and definitional maze in the area of migration and asylum, in any research or study conducted in this field, one should always choose its context (global, EU or national), indicate the preferred approach(es) of one or more entities to be adopted (e.g. IOM, UNHCR or EU), and set the main targets. This determines terms and their definitions to be used and legal frameworks to be applied (e.g. international refugee law, EU *acquis* or national legislation). Also, it influences the way of conducting an analysis and formulating conclusions. Of course, in the media and political discourse this precision is much more difficult to achieve.

Table 1. Overview of Selected Key Terms on International Migration, Asylum and Related Issues Used at the Global and European Union's levels

Key term	Definition [Source]	Terms (S) Synonymous (B) Related (R) Narrower
<b>migration</b>	1. In the global context, movement of a person either across an international border (international migration), or within a state (internal migration) for more than one year irrespective of the causes, voluntary or involuntary, and the means, regular or irregular, used to migrate. [Derived by EMN from UN Recommendations on Statistics of International Migration and IOM Glossary on Migration, 2nd ed., 2011]	(S) n/a (B) n/a (N) economic migration, emigration, forced migration, immigration, irregular migration, legal migration, long-term migration, short-term migration (R) displacement, migrant
	2. In the EU context, the action by which a person either: (1) establishes their usual residence in the territory of a Member State for a period that is, or is expected to be, of at least 12 months, having previously been usually resident in another Member State or a third country; or (2) having previously been usually resident in the territory of a Member State, ceases to have their usual residence in that Member State for a period that is, or is expected to be, of at least 12 months. [Derived by EMN from the UN Recommendations on Statistics of International Migration and OECD Glossary of Statistical Terms]	
<b>migrant</b>	1. In the global context, a person who is outside the territory of the State of which they are nationals or citizens and who has resided in a foreign country for more than one year irrespective of the causes, voluntary or involuntary, and the means, regular or irregular, used to migrate. [Derived by EMN from the UN Recommendations on Statistics of International Migration and UNESCO]	(S) n/a (B) n/a (N) economic migrant, emigrant, forced migrant, immigrant, short-term migrant, long-term migrant (R) migration
	2. In the EU context, a person who either: (1), establishes their usual residence in the territory of an EU Member State for a period that is, or is expected to be, of at least 12 months, having previously been usually resident in another Member State or a third country; or (2) having previously been usually resident in the territory of an EU Member State, ceases to have their usual residence in that Member State for a period that is, or is expected to be, of at least 12 months. [Derived by EMN from Eurostat's Concepts and Definitions Database and the UN Recommendations on Statistics of International Migration]	
<b>irregular migrant</b>	1. In the global context, a person who, owing to irregular entry, breach of a condition of entry or the expiry of their legal basis for entering and residing, lacks legal status in a transit or host country. [Derived by EMN from IOM Glossary on Migration, 2 ed., 2011]	(S) clandestine migrant, illegal migrant, insufficiently documented migrant, migrant in an irregular situation, migrant with irregular status, unauthorized migrant, undocumented migrant
	2. In the EU context, a third-country national present on the territory of a Schengen State who does not fulfil, or no longer fulfils, the conditions of entry as set out in the Schengen Borders Code, or other conditions for entry, stay or residence in that Member State. [Derived by EMN from the definition of "illegal stay" in Art. 3 of Directive 2008/115/EC (Return	(B) migrant (N) third-country national found to be illegally present (R) apprehension, irregular migration, overstay(er)



	2. In the EU context, a person who establishes their usual residence in the territory of a Member State for a period that is, or is expected to be, of at least 12 months, having previously been usually resident in another Member State or a third country. <i>[Art. 2(b) and (j) of Regulation (EC) No 862/2007 (Migration Statistics)]</i>	(R) emigrant, immigration, short-term migrant
<b>international protection</b>	1. In the global context, the actions by the international community on the basis of international law, aimed at protecting the fundamental rights of a specific category of persons outside their countries of origin, who lack the national protection of their own countries. <i>[UNHCR Master Glossary of Terms]</i> 2. In the EU context, protection that encompasses refugee status and subsidiary protection status. <i>[Derived by EMN from Art. 2(a) of Directive 2011/95/EC (Recast Qualification Directive)]</i>	(S) n/a (B) protection (N) refugee status, subsidiary protection (R) asylum, Geneva Convention of 1951 and Protocol of 1967, humanitarian protection, temporary protection, United Nations High Commissioner for Refugees
<b>applicant for international protection</b>	A third-country national or a stateless person who has made an application for international protection in respect of which a final decision has not yet been taken. <i>[Art. 2(i) of Directive 2011/95/EU (Recast Qualification Directive)]</i>	(S) n/a (B) n/a (N) asylum seeker, applicant in need of special procedural guarantees, applicant with special reception needs, examination of an application for international protection, rejected applicant for international protection (R) beneficiary of international protection, person eligible for subsidiary protection
<b>beneficiary of international protection</b>	A person who has been granted refugee status or subsidiary protection status. <i>[Art. 2(b) of Directive 2011/95/EU (Recast Qualification Directive)]</i>	(S) n/a (B) n/a (N) Convention refugee, person eligible for subsidiary protection (R) applicant for international protection, person eligible for subsidiary protection
<b>asylum</b>	A form of protection given by a State on its territory, based on the principle of non-refoulement and internationally or nationally recognized refugee rights and which is granted to a person who is unable to seek protection in their country of citizenship and / or residence, in particular for fear of being persecuted for reasons of race, religion, nationality, membership of a particular social group or political opinion. <i>[Developed by EMN]</i>	(S) n/a (B) n/a (N) right of asylum (R) international protection
<b>asylum seeker</b>	1. In the global context, a person who seeks safety from persecution or serious harm in a country other than their own and awaits a decision on the application for refugee status under relevant international and national instruments. <i>[Derived by EMN from IOM Glossary on Migration, 2 ed. 2011]</i> 2. In the EU context, a person who has made an application for protection under the Geneva Convention in respect of which a final decision has not yet been taken. <i>[Derived by EMN from Art. 2(c) of Council Directive 2003/9/EC (Asylum Procedures Directive)]</i>	(S) asylum applicant (B) applicant for international protection (N) n/a (R) refugee
<b>application for asylum</b>	An application made by a foreigner or a stateless person which can be understood as a request for protection under the Geneva Convention of 1951 or national refugee law. <i>[Derived by EMN from the definition in Art. 2 (b) of Council Directive 2003/9/EC (Reception Conditions Directive)]</i>	(S) asylum application (B) application for international protection (N) unfounded application for international protection (R) n/a

refugee	<p>1. In the global context, either a person who, owing to a well-founded fear of persecution for reasons of race, religion, nationality, political opinion or membership of a particular social group, is outside the country of nationality and is unable or, owing to such fear, is unwilling to avail themselves of the protection of that country, or a stateless person, who, being outside of the country of former habitual residence for the same reasons as mentioned before, is unable or, owing to such fear, unwilling to return to it. [Art. 1A of the Geneva Convention of 1951]</p> <p>2. In the EU context, either a third-country national who, owing to a well-founded fear of persecution for reasons of race, religion, nationality, political opinion or membership of a particular social group, is outside the country of nationality and is unable or, owing to such fear, is unwilling to avail themselves of the protection of that country, or a stateless person, who, being outside of the country of former habitual residence for the same reasons as mentioned above, is unable or, owing to such fear, unwilling to return to it, and to whom Art. 12 (Exclusion) of Directive 2011/95/EU does not apply. [Art. 2(d) of Directive 2011/95/EU (Recast Qualification Directive)]</p>	<p>(S) n/a (B) forced migrant (N) Convention refugee, <i>prima facie</i> refugee, resettled refugee (R) applicant for international protection, asylum seeker, displaced person</p>
refugee status	<p>The recognition by an EU Member State of a third-country national or stateless person as a refugee. [Art. 2(e) of Directive 2011/95/EU (Recast Qualification Directive)]</p>	<p>(S) n/a (B) international protection (N) n/a (R) beneficiary of international protection, Convention refugee withdrawal of refugee status</p>

## 2. Immigration to the EU Member States – an Overview of Recent Trends

Within the EU the migration movements can be analyzed from at least two perspectives: migration between the EU (its Member States) and third countries or migration within the EU (between Member States), thus one can research either extra-EU migration or mobility within the EU (intra-EU migration). According to some authors, extra-EU migration is understood as movements of non-EU citizens (third-country nationals, TCNs<sup>3</sup>) from outside the EU to its territory, while intra-EU migration thus refers to the EU citizens who benefit from their right of free movement within the Union (Boswell and Geddes 2011: 2–3).

Below, there is an overview of the situation in the area of international migration in the European Union, focusing on immigration to the EU and its Member States. For the purpose of this analysis, some indicators were selected to show recent migration trends, such as the total number of immigrants and emigrants in the EU states, as well as immigration by citizenship, country of birth and country of previous usual residence (cf. Eurostat, Statistics Explained).

The core part of the analysis is based on the Eurostat data on long-term international migration, where a “long-term immigrant” – as mentioned before – is a person establishing his or her usual residence in the territory of one of the EU Member States for a period – actual or expected – of at least one year, having previously been usually resident in another Member State or a third country. These data do not include figures on refugee and asylum seekers as well as do not reveal a size of irregular immigration. We focus on the most recent and complete data sets available at the time of writing, mostly for 2013, to show immigration to the EU from the demographic perspective.

About 3.4 million people immigrated to 28 EU Member States in 2013. This number included nationals of the reporting state<sup>4</sup> and of other EU Member States, non-EU nationals, stateless persons and persons with unknown citizenship. The most immigrants in absolute terms were recorded in Germany (692.7 thousand people) and the United Kingdom (526 thousand), whose combined share in total immigration

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<sup>3</sup> In the EU legislation there is a term “third-country national” (TCN) which denotes a person “who is not a citizen of the European Union within the meaning of Article 17(1) of the Treaty, including stateless persons” (European Union 2007: art. 2), yet, Eurostat in its detailed international migration statistics reports separate data for TCNs (as “citizenship of non-EU-28-countries”) and stateless persons (Eurostat, Database 2015f).

<sup>4</sup> A reporting state denotes an EU Member State that provides Eurostat with national data of the respective area (e.g. international migration) in a certain period of time.

to the EU countries stood at 35.9%. These two states were followed by France (332.6 thousand), Italy (307.5 thousand) and Spain (280.8 thousand). Comparing this to the EU-27 data for 2009 (no data for Belgium, Greece, and Bulgaria), the largest number of immigrants was admitted by the UK (566.5 thousand), Italy (442.9 thousand), Spain (393 thousand), Germany (346.2 thousand), and France (296.7 thousand). At least 3 million people immigrated to the EU-27 in 2009. In subsequent years, the total number of immigrants to the EU Member States amounted to over 3.2 million people per year. In the years 2010–2011, the UK remained the leader with its immigration at the level of 591 thousand and 566 thousand respectively, while in 2012 Germany outnumbered the UK with 592.2 thousand immigrants (Eurostat, Database 2015c). In comparison, taking into account absolute numbers, at least 2.8 million emigrants left one of the EU-28 Member States in 2013. Leading the list in terms of emigration was Spain (532.3 thousand), followed by the UK (316.9 thousand), and France (300.8 thousand). These three states reported on the total number of emigrants reaching 1.1 million – tantamount to 40.9% emigration from the EU states in total. Two other countries – Poland and Germany – had a comparable share in emigration all-in of 9.8% and 9.2%; more than 276.4 thousand people left Poland and 259.3 thousand people left Germany. In comparison, within the EU-27 (no data for Belgium, Greece and Bulgaria), the biggest number of emigrants left Spain (-380.1 thousand), the UK (-368.2 thousand), Germany (-286.6 thousand) and France (-264.6 thousand) in 2009. It should be noted that two subsequent places were taken by Romania (-246.6 thousand) and Poland (-229.3 thousand). In total, at least 2.4 million people emigrated from European Union countries in 2009. In the following years, the total number of emigrants from the EU amounted to more than 2.5 million people per year, with Spain topping the list between 2010 and 2012 (Eurostat, Database 2015a).

For a more in-depth overview of immigration to the EU Member States in 2013, we can analyze immigration by citizenship, country of birth and previous country of residence. Immigrants holding the citizenship of their target EU Member State – so-called “nationals” – constituted 831.7 thousand (24.5%) out of a total number of 3.4 million immigrants to the EU states in 2013. This means that the total number of non-nationals was 2.5 million, representing three fourth of immigration that year. Citizens of other EU-28 Member States amounted to 1.2 million (34.6% of the total number of immigrants to the EU Member States), and those of third countries to 1.4 million (40.5%). The share of stateless persons (6.1 thousand) and people of unknown citizenship (4.4 thousand) within the total immigration to the EU states in 2013 was 0.3% (Eurostat, Database 2015c). The focus on immigration by country of birth in 2013 perfectly supplements the aforementioned considerations. There were 658.7 thousand native-born immigrants (born in a reporting state) to the EU-28, accounting for 19.4%

out of a total of 3.4 million immigrants to the EU states. The foreign-born population amounted to 2.7 million people (80.3% of total immigration to the EU Member States), including 1.2 million foreign-born in another EU Member State than the reporting one (34.4%) and 1.6 million people born in third countries (45.8%). People with unknown country of birth in turn numbered 10.1 thousand, with a relative share of 0.3% in the total number of immigrants to the EU states in 2013 (Eurostat, Database 2015d). The analysis of immigration by state of previous residence allows to conclude that in 2013 the absolute numbers of immigrants coming from another EU Member State and from the non-EU-28 made a comparable contribution of 1.7 million people each to the total immigration to the EU states. The state of previous residence was unknown in the case of 25.3 thousand people, which represents less than 1% of total immigration (Eurostat, Database 2015e).

According to the latest Eurostat data on migrant population in the EU, 33.5 million people living in one of the EU Member States on 1 January 2014 had been born outside of the EU-28, while those born in a different EU Member State from the one of their residence amounted to 17.9 million. In addition, there were 19.6 million persons residing in an EU Member State who hold citizenship of a third country and 14.3 million people living in one of the EU Member States who were citizens of another EU Member State (Eurostat, Statistics Explained).

To conclude, according to Eurostat data on 1 January 2014 population of the European Union (EU-28) was 506.8 million people, which is about 0.2 million more than in the previous year (Eurostat, Database 2015h). If we focus exclusively on the extra-EU migration and use the narrower definition of long-term immigrant according to which such a person is a non-EU national whose previous place of usual residence was in a non-EU country and who established his or her usual residence in the territory of an EU state for a period of at least 12 months<sup>5</sup>, then such a definition was applicable to about 1.4 million incoming people in 2013. And yet in 2014 non EU-nationals residing in the EU constituted 4%, which meant 19.6 million people in the absolute numbers. For comparison, this number in 2011 was slightly higher, i.e. 20.1 million people and in the two consecutive years it gradually increased to reach over 20.2 million. In the total EU population, the proportion of non-EU nationals was constant and year after year constituted 4% between 2011 and 2014. In the recent years, the European Union has experienced net immigration, however, the quantitative predominance of immigrants over emigrants in absolute numbers decreases every year – between 2010 and 2013 it dropped from 748 thousand to 539.1 thousand people. It is worth complementing the above data with the information on foreign-born population

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<sup>5</sup> Note that the data do not include asylum seekers or refugees.

residing in the EU. Between 2011 and 2014 the proportion in the total EU population increased from 6% to 7%, which was represented by a positive change from 32.7 million people to 33.6 million in absolute numbers (European Commission 2015f).

Immigration from the third countries is of a great importance for the present and future EU demographic situation. In the recent years its impact on the Union's demographics in the context of demographic changes taking place in Europe has been broadly discussed, with particular regards to ageing of European societies (cf. European Commission 2006, 2010, 2015h). In 2013 alone, the total population change in the EU-28 amounted to 1.7 million people, consisting of the natural population increase of 80.7 thousand persons and the net migration plus statistical adjustment estimated at 1.6 million people. This means that international migration largely affected the positive population growth of the EU that year – the crude rate of total population change equaled to 3.4‰, including the crude rate of net migration plus statistical adjustment of 3.2‰ (Eurostat, Database 2015g).

In the context of the heretofore mentioned considerations, it is worth paying attention to what kind of impact international migration may have on the future demographic situation of the EU-28 countries in the light of Eurostat's long-term population projection from 2013 (Eurostat, Database 2015b). For this purpose the projected data for 2015, 2030 and 2060 have been juxtaposed with regard to the so-called "main scenario" of projection and its two variants – "reduced migration variant" (component of international net migration is reduced by 20%) and "no migration variant" (component of international net migration equals zero). According to the main scenario, the total population between 2015 and 2030 is to increase from 508.2 million to 518.5 million people and it will have increased by 14.7 million people in total by 2060. If we assume the reduced migration variant, the population will have increased from 508 million in 2015 to 514.6 million in 2030, but taking into consideration a longer perspective, it will have decreased by 1.1 million people between 2015 and 2060. In turn, in the no migration variant, the projected number of population will be smaller than in the case of the main and reduced migration scenarios, and will equal 507.3 million people in 2015. Eventually, the population of the EU – without the component of international migration – will decrease to 498.9 million by 2030 and reach a mere 442.8 million people in 2060, which indicates a substantial decrease of 64.6 million people. If we examine the rise in population from the base year of the projection, it will turn out that in comparison with the 507.2 million inhabitants of the EU-28 in 2013, in 2060 the EU population will have increased by 3.1% considering the main scenario and will have slightly decreased by 0.1% with regards to the reduced migration variant, or will have distinctively decreased by 12.7% taking into account the no migration variant (Eurostat, Database 2015b).

The general conclusion is straightforward: lack of international migration will result in a substantial decline of the EU population.

The increasing influx of migrants for various causes into Europe in recent years is considered one of the most important challenges the EU is facing today. To a large extent it is a consequence of events such as the Arab Spring and political revolutions or wars in the Arab world, especially in Libya, Syria, or Egypt. Other contributing factors were the establishment of the self-proclaimed Islamic State and its expansion, the political crisis in the Ukraine and finally, the armed conflict with the Russian Federation in the eastern part of the Ukraine. The EU which is perceived as a regional grouping of safe and highly developed states is the obvious destination for immigrants – both regular and irregular – coming not only from other European countries such as Kosovo or Albania, but also from African or Asian countries.

According to the official data provided by FRONTEX in its *Annual Risk Analysis 2015*, there were more than 283.5 thousand migrants – most of them refugee and asylum seekers – who entered the EU irregularly between border crossing points (BCPs) in 2014, which represented an increase of 164% compared to the previous year. This was a new record in number of detected migrants crossing the EU external borders illegally. It is believed that the events in Syria are the main cause of the “worst refugee crisis since the Second World War”. Immigrants from Syria were the top nationality among those detected at the borders in 2014. Many of them applied for asylum in the EU Members States but rather different ones than country of their entry into the EU. Among main migratory routes to Europe analyzed by FRONTEX, in 2014 the most detections of illegal border crossing between BCPs were reported in the case of Central Mediterranean sea route (encompassing Italy and Malta) – 170,664 thousand people, which means an increase of 277% in comparison to 2013. The second highest result of 50,834 thousand detections (+105%) was observed for Eastern Mediterranean route by sea and land (encompassing Greece, Bulgaria, and Cyprus), followed by Western Balkan land route (43,357 thousand; +117%). In the latter case, detections sharply increased at the Hungarian land border with Serbia towards the end of 2014. Among illegal immigrants traveling to the EU by Central Mediterranean route, the highest number – almost 40 thousand people – were Syrian nationals, while the second nationality in absolute terms were Eritreans, whose number reached over 33.6 thousand people. If we look at Eastern Mediterranean route in 2014, over 44 thousand people arrived to the EU territory by sea in comparison with 6.8 thousand people arriving by land. The top two nationalities were immigrants from Syria (31.7 thousand people) and Afghanistan (12.5 thousand people). In case of the Western Balkan route, nationals from Kosovo were on the top of nationalities of irregular immigrants in the number of 22 thousand people, and two consecutive

places in the ranking were Afghans (8.3 thousand people) and Syrians (7.3 thousand people). Migrants detected in 2014 were mostly adult males. The shares of women and children amounted to 11% and 15% respectively that year (European Agency for the Management of Operational Cooperation at the External Borders of the Member States of the European Union 2015a: 5, 12–17).

The data cited above on people crossing the Mediterranean to reach Europe are obviously underestimated, as many of migrants were not detected. In addition, according to UNHCR's estimates, around 3.5 thousand people died or went missing in the Mediterranean Sea in 2014 (European Agency for the Management of Operational Cooperation at the External Borders of the Member States of the European Union 2015a: 18). It is the highest number since 2011, when the number was estimated to be 1.5 thousand people. It was 500 people in 2012, 600 people in 2013 and again 1.5 thousand people in 2014 (United Nations High Commissioner for Refugees Northern Europe 2015). Moreover, according to UNHCR's data of 4 August 2015, since the beginning of the year there were already 224.5 thousand recorded arrivals through the Mediterranean to Europe with 2.1 thousand people dead or gone missing. To compare, in the previous year the number of arrivals by sea amounted to 104 thousand from January to August 2014 and 219 thousand in the whole 12 months. For the period January–August 2015 among top five nationalities arriving to Europe by sea were Syrians (38%), Eritreans (12%), Afghans (11%), Nigerians (5%) and Somalis (4%) (United Nations High Commissioner for Refugees 2015b).

Until early August 2015, it was mainly Italy and Greece that were affected by the largest waves of immigrants arriving by sea. At the same time, the overland influx of immigrants has been increasing in Hungary, through the border with Serbia. Also, numerous attempts have been made by the migrants to reach Britain from Calais in France, through the English Channel.

In the first half of 2015 about 137 thousand people migrated to the EU, travelling by the Mediterranean Sea in unsafe and difficult conditions. This number is expected to increase significantly in the following months due to summer period, as it was the case in 2014 (United Nations High Commissioner for Refugees 2015a: 6). In Greece nearly 130.5 thousand irregular migrants have been detected at its external borders in the first seven months of 2015 (European Agency for the Management of Operational Cooperation at the External Borders of the Member States of the European Union 2015b).



## **2. The European Union's Response to the Crisis: European Agenda on Migration?**

The EU seeks to create a common policy on migration and asylum, which is subject to the Directorate-General for Migration and Home Affairs of the European Commission. DG's policy portfolio related to the area of migration and asylum mainly covers issues such as legal and irregular migration, migrants' integration, readmission and return. The second area of action of the DG – internal security – focuses on the fight against organized crime and terrorism, police cooperation and the management of the EU's external border (European Commission, DG Migration and Home Affairs 2015b).

Migration crisis has prompted the EU at the beginning of 2015 to debate and work on current and comprehensive European agenda in the field of migration management. On the 20 of April 2015, the European Commission announced a ten-point migration plan for immediate actions to be taken in response to the crisis situation in the Mediterranean region. The plan was presented in Luxembourg by the European Commissioner for Migration, Home Affairs and Citizenship Dimitris Avramopoulos during a joint meeting of the EU Foreign and Interior Ministers, chaired by the High Representative of the Union for Foreign Affairs and Security Policy/ Vice-President of the Commission Federica Mogherini (European Commission, Press Release Database 2015b). The proposal covered a number of important measures both general and specific, but it was not sufficient. The EU needed a comprehensive plan for the medium- and long-term perspective as a guidance document for further migration and asylum policy making in the face of new international conditions relating to numerous crises – especially military, political and humanitarian crises in the European neighborhood, which result in increased migratory flows in the Mediterranean region.

Following the proposal made by the Commission, the Member States committed themselves in a European Council statement of 23 April 2015 to take swift action to save lives and strengthen the impact of the EU actions. On 28 April, that commitment was followed by the Resolution of the European Parliament (European Commission, Press Release Database 2015c).

In the meantime, on 4 March 2015, the European Commission launched its work on the European Agenda on Migration (EAM) (European Commission, Press Release

Database 2015c), presented on 13 May 2015 (European Commission 2015d). The document developed one of the ten priorities of the *Political Guidelines* proposed by the EC President Jean-Claude Juncker<sup>6</sup> into a set of initiatives based on four pillars to better manage migration: (1) reduction of incentives for irregular migration, (2) management of borders – saving lives and securing external borders, (3) Europe's duty to protect – a strong common asylum policy, and (4) new policy on legal migration (European Commission, Press Release Database 2015c).

On this occasion, Federica Mogherini stressed that migration is a shared responsibility of the EU Member States and called for contribution to tackle this historical challenge of not only European, but also of a global dimension (European Commission, Press Release Database 2015c). The main objective of this Agenda was to address the increasingly complex phenomenon of migration<sup>7</sup> in a comprehensive way, incorporating both internal and external dimensions of policy in that field. The European Agenda on Migration included two approaches specified in Table 2. The first one related to immediate measures to be taken in order to prevent human tragedies and strengthen management mechanisms in the situation in the Mediterranean. The second approach was more systematic and long-term as all the structural limitations of EU migration policy and its tools have been considered. It put forward a new medium- and long- term strategy of more effective management of migration rooted in above-mentioned four key pillars (European Commission, Press Release Database 2015d).

Among the immediate measures to be taken, the Agenda included provisions on planned development and implementation of two important mechanisms in connection with the crisis situation in the Mediterranean. The first one was supposed to be a system of relocation of refugees and asylum seekers arriving in large numbers to the EU. The first stage was to be proposed by the end of May 2015 and was concerned with the temporary distribution scheme of persons in clear need of international protection to all Member States in order to enable an appropriate response to high-volumes of arrivals within the EU. This system would be anchored in Article 78 (3) TFEU<sup>8</sup>, according to which: "In the event of one or more Member States being confronted by an emergency situation characterized by a sudden inflow of nationals

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<sup>6</sup> Eight months prior to becoming European Commission President, on 23 April 2014 in Malta, Jean-Claude Juncker put forward a five-point plan on migration. He called for more solidarity and shared responsibility in the EU migration policy. As the new President, he appointed new responsibilities to a Commissioner for Migration to develop new migration policy. This was one of the 10 priorities of the new political program (European Commission, Press Release Database 2015c).

<sup>7</sup> In this context "migration" is understood broadly and incorporates international protection and asylum issues.

<sup>8</sup> The provisions of the proposal shall be not applicable to Denmark and shall be applicable to the UK and Ireland under condition that they maintain their right to "opt-in" as it is described in the adequate Protocols to the Treaties.

of third countries, the Council, on a proposal from the Commission, shall adopt a provisional measures for the benefit of the Member State(s) concerned. It shall act after consulting the European Parliament” (European Union 2012). It was noted in the Agenda, however, that ultimately, the EU needs a permanent relocation mechanism. The Commission should put forward a legislative proposal by the end of 2015 in order to implement an obligatory and automatic relocation system to distribute refugees in need of international protection within the EU, taking into account voluntary measures taken by the Member States (European Commission 2015d: 4).

**Table 2. Key Actions Proposed in European Agenda on Migration in 2015**

Immediate action	Four pillars to manage migration better			
	Reducing the incentives for irregular migration	Border management – saving lives and securing external borders	Europe's duty to protect: a strong common asylum policy	A new policy on legal migration
<p>A funding package to triple the allocation for Triton and Poseidon in 2015-16 and to finance an EU-wide resettlement scheme.</p> <p>Immediate support to a possible CSDP (Common Security and Defense Policy) mission on smuggling migrants. A legislative proposal to activate the emergency scheme under Article 78(3) TFEU by the end of May, on the basis of the special distribution key proposed in Agenda</p> <p>A proposal for a permanent common EU system for relocation for emergency situations by the end of 2015.</p> <p>A Recommendation for an EU resettlement scheme by the end of May followed if required by a proposal for more permanent approach beyond 2016.</p> <p>EUR 30 million for Regional Development and Protection Programs.</p> <p>Pilot multi-purpose center established in Niger by the end of 2015.</p>	<p>Addressing the root causes through development cooperation and humanitarian assistance.</p> <p>Making migration a core issue for EU delegations.</p> <p>An action plan on smuggling in May 2015.</p> <p>Stronger action so that third countries fulfil their obligations to readmit their nationals.</p> <p>Adoption of a Return Handbook and monitoring of the implementation of the Return Directive.</p> <p>Reinforcement and amendment of the FRONTEX legal basis to strengthen its role on return.</p>	<p>Strengthening FRONTEX's role and capacity.</p> <p>Union Standard for border management.</p> <p>Strengthening EU coordination of coast guard functions.</p> <p>A revised proposal on Smart Borders.</p> <p>Strengthening the capacity of third countries to manage their borders.</p>	<p>Establishing a new monitoring and evaluation system for the Common European Asylum System and guidance to improve standards on reception conditions and asylum procedures</p> <p>Guidelines to fight against abuses of the asylum system.</p> <p>Strengthening Safe Country of Origin provisions of the Asylum Procedure Directive to support the swift processing of asylum applicants from countries designated as safe</p> <p>Measures to promote systematic identification and fingerprinting.</p> <p>More biometric identifiers passed through EURODAC.</p> <p>Evaluation and possible revision of the Dublin Regulation in 2016.</p>	<p>Modernization and overhaul of the Blue Card scheme.</p> <p>A platform for dialogue with social partners on economic migration.</p> <p>Stronger action to link migration and development policy.</p> <p>Re-prioritizing funding for integration policies</p> <p>Cheaper, faster and safer remittance transfers.</p>

Source: Own work based on: European Commission 2015d.

The second key mechanism listed among the immediate key actions in the Agenda was to enable a safe and legal resettlement of an increased number of people in clear need of international protection from third countries in the EU, bearing in mind the target of 20 thousand resettlement places, designated by the UNHCR in 2012 for the EU per year, by 2020. It was assumed in the Agenda that the EC will prepare recommendations on the EU-wide resettlement scheme to offer 20 thousand places covering all Member States according to the distribution criteria specified in the Annex to the Agenda and taking into account the voluntary measures already taken by the Member States (European Commission 2015d: 4–5).

The common distribution key for both European relocation and resettlement schemes put forward in the Agenda was based on “objective, quantifiable and verifiable criteria reflecting the capacity of the Member States to absorb and integrate refugees, with appropriate weighting factors reflecting the relative importance of such criteria”. They were as follows: (1) the size of the population (40%) to reflect the capacity of a state to absorb a certain number of refugees, (2) total GDP (40%) to show the absolute wealth of a state and the capacity of a national economy to absorb and integrate refugees, (3) the average number of spontaneous asylum applications and the number of resettled refugees per 1 million inhabitants in 2010–2014 (10%) to indicate the efforts made by a state in the recent past, and (4) the unemployment rate (10%) to reflect the capacity of a state to integrate refugees (European Commission 2015d: 19).

Two weeks after the announcement of the European Agenda on Migration, the Commission took first specific actions setting out the immediate response to the emergency situation in the Mediterranean comprising of six measures (cf. European Commission, DG Migration and Home Affairs 2015a). Firstly, the EC announced a *Proposal for a Council decision establishing provisional measures in the area of international protection for the benefit of Italy and Greece* (European Commission 2015g), including the updated distribution key of 40 thousand refugees from Italy and Greece (cf. European Commission 2015a: 2–5) to the other EU Member States (Ireland, UK and Denmark excluded) in the framework of European relocation scheme. Secondly, the European Commission adopted *Recommendation on a European resettlement scheme* (European Commission 2015b) together with distribution key and numbers of people to allocate per each EU state, and thirdly, it developed *Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions “EU Action Plan against migrant smuggling (2015–2020)”* (European Commission 2015e). As a fourth step, the EC published its *Staff Working Document on Implementation of the EURODAC Regulation as regards the obligation to take fingerprints* (European Commission 2015c). The fifth step of the undertaken measures was the announcement

of public consultation on the EU Blue Card and the EU's labor migration policies from 27 May 2015 to 21 August 2015 with a deadline extended to 30 September 2015 (cf. European Commission, DG Home and Migration Affairs 2015c). Finally, the Commission noted the new Operational Plan for Operation Triton.

The European Agenda on Migration proposed by the European Commission inspired the European Council to take further steps to cope with the migrant and refugee crisis in Europe (European Council/Council of the European Union 2015). In its final conclusions from the meeting on 25 and 26 June 2015 in Brussels, the Council agreed on some measures covering relocation and resettlement issues, return, readmission and reintegration policies as well as the question of cooperation with countries of origin and countries of transit. For the first group of subjects, the Council indicated interlinked measures to be implemented in order to help 60 thousand people in the light of the emergency migration situation in the EU, taking into account the European commitment to reinforce solidarity and responsibility. For the issue of relocation the Council pointed out that one of the measures will be "the temporary and exceptional relocation over two years from the frontline Member States Italy and Greece to other Member States of 40 thousand persons in clear need of international protection, in which all Member States will participate", whilst "all Member States<sup>9</sup> will agree by consensus by the end of July on the distribution of such persons, reflecting the specific situations of Member States". For the resettlement, the Council noted that "all Member States will participate through multilateral and national schemes in the resettling of 20 thousand displaced persons in clear need of international protection, reflecting the specific situations of Member States" (European Council 2015: 2).

On 20 July 2015, an assembly of Justice and Home Affairs Council took place in Brussels, where the parties agreed on relocation of 40 thousand persons in clear need of international protection over two years, from Italy and Greece. It was decided that the first stage will cover 32,256 thousand persons, and the number will be supplemented by the remaining number of 7,744 thousand persons, by December 2015. Moreover, an agreement was reached on the resettlement of 22,504 thousand refugees in need of protection from outside of Europe to the EU states and Schengen Associated states (European Commission, Press Release Database 2015e). In this manner, joint decisions were made on relocation or resettlement of 54,760 thousand persons. The Table 3 summarizes the agreed contribution of the EU states in these mechanisms in absolute numbers, according to the settlement of 20 July 2015.

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<sup>9</sup> "Without prejudice to the specific situation of the United Kingdom, Ireland and Denmark pursuant to Protocols 21 and 22 to the Treaties. The UK will not participate".

**Table 3. Numbers of Persons to be Relocated and Resettled as Proposed by the Council of the European Union on 20 July 2015**

Member State	Relocation scheme – number of persons	Resettlement scheme – number of persons
Austria	0	1,900
Belgium	1,364	1,100
Bulgaria	450	50
Croatia	400	150
Cyprus	173	69
Czech Republic	1,100	400
Denmark	n/a	1,000
Estonia	130	20
Finland	792	293
France	6,752	2,375
Germany	10,500	1,600
Greece	n/a	354
Hungary	0	0
Ireland	600	520
Italy	n/a	1,989
Latvia	200	50
Lithuania	255	70
Luxembourg	320	30
Malta	60	14
Netherlands	2,047	1,000
Poland	1,100	900
Portugal	1,309	191
Romania	1,705	80
Slovakia	100	100
Slovenia	230	20
Spain	1,300	1,449
Sweden	1,369	491
United Kingdom	n/a	2,200

n/a – not applicable

Source: Council of the European Union 2015a: 5–6; idem, 2015b: 4–5.

## Conclusions

EU actions are long overdue in the light of the current migrant and refugee crisis. The signs of a possible crisis situation appeared much earlier, at least as early as in 2011, with the outbreak of the Arab Spring. Of course it is difficult to answer the question of whether it was possible to estimate the number of incoming migrants so far in advance. The numbers rose sharply only in 2014 and further still in 2015. The EU had no crisis management plan in place for the present scale of migratory movements into its territory. However, it proposed a package of short-, medium- and long-term measures in the European Agenda on Migration in mid-May 2015. A significant number of these measures are adequate, but so far – in early August 2015 – they exist only on paper, as their implementation is a complex task. The chosen key points of the immediate action pool which relate to the crisis in the Mediterranean region are still subject to clarification – among others, these relating to the relocation and resettlement schemes. The proposed mechanisms are based on well-selected criteria, but to-date the expected number of people to distribute within these mechanisms is significantly underestimated. In the case of relocation, the assumed number of 40 thousand people includes only those from Greece and Italy, while it leaves out the issue of people traveling through i.e. the Western Balkans.

At present, there are no mechanisms that would effectively oblige the EU countries to implement both voluntary schemes – of relocation and resettlement – as a part of the EAM's immediate action package, in the interest of the whole group. It proves that the EU migration and asylum policy is still more national than European. Perhaps severe financial consequences would be effective, for example: transfers in the EU budget between countries in favor of those that not only complement to the assumptions of relocation and resettlement schemes and accept more migrants than the expected level but also create the conditions for integration.

Failure to find and implement common solutions will cause further European inertia, decentralization of common migration and asylum policy towards nationalization of policies and polarization of positions taken by individual states. This, in consequence may lead to further radicalization and nationalization of some of the countries, such as Hungary. The worst case scenario includes the possibility of questioning the safety of the existence of the Schengen Area and the pursuit of some EU Member States to restore traffic controls at the inner EU borders, which in the long term may threaten the whole area. Further developments of the migration and refugee crises and the lack of adequate cooperation in the EU could contribute not only to a significant weakening of the Schengen Area, but could even result in its collapse.

The introduction to the EAM is concluded with the following statement: “We need to restore confidence in our ability to bring together European and national efforts to address migration, to meet our international and ethical obligations and to work together in an effective way, in accordance with the principles of solidarity and shared responsibility. No Member State can effectively address migration alone. It is clear that we need a new, more European approach. This requires using all policies and tools at our disposal – combining internal and external policies to best effect. All actors: Member States, EU Institutions, International Organizations, civil society, local authorities and third countries need to work together to make a common European migration policy a reality” (European Commission 2015d: 2). The events of recent months show that these assumptions are, however, difficult to implement.

This difficulty is especially evident in relation to the Member States and EU Institutions, as the EU countries have divergent views on the migration crisis and its consequences due to their inclination to pursue their own interests and goals. Italy calls for a common solution, Hungary builds walls on the border with Serbia, France raises temporary camps in Calais for migrants heading to the UK, and Poland declares acceptance only of a small number of refugees. Member States do not seem to realize how difficult, almost impossible, it is to manage migration individually in the 21<sup>st</sup> century on the European continent, especially being a part of the EU and having formal and moral obligations arising from this membership or from the migration experience of their own citizens in the past.

Cooperation is necessary for several reasons. The crisis situation is far more complex than it was first assumed. People arriving to Europe can generally be referred to as “migrants” of a different status – regular or irregular, refugees, asylum seekers, economic migrants etc. They are gradually moving further into the continent, treating countries like Italy, Austria, Greece, Bulgaria and Hungary as transit countries *en route* to Germany, France or the UK. Countries that initially were not directly affected by the migration crisis such as Italy and Greece, are now experiencing the indirect effects just like i.e. Hungary. Some EU countries have enjoyed little interest of migrants i.e. Poland and the three Baltic states, which can be explained by the cultural determinants, language, unattractive geographic localization and climate, but also by socio-economic conditions and little general knowledge about the country.

The EU must develop a specific stance on international migration and define the response tools to be applied effectively. The limiting factor is that the European Union is not a unified state that can make quick decisions at the central level and implement them in a short time, in order to increase their effectiveness. The EU has a status of an international organization, thus it is governed by specific decision-making procedures which are time-consuming. At the moment, the EU does not have full competences



on migration and asylum issues, and consequently many actions and solutions must be agreed on with the governments of the Member States, which often do not speak with one voice.

Moreover, the EU has a selective immigration policy, which is largely market-based: the EU specifies its demand for immigrants of a certain status and certain socio-demographic characteristics due to the needs directed by the demographic situation, the economy, the labor market, pension protection system, or science and research. This, however, does not comply with the supply, which can be understood as the influx of a growing number of irregular migrants, refugees and asylum seekers. It should be noted however, that the EU – through its actions – should also represent certain moral values instead of making use of pure calculation of economic, social or demographic interests in its immigration policy.

The basic question is: to what point is the EU committed and able to cooperate effectively in the crisis? What is the minimum? So far, the course of events in the migration crisis shows that the EU countries have a rather selective approach to the rights and obligations arising from their EU membership, as well as towards the values and principles such as mutual trust, shared responsibility and cooperation. In a situation where there is no mechanism of coercion stemming from the EU *acquis*, the Member States lack the capability to reach a prompt consensus, which works against their best interests. In the face of the crisis, the Member States gradually adopt an attitude based on national egoism and isolationism, which stands in opposition to the concept and foundations of the European Union in its current form. Attention is drawn to the conservative attitude of the new Member States from Central and Eastern Europe such as Hungary, Poland, the Czech Republic and Slovakia that reiterate the argument of their limited socio-economic, logistic and financial capabilities as well as religious and cultural differences.

