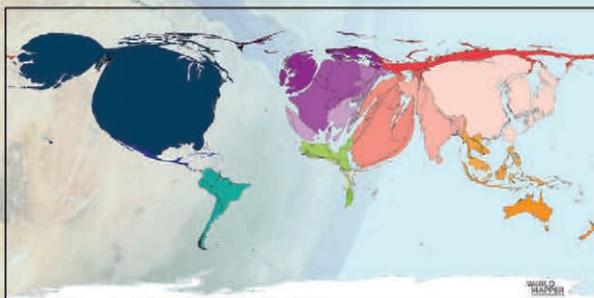


Zsuzsanna Szerényi – Erzsébet Kaponyi – István Benczes  
(eds.)

# Contemporary Global Challenges in Geopolitics, Security Policy and World Economy



Corvinus University of Budapest  
International Relations Multidisciplinary Doctoral School

2020

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Typography, cover design: **JENEY, LÁSZLÓ**

Cover: Google Earth, 2018  
Worldmapper: Military Spending 2017

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**ISBN 978-963-503-834-3**

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Multidisciplinary Doctoral School,  
Corvinus University of Budapest  
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The volume was supported by the Pallas  
Athene Domus Meriti Foundation (PADME).



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# Table of Contents

<b>Preface – ROSTOVÁNYI Zs.</b> .....	<b>9</b>
<b>I. Political and Economic Processes of the Arabic World</b> .....	<b>11</b>
I.1. Saudi Aramco IPO: The Primary Reasons behind It – BARTHA B.	13
I.2. Institutional Reforms in North Africa: the Example of the ‘Advanced Regionalization’ in Morocco – BOURAS, I.	27
I.3. Libyan Nationhood and Regionalism: Tribal Society in a Modern Era – KÁSA B.	37
<b>II. Current Challenges of Sustainability</b> .....	<b>51</b>
II.1. Interagency Cooperation of UN Agencies within the Framework of SDGs – BESGÜL, B.	53
II.2. On the Effectiveness of the ‘Greening’ Component of the EU’s Common Agricultural Policy – KOVÁCS A. F.	71
II.3. Industry 4.0 and the Circular Economy – NEMES Zs.	91
<b>III. Security and Defence Policy Issues</b> .....	<b>101</b>
III.1. Russian Gas Export towards Bulgaria: Inconsistent Political Response Due to Energy Security Challenge – KIRILOVA, N.	103
III.2. The End of the Superpower Era – Retrenchment of the USA and the Resurgence of Great Power Politics – MEZEI A.	121
III.3. Building Resilience as a Security Strategy for Donors and Hosts: The Case of the EU and Jordan Concerning the Syrian Refugees – SALIBAH, L.	135
III.4. The Origins of Tunisia’s Women’s Rights Movement: A Social Movement Theory Approach – SIPOS X. Zs.	169
III.5. Onset Analysis of the Frozen Conflict Taking Place in Eastern- Ukraine – TANKOVSKY, O.	183
III.6. Inequality and Marginalisation as Boosters of Violence: Studying Latin America from a Neo-Institutionalist Perspective – AYALA CASTIBLANCO, L. V.	203

**IV. Contemporary Challenges in World Economy .....217**

IV.1. Traditions, Institutions, and Growth: the Case of Hungary –  
COSSU, E. – AGUIAR, G. M. B. .... 219

IV.2. Companies in Different States: The Common Logic of Free Trade  
Agreements and Transfer Pricing – KOVÁCS E. ....233

IV.3. The Institutional Economics Approach to Populism: Precising the  
Theoretical–Methodological Framework – MÁTYÁS M.....251

IV.4. How Robotisation is Changing Production-Related Decisions? –  
GURÁLY R. ....283

IV.5. How Does Digitalisation Influence Financial Inclusion in the  
Emerging Countries? – A Cross-Country Comparison – SZTANÓ G.303

IV.6. Comparative Study on Sovereignty in Oil Dependent States –  
SAKHA, N. S.....323

**V. Rising Powers of Asia .....339**

V.1. Rebalancing and Counterbalancing of Myanmar between India  
and China – HNIN, M. T. .... 341

V.2. The Role of ASEAN on the Territorial Dispute in the South China  
Sea – HNIN, M. T. – WIDJOJO, R. ....359

V.3. Milestones of Eurasian Integration – URAZYMBETOV, B.....387

V.4. Ambiguities in Chinese Strategy on the South China Sea –  
HERCZEGH V.....401

**V. Institutions and Policies of the European Union .....415**

VI.1. Creative Industries in the Economic Structure of Midsize Towns  
in the Visegrad Countries – DOROGI Z. .... 417

VI.2. A Critical Analysis of the EU’s Image as a Model for Regionalism:  
Some Lessons from the Eurozone Crisis – ÖZOFU, M. A. .... 435

VI.3. The Copenhagen Dilemma and Its Possible Solutions in the  
Council of Europe – TÓTH-FERENCI A. ....453

VI.4. New strategies for the Hungarian (Political) Elite in the Light of  
Demographic Trends among Hungarians in Transylvania – PERCZE  
L.....471

## Preface

This is the second time that the International PhD Conference has been organized by the International Relations Multidisciplinary Doctoral School of Corvinus University of Budapest. We hope this is a sign that we have created a tradition, and that the conference will be organized in the future as well. As in the previous year, most of the presentations given at this year's conference will again be published in a collected volume in the form of edited studies, with the aim of promoting the publication performance of PhD students.

The comprehensive profile of the Doctoral School, the diversity of its three subprograms – International and Security Studies, World Economy and Geopolitics – is reflected in the various topics of the studies in this volume. These include e.g. security and defence policy, challenges the world economy is facing nowadays, the institutions and policies of the European Union, the emerging powers of Asia, as well as sustainability and other important, highly relevant issues. The regions examined in the studies range from the EU through the Arab world to Latin America and Asia, and countries such as the United States, Russia, Ukraine, China, India, Jordan and Tunisia are analysed, to name just a few.

The multidisciplinary nature of the Doctoral School has long been expressed in its name, mainly due to the fact that it is entitled to award degrees in two disciplines (economics and political science). Multidisciplinarity is also manifested in the diversity of the topics of this volume. Not only multidisciplinarity, but also interdisciplinarity, the presence of “frontiers” in the field of mutually interdependent disciplines can be traced in the articles, as the authors refer to e.g. law, history, security policy as well as theories of international relations.

The studies in the volume were carried out during an unprecedented, difficult period, as the coronavirus epidemic made traditional forms of education almost impossible all of a sudden, and doctoral training also had to switch to online education. All this coincided with the substantive and organizational renewal of the doctoral programs at Corvinus University of Budapest. Due to the fusion of the International Relations Multidisciplinary Doctoral School and the Doctoral School of Political Science, the Doctoral School of International Relations and Political Science was established on 1 July 2020, and the number of subprograms increased from three to four, by adding Political Science.

Finally, let us express our gratitude to the Central Bank of Hungary and the Pallas Athene Domus Meriti Foundation (PADME) for the support they have given to the Doctoral School over the years, especially the Geopolitical Subprogram, which has made this volume possible.

*Prof. Zsolt Rostoványi*

# **I. Political and Economic Processes of the Arabic World**



## I.1. Saudi Aramco IPO: The Primary Reasons behind It

BÁLINT BARTHA<sup>1</sup>

### Abstract

*In January 2016, Prince Mohammad bin Salman surprised the world by announcing that the Saudi government intended to initiate the biggest initial public offering (IPO) in history. Saudi Aramco is the world's largest oil producer. Riyadh delayed the transaction several times, although it was the centrepiece of Saudi Arabia's Vision 2030 plan to diversify the kingdom's economy which is highly reliant on oil.*

*The aim of this paper is to analyse the political reasons for the Saudi Aramco's IPO delay. The paper's main assumption is that the Kingdom overestimated Western investors' financial leverage, because in spite of their qualms more than 5 million investors set aside concerns over the company's close ties to a state with a controversial human rights record, and the uncertainty over the global oil industry's future.*

*The paper will analyse the key factors, and major internal and external political conflicts which had an effect on the Saudi Aramco's IPO. As a result, the paper will challenge the necessity of the IPO from an economic point of view, because the timing was the worst possible.*

**Keywords:** Saudi Aramco, IPO, Vision 2030, Saudi Arabia, oil market

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### I.1.1. Introduction

In January 2016, Deputy Crown Prince Mohammad bin Salman (MBS) announced that he intended to sell 5% of Saudi Aramco in an international initial public offering (IPO) to fund Saudi Arabia's ambitious economic reform plans called Vision 2030. The oil company had been under government control since it was nationalized in the 1970s. Aramco

is the world's largest oil producer, it has 297,700 million barrels proven crude oil reserves, the second highest in the world after Venezuela (homepage of OPEC ANNUAL STATISTICAL BULLETIN). MBS expected to raise \$100 billion from the sale, valuing Aramco at \$2 trillion. On December 11th, 2019, shares began trading only on Tadawul, Saudi Arabia's stock exchange. It took four years to initiate the deal, because of the lack

of transparency and continuous political crises. The Saudis postponed the IPO several times. More than two dozen banks were involved in the process, but most of them flinched from the transaction because the most important stock exchanges have certain requirements that Saudi Aramco could not, or did not want to, fulfil. In mid-October, 2019 the investors informed Aramco's management that they expected the value of the company to be between \$1.1-1.7 trillion, far below the \$2 trillion target figure set by MBS. Then the Saudis decided to proceed with a scaled-back IPO on the Saudi stock market instead of the most important stock markets.

The aim of this paper is to analyse the political reasons for Saudi Aramco's IPO delay. The paper's main assumption is that the Kingdom overestimated Western investors' financial leverage, because in spite of their qualms more than 5 million investors set aside concerns over the company's close ties to a state with a controversial human rights record, and the uncertainty over the global oil industry's future (JOLLY, J. – AMBROSE, J. 2019).

The paper will analyse the key factors, and major internal and external political conflicts which

had an effect on the Saudi Aramco's IPO. As a result, the paper will challenge the Vision 2030 idea, which aims to open and liberalise Saudi society, but the key factors are to the East: engage the Asian investors with stability and regional security.

### **I.1.2. Vision 2030**

The economic development of Saudi Arabia is at or above the level of Western democracies. The GDP per capita figures of the Kingdom is the 38th highest in the World, the same level as Portugal, the Czech Republic or Estonia (IMF 2019). However, the structure of its economy is one-sided, and 90% of its export income comes from oil production (homepage<sup>2</sup> of CIA FACTBOOK). The Saudi economy is vulnerable, and it is exposed to the oil market. Inorganic economic integration and the country's internal economic structure have not allowed the state to develop a functionally redistributive system. According to Giacomo Luciani, we may distinguish between production states and rentier states accordingly the source of a state's revenue (LUCIANI, G. 1994). The In a rentier state, the

---

2 <https://www.cia.gov/library/publications/the-world-factbook/geos/sa.html> – 2020. 03. 14.

state is independent from society, the tax system is underdeveloped, and we cannot talk about political representation. Almost 90% of the Saudi Government's export income derives from oil exports.

Mohamed Bin Salman recognized that the Kingdom's economy is vulnerable, so he decided to initiate a programme four years ago, called Vision 2030, which aims to make the economy independent from oil exports. The oil price is fluctuating and too volatile to rely on solely, and it cannot sustain economic development. The Saudis have missed decades of technological improvement. The developed countries adopted new technologies and built infrastructure to serve development. Demographic changes are also important: 40% of the population are under the age of 25; they are educated, well-informed, and they have access to the internet, and the social media (homepage<sup>3</sup> of CIA FACTBOOK). The new generation is eager for change. Transforming the Saudi economy requires creating around one million new jobs in the next few years for the many young people entering the workforce (HENDERSON, S. 2019).