The migration and refugee crisis is yet another serious obstacle experienced by the EU in the last decade which reveals the need for deep reforms of the EU and the review of its status, as in the present scenario it is clear that it cannot cope with the challenges it faced, mainly due to countries working towards their own interests. What we observe today in Europe may be just the beginning of a larger geopolitical crisis in the Mediterranean, which may put the EU to an even more difficult test in the years to come.

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## THE IMPACT OF IMMIGRATION ON THE DEMOGRAPHIC SITUATION IN/OF THE EUROPEAN UNION: THE CASE OF SPAIN

### Abstract

*At the turn of the 20<sup>th</sup> and 21<sup>st</sup> century, Spain became one of the main destination countries for immigration in the world, transferring from the traditional source of emigration into a host country. The percentage of foreigners in the whole population of Spain increased from less than 2% in 1996 (0.5 million) to more than 12% in 2012 (5.7 million). Due to the economic crisis, an emigration stream from Spain has been observed since 2012. Nevertheless, in 2014 foreigners constituted 10% of Spanish population. The aim of this paper is to analyze the impact of immigration on the demographic situation in Spain, which is important in the context of sustainable development. The immigration stock in Spain is characterized and its impact on selected demographic indicators is presented. We conclude that immigration had a rejuvenating effect, improved the age structure of the population and may delay the decrease of the population of Spain in the future.*

**Keywords:** international migration, immigration, Spain, immigration stream, immigration stock, demographic situation, population ageing, impact of immigration on host country, sustainable development

### Introduction

For many centuries Spain was one of the prime sources of emigrants in Europe, but at the beginning of the 21<sup>st</sup> century it was to become one of the main destinations for emigrants not only within Europe, but in the whole world. Up to the middle of the 20<sup>th</sup>

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century, the Spanish economy was dominated by agriculture and at that time many Spaniards were leaving for Argentina, Mexico, Brazil and Cuba. It is estimated that between 1850 and 1950 around 3.5 million Spaniards moved to the Americas and only during the period between the WW1 and the 1950s, around 0.5 million left Spain for other European countries (Sallé 2009: 11–12). At the same time there were relatively few immigrants in Spain – in the mid-20<sup>th</sup> century only ca. 56 thousand people (Colectivo 2003). As the WW2 ended, mass emigration of Spaniards to other Western European countries such as France, Switzerland and Germany started. Between 1956 and 1965, some 2 million Spaniards left for those countries. During the 1960s the flow of emigrants from Spain to the Americas was steadily diminishing, to finally become small in the 1970s. Foreigners had only been a small part of the Spanish society for many years and their share increased slowly (from 0.2% in 1960 to 0.4% in 1970). In the 1960s most of the immigrants were coming to Spain from Morocco to work (mainly in construction). In the 1970s most of the immigrants were coming from highly developed, wealthier European countries. They were mostly retired and were attracted by the climate, tourist attractions and living costs lower than in their native countries. By the mid-1970s, 60% of foreigners in Spain were Portuguese, British, German, French or came from other Western European countries. At the same time, the number of foreigners was still relatively low (ca. 150 thousand people). Spain was transforming – the industry and cities were growing, people were moving from rural into urban areas and life standards were improving (Colectivo 2003: 1–9).

The turning point came in the mid-1970s with the changes that were triggered by the oil crisis of 1973, as well as the political transformation in Spain – the end of the rule of gen. F. Franco and the democratization of the country. These changes did not only stop immigration, but triggered the backflow of Spaniards that once left the country. The number of Spanish emigrants was shrinking steadily from around 100,000 per annum in the 1960s to 25 thousand in 1975, to less than 10 thousand in the early 1990s. In the mid-90s the Spanish government estimated that some 2.1 million Spaniards were living abroad, with most of them (60%) in the Americas and the rest living almost exclusively in Europe (37%). From the mid-70s until the mid-90s more than 500 thousand Spaniards came back home from emigration (Colectivo 2003: 4).

In the 1980s the net flow of migrants was fluctuating heavily. The emigration was almost steady and at the level of about 20 thousand people/year. The average net migration rate in this decade was at the level of – 0.6 per thousand inhabitants. In the first years of 1990s one could already see a new tendency – year after year, net immigration of on average 68 thousand people per year was observed and the net migration rate was on the level of 1.6–1.8 per thousand inhabitants (Eurostat 2014a). In the second part of the 1990s and especially after the year 2000, the improvement



of the economic situation was accompanied by a steep increase of net immigration. Between 1996 and 2002 net immigration was steadily growing from 83 thousand people/year to almost 741 thousand people/year. The highest values of net immigration were recorded during periods of fast economic growth in Spain, i.e. in the years 2002–2007 and reached more than 690 thousand people/year. Due to the economic crisis of 2008 immigration decreased sharply – from 599 thousand people/year in 2008 to 304 thousand people/year in 2012 and, on the basis of the initial data for 2013, to 291 thousand people/year in 2013. The decrease in immigration was accompanied by increasing emigration numbers – from 288 thousand people in 2008 to more than 446,000 in 2012 and almost 542 thousand in 2013, so it nearly doubled during that period. This was clearly visible in net migration numbers. The change was biggest in the years 2008–2009 (change by more than 300 thousand with respect to the previous year) and in 2012–2013 (change by more than 200 thousand people in 2012 vs. 2011 and more than 100 thousand between 2013 and 2012). In years 2012 and 2013, net migration was negative for the first time after the year 1990 (INE 2014a).

As a result of intense immigration flows from the beginning of the second half of the 1990s, the immigration stock in Spain changed significantly. Within the years 1996–2010 a steady increase of the number of foreigners, as well as their share in the total population of Spain, was observed. Within 15 years the number of all foreigners living in Spain<sup>1</sup> increased eleven-fold from 542 thousand in 1996 to almost 5.5 million in the year 2010. At the same time the foreigners' share in the total population of Spain increased from less than 1.4% to 12.22%. A very intense increase in the number of foreigners – almost six-fold (by more than 4.3 million people) happened in the years 2000–2007, so at the time of a prosperity period for Spanish economy. In the first years of the economic crisis (2008–2010), the number of foreigners, as well as their share in the total population, did not decrease – it even increased slightly. From the year 2011 on, when the economic crisis became worse, both the number of foreigners and their share in the Spanish population have been decreasing. In 2014 the number of foreigners in Spain was only slightly above the 5 million mark, while their share in the population had decreased to 10.7% (by 1% when compared to 2013) (INE 2015a).

Despite increased emigration from Spain, foreigners still constitute a big part of Spanish population. The aim of this article is to show the impact of foreigners on the demographic situation of Spain. Immigration has profound impact on sustainable growth not only in the areas of economy or environment, but society and demographics as well. This becomes more and more important in the aging societies of developed countries (Lutz et al. 2012; Wilk, Bartłomowicz 2012).

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<sup>1</sup> Saying nothing of their legal status in the host country.

## Socio-demographic Profile of the Foreigners in Spain

The foreign population in Spain consists mostly of relatively young people, and additionally in the years 1998–2014 the immigration flow caused this group to become even younger. The share of young people (aged 0–15) increased from 13.8% to 15.9%. The same with working-age population (aged 16–64), which increased from 74.3% to 78%. This trend is mostly due to the fact that immigrants are coming to Spain to work<sup>2</sup>. At the same time the share of people aged 65 or more has almost halved (from 12% to 6.1%). The lowest number was recorded before the crisis – in the years of the highest net immigration. In the year 2008 the figure was slightly below 4.9%.

The fact that the immigrant population is rejuvenating can be also clearly seen in the five-year groups chart. The 3 biggest groups were people aged 25–29, 30–34 and 35–39. It is worth noting that in 1998–2001 the majority consisted of people aged 30–34 and 35–39, while in the following years the group of younger people – aged 25–29 – was growing to become the biggest one in the years of highest immigration, i.e. 2002–2008. From the year 2009 again the most numerous group has been that of people aged 30–34, which was also accompanied by the growth of the older group – aged 35–39.

These changes were reflected in the average age of immigrants, which was at the level of 38.3 in 1998, to become 37.5 in 2000, 35.5 in 2001 and to reach 32.8 in 2004 – which was the lowest figure – in the years 1998–2014. Years 2005–2010 are marked with a stable figure close to 33, which was to increase to 35 in 2013–2014 (INE 2015a).

As to the sex structure of the population, men were slightly more numerous in all the years between 1998 and 2014. In 1998 men's share was at the level of 50.6%, to become slightly higher than 51% in 2014. In the whole period there were always more men in groups aged 0–15 and 16–64. Men's share in the youngest group (aged 0–15) was almost the same, while grew in the 16–64 group from 50.5% in 1998 to 51.3% in 2014, peaking in 2005–2006 with the value of 54%. In the group of oldest people (aged 65+) men's and women's shares were almost equal, with a significant increase of female population to 50.9% in 2014.

The sex structure of immigrants aged 30–39 was changing most rapidly during the 1998–2014 period. While this group consisted of men in 52% in 1998, in 2005–2006 this was already 57%. After 2010 the sex structure became more balanced, with the

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<sup>2</sup> That is reflected in results of *Encuesta Nacional de Inmigrantes* 2007 (INE 2008) and high economic activity rate of foreigners in Spain.

imbalance shifting to more aged groups, reaching in 2014 50.4% of men's share in the group aged 30–34, 54.5% in aged 35–39 and 55.1% in aged 40–44<sup>3</sup>.

Immigration in years 1998–2014 was also marked with a change of the countries of origin. The most numerous group of immigrants both in 1998 (49.1%) and in 2014 (45.7%) were immigrants from European countries. In 1998, 90% of immigrants originated from the EU 15 countries, mostly from Great Britain and Germany. In 2014, only 42.8% of immigrants originated from the EU 15 countries, although as much as 90% of immigrants originated from European countries. Most immigrants in 2014 originated from Romania and Romanians became the most numerous immigrant group in Spain. Europeans constitute the majority (>80%) of all immigrants aged 65+. Between immigrants, the British and the Germans are on average older than immigrants from other countries, with 20–30% of them being 65 or older<sup>4</sup>.

At the same time there was an increase in the number of immigrants from the Americas, which constituted 21% of the foreign population in 1998 and more than 25% in 2014. This was mostly due to immigration from Latin America<sup>5</sup>. In parallel, citizens of the USA and Canada constituted only 2% of immigrant population in 2014, while in 1998 the number was 11%. There is also a significant difference in the average age of immigrants from the USA and Canada when compared to the immigrants from Latin America. Although both groups rejuvenated in this period (1998–2014), as many as 12% of immigrants from the USA and Canada were above 65 years old, while only 2% of immigrants from Latin America were above that age. Also among the immigrants from Latin America women constituted the majority (ca. 55–60%).

Immigrants from the African countries constituted 23% of all foreigners in 1998 and more than 21% in 2014. When compared to other immigrants, the Africans were on average very young – more than 90% of them were less than 50 years old. This is also significantly masculine population, with more than 60% of population being male, more males in every age group and 70% of population between 25 and 49 years old being male.

Immigrants of the Asian descent constituted 6.7% of the immigrant population in 1998 and 7.6% in 2014<sup>6</sup>. This group also consists mostly of young people (only 1.5% of the population aged 65+ in 2014) and is predominantly male (57.6% in 2014). Males

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<sup>3</sup> Own elaboration based on *Estadística del Padrón Continuo* (INE 2015a).

<sup>4</sup> Similar age structure can be observed in immigrant groups of Finnish, Swedish and Danish, but they are not so numerously significant.

<sup>5</sup> It was also a group of high level of emigration during the years of economic crisis in Spain. In 2010–2014 the number of Latin-Americans in Spain decreased by more than 400,000 people.

<sup>6</sup> Foreigners from Australia and Oceania constituted less than 1% of immigrants in Spain in 1998–2014 and have no significant impact on general characteristics of immigrants in Spain and its demographics.

dominate in the age groups up to 60–65 years old, where female domination starts. Among the immigrants from Asia, two groups can be distinguished: immigrants from Pakistan, Nepal, Bangladesh and India where males dominate (70–80% share), and Thailand, Japan and Philippines where women dominate (60–77%).

Marital and family status of immigrants is also worth noting. According to Encuesta Nacional de Inmigrantes (INE 2008), in 2007 46% of immigrants in Spain<sup>7</sup> were living with their spouses, 6.3% were married, but were living alone and 38% were single. Almost  $\frac{3}{4}$  of immigrants had children, but only 44% of them were living with their children. Almost  $\frac{3}{4}$  of immigrants not living with their children had 1 or 2 children. Taking into consideration the on average young age of immigrants, as well as the fact that many of them were single or had children but were living alone, some of the reasons for immigration in the future might be the intention of getting families together. The other consequence of this fact can be increase of births among immigrants and, depending on their marital choices, mixed marriages with Spaniards.

## The Impact of Foreigners on the Selected Demographic Indicators in Spain

From the mid-90s up to 2010 the increase of Spanish population was mostly due to immigration (Figures 1 and 2). Between 1996 and 2010 the population of Spain increased by 7.4 million – from slightly more than 39.1 million to 47 million, i.e. by 18.8%. As much as 65.5% of this change was due to immigration. The biggest impact of foreigners on the growth of the Spanish population was in the period of fast economic growth and high net migration (2000–2007). At that time the population of Spain increased by 5.7 million (14.1%) from 40.5 million in 2000 to 46.2 million at the beginning of 2008<sup>8</sup>. In that period the immigrant population in Spain increased six-fold.

The highest crude rate of total population change was also recorded in the years 2000–2008, predominantly due to the crude rate of net migration, which was seven times higher than the crude rate of the natural change of population in the same period<sup>9</sup>. At that time Spain achieved one of the highest migration ratios not only within

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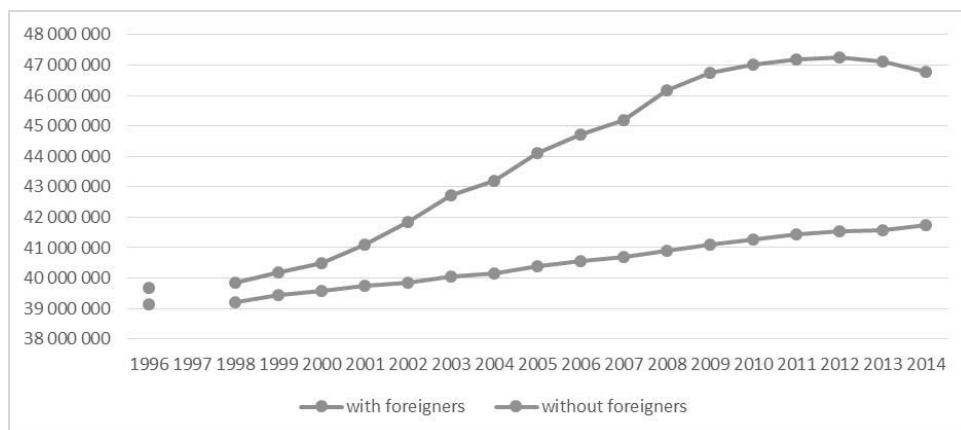
<sup>7</sup> Defined as aged 15 and more, foreign-born and living in Spain since at least one year. Person's citizenship is not considered.

<sup>8</sup> Data as of the 1<sup>st</sup> January of each year.

<sup>9</sup> Immigration also has influence on the level of natural change of population. Nevertheless, in this analysis its impact on births and mortality is not considered.

the EU, but also globally (Eurostat 2010; UN 2006; UN 2009). In 2009, net migration decreased significantly due to the economic crisis. This trend was kept in the following years, with net migration decreasing steadily. From the year 2010 on, the crude rate of net migration has become lower than the crude rate of natural change. Positive crude rate of natural change was diminishing the impact of negative net migration (from 2012) on the crude rate of population change. The overall impact of foreigners on the Spanish population number is doubtlessly positive, though – the population change excluding the foreigners' impact in the years 1996–2010 was +2.1 million and including foreigners +7.4 million, in the years 1996–2014 2.6 million vs. 7.1 million respectively (Figure 1)<sup>10</sup>.

**Figure 1. Population of Spain in 1996–2014**



no data available for 1997

statistical use at 1st January each year

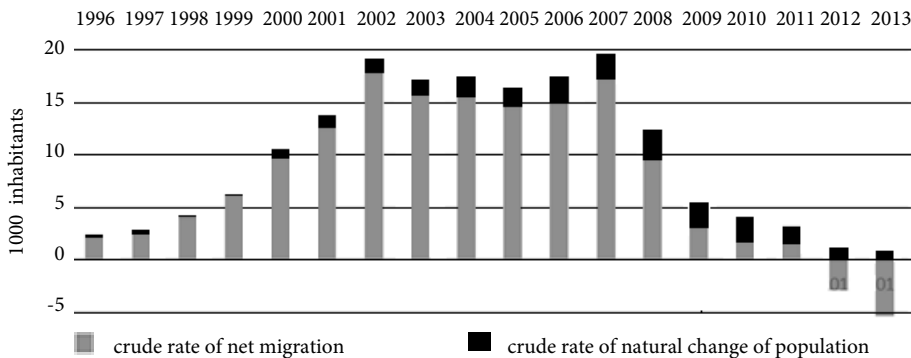
Source: Own elaboration based on INE base, *Estadística del Padrón Continuo*, <http://www.ine.es/jaxi/menu.do?type=pcaxis&path=%2Ft20%2Fe245&file=inebase&L=0> [accessed on 12.05.2015].

Immigration has also had a clear impact on the age and sex structure of the Spanish population, which has rejuvenated, and also on the ratio of the working age and children population to elderly population, which has improved. In the years 1998–2014, the population of Spaniards was clearly older than the immigrant population. During that period the population of Spaniards was ageing, while the immigrants became on average younger. As a consequence, the differences in the age structure of both populations became bigger. When considering only three age groups:

<sup>10</sup> Data on people with/without Spanish citizenship. The problem of obtaining citizenship by foreigners is not considered here.

aged under 15, 15–64 and 65+, one can say that the Spanish population got older between 1998 and 2014. The elderly population's share grew from 16.3% to 18.1%, and for the group aged 15–64 the shares were 67.2% (1998) and 66% (2014). Immigration has considerably slowed down the ageing of the population of Spain. If not for the immigration, the numbers would have been 19.5% for aged 65 and more (18.1% with migration) and 64.5% for working age group (66% including migration) (INE 2015b).

**Figure 2. Impact of Net Migration on Total Population Change in Spain in 1996–2013**



Source: Own elaboration based on Eurostat, <http://ec.europa.eu/eurostat/data/database> [accessed on 12.05.2015].

From the perspective of the host country's future demographic structure, it is important how the migration influences the fertility ratio. In Spain from 1981 onwards – so for more than 30 years, the short-term fertility indicator has been too low to guarantee a simple replacement of generations. To achieve this goal it should have reached the value of 2.15 or more while it oscillates between the values of 1.2 and 1.4. In years 2002–2013 the short-term fertility indicator of immigrants every year was higher than that of Spaniards, although it also did not exceed the value needed for the replacement of generations. Despite some oscillations it also showed a decreasing tendency with the value of 1.89 in 2002 and 1.53 in 2013. Due to the immigrants, the overall short-term fertility ratio has risen (with respect to the value for the Spanish population), but the influence of immigrants on this figure never exceeded 6% (INE 2015b). These indicators are still among the lowest in the world (World Bank 2015) and low fertility ratio is one of the causes for the ageing of society.

Population projection EUROPOP2013 (Eurostat 2014b) presents the main scenario for years 2015–2080 and several variants of the development of the demographic situation in the EU countries, including zero migration variant for the years 2015–2080 and a variant with reduced migration for the years 2015–2060. In both scenarios

with migration, the net migration for Spain will have negative values until 2020 and Spain's population will shrink by 2020 to 45.8 million in the main scenario and to 45.9 million in the reduced migration scenario. From 2030 on, the net migration will again have a positive value, but the population of Spain will start growing as late as in 2040. The population projection after 2040 shows how important migration will be for the population of Spain. According to the projection for the year 2060, thanks to migration the Spanish population will be higher by 1.7 million (46.1 million) than in the scenario with reduced migration (44.4 million) and by more than 9 million people than in the "zero migration" scenario (37.3 million). In the following decades the impact of migration will be even higher. By 2080 the main scenario foresees 47.6 million of inhabitants, the "zero migration" scenario – only 30.2 million, so the difference will rise to more than 17 million of inhabitants and exceed the 50% mark (57.6%).

According to this study (the main scenario and the "zero migration" variant), migration will also influence, strongly and in a positive sense, the proportions between different age groups. Thanks to migration by 2080 the oldest age group (65+) will be 27.8% of the population and without it – 38.2%, so it diminishes this value by more than 10%. At the same time it also diminishes the share of people aged 80+ in the population by 6 percentage points, increases the share of working age group by 7 percentage points and children (<15 years old) by 4 percentage points. To sum up according to Eurostat projection in 2080 migration will have a strong and positive impact on the age structure of Spanish population. It will lower the average age to 45.8 years (55 years in the scenario without migration) and lessen the demographic burden measured by the old-age dependency ratio from 76.4 ("zero migration" scenario) to 48.3 (main scenario). Nevertheless, comparing the age structure of Spanish population in 2014 with that projected for 2080, even in the best case scenario the population of Spain will age significantly.

The newest long-term projection prepared by INE for Spain covers years 2014–2064 but does not include the "zero migration" scenario (INE 2014b). Therefore, on the basis of this study the validation of migration's impact on the ageing process is impossible. INE also predicts negative net migration up to year 2020 and a steady increase afterwards<sup>11</sup>. According to INE, the population of Spain will decrease steadily from more than 46 million in 2014 to slightly less than 41 million in 2064. The population will also age significantly, with children (<15 years old) making up 9.5%, older people (65+) more than 38.7% and the oldest (80+) 21.6% of the total population<sup>12</sup>. The less favourable development as compared to the Eurostat projection is mostly due

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<sup>11</sup> Similar to EUROPOP2013. INE assumes annual immigration of 332,000 people each year during the whole period of projection and decreasing emigration from more than 417,000 in 2014 to 256,000 in 2063.

<sup>12</sup> Own elaboration based on INE Proyecciones de Población.

to more cautious assumptions made by INE. INE assumed much lower net migration in the analyzed timeframe and much lower fertility ratios<sup>13</sup>. From the perspective of population size and age structure, it is worth noting that even in the EUROPOP2013 scenario with lower fertility ratios<sup>14</sup> and with the same net migration as in the main scenario, the population of Spain reaches 44 million in year 2060. In EUROPOP2013 projection the age structure is also more favourable with children (<15) making up 11.7%, working age people (15–64) 56.9%, older (65+) 31.5% and the oldest people making up 15.5% of the population.

## Conclusions and Recommendations

Significant net migration to Spain from the mid-90s highly impacted its socio-demographic structure. Thanks to both direct impact of net migration and indirect through the rise of fertility indicators, the population has risen and the age structure has improved. This was due to the on average younger age of immigrants, among them many females, and fertility ratios higher than within the Spanish population. Yet it is worthy of note that childbearing patterns of migrants and Spaniards are becoming more and more similar (Roig, Castro 2007; Castro 2010; Romiszewska 2013).

As shown by the EUROPOP2013 analysis, migration can significantly increase Spanish population and also diminish the unfavourable proportions between working-age group and others that arise due to the ageing process of the society. Earlier projections prepared by Eurostat and INE had shown both positive impact of migration on the age structure in short and long term, mostly by increasing the number of working age inhabitants. However, in the long term migration was not able to counter the ageing process of the society (Castro 2010: 6; Romiszewska 2013). One has to keep in mind that projections focus on net migration numbers without deeper analysis of the structure of migration, i.e. are these figures due to immigration or emigration. At the same time one of the key factors that indirectly shapes the demographic structure is the fertility ratio's impact of migration. Immigration is therefore as much of an opportunity as a challenge for the government, who should use all the opportunities provided by migration, but also prepare for social consequences of increased migration.

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<sup>13</sup> EUROPOP2013 assumptions include steady increase of fertility rate in Spain to 1.55 in 2060 and 1.62 in 2080 and INE forecasts its gradual decrease to 1.22 in 2063.

<sup>14</sup> This scenario assumes decrease of fertility rate to 1.24 in 2060. That makes it more similar to the value assumed by INE, although it is still higher than in INE projection.



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## PRO-NATALISTIC ASPECTS OF POLISH POPULATION POLICY – SELECTED PROBLEMS IN THE YEARS 2004–2014

### Abstract

*The article describes the main demographic problems related to the establishment of the family in the years 2004–2014, their causes and the measures taken by the authorities (central and local) for their solution. The issue of pro-family and pro-natalist actions is extremely important in the face of projected population decline in European countries. The research method used is the analysis of documents - including reports of the Eurostat, the Central Statistical Office (Główny Urząd Statystyczny – GUS), the Government Population Council (Rządowa Rada Ludnościowa – RRL), the results of social research conducted by the Public Opinion Research Center (Centrum Badań Opinii Społecznej – CBOS), and the analysis of literature. The analysis shows that the main problem faced by the Polish population policy is the decreasing number of new marriages and deposition of parenting decisions by young people. This stems mainly from the changes in social attitudes, an extended period of study and uncertainties in a highly competitive job market.*

**Keywords:** population policy, demography, fertility, public policy

### Introduction

The population policy is currently a very popular issue in the public discourse. This is due to the unfavourable demographic projections provided for the aging of European societies and the negative birthrate. The purpose of this paper is to present a family-oriented and pro-natalistic aspects of population policy in Poland in the years 2004–2014. This time period will allow for the analysis of the impact they had on the demographic situation after Polish accession to the European Union on 1<sup>st</sup> May 2004.

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By “population policy” we mean “deliberate, long-term impact of the state and public entities on the process of natural movement and migration of the population to form the desired state and structure of the population by creating social, economic and political conditions favourable for the demographic processes to ensure the continuity of the nation’s biological and sustainable socio-economic development” (Government Population Council 2014: 13). The main areas of implementation of the population policy are the labour market, social security, housing, health and education.

From the definition above, the main organisation to implement population policy should be the state. It is responsible for creating laws and institutions affecting the socio-economic demographic processes. Increasing disparities between regions inflate the importance of local government administration. Other entities which play an important role in shaping the population policy are primarily non-governmental organisations, churches, trade unions and employers’ organisations (Ibidem).

In 2004, the Government Population Council singled out four general objectives of the Polish population policy (Government Population Council 2006: 4), which are valid until today:

Objective 1: Improving the conditions for the establishment and functioning of families and conducive to having children and increasing the number of births.

Objective 2: Creating conditions for integration in an aging society.

Objective 3: Improving population health and reducing mortality.

Objective 4: Determining the directions and principles of the Polish state migration policy in the era of European integration.

In this text I focus on the first of those aims. This is due to its supremacy against the other three.

## **1. Models of family policy and attitudes towards the family in the European Union**

Family policy is a key component of population policy. It consists of public actions in the areas of law-shaping behaviour regarding family formation, its material resources, reproductive health, child protection and the rights and duties of parents, income support for families with children through cash benefits and benefits in kind, tax incentives and facilitating the access to goods and services essential to the functioning of the family (Golinowska 2007: 8). The differences in the policies established in different EU countries stem from demographic conditions, economic, social and cultural rights. G. Esping-Andersen divided family policies applied in Western

European countries into three categories: liberal, conservative and social-democratic, according to the criterion of domination of one of the entities: the market, the state or the family. Some authors distinguish a Southern European model, sometimes called “Mediterranean” as well (Anioł 2003). The characteristics of each model are presented in Table 1.

**Table 1: Models of social and family policy<sup>1</sup>**

Liberal Model (Ireland, UK)	Conservative Model (France, Germany)	Social democratic model (Nordic countries)	Mediterranean model (Greece, Italy)
market one's own responsibility selectivity of benefits low benefits	regulatory function of the state forethought of citizens and social insurance generous benefits	strong role of the state strong redistribution of income universalism generous benefits	emphasis on the responsibility of family and family solidarity = familiarism limited role of the state selectivity of benefits low benefits
Family Policy			
1 breadwinner model universal family benefits additional benefits and selective programs day care and early childhood education priority for the youngest children in family care supporting the development of care services in areas at risk	1 breadwinner model universal family benefits (the right of the insured) tax reliefs institutional gap regarding the care of the youngest children a kindergarten as an element of the educational system financial support from the public funds	2 breadwinners model universal family benefits (citizens' right) additional benefits for families at risk childcare a) variety of forms b) universalism c) part of the educational system d) preference for children of working parents e) public funding	- 1 breadwinner model - selective benefits - tax reliefs - interfamily care as a priority - small range of childcare services

B. Balcerzak-Paradowska (2009: 19) qualifies pro-family policy model used in post-communist countries (including Poland) in the category of social-democratic. This is indicated by rights of the nationals entitled to assistance (although some benefits are exclusively for employees) and taking into account the principle of gender equality. What distinguishes these policies from the Nordic variant is the range and amount of cash benefits and the existence of the criteria limiting the scope of benefits, mostly the income criterion.

Ch. Saraceno (2007: 4–5) points out the fact that there is great diversity in terms of women's professional activity in Europe. This is illustrated in Figure 1. (data from

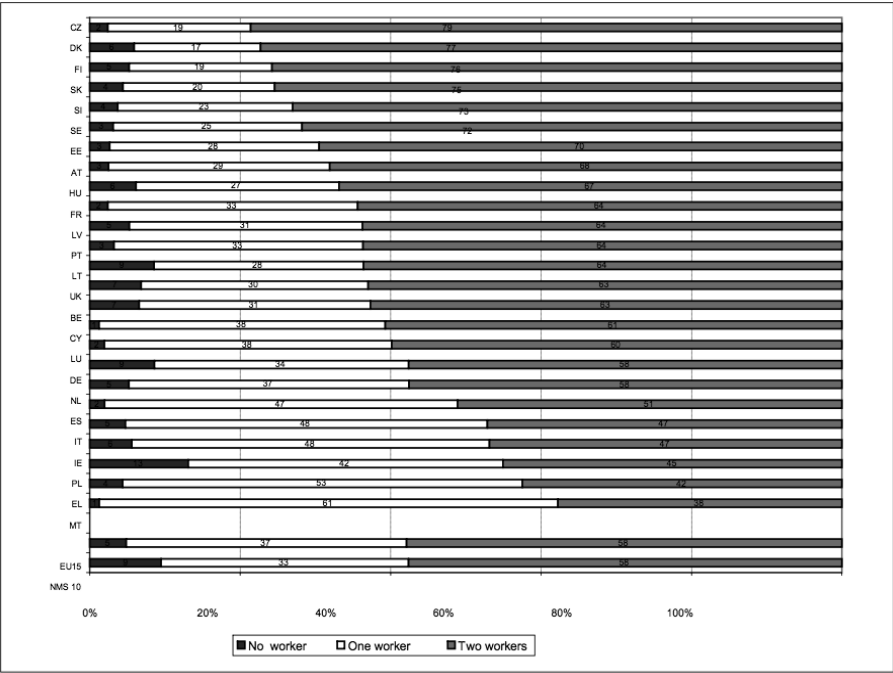
<sup>1</sup> One has to keep in mind that family policies does not exist in pure form model. This summary highlights only the main characteristics of each model.

2007.). It cannot be solely explained by cultural differences, although undoubtedly one can see a connection between cultural heritage (a set of informal institutions) and legislation (formal ones). Saraceno identifies four factors that are necessary to reconcile work and care for the home (ibid.):

- a) the division of labour within the household;
- b) the organisation and length of working time;
- c) the availability, length, and coverage of family-oriented leaves;
- d) the availability of good quality and affordable care services.

The state can influence the first two indirectly (e.g. by creating incentives for companies), and plays a decisive role in the last two. It shows that family policy used by the state has a decisive impact on the number of working spouses.

**Figure 1. Dual worker, one worker and no worker couples in EU 25. Couples of working age (2007)**



The steadily declining number of births in Europe<sup>2</sup> forces a discussion on the phenomenon of childlessness, both resulting from biological causes and voluntary. The twentieth century is characterised by the shift from the perception of a child through the prism of economic benefits (work which a child can provide for the family) towards concentrating on parental love (Slany, Szczepaniak-Wiecha 2003: 155). There was therefore a clear separation between productive and reproductive spheres in the family. Modern western society is the first in history that allows women to consciously not have children. A child began to be seen as a social good which is supposed to benefit not only the parents but the entire state. Modern society, sometimes called "post-materialist" (Appel, Inglehart 1989), is characterised by a high level of individualisation. This is due largely to the security offered by the modern welfare state, and hence, there is no need to rely on such traditional structures as family or religion. This is reflected in the numbers. Crude marriage rate across the EU has decreased from 6.3 in 1990 to 4.2 in 2011 (Eurostat 2015). At the same time, crude divorce rate has increased in the same period from 1.6 to 2.0 (Eurostat 2015). The replacement of the existing model of a nuclear family with an egalitarian one (departure from the model of one, usually male, breadwinner) may be noted. It is characterised by low fertility, or even DINKS ("double income, no kids") model.

However, the report *Increasing childlessness in Europe: time trends and country differences* shows that despite the decrease in the number of marriages and the total number of births<sup>3</sup>, more than 90% of the EU's childless citizens aged 18-40 years would like to have at least one child in the future (Miettinen, Rotkirch 2015: 36). This may suggest that the cause of declining fertility is rather the socio-economic situation than a change of attitude.

## 2. Main threats to the creation and functioning of the families in Poland

Institutions responsible for conducting population policy in Poland did not respond in time to the progressive (since the early 90s) decline in fertility. In part it was due to the decrease in the number of marriages. In 1990, their number amounted to 255.4

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<sup>2</sup> The decrease from 5,469.4 thousand in 2008 to 5,108.4 thousand in 2014 refers to live births. Source: Eurostat (2015).

<sup>3</sup> Crude birth rate for the whole of the EU fell from 10.9 in 2008. to 10.1 in 2014. Source: *ibid*.

thousand<sup>4</sup> and it decreased to 203.6 thousand in 1996. A slight increase occurred in the years 1997-99, but since 2000 the number of marriages began to fall again. This trend was halted only in 2004 (191.8 thousand). The increase continued until 2008 (257.7 thousand), and then the decline lasting until the present day started.

The attitude of the population towards the institution of marriage has also changed. This is due to the Poles entering the second phase of demographic transition. In 2004, the first marriage for both spouses accounted for 87.1%. In 2010, it was 84.7% and 83.9% one year later. Responsible for this decline is the growing popularity of informal relationships. At the same time, the age of honeymooners shifted towards older age groups. In the year 2000 men aged to 25 years accounted for 42% of newlyweds, and in 2011 only 18.9%. The increase in the age of spouses has negative impact on fertility of the families. At the same time, one can observe a growing trend in the number of divorces.

From 2004 onwards, the number of births is growing. This increase is mainly the result of a larger number of couples opting for the first child (Government Population Council 2011: 71). This is due to the baby boomers of the early 80s entering the reproductive age. Cultural change is an additional factor, in particular one's beliefs about the division of roles in society between men and women, the situation on the labour market, the level and living conditions and solutions offered by state in the field of family policy (Kotowska et al. 2010: 9). Reasons for delaying the age of the first marriage can also be explained by increasing the educational aspirations of Poles<sup>5</sup>. Both the number of trainees at the level above college and of postgraduate students and doctoral programmes is increasing (Central Statistical Office 2014: 38-40). This is accompanied by social acceptance of postponing the decision to start a family<sup>6</sup>. The 1<sup>st</sup> Polish Demographic Congress, which took place in 2001-2002, named the change of individual choices as the main cause of changes in the matrimonial behaviour of Poles. These preferences result from socio-economic transformation of the Polish society, which pays too much attention to economic agents as a result of growing consumerism and the dissemination of liberal ideas. (Frątczak 2003: 61). At the same time, social surveys show that the majority of both the younger and older generation

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<sup>4</sup> Unless otherwise stated, all cited statistical data are taken from *Demographic Yearbooks* published by the Central Statistical Office (GUS) from the respective years.

<sup>5</sup> Increased duration of the study period can be explained by the desire of the young generation to get the best position in the highly competitive job market.

<sup>6</sup> Interesting results were presented in CBOS survey *Controversy over the various phenomena relating to marriage and family life* (pl.: *Kontrowersje wokół różnych zjawisk dotyczących życia małżeńskiego i rodzinnego*) in 2008. Nearly half of the respondents (48%) said that the main reason because of which women do not marry is the fear of a failed marriage. At the same time, more than half (53%) said that men do not commit to marriage because of their preference for life without obligations. Source: CBOS 2008. In the same survey 57% of respondents expressed a positive attitude towards the institution of concubinage.



declare having children as their vital need. Most often the declared number of children is two (CBOS 2008).

### 3. The activities carried out within the framework of the Polish population policy in the years 2004–2014.

In 2005, under the pro-natalist policy, the government introduced a one-off provision related to childbirth in the amount of 1000 PLN (247.5 EUR back then), originally independent of the income of parents (so-called. “Baby bonus” – “becikowe” in Polish) (Dz.U. 2006 nr 12 pos. 67). The universality of the granting of benefits from the beginning aroused discussions. Some opinions stated that it will be accessible for people with high incomes, and that some beneficiaries will not spend the allocated funds as intended (i.e. not on provisions for a child). From the point of view of population policy, granting this allowance only to women who came under medical supervision sooner than 10 weeks since the beginning of pregnancy should be evaluated positively. Since 2012, granting of these benefits depends on the level of family income. The income per capita cannot exceed 1922 PLN net (Dz. U. 2012 pos. 1255).

Another group of legislative solutions related to fertility was the introduction of changes concerning the use of maternity leave. Its duration was increased to twenty weeks. The law dated on 28<sup>th</sup> May 2013 (Dz. U. 2013 pos. 675) has also introduced an additional maternity leave of four weeks<sup>7</sup>. In addition, a father is entitled to paternity leave<sup>8</sup>, which can be used until the child is 12 months old. In 2013 a 26-week long parental leave, which can be used by both working parents, was introduced. These changes, though potentially beneficial from the pro-natalistic point of view, raised legitimate concerns about the competitiveness of women on the labour market.

Starting from 2007, the government began a broad promotion of pre-school education for children 3–5 years old. The main purpose of these actions is to facilitate parents to combine parental duties with employment. The solutions implemented include in particular the expansion of the network of pre-school education, education

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<sup>7</sup> 6 weeks in case of multiple births. Changing the *Labour Code* in 2013 extended these periods to 6 and 8 weeks.

<sup>8</sup> In 2010 and 2011 it was one week, and from 2012 onwards, 2 weeks.

of parents and the provision of psycho-pedagogical support. The result of this policy is to increase the number of kindergartens and promoting pre-school education<sup>9</sup>.

In Poland, there is a large disparity between the number of nurseries and the demand for them. The Act on Childcare from 4<sup>th</sup> February 2011 strengthened the role of local governments in creating this type of care services through targeted grants for municipalities (Dz. U. 2013 poz. 1457). In addition, the law allowed local governments to organise new forms of child care: children's clubs, nannies and day care attendants.

Family-oriented aspect of the social character of the Polish population policy manifests itself primarily in cash transfers to families with low income. The primary instrument is a family benefit, intended to be partial compensation for child maintenance costs. The amount of this benefit increases with the age of the child and is based on the value of the basket of food products for the particular age category (Dz. U. 2003 pos. 2255). The main problem with the family benefit in Poland was to maintain a constant level of per capita income criterion since 2003 (504 zł), which resulted in a decrease of the number of families covered by this support. In 2012 this amount was set to 539 PLN and then to 574 PLN in 2014.

Another group of family-friendly benefits are social assistance benefits. As a rule, they include the family as a whole<sup>10</sup>. They usually take the form of social work and family therapy. Rarely are they granted to individual members. The form of aid addressed to children directly is, for example, a free meal at school. This program includes children up to seven years of age and adolescents until they finish high school. Another example is the replacement care for children without parental care (wholly or partly). It takes the form of family care (foster family) or institutional care (intervention centres).

A positive action from the educational point of view is to introduce the school subject "Family life education" in the fifth and sixth grade of primary school, as well as in junior high schools, high schools, vocational schools and technical colleges. It aims to support young people's pro-family, pro-health and pro-social attitudes and the educative role of family support.

In the years 2004-2014, a clear trend to delegate the power of family policy at the local level can be seen. It allows to make better diagnosis of the situation of families in the area, thereby increasing the effectiveness of policies. At the local level the dominant form of family-oriented activities are the instruments of social assistance (Government Population Council 2014).

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<sup>9</sup> With 41% of children aged 3-5 years in 2005/06 to almost 70% in 2012/13. Source Government Population Council 2014: 43.

<sup>10</sup> This follows from the assumption that a family is the primary educational environment of the child.