The programme goals

include reinforcing economic and investment activities, and increasing non-oil industry trade between countries through goods, consumer products and tourism. The Saudi Commission for Tourism and National Heritage started issuing tourist visas in October 2019. More than 100,000 tourists visited Saudi Arabia in one month (BINTURKI, T. A. 2020). A most impressive megaproject has also been proposed, the so called Neom project, which seeks to become the flagship of the country's touristic and entertainment potential. That project envisioned a \$500 billion, ultra-high-tech economic zone in the northwest part of the kingdom near Egypt and Jordan. Yet, there will be comparatively few jobs for humans in the robot-filled facilities envisioned for Neom, which so far has only completed a new airport and some palaces.

To finance these ideas MBS initiated the IPO of Aramco stocks. The successor of the Arabian American Oil Company, originally established by the US, Aramco is the largest oil producer in the world, with the lowest production costs; consequently, it is the most profitable company on earth.

It is standard practice in Saudi Arabia that the income of the government will likely be invested outside the country. The

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3 <https://www.cia.gov/library/publications/the-world-factbook/geos/sa.html> – 2020. 03. 14.

kingdom has suffered losses on several fintech investments. The Public Investment Fund lost so far in Uber and WeWork. For these reasons, the IPO progress should be watched carefully by investors, who often find themselves puzzled by the Kingdom's decision-making processes (HENDERSON, S. 2019).

### **I.1.3. Reasons for the delay**

In December 2019, the Saudi Aramco stocks were traded for the first time after years of preparation and delay. The income from the transaction is going to be invested in the Vision 2030 economic development plans. The Saudi government offered 5% of the shares in Aramco (GROSS, S. 2019).

A number of questions emerged about the IPO: What is Aramco worth? Will the IPO be transparent? Where will Aramco shares be listed? Is the country stable enough to earn the trust of the international investors?

Diversifying the economy is not a new idea: it has been a question in Saudi Arabia for decades. This time, the reason why now is the time to diversify the economy, is not solely Mohamed Bin Salman, but also the environment. In the mid 2010s there were multiple pressures on the global oil market from environmentalists arguing

that mankind is living on borrowed time, and we have to reduce hydrocarbon usage. There was also internal pressure because, as the Arab Human Development Reports (AHDR) found, there are three deficits in the Arab countries: a freedom deficit, a lack of women's empowerment, and a knowledge deficit<sup>4</sup>. All of these issues affect Saudi Arabia.

The Saudi leadership identified these problems, and they have decided to initiate a socioeconomic reform, which includes the following measures: women can drive a car (2017), cinemas will reopen after 40 years, women will be allowed to visit football matches (2018), and so on. The economic aspect to the renewal is the Vision 2030 project, which is expensive. That is why they have decided to sell 5% of the shares of the Saudi Aramco oil company every year, to generate cash for the public investment fund.

### **Transparency**

There are several concerns about the IPO. First of all, some worry whether the money thus raised will arrive in the public fund, or it could instead be a tool of

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4 Arab Human Development Reports  
– <http://www.arab-hdr.org> –  
2020. 06. 09.

corruption. Meanwhile, converting to a public company is a game changer, so the IPO can serve strategic goals for the state. Riyadh initially proposed to sell off 5% of the company per year for ten years, then afterwards stopping in order to maintain the control over the company, but its plans are unclear.

The state-owned oil company never previously had to think about the interests of investors, but now thanks to the bipartite ownership (both state and public), it has to pursue strategies which are good for the state, and good for the shareholders. They have to issue quarterly reports about the company, something they have not done before. The Saudis had to disclose everything after they became an open public company. The company had other interests besides oil reserves, but since an independent third party has not been able to verify the amount of the oil reserves, the amount of the reserves still remains unclear. The company, until December 2019, had not been listed on any market, it was not transparent, there was no free press in the country, and the political situation there was still shaky.

### **Regulatory**

It goes without saying that

stock in the largest company in the world should be sold through the largest stock exchange (New York or London stock exchange) but due to regulatory issues this plan was not realised. The months of delay since the original idea of an IPO has been attributed to hesitation on the Saudi leadership's part about revealing the company's financial details, as well as concern that its assets might become vulnerable to legal action, particularly if Saudi Arabia is found to bear any official responsibility for the 9/11 terrorist attacks (HENDERSON, S. 2019). From the legal point of view, it is hard to determine the outcome of a litigation case, but if an American court finds the Saudi Government indirectly responsible for the terror attacks, due to the fact that 15 of the 19 hijackers were Saudi citizens, it would be a political issue, not an economic one, because the company could pay the compensation to the victim's families.

### **Market value**

The company's total value was a big question. The Saudis expected that it was worth \$2 trillion, which would have meant that selling off 5% would result in a \$100 billion inflow to the Saudi government. Western analysts have expressed doubts about the

valuation, and its credibility, and suggested instead a \$1.1-\$1.5 trillion range. In December, 2019 Aramco achieved a record, and the market gave it a \$1.7 trillion price tag, making it the world's most valuable company. The stock price hit an intraday high of 38.70 riyals on its second day of trading but has subsided since then.

MBS did not get what he expected. The company was valued at 15% less than he anticipated and has been losing value ever since. Aramco is listed only in Saudi Arabia, meaning that Western investors were not present, and most of the shareholders are Saudi citizens, or Asian investors.

Besides the described issues, the biggest challenge is the instable internal political situation. A number of prominent Saudi Arabian princes, government ministers, and business people were arrested in Saudi Arabia on 4 November 2017, and detained in Riyadh Ritz-Carlton Hotel for alleged corruption and profiteering. The action resulted that MBS consolidated his power over all three branches of the security forces, making him the most powerful man in Saudi Arabia.

Today, the company is increasing the oil supply at the time when demand is falling down as the global economy is shocked by the coronavirus. The company has said

it will maintain its oil production to flood the market to compensate for the 65% drop in prices in 2020 (JACOBS, T. 2020).

### **Domestic attraction of business**

The Crown Prince emphasizes the importance of soft power. There are fundamentally two main sources of Saudi soft power: domestic policies and actions and international policies and actions. Saudi Arabia considered in the Muslim world as the „Land of the Two Holy Shrines”, referring to the two holiest places in Islam: Al-Masjid al-Haram in Makkah and Al-Masjid al-Nabawi in Medina. The government is financing several projects abroad to extend its soft power capabilities.

The overambitious MBS does not tolerate opposition voices. The Saudi Government is not scared to use force to shut down dissenting opinion. In October 2018 at the Saudi consulate in Istanbul agents of the Saudi government killed Jamal Khashoggi, an American-living dissident journalist, who was constantly criticizing MBS and the Saudi government (SCHMITT, E. – FANDOS, N. 2018). That action astonished the international community. A major foreign investment conference immediately

ended in Riyadh, when the murder of dissident journalist Jamal Khashoggi cast a shadow over the proceedings. Critics argue that such activities by the government may cost the country years of development, because a foreign investor does not want to live in such an environment: they would rather go to invest in the United Arab Emirates or Qatar. Nevertheless, reporting suggests that in this instance, foreign executives were more interested in securing fee income for new fundraising or investment assistance for overseas projects rather than actually putting money into the kingdom.

### International challenges

Regional adversaries also threaten the Kingdom's stability. Iran after the nuclear deal (JPCOA – 2015) adopted a more assertive form of behaviour towards their regional enemies, but it continued to conduct cyberattack against Saudi Arabia's oil infrastructure

in August 2017, and provided military and weaponry supports to the Houthis in Yemen, who fired missiles at Riyadh in November 2017 (EISENSTADT, M. 2018).

In Riyadh, they assumed that Tehran had shifted the balance of power to coincide with the Iranian economic rebirth. If we are comparing the hard power capabilities, it is clear that the only advantage that Saudi-Arabia had over Iran before the JPCOA was the economy. From that perspective the nuclear deal threatened the Saudi-led Sunni block<sup>5</sup>, which are US allies. To understand that we have to make a simple hard power comparison between the two regional superpower aspirants.

5 The United States after 1979 when they lost the Iran as an ally, turned towards the Sunnis. This is an informal alliance which based on three points: the US is the security provider; Saudi Arabia is a leader on religious basis as the guardian of the two holy sites in Islam and ultimately the purpose of this covenant to contain the Iranian leverage.

hard power capability	Iran	Saudi-Arabia	index
population	81 million	33 million	Iran
territory	1.6 million km <sup>2</sup>	2 million km <sup>2</sup>	neutral
geopolitical position	strategical	strategical	neutral
natural resources	4th largest oil reserves, 2nd largest gas reserves	2nd largest oil reserves	Iran

hard power capability		Iran	Saudi-Arabia	index
military	active personnel	523,000	251,000	Iran
	budget	20 billion USD	67 billion USD (3rd highest in the world)	Saudi-Arabia
economy	GDP	440 billion USD	684 billion USD	Saudi-Arabia
	GPD per capita	5,500 USD	20,700 USD	

*Table 1: Hard power capabilities Iran and Saudi-Arabia, 2019*  
*Source: compilation of the author based on the data of CIA Factbook<sup>6</sup>*

<sup>6</sup> Iran: <https://www.cia.gov/library/publications/the-world-factbook/geos/ir.html> – 2020. 03. 14.; Saudi-Arabia: <https://www.cia.gov/library/publications/the-world-factbook/geos/sa.html> – 2020. 03. 14.

It is really hard to overcome the Iranian military capabilities (*Table 1*), despite the size of the Saudi military budget, which is almost 70 billion dollars yearly, a figure that represents 10% of the county’s GDP, nominally the third highest in the world. This simple table shows that the only arrears that the Islamic Republic has is its economy. The decade-long sanctions have ruined the Iranian economy, their inflation is over 30%, for a long time they were unable to export their oil production, and from 2012 until the signing of the JCPOA the annual GDP shrinkage was more than 1% on average. That is why Iran needed the nuclear deal badly.

On 14th September 2019, just a couple of days before the United Nations General Assembly

meeting<sup>7</sup>, the state-owned Saudi Aramco oil processing facilities at Abqaiq and Khurais in eastern Saudi Arabia were attacked by drones and cruise missiles. Yemen’s Iran-aligned Houthi rebels, at the centre of a civil war against Saudi-backed forces, claimed responsibility, trying to hide the Iranian involvement and blame the Saudi intervention into the Yemeni Civil War. The United States and Saudi Arabia stated that Iran was behind the attack while the European Union also jointly stated that Iran bears responsibility for it. Iran has denied any involvement.

Saudi Arabia was a strategic target. The attack temporarily halved Saudi Arabia’s oil production and knocked out 5% of the world’s oil supply. Global crude oil prices

<sup>7</sup> There were some expectations that behind the scenes President Rouhani and President Trump can meet, but it quickly evaporated after the attack.

spiked, for a couple of weeks, but the Saudis calmed the market, since they were able to rebuild the facilities in a short time (DIAPOLA, A. – BLOOMBERG 2019).

The plan by Iranian military leaders to strike Saudi oil installations developed over several months, according to the official close to Iran's decision making (GEORGY, M. 2019). The possible targets were initially discussed and categorized based on the possible casualties and the rate of retaliation. They dismissed those targets where any United States personnel could be harmed, because it could provoke a massive counterattack. The agreement on Aramco facilities was almost unanimous. This idea, to attack the enemy's oil infrastructure is not new, as since the 1980s Iran has declared that if it cannot export oil, then none of its neighbours will either. The idea was to display Iran's deep access to intelligence and military capabilities. The attack has been the worst on Middle East oil facilities since Saddam Hussein torched Kuwait's oil fields during the 1990s Gulf crisis.

Riyadh said it believes Iran conducted the attacks on its oil facilities and will consider a military response once its investigation is complete. The Carter Doctrine, which calls for an American military response to any

outside effort to threaten or seize oil fields in the Persian Gulf, is officially dead because Tehran is too powerful, and with this attack it is clear, that Saudi Arabia is ready neither to protect its neighbours nor to enter a war against the Islamic Republic. Although Washington is trying to "lead from behind" – as we saw in the Libyan intervention – the only evident response was the US Defense Department's announced deployment of 1,800 more US troops to Saudi Arabia (SAAB, B. Y. 2019).