### 3. Assessment of the pro-family policy in Poland.

Comparing recommendations for changes in the Polish population policy formulated by the Government Population Council in 2004 and 2014 one can see that some of the primary demands are still valid despite the decade passed. This concerns the issue of achieving economic independence by young people in particular. In both 2004 and 2014 the Government Population Council's main postulate was to equalise opportunities for increased access to education (Government Population Council 2014: 17, 51). In both cases, the emphasis was also put on professional education of young people still at the stage of schooling. In this issue, recommendations from 2004 have been much more extensive. They emphasised, for example, the need for continuous co-ordination (current and prospective) of professional education with the labour market. From the perspective of the decade it can be clearly seen that more flexible forms of employment, which were postulated in 2004, have not worked. Although it should be clearly stated that recommendations also included a demand to increase the legal protection of persons covered by non-standard forms of employment.

A positive occurrence from the point of view of population policy is the extension of the duration of the leave used by the mother and father of the child and the gradual extension of maternity leave, which was postulated by the Government Population Council in 2004 (Ibidem: 21). The introduction of universal school subject "Family life education" should also be rated positively.

So far, Poland still has no functioning system to support social housing, which could improve the housing situation of many families which for economic reasons cannot afford to dwell ownership. The issue of more egalitarian access to education has to be solved, especially when it comes to children and young people from villages and small towns. Partial solution was introduced recently by the Ministry of Education as a free textbook for classes I-III of elementary school, however there are many issues to be solved, for example the diversification of transport allowances depending on the distance travelled to school. This solution would improve the availability of education at high school and university level.

### Conclusions

As one can see, Poland has made great progress in the field of pro-family population policy in the decade since entering the EU. It is very important in times of progressive

socio-economic changes and the growing popularity of consumer lifestyle. The increasingly competitive labour market often delays starting a family and parenting decisions. As is clear from this text, further action is required by the government and local administration bodies to promote pro-family behaviour. These activities are extremely important in terms of demographic aging and social consequences of this phenomenon.

Despite its many successes, the Polish population policy still has many fields that need significant improvement. This applies in particular to supporting families with lower income and equalising opportunities in the access to educational services for young people from rural areas and small towns.

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## **Part VII. Education and Research as Main Drivers of the EU's Sustainable Growth**





*Lika Mkrtchyan\**

## **NEW CHALLENGES OF GLOBAL EDUCATION: A PRECONDITION FOR SOCIAL WELFARE OR A THREAT TO LABOUR MARKET?**

### **Abstract**

*The centuries-long struggle for the right to education has come to face other challenges in the age of globalized networks and assumed equal opportunities. Despite the popularization of universities and introduction of common standards called to simplify student mobility and mutual recognition of study certificates/diplomas, higher education no longer represents a general precondition for social equality, welfare or guarantee, given the increasing supply of high-skilled professionals and decreasing demand on the labour market. Recent tendencies and interest in mass education in relatively popular disciplines result in the overproduction of qualified specialists without meeting the hiring capacities of the global market. Former insurmountable barriers to world markets have now been eliminated due to different waves and aspects of globalization. To withstand the ever-growing competition and evolving tendencies, it is essential to have an approximate vision for the choice of one's future profession, bearing in mind that it should go beyond national borders and employ the concept of becoming a "global employee". Pursuing this goal, a huge gap appears between the younger and the older generation that had to undergo various stages of transformation influenced by geopolitical and socio-economic changes, technological development and market requirements. A graduate from a country with a developing economy, having received a degree from a prestigious university abroad, has to face the problem of migration, because in the majority of cases the home country is not capable of offering a well-paid position to such a high-skilled specialist with immense potential, labelling the applicant as overqualified for the local job market. The opposite phenomenon deals with another negative aspect of mass education, which degrades the interest in learning services and handicraft skills, thus boosting the increase in demand, as a result of which making the roustabout jobs more popular and better paid. As the modern issues of higher education and the demands of the labour market are gradually increasing, it is of vital importance to combine the efforts of the international community so as to overcome these drawbacks and find appropriate solutions in order to provide sustainable development for such major social problems.*

**Keywords:** European education, labour market, popularization of education, global challenges, world order

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## Introduction

In the recent decades the developed countries of the western hemisphere tend to westernize the rest of the world or introduce their vision of democratic development through various tools and means. One of the widely used devices that has proved to be effective for the developing nation-states, striving for western standardization on the one hand, but which has also been highly criticized for “demolishing” local customs and traditions on the other hand, is education.

The trends of Europeanization, Americanization or the modern umbrella word for both – westernization, in certain aspects also globalization – are thought to be the driving forces that introduce neoliberal democratic reforms in the third-world countries with the aim of ameliorating the latter’s social and economic welfare, thus boosting the rise in financial indices, stabilizing the markets and establishing grounds for sound competition.

Recent tendencies and interest in mass education result in overproduction of qualified specialists without meeting the hiring capacities of both the local and the global market. The growing challenge of similar socio-economic issues will force the global community to face rational reforms and intercontinental collaboration aiming at a “win-win” game in order to have an educated society, low level of labour migration and a social welfare.

## Re-thinking of Higher Education in the Current World System

The centuries-long struggle for equal gender rights and the right to education has faced another great challenge in the era of capitalism, as while the basic right of citizens is protected – owing to widespread access to education – at the same time it is hindered by its inaccessibility to everyone due to high fees and high requirements in terms of intellectual differences. As a rough example peculiar to our times can be the growing popularity of IT. Taking the above-mentioned criticism of high demands as well as differences in disciplinary talents and abilities, not everyone willing to become an IT specialist can enter the department of a competitive university having little or no potential in the field, but being more skilful in humanitarian sciences. Nevertheless, this option is not excluded in certain cases if the applicant can afford paying excessive fees and all the related costs throughout the study years.

The pursuit of welfare and secure future faces another problem, which had not represented a serious issue before the emergence of hi-tech industrialized globalization. In particular, this refers to a very responsible choice to be made when still a teenager – which specialization to choose to be sure that in 5–10 years' time it will still be demanded on the labour market.

Former insurmountable barriers to world markets are eliminated now, which means that the vision for a future profession should go beyond national borders and employ the concept of becoming a “global employee” on the constantly evolving, globalized labour market.

The popularization of university education does not in fact simplify an individual's access to the world of knowledge – just the opposite, it creates competition, of which there are two outcomes – either the “natural selection”<sup>1</sup> when the smartest wins or the “imbalance of power” when the richest pays. Consequently, this phenomenon not only brings forward the notion of social inequality in the era of freedom of choice and the right for education, but also gives rise to the decline on the labour market, bringing more supply than demand.

Nevertheless, despite all the injustice and diversified opinions concerning the inequality in the right to education, there is a growing tendency at the leading world universities to allocate scholarships for bright minds from developing countries or to generally make higher education free of charge.

Last year when Germany abolished tuition fees<sup>2</sup> for university students, including foreigners, the country's popularity grew even more not only among students from developing countries, but also from the highly developed countries of the world. Smart students from the United States and the United Kingdom who could not afford their education in their home institutions because of high fees and student loans tried their luck at German universities. This was a major step towards the country's commitment to universal education on one hand and a very carefully considered policy on the other. Why? The reason is that skilled labour force who concentrated more on studies during the student years can pay off better to the government than those who had to pay student loans, but in most cases failed to do so<sup>3</sup>. Besides, this new policy minimized, even nullified, the chances of being accepted “thanks to the parents' purses”, rather increased the competition among prospective students who from then on had to rely

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<sup>1</sup> Metaphorically referring to Charles Darwin's evolution theory of “natural selection” and development “in the fight for survival”, as well as the social phenomena of “Social Darwinism”.

<sup>2</sup> Lower Saxony was the last German state to abolish the education fee in October 2014.

<sup>3</sup> In March 2014 *The Guardian* reported that students failed to pay tuition loans, especially when the fees got tripled, thus making the government lose more than it would have gained by having left the fees at the same rate.

on their own intellect and knowledge. As *The Independent* published, “we do not want higher education which depends on the wealth of the parents”<sup>4</sup>. Quite a rational choice to account for future qualified specialists!

Such a model of democratization and commitment to education proves another phenomenon of hegemony that certain central governments try to retain by means of attracting perspective minds and somehow replacing the existing waves of local population’s migration with higher skilled immigrant labour. In this perspective we can emphasize the multidisciplinary approach and the social change analyzed by Wallerstein in his world-systems<sup>5</sup> theory and the division of labour. In his vision, this system has a single division of labour within one world market, which has its peculiarities depending on the position of the country in the world-system (Wallerstein 2004). He divides the world into core states, semi-peripheral areas and peripheral areas, where the core states concentrate on higher-skill labour, capital-intensive production and appropriation of much of the surplus of the world economy; peripheral areas, on the contrary, focus on low-skill, labour-intensive production and extraction of raw materials. Semi-peripheral areas stand somewhere in between, being less dependent on the core states and having more diversified economies (Wallerstein 1974a, 1974b).

Thus, what do we get? Core states, in our case, economically developed European countries with leading universities and a unified system of higher education, invest their standards in developing countries or attract foreign students with high potential to develop their skills and adjust their mentality to that of the European, pursuing the aim to a) either enrich their labour market with well-trained and high-skilled labour force, or b) upon the return of these young people to their home countries count on the dissemination of European standards and the rise of democratic values. This phenomenon is either perceived positively, due to the “public good” it performs and the intent to increase the level of awareness and world cognition, or is criticized (mainly by Eurosceptics) as an indirect interference with the sovereignty of another state, financial and technological penetration as a result of unbalanced economy and unequal balance of power, or simply the violation of local customs, traditions and values.

Meanwhile, the third option depicts quite an interesting scenario, which probably is not seriously considered when the study program/curriculum/scholarship is designed. After being trained, educated and experienced in the spirit of European values and high-skilled labour demands, a graduate returns to his/her home country, which is usually a developing economy, and faces the global problem of unemployment, but, here is the curious thing, not because of the lack of vacancy, but because of the lack of

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<sup>4</sup> The quote of Gabrielle Heinen-Kjajic, Lower Saxony’s Minister for Science and Culture.

<sup>5</sup> According to Immanuel Wallerstein “a world-system is not the system of the world, but a system that is a world.

an appropriate position and an employer's fear that the applicant being overqualified will change the job because of a low salary or that he/she may become a serious competitor in the future.

## **Popularization of Universities, or Imbalance Between Demand and Supply**

“Under the EU system of multilevel governance, social policy is the competence of nation-states. Yet at the national level, path-dependent forces, specifically the impact of “lock-in-effects” and increasing returns (Piersen 2000: 251–267) built into both the politics and the programs of the welfare state make it difficult to introduce change” (Cox 2012: 17). This is especially true for the developing countries, among them the ENP (European Neighbourhood Policy) and EaP (Eastern Partnership countries). Some of these partner countries are eager to make radical reforms and introduce all the necessary changes to make the approximation with the western standards and education system as soon as possible, whereas some others prefer to avoid fundamentalism and maintain local values in the scientific upbringing of the younger generation. However, it should be noted that starting from 2005–2006 the European Credit Transfer System and the Bologna Declaration got adopted by many countries which are still in the list of developing economies. With this initiative such countries meant to follow the modern trends of globalization by simplifying the process of youth exchanges, mutual recognition of diplomas and adaptation of new teaching methodologies, thus keeping the pace with modernity. Despite a seemingly simple procedure, the process of transformation could not have been that smooth, since the conversion from the Soviet system of education into the European, as in case of Armenia for instance, required quite extensive efforts.

The transformation was rather challenging, as alongside with the socio-economic aspect which included the publication of up-to-date books, handbooks and other teaching materials, the provision of new technological equipment etc., it also required a change of mentality, a varied set of training for teachers and professors, who for decades having used teaching methods different from today's standards had to undergo radical changes. A whole generation, who witnessed two totally different methodologies and standards of education and work, became “prey” to these fundamental changes. Becoming kind of a “guinea pig” of social changes, this generation, alongside with the previous one, became incompatible with the new demands. This can be the result of

the “lock-in-effect” discussed above, social hardships and the “closed” society, which undergoes modification and transformation as generations change.

Thus, as suggested by Verillaud, the impact of globalization on the higher education shaped three major trends: a) the increase in international mobility, b) the economic competition, and c) the competition amongst academic and research institutions. According to him, the modern facets of education are believed to add significant strength to today’s economies based on how well they can harness the knowledge and expertise of the higher education system, which determines the adaptability of the country’s economy to the swiftly changing markets and technologies (Verillaud 2008). As already discussed at the beginning of the paper, one of the main challenges of these new trends of mobility and global markets is the ability to predict the “global” profession in demand.

If during the Cold War era one specialization/higher education was enough to earn one’s living, now an employee needs to possess multiple skills, speak several languages, have years of work experience, in certain cases two or more majors, etc. To illustrate this, let me give an example. Ten years ago in Armenia having a higher education in media communications and journalism, a graduate could find a well-paid position in the emerging new field of Public Relations, which mainly required linguistic education and experience in article/press-release writing. Today many companies hiring PR specialists demand excellent knowledge of marketing and design skills alongside with linguistics and communications major (which is an apparent contradiction on one hand “labelling” certain applicants as overqualified, on the other hand expecting them to be highly experienced), whereas certain universities offer a curriculum either in media/PR or in marketing/PR. Consequently only one diploma is not enough to find a prestigious job.

Another issue that comes up is whether the higher education pays off or not, given that there is an increase in supply and a significant decrease in demand. In the case of “core states” the situation is more or less clear: good professionals are still in demand, and in the majority of cases a specialist will find an appropriate employment with high wages. The image is different in emerging markets and “third world” countries. To illustrate, let’s observe the same example of a journalism specialist in Armenia. For a double-level degree (BA+MA), a tuition fee of about €1 thousand per year is required<sup>6</sup>, let alone other expenditures: study material, transportation, rent (if a student from a more remote area comes to study in the capital), etc. The average wages of a journalist in a newspaper or other media outlet range from AMD 70 thousand to 120 thousand (approximately €130–€220). In contrast to this, a shop assistant or a call

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<sup>6</sup> The prices mentioned are average, since the tuition fees differ from institution to institution. In certain cases scholarships are awarded; besides, there exists a rotation system, according to which a student who earned the highest grades during the semester may study free of charge until the next rotation results, at which time their results will be reassessed and his tuition fees readjusted accordingly.

centre assistant with no higher education may get paid AMD 5 thousand (less than €10) per shift. Unfortunately, high living costs and low level of social welfare make certain students drop their studies and work to make a living.

The social phenomenon of popularization of higher education in Europe and abroad, accessibility and the existence of scholarships gives birth to a remarkable contrast: an increasing ambition to study abroad vs. a decreasing demand on the local labour market. As a result, in certain societies there is an oversupply of overqualified specialists, but no demand for them; instead there is a high demand for a specialist in household services, but practically no supply. Traditionally it is perceived that, for instance, a teacher, translator or lawyer and similar professions requiring higher professional education will be better paid, but vacancies for a welder, car mechanics or repairman are more in demand for higher wages.

The question arises how to deal with this situation and how to balance the demand and supply of high-skilled or low-skilled labour force on the labour market or make it more flexible?

The solution to this issue is intertwined in various sectors of local government and international cooperation. To address the challenges of global education and the overlap of similar curricula, many prestigious universities have been forming consortiums and global networks to equally distribute the demand for a specific profession in the given geographical area. As Rama suggests, the integration with the world market promises prosperity for developing economies, and the unleashing of the market forces associated with globalization should increase productivity and economic growth (Rama 2003), which can be accounted for by the equal distribution of sources based on cooperation agreements and exchange of labour force, raw materials, etc. He argues that different aspects of globalization have different consequences that can fall with openness to trade and rise with foreign direct investment, which in its turn increases the returns to education (Rama 2003).

To sum up, the intersection of education, employment and globalization intertwines with political, economic and social changes. The flow of capital and the increasing competition result in the inability of governments to address the global challenges much ahead, secure equal distribution of jobs, prevent labour migration and guarantee social welfare. Neo-liberal ideology, alongside with universal human rights, calls upon individuals to make use of their fundamental freedoms and develop human personality<sup>7</sup>. Knowledge, science and education have always shed light on the world and interweaved diverse networks of relations. Education is a form of precondition for civilization.

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<sup>7</sup> Article 26 (1, 2) of the Universal Declaration of Human Rights adopted by the United Nations General Assembly at the Palais de Chaillot, Paris, on December 10, 1948.

## Conclusion

The new opportunities of education in the context of globalization are meant to provide public good rather than evil. As every aspect of human existence, this also faces challenges, which can be overcome only in the course of experiment, time and development. The interconnectedness of the world now undergoes the process of systemization and gradual adaptation of new social policies to overcome such global problems as migration, unemployment and equal balance of high and low-skilled labour. It only remains to hope that wise cooperation among nation-states, trade unions, educational establishments and economic blocs will lead to sustainable development of higher education and global social welfare.

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## PRIORITIES FOR THE UNIVERSITY EDUCATION, AND DELIVERY METHODS

### Abstract

*I deal in this paper with two main topics: the priorities for university education and delivery methods, looking both at the ideal goals of a university and at the practical situation. Nowadays the challenges in the knowledge and information society require high educational quality for large groups of population, and tertiary level education is needed for individual development, for cultural and economic progress and for competent active citizenship. It implies rethinking the role and the education forms of this ancient institution without losing its quality, paying attention to new challenges, like preparing students for a job and carrying out research for both scientific and economic development. I address the following issues: university mission, intellectual, research and teaching freedom, internationalisation and European integration, democratisation; I focus on delivery methods, thinking about innovative forms of teaching, learning and evaluating. High education should promote rational and critical autonomous thinking, wisdom, social competences together with research. Active teaching/learning methods, international exchange and formative/participative mid-semester evaluation encourage students to work better. Articulating explicitly how students are expected to perform in their learning process facilitates their success, and develop a basis for continuous improvement lasting after the university time.*

**Keywords:** education priorities, active learning, transversal skills, European integration, university teaching/learning, tertiary level education

### Introduction

I deal in this paper with two main topics: priorities for universities and delivery methods, looking both at the highest goals of the university and at the practical situation. The university is an ancient institution and has a special role to play in the society. Young people are the decisionmakers, the team members, and the citizens of tomorrow.

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I start from the premise that the high-level qualifications pursued in the past by elitist groups are needed nowadays for much larger groups of population, and universities should be able to guide students to achieve them in the context of intellectual freedom, autonomy and internationalism.

Preparing students for the 21<sup>st</sup> century challenges is not only teaching them the technical aspects; it means preparing them for highly qualified living and working habits, guiding them to develop wisdom and transversal competences, as it used to be for the privileged social classes in the past.

That includes overcoming obstacles at the institutional and at the practical daily level. Funding is one of the biggest problems, although it is not the only one; standardisation, ranking, marketisation are the worst dangers in the fields of research and education.

Among several influential factors, the teaching and assessing forms at university play an important role, keeping in mind that different ways of teaching and assessing lead to different aims, and guide the development of general and specialized education.

The research methods used in this paper are both practical experience from teaching at university, observation and analysis of data and of authoritative studies on the topic.

## **1. The Traditional Idea of University and the Challenges in the 21<sup>st</sup> Century**

When we think of the priorities for universities we cannot forget that university education in the past was the preserve of a small social elite. In fact the society, the political systems and the working places were structured in a very different way in comparison to the contemporary era.

Nowadays citizens and workers at all levels need more than passive working skills; they encounter increasingly complex practical situations and are required to have sophisticated comprehension of what it means to do their job in the best way. Both the so-called “white collars” and “blue collars” need awareness and responsibility. At the present time, all students should be equipped with the knowledge, skills, working habits and motivation they will need to pursue good results in their studies and challenging careers after graduation, with potentially significant consequences for our economy, democracy and society.

The best higher education should be accessible to a higher number of students. ET 2020 aims at the ambitious goal of pushing tertiary graduation rates to at least 40%

of the population (ET 2020), promoting social mobility and smart and sustainable growth.

The staff-student ratio used to be very low in the *élite* university. At the beginning of the 1960s (Robbins Report 1963), university education still reached only 4–5% of the age group. It was not until the 1980s that the participation ratio passed 15%, which is generally seen as the tipping point between elite and mass education. We faced the growth of student rate in favour of mass higher education in the late 20<sup>th</sup> century.

The Oxbridge model, which emphasized residence and close relations of the teachers and the students is financially unsustainable, however some key ideas are still irreplaceable parts of the university in our time: cooperation among education and research, independence and intellectual freedom, internationalism and academic community. In the contemporary era it is difficult to have interactive teaching strategies typical of the academic community because of large numbers of students, however student academic support is still the first component of success and may be improved with tutoring and peer tutoring *face to face* and *on line*.

The central Humboldtian principle, after the reforms of Wilhelm von Humboldt starting with the University of Berlin, founded in 1810, was the “union of teaching and research” in the work of the individual scholars. The function of university was to advance knowledge by original and critical investigation, not just to transmit knowledge. The idea of a university in which teaching and research were combined in the disinterested search for impartial truth is still to be seen as a vital activity in itself, contributing indirectly both to scientific education of students and to industrial progress, military strength and social welfare. The union of teaching and research becomes problematic when degree work embraces every sort of training, regardless of whether it can be linked to a research base, and this situation should be avoided even in binary systems, aiming to bring together liberal and vocational forms of education.

The quality of education expected by the traditional “learned” professions (law, medicine and the church) to which “liberal” education gave a distinctive ethos of service and social responsibility, is nowadays needed at all levels.

Since their earliest days, universities have been international institutions, started when the *clerici vagantes* in the Middle Ages moved from town to town all over Europe in search of culture. Although universities did not escape the powerful force of nationalism in the 19<sup>th</sup> and 20<sup>th</sup> centuries, the cosmopolitanism of research survived in most fields. In the contemporary world, higher education institutions in Europe and round the world embrace mobility of students and professors in recruitment and networking; research priorities and prestige are defined by the international disciplinary community, not by national governments. Engaging in a common task should be more important than competing with each other.

Scientific research demands the right to organise its discovery processes according to its own rules and some freedom to select research topics in accordance with its own agenda. Humboldt argued that universities did their work best and were most useful to society and the state when they were isolated from immediate external pressures. Science and technology are always intertwined with the economic and political system, and outside pressures, from donors as well as from the government or from inappropriate standards, contest their demands for autonomy.

The ancient idea of university autonomy and “academic freedom” enjoyed a measure of corporate identity and autonomy; in many countries it has been included as a specific freedom in national constitutions. Individual scholars and scientists should be free to pursue the truth and to teach and publish their findings, following rigorous intellectual criteria immunized from religious or political interference. It includes the right of the academics to be active citizens and to comment on political questions, universities being the homes of independent cultural thought.

The Bologna declaration of 1988, signed by 388 university rectors and described as the Magna Carta of the European universities, declared that “research and teaching must be morally and intellectually independent of all political authority and economic power” (Magna Charta Universitatum 1988). The Lisbon Declaration of the European Universities’ Association 2007, an update of Bologna, still asserted the need for universities’ autonomy, but its wording tended to water down the clear declarations of 1988 and to defer to the managerial and economic priorities of governments.

There is nothing new about universities being expected to serve economic ends, in fact they used to have social functions ever since their foundation. The question is how far the response to economic demands should be driven by priorities determined outside universities, rather than by the internal development of disciplines. Knowledge economy depends on the quality and independence of knowledge. Academic self-government has the chance to be responsive to social demands, without external managerialism.

The marketisation of universities should be avoided by all means. The risk arises when independence and critical thinking are neglected. In the classic view, the university is a “community of scholars and students” engaged in a common task, not a place where students are customers.

## 2. Aims of Tertiary Level Education

The university's fundamental mission is the advancement and dissemination of knowledge and understanding. The main aims of university studies are stated in their curricula (Bologna Process 1999, Dublin Descriptors 2004, Lisbon declaration of the European Universities' Association 2007, National Guidelines), and interact with societies in different historical eras.

Achieving goals like learning to learn (metacognition), scientific work, problem solving, self-initiative, responsible decisionmaking, communication, awareness of one's own decision making process are compatible with general, liberal education; critical thinking, analytical reasoning, problem-solving, written communication (called "generic skills" by the OECD 2013) and disciplined thinking are needed for decisionmaking even at work, and not only for top level leaders.

Developing students as independent learners, self-directed thinkers with a clear understanding of themselves and of the society implies supporting them to develop the competences for acquiring information, analyzing, selecting and evaluating it (autonomy in looking for information, choosing sources, awareness of different points of views, precision, etc.), initiative and entrepreneurialism (coping with ambiguity, assessing risks, curiosity and imagination, ability to organize and plan the work), includes self-knowledge and awareness of their own skills for their personal, cultural and future professional life, improving their self-confidence, fostering the interest and the energies in a gradually self-regulating planning.

It is important to develop the attitudes and dispositions like social skills (group collaboration and leadership, conflict prevention and solution), and intercultural competence, respect for diversity, cross-national perspectives replacing stereotypes in a multicultural society, a sense of belonging to one's own community and to the world.

It is not easy to reconcile utilitarian tasks of the university as preparing students for a job and contributing to research for economic development with a view of general education, the traditional "liberal education" which includes transversal competences. Certainly it is not possible with standardised systems and with bureaucratic measures. *Studia generalia* were predominant at a traditional university. Nowadays we have to adopt the concept of "the exemplary in teaching and learning", and to discover the building opportunities in all subjects. In polytechnics, where the priority is to solve practical problems related to the pure pursuit of knowledge, students will be required to reason about their professional tasks, reflecting on the quality of thinking occurring in how they reason in their working practice.

To develop innovative competences, tertiary level educational institutions are expected to be aware of their role, caring both for vision with strong values and for good organization, developing an effective teaching and learning framework, updating educational measures, using innovative materials and new evaluation forms in student teaching.

### **3. Delivery Methods. Teaching, Learning, and Educational Strategies**

Learning is an active process with the emphasis on the learner. From this perspective, the outcomes of learning are partly determined by the way in which students process the information they encounter. The directed instruction model has been used for centuries as an educational strategy in all institutions of learning. Basically, the teacher delivers the lecture content, controls the instructional process, and the students listen to the lecture; the teacher used to be the sender or the source, and the student was the receiver of information, nowadays the role of a student is more active in accessing the sources. Information technology is dramatically altering the way students, faculty and staff learn and work. Internet-ready phones, handheld computers, digital cameras and MP3 players are revolutionising the college life; multimedia elements can be converted into digital form, modified and customised.

Learning requires firstly fundamental basic skills such as literacy, numeracy, analysis and summary abilities, written and oral communication, ICT and media literacy.

Students must be committed to developing their mind as self-directed, independent critical thinkers and to use scientific methods, practising the intellectual process of applying skilful reasoning as a guide to belief or action (Norris, Ennis 1989). It means the ability to think in a logical manner, using a multi-perspective approach, caring for coherent argumentation, giving reasoned motivation for one's own opinion. It is striving to be documented, clear, accurate, precise, significant and fair, eliminating confusion and ambiguity in the presentation and understanding of facts and ideas. It includes adherence to intellectual standards, a commitment to competent use of thinking skills and of abilities for practical judgments and safe decisionmaking.

University teaching should reconnect with the question of purpose in education (Biesta 2009) and should include opportunities for students to engage in the community in order to participate in governance processes, and to be involved in decisionmaking. The working climate refers to a system of attitudes, values, norms, beliefs, principles,

rules, teaching methods and organisational arrangements which have to be coherent with the aims.

Useful methods, besides the traditional ones like lecturing, are: seminars, interactive and experiential learning, reflective learning, multidisciplinary approach with the collaboration of external experts, critical self-reflection, blended learning (MOC ecc), although ICT teaching is not expected to substitute face-to-face teaching, trips and visits, links between formal and informal learning (e.g., practicums, mobility, community services, fieldwork, laboratory experiences, internship placements), making connections between theory and practice.

For example, educational strategies such as project work, project-based learning, case studies tend to be cross-disciplinary and students may have to apply a variety of skills, new ways of analysing and processing information, while also taking initiative, thinking creatively, planning out the process, and working collaboratively in teams with other students.

Small group activities with enquiry tasks for students, cooperative learning, pairwork to solve problems and student-led seminars, all create space for powerful peer-to-peer learning and meaningful discussion with classmates/teachers, encouraging students to assume some responsibilities.

Students learn best when the educational process is purposeful and collaborative; the best educational approach is based on interactive teaching/learning methods. Openness in discussions is an opportunity for students to make up their own minds, to further inquire about the studied topics and to develop skills, values and behaviours. The use of innovative methods in educational institutions has the potential not only to improve education, but also to empower learners; a problem-solving attitude supports both the learning process itself and an individual's ability to handle obstacles.

The teaching and learning enterprise involves the formal and informal teacher-student interaction, and the overall learning environment in the university. Teachers ask for transversal skills however not all of them pay sufficient attention to clarifying what they appreciate and neglect the development of the explicitly needed skills; they should be more intentional about articulating the learning goals and the evaluation forms explicitly to the students.

Teaching quality should be as valued and recognized as research in the promotion and tenure process, and pedagogical support for educators is a component required to create a teaching and learning environment that would foster student participation and engagement both through effective instructional strategies and commitment.

## 4. Monitoring and Evaluation

Assessment goes parallel to the whole learning *iter*, and the assessment methods have a major influence on how the key competences are learned. The assessment of students' learning should be a transparent process, focusing on contents and on transferable transversal skills (Tuning 2003; Villa, Poblete 2008), on the thinking structure in the awareness that students need to develop their own values and decision processes to deal with their future and to give a contribution to the society at the local, European and global level.

The Dublin Descriptors (2004) give good advice to signify the completion of the different higher education cycles. Mostly, it is easier to assess knowledge and it is more difficult to assess traits of liberal education, or competences, defined as a combination of knowledge, skills and attitudes appropriate to the context. Key competences are those which all individuals need for personal fulfilment and development, active citizenship, social inclusion and employment (EC 2006).

At the end of courses, the final evaluation and marking is mostly summative; in contrast, formative evaluation is administered at mid-semester and provides instruction in order to allow for improvements. Formative/participative strategies of assessment help learners to identify the intended outcomes, provide feedback during the instructional process, encourage students to learn from mistakes by identifying strong and weak areas, and are not linked to grading practice or other forms of assessment. Formative evaluation includes structured mid-term feedback. The teacher reports back to the students about the results of this evaluation. The way in which the outcomes have been agreed upon, described and assessed may influence what the learners are motivated to achieve.

Assessment forms consist of oral interviews and written examinations, supported with reasoned arguments, open book tests, outputs of research, projects, case studies, critical reports of seminars. Some strategies of assessment stress passive repetition. Tests or quizzes should not be the main form of assessment and should include several types of questions (short answer, multiple-choice, true-false, and a short essay) to allow students to demonstrate what they know. Alternative forms of work and assessment like preparing an exhibition, posters, a journal online, filming and exchanging DVDs, podcasts, etc.

Cooperative learning, projects, performance in practicum allow for a broad range of learning processes which are assessed through different tools, among them observation and quality of the output, but ascertaining that rating scales are not used in a mechanic way.



It is important that students know the assessment criteria clearly in advance in order to reach them and to develop good assessment habits for their professional life. Articulating explicitly how students are expected to perform facilitates their success, empowers young people for the self-evaluation process and constitutes a basis for continuous improvement after the university time.

Assessing outcomes through self-evaluation against clear criteria (sheet, group and individual discussion, portfolio) includes reflections on their own learning and it is helpful for the development of skills and values, because it develops the ability to judge and identify one's strengths and weaknesses. The weight of assessment applies both to individuals and to education and training systems in general (Looney 2009).

Organisation, teaching, learning and assessing methods vary considerably across countries; the exchange of good practices among universities at the European and international level, cooperation among courses can take place face to face, with meetings and visits, and on-line in videoconferences and webinars, performing bilateral work.

## Conclusions and Recommendations

The tasks of the university are highly demanding in our time, as it has to cope with the need for new standards of high quality education for larger groups of population. Universities are expected to educate students for the 21<sup>st</sup> century challenges for the personal and political life, and for socio-economic goals, both preparing for a job and developing open-mindedness, critical thinking and commitment. University education is more than a tool for getting a job; specialized training, in our era, cannot be separated from the pursuit of the main traits of a broader liberal education.

The university should combine teaching and research and care for building an academic community, cooperating at international level, especially in Europe. Innovative teaching and evaluation forms, including formative assessment, effective ways of developing and assessing transversal competences of the students and participatory evaluation strategies improve both the quality of the outcomes and the students' awareness of their learning processes.

Universities are not "ivory towers" existing outside the historical and social context; the demand for economically and socially relevant research is acceptable when it doesn't overlook the academic freedom and autonomy.

University is one of the most precious pillars of society at the present time. The high ideal of university is dead under a utilitarian and managerial mould, no

matter if it comes from a political authority and economic power, or inappropriate standards. It should create the conditions both to promote research and to contribute to the development of cultivated men and women. In case that its traditional roles get lost, it cannot be called 'university' any more.

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## **ACCESS TO EDUCATION AND INEQUALITY – RETHINKING EUROPEAN UNION POLICIES IN TERMS OF THE ACCESSIBILITY OF EDUCATION**

### **Abstract**

*In the knowledge society, the topic of access to education is most often related to accessing higher levels of education or lifelong learning, where it tends to be concerned with debates around widening the access for particular groups, especially in relation to gender, socio-economic status and ethnicity. The current focus on education in the framework of Horizon 2020, which closely links economic and social aims as policy objectives, may illustrate this approach well. One important insight from current research is that the apparently “simple technical” issue of increasing access must be expanded by an understanding of “accessibility” in order to bring to the fore the complexity of “getting” access, i.e. structural/societal dimensions need to be connected to individual/subjective aspects when tackling issues of access to education. This paper first sharpens the concept of access and inequality by pointing to the interplay of structure and agency, as well as to the processes of social differentiation in which differences are constructed. Referring to interactional and intersectional considerations, the more comprehensive concept of “accessibility” is suggested. Examples from a European research project (GOETE) are discussed and some recommendations are made which bear relevance both for those planning and implementing the policy.*

**Keywords:** Europe; Education policy; access to education; inequality; multidimensional research

### **Introduction**

This paper takes up one issue that is at the centre of attention of EU policies in the field of education. Namely, access to education as a proven method of both meeting the challenges of creating and improving economic growth and, at the same time, tackling social inequality and guaranteeing social inclusion. Therefore, I’ll start by pointing out some aspects of this relationship, to second, address the issue by suggesting that

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the concept of accessibility calls our attention to some shortcomings of scholarly and policy discussions. Third, I'd like to spend a few minutes elaborating on some challenges for education policies designed and implemented in the European overall strategies to creating growth and securing social inclusion. I will conclude with a few remarks on important conceptual issues both for scholars researching and some concrete recommendations for policymakers tackling these issues. Now let me turn to the relationship between education and social inequality.

## 1. Education and Social Inequality

Educational access is as crucial a theme in current educational research as it is in European policy discussions. In the context of knowledge society, the topic of access to education is most often related to the access to higher levels of education or to lifelong learning, where it tends to be concerned with debates around widening the access for particular groups, sometimes called "vulnerable" or "at risk". The current focus on education in the framework of Horizon 2020, which closely links economic and social aims as policy objectives, may illustrate this "more-education-equals-more-growth-and-inclusion" approach well.

However, this correlation is not a linear one. Obviously the existence of formal rights, normative provisions and access structures are necessary but not sufficient preconditions to full participation in education. As long as there are complex barriers to effectively obtaining access, the issue cannot be considered to be tackled, let alone solved.

This calls our attention to the fact that the apparently "simple" issue of increasing access must be enlarged by a more comprehensible understanding of "providing and getting access" in order to bring to the fore the complexity of these processes. My argument<sup>1</sup> here is that the extent to which education is realized as a public good in a given country depends first of all on its level of accessibility. When discussing the relationship, however, one has to keep in mind that education has a double role: social inequalities and disadvantage are both mitigated and reproduced by educational institutions. When designing and implementing educational policies, we need to be attentive to potential side effects that may exacerbate social divisions and inequalities.

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<sup>1</sup> This argument has been developed in collaborative work during a research project funded by the European Commission under the European Commission's 7<sup>th</sup> Framework Programme for Research – Contract No. SSH-CT-2009-243868. For details, please refer to the project website: [www.goete.eu](http://www.goete.eu). See the articles in Parreira do Amaral et al. (2015).

## 2. Access to Education – Accessibility of Education

The concept of accessibility of education is meant as a critique of the concept of access being too narrow and suggests a more comprehensive idea of access to education. Access to education cannot be viewed as a “simple technical” question of increasing the number of youths included in education. The integrative concept of “accessibility of education” requires us to attend to different levels at which access is produced, reproduced, and negotiated and be attentive to the interrelations and overlapping of the issues at stake when discussing access to education in the context of inequality and diversity. The underlying assumption is that there are complex relationships between structures of access to education and the subjectively experienced accessibility of education, and it is exactly at this point where policies often fail by focusing too narrowly only on one or the other dimension of the issue.

The provision of access (and its research practice) must pay attention to the structural and institutional barriers and solutions at the level of policy and programme (also within educational organisations); to the subjectively realised accessibility of educational pathways on the side of students and their parents; and the ways these two dimensions interact, namely through discursive practices and representations, as well as to the individual strategies, practices and positioning. From this perspective, the issue of educational access is sensibly addressed only as a multi-dimensional one. According to Stauber and Parreira do Amaral (2015), at least four dimensions may be discerned:

The socio-economic or structural dimension: education is seen as a crucial factor producing, reproducing or mitigating inequality among social groups defined by class, ethnicity, gender and other social categories; education thus functions as stabilizing or transforming given social structures. Inequality in access to education may be viewed as the result of differential access across social groups, but may also be based on spatial categories. These differences at the socio-structural level point to concrete relations of power that can be statistically and historically observed. Attention to this structural dimension is useful in pointing to inequalities based on differential access to education arising from social categories; it is however by attending to processes of (social) differentiation at the level of interaction that we might yield interesting insights into the way accessibility is produced.

The institutional dimension: the dimension concerns two related aspects. First, at the macro-level of society’s legislative and policy contexts, especially education, social and immigration policies may produce disadvantaging and discriminating effects and have to be carefully considered. This legal-institutional dimension provides

the context and framework within which educational systems function, and are also partly reflected in them. Access and accessibility of education are issues concerning (welfare) policies broadly defined, raising questions of the equality of opportunities, coverage and flexibility (especially to cover multi-problematic cases and cases not belonging to “standard” mainstream welfare user categories). From this point of view, the issue of access is related to institutional responsiveness (the capacity to read, meet, and answer potential clients’ needs) and effectiveness (the capacity to achieve goals, taking up potential clients), and points to the principle of universality (limiting the distortion due to implicit or explicit, intended or unintended discriminatory profiling of potential clients). The second important aspect in the institutional dimension is found at the meso- or organisational level of educational institutions. Here, the focus lies on the “logic”, “structures” and “operations” of educational institutions and how their decisionmaking processes affect different groups and regulate access(ibility) to education. These two aspects point to the necessity to include macro-level institutional arrangements (for instance, policies and programmes for specific target groups), as well as intra-organisational aspects (such as institutional structures, decisionmaking mechanisms and logic) centre stage in the analysis of access and inequality issues in the education system instead of solely focusing on students and their individual and socio-structural attributes.

The dimension of discourses and representation: in the dimension of discourses and representation, the issue of access and accessibility to education has to be viewed as social phenomena influenced by dynamic power relations. In social sciences, several scholars pointed out that social phenomena are influenced by language use, for instance the practices of naming and representing. Ascriptions do not usually come alone: ascriptions regarding the local area frequently intersect with stigmatizing ascriptions regarding low schooling level (of parents), gender, and ethnicity.

The dimension of individual agency: in the perspective of subjective/individual strategies, practices and positioning, access cannot be seen as a fixed attribute of educational systems, but as being constantly processed, constructed, and negotiated. This dimension focuses on agency and individual engagement, it also places its emphasis on “how” these processes work. The different strategies, practices and positions of individuals involved in these processes are of interest because it is from here that one can study the construction and negotiation processes of access, which is pointed to by the concept of accessibility. Furthermore, the interactions among the different actors involved need attention.

Accessibility, thus, is best understood as a dialectical relationship of these levels, while it is at the local level that these issues become effective, since structures, institutions, discourses and practices conflate at this level, giving rise to specific and



concrete situations, i.e. decisionmaking during transition points between educational levels.