With this attack Tehran sent a message to Saudi Arabia and the US as well. The Persian country showed that they have a very sophisticated technology and they are able to execute precise and quick attacks from more than 1000 km away. Despite its huge military spending Saudi Arabia could do nothing against those drones and low-flying missiles. It has been clear in recent months that Riyadh's strategy is now to be reconciled with the Yemenis in the interests of to calming down the tensions on its border, because it is clear that they are unable to focus on more than one adversary at the same time.

Tehran showed with this attack that they are much more powerful than Riyadh thinks, and it still has an unbeatable advantage on military side. However, the

balance of power inside Iran has also shaped the regime. Supreme Leader Ali Khamenei gave a green light to diplomacy and pragmatic conservatives like President Hassan Rouhani with the acceptance of the JCPOA, but this agreement failed within 3 years. On the other hand, the hardliners, namely the Revolutionary Guard Corps commander Qasem Soleimani got a free hand to pursue their preferences in Syria, Yemen, Lebanon and Gaza.

#### **I.1.4. Conclusion**

It is not clear why Riyadh went ahead with selling one of their most important assets at the bottom of the oil market. The only reason was that the Kingdom has cash flow problems. Why else would Aramco would proceed with the IPO, unless the State needed the cash immediately? The Vision 2030 ideas did not correspond to reality, and the programme has so far been financed by loans, which confirms the above finding that the Kingdom has financial problems (IMF 2016).

Although Saudi Arabia appears to be the brink of radical change with the vision 2030 project, if we take a closer look to the Saudi house, it appears that there is a power struggle in which Mohammed Bin Salman, who is the

Defence Minister and the Crown Prince at the same time, has in-house challengers. If MBS wants to consolidate his power it is crucial to find some *modus vivendi* with his biggest enemy in order to execute his sweeping socioeconomic and political reforms in Saudi Arabia, moderate the country's Wahhabi ideology, make Saudi Arabia a more appealing destination for international investment, and lay the groundwork for a prosperous post-oil future. Recent events have showed that despite possessing high-quality military hardware, the Kingdom cannot be a security provider in the Middle East, and as it seems at least possible that the US will withdraw from the MENA region, this appears unlikely to happen within the foreseeable future.

As it is clear that there is no stability in the region, it can be expected that the powers are going to balance against each other. This will accelerate the security dilemma unless a miracle happens and one of the main actors gives up the game, which today seems very unlikely.

A transparent IPO could lead to a more transparent country, but we should emphasise that only 1.5% of the shares were sold on Tadawul for the first round and most of the investors were Saudi citizens, most of whom were locked

down at the Ritz-Carlton Hotel in 2017. A successful Saudi Aramco IPO is an indirect valuation of the Saudi economy. At the closure of the IPO Brent crude oil cost around \$34/barrel, which could determine the profitability of the company (homepage<sup>8</sup> of BBC NEWS). The US-Saudi strategic partnership relies on there being cheap and plentiful oil on the market, in return for which the US provides security for the country. In the recent years the US has become the 4th biggest oil exporter in the world, and it is important to emphasise that Saudi Aramco has around 1 million barrels/day of so far unused capacity, because that is only provision for emergency times (homepage<sup>9</sup> of CIA FACTBOOK). If the company is going to be more public than it is today, a 1 million barrel provision for the Americans cannot be sustained on cost/benefit

grounds, unless the shareholders are interested in financing the US-Saudi partnership, which is again, very unlikely.

The Western investors should attend the next round of the IPO, because this transaction could determine future of the global oil market for decades. In 2020 it is unrealistic to expect liberal principles to hold sway in the most closed Arabic country. Thus, the West should design a feasible cooperation if they do not want to fall behind Asia, and want to receive more information about the Kingdom.

#### *Acknowledgement*

The present publication is the outcome of the project „From Talent to Young Researcher project aimed at activities supporting the research career model in higher education”, identifier EFOP-3.6.3-VEKOP-16-2017-00007 co-supported by the European Union, Hungary and the European Social Fund.

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## I.2. Institutional Reforms in North Africa: the Example of the “Advanced Regionalization” in Morocco

ILHAM BOURAS<sup>10</sup>

### Abstract

*The process of regionalization was conceived, in the case of Morocco, in order to tend to a series of socio-economic issues resulting from the centralized set up of the institutional body of the country. The disparities that the different regions of the country saw emerge required the inclusion of the “territory” as a key element in the socio-economic balance of the country. This paper analyses the process of the “advanced regionalization” which was implemented in Morocco in 2015 and was backed by the country’s Constitution. It focuses on the current state of implementing advanced regionalization, the core challenges it involves and the contribution of the European Union as an international actor. The analysis relies on a qualitative approach. It consists of combining the outcomes of the review of the relevant documents (constitution, laws, statements, etc) with the results of a review of the literature focusing on the specific question of advanced regionalization. The main findings of the paper are that, on one hand, while slowly but steadily moving forward, the advanced regionalization will need more time in order to allow for its internal organization related issues to be solved and to thus aim towards more optimal results. On the other hand, and regarding the international aspect, the EU’s input proves limited to technical support.*

**Keywords:** advanced regionalization, Morocco, institutional reform, decentralization

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10 International Relations Multidisciplinary Doctoral School

### I.2.1. Introduction

The concept of “regionalization” can be defined in two major ways, depending on whether we are considering the worldwide scale, or the case of one specific country. The term “region”, which is also subject

to the same rule, and as defined by the Cambridge dictionary can either refer to a certain part of the world (including several countries) or to the areas into which a single country is divided officially. The present paper concerns the second category which looks at the region as a geographically defined part of a country with specific

characteristics, needs and set ups.

Processes of regionalization and decentralization are commonly noticed within the countries of the South influenced by Structural Adjustment Plans (LACROIX, TH. 2018). “Advanced regionalization”, under this specific name, is defined as a “purely Moroccan project”<sup>11</sup> due to the fact that it is strongly related to the political as well as the socio-economic set up of the country. It is thus a major reform project. The main idea of this reform is to bring the administrative territory closer to the “real”<sup>12</sup> territory, which is structured by the social and economic behaviors of the local populations (BERRIANE, M. 2015). The advanced regionalization is thus based on the diversity of the socio-economic realities of the different regions of Morocco. Its aim, in the precise case of Morocco, is to disperse the public action in a more effective way, in order to remedy disparities.