### 3. Rethinking the European Union Education Policies

Departing from the fact that most current European education policies have been designed and implemented in the framework of overall strategies to meet the challenges of creating and improving economic growth and, at the same time, guaranteeing social inclusion, there is a need to inquire into the potentially competing (and possibly ambivalent) orientations and objectives of education policies and to analyse their implications as well as the intended and unintended effects on young people. In terms of thinking together about the different dimensions of the issue of access as I argued, we need to understand the relationship and suitability of the policies in terms of orientations and objectives to their specific target groups, thus assessing the compatibility and potentials of policies that aim both at creating and improving economic growth and at guaranteeing social inclusion for young people, as expressed in the current European policy strategies.

Related to this, by pointing out that current EU education policies are more often than not designed for adult needs, from an individual's perspective important questions arise that are related to the effects of policies on young adults as target groups, for instance, in how far do policies themselves shape their life courses or even create new target groups? For instance, the various definitions and profiles under which policymakers categorise target groups may produce self-fulfilling prophecies and narrow down aspirational horizons. An exemplary case of this may be seen in the target group called NEETs, that is youth not in employment, education nor training, who more and more often are described as “a problem”, and by following such a discursive and representational practice we risk exacerbating the problems of exclusion. The focus on groups said to be “inactive” and/or “at risk”, oftentimes also has significant implications as to the degree of awareness about their potentialities both at the policy and at the individual level. These representations pose serious obstacles to achieving policy objectives, since they simplify heterogeneous and constantly changing groups and regard them as homogenous. By assuming a simplified vision on target groups that are contrastingly complex, policies might miss their targets due to being ill-suited and/or yielding unintended outcomes. My argument is that not only they become ineffective, but they also generate interpretive frameworks that portray the addressees as passive, preventing a deeper understanding of the individual perceptions

and choices that cause the passive behaviours which such policies intend to modify in the first place.

The key message here is that context matters, and that in the European regions there are highly diverse contexts not only across Member States, but also within countries and regions. Against this background, the challenge for policies to bring about growth and inclusion at the same time becomes even more daunting.

## **4. Concluding Remarks and Recommendations**

In conclusion, my point of departure was a critique of a “more-education-equals-more-growth-and-inclusion” approach, common in current education policies. The paper strongly underlined that access is not a given, but results from processes of social differentiation, in which the structures cannot be simply regarded as determining but as something constantly challenged and negotiated by individuals, these two being mediated by institutional and discursive elements.

The relationships between structural, institutional, discursive and individual dimensions of access to education have been most often downplayed and neglected in policy and scholarly debates. The result of this neglect is an individualising perspective on students from a societal point of view, which goes along with devolvement of responsibility and guilt, and can become even worse when this view is internalised and reproduced by young people themselves.

This argument strongly challenges the essentialist perspective: education is not accessible per se, but has to be made accessible. In this process, educational policies, educational institutions, but also individuals do play a role and have responsibility. Making education accessible is – in the broadest sense of the word – a political process.

### **4.1. Broadening Education and Providing Experience Beyond Formal Learning**

The current emphasis of education lies on preparing young people for the labour market (“employability”) and developing their human capital. Other meanings and outcomes of school education are being devalued. This contributes to the alienation of children and young people from their individual learning processes, which lack tangible user value. Both individual development and collective socio-cultural benefits of education are addressed by political rhetoric, but not systematically addressed by educational practice at school. This is especially problematic in the case of socially

disadvantaged young people for whom school may represent the only way to avert social exclusion, and to access full benefits of citizenship.

Education needs to take into account the subjective needs of individual students. This includes acknowledging informal learning and life experiences. Students need environments and (learning) conditions where they feel a sense of belonging and communality with peers;

Schools should be encouraged to provide students with non-formal learning opportunities and out-of-school activities, also by cooperation with other actors in the wider community, such as youth work. This may include companies in order to provide insight into different areas and activities of social and economic life, as well as into different careers. Yet, work practice must not be reduced to channel students into specific career pathways.

#### **4.2. Re-structuring School Pathways**

Although social reproduction through education pertains to all modern societies – structures of education and training systems make a difference with regard to subjective experiences, trajectories and outcomes of education. Differentiated education systems create bottlenecks and problems with regard to accessibility. The simple rule: there is “no differentiation without hierarchisation” shapes the way institutions and their representatives (have to) function. Selective transitions even weaken the potential of support measures that may aim at compensating for the effects of disadvantage.

Reduce the number of (selective) transitions: the number of transitions in school pathways needs to be reduced and comprehensive structures of education and training maintained and reinforced;

Postponing differentiation and decisionmaking: decisionmaking regarding future educational or occupational careers appears to be a very important challenge for all students. Students are “forced” to make choices at a very young age, which leads in many cases to frustrations, disappointment, and multiple transitions to “correct” earlier decisions. This can be viewed as a waste of much time and effort. This demands attention of policymakers to review early selection systems and high differentiation, and to consider the postponement of critical selection moments;

Accessibility has to be created on a structural level of national policies and educational systems, implemented on the level of interaction in educational institutions, and facilitated by empowering practice. The structural dimension of making education more accessible therefore has to be broken down to self-concepts and practices of professionals, be they principals, teachers, school social workers, youth workers, school psychologists or educational counsellors, etc.

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## GENDER EQUALITY IN HIGHER EDUCATION AS PRECONDITION OF INNOVATIVE AND INCLUSIVE SOCIETY IN THE EUROPEAN UNION

### Abstract

*The right not to be discriminated on grounds of gender is universally considered as a fundamental human right, enshrined in a major part of the international instruments concerned with human rights, and as a public good as well. Unfortunately, gender inequality in EU Member States still exists despite a sophisticated framework of EU anti-discriminatory law. Women are likely to be discriminated against on the basis of gender with respect to access to education, especially higher education, and with respect to taking up employment in educational sector. This leads to underrepresentation of women in higher education institutions, especially at higher hierarchical levels in the research field. This tendency has negative influence on social inclusion and innovation – crucial factors in securing competitive advantage in a globalised economy. The aim of this article is to analyse the principle of equal treatment of men and women with respect to tertiary education in the context of building inclusive and innovative society.*

**Keywords:** gender equality, women in science, tertiary education, gender discrimination, equal treatment of men and women

### Introduction

The question of access to and completion of education, especially at the tertiary level, is at the core of the EU's actions. This is acknowledged by the strategy Europe 2020, whose headline targets include reduction of the share of early school-leavers to 10% from the current 15% and increasing the share of population aged 30–34 having completed tertiary education from 31% to at least 40%. This target fits in with the aim of achieving smart, sustainable and inclusive growth, which also includes smart, sustainable and inclusive social growth (therefore, society).

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Hence, the key element of EU development plan is social inclusion. Social inclusion is understood as a process by which efforts are made to ensure equal opportunities for all, regardless of their background, so that they can achieve their full potential in life (UN Report 2009). Social inclusion also encompasses equal educational opportunity for all members of society, regardless of their irrelevant individual characteristics, for example gender. Hence, an inclusive society is deeply connected to an equal society.

What is an equal society? The answer is unequivocal and dependent upon the applied equality formula. Regardless of methodological nuances (equality is a broad and complex concept with different meanings encompassing non-discrimination, equal treatment, formal equality, substantive equality, equal opportunities etc.), we can presume that equal treatment means treating everybody in a similar situation in a similar way, i.e. without discriminatory differentiation. Equality is in that sense connected with non-discrimination, i.e. a prohibition to make a distinction on the basis of a characteristic that is considered to be irrelevant or otherwise unacceptable, unless there is a justification (McCrudden, Prechal 2009). Equality does not mean treating everybody as the same if they are in a different situation. This different situation with respect to access to education could be characterised by the demanded level of knowledge or skills, which can be considered as a justified differentiating criterion. But if people have the skills that allow them to start education at a specific level and in a specific area, they should be allowed to do so regardless of their individual characteristics, e.g. gender. Such an attitude allows to preserve egalitarian, but at the same time exclusive, character of higher education.

The aim of this article is to analyse the principle of equal treatment of men and women with respect to tertiary education in the context of building an inclusive and innovative society.

## **1. Gender Equality as a Principle of the European Union Law**

The right to equal treatment of men and women and the prohibition of discrimination on grounds of sex is one of the key values of the EU. According to art. 2 of TEU, “the Union is founded on the values of respect for human dignity, freedom, democracy, equality, the rule of law and respect for human rights, including the rights of persons belonging to minorities. These values are common to the Member States in a society in which pluralism, non-discrimination, tolerance, justice, solidarity and equality between women and men prevail”. Nevertheless, gender equality cannot be reduced to axiology, as in the EU legal system it also has a normative meaning. As it has been

stated many times by the Court of Justice of the European Union, gender equality is the specific enunciation of the general principle of equality, which is one of the fundamental principles of the EU law (Case C-117/76). This principle requires that comparable situations must not be treated differently, and different situations must not be treated in the same way, unless such treatment is objectively justified (Case C-236/09). Thus, to determine whether the difference in treatment prohibited by law implies discrimination on grounds of sex, it is necessary to examine whether the representatives of men and women are in a comparable situation, and if so – to establish whether there were no reasons that would justify differentiation. According to the settled case law of the CJEU, differentiation between women and men in a similar situation would constitute unlawful discrimination only when it cannot be objectively and reasonably justified, i.e. if it does not pursue a legitimate aim, or does not maintain a reasonable balance between measures taken and the intended purpose.

Prohibition of gender discrimination is binding both for EU institutions and Member States, which are not allowed to discriminate against women or/and men either directly or indirectly.

Direct discrimination occurs when one person is treated less favourably on grounds of sex than another is, has been or would be treated in a comparable situation. Indirect discrimination is a situation in which apparently neutral provision, criterion or practice would put persons of one sex at a particular disadvantage compared with persons of the other sex, unless that provision, criterion or practice is objectively justified by a legitimate aim, and the means of achieving that aim are appropriate and necessary. According to EU anti-discriminatory law, the definition of gender discrimination encompasses also harassment and sexual harassment. Under the EU anti-discriminatory law, harassment is understood as unwanted conduct related to the sex of a person that occurs with the purpose or effect of violating the dignity of that person, and of creating an intimidating, hostile, degrading, humiliating or offensive environment. As sexual harassment, EU equality directives qualify unwanted conduct related to the sex of a person which occurs with the purpose or effect of violating the dignity of that person, and of creating an intimidating, hostile, degrading, humiliating or offensive environment [art. 2 (1) of the 2006/54/EU directive]. Prohibited gender discrimination also includes instruction to discriminate against persons on grounds of sex and any less favourable treatment of a woman related to pregnancy or maternity leave.

The already broad scope of application of the prohibition of gender discrimination has been broadened by the CJEU, which held that the principle of equal treatment for men and women cannot be confined to the prohibition of discrimination based on the fact that a person is of one sex or another. In view of its purpose and the nature of

the rights which it seeks to safeguard, it also applies to discrimination of people who underwent gender reassignment (Case C-13/94).

## 2. Women in Higher Education

The right not to be discriminated on grounds of gender is universally considered as a fundamental human right, enshrined in a major part of the international instruments concerned with human rights, and as a public good as well. Unfortunately, gender inequality in EU Member States still exists despite a sophisticated framework of EU anti-discriminatory law. This also refers to gender inequalities in the area of education and should be considered in two aspects:

- 1) access to education, especially higher education,
- 2) underrepresentation of women at higher hierarchical levels in higher education institutions.

This first aspect could be the result of a narrow scope of application of the prohibition of gender discrimination in the EU law. EU directives stipulate the principle of equal treatment of men and women with respect to a limited number of issues, i.e. with respect to employment, social protection (directive 2006/54/EC) and access to services, this however does not include educational services [art. 3 (3) of the directive 2004/114/EC]. The access to higher education is protected only under the racial equality directive 2000/43/EC with respect to racial or ethnic origin. As a result, the EU law does not provide any protection from unequal treatment based on e.g. disability, sexual orientation, social status or gender. It could be one of the reasons why despite an increase in the number of student in recent years, there is widespread evidence of underrepresentation of people of low socio-economic status, people with disabilities and certain minorities in higher education and why, despite progress towards gender equality, women are still underrepresented in science and technology [Recommendation No. R (98) 3].

What does it mean that this whole group of people should be protected against discrimination in access to education? Does it mean that access to higher education should be granted to all of them on no conditions? Certainly not. Undoubtedly, admission may be preceded by a preliminary examination that allows to assess the candidates' ability to study at the specific faculty or field of study or by any other recruitment procedure ensuring proper selection of future students. The principle of non-discrimination requires however that recruitment process is performed with uniform and objective criteria for all candidates, so that admission criteria are



transparent and as simple and as possible. Refusal of admission must be justified by reasonable, i.e. relevant and proportionate, arguments. Such an argument may be the skills or level of qualification, but never a person's irrelevant characteristics such as age, disability or gender (Szczerba-Zawada 2012). Only clear, objective and fair admission arrangements that do not either directly or indirectly disadvantage a person from a specific minority group can be considered as complying with the equality principle. This also refers to gender minority. Although there is not a great deal of information available as regards sex-segregated education (which is unregulated by EU law), the studies show that gender is one of the criteria of unequal access to education. In Ireland and the UK the prohibitions on sex discrimination in education in domestic law contain exceptions covering such education. In Spain, where public schools are integrated, private schools are entitled to educate boys and girls in separate classrooms. EU Member States also have a problem with gender equality with respect to access to higher education. For example, in not-so-distant past Polish military universities (e.g. Military University of Technology) did not allow women to participate in procedures for admission to higher studies. It must be emphasised that this discrimination is not only directly based on sex, but could also take the form of so-called indirect discrimination based on a *prima facie* objective characteristic, such as religion/belief, poverty or lack of childcare facilities and care for other dependents, which combined with gender affects women's and girls' educational opportunity.

To sum up, the Member States shall ensure procedures allowing all qualified applicants to pursue studies. The implementation of non-discrimination standard with respect to education, especially tertiary, should always be considered as added value – as contribution to securing democracy and building confidence in situations of social tension [Recommendation No. R (98) 3]. Obviously, widening opportunities for members of all groups in society to participate in higher education can be a challenge for maintaining good quality of higher education, but it should not be used as justification for lowering the teaching standards. There are scholars who are responsible for setting good quality of higher education, and taking steps to ensure such quality may be beneficial to future economic and social development.

The second aspect – women in science and research or, to be more precise, the lack thereof – has been recently recognized by the European Parliament. The Committee on Women's Rights and Gender Equality of the European Parliament has undertaken an initiative in order to examine the reasons why women are underrepresented at higher hierarchical levels in the research field, even in sector where they represent a majority – the educational sector. Since 2003, every three years the Directorate General for Research and Innovation of the European Commission publishes statistics and indicators on women in science and research which show, unfortunately, that

women employed as researchers still remain a minority (although the situation is getting better). According to the latest *She Figures 2012*, the proportion of female researchers has been growing faster than that of men (5.1% annually over 2002–2009, compared with 3.3% for men); the same holds true for the proportion of women among scientists and engineers). Nevertheless, women's academic career remains markedly characterised by strong vertical segregation. In 2010, the proportion of female students (55%) and graduates (59%) exceeded that of male students, but the number of men exceeded the number of women among Ph.D. students and graduates (the proportion of female students stood at 49%, and that of Ph.D. graduates at 46%). The same tendency is visible in Poland – women amount to 60% of students, but only 43% among Ph.D. graduates. Furthermore, women represented only 44% of grade C academic staff (the first grade/post into which a newly qualified Ph.D. graduate would normally be recruited) – in Poland 44% at the assistant professor's post (Młodożeniec, Knapieńska 2013), 37% of grade B academic staff (researchers working in positions not as senior as the top position, but more senior than newly qualified Ph.D. holders) – in Poland – 32% of docent and 20% of grade A academic staff (the highest grade/post at which research is normally conducted) – in Poland 27%. The underrepresentation of women is even more striking in the field of science and engineering. In terms of decisionmaking in 2010, on average throughout the EU-27, 15.5% of institutions in the Higher Education Sector were headed by women, and just 10% of universities had a female rector.

The reasons for this are varied. First of all money – the proportion of female researchers is negatively correlated with the level of R&D expenditure, which corresponds to the general trend according to which well-paid occupations are dominated by men. A gender gap continues to exist in the success rates of researchers to obtain research funding: higher success rates are recorded for men. The second question – the work-life issue. Work-life balance seems to be a key element in achieving gender equality. Apart from a “glass ceiling”, there is also a “maternal wall” that hinders the career of female researchers. Although work-life and work-family balance, in principle, concern scientists and researchers of both sexes, women are usually more affected, given that they still carry the main burden of care and domestic work. The third question – women's access to decisionmaking in science and research. The most important institutions in the scientific landscape continue to be dominantly led and managed by men (Publications Office of the European Union: 2012). It is a reflection of a broader problem of underrepresentation of women in the decision-making process. The abovementioned discriminatory treatment of women results from gender bias and stereotypes that affect women's scientific career: in hiring, publishing and funding. This is characterised by correlations between the

masculinity of women's first names and the likelihood of being awarded judgeships, of downgrading psychologists' and sociologists' curriculum vitae when they bear a woman's name or of discriminatory pay for female attorneys (Ceci, Williams 2011). Even if many of these situations are not directly connected with gender (i.e. they do not amount to direct sex discrimination) but are caused by complex constellation of reasons, including gender, it does not mean that they are not discriminatory in nature. The fact that women have fewer financial resources because of their being more apt to occupy teaching-intensive positions or part-time positions (because of their gender), which results in lower quality of their papers in comparison to those of male authors (who have access to more resources), which in turn is the reason for the rejection of female authors' papers, still has to be considered discrimination, although different in character than in the situation in which the reviewers are aware of authors' sex and are less likely to accept women's papers. The reason for unequal treatment in each of these exemplary situations is gender, the difference lies only in the way and stage of application of the discriminatory criterion: either at the moment of assessing the quality of work (direct discrimination) or at the moment of accessing resources that influence the quality of the work assessed (indirect discrimination). The principle of gender equality proscribes both forms of discrimination – direct discrimination (discrimination based on gender *per se*) and indirect discrimination (discrimination based on criteria other than gender but leading to less favourable treatment because of gender). Hence *prima facie* objective criteria, such as family formation and childrearing, gendered expectations, lifestyle choices and career preferences that affect women's position in science (more than men's) because they represent the particular gender, has to be treated as lowering women's educational and professional equal opportunity and fought with anti-discriminatory instruments in order to mitigate their underrepresentation in tertiary education.

### **3. Equality Between Women and Men as a Condition of Social Inclusion and Innovation**

The problem in achieving the standard of real gender equality with respect to tertiary education suggests the need to re-examine the methods used to achieve substantive equality between men and women. A range of new approaches is emerging, which aim at institutional change through proactive measures to promote equality (Fredman 2009). Amongst the practices that encourage to apply gender equality in practice is diversity management.

Diversity management – whereby an organization recognises, values and includes women and men of different ages, abilities, ethnic origin, religion or sexual orientation – as studies show, makes for good business sense and leads to increasing the level of innovation and creativity of the organization (Stuber 2012). Gender diversity in decisionmaking bodies is shown to lead to innovative ideas, increased competitiveness and performance (Committee on Women's Rights and Gender Equality 2015), which also applies to university boardroom.

In that perspective, the link between women's non-discrimination with respect to education and innovative society seems to be obvious. This is of great importance, as knowledge and innovation are crucial in securing competitive advantage in a globalised economy (Managing Diversity at Work 2012). Taking advantage of equal access to higher education of men and women requires developing a policy of equal opportunities. This set of instruments is designed to meet all the requirements of the principle of equality. It is not limited to formal or *de jure* equality and the lack of discrimination, but encompasses also full and effective equality, so as to enable all individuals to develop their potential. The promotion of effective equality may require the adoption of special measures where it is necessary to take into account the specific conditions of groups in society that have been discriminated against so far in order to compensate for it [Recommendation No. R (98)3]. Such measures are allowed under EU law also with respect to gender, e.g. art. 3 of directive 2006/54/EC stipulates that Member States may maintain or adopt measures with a view to ensure in practice full equality between men and women in working life.

These provisions have permitted exceptions from the concept of formal equality and opened the way for national measures in favour of women in order to promote equal opportunities for women and men (Ramos Martín 2013). Although the EU law restricts application of positive measures exclusively to eliminate existing inequalities affecting women in working life and to promote a better balance between the sexes in employment, it does not proscribe the Member States from setting higher standards of protection against gender discrimination in education as anti-discriminatory directives set the lowest common standard that must be achieved in all EU Member States. This minimum standard does not forbid Members States to adopt general and specific measures in order to eliminate or counteract the prejudicial effects on women in employment or seeking employment in tertiary education (e.g. in higher education institutions) which arise from existing attitudes, behaviour and structures based on the idea of a traditional division of roles in society between men and women, to encourage the participation of women in various occupations in those sectors of working life where they are underrepresented (i.a. in R+D sector) and at higher levels of responsibility in scientific institutions in order to achieve better use of all human

resources (Ramos Martín 2013). Only such measures will allow to build a “higher education population” that reflects the diversity of a changing society in EU Member State.

The obligation to promote social inclusion and participation of people with fewer opportunities in the field of education, and thus, women as well, is expressly placed on EU institutions, especially – European Commission – and Member States under a new EU programme for education, training, youth and sport, ERASMUS+ (art. 11 of Erasmus+ regulation). What is very important within the framework of ERASMUS+ programme, diversity and inclusion are treated as interconnected – both are equally important. Considering women as falling under the category of “young with fewer opportunities” allows to see the following aims of the programme in gender perspective (The European Commission 2014):

- to create a common understanding of those who may be considered as people with fewer opportunities and a coherent framework of support for the Erasmus+ programme feature “Equity and Inclusion”;
- to increase commitment to inclusion and diversity from different actors in Erasmus+: Youth in Action;
- to promote Erasmus+: Youth in Action as a tool to work with young people with fewer opportunities and to actively reach out to disadvantaged groups;
- to reduce obstacles for young people with fewer opportunities to participate in the programme and help applicants to overcome obstacles;
- to support organisers in developing quality projects that involve or benefit young people with fewer opportunities by using such instruments as providing training, tools, funding, coaching;
- to set a link where relevant to other initiatives that benefit young people with fewer opportunities – both cooperation with other sectors as well as youth policy and projects at local, national and international levels;
- to invest in the intercultural and social skills of young people and youth workers, as well as their competences and ability to manage and work with diversity in all its forms;
- to increase the recognition of the experience and skills gained by young people with fewer opportunities in Erasmus+ and by youth workers working with them;
- to ensure that the focus on inclusion and diversity is present at all stages of Erasmus+: Youth in Action management, including promotion, support for applicants, selection of projects, and evaluation and dissemination of project outcomes.

By achieving these aims with respect to gender inequalities, Erasmus+ can give rise to a positive change for women as a disadvantaged group in society.

## Conclusions

Women encounter numerous obstacles in the field of education of social, economic and cultural nature that affect their educational situation irrespectively of or at least not directly because of their gender. But there are numerous situation in which gender seems to be the main (or even the exclusive) reason of their reduced educational opportunities. In this context, gender should be considered as an “absolute exclusion factor” leading to the violation of women’s fundamental right – the right to equal treatment. “When people’s fundamental rights are violated, they are always disadvantaged, no matter how common this situation is in a particular context” (The European Commission 2014). Inequalities of men and women with respect to education, especially tertiary, should be considered as a serious social problem that influences the possibility of building an inclusive and innovative society, a society that is able to compete in a globalised world. In this perspective gender discrimination seems to be a multifaceted problem of social, economic and political nature.

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## EDUCATION AS A TOOL TO ENHANCE ECONOMIC SECURITY

### Abstract

*This paper analyses the link between education and economic security and how education can influence the level of economic vulnerability of any country. Speaking about education as a tool to enhance economic security, we refer to “economic security” used in two senses: firstly, at the individual level, education is the main instrument in assuring economic security of each of us; secondly, at the national level, it is responsible for preparing a competitive high-skilled workforce. In the 21<sup>st</sup> century, when we can say that there is a new world, we have to ask ourselves what skills will be our competitive advantage. On the one hand, it is a truism that more money alone will not meet our educational challenges. On the other hand, our national competitiveness depends directly on education because it is a powerful driver of national economic growth. Education is one of the main instruments by which economic security is achieved by many countries. Education has to be managed in such a way so that it facilitates economic development. This will help countries to develop their national security strategy despite the challenges posed by globalization. Nowadays, there are numerous factors, both internal and external, that increase the vulnerability of a country. Unstable government, inequality, unskilled labour force, all these increase economic insecurity. Unless education sector manages these challenges, the nations will not have a clear future. The purpose of this paper is to determine the impact of education on individual development and on national economic development in order to assure the economic security of a country.*

**Keywords:** economic security, macroeconomic security, microeconomic security, education, globalization

### Introduction

Education is one of the main strengths on which the whole human life is based. Each nation's success and growth rests solidly on the strength of its labour force. It is the

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main “ingredient” in achieving a stronger economy with stable jobs and productivity (Brown 2010). That is why what President Lincoln said is true, that “education is the most important subject which we as a people can be engaged in”.

Many governments and policymakers believe in the efficiency of education as a tool for economic development and social reconstruction, since education brings independence and self-reliance.

In May 2010, in a speech before the Council on Foreign Relations, Education Secretary Arne Duncan spoke of the importance of a well-educated citizenry: “America’s success depends on the success of its individual citizens, just as the progress of humanity ultimately depends on the shared progress of nations. I believe that education has immeasurable power to promote growth and stability in the 21<sup>st</sup> century” (Shiplett et al. 2011: 83).

Referring to “Education as a glance”, Androulla Vassiliou, European Commissioner for Education, Culture, Multilingualism and Youth, said: “The report provides invaluable evidence and data for policymakers. Its findings underline the importance of our Europe 2020 targets to reduce early school leaving and boost university education, both in terms of increasing graduate numbers and quality. 35% of jobs in the EU will require high-level qualifications by 2020, so it is vital that we continue to invest properly in schools and universities. Education must remain a top priority for the EU, even in a tough economic climate” (Brown 2010).

The impact of a well-educated society is immense. It provides all forms of security – economic, social, health, etc. Speaking about education as a tool to enhance economic security, we refer to „economic security” used in two senses: firstly, at the individual level (Anglo-Saxon approach), education is the main instrument in assuring the economic security of each of us; secondly, at the national level (Asiatic approach), preparing a competitive high-skilled workforce.

## Approaches to economic security analysis

**Asiatic approach (macroeconomic)** Economic security is often defined in general terms as “economic security of one or another system is meant “the sub-system status which provides the ability to achieve the purpose of the whole system” (Tambovtev 1995). However, this definition is a general one and underlines that economic security is seen from the perspective of the production potential being the result of effectively promoted economic policies. This lowers the state’s exposure to threats, though the accumulation of vulnerabilities may become a risk. In this context, for example the

Soviet economist, a Ph.D. in Economic Sciences, V. Senceagov said: “the essence of economic security can be defined as a situation when state institutions ensure the safeguarding of national interests protection, development of social-oriented state and sufficient military potential” (Senciagov 2002).

**Anglo-Saxon approach (microeconomic)** Given the changes on the international market and the transformations that have occurred domestically, economic security tends to accumulate new issues, important for the very existence of mankind. Thus, Mark Rupert (Rupert 2007) in his *International Relations Theory* defines the economic security of an individual as “stable incomes and other sources in order to maintain a standard of living in the present and in the foreseeable future, which means: continuous solvency, predictable cash-flow, efficient use of human capital”. In the same context, International Labor Organization<sup>1</sup> in 2004 made the most complex report about individual economic security (ILO 2004). Thierry de Montbrial, (Montbrial 2012) specialist in economics and political science, in his *English Journal* focused his studies on the continuous development of an individual in a society: “I believe that progress – considered the collective – lies in strengthening the external conditions of fulfilment in the life of each individual. Therefore, the major focus of the progress is the individual’s security”.

## Education in Numbers

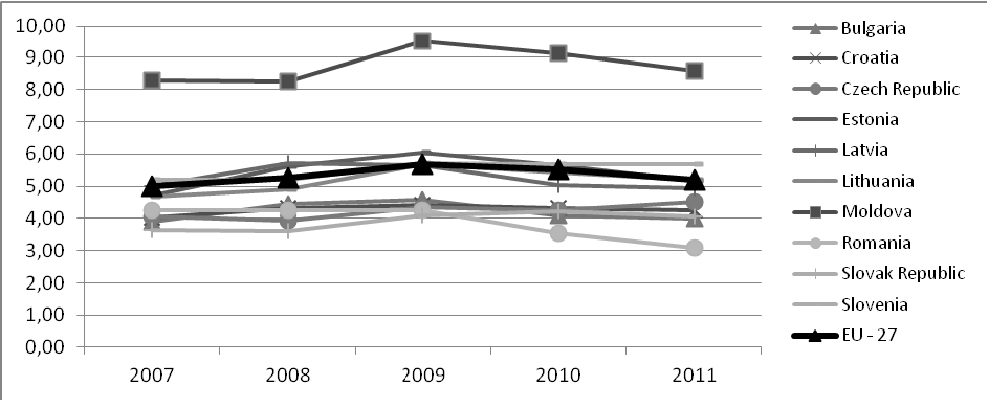
As Ola (1998) and Omotor (2004) said: “If you see any economy that is not doing well, find out what is spent on education”. Speaking about the EU’s educational system in numbers, in 2011 EU-27 total general government expenditure amounted to 49.1% of GDP. Based on the latest available expenditure data by economic function for 2011, 5.3% of the EU’s GDP was devoted to expenditure on education (Freysson et al. 2013) (Figure 1).

In the period of 2007–2011, the total proportion of GDP given to education in the EU-27 remained stable at around 5–5.5%. The Republic of Moldova is way out of the EU’s median with an average of about 9% for the same period. From the first figure it is quite obvious that the Republic of Moldova is one of the leaders in the region in terms of education. But for sure it is not true. This sector in Moldova lacks financial support. It may be more obvious when we analyze the actual sum of money (Figure 2).

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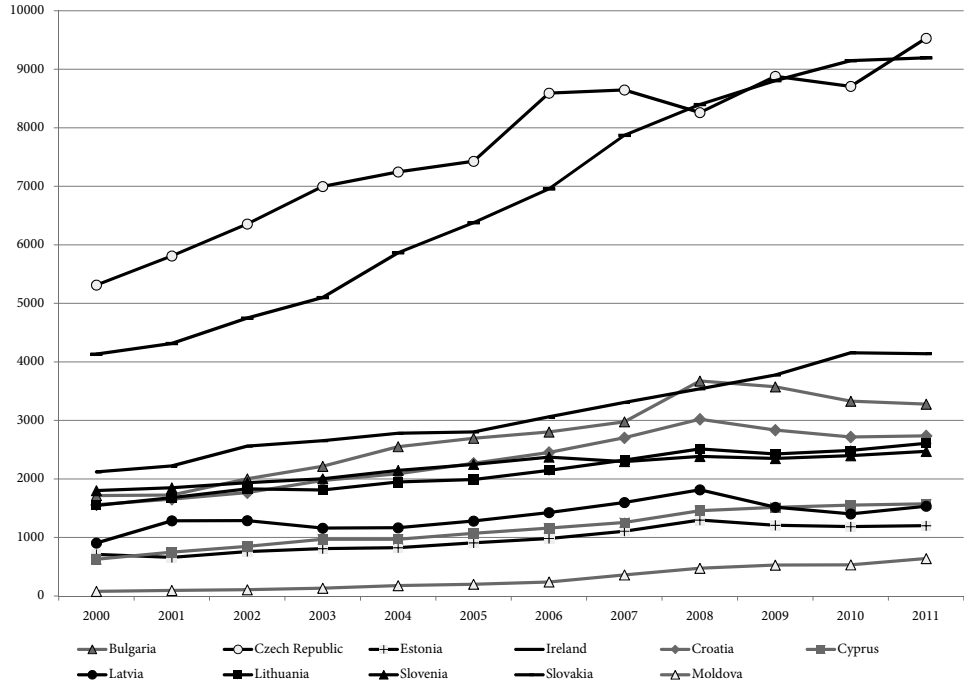
<sup>1</sup> ILO estimate Economic security Index for 90 countries of the world for which complete data are available. The results we have seen in the report *Economic Security for a better world*.

Figure 1. Education expenditure in Central-Eastern Europe, 2007–2011 (% GDP)



Source: Elaborated by the authors based on World Bank data, available at: [http://databank.worldbank.org/data/views/reports/tableview.aspx?s\\_p](http://databank.worldbank.org/data/views/reports/tableview.aspx?s_p)

Figure 2. Education expenditure in Central-Eastern Europe, 2000–2011 (mil euro)

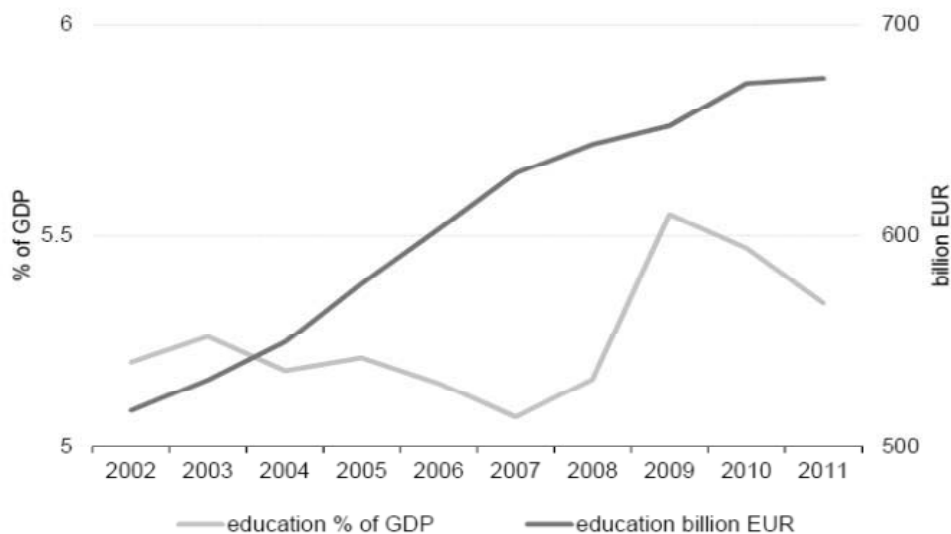


Source: Elaborated by the authors based on EUROSTAT data, available at: <http://ec.europa.eu/eurostat/eurostat/tgm/Table.do?tab=Table&init=1&plugin=1&language=en&pcode=tps00158>

This European stable average conceals the disparities between countries, some of which have witnessed significant changes. Analyzing the period of 2001–2011 in Bulgaria and Cyprus, the proportion of GDP allocated to education increased by over 20% between 2001 and 2008 and by over 30% in Malta and Ireland over the same period. A significant increase – more than 10% – was held in the United Kingdom.

It is crucial to analyze these two indicators in parallel, because it offers a better understanding of the evolution of government expenditure on education. Active measures to consolidate government expenditure, such as pay cuts in a number of Member States and decreasing public investment contributed to a decrease of 0.2 percentage points of government education expenditure in terms of GDP from 2009 to 2011. In absolute terms, education expenditure continued to grow, although the year-on-year growth was lower from 2010 to 2011 than in previous years. In ten Member States: Denmark, Ireland, Greece, Spain, Italy, Cyprus, Hungary, Portugal, Slovakia and the United Kingdom, a decrease in absolute expenditure on education (in local currency terms) was observed between 2010 and 2011 (Freysson 2013: 2).

**Figure 3. EU-27 general government expenditure on education, 2002–2011**



Source: Eurostat (online data code: gov\_a\_exp)

In „Education as a glance” – one of the main comprehensive reports, is provided an ample overview of the crucial role that education and skills play in fostering social progress. Also it gathers statistical data on investment in education, student-teacher

ratios, teaching hours, graduate numbers and results, for some indicators the EU countries perform better on average than the OECD as a whole:

- Early childhood education (3–4 years old): EU 76%, OECD 70%;
- Pupils graduating from upper secondary education: EU 85%, OECD 82%;
- Percentage of young people not in education and training, and not employed (“NEETs”): EU 6.4%, OECD 8.6%;
- Class size and student-teacher ratios in schools (European Commission 2011).

Besides the fact that it is a top priority for the EU, there are still some indicators that OECD countries outperform EU member states:

- Adults (25–64) who have graduated from higher education: EU 27%, OECD 30%;
- Vocational education graduates at tertiary level: EU 8%, OECD 10%;
- Expenditure per student at tertiary level: EU \$13 000, OECD \$13 700;
- Private spending on tertiary education institutions: EU 0.2%, OECD 0.5% (European Commission 2011).

The whole world is recovering slowly from the economic crisis, its main instruments being **productivity, innovation, investment and trade, not yet at full steam** (OECD 2014). It became clear that not only economic growth, but also social progress is the key goal of the countries. This crisis had an impact on the labour force, with more than 46 million people out of work in the OECD countries and relative poverty affecting millions more. In many countries the gap between the richest and the poorest is widening, youth unemployment remains high and access to social services remains elusive for many.

## The Impact of Education over the Economic Security Level

Increasingly, in the last period the level of economic security has been conditioned by the factors that determine the degree of development of human capital.

On the other hand, the Treaty of Rome, signed by more than half a century ago, gave birth to the European Economic Community. Therefore, the unification of the European continent, characterized mainly by the common European policies, is the only one able to provide conditions for a sustainable and consistent development. This process has brought prosperity for half a billion citizens of Europe, as well as substantial reforms in industrial networks, financial markets, economic civilization in general and, obviously, as a result in individual economic security. It is direct economic security, by default, realized not through protectionist measures, but through realistic, highly effective economic policies and strategies. The European security system holds

the constituents, interconnected and interdependent, which play a major role in the process of assuring individual economic security.

In general, human capital refers to the stock of competences, skills and knowledge embodied in the workforce that can contribute to the increasing production and raising the competitiveness of national economy. This stock is the result of the processes of education, training and experience in the workplace. The European Union has proved to be a centre of excellence in teaching and learning around the world. The EU's educational system has top-quality degree programmes which enhance the visibility and attractiveness of European higher education.

In this context education has a major role in enhancing individual economic security, as inequality has risen to stunning levels. This social insecurity is reflected in the evolution of income distribution between 10% of the wealthiest and 10% of the poorest. It is the largest in the case of Latvia, where this difference is about 13 times higher (Table 1). In the case of the Republic of Moldova the shortfall is smaller and has a tendency to decrease. Regrettably, this reduction takes place more due to the shrinkage of the rich (from 28,52 in 2005 to 24,51 in 2011), and less on account of an increase in revenue share of the poor.

**Table 1. Income distribution between 10% of the wealthiest and 10% of the poorest. Case study on Estonia, Latvia, Lithuania and Republic of Moldova**

	Venituri	2005	2006	2007	2008	2009	2010	2011
Estonia	10% of the wealthiest	26,21	26,88	24,05	24,95	24,46	24,32	24,81
	10% of the poorest	2,57	2,73	2,95	2,85	2,73	2,45	2,48
	<i>Discrepancy</i>	<b>10,20</b>	<b>9,8</b>	<b>8,2</b>	<b>8,8</b>	<b>9,00</b>	<b>9,90</b>	<b>10,00</b>
Latvia	10% of the wealthiest	..	26,66	..	27,44	..	26,29	27,41
	10% of the poorest	..	2,34	..	2,69	..	1,95	2,13
	<i>Discrepancy</i>		<b>11,4</b>		<b>10,20</b>		<b>13,50</b>	<b>12,9</b>
Lithuania	10% of the wealthiest	27,16	26,79	..	28,95	..	24,83	24,57
	10% of the poorest	2,18	2,33	..	2,70	..	2,18	2,55
	<i>Discrepancy</i>	<b>12,50</b>	<b>11,50</b>		<b>10,70</b>		<b>11,40</b>	<b>9,60</b>
R. of Moldova	10% of the wealthiest	28,52	27,38	26,78	27,12	25,03	25,43	24,51
	10% of the poorest	2,90	2,81	2,96	2,92	3,07	3,32	3,50
	<i>Discrepancy</i>	<b>9,80</b>	<b>9,70</b>	<b>9,00</b>	<b>9,30</b>	<b>8,20</b>	<b>7,70</b>	<b>7,00</b>

Source: Elaborated by the authors on the basis of World Bank data: (<http://databank.worldbank.org/data/views/reports/tableview.aspx#>)

To diminish this discrepancy, it is more critical than ever that all have the conditions they need to become a high-skilled workforce tomorrow. It is a well-known phrase: “The more you learn, the more you earn”. Expanding the opportunities for high-quality education directly addresses one of the major causes of increased inequality: technological changes that increasingly reward skilled workers. *Once individual security is assured, macroeconomic security will increase.*

One of the main steps in achieving openness, quality and competitiveness in the field of education in the EU was made in December 2003: Decision 2317/2003EC of the European Parliament and the Council on the establishment of the Erasmus Mundus programme aimed at improving the quality of higher education and development of cross-cultural understanding through cooperation with third countries.