The advanced regionalization marks a certain break up, considering the domination of the centralized set up which had marked the country since its independence

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11 As it was defined by Khalid Safir, who's in charge of leading the implementation of the project, in an interview with Medias24.com (NHAILI, S. 2019)

12 As described Berriane, referring to the physical territory (BERRIANE, M. 2015)

in 1956 (LACROIX, TH. 2018). The present paper is going to address the advanced regionalization process in Morocco as a major gradual reform and to assess its evolution through the years. While the historical background of the decentralization process in Morocco is briefly addressed in the present paper, the main time frame of the analysis begins in 2011, following the constitutionalization of the “Advanced regionalization” and continues until the current year. The challenges of the advanced regionalization, as a major institutional reform, are also to be discussed in the present paper, and finally, the paper will focus on the European Union's input.

### **I.2.2. From decentralization to Advanced Regionalization: a brief history**

The centralized set-up of Morocco's administrative body was inherited from the French protectorate, which chose the city of Rabat as its capital and set its administration and the core of its institutions there<sup>13</sup>. Three

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13 Morocco's capitals have changed throughout history until Rabat, which remains the current capital and is referred to as the “administrative capital” since it held all the central

years after its independence, Morocco started to implement its strategy of “decentralization”, which grants more competences to local communities (JAFARI, M. – EL MOUJADDIDI, N. 2016). The following year (1960) witnessed the establishment of the Dahir<sup>14</sup> related to municipal organization as well as the first municipal elections. The phase of “decentralization” then took a major step forward, marked mainly by the communal charter of 1976 which addressed the management of the resources of local communities and the extension of the competences of the municipal councils (JAFARI, M. – EL MOUJADDIDI, N. 2016).

Regionalization and regional issues started attracting attention many years prior to the launch of the “Advanced regionalization” process under its current form, having for a main mission the handling of the many unbalances that were the result of Morocco’s previous centralized politico-institutional setup. It is thus important to evaluate the depth of the advanced regionalization process, taking into consideration the concrete results of its implementation since 2015, as well as the challenges that

still hinder it and their causes and origins.

The transition from the general concept of regionalization, which is the highest form of decentralization (GOEURY, D. et al. 2017), to that of advanced regionalization was done gradually. On the 4th of January 2010, the King Mohammed VI announced during his speech the creation of a Consultative commission of regionalization (Commission consultative de la régionalisation/ CCR) (LUGAN, B. 2011). Although it had been addressed in different forms in past versions of the Constitution, it is the last revision of 2011 that mentions “regionalization” as an integral reform and confirms thus its constitutionality. In 2015, the organic law related to the region was passed by the parliament to mark the launch of the operationalization of the reform<sup>15</sup>.

In terms of novelty, advanced regionalization is a major reform; in fact it can even be considered the “biggest devolution of powers in Morocco’s institutional history”<sup>16</sup>. The first change that was done on the regional level was the decreasing of the number of regions from 16 to

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administrative and governmental institutions of the Kingdom.

14 The word “Dahir or Dhahir” (singular) refers to a royal decree made by the Moroccan king.

15 Organic laws are laws through which elements of the Constitution are applied.

16 As described by Youssef Aït Akdim, Author’s translation (see full article AIT AKDIM, Y. 2017)

12, with the aim of achieving a more effective territorial management. On the organizational level, one of the major changes is the placement of the president of the region at the top of the institutional structure as an elected regional official and therefore benefitting from electoral legitimacy. The regions are thus equipped with their elected council and by resources allocated to its development and management. The regional councils oversee the economic and social development of the region and work along with the State. And regarding the central State, the coordination between the local level and the central one is handled by the Walis (officials in charge of representing the King and the government on the local level<sup>17</sup>) and governors.

The aims of the process of advanced regionalization can be summed up in three main categories: social development, economic and democracy related aims. The first category of aims consists of working on decreasing the disparities caused by the centralized set up, contributing thus to a better distribution of the resources on the different regions and the overall improvement of the population's quality of life. This set of aims targets mainly the inclusion of the regions which are geographically

far from the country's political and economic hubs (respectively Rabat and Casablanca and their surrounding areas). Regarding the economic aspect of the advanced regionalization, increasing the competitiveness of the regions, in a sense of open and globalized markets, is one of the main aims (JAFARI, M. – EL MOUJADDIDI, N. 2016). This means that the improvement of the competitiveness of the regions within the country, which is to be achieved through a better allocation of resources and an economic activity focused on the assets of the region in question, is bound to contribute to the improvement of the overall economy of the country. The third and last category consists of the set of aims related to the implementation of local democracy. This set of aims was conceptualized to take regional governance to the next level by strengthening the democratic legitimacy of regional political activity (through regional and municipal elections) and through the representativeness of the specific needs of the regions.

### **I.2.3. The advanced regionalization: reform and challenges**

The advanced regionalization, despite being particular to the Moroccan case took decades to get

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17 Ibidem

to the stage it is at right now. It is nonetheless not exempt from facing challenges, both on the conceptual level and on the concrete one. Regarding the conceptual aspect, and although the advanced regionalization presents itself as a total break up with the past institutional set up, and a complete reform, the extent of these changes is still subject to evaluations.

The main challenges that the advanced regionalization is facing are in relation to its organization, whether it is financial or human resources related. One of the central issues is the multitude of actors and the absence of clear precisions regarding their roles and field of intervention, which can cause their responsibilities and missions to overlap (JAFARI, M. – EL MOUJADDIDI, N. 2016).

Morocco's most advanced project of decentralization was conceived, unlike many other autonomy and regionalization projects worldwide, based on economic growth, competitiveness increase and diminishing inequalities, rather than on "regional identity" (BERGH, I. S. 2016 p. 11.). This means that the need for decentralization had for an initial motive the need for solving the inequalities that were caused by the centralized set up in order to improve the quality of life of the

population, rather than a motive related to the cultural or linguistic difference between the regions, despite Morocco being rich in cultural and linguistic diversity.

#### **I.2.4. The input of the European Union**

The shaping of the advanced regionalization and the formulation of its constitutive elements was mainly handled by the CCR. The CCR was nonetheless not the only organ whose input was considered in forming the regionalization agenda, since EU and the World Bank funded analyses were also used in the process (BERGH, I. S. 2016). The EU's contribution to the advanced regionalization is an interesting point to analyse when it comes to analyzing the Morocco-EU relations, and so for the following reasons: first, and considering that the advanced regionalization is a very "local" project, analyzing the EU's involvement could potentially help in the understanding of the extent of its general conditionality in the case of Morocco. The second reason for which advanced regionalization demonstrates once again the limits of the EU-Morocco relations (and mainly the limits of the EU's policy promotion as well as general influence on policy making in Morocco) is the sensitivity of

the advanced regionalization and its connection to the kingdom's sovereignty (BERGH, I. S. 2016). Finally, the third element which can be used in the same sense is the set of internal issues that are inherent to the Moroccan set up and which can't be addressed by mean of the EU's intervention.

Regarding the EU's conditionality, and as it has been demonstrated in the past in many works done on Europeanization beyond Europe (see Schimmelfennig and Lavenex's works on the EU's conditionality in its southern neighbourhood), the advanced regionalization is not an exception in the sense that the EU's conditionality when it comes to Morocco's ultimate decentralization project is rather weak. Here we can combine all three reasons (conditionality, sovereignty and Morocco's internal matters) in order to explain why the EU's input is limited.

According to Sylvia Bergh (BERGH, I. S. 2016 p. 11.), the EU has not supported Morocco's process of decentralization/ regionalization, apart from its funding of the previously mentioned studies and other study visits, and so in order to avoid interfering with a sovereignty linked matter. In the same article, Bergh demonstrates that the EU chooses to engage in activities that

do have a link to governance but that are of a technical nature, like twinning projects<sup>18</sup>, since "local governance is a sensitive topic if it is not presented as a technical exercise" (BERGH, I. S. 2016). This technical support, which can be noticed for example through the "Hakama"<sup>19</sup> project, is adopted for the mere reason that it is, as Lavenex and Schimmelfennig put it while referring to the EU's democracy promotion in its neighbourhood, "less overtly political" (LAVENEX, S. – SCHIMMELFENNING, F. 2011).

But is the EU's support in the success of the advanced regionalization necessary? It is important to note that, in addition to the fact that the EU is Morocco's biggest economic partner, the two parties are engaged in a "regulatory convergence" process. The process in question consists of the harmonization of rules and regulations between the two entities (and needless to say that more adaptation is to be done from the Moroccan side than from the EU one due to the difference of the sizes of the two economies), and

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18 Twinning projects consist of training the Moroccan Elite in order to achieve the planned gradual à la carte implementation of the EU's Acquis Communautaire through administrative reforms.

19 Hakama: from Arabic, meaning "governance".

so in order to allow for a smoother integration of Morocco into the EU's common market. In addition to this, Morocco and the EU are currently negotiating the conclusion of a Deep and Comprehensive Free Trade Agreement (DCFTA), which is ought to take the economic links between the two parties even further. These elements attest indeed of the strength of the relations between Morocco and the EU, but it is important to note here that some of the processes involved (including the regulatory convergence) have been through a rough patch in the recent years, since Morocco and the EU faced a series of issues related mainly to the Sahara question. The most significant one of these issues followed the general court of the EU making a series of rulings excluding the Sahara from Morocco's national territory, which meant the exclusion of the Sahara region from the agriculture and fisheries agreement concluded between the Kingdom and the EU. This incident resulted in the suspension of political dialogue between the two parties<sup>20</sup>. These issues were later unblocked, and the dialogue resumed<sup>21</sup>. The

mentioned elements allow of a better understanding of the changes that shaped the Morocco-EU relations. According to Sylvia Bergh, the changes that characterize the current relations are mainly due to Morocco's decreased dependence on the EU (BERGH, I. S. 2016).

## I.2.5. Conclusion

The advanced regionalization is a complex, multi-level process that will take more time in order to fully reshape the institutional body of Morocco. It can be defined as an extension of the "nationalization" process of the Moroccan administration which followed the country's independence, with the main goal of detaching from the institutional legacy of the French protectorate, which has left a strongly centralized set-up, resulting in the concentration of the country's administrations in the capital.

As for assessing the advancement of the reform, the advanced regionalization has been progressing steadily (for example, 11 out of 12 Programs of regional development (PDR)<sup>22</sup> were

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20 See Special Report 09/2019: EU support to Morocco - Limited results [so far] together with the Commission's replies [https://www.eca.europa.eu/lists/ecadocuments/sr19\\_09/sr\\_morocco\\_en.pdf](https://www.eca.europa.eu/lists/ecadocuments/sr19_09/sr_morocco_en.pdf)

21 In March 2019, the European

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Parliament agreed to include the Sahara territory in the ENP, see <http://www.senat.fr/ga/ga155/ga15512.html>

22 In French: Programmes de développement régional.

validated, and two Regional land use plans (SRAT)<sup>23</sup> were adopted). Regarding the current phase of the reform, an acceleration of the processes is expected, and it includes as a main goal the implementation of the National Charter for Administrative Deconcentration<sup>24</sup> (NHAILI, S. 2019).

While being inspired of other regionalization experiences, the input of the external actors is, as it was demonstrated through the example of the EU, limited to the technical support in the case of Morocco. This limit does not discard the fact that the EU's support of Morocco on the international level

remains important. This particular aspect can be further addressed in future studies.

While 2020 is presented as a promising year for taking advanced regionalization to the next level, it is important to keep in mind the possible challenges that accompany the upcoming legislative, regional and municipal elections in 2021. The question remains open for more research on the development of the complex reform that is advanced regionalization.

#### *Acknowledgement*

This publication was completed in the framework of CUB's EFOP-3.6.3-VEKOP-16-2017-00007 project.