The Republic of Moldova is actively involved in the EU Programmes and since 2014, 17 TEMPUS projects have been implemented and 15 ERASMUS MUNDUS projects, involving 163 scholarships in 11 higher education institutions. Since 2014, the Ministry of Education is part of the new EU Programme – Erasmus+ and higher institutions started the implementation of 4 Jean Monett Projects in the framework of Erasmus+.

Cooperation is being developed successfully through numerous programmes, which are aimed to strengthen the common economic and intellectual potential and widen the professional and personal contacts that improve mutual understanding between societies.

## Conclusions

1. Crises, chaos and challenges are characteristic of mankind. World change is a continuous and unpredictable process. Uncertainty is inevitable. Sure, humankind requires simplicity and certainty because in such conditions it is easier to face contemporary challenges. But the society is in an unclear and unstable environment.
2. It is more than clear that more funding alone will not meet the educational challenges that almost all Europe faces nowadays. But at the same time there is a clear perspective that there are a lot of funding gaps in the current educational system and additional money will bring benefits in certain areas.
3. Education is the best instrument to mitigate unemployment challenges.
4. People with third level education and those that possess competitive knowledge adapt more successfully to a rapidly changing environment.



5. The whole world is recovering slowly from the economic crisis, the main instruments being productivity, innovation, investment and trade not yet at full steam. It became clear that not only economic growth, but also social progress is the key goal of the countries.

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## **BUILDING AN OPEN, ENGAGING AND INNOVATIVE SOCIETY. THROUGH ACADEMIC EDUCATION AS A PUBLIC GOOD**

### **Abstract**

*The aim of the paper is to discuss the problem of perceiving academic education as a public good that helps to develop an open, engaging and innovative society. Perceiving academic education as a public good should not be limited just to economists. It is also important for political and social scientists interested in the development and efficiency of education systems and management. The expectations concerning the sector often seem to be not only exaggerated, but also unrealistic, the way it is managed controversial, while its effectiveness, both in economic (the rate of return of investment) and social (usefulness for the society as a whole) terms, is repeatedly questioned by the labour market and social development reality. Although the scope of problems involved is beyond the reach of any single paper, it is worth looking more closely at least at three major issues that always come up in discussions concerning the effectiveness and productivity of university education in general. These include: the mass character of education and the individual capability of a student to benefit from it, the concept of public good in the context of university education and the ability of higher education to develop innovations.*

**Keywords:** academic education, public good, social equality, innovation

### **Introduction**

It seems to be natural to base the process of building an open and innovative society on the development of education. The growing level of scholarisation is a popularly accepted political prerequisite for development of reflective citizens, successful economy and advanced technology. This leads to a no less popular assumption that education is a public good, a common investment of a society to achieve a better future.

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And as with every popular assumption, policy prerequisite or general wisdom, it is sometimes worth asking the question: is it always so?

To answer it correctly one has to take a closer look at the education system, as well as at the essence of education as such. Numerous papers and studies confirmed long ago that there is an obvious difference in terms of social and economic development between countries with well-developed primary and secondary level education and those which are unable to provide basic education. The first group enjoys more resourceful, innovative and versatile citizens, while the latter group usually lags behind in economic and social terms. This seems to be strong enough an argument to agree that primary and secondary education is a public good worth protecting and cherishing. However, one category remains outside the scope of reflection – academic education.

The aim of the paper is to discuss the problem of perceiving academic education as a public good that helps to develop an open, engaging and innovative society. The question whether university education is a public good is not just a question for economists, but also for political and social scientists. The expectations concerning the sector often seem to be not only exaggerated, but unrealistic, its management methods controversial while its effectiveness, both in economic and social terms, is repeatedly questioned by the labour market and social development reality. Increasing internationalization, deepening European integration and growing mobility of labour require the policymakers, education professionals and political economists to take a step back and at least to assess the challenges and problems concerning the role of academic education in the development of modern societies. The volume of the paper limits the possibility to address all of them. Nevertheless it is worth looking a bit more closely at the three major issues that always come up in discussions: the mass character of education and the individual capability of a student to benefit from it, the concept of public good in the context of university education, and the ability of higher education to develop innovations.

The paper is not aimed to be a scientific analysis of the problems concerning the academic education standards and methods. Its aim is to form some more general questions concerning university education based on academic practice rather than scientific analysis of academic management. The contemporary evolution of the university institutions does not seem to fully address the challenges they are facing. Maybe it is time to take a step back, forget for a moment about the existing strategies, programmes and plans, and to have a broader look at the nature of university education as such.

## 1. The Student and the Academic Education

The first problem arising in every discussion of academic education concerns nobody else but the students. If one analyses the effectiveness and accountability of the academic education process, sooner or later one ends up talking about students and how well they do in the post-educational life. This aspect of the discussion is most often analyzed from two perspectives. The first one is generated by the students and their families who expect the university to provide opportunities for a better life in the future. The second concerns the society expecting the university to provide intellectual means for development. However, everyone seems to forget that actually, when it comes to the quality of university students' education and performance, the university as an institution may address it to a far smaller extent than many assume.

Based on common academic experience one may easily state that a student's academic performance is a combination of three major elements:

- 1) hard work – the element which may be addressed by both the academic teachers and the students themselves. The teachers and universities may provide opportunities to learn and help students to make use of them. The students may make use of the opportunities provided for them and look for other places to gain new skills and knowledge on their own. Thus, it seems that the issue of opportunities concerning academic performance may be addressed relatively well by all the parties involved;
- 2) intellectual capability – more controversial, nevertheless important. However politically incorrect this may sound, if one takes into consideration that academic education requires the highest level of expertise, it becomes obvious that not every member of society will be able to comprehend it. And regardless of how much one would like to minimize the importance of this feature, one cannot deny that it is the essential reason why university education is actually elitist in nature;
- 3) luck – the most controversial but also, if understood correctly, the most problematic of the above. First and foremost, it means being born in a family that can afford to support the child throughout the whole educational process. If one takes into consideration the fact of financially supporting the offspring for almost 25 years, in many cases this becomes one of the major elements of economic reality for many families all over the world. Eventually, it also becomes one of the most important practical barriers in terms of social equality in the access to university education.

However debatable the issues above may seem, one should not tackle them only from the technical perspective, meaning: how we should address them, what instruments should be used to achieve the highest degree of success, how education process should be reorganized to minimize the impact of negative economic and social

externalities and so on. The most important element is to notice that regardless of how states and societies address them, there will always be two broader questions involved.

The first question concerns social equality. Education, in particular at university, always was and still is a venture for those who are comparatively more affluent in the society. This leads to the question: can something productive be done about it without having to address a broader scope of social policies? The second question concerns intellectual differences between various members of the society. Regardless of the fact that everyone is equal in the court of law, intellectual differences are something that nobody can deny. Thus, is popular university education productive if we take into consideration that in reality only a minority of the society is capable of coping with it in intellectual terms?

Obviously, it is almost impossible to answer these questions without making choices which are political in nature. Nevertheless, in the context of the title of this paper it is far more important to notice that actually these two questions have always accompanied the discussions on university education, accompany it today and probably will do so in the future. Thus, it is worth acknowledging that the very nature of university education will always involve tension between expectations of individuals, the society and the capacity of the institution which deals with students who are already a “product” of primary and secondary education systems. Maybe the first thing that should be done before starting any debates concerning the condition of higher education institutions is for these facts to be realised by all the parties involved?

## **2. Academic Education as a Public Good**

The second aspect of any discussion concerning university education as a common achievement of the society involves the concept of public good. One far too often hears calls for more equal access to academic education, particularly in the context of lifetime education or permanent education concepts. Again, the common assumption is that more highly educated professionals the society produces, the better for the society. In consequence, another assumption is made – that university education should be a common endeavour of the entire society. However, the question is whether promoting academic education as a public good is actually the best way to achieve all the goals above?

The concept of public good is central to the economic analysis of the role of government in the allocation of resources. A perfect public good is defined by two characteristics:

- 1) non-excludability: it is not possible to exclude non-payers from consuming the good
- 2) non-rivalry in consumption: additional people consuming the good do not diminish the benefit to others.

Based on intuition and common knowledge, the concept of public good fits well into primary and secondary education. However, the problem concerns the fact that in practice education, especially university education, is not a perfect public good. There are two reasons for that:

- 1) the possibility of exclusion – again, if we take into consideration how much a full educational cycle costs, it becomes a natural source of social diversification. Just like income differences are a part of reality for every society, so does the access to academic education. The problems of exclusion may be addressed by the state, especially on the primary and secondary level. However, if one takes into consideration the processes of globalization and the flexibility of capital, the differences at the academic level are far more difficult to tackle at the level of an individual state;
- 2) is mass university education still really a GOOD – more and more EU countries face the problem of overqualified young people with the education level unparalleled in previous generations with no labour market interested in them. One may even state that policies promoting academic education are partly responsible for overproduction of university degree holders and underproduction of blue collar workers, especially in developed countries. Thus, the question is whether the public intervention was actually effective or maybe counterproductive?

The consequences of the abovementioned conclusions are far from developing an open, engaging and innovative society. The international movement of persons includes students, who will look for the best quality of education available for the price they are able to pay. The natural consequences are threefold. First: the international movement of persons translates into the mass migration of intellectually better-equipped individuals from less to better developed countries. Second: at the same time the less developed societies will not be able to take advantage of the best educated students. Third: addressing these problems by any single state becomes simply impossible. More affluent families will benefit from common social policies, while average taxpayers will share the burden of supporting university education they may not be able to afford to enjoy at its fullest. Thus, social diversification is a natural consequence.

Maybe it is time to ask a very inconvenient question: does the popular public university education actually make society more inclusive and open or maybe strengthens the existing social inequalities under the banner of openness and inclusiveness? In academic practice, academic education becomes more and more

international. Acknowledging that fact may help societies and policymakers understand that maybe it is time to start to think not in terms of international competitiveness, but of international complementarity, for example providing opportunities for students to pursue international education instead of narrowly supporting domestic academies. Maybe riding the wave is a better choice than standing against it?

### 3. Innovations and Academic Education Systems

The third and final aspect provocatively emphasized in the paper concerns innovations and the ability of universities to produce them. Contrary to the common belief, it is hard to always agree that universities are the hubs of innovation. In practice, the contrary is true. To paraphrase T.S. Kuhn, scientists and researchers are more often preoccupied with reproducing the system that breeds them than with developing something new (Kuhn 1962).

From the economic perspective, we can talk about three basic kinds of innovations (Mazzucato 2015):

- a) simple substitution – developing something new to simply replace something that grows old on the basis of adaptation to new reality. Innovation is described here as an evolution without significant added value;
- b) quality development – in other words, the development concerns higher effectiveness of the new product compared to the one that is being replaced, however without changing the very nature of the item replaced. To make it simple: it is cheaper, faster, more productive, but still based on the same idea. Thus, while the product is new, the idea behind it remains the same;
- c) genuinely new idea – which creates a new dimension of reality with new products and forms of activity. In economic terms, this means creation of a new market, in social terms – of a new reality.

The question is can any academic system sustainably produce anything but the first two kinds of innovations? New ideas often require revolutionaries raised outside of the system. It is enough to mention that some of the most successful IT products were developed by people without academic experience. Also, as Peter Drucker has proved, the public sector always develops more slowly than the private one (Drucker 1985). Again, it is enough to mention that private research universities are already turning into international institutions rather than remain domestic academies. So are the expectations concerning universities' innovative character not at least a bit exaggerated?



Of course the statements above are biased, on purpose though. For example, the most developed university system in the world – American one – was the engine of the US development. However, the exaggeration aims to emphasize that nowadays most of high expectations concerning the universities' innovative character are simply unrealistic. Just like the most of the large-scale academic projects stretch across many countries and institutions, the most of contemporary genuinely innovative achievements are hard to attribute to a single institution and even more to a researcher. Globalization, flexibility of labour and capital and accumulation of knowledge on the global level have already crossed the state boundaries. Thus, the question should concern not how to make the university innovative, but how to sustainably connect it to the naturally innovative international environment. Saying this seems easier than embracing the consequences, though.

## Conclusions

To paraphrase T.S. Kuhn again, what we see depends not only on what we are looking at, but also on what we were taught to notice (Kuhn 1962). These words seem to perfectly fit the area of academic education. Does the emphasis on education really produce equal, open, inclusive and innovative societies or maybe is just a smokescreen hiding the development of new elites? Is it worth investing into large populations of students or maybe it is better to switch to more efficient management of education? Is it possible to address the need for innovations via university education? It is surprising how often the stereotypes rather than conscious reflection shape popular picture of this area of social activity.

The major aim of the paper is to suggest that the outcome of every political, popular, expert or other discussions concerning how to deal with specific problems emerging in academic education depends first and foremost on the way the parties involved perceive the university as such. The way contemporary challenges that university education faces are addressed far more often reflects not the reality around it, but how this reality is perceived by the parties involved in the process. And most of the problems that come along are caused by misconceptions and lack of imagination or understanding of the nature of academic education. It is natural that it is elitist. It is natural that social changes introduce instruments aimed to make the access easier. And it is natural that quantity does not always translate into quality. Nobody should be surprised that making academic education popular leads to the decrease of its value. The most important thing is not to change the very nature of university, though.

University is not just a teaching or a research institution. It is an opportunity. Its major aim was never simply to teach. Its aim was to share valuable intellectual experience. The biggest asset of any academic system is the opportunity to share these experiences, to embrace them and to pass them on. Of course these should not be arguments to turn university into an ivory tower beyond reach of outsiders. However, such statements should be taken into consideration when it comes to assessment of university performance. The university enriches the society in intellectual terms. Economic and social gains are positive externalities. And maybe the most important thing is to consider whether this equation should be changed at all.

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## **NEW CHALLENGES, CURRENT PRIORITIES IN THE EDUCATION AND RESEARCH: HOW TO FINANCE THEM?**

### **Abstract**

*The article shows the role of human capital in the current stage of development of all the EU Member States. This means that education at all levels should be tailored following the guidelines specific to this stage of development and its requirements. The qualified workforce should be more innovative and creative. This means different requirements than at the stage which was dominated by industrial production. Such requirements call for more cooperation in R+D, teaching and education, which along with rapid technical changes bring the demand of all-life learning. Without such changes social inclusion will be impossible, same as catching up by less developed states. The mentioned changes have to be stimulated by a specific interventionist approach to the financing of education, R+D, innovativeness and creativity. The money allocation to that purpose should come from national budgets, which have to change their structure, as well as from the EU budget. In both cases, allocations should be increased. Such approach falls within the concepts of J. Williamson concerning the Washington Consensus. This matching pattern derives from the fact that education and R+D are seen as activities worthy of investment if one looks into the effectiveness of different expenditures and their outcome. In the long run, the expenditures allocated in R+D and education bring much higher return than the expenditures coined in response to current requests addressed to the state or Union authorities.*

**Keywords:** education, R+D, innovation, public policies, highest stage of development, creativity

### **Introduction**

This article points at the need to reshape the priorities in the states and EU's policies, namely to change the areas of intervention by replacing the areas where policies generate cost and don't bring any revenue with policies which generate cost, but at the same time bring revenue to the budget. This is, among others, the case with schools,

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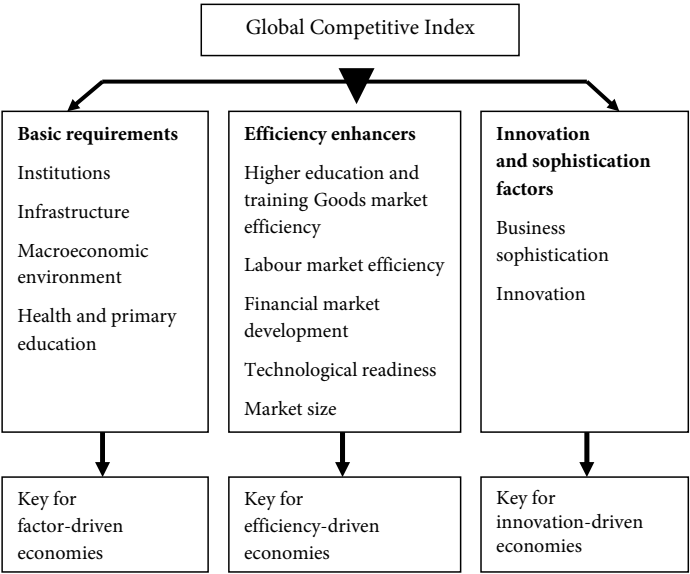
the higher education system and research. Schools of all levels need to go through revolutionary changes if they expect (or are expected) to prepare young, active people to be able to create, invent and find solutions not by cutting the Gordian knot but by undoing it. This means that school education has to lead to a new approach to education, where experts on memorising, linking facts, abstract thinking, creative thinking and innovative approaches will be given space to work and inspire others to follow them. This revolution has to take place also at the preschool level, as teaching and learning starts before the age of 5–6 years old. All consecutive stages of development which each country has to go through require a different type of support, specific institutions, specialised and educated labour force. They also require new, adjusted methods to evaluate the effectiveness of the educational system, and the effectiveness of its final “product” which supplies the market and its institutions. This product is human capital (educated people) able to meet the requirements of a specific stage of development of the economy.

This article argues that national educational systems still face limited competition which is the result of the fact that they were shaped mainly by national conditions. Although the situation is changing, this process requires time and understanding why changes are needed and in what direction they should go. Nowadays, while educational institutions employ international teaching staff and compete to attract foreign students, they don't permanently compete with each other either at the national or international level. Each nursery, school, university or polytechnics has its own place on the national market. Comparing them internationally, we can notice that some are better or are perceived as better, which makes a big difference (Scalling PISA 2012). This is shown by different rankings based on information concerning graduates, their earnings and workplaces. Moreover, educational systems are evaluated by national and international bodies which check first of all the ability to read, write and understand what one reads or writes. They also test managerial skills, the ability to solve problems, to take on the role of a leader or team member, or both such roles as they can change at various stages of education and work. All this shows a big range of solutions, none of which are universal and fully sufficient. The goal of this analysis is to show at least a framework for further cooperation among universities and schools in Europe, as well as teaching staff, scholars, students and administration.

1. What is Needed, Where and Why?

Each stage of development requires specific features from the education system which in turn enables proper quality supply of the labour factor. At the early stages of development, the requirements are simple and limited to the availability of the labour force. At more advanced stages the requirements become more sophisticated, which means that a certain quality of the labour force, measured by specific skills, is expected. This simple rule can be easily seen in the diagram presented by Klaus Schwab and Sala-i-Martin (K. Schwab, Sala-i-Martin 2014) (Figure 1).

Figure 1. Three Consecutive Stages of Development and Their Features



Source: Global Competitiveness Report 2014–2015, 2014: 9.

Each of the three listed phases of development is driven by different factors, which does not mean that the remaining ones do not matter. They do as well, but the leading role changes and with consecutive stages, traditional growth drivers are replaced by new ones, characteristic to more advanced stages of development. With development, productivity increases is followed by higher costs of labour. This process is clearly shown in the table below (Table 1).

**Table 1. Subindex Weights and Income Thresholds for Stages of Development**

	Stage of Development				
	Stage 1 factor driven	Transition from stage 1 to stage 2	Stage 2 Efficiency driven	Transition from stage 2 to stage 3	Stage 3 Innovation driven
GDP per capita (US\$) thresholds*	<2.000	2.000–2.900	3.000–8.900	9.000–17.000	>17.000
Weight for basic requirements	60%	40–60%	40%	20–40%	20%
Weight for efficiency enhancers	35%	35–50%	50%	50%	50%
Weight for innovation and sophistication	5%	5–10%	10%	10–30%	30%

\* For economies with high dependency on mineral resources, GDP per capita is not the sole criterion for determining the stage of development.

Source: Global Competitiveness Report 2014–2015: 10.

Comparing the stage of development of the EU Member States according to the indicators listed above, we can find that overwhelming majority is classified as stage 3: innovation-driven economies. 21 of the EU Members can be found at this stage. These are: Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxemburg, Malta, Netherlands, Portugal, Slovenia, Slovakia, Spain, United Kingdom. Five further economies are in transition from the efficiency-driven to the innovation-driven stage of development. These are Hungary, Latvia, Lithuania, Poland and Croatia. Two remaining economies are at the efficiency-driven stage of development. These are Bulgaria and Romania. This list shows that Europe represents states at relatively diversified stages of development, although the majority of economies are classified as the core of the group of countries at the most advanced stage of development, in which innovation is of fundamental importance.

In this context, we can ask a well known question concerning the economic and education policies: “does one size fit all?”. The answer is “generally, yes”. There are guidelines, financial support given by the EU and money from the budget general, which is followed by national policies, adjusted to the needs and abilities of each state.

Europe has well-defined goals, which are designated by the priorities of the research projects financed by consecutive research programmes (Horizon 2020), as well as goals set within the EU Europe 2020 Strategy (“Europe 2020. A European Strategy for smart, sustainable and inclusive growth”). There are also some good guidelines which indicate how the goals could be realised. Nevertheless, the policies applied in the Member States can still be seen as blockers which halt a better use (not to say: effective or sufficient use) of the financial, human and physical resources, followed by infrastructure.

What are those goals? Inclusive growth, increasing the share of youth in the human capital, increasing the share of elderly people who continue their work, raising the share of those who complete all levels of education: primary, secondary and tertiary,

etc. Those goals are oriented on statistical results, but the EU Member States in their policies should focus more on the quality of education. This should be adjusted to the new requirements of the educated society principle, with nurseries, preschools, schools and universities preparing for a life in the era of Knowledge Society. This means abstract thinking, combining, creativity and innovativeness. This means that such a person should be demanding, critical, constructive, able to use ICTs and cooperate with others (also on long distance and abroad).

All this can be bettered with the completion of the internal market of services, but at a same time there is need to put a special emphasis on education. Some moves in that direction are being made, which can be seen in the launch of the ERA project (European Research Area). This seems a natural sequence after common European Research, followed by programmes financing students and research exchanges. On top of that, the creation of SEA started in 1987 and was supposed to be completed in 1992. The completion process of SEA was quietly approved, which was a precondition to accepting the the Maastricht Treaty, introducing a common currency. Convergence in macroeconomics, if it is supposed to be sustainable, also requires convergence in sciences, especially when all economies of the Member States are moving towards or are already at the most advanced stages of development. This element of the service sector also conditions the liberalisation requirements to be met in order to make the single market work in all areas, not only in selected ones.

Sciences, teaching, education, research – all can be considered as services. It is very clear that services are more protected nowadays. All the EU Member States are in the post-industrial phase of development. This means that the majority of jobs are created not by the industry but by the service sector. More than 73% of the GDP is created by services. In the US economy the share of services is still higher developed, ranging 80% (Eurostat). As far as the share of services in world trade is concerned, we can see that 34% of trade is covered by the EU services, while in the case of the US it is higher by 10% in comparison to the EU.

Strong push forward can also be obtained by accepting the fact that internationalisation of the educational scene can be stimulating, same as the approval of educated people's immigration (Criga, Hadjar 2013).

## **2. How to Achieve Such a Goal?**

It seems that we need more openness in educational systems, which has to be followed by more competition and cooperation at the same time. The position of scholars has

improved in all OECD economies. The OECD is not limited to European states, it also includes the US, Canada, Australia, New Zealand, Japan and Mexico. This fact already indicates that competition in R+D is not limited to competition of TNC (transnational corporations), but also includes education and research programmes conducted and financed from international sources. This means that on the one hand they can concentrate on research, analysis, teaching, while on the other, the situation shows that stabilisation in a way eliminates their willingness to look for new solutions.

The idea of common financing of European research, introduced in the 1970s within the industrial policy of the then EEC, was a good idea that stimulated research, accelerated dissemination of the results of the research among wider audience, finally established contacts between different university centres in Europe. This process continues, although both teaching and research should be more open to outsiders of the EU. Looking at the abilities to innovate – skills in that area are much higher in Asia than in Europe. Moreover, higher than European are also the abilities to innovate in the US. This finding leads to several simple conclusions:

- Europe has to change its educational system on all levels, teaching entrepreneurial behaviour, solution of problems, active changes, etc. This has to replace the system which teaches passiveness, acceptance of definitions, ready-made evaluations and opinions;
- Europe has to cooperate closer with the US (the US takes part in the framework projects) but TTIP can be considered a good kick for R+D and the educational system, not to mention S+Ms, which prevail on both markets (EU and US);
- Europe has to open up for students coming from all over the world to study at the European universities, which has to be supported by international transfers of scholars (exchange, scientific cooperation, writing textbooks together, preparing projects), etc.

The mentioned remedies are not at all new, although they are marginal in comparison to the needs in this specific area. The scale of the mentioned solutions has to be much bigger, which does not seem to be a big problem as demography creates new space for such solutions. All the EU Member States possess, in this specific area, a big potential which differs from one country to another, which should be considered not as an obstacle, but as a merit. The relations within the educational system and in R&D should not be seen as fixed relations between the Patron and the Agent, according to the theoretical relationship within a company or in international relations. The relationship should be flexible and changing, replacing the former partner who played the role of an Agent by the former Patron and the other way round. Why this seems to be more advisable than a fixed relationship? Simply because when something is predictable it cannot be seen as a stimulating solution. It can only be seen as a setup



which creates background for repeated solutions, which traditionally turn into habitual and repeated stable activities. Changes in this area would be more effective because they would break the routine, which in some cases is important while in others it is seen as an obstacle or a restraint.

This is also the case with research conducted within the EU financing. New Member States don't use the share of the common cake to the same extent as old Member States. It is even difficult to find out if the new Member States take from the common cake what they put into it. It is impossible to calculate such an indicator as MS make payments to the EU budget general following certain obligations. From that money international projects are also financed. It was fair that they started to participate in the Common EU Research before the Membership was concluded. The projects were open to non-EU Member States years before they became full Members of the EU. This prepared them to apply for EU finances available for R+D. Nevertheless, the number of grants which they receive as leading researchers is not big and often does not represent a similar share in comparison with successful applications from old Member States. Of course this can be explained by the difference in the quality of submitted projects, but these general remarks do not explain such big difference.

Moreover, despite declarations concerning openness of the procedures behind the process of evaluation, it is very hard to obtain detailed information what the mutual transfers are from Member States to the EU budget and from the EU Budget General to the states in the area of science. Such data is lacking. Financing research from the EU budget general is not fuelled by money allocated to that purpose by national budgets. National obligations are calculated as obligations resulting from the size of the VAT collected, level of GDP, sugar levies and part of the duties custom collected from imported goods. Finally, it is also a type of membership fee introduced at the beginning of the financial system of this international organisation in Europe. Information on contributions from those sources is available, nevertheless, it is difficult to find out what amounts are transferred in the case of each state for the research programmes. This information can be found in national reports but not in the reports prepared by the EU's responsible DG. The easiest-accessible statistics concern the numbers of units from each country which participate in the research financed from the budget. This is not the most open information in this area. Here, this refers also to the statistics given by the EU.

The Seventh Framework Programme is still ongoing, although new competitions are not launched and research continues within the projects commenced in the last year of the VII<sup>th</sup> FP, that is 2012. The VII<sup>th</sup> FP started in 2007 (Table 2).

**Table 2. Transfers to Poland as Compared with Total Allocations for the EU and Non-EU, EU-27 in Millions of Euro (2007–2012)**

Contents	Total		Earmarked	Other	Non-EU	EU-27	Poland	
	2007	2012	2012	2012	2012	2012	2007	2012
Sustainable growth	43713.0	61684.7	896.3	1108.4	881.7	58698.4	4331.3	10681.0
Competitiveness for growth and environment	6738.2	13094.4	892.3	1028.8	878.7	10294.5	114.2	162.5
Seventh Research Programme (including commitments)	4059.4	8538.5	520.0	838.1	621.8	6558.9	29.2	58.5
Decommissioning (Direct Research)	31.7	26.0	0.1	0.0	0.0	27.6	0.0	0.0
Ten	371.5	842.3	37.6	50.3	208.8	545.6	12.2	0.0
Galileo	0.0	406.4	2.2	0.0	0.7	402.9	0.0	0.0
Marco Polo	9.5	22.3	12.9	0.1	0.0	9.4	0.0	0.7
Lifetime Learning	958.8	1448.4	211.9	0.2	20.2	1216.1	20.4	40.7

Source: [http://ec.europa.eu/budget/figures/fin\\_fw0713/fw0713\\_en.cfm#cf07\\_13](http://ec.europa.eu/budget/figures/fin_fw0713/fw0713_en.cfm#cf07_13)

It is true that scholars representing all groups of Member States are participating in the grants evaluation process, they are also present in the group of advisers to the Chancellor of the Scientific DG, but all this is not sufficient to obtain the needed funds for research, which should be conducted internationally, accelerating the flow of information, results, supporting purchase of scientific equipment and literature. The new Member States in general are too poor to finance the research in old Member States.

We obtain a different vision of Polish participation in the international research financed by the EU funds when we look at the data given by the EU Commission and when we try to analyze data presented in national reports (Table 3).

**Table 3. Poland as Compared with EU-28 in Horizon 2020**

Contents	Number of participants in applications	Retained proposals – number of participants	Success indicator (%)	Expected financing in mln €	Number of participant foreseen as coordinators
EU MS	92473	15485	16.75	6255.05	3570
Poland	1828	289	15.81	46.81	40
Share of Poland (%)	1.98	1.87		0.75	1.12

Source: KPK PB UE (2015).

Together, all 120 Polish units have signed programmes financing grant agreements within Horizon 2020. This number includes 15 coordinators and 171 participants from Poland. 23 of the total number are small and medium companies. Some of the applicants were using grant support instrument for preparing the project for

submission. The total share of such applications in EU grants was 1.13%, out of which 0.35% was allocated for R+D projects (Statystyki uczestnictwa Polski).

The picture of Polish participation in the EU-financed research is not a very optimistic one, although there are some signs that things are changing for the better. Among them are the growing amounts allocated to Poland. Small success indicator can be explained by (1) limited submission of projects; (2) poor quality of the projects; (3) limited abilities to lobby for the submitted projects; (4) limited influence of national institutions and their representatives within the scientific DG.

Comparing successful submissions from the remaining old and new Member States, it becomes clear that the reasoning in 3<sup>rd</sup> and 4<sup>th</sup> point seem to be the answer to the problem. This means that some other solutions in process of allocating grants should be made.

### **3. What Could Be Seen as Change Stimulating the Engagement in R+D Financing and What Can Be Seen as an Obstacle?**

It is very clear that there is a simple dependency between the wealth of a state and the abilities to finance research. When a state represents a group of developed post-industrial economies, more money can be allocated to research; when the economy is changing its branch structure, less funds are allocated to R+D. This seems to be a general law. This finding seems to be a bit trivial, but unfortunately it illustrates the reality. In practice this means that when a country is building its economic potential there is need to understand what type of investment can bring additional money and what type of spending is seen as traditional approach result in from limited understanding of what is really effective and what is simply a continuation of the trends set years ago. Moreover, understanding that things are going in the wrong direction can be solved in different ways, especially under the conditions when a country is effectively building up its potential and is approved to be a successful catching-up economy or an emerging market. Poland is perceived in such way as it was successful with its transformation, which was lately additionally evidenced by its being a “green island” during the 2008+ crisis. In other words: Poland was the only economy in Europe which did not experience a fall of GDP growth into “minus” values (not moving into “red” but keeping the growth rate above zero) during the crisis and one of two OECD economies, which indicated growth in 2008+ crisis. The other one was Australia.

At the same time, it should be clarified that explaining that fact by pointing to a relatively low level of development has a limited explaining power, as economies representing a lower level of development in comparison to Poland had entered into negative growth rates. In other words, their growth rates were below zero, which means that those economies were “in the red”.

Being a “green island” gives strong arguments in different negotiations, including those where additional support for financing research projects can be found. At the same time, the same situation is used to show that nothing should be changed as everything is going in the right direction and changes can only spoil this situation, as changes are always opening a new way into the unknown... This finding moves us to make a simple conclusion: Europe, due to deep structural changes in the world economy, should adjust its intervention policies, shifting from costly, non-effective areas to more profit-oriented ones. Here, profit should be understood in a specific way, as it will be calculated as a return to the budget in the form of different taxes from the turnover of produced goods. There is no doubt that the return is higher in fields which are characterised by a higher added value, this means such services as different types of adds, intellectual property, copyrights, research results, new skills, new inventions of different types, architecture, sculpture, paintings, technologies, ideas, programmes, organisational arrangements, new materials with new, previously unknown characteristics, distribution, etc.

In other words, national money spend on R+D is relatively small. Often the way it is allocated and used can be questioned. It is very difficult to evaluate such allocations, especially when they are spread over different areas and, with relatively low total allocations, do not bring expected results. This is evidenced partially by relatively small numbers of patents registered by Polish researchers and research centres. At the same time, Polish researchers conduct their work in research units of big TNCs and their work is registered as a success of that particular TNC and the country where it is rooted. This is not an attempt to make excuses for the results of Polish research, but to point out a significant and growing problem of disparity between internationalised economy and national statistics and methods to collect reporting data.

This means that there should be a political decision to move money from one area losing its importance in the creation of GDP, creation of jobs and goods supplied to the market in all their phases from production, through transport, warehousing, selling until consumption to areas which started to gain. All the above mentioned mean that priority should be given to those who teach, are engaged in R+D, which could be followed by those who work in the health sector, the sector producing intellectual property, and also to the sector concerned with rest and free time. On top of all the mentioned areas, one should add the development of services and goods which help

to keep the world “green”. Friedman called this allocation of investment as “greening the economy”.

Moving the money within the expenditures of a state and of the EU budget general seems to be important, as in a way, policymakers have their hands tied by the fact that revenues to the budget are limited. Raising the taxes – as practice shows – diminishes revenues in the long run. Printing money – stimulates inflation. Expenditures can grow while the economy grows. A simple rule here is that expenditures should grow at a lower rate than the GDP grows, as most of economies try to reduce their budget deficits. Stimulation of the economy is possible when the incentives and areas in which those incentives are used change. In simple words we can see that in a following way: money allocated in the stimulation of agricultural production has to be slowly reduced, same as support for ineffective state companies of a different type, and it should be allocated into new areas which have more perspectives and are gaining importance. Those areas are shown in the charts presented at the beginning of this article (Schwab, Sala-i-Martin 2014–2015). Without such decision, the applied policies can be compared to a navigational system (GPS) for one state with its roads and highways (fi. for France) used in another one (fi. in Germany) – in other words, it is useless.

Having said that, we can leave this problem aside and move to another one, or even a number of different issues which seem to be problematic and thus limit the effectiveness of the allocated R+D funds and their use. Here, a number of things have to be said. First of them is the applied method of project evaluation at the national level. The message of such evaluation, when it is done by 2–3 reviewers, should be concise and consistent, not contradictive in its contents. In other words, there should be a meeting (it can be a Skype meeting) in which the opinions of the reviewers are amalgamated into a single, uniform assessment. This prevents situations when the project at the same time gets the highest number of points possible and relatively low ones. Consider the situation where one of the evaluators says the project does not bring anything new to the research while the other says that the project is completely new and original. One of the reviewers says that the costs of the project are excessively high, while the other says that they fit the expected workload the project will require. One of the reviewers says that the coordinator of the project has enough experience to do his job in the project, while the other one expresses the opinion that his skills are insufficient and does not justify this opinion with any arguments. I have listed a number of contradictive opinions which I had to deal with while being an evaluator in the Framework Programmes of the EU. In situations like these, such diverged opinions had to be brought closer to one another during meetings, at the same time motivating their authors to formulate their assessments in a more responsible way. At least, within a peer group the reviewers’ opinions lost their anonymous character. In addition,

during the meetings all reviewers learned the arguments of the other members of the team, which often confirmed that everybody's knowledge is limited and we read different sources (articles, reports, documents, books). The meetings always helped us to learn something new, upgrade our knowledge and establish relations with other scientists with specialisations similar to ours. Therefore, to make a long story short, during such meetings it was important to come up with a coherent, unanimous review and not several contradictive remarks.

The second problem is that we spend money in our economy according to the traditional understanding of what is needed. This means that despite being in a post-industrial phase of development we spend much more on agriculture or industry than on research. This finding can bring up a number of arguments in support of such selection of spending priorities. The list can open with:

- ... but we all have to eat;
- ... we need jobs and without that spending we will lose them;
- ... R+D sector is a small sector, look at the numbers of licenses we register, look what a small group of people works in the sector;
- with the population decreasing, we will need fewer and fewer schools and universities, so why should we allocate money into those?

There can be a longer list of such arguments but they all can be refuted by one simple opinion. We are changing, and while thinking about the future we need to allocate money in such a way that will increase our prospective effectiveness. We need to invest into our innovativeness and creativity. The industrial phase of development requires people with high quality knowledge who can understand the tools and machines and can design the process of their production. The post-industrial phase brings about completely new requirements to education. People, educated university graduates, should have the skills of solving problems, inventing solutions, making discoveries, identifying new dimensions, prospects, ideas. This has to be done not always physically, but also in some cases virtually. Education has to develop our imagination. Memorising does not mean that we will be able to meet the challenge of the new phase of development which Poland and other states from the region are heading towards.

All this leads us to specific conclusions concerning what can be done in the Polish scientific policy, which includes teaching and R+D, in order to make it more effective and adjusted to the new requirements.

Demography in a way is helpful here. With the falling birth rate we will have fewer children in schools and at universities. This, on the one hand, brings up the problem of financing, while on the other it brings up the problem of looking for effective solutions. Problem of national finances in this area can be partially solved by openly

competing for students from abroad. Effective solutions mean that a tutor will work with a smaller group of students, so the work can be more effective. Moreover, more schools will use remote teaching and communication with a pupil or student. Tests will also be completed in an online system. All those novelties will not totally eliminate the traditional system of teaching, and the values of different diplomas will also be diversified. The development of the mentioned methods will eliminate the current situation in which a student pretends that he attends the lecture while in reality he goes to work at the time when lectures are held and builds up his CV, while the teacher will stop pretending that he does not notice the absence. Skype and remote teaching will enable the students who work to work and learn using remote infrastructure and those who want to study full time, traditionally, discussing ongoing problems with the professor – will also have that chance. The mentioned two methods do not tell in advance who will be better, the person who works and studies or the one who studies closely cooperating with the tutor. Answering in advance is impossible here, as teachers as well as students are different. We can have a combination of an excellent student and an excellent professor, as well as a bad student and a bad professor. Between these two extreme cases there is a number of other combinations. This means that we can have a number of interesting solutions in this area, promoting a number of talented people.

America has its ARRA (American Recovery and Reinvestment Act) from 2009, the limited evidence of correlation between the state's spending and economic growth. Nevertheless, there is evidence that focused state spending can stimulate economy. According to J. Williamson (2008), the state should re-orientate its spending from traditional engagement towards such engagement which in the future will bring returns. This embraces two types of activities. On the one hand, it addresses the problem of taxes and revenues from them within the fiscal policy. On the other hand, it points at some activities which financed today, can bring revenues or reduce spending in the future. In the first group we should mention the development of property taxation as a major revenue source. This is followed by the elimination of tax loopholes, also followed by simplification of tax obligations and aid enforcement. Finally, it is important to see the problem of tax collection in this group.

In the second group it is important to look closer into education and research. The second move here is ascribed to land reforms, which means in practice moving from buying or selling, followed by attempts of nationalising some of them should be replaced by privatisation. The third and final move is micro credit. Originally J. Williamson gave "ten commandments" on how to bring economy into a sustainable path of growth. Those ten pieces of advice were additionally expanded by D. Roderik (2007). It should be underlined that at first Roderick was strongly against the consensus but with as time passed (and he gained new knowledge) he accepted what Williamson

brought about to this solution, and instead of fighting against it, he has expanded Williamson's ten points with his own ten points, which are listed in his book *One Economics, Many Recipes* (Roderik 2007).

Finally, in the context of Poland and the size of transfers from the EU budget which finance the scientific research in Poland, we can see that Poland is the biggest single beneficiary of the EU budget funds. Still, we have to ask a simple question: are those funds allocated accordingly to the Polish national interests? The Polish share in the funding cake is big, but looking at consumption of that cake we can see that it keeps the Polish economy traditionally oriented. Without serious action taken on the Polish side – the country will freeze its dependence on high-tech imports from abroad. This results in the fact that big money transfers are allocated in agriculture, followed by industry, and with relatively little money allocated in education and R+D.

Our priority is to change that allocation structure in favour of education and R+D. Poland has a number of indicators which are above the EU average, as far as PISA tests are concerned. At the same time a number of indicators which show what is happening in sciences are below the EU average. This is the case with General Expenditures on R+D (GERD). There are 16 states which still have a smaller GERD than Poland, but we should compare our potential with those who are in better position, that is the remaining 11 economies. In 2013 the indicator showing the changes in GERD in the EU-27 states illustrated a 0% growth of GERD in Poland, which means neither dynamics nor changes, which means that we have to do with this what we have... Some economies experienced a decrease in the rate of growth of this indicator. These are: UK, Italy, Spain, Finland. Nevertheless, this fall comes from a high level. The group in which spending was lower than in Poland also noted a certain decrease in GERD. Those are the following states: Romania, Estonia, Latvia.

This information shows which area and which states are following the traditional, old pattern of policy, freezing the old structure of the economy. The transfers of funds for R+D financed by the Horizon 2020 are included in that indicator. This means that Poland, as well a number of other states, have limited abilities to finance their own R+D and that they use a relatively big share of the common R+D funding in their financing of this field. Nevertheless, the funds are insufficient to the needs and intervention of the EU level should change that. Such decision would be good for Poland, as well as for the whole EU. This will be the case, especially in the circumstances of sustainable growth. In Poland, the share of the EU GERD is 1.3%, while the share of finances allocated to R+D is 1.1%. In Italy the two mentioned indicators are as follows: 7.1% and 4.7%. Poland is on the 15<sup>th</sup> position among the EU-28. It is placed before all new Member States, but its economy (GDP) and its number of inhabitants is bigger than in the case of the rest of new Member States. If we look at the indicators of money



allocated to research projects in Horizon 2020 – including the number of researchers engaged in research per 1000 – Poland is on the last position in the EU. The position of Poland looks a little better if we count the allocations per capita for all research and education employment. In such a case Poland is 3<sup>rd</sup> from the end, surpassing Belgium and Slovenia. Moreover, some other indicators are not favourable for Poland. This is the case of beneficiaries of the research funding counted as share for the EU with use of an indicator for 1 million of inhabitants. Poland is on the last position here. The last indicator which I am going to quote shows Poland as the 3<sup>rd</sup> state from the end of the list. This indicator shows financing allocated for 1 million of citizens in the submitted projects. Poland is better in this area only than Belgium and Slovenia.

Having said all that, we can draw several conclusions. Science, or should I say scientists in Poland are prepared to guide the economy into sustainable growth based on innovation and creativity. Poland is developing an advanced innovation system. The operation of that system can be illustrated by a number of worldwide competitions in which Polish young scholars or students won (cosmic cart in the US or in Poland, or financial management, stock investing, intelligent plaster, or calcim titanic, etc.). Graduates of Warsaw School of Economics are ranked in Financial Time as second and third best-earning group of young graduates. WSE is the only university from East Central Europe noted on that list. On the other hand, having in mind all the limitations to financing research in Poland, followed by other new Member States, some specific rules in financing R+D from the funds should be applied. In this area specific solutions could embrace the “Polish scientific rebate”, incentives supporting students exchange within Erasmus Mundus to Poland, followed by pointing at Poland as an important partner in international collaborative research and organising competitions in such a way that the shares of winning projects would reflect the scientific potential of a state. This seems to be a must at this point. Otherwise we will find ourselves in a vicious circle: unable to compete, unable to grow, unable to catch up. Our economies will have limited abilities to converge as far as development is concerned. All this can lead us to return to waves of scientific nationalisms, which can be additionally fuelled by the tensions caused by information on Brexit, Grecxit, EMU crisis, and all the solutions which show that states are integrated and talk about the situation when it is consistent with their own national interests, otherwise they seem to forget about internal market and common measures, and they offer preferential conditions to their own institutions and individuals while less preferential ones are offered to others who can cope better competing without such conveniences. Clearly this was the case with the proposal to return the highway duties that were planned in Germany, which were supposed to be returned in the form of reduction of taxes to owners of the cars registered in Germany. The EU Commission gave a negative opinion on that and the project was postponed.

Without protests on the Polish side, where Poles take a big share of transport services in Germany, this law could have been passed and imposed. Similar situation is with minimal wages required on German territory applied to the drivers who are engaged in transport services. The analogy here is clear, although it requires detailed knowledge of the rules of the games played in the EU. The situation is the same concerning sciences.

What we need here is a strong financial push. This can be done with some organisational changes. A number of solutions applied in the DG for sciences is good and well functioning, while the others have to be shaped into specific frames which will make it possible to reduce the disproportions in allocations of funding. This seems to be a must if we want to think seriously about the future of convergence, catching up and fair division of funds. This can result in a leap in innovativeness and creativity.

## Conclusions

The article shows that a big challenge for the EU in the nearest future is seen in the changing structure of the expenditures, which has to be followed by understanding of the new conditions which lead towards such decisions. This seems to be a must in the perspective of sustainable growth. The change of structure of the expenditures should be shaped by reduction of expenditures which do not stimulate revenues. This has to be followed by the increase of expenditures on the areas which are seen as generators of revenues to the budget in all the EU Member States. These, among other areas, include teaching, education, research. Following the argumentation: changes in the EU policies regarding financing the R+D should take into account the financing abilities for this specific area by states like Poland, which should result in unambiguous allocation of finances in the form of international intervention measure.

Activity in the area aiming at restructuring expenditures from the EU budget, followed by changes in the Member States' national budgets, should be reinforced through an intervention helping to allocate the R+D money to the new Member States or, considering this in a wider perspective, to all economies attempting to level their development (including the southern old Member States, new Member States and future Member States, states from the neighbouring area).

This seems to be one of the preconditions for overcoming the development gap, which is important to the whole European Community. Decisions in this area can be made regarding the changes planned as follow-ups after signing TTIP.

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Anna Visvizi\*

## **EDUCATION, (PRODUCTION OF) KNOWLEDGE AND PROGRESS IN THE CONTEXT OF THE GLOBAL PUBLIC GOODS DEBATE**

### **Abstract**

*As the relevance of the EU's political, social and economic model(s) diminishes and the EU's safety and security paradigms are put under pressure, the nexus between education and knowledge (production) and the delivery and availability of public goods needs to be rethought. With this in mind, this paper offers a critical insight into the "education and knowledge as public goods" thesis in order to make a case that the prospect of continued socio-economic progress in the EU requires that very specific values, attitudes and worldviews are instilled in students already at a pre-school age. In this context, the salience of the principle of "solidarity" and its dwindling currency are highlighted. Moreover, a case is made that for the concept of public goods to regain its explanatory merit, a more pronounced connection between its macro, mezzo and micro-levels needs to be established, so that the feedback effects at work can be identified and effectively translated into the policymaking process.*

**Keywords:** (global) public goods, transjurisdictionality, EU, education, knowlegde

### **Introduction**

The Eurozone crisis and the economic uncertainty that it provoked, followed by a dramatic rise in youth unemployment across the European Union (EU) and accompanied by declining competitiveness of EU economies render it necessary to reconsider the role of education and knowledge (production) in the current EU social, political and economic model(s). The role of education and its availability becomes an equally salient question when viewed from the angle of the rising political instability on the EU's frontiers and the challenges that the massive inflow of refugees

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to the EU will trigger. To what extent, how and under what premises education and knowledge (production) can contribute to the emergence of viable alternatives to Europe's contested political, economic and social model(s)? May education and knowledge prove useful with regard to the delivery of public goods? As a means of addressing this twin question, first, this paper offers a critical insight into the (global) public goods debate and suggests that a more pronounced conceptual nexus between the macro-, mezzo- and micro-levels of that debate needs to be established. Only in this way, it is argued, the feedback effects at work between those levels can be identified and employed in the policymaking process in view of improving the delivery and availability of public goods at the global level. In what follows, the "education and knowledge as public goods" thesis is questioned only to restate the understanding (derived from Plato) of the role of education as a carrier of values, attitudes and worldviews conducive to the attainment of public goods. In the third step, by way of conclusion, education and (the production of) knowledge are discussed in the context of the Eurozone crisis and the prospect of socio-economic progress in the EU.

## **1. Rethinking the Public Goods Debate and Its Core Assumptions**

Originating in the field of economics, the concept of public goods refers to the goods that while available to all members of society and shared by them, even if scarce, are still defined by two features: non-rivalry of consumption, i.e. the consumption by one individual does not reduce the amount left for others, and non-excludability, i.e. it is difficult, if not impossible, to exclude an individual from enjoying the good (Verschreagen, Schilz 2007: 159). The most frequently cited examples of public goods include: fresh air, water, peace, security, but also light, houses, safety, social justice, gender equality, greater economic wellbeing and environmental sustainability. These qualitatively diversified concepts of a lesser and greater degree of abstractness are by default elusive, subjective, non-quantifiable and prone to be unevenly distributed. Think for instance of (the perceptions of) peace and security, on the one hand, and (the perceptions) of social justice and wellbeing on the other hand. In this view, "public goods" are an abstract, hypothetical concept that is contingent on two limitations, i.e:

First, the debate on public goods implicitly reifies the existence of private goods and impure public goods, i.e. goods that are characterized by both rivalry of and excludability from consumption. "Goods (or services) that possess only one of the two criteria are called impure public goods" (Verschreagen, Schilz 2007: 159). There

is a further distinction that treats goods that are non-rivalrous but excludable (for example, cable television signals) as “club goods” (McNutt 1999: 928) and goods that are non-excludable but rivalrous (for example, high seas fisheries) as “common pool resources” (Bodansky 2012: 653). Second, due to the abstract nature of the concept of public goods, the debate on public goods implicitly assumes smooth, unconditional availability and/or delivery of public goods, including their equitable territorial and societal distribution. This is clearly not the case (Long, Woolley 2009). Public goods have their temporal and spatial dimension, i.e. they may be available today but they may become scarce tomorrow; they may be in abundance in one geographical area and nonexistent in another. In fact, a great deal of research deals with the question of incentives and ways of improving the delivery of certain public goods to the broadest possible audience (Loeschel, Ruebbelke 2014; Shank et al. 2015; Scharf 2014).

Another issue that needs to be pointed out is that modern states and modern societies operate on the assumption that public goods exist as if by default. In line with the social contract upon which modern societies are built, typically it is the state that – in return for taxation and respect for rules – is endowed with the responsibility to provide certain public goods. What happens if the state cannot afford it or lacks the institutional capacity to do it? Taking into account the meagre growth rates in the developed economies and the pressures that the adverse demographic trends create for the state and its financial ability to deliver, pressures emerge for the delivery of certain public goods to be outsourced to private agents. This, supporters tend to argue, decreases the cost for the state and makes the process more cost-efficient while the delivery and availability of public goods improve. Critics argue nevertheless that such a way of dealing with the state’s inability to deliver public goods constitutes harm to democracy (Crouch 2004).

From a different angle, in the discussion on public goods the notion of positive and negative externalities is raised, i.e. it is argued that the cost of the delivery and utility of public goods is not evenly shared among the members of the society. While this observation feeds into the previously raised argument of non-equitable territorial and societal distribution of public goods, it also highlights the problem of free-riding in the process of delivery and access to public goods. Free-riding is considered problematic because it manifests unequal burden sharing, hence non-equitable distribution of both public goods and related externalities. As such, it can create disincentives for those involved in the process of the delivery of public goods.

## 2. From Public Goods to Global Public Goods

The concept of public goods made a spectacular entry to the field of international studies following the seminal 1999 UNDP publication titled *Global Public Goods: International Cooperation in the 21<sup>st</sup> Century* (Kaul et al. 1999). Therein, the concept of “global public goods” was deliberately employed to signal the necessity of new forms of collaboration to tackle problems and challenges of a global scope. Clearly the rationale behind the major argument advanced in that publication was that “many of the urgent issues facing mankind involve significant interregional, indeed international, interdependence” (Cornes 2008: 353) and therefore concerted action is needed to address them. Put in the context of the new millennium debate and Millennium Development Goals, the global public goods debate fed on the (fading by that time) charm of the globalization debate, while at the same time fitting neatly in the emerging global governance debate.

In what followed, the global public goods debate was employed to discuss “everything from global environment, international financial stability and market efficiency to health, knowledge, peace and security, and humanitarian rights” (Long, Woolley 2009: 107). As a corollary, the conceptual territory of the global public goods debate stretched to the extent that the very understanding of what a “global public good” is has become blurry and the boundaries between what constitutes the good itself and what serves as a means of its attainment have become unclear in several academic accounts. Consequently, even if the term “public goods” would retain its appeal as a rhetorical figure, as an analytical concept it lost its explanatory merit. Long and Woolley (2009: 108) argued that “the concept is poorly defined, avoids analytical problems by resorting to abstraction, and masks the incoherence of its two central characteristics. ... Even if the concept of global public goods is effective rhetorically, a precise definition and conceptual disaggregation are required to advance the analysis of global issues”.

In response to that plea, Bodansky (2012: 653) argues that even though the descriptors “global” and “public” do not always make the concept of global public goods more precise, focusing on the effects of a given good rather than on the good itself might constitute a way of bypassing the conundrum of indeterminacy that the concept entails. Indeed, in this reading it is possible to discern a consensus – most probably grown out of the global governance debate – that the global public goods concept signals “a common collective action problem and large potential benefits to international cooperation” (Long, Woolley 2009: 110). This understanding of the need of collective action suggests a tacit recognition among those involved in the debate



that a hierarchy among the public goods exists. One could argue that this is reflected in the growing list of issues considered as human rights (OHCHR 2015). In itself, it opens up a very interesting research question on the politics of the nexus between fundamental human rights and public goods in the global context.

From a different angle, in the debate on global public goods, the emphasis on the global descriptor of the term “public goods” has obscured the meanings originally attached to the concept itself. In other words, this overemphasis on the global dimension of public goods and the resultant call for international/global collaboration on the one hand effectively reduces the importance of challenges to the delivery/availability of public goods below the macro-level. On the other hand, it conceals the organic connections that exist between the micro-, mezzo- and macro-dimensions of the public goods challenge. In fact, in the debate on public goods (and their availability specific to local and regional contexts) their global dimension and implications are rarely emphasized. Obviously, however, the provision/availability of public goods at the local, regional and national levels is consequential for the attainment of public goods at the global level. They are correlated. One could go as far as to argue that to a certain extent the provision of public goods of global reach might stimulate the provision and availability of public goods locally and vice versa. This has important planning and policymaking implications. What follows is that a more pronounced conceptual nexus between the macro, mezzo and micro-levels of the public goods debate and its empirical corollaries needs to be established. Only in this way the feedback effects at work between these three dimensions of the public goods challenge can be identified and fed into the policymaking process. Only in this way the delivery and availability of public goods globally (and locally) can be improved.

### **3. Linking the Micro-, Mezzo- and Global Dimensions of the Public Goods Debate: Transjurisdictionality at Work**

The rationale behind the emergence and rise in popularity of the concept of global public goods is linked to the debates on globalization and global governance. At the bottom of those debates lies the process of growing worldwide interconnectedness. What follows is that in order to bridge the micro-, mezzo- and macro-dimensions of the challenge inherent in the provision and access to public goods, the transjurisdictional nature of public goods and their provision need to be emphasized, not their trans-border nature as a bulk of literature implicitly does.

The term “transjurisdictional” is employed here to signal the challenge and the need of collaboration between and across many different (legal) jurisdictions, including but not limited to nation-states, involving cooperation between different levels of government, regional authorities as well as international institutions, hence stretching across geographic and cultural borders. This definition of transjurisdictionality draws on Laquer Estin (2013: 595), who applies the term “transjurisdictional” in the context of child welfare debate. It needs to be stressed though that the term “transjurisdictional” is not employed here in the strictly legalistic meaning suggested by Nash (2008). Nash employed that concept in the context of the discussion on “transjurisdictional adjudication, [i.e. to refer to a situation when], a court in one system faced with a question arising under a second system’s laws seeks an interpretation of that question from a court in the second system rather than conducting the interpretation itself”. This legalistic remark notwithstanding, the term “transjurisdictional” has had frequent applications in political science and international affairs (Ballard 2009), as well as in environmental science (Wang, Ongley 2009), specifically in discussions necessitating interdisciplinary insights.

Consequently, it is argued that by emphasising the transjurisdictional aspects of the public goods debate rather than its global, regional or local dimensions, the concept itself opens up to the challenge of accounting for a variety of issues pertinent in the delivery/availability of goods considered public. By conceptualizing the nexus that exists among the macro-, mezzo- and micro-levels of the public goods debate (and policy process aimed at their delivery) by reference to transjurisdictionality, this paper advances a more comprehensive insight into the nature of public goods and the challenges related to its delivery/availability in contemporary contexts. This specific “transjurisdictional” take on public goods highlights that a great variety of actors/constituencies are (and ought to be) involved in the delivery of public goods, and that the challenge in their delivery and availability may not be the scarcity of the goods themselves, but rather certain unresolved transjurisdictional hurdles. This calls for greater collaboration across the spectre. Interestingly enough, in this reading, the concept of public goods feeds in the (global) governance debate in that it signals that several actors/constituencies may have the capacity to provide certain public goods, yet not all of them may have the mandate to do so. This suggests that new modes of collaboration are needed, with this being the major argument advanced in the global governance debate.

Summarising, the addition to the concept of public goods suggested in this paper renders it more flexible, i.e. easier to be handled in the politicised discussions on the delivery of public goods across the spectrum. By making the nexus amid the macro-, mezzo- and micro-levels of public goods more pronounced, not only does

the conceptual addition advanced in this paper highlight the existence of the organic/functional connections between the different dimensions of public goods, but also helps to validate actions/policy strategies aimed at the delivery of public goods at the macro-level. The transjurisdictional take on the public goods concept reconciles the variety of dimensions that public goods entail and enables a comprehensive approach to the issues, problems and challenges that the public goods debate highlights. Education and knowledge serve as very good cases in point that confirm the utility of this approach. The following sections elaborate on this issue.

## **4. Rethinking the “Education and Knowledge as Public Goods” Thesis**

There has been a tendency in academic and political debates to include education and knowledge on the list of public goods. To a large extent, this tendency coincides with the popular understanding that education and – by extension – knowledge should be available to all, with the state being responsible for their provision. Certainly, contemporary societies operate on that assumption; access to elementary education is considered a human right. Does it mean however that education and knowledge are public goods indeed? For instance, at the EU level, in line with the Bologna Process ministerial communiques, higher education is considered a public good and a public responsibility (Bologna Process 2001). Are education and knowledge public goods? When and under what circumstances does it make sense to treat them as such? For the sake of the discussion, the concepts of knowledge and education will be discussed separately.

### **4.1. Rethinking the “Education as a Public Good” Thesis**

Education is a process, a mechanism by means of which “the values and accumulated knowledge of a society are transmitted to the members of the society. In this sense, education is equivalent to what social scientists term ‘socialization’ or ‘enculturation’” (Encyclopaedia Britannica 2015). Seen in this way, education is a vital means of attaining certain public goods. This is because certain values and knowledge thus transmitted to the members of society may be reproduced through their actions, therefore contributing to growth and development of that society. As such, however, it is not education that should be considered public good. It is rather the possible future outcomes of specific education that under certain conditions may contribute to the

attainment of such public goods as peace, security, greater wellbeing, greater social justice, clean air etc.

Education does not fulfil the two basic prerequisites of a public good, i.e. non-rivalry and non-excludability. It is very easy for an individual to be denied access to a certain type of education on the grounds of it being “consumed” by others, e.g. a limited capacity of a music school, and exclusion on the account of not possessing the required skills, e.g. sufficient hearing skills to be able to learn how to play violin. Furthermore, from the perspective of externalities related to the provision of public goods, education represents a case where a good publicly available produces individual/private benefits, thus inflating the “education as a public good” thesis. The challenge of education lies somewhere else.

It is not education’s status as a public good that matters, it is not the amount of knowledge that it conveys. What matters are the virtues and attitudes that education instils and the skills that students become equipped with in the course of education. Certainly, this observation constitutes a restatement of Plato’s argument on education. As Hensley et al. (2013: 553) note, “One of the central issues Plato addresses in *The Republic* is the relationship between education and ‘the Good,’ with education serving as the mechanism through which public good – characterised by truth, beauty, virtue and justice – is advanced”. Indeed, many contemporary educational paradigms draw on this relationship. This is reflected in mission statements of high schools, colleges and universities. Frequently, it serves as the rationale behind education policies at national/local levels (Hensley et al. 2013: 553). Education remains therefore a priority for national governments not because of it being a public good itself, but because of potential future positive outcomes that it produces and/or might contribute to. Here, the challenge is twofold. On the one hand, how to define the principal goals that a given educational system should contribute to, i.e. what should they entail? With this in mind, what are the most efficient ways of making education accessible to the greatest possible number of members of society.

The latter point especially makes several observers argue that education, particularly at the elementary level, should be considered a public good and a public responsibility. With regard to higher education opinions are divided (Nyborg 2003; Mosteanu, Cretan 2011; East et al. 2014; Gibbons 2000; Santos 2006). To play the proverbial devil’s advocate, one could argue that although the provision of education may be the responsibility of the state, by virtue of the state having this responsibility education does not become a public good. It is rather the nature of the – by now changing – social contract upon which our societies used to draw, where the citizens would consent to a certain degree of state intervention (via taxes and rules) in return for certain privileges and gains/provisions, education included. This social contract

would sanction as well the existence of the state and its institutions. Should it happen that the state becomes obsolete, so will the provision of education by the state. This suggests that education is not a public good. That the Bologna Process builds on the assumption that education is a public good suggests nevertheless that the idea of the nation-state is so deeply ingrained in conventional thinking about politics and policymaking across the EU that we cannot do without it. This opens up quite a different field of inquiry, though.

## 4.2. Rethinking the “Knowledge as Public Good” Thesis

There has been a tendency in the public goods debate to suggest knowledge is both non-rivalrous and non-excludable.

“Firstly, unlike material things, knowledge and information are not rivalrous in use or consumption: the consumption of one individual does not detract from that of another. I can use an idea or piece of information at the same time as other people are discussing this idea without any loss of utility for either of us. Using knowledge or information does not ‘consume’ the knowledge; it remains available for others to use” (Verschraegen, Schilz 2007: 159).

The problem with the above argument is that, first, it neglects the problem of accessibility/availability of knowledge and information; second, it neglects the problem of quality and validity of information; third, it assumes the possession of skills necessary for the assessment of the quality and validity of information obtained; fourth, it assumes an honest and honourable use of knowledge and information, and therefore, fifth, downplays the issue of power inherent in the concepts of information and knowledge. In other words, although knowledge in its purest definition may fulfil the basic precondition of a public good, it is unclear if in the domain of public policymaking and in the context of the public goods debate knowledge can be considered a public good itself. The dubious status of knowledge in the public goods debate can be approached from yet another perspective.

In line with the basic assumptions underpinning critical realism, real world exists, and it exists independently of our knowledge about it. Therefore, we can perform such cognitive practices as those associated with science only on the assumption that the objects of inquiry exist independently of our knowledge about them. Furthermore, our ignorance about things social does not render them non-existent and hence there exist unobservable entities of reality. What follows is that our knowledge of the world is fallible, and science is and should be emancipatory, whereby knowledge has to be a process and an “achievement”. Accordingly, the surface appearance of things is potentially misleading as to their true character. Therefore,

since knowledge is fallible and appearances may be misleading, and since science holds the emancipatory potential, current beliefs will always be open to correction in the light of further cognitive work, such as observations, experimental evidence, interpretations, theoretical reasoning, dialogue (Benton, Craib 2001: 120–121; Marsh, Furlong 2002: 31).

The above suggests that even if the objectivity of things cannot be denied, our knowledge of the world is limited and open to constant updates. This means that knowledge may not necessarily fulfil the prerequisites of non-rivalry and non-excludability. That is, let us assume that an individual proves capable of disclosing fallibility of a piece of knowledge. As long as this new piece of information has not been made publicly available, then another individual will still have access only to the defunct and faulty pieces of information that existed earlier. This is an unintended phenomenon that in the language of the public goods debate could be termed as “temporal excludability”. It highlights the thin line that divides information and knowledge on the one hand and the problem of access to information on the other hand. It also sheds light on the issue of skills related to the selection and critical evaluation of the information available. Therefore, what really matters is not necessarily the recognition that knowledge is fallible, and hence that “temporal excludability” is at stake, but rather that serious notions of power and interpretation inherent in the process of transmitting various accounts of reality affect the ontological status of knowledge. If power and interpretation are involved, how can we know that the “accumulated body of knowledge” is indeed what we believe to be a true account of reality? Does everyone have the skills necessary to “sort out reliable information from the tsunami of data washing over us every day” (Hornik, Kajimoto, 2014: 175)?

Summing up, in the preceding paragraphs a case was made that for very specific reasons, neither education nor knowledge can be considered as a perfect public good. Nevertheless, education may play a pivotal role in the process of attaining certain public goods, such as peace, greater prosperity, greater social justice, fresh air etc. In a similar manner, it was argued that knowledge may be considered a public good only under very specific circumstances.

## 5. Conclusion: the EU and the Public Goods Debate

The preceding discussion highlighted the limits and limitations of treating education and knowledge as public goods. At the same time, it was stressed that by focusing on the jurisdictional rather than territorial dimensions of public goods and seeking ways

of bypassing them, the delivery/availability of public goods might be enhanced. To this end, however, emphasis in education needs to be placed on instilling values, attitudes and skills conducive to the attainment of specific public goods such as peace, greater wellbeing, greater social justice and inclusion, but also clean air etc. In this view, what really matters in the public goods debate with regard to education and knowledge is that great effort and resources need to be invested to establish, on the one hand, a framework of collaboration that will enable us to bypass the jurisdictional divides that hamper the delivery/availability of certain public goods, and on the other hand, educational systems focused on instilling values, norms, skills and attitudes. Ideally, therefore, attitudes of responsibility and accountability as well as news literacy and critical thinking skills would render the process of production and dissemination of knowledge a fair and truly emancipatory enterprise. In this way, education and knowledge (production) would contribute to the attainment of public goods and socio-economic progress. With that argument being highly normative, the following section by reference to the EU engagement in the field of education sheds some light on the contingencies besetting that argument.

In line with the EU regulatory framework, it is the EU Member States that bear the responsibility for the design of their educational systems. The Bologna Process constitutes an important step in aligning the different designs of educational systems across the EU in view of enabling student mobility across the EU. The curricula of national education systems are designed locally, i.e. either by governments (elementary and high school training) or by universities themselves (higher education). While EU institutions have limited prerogatives in the field of education policy and national education systems, the EU does encourage cooperation in that field. This is particularly visible at the level of higher education. The European Commission (2015) highlighted recently that “higher education and its links with research and innovation play a crucial role in individual and societal development and in providing the highly skilled human capital (...)”. The question is, what kind of skills are in demand? In its recent report, *New Vision for Education*, the WEF & BCG (2015: 1) advance the argument that “to thrive in a rapidly evolving, technology-mediated world, students must not only possess strong skills in areas such as language arts, mathematics and science, but they must also be adept at skills such as critical thinking, problem-solving, persistence, collaboration and curiosity”. What is missing in both accounts is the notion of values, attitudes and worldview that education systems would have to attempt to instil in students, so that the skills that they become equipped with are employed for the attainment of public goods. Therefore, two points need to be raised.

First, acknowledging the salience of values, attitudes and worldviews is but one thing. The other one is the recognition that those have to be instilled in students in a

process that starts at the pre-school age. This suggests that EU Member States need to take the transjurisdictional effort seriously, whereby the European Commission needs to encourage cooperation in that field so that collaboration and coordination (possibly in line with the open method of coordination) can be enhanced. Second, crises tend to unveil weaknesses otherwise concealed in times of prosperity. The Eurozone crisis demonstrated that the notion of solidarity in the EU is by no means to be taken for granted. This suggests that greater effort needs to be invested across the EU to instil in the European youth the foundational values (including solidarity, democracy, liberty, freedom) upon which the EU is built. This would be the first step on the way towards the strengthening of the European project. The next step would be that politicians actually make these values relevant. All too easily, in the discussion on education and knowledge the essence of things is lost. At the end of the day, it is not the amount of loose pieces of information that we have accumulated that matters, but how we can put these pieces together, and most importantly what we do with them.

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Mehmet Ali Ozcobanlar\*

## THE MAJOR ROLE OF EDUCATION, EDUCATIONAL LEVEL AND LIFE SATISFACTION. A COMPARISON BETWEEN GREECE AND TURKEY

### Abstract

*In this research, Greece, a European Union Member State since 1981, and Turkey, an Associate Member since 1963, are examined, analysed and compared regarding the differences between education levels and life satisfaction. This paper is a continuation of a previous paper, titled: "Cross Cultural Dimensions of Cultural Capital: A Comparison Between Greece and Turkey"<sup>1</sup>. As an introduction, a general overview of current Turkish and Greek economies is given. Gross domestic expenditure on R+D (GERD) of Turkey based on sectors and based on sources of funds is given in the graphics. Total GERD spending is basically located in the higher education sector in Turkey. The number of scientific publications has increased since 2000. Another R+D indicator is the number of patent applications, showing that the technological level of the country has considerably increased in Turkey. According to the results of the research, statistically there are differences between the two countries as regards education and life satisfaction factors of cross-cultural dimensions ( $p < 0,05$ ). Education levels are higher in Greece. Greek participants seem to be more satisfied with education, accommodation, health and social life.*

**Keywords:** crossculture, Greece, Turkey, European Union, education, life satisfaction

### Turkey

Turkey, one of the newly-developing economies of the world with current population of 75 million (TÜİK), lately realised the contribution of industrial design to the government policies for a sustainable development (Tezel 2011: 99). The industrialization period in Turkish history, a period characterized by Turkish own

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<sup>1</sup> Özçobanlar, Mehmet Ali (2015), "Cross Cultural Dimensions of Cultural Capital: A Comparison Between Greece and Turkey", Canadian Social Science Journal, Canadian Academy of Oriental and Occidental Culture (CAOOC), Vol. 11, No. 4, 2015, pp.15-27

patterns of production, was affected by the policies of the Customs Union with the EU (Tezel 2011: 99). Export subsidies and export-led growth of Turkey was fuelled by a devaluation period. The Customs Union Agreement, signed between Turkey and European Union in 1996, was aiming to the abolition of duties on all industrial products by both parties, excluding agricultural products and processed food. One of the results of this agreement was a kind of structural transformation in the trade between Turkey and the EU and the rise of the share of manufactures to a totally dominant position. (Karabağ 2011: 1349). Agricultural products, including processed foods, were not included in the deal. As a result of this agreement, Turkey's production has increased into a completely dominant position. A structural transformation in trade between Turkey and the EU has also taken place (Ibidem).

After the Customs Union, the issue of integration, as a focus point for the national development due to the unstable economic and political situation, has deteriorated, and more attention was paid to the industrial innovation, research and development divisions of the area (Tezel 2011: 99).

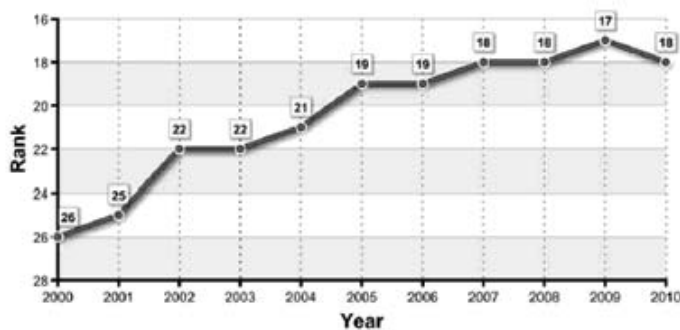
Despite the financial crisis that struck again Turkey in 2001 and despite a somewhat erratic performance, the average long-term growth remained strong resulting to the quadrupling of GDP from 1970 to 2005. During the same period there was also an increase in tertiary education, especially in engineering and science – for example the number of PhD students in mechanical engineering almost doubled between 2000 and 2010 (Karabağ 2011: 1349).

A country's level of development in science and technology R+D as an indicator (GERD) can be evaluated using the gross domestic expenditure. According to the OECD report, GERD and 9.6 billion USD in Turkey in 2010 constituted 0.84% of GDP. Annually between 2005 and 2010 GERD grew by 10.7% and were affected by little economic shocks. In 2004, the Turkish Research Area (TRA) implementation and public R+D budgets gave an impetus; the government's commitment to continuous STI and business R+D expenditure will quickly recover after the crisis. In 2010, the industry funded 45% of GERD, government and higher education funded 50% (OECD 2012: 396).

Since 2011, a new Ministry of Science, Industry and Technology (MoSIT) is responsible for STI policy design, implementation and co-ordination of R+D and responsible activities. The Scientific and Technological Research Council of Turkey (TUBITAK) and Turkish Academy of Sciences (TUBA) are affiliated to the Ministry. Evaluation policy has been reinforced and an interministerial co-ordination board has been set up to review all R+D, innovation and entrepreneurship support schemes under the presidency of TUBITAK (OECD 2012: 398).

Regarding the data are given by Turkish Statistical Institute (TurkStat) in between the years 2002 – 2011, gross domestic expenditure on R+D (GERD) based on sectors is in total GERD spending is basically in higher education sector. On the other hand, government sector spends the least among other sectors given such as business enterprise sector and higher education sector. Another point is that spendings of all sectors on GERD is increasing. According the following data by TurkStat, gross domestic expenditure on R+D (GERD) based on sources of funds is in between 2003 – 2011 the distribution of sources for GERD shows an increasing trend. In addition, it is also shown that the contribution of foreign sources, including FDI, has the smallest proportion in source distribution (in year 2003 – 148 million current purchasing power parity (PPP) in USD and 376 million current PPP USD in 2011). However, government (1,009 million current PPP USD in 2003 and 3,247 million current PPP USD in 2011) and industrial contributions (973 million current PPP USD in 2003 and 5087 million current PPP USD in 2011) are higher than higher education contributions (in 2003, 665 million current PPP USD and 2,314 million current PPP USD in 2011). In 2008, the effects of the global crisis only had a small effect on industry. On the other hand, contributions from government and higher education still continued. This means that the country has a strong political structure, and that makes the country feasible to live in. The gross domestic expenditure on R+D (GERD) as a percentage of GDP is 0.53 % in 2002 and 0, 84 % in 2011. Similarly to the sources of GERD, the percentage of GERD in GDP has been increasing since 2002. In 2011, the ratio got close to double. Similarly to this increasing trend, the number of scientific publications also increased, as shown in the Figure 1.

**Figure 1. The rank of Turkey with respect to scientific publications**



Source: Thomson's ISI Web of Science (TÜBİTAK ULAKBİM)

Updated on November 2011.

According to Thomson's ISI Web of Science reports and TÜBİTAK ULAKBİM (a national organization on scientific research and development), Turkey has a substantial position with respect to scientific publications, the number of which has increased year by year since 2000. In Turkey, TÜBİTAK gives a monetary award for a researcher publishing articles in SCI or SCI-expanded journals. In addition, universities also give different awards for publications. Another R+D indicator is the number of patent applications showing the technological level of the country and there is a serious increase in the number of patent applications to TPI. The number of applications in domestic patents in 2002 is 1460 and 4067 in 2011. Although GERD rates of foreign sources are not dominant, there is a significant number of foreign patent applications to TPI (6154 patent applications in 2011). Similar to other indicators, numbers of patent applications for both domestic and foreign ones are increasing.

During the crisis of 2009, the United States allocated 217 million USD to TUBITAK through various grant programmes to support STI actors. TUBITAK's main funding vehicle, Industrial R & D Projects Support Program, some technology areas (IT, biotechnology, environment-related technologies, advanced materials) increased by 10% due to the grant. A new small business innovation and research support programme was implemented in 2012 (OECD 2012).

The National Science and Technology Human Resources Strategy and Action Plan (2011–2016) aims to increase R+D personnel, foster a research culture, and develop researchers' skills, mobility and employability. The National Science, Technology and Innovation Strategy (2011–2016) (UBTYS) aims to strengthen national R+D and innovation capacities in order to upgrade the industrial structure towards high-technology industries. GERD should reach 3% of GDP by 2023. The Turkish Industrial Strategy Document and Action Plan (2011–2014) and several sector-centred plans reinforce this targeted approach and the priority of the business sector (OECD 2012: 396).

## 2. Greece

It is commonly accepted that the euro zone's crisis started with the difficulties faced by the Greek government due to rolling over maturing debt in 2009, which proved contagious to other euro zone economies, such as Portugal, and then spread to Spain and finally, to Italy. The Greek government sought assistance from the European Union (EU) and the International Monetary Fund (IMF) that resulted in rescue programmes featuring significant financial support, but with mandatory imposition of very severe austerity and structural-change measures. The combined EU, European Central Bank

(ECB), and IMF rescues were based on the assumption that a dramatic reduction in government deficits was the solution. But this “solution” tends to slow down growth, increase unemployment, reduce savings, and hence increase the burden of private sector debt. The idea is that this will reduce government debt and deficit ratios. However, as will be shown from the evidence, this did not work due to impacts on the domestic private sector. The question that should be asked, then, is whether this imposed policy mix was wise (Papadimitriou 2012: 3–4).

Employment, on a seasonally adjusted basis, slowly increased from its trough of 3.6 million people in February 2013, only to fall below this figure again in October 2013. The ranks of the unemployed increased by 84,128 individuals over the same period, raising the seasonally adjusted unemployment total to an all-time high of 1,388,631, with a significantly higher unemployment rate for women (31.3% in 2013Q3) than for men (23.8%). The largest increase in jobs between the first and the third quarter of 2013 was in the “accommodation and food service activities” sector, with a gain of 50,800 salaried employees; however, the same sector showed a decrease of 1,900 employers over the same period, which may reflect an increase in the average size of surviving firms (these latter figures are not seasonally adjusted). It is important to note that this employment category, which includes tourism — a crucial economic sector — shed 9,300 jobs between 2012Q3 and 2013Q3 (Ibidem).

### 3. Statistical Approach

In this research, two factors were related to cross-cultural dimension; Education and Life Satisfaction was developed. Cross-cultural dimension factors and findings were compared between Greece and Turkey. The research is restricted to two factors of cross-cultural dimensions, and two countries: Greece and Turkey. Quantitative approach is restricted to data of Eurofound UK Data Archive Study Number 7316 - European Quality of Life Survey, 2011–2012, “Third European Quality of Life Survey Questionnaire”. They are given below.

### 4. Education

Variable Edu5 used in the analysis was derived from the question Q48 (“What is the highest level of education you completed?”). The original variable of nine categories

was recoded, so that the number of subjects in particular categories is more equal, but also to make the comparison between Greece and Turkey possible, as in Greece there are no subjects in the category “literate without a diploma”.

The first cross-cultural dimension issue of the research is education. The distribution of education levels of participants was given in the Table 1.

**Table 1. The Difference Between Education Levels**

	Greece		Turkey		p
	n	%	n	%	
Primary education unfinished	15	1,5	205	10,1	<0,05
Primary school	257	25,8	763	37,7	
Primary education			119	5,9	
Gymnasion - 3 grades of secondary education	152	15,2			
General Lyceum-High School - 6 grades of sec. edu.	279	28,0			
Technical-Vocational Lyceum-High School	57	5,7			
Institute of Vocational Training	39	3,9			
Higher Technical Educational Institutes	77	7,7			
Jr high school/ Vocational school at junior			245	12,1	
High school / Vocational school at high school level			473	23,3	
Training schools			69	3,4	
University/Technical University	92	9,2	146	7,2	
Postgraduate studies- Masters degree	25	2,5	4	0,2	
PhD	4	0,4	1	0,0	
(Completed education abroad)			1	0,0	

Source: Own work.

According to Table 1, it can be seen that Greece has more educated people than Turkey. The difference between the two countries is statistically significant ( $p < 0,05$ ). In fact, there are different types of educational institutions. In Greece, the national education system is more stable than in Turkey. Turkey has been adopting different national education systems in recent years. However, there still remain very serious problems which must be solved. Thus, it may be argued that Greece has more qualified human capital than Turkey.

## 5. Life satisfaction

Variable Y11\_Q30 is an interval level variable measuring overall life satisfaction by asking respondents: “All things considered, how satisfied would you say you are with



your life these days?”. The answers are measured on a 10-point scale where 1 means “very dissatisfied” and 10 means “very satisfied”.

**Table 2. Life satisfaction differences**

All things considered, how satisfied would you say you are with your life these days?	Greece			Turkey			P
	N	X	SD	N	X	SD	
Q30	1001	6,17	2,01	2023	6,66	2,43	0,000

Source: Own work

For the life satisfaction dimension, the “all things considered, how satisfied would you say you are with your life these days?” question was asked to participants and they were asked to evaluate their current situation based on 10-point scale. The means and difference analysis results were given in the Table 2.

In overall evaluation, it was shown that Greek participants have a lower life satisfaction level ( $6,17 \pm 2,01$ ) than Turkish participants ( $6,66 \pm 2,43$ ). The difference analysis results were also statistically significant ( $p < 0,05$ ). Life satisfaction also affects job satisfaction. There are many researches focusing on this issue. Thus, it may be argued that Greece has less satisfied human capital than Turkey.

**Table 3. Satisfaction with accommodation**

Country		N	Mean	Std. Deviation	t	P
Q40d Your accommodation / How satisfied are you? (scale 1 to 10)	Greece	1003	7,11	1,958	1,97	0,049
	Turkey	2025	6,94	2,738		

Source: Own work

In the research, participants were asked whether they are satisfied their accommodation or not. Results of the analysis of answers given to the question were shown in the Table 4.

As seen in the Table 3., Turkish participants are not as satisfied with their accommodation as Greek participants. The difference between two participant groups is statistically significant ( $p < 0,05$ ). Thus, it may be argued that Greek participants have more life quality and satisfaction than Turkish participants. Hence, accommodation has an important place in life quality and satisfaction.

Another question related to life quality is social life. In the next table, answers to the satisfaction with social life and their difference analysis results are given.

**Table 4. Satisfaction with Social Life**

Country	N	Mean	Std. Deviation	t	p
Q40g Your social life / How satisfied are you?	Greece 1001	7,05	2,107	8,54	0,000
	Turkey 2019	6,26	2,855		

Source: Own work.

Similar to satisfaction from accommodation, Greek participants also have a higher satisfaction level with their social life than Turkish participants. According to difference analysis, the difference between participant groups was significant ( $p < 0,05$ ). It may be argued that social life in Greece is more satisfying than in Turkey.

## 6. Life satisfaction component

Variable C\_lifesat – life satisfaction component – is a principal component derived from a set of interval level variables measuring, on a scale from 1 to 10, one's satisfaction with different aspects of life, where 1 means “very dissatisfied” and 10 “very satisfied”. The following aspects were measured: Q40a - education; Q40c – the present standard of living; Q40d - accommodation; Q40e - family life; Q40f – health; Q40g - social life. The variable Q40b was excluded from the analysis, as it evaluates work-related satisfaction and therefore is applicable only to these respondents who are in employment, which would not fulfil the aim of the further factor analysis. Similarly, the variable Q40h was not included in the analysis, as it does not evaluate life satisfaction on the personal level.

**Table 6. Life satisfaction component differences**

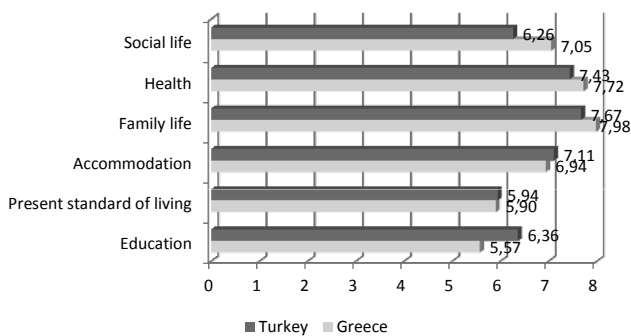
	Greece			Turkey			P
	N	X	SD	N	X	SD	
Q40a-education	1002	6,36	2,17	2005	5,57	3,09	0,000
Q40c-present standard of living	1001	5,94	2,07	2016	5,90	2,78	0,735
Q40d-accommodation	1003	7,11	1,96	2025	6,94	2,74	0,398
Q40e-family life	1001	7,67	2,01	2024	7,98	2,30	0,000
Q40f-health	1002	7,72	2,20	2026	7,43	2,59	0,200
Q40g-social life	1001	7,05	2,11	2019	6,26	2,85	0,000

Source: Own work.

For the life satisfaction component, six questions were asked to the participants. In the Questionnaire, Q40a, Q40c, Q40d, Q40e, Q40f and Q40g were related to the life satisfaction dimension. The following aspects were measured: Q40a – education; Q40c – the present standard of living; Q40d – accommodation; Q40e – family life; Q40f – health; Q40g – social life. Answers given to the question and analysis results were shown in the Table 6.

Table 6. shows that there are statistically significant differences between Greek and Turkish participants based on education, family life and social life satisfaction ( $p < 0,05$ ). On the other hand, satisfaction levels for the present standard of living, accommodation and health did not show a statistically significant difference ( $p > 0,05$ ). These distributions were also shown in Figure 2.

**Figure 2. Life satisfaction component differences**



Source: Own work.

As seen in Figure 2, satisfaction levels of the Greeks are higher than those of Turkish participants in general. The most extreme differences are seen in education and social life. On the other hand, family life satisfaction is higher in Turkish participants. In general, it may be argued that Greeks are more satisfied than Turks.

## Conclusions

The importance of education cannot be disregarded in social and economic life. Different educational systems in the Member States and candidates for the membership in the European Union, such as Turkey, and educational policies always remain an essential matter in the forefront of discussions. In fact, there are different types of

educational institutions. In Greece, there is a more stable national education system than in Turkey. Turkey has been adopting different national education systems in recent years. However, there some very serious problems still remain and must be solved. Higher education is one of the pillars of development, in Turkey scientific publications increase and there is a serious increase in the number of patent applications to TPI. There are sharp differences between the two ancient societies; Greece and Turkey while two of those countries were living together for over 400 years. Therefore, The European Union Member States and Turkey have to begin to work together more excessively on the common challenges in their educational system. They should make their effort explicit to improve the quality of education. The countries in Europe must develop their educational systems according to common sense for the wellbeing of their citizens.

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Jan Misiuna\*

## CULTURE, GROWTH AND TEACHING EUROPEAN STUDIES IN POLAND

### Abstract

*The paper describes the place of culture in EU's growth strategy and the importance of culture for growth in general, including a brief discussion of culture-based and creative industries in Europe and in Poland. Those are followed by a discussion of the place of culture in teaching European Studies at the best Polish public universities. Primarily based on the analysis of statistical data and official documents, the paper points to the fact that insufficient attention paid to teaching about culture and its importance for growth may negatively influence the social and economic development in Poland in the future, particularly after the current model of growth has reached its limits.*

**Keywords:** culture, culture sector, creative industries, European Studies, public policy

### Introduction

For non-Europeans, the European culture and cultural heritage are often the most important reason to visit Europe. While one may wonder to what extent European culture really is appreciated by tourists during their travels throughout the continent, the fact that European culture makes Europe popular among tourists cannot be denied. However, the importance of culture for European economic growth is much bigger than just attracting tourists. The influence of culture on growth has been noticed by scholars, the European Union, the governments of the EU's Member States and regional and local authorities, including in Poland. In this article I am going to describe the place of culture in the EU's growth strategy and the importance of culture for growth in general, including a brief discussion of culture-based and creative industries

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in Europe and in Poland, which will be followed by a discussion of the place of culture in teaching European Studies at the best Polish public universities.

## Smart Growth and the EU's Europe 2020 Strategy

Europe 2020 Strategy for smart, sustainable and inclusive growth, the EU's development strategy, stresses the importance of two elements for smart growth. Those "drivers of our future growth" are knowledge and innovation. The European Commission has decided that to gain knowledge and to stimulate innovation, it is necessary to act collectively for the development of education and boosting research. In the Commission's opinion, this aim can be achieved through the promotion of innovation and transfer of knowledge due to the application of new information and communication technologies. Better education, more research and better dissemination of knowledge are considered to be the tools that will help unleash creativity, which in time will not only "create growth" and "quality jobs", but also solve the most important problems of European and global societies (European Commission, Communication 2010: 11–12).

Although the European Commission considers complex actions on all levels, including the regional and national level (particularly in the fields of research and development, the increasing mobility of young people and increasing digitalization of Europe), that are designed to stimulate the process of innovation, Europe 2020's remarkably technical approach to stimulating growth seems quite narrow. While innovation is at the centre of the EU's growth strategy, Europe 2020 seriously ignores the cultural environment in the process of stimulating innovation. The only mention of culture that one can find in the Europe 2020 Strategy is when the document refers to agriculture. Obviously, modern agriculture is of tremendous importance for maintaining sustainable growth, however its role in stimulating innovations in other fields and providing environment for innovations is yet to be unveiled. It seems that for the authors of the Europe 2020 Strategy stimulating the economy for more innovation is limited to pouring money into education, research, intra-European migrations and easy access to broadband Internet, while creating environment where the money and people can work effectively to stimulate innovation is not necessary.

This position of disregard for the importance of culture as a factor stimulating innovation by the European Commission in the Europe 2020 Strategy is particularly surprising when considered in the context of other official EU policy documents, particularly the European Agenda for Culture as adopted by the Council of the European Union in 2007, which was prepared with the active participation of the

Commission. The three strategic objectives set in the European Agenda for Culture include “promotion of cultural diversity and intercultural dialogue”, “promotion of culture as a vital element in the Union’s international relations” and most importantly in this context, “promotion of culture as a catalyst for creativity in the framework of the Lisbon Strategy for growth, employment, innovation and competitiveness”. Specific objectives set in the European Agenda for Culture regarding the promotion of culture as a catalyst of creativity include using synergies between culture and education to encourage, among others, active participation in cultural activities aiming at the development of creativity and innovation, providing training capacities (managerial, business and entrepreneurial) to professionals in the cultural and creative fields and supporting the creation of an environment stimulating the development of cultural and creative industries (particularly SMEs), and cooperation between cultural sector and other sectors, especially “in the context of local and regional development” (Resolution of the Council).

Newer programmes and documents, adopted after the Europe 2020 Strategy, also build on the importance of culture for helping to stir innovation. The contribution of the cultural sector to the economic, social and regional development and the importance of cultural environment for innovations are considered substantial and important for the Europe 2020 Strategy in the Work Plan for Culture for four years beginning from 2015, as adopted by the Council and the representatives of the governments of the Member States (Conclusions of the Council). Culture and the cultural sector are at the heart of the European Commission’s new €1.46 billion Creative Europe framework programme, which was developed from the previous Culture Programme (2007–2013) and MEDIA programme (2007–2013). Creative Europe aims at stimulating creative sectors to reach their economic potential and thus contribute to sustainable growth, job creation and increasing social cohesion (Creative Europe).

It is all but impossible to disregard the European Union’s achievements in constructing the mechanism supporting culture, stressing its importance and thus creating an environment stimulating innovations. At the same time, it is disappointing to find that culture has been excluded from the Europe 2020 Strategy for smart, sustainable and inclusive growth, as it is a very important document also in the sense of influencing thinking about growth and the factors contributing to it. Therefore, the exclusion of culture as an impulse for innovation and growth from the one document that is widely read, even when supporting culture with other actions, far less known outside interested groups, undermines the earlier work on reminding about the importance of culture and cultural environment carried out by the European Commission during the implementation of specialized programmes. In this context

one may only wonder whether exclusion of culture as a stimulator of innovations from the Europe 2020 Strategy is the result of a deliberate decision behind such a carefully worded text, or just an omission. If the exclusion of culture from Europe 2020 was deliberate, then the decision to do so implies that the European Commission considered the stress put on culture in the Lisbon Agenda a mistake – a tool that is inefficient. However, if the exclusion of culture from the Europe 2020 Strategy resulted from a simple omission, then this may imply something far worse: that at heart the European Commission never really believed in culture, nor did it understand and accept the importance of culture for growth and for creating the environment beneficial for stimulating innovations.

## The Impact of Culture on Economy

Culture is important for economy on at least two levels. The first one may be called, for the lack of a better term, “hard economics level”, and consequently the second level should be called “soft economics”. The hard economics level is understood here primarily as the products of culture-based industries, i.e. the creative industries. As there is some kind of product, therefore it is relatively easy to collect economic data related to cultural industries, such as their employment share or GDP share. Analogously, the soft economics level is understood here as every impact of culture on economy that sometimes seriously influences the economic reality and economic output, but is hard or impossible to quantify<sup>1</sup>.

The core creative industries (e.g. film, video, computer games, broadcasting, music, book and press publishing, software, databases, online distribution of content) in 27 EU Member States were responsible in 2011 for approximately 4.4% of total GDP of the European Union (€558 billion in value added to GDP). However, if the output of

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<sup>1</sup> Arguably, the chief value of this very simple distinction on what is possible to quantify and what is not when it comes to economic impact of culture, is to once again remind that, although evaluations and assessments are necessary in order to construct and implement effective public policy related to the sector discussed, it is difficult to measure the economic contribution of culture, due to its characteristics. Therefore, culture and creative industries are very often ignored by official statistics, see *Measuring economic impact of CCIs policies. How to justify investment in cultural and creative assets*, KEA European Affairs, April 2012, available at Crea.re, Publications, [http://www.crea-re.eu/wp-content/uploads/2012/05/Measuring-economic-impact-of-CCIs-policies\\_final\\_CREARE.pdf](http://www.crea-re.eu/wp-content/uploads/2012/05/Measuring-economic-impact-of-CCIs-policies_final_CREARE.pdf) (15.07.2015). Methodological issues related to creating reliable benchmarks for creative economy, building the operational mode of the creative economy and limitations of measures are also discussed in the United Nations' report on creative economy, see *Creative Economy Report 2010, Creative Economy: A Feasible Development Option*, United Nations 2010: 95–125.



the non-core creative industries (such as those industries that produce, manufacture and sale equipment for creation and production of cultural products, like computers or musical instruments) is added to the output of the core creative industries, then the creative industries were responsible in 2011 for approximately 6.8% of total GDP of 27 EU Member States (€860 billion in value added to GDP). From the perspective of the EU's job market, the creative industries are equally important as they are responsible for a significant share of all the jobs in the EU. In 2011 the share of total European workforce employed in the core creative industries was 3.8%, which was equivalent to 8.3 million full time jobs. The grand total share of creative industries in the job market, both core and non-core creative industries, in 2011 was 6.5% of European workforce, which was equivalent to 14 million full time jobs (Economic contribution 2014: 13–14). Goods produced by creative industries are one of the major exports of the European Union. In 2008 alone Europe exported \$174 billion worth of goods produced by creative industries. Out of the world's 10 largest exporters of creative goods, 6 were EU Member States. What is particularly important in the context of exporting creative goods is the fact that the value of exported goods is rapidly growing (United Nations 2010: 130, 132).

Culture-based and creative industries are important for the economies of not only developed countries, but also developing ones, such as Poland. In 2011 alone the value of creative goods exported from Poland was estimated at \$5 billion. Additionally, the creative sector exported services to the value of \$4.6 billion, thus making Poland 17<sup>th</sup> largest exporter of creative services and 22<sup>nd</sup> largest exporter of creative goods in the world. What is even more important is the fact that the export value of creative goods, and particularly creative services, is rapidly growing (Krapieński 2014: 96). Moreover, the number of jobs in culture and creative sectors is also rising, both for the European Union in general and for Poland in particular. "Between 2000 and 2007, the employment in creative industries (in the EU-27) grew by an average of 3.5% per annum, compared to 1% in the overall EU-27 economy" and by 2008 creative industries accounted for 3% of total employment in the EU (European Commission, European Competitiveness Report 2010: 166–167). For Poland, the share of culture and creative sectors in employment was significantly higher than the EU average. In 2008 culture and creative sectors accounted for 4.54% of total employment (Lewandowski, Mućk, Skrok 2010: 37).

Although the value of creative goods and services exported from Poland is not negligible by any standards, its genuine importance for national economy can be properly evaluated only in comparison with other sectors and industries. In case of Poland, the economic context is provided by the largest industry by value of exported goods, i.e. the automotive industry. In 2011 the value of cars and automotive spare

parts exported from Poland reached almost \$29.3 billion and constituted 16.2% of the total value of Polish exports (Polski Związek Przemysłu Motoryzacyjnego 2013: 166). The context provided by the automotive industry suggests that the importance of creative industries for the economy of Poland is already significant. What is more, the two industries are on opposite paths: the share in exports of culture-based and creative industries is steadily rising, while the automotive industry is slowly losing the dominant position in the Polish export.

The growing importance of culture and creative sectors for the Polish economy seems to validate what theorists have been saying for a long time: that culture is one of the primary resources used by any economy and that the importance of culture as a stimulator of economic development is growing (Hauser, Karwińska, Purchla 2013: 14). Culture helps to build competences, create local cooperation patterns, increase social cohesion and create economic added value (Grabowska, Krapieński, Szultka 2014: 12). High level of socio-economic development of a region is usually accompanied by high presence of culture-based and creative industries (Grabowska 2014: 36–37). Culture is “a catalyst for growth” (Janikowski 2009: 29) and therefore it is necessary for Poland to invest in broadly understood culture to stimulate growth and move from “imitative diffusion” to “creative diffusion” (Geodecki et al.: 100).

## Culture and European Studies in Poland

The role of culture in stimulating the economic growth in general and for the European Union, combined with the increasing importance of creative industries for the Polish economy, makes culture at its economic impact not only an important subject of study, but also an important subject of teaching, especially in the context of European Studies. However, the analysis of obligatory courses offered within the European Studies programmes at top ten Polish public universities<sup>2</sup> for B.A. and M.A. students revealed that the EU’s cultural and audiovisual policy or subjects related to culture in general in most cases were reduced to absolute minimum (one or two courses during five years) or not provided at all. Only four of the analyzed European Studies programmes provided three or more obligatory courses related to culture or cultural policy during five years of studies. Therefore, it seems justified to say that in general the graduates

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<sup>2</sup> The programmes analyzed were provided by the following universities: University of Warsaw, Jagiellonian University, University of Gdańsk, University of Wrocław, University of Łódź, Adam Mickiewicz University, Maria Curie-Skłodowska University, Nicolaus Copernicus University in Toruń, University of Silesia in Katowice, University of Szczecin.

of European Studies in Poland, some of whom will work for the Polish administration or for the EU institutions, have little or no knowledge of the importance of culture and creative industries for growth, nor of the EU's cultural and audiovisual policies.

## Conclusions

Although the importance of culture for economic growth and social development is beyond doubt and with the role of creative industries for the European and Polish economies growing, it is surprising that the European Studies programmes at the best Polish public universities pay so little attention to culture. This lack of attention to such an important matter may result in slower growth rate of Poland in the future, when the present model of economic development will reach its limits. Negative consequences may also include slower social development and further discrepancy between the levels of social and economic developments in Poland. While those discrepancies and the risk of slower growth rates may seem trivial to most economists, in fact they are not, as their final consequence is the risk of a lower level of civilisational development – a risk that cannot be ignored.

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## DO WE NEED EUROPEAN STUDIES?

### Abstract

*The article tries in the first part to find out the reasons for the declining interest in European studies, as it has been described. The argument is analysed that European studies are not needed because European topics are already included in all the different legal, economic or communication disciplines. Therefore, in the second part, several reasons and motivations for dealing with these studies are presented. The most relevant one is grounded in the specific perspective of European studies that cannot be guaranteed by presenting European topics in other disciplines, often with national background or interest. In the final part, European studies are seen also as a way of forming critical and informed citizens who can assure the future of the European integration project.*

**Keywords:** European Studies, university, interdisciplinary, supranationalism, citizenship

### 1. The Contemporary Acceptance of the European Studies

Astonishment is, according to Aristotle, the starting point for philosophy, for science. Maybe it is astonishing that the key to answering this question is found in an epoch in European History we sometimes tend to forget or even to neglect: the Middle Ages, an epoch supposedly dark<sup>1</sup> (Wells 2008: 256) and – according to common stereotypes – not attached to rational approaches. Nevertheless, an invention of that time is still part of our life: the universities. And some of our university colleagues of that time may be able to help us answer our question.

But before looking to the insights of our colleagues from centuries ago, it may be necessary to explain why this question arises. As the President of a world association dealing specifically with European Studies, in the last years I have often had an occasion to talk to presidents and members of different associations from different

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<sup>1</sup> In the English tradition, even the name “Dark Ages” has been used as synonymous for Middle Ages.

parts of the world and, in that way, to obtain interesting information and impressions of our colleagues who work with high commitment and in many cases for many years in teaching and research related to the European integration. Most of them are informing about a declining interest in the European Studies – parallel to a generally declining interest in European politics (see for example the turnouts in the elections to the European Parliament<sup>2</sup>) (European Parliament 2014) and maybe the distance generally kept by the citizens from the traditional forms of politics, for example from political parties and especially from the traditional parties, substituted in different countries by new parties or even movements that end up entering the parliaments and assimilating to the parties<sup>3</sup>.

In the Member States of relatively recent accession, the tendency is perhaps reflected in a different way: when preparing the accession and in the first years after it there is no doubt about the need for European Studies: the need to prepare professionals for institutions, state and regional governments, and even municipalities, or for the economic and entrepreneurial lobbies<sup>4</sup> (European Commission, *Transparency...*), was widely recognised. They created jobs and employability, which is very welcome – more, is a demand to the university.

But then, after some time of membership in the Union, the need for experts decreases and also the enthusiasm among the population and, with fewer professional chances and less enthusiasm, the desire to study European issues also diminishes (Hurt 2008); in the academic world the argument arises: currently, European issues are present in all the different curricula, and therefore, specific European Studies are not needed. In fact, to teach Trade Law at a Member State university without including European contents makes no sense. And the same can be said about environmental issues, questions dealing with banking or financial issues, regional development or even Constitutional Law. On the other hand, there are also tendencies to argue that European studies should become part of a broader perspective, with the proposal that “the European Union should not be separated from the rest of the world” (Rumford, Murray 2003: 85).

In other parts of the world, as mentioned in the talks I have held in the last few years, the situation is more complex. Together with some countries in which the interest in the European Studies has decreased, other situations can be found in which

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<sup>2</sup> In around 35 years since the first direct elections to the Parliament, more than 20% of the voters were lost: from 61.99% in 1979 to 42.61% in 2014.

<sup>3</sup> The most relevant predecessor of these movements are “Die Grüne” in Germany, who entered the federal Parliament in 1983. Tsipras’ party in Greece and the movement “Podemos” in Spain are maybe the most significant examples of this tendency.

<sup>4</sup> A sign of the relevance of this sector is the fact that on 5<sup>th</sup> July 2015, there are 7972 registrants in the transparency register of the Commission.

the European Union is considered a successful example of integration that deserves to be studied as a reference point for integration processes in which one's own country is involved, and an example not to be imitated but taken into consideration. So, in the past few years there were some advances but also some retractions in the European Studies landscapes.

## 2. Help from our Medieval Colleagues

As a summary it can be established that, at least in the Member States, it is accepted that the European integration contents have to be present in different areas, but it is not always accepted that European Studies shall be considered as an autonomous discipline at universities.

Here is the point at which a distinction made by our medieval colleagues can be helpful. For example, Thomas Aquinas<sup>5</sup>, a lecturer at the University of Paris in the 13<sup>th</sup> century, when dealing with the defining elements of all the sciences uses the difference between material object and formal object of any science<sup>6</sup>.

Of course, this approach is not original. It comes from Greek philosophy and Aristotle uses this distinction<sup>7</sup>; but with Thomas Aquinas we should not forget that we are at a turning point for the European culture: the reception of Aristotle by the University of Paris<sup>8</sup>, "the" University at that time, the point of reference, the top one in the medieval ranking of universities. "Material object" means the topic that is studied by a particular science. "Formal object" is the perspective under which the material object is seen.

These are the basic elements of the philosophy of science over centuries, but they deserve to be brought to our mind again. A simple example can be useful: a human being is the material object of many sciences: Anthropology, Medicine, Psychology, and many others. But the perspective, the formal object, is different in each of them; each of them considers the human being from a different point of view, with a different interest.

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<sup>5</sup> "A popular sketch of a great historical character" of this remarkable persona can be found in Chesterton (1933); it is Chesterton himself who describes his work in the quoted way. For a relevant biography, see Weisheipl (1975).

<sup>6</sup> So, for example in Thomas Aquinas, *Summa Theologica* Ia Q 77 a 1 or in Thomas Aquinas Commentary in *De Trinitate* of Boethius q. 5.

<sup>7</sup> For example in Aristotle (2004).

<sup>8</sup> Referring to the 13<sup>th</sup> century, Jacques Verger states: L'autorité intellectuelle de l'université [de Paris] s'imposait à tous" (Verger 1995: 68). For the relevance of the Paris University see also Ferruolo (1998).

It seems to me that there is no question about European Studies as the material object of different sciences. No doubt that Law, Economy, even Contemporary History, Communication, Regional Studies, Political Sciences and many other academic disciplines have to include the European integration as a material object in teaching and research.

The question is not whether we need studies about the European integration, the question is whether we need specific European Studies as a separate discipline, “a distinct multidisciplinary ... programme”, as Michael L. Smith wrote some years ago (Smith 2003: 21–34). The positive answer can come via the consideration of the formal object, of the perspective, which – according to our medieval colleagues – is the fundament for the unity of a science<sup>9</sup>.

In fact: in European Studies, a European perspective is given. European Studies aim to understand European integration and its specificity, and to transmit it – with a supranational perspective. Before presenting some reasons why this way of approaching the European integration is relevant, it can be useful to add some other motifs for dealing with this subject.

### 3. The Fascination with the European Studies

I leave aside the more pragmatic reasons for promoting the European Studies, like jobs, trade relations and similar. And I want to underline the fascination European Studies can pose for the academia.

The European integration is a fascinating study field from a conceptual perspective. For example: it is based on a concept that has been developed theoretically by philosophers or political thinkers considered as the forerunners of the European integration<sup>10</sup>. But never before has it been put into practice: the transfer of sovereignty that is at the core of the integration. It is a fascinating concept because it means a turning point for the “classical” theory of modern State. This concept has already provoked hundreds of publications, but it is not losing its appeal, and to make it understandable again and again to generations of students is one of the main challenges in the teaching of the European Studies. Intrinsically linked to it is the often

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<sup>9</sup> Thomas Aquinas, *Summa Theologica*: “The unity of a faculty or habit is to be gauged by its object, not indeed, in its material aspect, but as regards the precise formality under which it is an object” (Q 1 art. 3).

<sup>10</sup> It is commonplace in this context to quote Kant’s *Zum ewigen Frieden*, first published in Königsberg, “bey Friedrich Nicolovius” 1795.



analysed balance between supranationalism and intergovernmentalism that, on the other hand, marks also the configuration of institutions and the complex but original decisionmaking process. The fact that it was the Court of Justice that developed this conceptual world to a relevant extent is a proof for its novelty. All these characteristics form the famous “*méthode communautaire*”, which is innovative and is one of the main reasons for the success of the model<sup>11</sup> – whereas its lack could be the cause of the failure of so many other integration projects.

I am mentioning an introductory question, of course, but I have to say that – coming from a very different and not very close discipline – this was a point that attracted me when I started to work in the field of European integration. For other experts, probably more sophisticated and specialised questions will constitute the appeal of the European Studies, but in any case it is a new conceptual world that deserves to be studied and that can provoke admiration (traer aquí lo de New Zealand).

Together with this conceptual level it should not be forgotten that the European integration is a fascinating historical experience. In fact, from a historical point of view the European integration means a change of paradigm. All the conceptual innovations – mainly the development of the concept of supranationalism and the creation of very specific institutions – is not a project that made sense in itself. The whole construction was created in order to realise a goal – peace in a very complex, conflicted continent that was obsessed by the modern myth of the sovereign State which shows its power also through the extension of its territory, not only outside Europe, in the expansion to other continents, but also in the conflict with the neighbours in order to enlarge it.

The “traditional” solution after a war conflict in Europe was to sign of a Treaty – after negotiations – that signified a reorganisation of the territory, the moving of the borders, the creation of new States, always with the expectation that the territorial redistribution can cause a new balance of power that guarantees a period of peace. In that way the Westphalian Europe was different than the Europe emerging from the post-Napoleonic Vienna Congress, the Versailles Treaty meant the end of the empires in Europe, and Yalta and Potsdam created a new world. In that way, Yugoslavia appeared and disappeared, Poland’s borders were moved westwards, most German philosophers would live in Russia today, and so on.

The people whom we call the “founding fathers” were looking for a different solution, given the fact that the “traditional” model was unable to guarantee peace over decades and generations. Negotiation should substitute the confrontation or, maybe better, should become the only way for overcoming the differences between the States. This is the method; in the end, the European integration is also a permanent

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<sup>11</sup> A classic definition for skeptical beginners can be found in Commission européenne (2001: 9–10).

negotiation, in different fields and at different levels at the same time. Probably, this multi-level structure is often invisible, because only some of the negotiations are interesting to the broad audience, and are therefore present in the media, overlapping with the complex network of simultaneous negotiations.

On the other side, the implementation of the Common Market as the first step of an effective integration contains an element of reduction of the presence of the State in all the areas of life. The creation of a barrier-free market is also a relativisation of the frontiers and, therefore, of an essential element of the visibility of the State and its real power. The maintenance of the barriers was guaranteeing not only economic advantages, but also the prevalence of the “Ancien Régime”, in which frontiers were an essential element of power. The free movement conceived as a right of the citizens is the most eloquent expression of the new order: the crossing of the borders is not anymore a privilege graciously granted by the State after accurate proofing, but a personal right.

In the history of Europe this experience after centuries of *limes*, of permits and passports, is new and it is fascinating to deal with it in the academic perspective and in the effort to make people understand that this step marks a shift of paradigm, if we want to use a concept that was “in” some decades ago<sup>12</sup>.

The European integration is also probably a good laboratory<sup>13</sup> for investigating whether it is possible to solve a crisis or not, and why. For the moment, several crises are on the top of the agenda: the Greek problem has overlapped with other clouds on the horizon that portend some storms: the United Kingdom referendum can also become a turning point in the history of the European integration, which until the Lisbon Treaty was understood, legally as well, as a one-way process. The conflict with Russia due to the situation in the Ukraine constitutes one chapter of the external policy that deserves special attention, and there are some other conflicts challenging the security in Europe, which is learning to live in a state of constant menace, sometimes caused by citizens of its own countries, mentally possessed by fundamentalist brainwash. But as if all these challenges were not enough, illegal immigration with its terrible humanitarian consequences is waiting for convincing, solidary solutions, and some countries are far from having overcome the consequences of one of the longest economic and employment crises since the creation of the Communities. What is more, some internal electoral movements which eroded traditional party systems in several

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<sup>12</sup> As it is well known, the expression was popularised by Kuhn (19620).

<sup>13</sup> The expression “laboratory” linked to the European integration is used in several publications; see for example Knud, Rosamond (2002), at that time a member of the European Commission; in his speech ‘Europe and Globalisation’, Lamy described Europe as a “laboratory of globalisation” (see [int/comm/trade/speeches\\_articles/spla26\\_en.htm](http://int/comm/trade/speeches_articles/spla26_en.htm), accessed on 03.07.2015).

countries and brought alternative movements to governments, have to be managed adequately. We are also facing a fascinating time for the European Studies.

When talking to experts from outside the European Union, it is easy to confirm another argument for approaching the European Studies: in different parts of the world, more or less sophisticated integration systems have been developed or are being developed. Not all of them are successful but for many experts European integration is if not a model, then at least a point of reference on how to create real integration. Therefore, in some other parts of the world, the European Union is considered a successful example of integration that deserves to be studied, not to be imitated, but taken into consideration.

In that context it is not uncommon to find colleagues in third countries who admired the goals achieved via European integration, knowing also the previous experiences in Europe. Therefore, many of the academics dealing with European integration – inside and outside the European Union – are committed to it not merely from an intellectual point of view, but convinced that it is a good solution for a continent where previous experiences were worse.

This last remark can lead to the question about the relevance of European Studies for the society.

## 4. The Social Relevance of the European Studies

In the 60s and 70s of the last century, an “evergreen” in the academic debate was the “social relevance” of different sciences and mainly of the Humanities and Social Sciences<sup>14</sup>. In the troubles around the 1968 shift of paradigm (Müller 2002), it not only needed to be a serious academic issue, but also to prove that the work done in science was socially relevant. Nowadays, this debate has lost relevance, but it shall not be forgotten that the academia is not an ivory tower, that *nolens volens* there is a flow from academia to society – as there is a flow (or many flows) from society to academia.

In the case of European Studies, it is worth asking for social relevance, or better, to recognise the social relevance they have as an immediate consequence of their contents and their perspective. The reflection on social relevance and the help of our medieval colleagues can lead to the final answer to the question whether we need European Studies.

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<sup>14</sup> Nowadays, this question also arises in some scientific publications: von Reinalter, Eder (2011).

Our already mentioned colleague, Thomas Aquinas, wrote about human behaviour and the relations of different capabilities of a human being in the origins of an action (Thomas Aquinas: liber I cap 5 num 2). What he expresses in a more complex way appears in a simplified way in the frequently quoted medieval proposition: “Nil volitum nisi praecognitum”, which can be translated as “Nothing is willed that is not first known”. This can be seen as a proof for Professor Aquinas’ intellectualism (Michel 1979: 109; Kluxen 1998: 137) in contrast to other tendencies in the philosophy of his time (for example, the voluntarism of the Franciscan school with Bonaventura and others<sup>15</sup> – “intellectualism” and “voluntarism” in the sense of what is or should be the driving force in a human being when taking decisions).

But maybe – beyond the differences between philosophical schools – it describes a constant in human behaviour. And in that sense this sentence probably contains the key to answer the question why we need European Studies.

The undoubtedly existent distance to the European integration project has often been deplored in the last decades. Jacques Delors’ claim for giving back a soul to Europe<sup>16</sup> is probably already a reaction to these tendencies.

In the beginnings of the European integration, in the negotiations the signature and ratification of the Paris and the Rome treaties and their implementation, maybe silent acceptance by citizens was enough. In fact, not one state came to the idea of a referendum for accepting the “new world” that was to be created. Only with the first Norwegian accession in 1972, the acceptance via referendum was put in practice, with the well-known result. In the time of the so-called European Constitution, referenda were foreseen in several countries, in one of them (Ireland) due to a constitutional mandate; in others (Spain, France, Netherlands and others) because the Government (or the President in the case of France) had the feeling that decisions like these cannot anymore be taken without the support of the population<sup>17</sup>. In any case, this change shows that nowadays the society has at least to accept, if not to explicitly support, the European project. In times of participative democracy (real, intended or imagined),

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<sup>15</sup> For contraposition of these two forces see Inciarte (1979).

<sup>16</sup> “Si dans les dix ans, nous n’avons pas réussi à donner une âme, une spiritualité, une signification à l’Europe, nous aurons perdu la partie” (Delors 1993), ‘Speech of President Jacques Delors before the European Parliament to mark the investiture debate of the New Commission’, *Bulletin of the European Community*, supplement 1/93. (See also Delors 1999).

<sup>17</sup> Maybe in the French case a reservation has to be made regarding the motivations for the referendum; here, probably political calculation by President Chirac was decisive, trying to use the (supposedly positive) referendum for recovering a part of the lost acceptance by citizens. As it is well known, the reaction was the opposite and probably the lack of acceptance of the President contributed to the rejection of the European Constitution.

politicians are not anymore considered as a *deus ex machina* bringing complex situations to a happy end<sup>18</sup>.

This would be a pragmatic argument for involving the citizens in the development of the European integration. There is another, a more profound one: it is essential to democracy. Therefore, together with the fascination from the methodological and content-related point of view of the studies of European integration, their further motivation can be seen in the idea that European integration can only go on if it has been understood by citizens. In the academia, we are in continuous dialogue with young citizens, who now are – most of them – the electors and in some years will be elected to parliaments and governments (national, regional or local) or will be decisionmakers, mediators (teachers, journalists), members of groups of interest, active citizens in NGOs or movements, fathers and mothers who will transmit to others their opinions, values, world views – and attitudes towards European integration.

## 5. Informed and Responsible Citizens, Critical Citizens

Does a person who deals with European Studies become, in that way, a propagandist? By no means. We as the *studiosi* of the European integration issues are aware of our responsibility in the society, but first of all we are academics, committed to truth, to our field of study based on facts, on arguments, on reflection. But at the same time, we are aware of our role as mediators with a social responsibility that goes beyond the new “magic word” for universities: employability<sup>19</sup>. But we are not responsible for creating “euro-enthusiasm”, but for forming informed citizens, citizens who understand European integration – because it’s easy to criticise the European integration, but it is not easy to understand it.

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<sup>18</sup> See, among many others: “Hence, all political power stems from the people. Public opinions that are not formed in a general public sphere made up by a political citizenry cannot claim to be legitimate and thus lack the moral force needed to implement decisions also against opposition” (Eriksen 2005: 341–363); “The relationship between public opinion and public policy provides a potential criterion for assessing the democratic quality of the European Union” (Bølstad 2015: 216–240).

<sup>19</sup> A very clear example for the priority of this approach can be found in: European Commission/EACEA/Eurydice (2014). There is said: “Employability plays a central role in the European Commission’s higher education reform strategy (European Commission 2011). European Commission policy stresses the role of higher education in equipping graduates with the knowledge and core transferable competences they need to succeed in high-skill occupations, and the importance of involving employers and labour market institutions in the design and delivery of programmes, and including practical experience in courses. It also emphasises the importance of better monitoring by institutions of the career paths of former students in order to increase the relevance of programmes (European Commission 2011). The quoted document is: European Commission (2011).

If citizens are not informed, they nevertheless will take a position in favour of the European integration, because it is part of their daily life (Standard Eurobarometer 2014). And this position will have consequences, due to their participation in political life, at least at the lowest level of going to the elections (incidentally: abstention is a very eloquent form of participation), but also due to the inclusion of the European level in their professional and social life.

In a caricature, it could be said that “European integration” is sometimes seen as an esoteric exercise in a mythical battlefield called “Brussels”, where in the end there are winners (almost always Germany) and losers (almost always one’s own country) – whereas the decisions which really affect the citizens are taken by UEFA and FIFA.

But if it is true that around 70% of the decisions affecting the citizen are already being taken at the European level (House of Commons 2010), then the citizen is immediately involved. With their opinion and moreover with their behaviour, he or she is manifesting a position in favour of the European issues.

If we want this position to be marked by a rational and not a “voluntaristic” approach, or even by prejudices, superficial impressions, by more or less spontaneous affection or rejection, or simply by one’s own interests, disconnected from any kind of common good (or even rationally sophisticated due to simplistic liberalism, that is convinced that the pursuance of each one’s interest result in the “*bonum commune*”) – if we want to avoid this, European Studies can provide the framework for understanding what European integration is, both in the conceptual and the historical perspective, recognising its strengths and weaknesses, its successes and its failures. We in academia are co-responsible for whether citizens are prepared for approaching European issues from a European perspective or from a national perspective – And this is by far not the same. Academia is responsible for forming the next generation, the generation that will erode the *acquis* of the European integration or innovate them in a creative way.

If there is an erosion of the European values, the European methodology, the European perspective, in the end nationalisms will emerge again. And nationalism has to be seen as an illness – a deformation of the very noble attitude of loving one’s own country<sup>20</sup>. In that context, it is not easy to forget the dramatic appeal of the already severely sick President Mitterrand in his last speech in front of the European Parliament, when he exclaimed: “Nationalisme est la guerre!” (*Official Journal* 1995: 53).

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<sup>20</sup> Obviously, nationalism is understood here in its radical sense, not as used by several political parties, meaning in fact an increased interest in one’s own heritage and traditions, a defence of one’s own legacy against globalisation.

Also, without the *pathos* of Mitterrand's farewell from the Parliament<sup>21</sup>, it is not difficult to recognise what the alternative to the project initiated in the 50s of the last century by some genial politicians would be.

Therefore, nowadays we need the European Studies as well if we do not want the European integration to become in years to come *only* a subject of European studies – like the Roman Empire, for example, the longest period in which freedom was given to the citizens of Europe before the creation of the integrated Europe in the 20<sup>th</sup> century<sup>22</sup>.

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<sup>21</sup> The session was held on 17<sup>th</sup> January 1995. Mitterrand passed away one year later, on 8<sup>th</sup> January 1996, after a cancer disease, which he was aware of when talking to the Parliament.

<sup>22</sup> Normally under *pax romana*, it is considered to be the period between 27 BC and 180 AD, initiated by Augustus' *pax augusta*. Probably this periodisation is too generous, because there was some trouble at the *limes* of the Empire. Therefore, other historians consider the years 70 AD to 192 AD. A quick look at European history shows that at least in modern times, in fact, never again was there such a long period of peace. A non-exhaustive list of wars in modern times in the territory covered by the European Communities in its origins includes (among others): 1337–1453 Hundred Year's War (Valois-Plantagenet); 1494–1559 Great Italian Wars; 1562–1598 French Wars of Religion; 1568–1648 Eighty Year's War (Netherlands); 1585–1604 Anglo-Spanish War; 1618–1648 Thirty Year's War; 1688–1697 Nine Year's War (against Louis XIV); 1701–1713 War of the Spanish Succession; 1700–1721 Great Northern War (against Sweden); 1757–1763 Seven Year's War (Silesia); 1792–1802 French Revolutionary Wars; 1804–1815 Napoleonic Wars; 1821–1829 Greek War of Independence; 1870–1871 Franco-Prussian War; 1914–1918 World War I; 1936–1939 Spanish Civil War; 1939–1945 World War II. The 1453 Fall of Constantinople and 1954–1962 Algerian War of Independence could be included, because although not being developed on the quoted territory they massively involved some of the present Member States.

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## **EUROPEAN UNION RESPONSES TO CRISIS IN THE AREA OF EDUCATION**

### **Introduction**

As a participant in the closing session of the EuInteg conference, Facing the Challenges in the European Union. Re-thinking EU Education and Research for Smart and Inclusive Growth, held in Warsaw in May 2015, I tried to draw some conclusions from the abundant and stimulating input of the two-day event and from the lively debate which emerged in the meeting room (as well as in the corridors and during coffee breaks).

The theme of the conference was very broad, as it aimed to identify and analyse the current challenges in the EU and how education and research can help to tackle them in an attempt to contribute to smart and inclusive growth.

During the conference we heard policymakers and academics stressing the difficult times the EU is experiencing as a result of unprecedented economic and financial crisis and the resulting loss of trust in its potential and reduced ability to deliver necessary reforms. We heard other panellists underline the changing role of the EU as a global player, the obstacles it encounters in effectively liaising and cooperating with other international organisations. We heard interesting analyses of the challenges faced by the EU in view of demographic developments and exceptional migration trends. And we heard the views of young participants highlighting the need for a fairer, more equal and more creative environment in the implementation of educational policies and activities and a frank questioning of the real objective purpose of education, not only as a “job generator”, but also as a “mind stimulator”.

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## 1. European Union's Action: the Europe 2020 Strategy

The EU has been deeply committed to try and find answers to the numerous requests coming from stakeholders. The Europe 2020 Strategy was launched in 2010 as the EU's integrated long-term strategy for jobs and growth. To achieve its objective of smart, sustainable and inclusive growth for Europe, the strategy relies on five headline targets of Employment, Research and development, Climate and energy, Education, and Fight against poverty and social exclusion, translated by each Member State into national targets. The strategy is implemented and monitored as part of the European Semester. In addition, it has served as an overarching framework for a range of policies at the EU and national levels. In particular, the strategy has served as a guide for the design and programming of the European Structural and Investment Funds over 2014–2020. The education targets covered by the strategy are: a) reducing the rates of early school leaving below 10% and b) at least 40% of 30–34-year-olds completing third level education.

To achieve the second target, the EU needs to attract more people to higher education, particularly through reaching out to adults and school students from disadvantaged groups. To increase the number of researchers, the prospects for careers outside academia must be developed and the obstacles encountered by women in this profession must be eliminated. Moreover, in order to improve the quality and relevance of higher education, curricula must be attuned to current labour market needs. New technologies must be exploited for more effective research methods, as well as more flexible and personalised teaching (e.g. eLearning). Better working conditions and the use of continuous education are necessary in order for the EU to attract and retain high quality teaching staff. If we want to double the number of students completing a period of study or training abroad, mobility must be systematically built into curricula and obstacles to mobility, such as problems of recognition of diplomas and credits or portability of grants, must be eliminated. To this purpose, partnerships between higher education institutions and business must be encouraged. It is also important that universities should use the results of research and innovation in their educational offer and promote entrepreneurial, creative and innovative skills. It is also necessary to increase investment in higher education and to diversify funding sources, drawing on private funding to a larger extent. In addition, funding systems must be more flexible, enabling institutions to set their strategic direction, and must be result-based in order to introduce an element of competition.

The EU has been supporting the efforts undertaken by national authorities and institutions by monitoring the Europe 2020 Strategy and making sure that its

financial framework for 2014–2020 enables the different policies concerned to support modernisation of higher education. For its part, the Commission has adopted a number of measures. Specifically, it has: launched U-Multirank, a ranking tool for universities based on performance in five areas, which will enable students to make informed choices; improved the recognition of studies abroad by strengthening the European Credit Transfer and Accumulation System (ECTS); developed a loan guarantee facility (under Erasmus+) for students taking a master's degree in another Member State; adopted a Strategic Innovation Agenda; proposed a quality framework for traineeships accompanied by a single platform for traineeship offers in Europe; developed more in-depth relations on higher education with non-EU countries; proposed amendments to students' and researchers' directives to make the EU even more attractive to the latter; established a high-level group for modernisation of higher education.

After the first years of implementation of the strategy, halfway to its 2020 horizon, the Commission has launched a public consultation to take stock of the delivery of the strategy's objectives so far. The fact that the first years of the Europe 2020 Strategy coincided with a severe financial and economic crisis had a significant impact on progress towards the goals of the strategy. It has also meant that short-term policy considerations often inevitably prevailed over longer-term approaches. Findings from recent Eurobarometer surveys on the Europe 2020 Strategy indicate that the overall direction taken by the EU in response to the crisis is supported by EU citizens – nearly twice as many respondents consider that the EU is going in the right direction to exit the crisis and face its challenges as those who do not.

Among the main sources of concern, youth unemployment rates remain high in several Member States and long-term unemployment has been increasing. On the social front, the crisis has led to increased exposure to poverty, social exclusion and rising inequalities. The situation is particularly difficult in certain Member States, where there have been increases in severe material deprivation and in the share of jobless households.

The EU has been testing new engines to boost growth and jobs. This strategy has been conducted via a number of “flagship” initiatives. Within each initiative, both the EU and national authorities have coordinated their efforts so that they are mutually reinforcing. The “Youth on the Move” initiative aims at spurring young people to obtain a degree, a new job, training or a business of their own. Every year the European Union supports more than 400,000 young people to work, train and study abroad.

The European Union offers grants for students, teaching professionals and staff to study or work abroad through Erasmus+, the European programme for Education and Training launched in 2014 for a period of seven years (until 2020). Learning isn't

limited to schools. Plenty of learning happens outside the classroom. EU programmes help young people to improve their skills and employment prospects by participating in non-formal learning opportunities. Through the “EURES” portal it is possible to find a job in any country of the European Union and outside of it. Other initiatives, such as “Erasmus for Young Entrepreneurs” can give new or aspiring entrepreneurs the chance to learn from experienced entrepreneurs running small businesses in other countries. Financial support for this type of activities can be obtained through the European Progress Microfinance Facility. In the research and innovation area, the Marie Skłodowska Curie Actions offer fellowships to researchers regardless of their nationality or field of research. “Euraxess Jobs”, a recruitment tool for researchers with job vacancies and funding opportunities, is available online. The “Youth Guarantee” is another instrument which can help to find a good quality, concrete offer such as a job, apprenticeship, traineeship or continued education.

“Innovation Union” is another flagship initiative of the European Union to create an innovation-friendly environment that makes it easier for great ideas to be turned into products and services that will bring our economy growth and jobs. We need to do much better at turning our research into new and better services and products if we are to remain competitive in the global marketplace and improve the quality of life in Europe. We are facing a situation of “innovation emergency”. Every year, Europe spends 0.8% of GDP less than the US and 1.5% less than Japan on Research & Development (R&D). Thousands of our best researchers and innovators have moved to countries where conditions are more favourable. Although the EU market is the largest in the world, it remains fragmented and not innovation-friendly enough. And other countries like China and South Korea are catching up fast. The Innovation Union is a crucial investment for our future.

## **2. European Union’s Action: Education and Training 2020**

Moving more specifically to education-related initiatives, “Education and Training 2020” (ET 2020) is the strategic framework for European co-operation in education and training. Though each EU country is responsible for its own education and training systems, the EU policy supports national action and helps to address common challenges, such as ageing societies, skills deficits in the workforce and global competition. The EU offers a forum for exchange of best practices, gathering and dissemination of information and statistics, as well as advice and support for policy reforms.

In order to ensure the successful implementation of ET 2020, the EU also relies on Working Groups composed of experts nominated by member countries and other key stakeholders. This work is part of a broader cooperation, known as the Open Method of Coordination, which aims to promote mutual learning, exchange of good practices, fostering national reforms and developing EU-level tools.

Funding is also available for activities that promote learning and education at all levels and for all age groups. Through the strategic framework for education and training, EU countries have identified four common objectives to address these challenges by 2020: (a) making lifelong learning and mobility a reality; (b) improving the quality and efficiency of education and training; (c) promoting equity, social cohesion, and active citizenship; and (d) enhancing creativity and innovation, including entrepreneurship, at all levels of education and training.

In 2014, the Commission and Member States engaged in a stocktaking exercise to assess progress made since 2012 and help prepare future priorities for co-operation in education at the European level. The following contributions have been received as part of the stocktaking exercise: ET 2020 National Reports, ET 2020 independent evaluation, the annual Education, Training and Youth Forum (9–10 October 2014) and stakeholders input.

The following EU benchmarks for 2020 have been set for education: (a) at least 95% of children (from the age of four to compulsory school age) should participate in early childhood education; (b) fewer than 15% of 15-year-olds should be under-skilled in reading, mathematics and science; (c) the rate of early leavers from education and training (aged 18–24) should be below 10%; (d) at least 40% of people aged 30–34 should have completed some form of higher education; (e) at least 15% of adults should participate in lifelong learning; (f) at least 20% of higher education graduates and 6% of 18–34 year-olds with an initial vocational qualification should have spent some time studying or training abroad; (g) the share of employed graduates (aged 20–34 with at least upper secondary education attainment and having left education 1–3 years ago) should be at least 82%.

Progress on these benchmarks is assessed in each EU country through a yearly country analysis, with the EU also providing recommendations. Drawing on the conclusions from stocktaking, a 2015 Joint Report will identify key priority areas and concrete issues for future work at the European level. The Joint Report is expected to be adopted at the November 2015 Education Council.

The Education and Training Monitor is an annual series that reports on the evolution of education and training systems across Europe, bringing together the latest quantitative and qualitative data, recent technical reports and studies, plus policy

documents and developments. While focused on empirical evidence, each section in the Monitor has clear policy messages for the Member States.

The Education and Training Monitor supports the implementation of ET 2020, by strengthening the evidence base and by linking it more closely to the broader Europe 2020 Strategy and country-specific recommendations (CSRs) adopted by the Council as part of the 2014 European Semester. In late 2015, the Commission will publish the next edition of the Education and Training Monitor.

National governments are responsible for their education and training systems, and individual universities organise their own curricula. However, the challenges facing higher education are similar across the EU and there are clear advantages in working together. Higher education and its links with research and innovation play a crucial role in individual and societal development and in providing highly skilled human capital and articulate citizens that Europe needs to create jobs, economic growth and prosperity.

Higher education institutions are crucial partners in delivering the European Union's strategy to drive forward and maintain growth. The European Commission works closely with universities and policymakers to support the development of higher education policies in EU countries in line with ET 2020. In particular, the modernisation agenda for higher education fixes five key priorities for higher education in the EU: (i) increasing the number of higher education graduates; (ii) improving the quality and relevance of teaching and learning; (iii) promoting mobility of students and staff and cross-border cooperation; (iv) strengthening the "knowledge triangle", linking education, research, and innovation; and (v) creating effective governance and funding mechanisms for higher education.

In order to ensure that these aims are met, the European Commission is also developing and supporting tools to promote mobility (such as ECTS and the Diploma Supplement), increase the recognition of skills and qualifications and provide better information about higher education in Europe. The Commission also provides support to the intergovernmental Bologna Process, designed to promote the higher education reform with a view to establishing a European Higher Education Area, and promotes the exchange of good policy practices between different countries through the ET 2020 higher education working group.



## Conclusions

Europe's future capacity for development and innovation largely depends on the process of reform of its educational system and on the willingness of higher education institutions to fully embrace their role within the knowledge triangle, alongside business and non-university research organisations.

There is further scope to support the interaction between (mainly tertiary) education and the wider economy at EU level, to support the flow of knowledge. Recent European pilot projects to foster the development of structured partnerships – “knowledge alliances” - bringing together businesses with higher education institutions to design and deliver new courses have already produced promising results and should be developed further.

The internationalisation and openness of higher education systems requires a joint approach from a wide range of policy areas and stakeholders to attract the best students, staff and researchers from around the world, to increase international outreach and visibility, and to foster international networks for excellence.

In order to achieve its goals, the Commission will continue to consult with higher education institutions' leaders, teachers, researchers and students, with businesses and social partners, with governments and with international bodies. It will continue to engage with these stakeholders along with the European Parliament, the Committee of the Regions and the Economic and Social Committee, the European Investment Bank and Eurostat, to take forward this agenda for action.

The Commission will also draw upon external expertise to develop progressive policies and identify innovative practices. Modern and effective higher education systems are the foundation of an open, confident and sustainable society; of a creative, innovative and entrepreneurial knowledge-based economy. The shared efforts of Member State authorities, higher education institutions, stakeholders and the European Union will be crucial for achieving final goals.



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## THE SUCCESS OF POLISH TRANSFORMATION – LESSONS FOR THE EASTERN PARTNERSHIP COUNTRIES

### Abstract

*The system transformation that took place in Poland in the years 1989–2004 is a process that determined the development of our country. Political reforms implemented democratic solutions, while the economic reforms, to which we owe the market economy, have allowed us to modernise the economy and to become one of the western countries. The culmination of this was entering the European Union on 1<sup>st</sup> May 2004. Now, thanks to its history, Poland can serve as a liaison between the countries of the former eastern bloc and the European Union. The research method applied is the analysis of literature and documents. The article presents the history of Polish transformation, with particular emphasis on economic policies that enabled the creation of modern market economy. Then it shows, on the background of the convergence theory, what elements of the Polish transformation can be used by countries wishing to strengthen its co-operation with the European Union. The article uses the results of a survey conducted among the conference participants EuInteg: Facing the challenges in the European Union. Re-thinking of EU education and research for smart and inclusive growth, in which respondents evaluated the course and effects of Polish transformation.*

**Keywords:** Poland, European Union, political transformation, the Eastern Partnership, the economic policy

### Introduction

The Polish economic transformation was a pioneering phenomenon from the point of view of economic sciences. For the first time in history the transition from centrally

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planned economy to a free market has taken place. This process was compared to recreating a full egg back from scrambled eggs or an aquarium from the fish soup (Morawski 2011: 308).

The communist collapse in the autumn of 1989 and the accession of the Third Republic of Poland to the European Union on 1<sup>st</sup> May 2004 are widely accepted as the timeframe of the transformation<sup>1</sup> (Kaliński 2015).

Although there are voices critical of the process of transformation<sup>2</sup>, it is deemed a success in the common discourse. Because of it, Poland has become a political and economic leader in Central and Eastern Europe. With the growing role of Poland as a mediator between the EU and the Eastern Partnership countries, the question arises of the extent to which the Polish experience may be used by members of the Partnership for the development of their economies and strengthening the economic and political cooperation with the EU. This issue becomes particularly important in the context of the current political situation in Eastern Europe.

The first part of this paper is the history of the transformation, with particular emphasis on economic policy issues that were crucial for the transition to a free market economy model.

The second part will discuss the possibilities of using Polish system solutions by the Eastern Partnership countries. The convergence theory, essential for the issue of copying institutional solutions, is used.

The article discusses the results of a survey conducted among the participants of the conference *EuInteg: Facing the challenges in the European Union. Re-thinking of EU education and research for smart and inclusive growth* (PECSA 2015), which took place on 14–15<sup>th</sup> May 2015 in Warsaw. The aim of the survey was to examine how the participants of the conference – representatives of the world of science, diplomacy, politics, journalism and others – perceived effects of the Polish transition.

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<sup>1</sup> Although there are opinions according to which activities which are the very basis of the transformation (e.g. the so-called. „Wilczek’s reform”) took place even in the days of Rakowski’s government.

<sup>2</sup> The fullest collection of the opinions of critics of the transformation is the book of T. Kowalik *www.polskatransformacja.pl*, Warsaw 2009. In the discourse there are many critical items of journalistic nature whose scientific value may, however, raise doubts.

## 1. The History of Polish Transformation

Polish transformation was a broad institutional change<sup>3</sup> (Acemoglu, Robinson 2012; North 1981). One has to note that the free-market variant introduced by Leszek Balcerowicz was not the only possible option. On 24<sup>th</sup> June 1989, the last communist government of Mieczysław Rakowski adopted the *Assumptions of the economic program for the years 1989–1992* (*Reforma gospodarcza* nr 163: 1–4). The idea was to maintain dominance in the public sector while introducing elements of the free market (such as the capital market, the labour market) and small private business. The electoral defeat of the communists allowed for the formation of the government of Tadeusz Mazowiecki, who said in his expose “Government will take steps initiating the transition to a modern market economy, proven by the developed countries” (Gazeta Wyborcza 2013). He also referred to the issue of the creation of the local government sector, restrictions on state monopolies, development of the banking system and privatisation (Gazeta Wyborcza 2013). From the very beginning the goal of the transformation was Poland’s forthcoming accession to the European Union (Kaliński 2009: 143). On this wave, an economic program was launched. It was Leszek Balcerowicz, Deputy Prime Minister and Minister of Finance, who was responsible for this. He was accompanied by a group of local advisors, such as Marek Dabrowski, Stefan Kawalec and Wojciech Misiąg, and a few foreign ones: Stanisław Gomułka, Jacek Rostowski and Jeffrey Sachs. However, to effectively reform the economy it was necessary to take control over the galloping inflation, which was caused by the government of Mieczysław Rakowski<sup>4</sup> (Morawski 2011: 310). It is the stabilisation of the economy and the fight against inflation, not economic transformation, which was listed as the first goal of the economic program of Mazowiecki’s government. The press called it later “Balcerowicz’s plan” (*Program gospodarczy* 1989: 3).

Balcerowicz decided to make some radical moves (later called “shock therapy”) – reducing the flow of money into the economy, controlling the wages in state-owned enterprises (a tax colloquially called “popiwek”) and the fixed exchange rate of złoty at 9500 PLN per 1 USD (Kaliński 2009: 38).

In 1990, the government started the liberalisation of economic life. 90% of the prices were freed and all actors were allowed to participate in foreign trade. The export

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<sup>3</sup> The very important issue is the peaceful nature of Polish transformation. Political egalitarianism, and therefore introducing a system of parliamentary democracy has enabled economic transformation.

<sup>4</sup> Rakowski’s government introduced the principle of equalization of the price growth by 80 percent wage indexation. Ibid. p. 34. In 1989, the annual inflation rate was 243.8%, 249.3% in 1990. It was reduced to the level of 60.4% in 1991 by Balcerowicz and his crew.

quotas were abolished and export of foreign currency was allowed. The restrictions on trading land were repealed for Polish citizens. In order to promote free market competition, the Antimonopoly Office was created. It was later transformed into the Office of Competition and Consumer Protection. In November and December 1990 the first general and direct presidential election took place. It was won by the legend of 'Solidarność' – Lech Wałęsa.

In 1991, the unfavourable international situation associated with the collapse of CMEA led to an increase in fuel prices and the collapse of exports to the countries of the former Soviet bloc. The official response was the devaluation of the zloty, which was meant to boost Polish exports. Foreign companies were also encouraged to invest in Poland by adopting the law on companies with foreign participation (DzURP 1991 No. 60).

The following years were a period of intensive reforms. In 1995, the denomination of zloty began in ratio 10 000:1, which was a symbolic and psychological act of order after the time of inflation (Kaliński 2009: 44). In 1998, the local government reform was introduced, reducing the number of provinces from 49 to 16. The year 1999 was, in turn, the year of the health care and education reform, and – what is most important from the economic point of view – the reform of the retirement system<sup>5</sup>.

In 1991, Poland signed an Association Agreement with the European Community. Full agreement was concluded in 1994. It regulated such issues as the movement of labour, capital, services, adaptation of the laws and competition policy (Ibidem: 48). In 1994, after the creation of the European Union, Poland submitted an official request for membership. Three years later the "National Strategy for Integration" was adopted (Komitet Integracji Europejskiej 1997). It regulated the field of negotiations with EU authorities. The final Polish effort was the accession to the European Union on 1<sup>st</sup> May 2004.

To analyse the social consequences of transition is not easy. On the one hand, it is clear that market economy has enabled the development of entrepreneurship<sup>6</sup> (Morawski 2011: 309), drew foreign capital into the country and eventually led to Poland's entry into the EU. On the other hand, the critics of Leszek Balcerowicz's economic policy stressed such issues as the emergence of unemployment, the deterioration of the position of some social groups (in particular the employees of

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<sup>5</sup> The current PAYG system was replaced with a mixed system in which a portion of pension funds was invested in financial instruments. This reform was almost entirely withdrawn by the government of Donald Tusk in 2013.

<sup>6</sup> This was particularly evident in the first years of transition in the form of the so-called „revolution of bazaars”, i.e. the development of small entrepreneurship outside the traditional retail stores.

state establishments and state-owned farms - PGRs)<sup>7</sup>. It should be noted, however, that some of these phenomena have their origins in the socialist system. One example is the unemployment, which was latent in the PRL, only to appear after the formation of the labour market (Kaliński 2009: 124). The decrease in GDP in the early 90s was the result of anti-inflationary measures, aimed at stabilising the currency (Morawski 2011: 311). Part of negative ratings was also due to exorbitant expectations towards the effects of the transformation. Results similar to those of the most developed countries were expected, while Poland was the economic periphery. It required much more time to level developmental differences<sup>8</sup> (Wałęsa 2015).

As the whole, Polish economic transformation deserves positive assessment. Its doubtless success was the strengthening of the link between our economy and the economies of Western European countries. The Human Development Index (HDI), used by the UN to measure the level of societies' development in the years 1992–2004, made Poland jump from 49<sup>th</sup> to 37<sup>th</sup> place in the group of countries with the highest levels of HDI (Kołodko 2007: 15). While comparing the Polish transformation of the transition in other CEE countries, it may be noted that Poland emerged from the post-transformation crisis very quickly (in 1992). The Czech Republic and Hungary did it in 1994, Lithuania, in 1995, Belarus in 1996 and Ukraine in 2000 (Kaliński 2009: 139). This makes Poland the leader of systemic transformation in the region.

## 2. Polish Systemic Transformation as a Model for Countries of the Eastern Partnership

Therefore, can the Polish transformation be useful for the countries contesting for membership in the European Union and cooperating with it within the scope of the Eastern Partnership? There has been a long dispute in economics on the possible use of the institutional solutions of the developed countries in order to stimulate the development of the developing ones. The dispute is dominated by two paradigms (Bartkowiak 2013). Paradigm of one pathway (proclaimed by e.g. neo-marxists and economists like W. Rostow, sometimes called the economic paradigm of following) says that by duplicating the path of development of western countries, the developing countries will enter the next stages of growth. In turn, the paradigm of economic dualism indicates the division of the world economy into the centre and periphery

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<sup>7</sup> For one of many papers criticising L. Balcerowicz's economic policy see Kołodko 2007.

<sup>8</sup> Such expectations were fanned by some politicians, e.g. L. Wałęsa's famous statement „we'll turn Poland into second Japan”.

countries. This paradigm takes into consideration such issues as geographical location and historical-institutional legacy of individual countries. According to this division, poor countries cannot apply the same methods of development as richer countries because of the differences in existing institutional systems.

Another issue is the evolution of the economic discourse that took place after the outbreak of the economic crisis of 2008. The economic policy introduced by Leszek Balcerowicz in the late 80s and early 90s developed from the liberal tradition, *laissez-faire*, and was in line with the paradigm of economic policy, prevailing in western countries and expressed by The Washington Consensus. This involved the consent of the international financial institutions (such as the IMF and the International Bank for Reconstruction and Development) for the privatisation of state enterprises, liberalisation of foreign trade and reduction of the budget deficit (Stańczyk 2004: 60–61). The crisis of 2008 has undermined many of the existing dogmas regarding the role of the market and the state in the economy. State intervention concepts have returned to favour, as an eloquent example of what the popularity of the views propounded by T. Piketty (2015).

Eastern Partnership countries are former Soviet republics: Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine (*Eastern Partnership*). They inherited a slightly different set of institutions than Poland (North 2014: 153). They also applied different system solutions after the fall of communism. Copying Polish economic policy of the early 90s in the current situation is meaningless. However, Poland may serve them as an example in two important areas. Firstly, it shows the success of the political system, which is an egalitarian parliamentary democracy, and thus struggles with phenomena such as corruption, glaring social inequalities and human rights violations. This is particularly important in the context of strengthening influence of the Russian Federation in that region. Secondly, analysing the history of the Polish transformation shows clearly how important the consequence of successive governments was in an effort to integrate the national economy with the economies of EU countries, regardless of political differences

Due to its geographical location and historical heritage Poland, has the opportunity to be a link between post-Soviet countries and the EU. The Eastern Partnership is an attempt to find a unique way for each of the countries participating in it to integrate with the EU, so it is compatible with the concept of economic dualism.

The participants of the conference *Facing the challenges in the European Union. Re-thinking of the EU Education and Research for Smart and Inclusive Growth (EuInteg)*, which took place on 14–15 May 2015 in Warsaw School of Economics were asked to complete a survey “*Polish rating system transformation after 1989 and its effectiveness in the project by Polish European Community Studies Association, Facing the Challenges in*



*the European Union. Re-thinking of EU Education and Research for Smart and Inclusive Growth (EuInteg)*”.

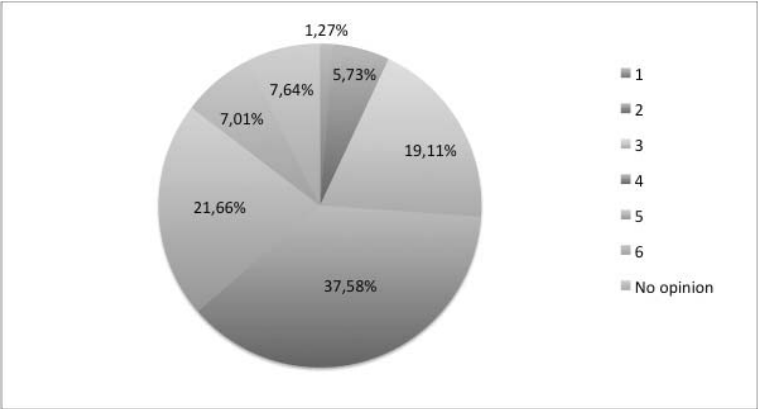
### **3. The Evaluation of the Polish Transformation by Attendants of the EuInteg Conference**

The *EuInteg: Facing the Challenges in the European Union. Re-thinking of EU Education and Research for Smart and Inclusive Growth* conference was organised by the Polish European Community Studies Association (PECSA) in cooperation with Warsaw School of Economics, the University of Warsaw and the University of Gdańsk. The survey covered 157 people, of whom 122 (77% total) indicated Poland as their residence, and 18 (11.4%) were citizens of such countries as Armenia, Belgium, Belarus, Georgia, Spain, the Netherlands, India, Moldova Germany, Romania, the USA, Hungary and the United Kingdom. It should be noted that none of these countries was indicated by more than two people. 17 people in the survey did not provide their country of residence. The survey consisted of two parts, the first of which was concerned with the interests of the respondents in various aspects of economic transformation, and the second – an evaluation of its selected aspects.

The dominant group of respondents were the representatives of science – academics (20.38%), students (41.4%) and Ph.D. students (8.9%), who together made up 77.7% of respondents. The next two most numerous groups were the representatives of research institutions (7%) and business (5%). Apart from them, the representatives of NGOs (including international), representatives of public administration, politicians and diplomats were also present. Those groups accounted for 11.3% of the total. The largest group in the age structure were young people aged 18–24 years old (47.8%). Next in terms of numbers were the groups of 35–44 years old (19.1%) and 25–34 years old (17.8%). Persons aged 45 years and older accounted for 15.3% of the respondents. None of the respondents declared age lower than 18 years (range 0-17). 2 people did not report their age.

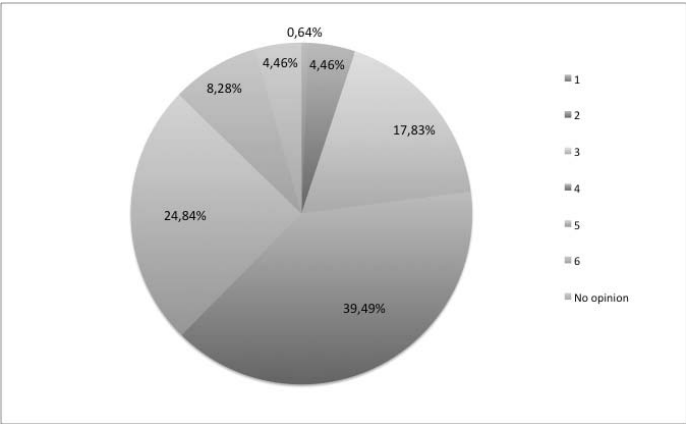
Respondents could choose evaluation from 1 to 6 (1 – worst, 6 – best) and a “no opinion” option. Assessing the effectiveness of the transformation of the Polish socio-political system, 12 people (7.6%) said that they do not have an opinion on this subject. Other ratings were as follows: 6-11 people (7.01%), 5-34 people (21.66%), 4-59 people (37.58%), 3-30 people (19.11%), 2-9 people (5.73%) and 1-2 people (1.27%). These results are graphically shown in Figure 1.

**Figure 1. Assessment of the Effectiveness of the Transformation of Polish Socio-Political System**



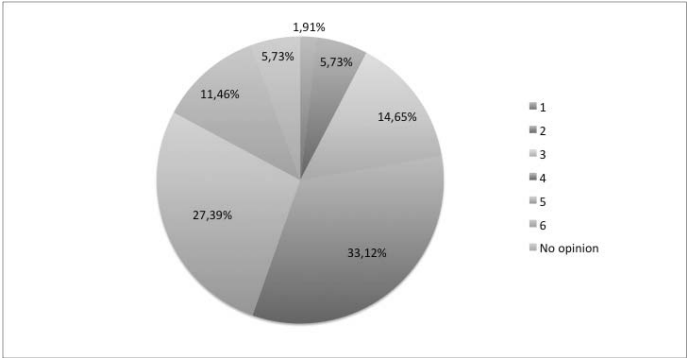
For economic transformation, the results are as follows: 7 people (4.46%) declared no opinion. The percentage of the remaining marks is as follows: 6-13 people (8.28%), 5-39 people (24.84%), 4-62 people (39.49%), 3-28 people (17.83%) 2-7 people (4.46%) and 1-1 person (0.64%). This is graphically shown in Figure 2.

**Figure 2. Assessment of the Effectiveness of Polish Economic Transformation**



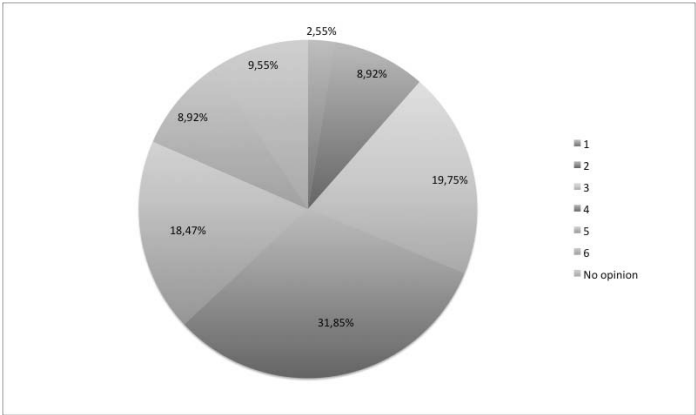
9 people (5.7% of the total) declared that they have no opinion on the matter of the democratisation process in Poland. Other ratings are as follows: 6-18 people (11.46%), 5-43 people (27.39%), 4-52 people (33.12%), 3-23 people (14.65%), 2-9 people (5.73%), 1-3 people (1.91%). It has been shown graphically in figure 3.

Figure 3. Assessment of the Democratization Process in Poland after 1989.



Polish involvement in the protection of democratic values and human rights in Europe and in the world was assessed by the EuInteg participants as follows: 15 people (9.5%) had no opinion, 6-14 people (8.92%), 5-29 people (18.47%), 4-50 people (31.85%), 3-31 (19.75%), 2-14 people (8.92%), 1-4 people (2.55%). A graphic illustration of this is shown in Figure 4.

Figure 4. Assessment of Polish involvement in the protection of democratic values and human rights in Europe and in the world



**Table 1. Assessment of the effectiveness of the Transformation of Polish Socio-political system (by age groups)**

Age	1	2	3	4	5	6	No opinion	Total
18–24	2	8	14	28	15	2	6	75
25–34	–	–	5	11	7	3	2	28
35–44	–	–	7	12	6	4	1	30
45–54	–	1	1	3	–	–	–	5
55–64	–	–	2	4	5	–	1	12
65+	–	–	1	–	–	2	2	5
Total								155

**Table 2. Assessment of the Effectiveness of Polish Economic Transformation (by age groups)**

Age	1	2	3	4	5	6	No opinion	Total
18–24	1	6	17	28	18	1	4	75
25–34	–	–	3	14	5	5	1	28
35–44	–	–	4	14	9	3	–	30
45–54	–	1	2	1	1	–	–	5
55–64	–	–	1	4	3	3	1	12
65+	–	–	1	–	2	1	1	5
Total								155

**Table 3. Assessment of the Democratization Process in Poland after 1989 (by age groups)**

Age	1	2	3	4	5	6	No opinion	Total
18–24	2	7	9	27	20	4	6	75
25–34	–	1	3	7	9	7	1	28
35–44	–	1	5	14	4	5	1	30
45–54	–	–	2	2	1	–	–	5
55–64	–	–	4	2	5	1	–	12
65+	1	–	–	–	2	1	1	5
								155

Tables 1–3 show us how the Polish transformation is evaluated by each of the age groups. The youngest group of respondents (range 18–24 years) assesses the Polish transformation lower than the others, with the exception of the group 45–54<sup>9</sup>. For such an assessment of the transformation by the youngest respondents, the economic

<sup>9</sup> However, due to the small size of the range, its results should be interpreted with caution.

situation after 2004 is responsible, i.e. the dominance of flexible forms of employment, increased competition in the labour market and other factors which increased the uncertainty that emerged in the aftermath of the economic crisis of 2008+.

32% of the respondents aged 18-24 rated the political aspects of transformation in the range 1-3, while in the next two older groups (25-34 and 35-44) it was, respectively, 17.85% and 23.33%. The economic transformation received mark from the 1-3 range from 32% of respondents aged 18-24, incomparably more than the next two age categories. Also, the process of democratisation in Poland after 1989 was almost evaluated the worst by a group of 18-24 (1-3 assessment received a total of 24% of the votes). Worse results were only in the age groups of 45-54 (40%) and 55-64 (33.33%). It should be clear that these two groups are much less numerous than the 18-24 group, which could affect the distribution of results.

These results (especially the comparison of the group of 18-24 and the groups of 25-34 and 34-45) seem to confirm the thesis that the relatively low assessment of the Polish transformation processes among the youngest group of respondents (18-24 years old) is due to the fact that they perceive it through the prism of a later decade. At the same time, the size of this group has a significant impact on the results of the entire study. One can hypothesise that older people evaluate the issue of political and economic transformation much higher because of their personal experiences of those times, and thus do not "blame" it for the situation after 2004.

**Table 4. Evaluation of the Political Transition According to one's Stated Interest**

Interested?	1	2	3	4	5	6	No opinion	Total
No	–	–	2	2	1	–	1	6
No opinion	–	1	1	2	–	–	3	7
Rather not	–	–	3	5	2	1	3	14
Rather yes	–	4	9	24	15	2	2	56
Yes	2	4	15	26	16	8	3	74
								157

Tables 4–6 indicate the relationship between the declared interest in the particular field and following assessment. In Table 4. we see the correlation between interest in the transformation of the political system, social and economic life in Poland and declared evaluation of Polish socio-political transformation. Among the respondents declaring interest in transformation („rather yes” and „yes”), respectively 73.22% and 67.57% rated its socio-political aspects in the evaluation of the interval <4, 6>. In the case of not declaring such interests („rather not” and „no”) it was respectively 57.14% and 50% of respondents.

**Table 5. Evaluation of the Economic Transition According to one's Stated Interest**

Intrested?	1	2	3	4	5	6	No opinion	Total
No	–	–	2	1	2	–	1	6
No opinion	–	2	2	2	–	–	1	7
Rather not	–	–	3	6	2	1	2	14
Rather yes	–	2	10	25	17	1	1	56
Yes	1	3	11	28	18	11	2	74
								<b>157</b>

Table 5 shows the relationship between the declared interest in the field of Polish transformation and the evaluation of its economic aspects. One can see a strong connection. Respondents who answered the question about interest as „yes” or „rather yes” assessed the economic aspects of transformation to assess the range of <4, 6> respectively 67.56% and 76.79% of cases. Those who do not declare such interests (answer „no” and „rather not”) indicated such an assessment in respectively 50% and 64.29% of cases.

**Table 6. Evaluation of the Democratization Process in Poland According to one's Stated Interest**

	1	2	3	4	5	6	No opinion	Total
No	–	2	1	2	4	–	2	11
No opinion	–	–	4	1	–	–	2	7
Rather not	1	2	2	8	3	1	2	19
Rather yes	–	2	4	25	14	5	3	53
Yes	2	3	12	16	22	12	–	67
								<b>157</b>

74.63% and 83.02% of respondents declaring their interest in the issues of democratisation in Poland, Europe and the world (answers respectively „yes” and „rather yes”) evaluated this process with the mark range of <4, 6>. 54.54% and 63.15% of respondents who expressed lack of such interest (answers respectively „no” and „rather not”) issued a similar assessment.

Therefore, data from Tables 4-6 show that interest in the subject of transformation translates into better evaluation by respondents.

**Table 7. Assessment of Polish Transition by Foreign Respondents**

	3	4	5	6	No opinion	Total
Political transformation	2	4	7	2	3	18
Economic transformation	1	6	6	4	1	18
Democratisation	1	3	9	5	-	18

Among the group of respondents with their permanent place of residence in a country other than Poland (18 persons), interest in the Polish democratic and economic transformation (answers „yes” and „rather yes”) was shown by 16 people (88.9%), while the processes of democratization in Poland, Europe and the modern world – 15 respondents (83.3%). Ratings issued by non-Polish respondents are presented in Table 7. None of these respondents put a lower assessment than 3. Foreign respondents evaluated the Polish democratization process after 1989 highly – half (50%) of them rated it at 5 and 27,8% – 6. As that group includes representatives of EU Member States, Central and Eastern Europe countries and other geographic areas, it can be said that Poland's systemic and economic transformation is generally received very positively abroad.

## Conclusion

Polish political and economic transformation was a great success. It allowed to break out from the post-soviet zone of influence and allowed us to become part of the western states. Particularly important is the peaceful nature of transformation. Despite economic difficulties and political turmoil we did not move away from such values as democracy and human rights. Although successive governments came from different political backgrounds, the entrance into the European Union was a priority for each of them. As a result, we have become a leader in the region of Central and Eastern Europe.

The results of the survey conducted among the participants of the EuInteg conference clearly show that Polish transformation is a major issue. High notes issued by foreign participants show the positive assessment of this process in the world. However, the low ratings issued by the youngest group of participants (18–24 years) are a worrying phenomenon which may be caused by blaming the transformation for later economic problems. It is clear, however, that with more attention and interest in the topic of transformation, the rating improves.

Due to strong integration with the West while understanding the problems of Eastern European countries, Poland has become a link between the two regions. While the challenges faced by the Eastern Partnership countries now require other activities than were applied to Polish economy in the early 90s, for them we are a model worthy of imitation when it comes to adapting the existing political system and its values to Western standards. From the very beginning, Poland was the leader of development among the countries of the former Eastern bloc and to this day maintains this position.

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