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23 Schémas Régionaux d'Aménagement du Territoire

24 Charte Nationale de Déconcentration Administrative

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## I.3. Libyan nationhood and regionalism: tribal society in a modern era

BÁLINT KÁSA<sup>25</sup>

### Abstract

*This paper's main focus is to explore underlying social hardships and focal points within the Libyan society with the purpose of proving their value to foreign actors' mostly covert operations in the ongoing civil war. 20th century developments will receive prime attention due to the great scale of influence they have had on the current structure, operation and affairs. Throughout the argumentations, the paper will rely on a set of qualitative sources that are going to facilitate identifying the essential factors behind lack of order and hence stability. Consequently, the predominantly domestic nature of the persisting opposition is a central thought of this work. Expected findings include weak sense of nationhood, dominance of regional linkages over a single national bond, as well as sense of suppression fostered by dispersed and insufficient scale of modernity.*

**Keywords:** Libya, tribalism, Qadhafi, civil war, proxy war

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### I.3.1. Introduction

It seems to be a characteristic of our age that when it comes to crisis analysis and even crisis-management, the symptoms of the given problem are addressed, while the roots of it remain untouched or even neglected. Comprehensive analyses do not always receive the necessary attention, sometimes even in relation to major issues with global relevance. Instead, single narratives are preferred (HARCHAOU, J. 2018). It is a pity inasmuch as a deep and parallel investigation of those would

also allow better estimation of crisis management and eventual remedies. It is not the purpose of this paper to explore the missed opportunities stemming from this overly-narrowed approach that is ultimately leading up to multiple junctions of conflicts around the globe. Still, choosing one of today's major conflicts with direct and significant influence on foreign powers' interests and conducting a deep investigation with the above-mentioned approach might take one closer to the fundamental understanding of the chaos itself. In light of these, Libya's case will be

discussed throughout the following pages with the intention to identify those historic milestones within the society that have led up to today's opposition and lack of order as well as stability. Many of these milestones can be traced back to the bipolar era (HADDAD, S. 2014) and so by addressing them, one might gain a better understanding on their significance. Importantly, the goal of this paper is not to highlight the solution of the Libyan conflict at all costs, for it would most likely result in an over-simplification of a sophisticated case with inaccurate and counterproductive assentation. Instead, those factors are to be alleged that radiate the core issues throughout the multiple layers of society, ultimately leading up to the seemingly unresolvable chaos with no visible light at the end of the tunnel. Unfortunately, this is a matter significantly under-researched and under-discussed – underdiscussed these years as the resolution agendas predominantly include different methodologies applied by foreign nations: humanitarian, financial, military, material, etc. aid (DESSI, A. – GRECO, E. 2018). This paper offers a Libyan perspective on the root designated to present a universal background on the multiple grips that are being used to manipulate domestic stakeholders against each

other.

With the commencement of the Arab Spring 1.0, a region-wide transformation and subsequent conflicts (commenced), some of these lack sight of an end even from a decade's perspective. Libya is a fitting instance for the reason that the resolution today seems further than five years ago. More and more signs are out there proving the existence of a proxy war in the country (GROH, T. L. 2019), where foreign countries justify or deny their involvement alongside their own agenda. The anarchy is complete and palpable. But this was not always the case. Even during the ten-year time frame, foreign presence – and especially the opposition inside it – was not on a constant intensity. Precisely, one might argue that after the removal of the notorious dictator Qadhafi, it was exceedingly marginal. The subsequent change and trend of intensifying occurred around after the time of the outbreak of the Crimea and East-Ukraine crisis, as well as the heated-up international environment around the Syria civil-war. It would be a proper statement to call these three the most important junctures of our current time. Still, arguably the Libyan conflict is the blurriest out of the three when it comes to state and non-state actors' involvement. Importantly,

the first hypothesis of this paper is going to argue that Libya's vulnerability to these actions roots within its social structure that is up to date based on tribalism. In itself, this would not constitute a problem – in fact many countries share this characteristic – but as a result of decades-old grievances among these groups, they are more prone to instigation. In order to understand why the application of such intricate strategies may be advantageous, the relevant period of the country's history must be understood: the 20th century. The second hypothesis will argue that the Libyan society went through its biggest development phase during the bipolar era, which is also the source of underlying tension and sense of oppression. Finally, the last hypothesis will prove that the sense of nationhood in Libya is still weak and local patriotism outweighs it.

### **I.3.2. From colonialism to coup d'état**

At the beginning of the 20th century, the relationship between Libya and its new colonial master, Italy was characterized by challenges since Rome started to destroy local communities' means of income by preparing to transform the infrastructure for incoming Italian settlers. This was

a significant investment that never had equal return but imperialist motivations were prevailing, contributing to a great deal of social marginalization (WRIGHT, J. 1982). Indeed, a sharp separation among Arab and Berber tribes of Cyrenaica (East) and Tripolitania (West) was present and developments were focused on the latter (MORRIS, K. 2010). After the Second World War, Libya became independent from Italian colonial reign and in 1951, by establishing the United Kingdom of Libya, a new era began with the rule of King Idris, the first and only monarch of the country. A new territory, Fezzan (Southwest) also became part of the state resulting in the birth of geographic borders existing still today. Nevertheless, this also included the addition of multiple more Tuareg and Toubou tribes to Libya. This has led up to two significant implications. Firstly, homogeneity was further decreased; the only common feature among the various tribes was of territorial nature. Secondly – and from the perspective of the future more importantly –, this was not a fought out secession, the country was abandoned and left to its own rule purely because no better solution was laid down. For the fact that this was a freedom reached without sacrificed blood and stress, it might seem an enviable case. However,

the lack of unified standup against an oppressor also represented the lack of common ideology, cause and national movement. Examining today's liberal democracies, the significance of these in relation to their own development is unquestionable. The task for Libya was not smaller than attempting to forge fundamentally different tribes into an alliance that would contribute to a functioning state. King Idris's dedication to live up to this challenge was debated (BLACKWELL, S. 2003) but it was not his personality that blocked social, economic or any other sort of development aimed at state building. Libya was an exceedingly poor country hit by regular droughts and locust plagues, there was no significant source of income to rely on. The room for movement was extremely narrow. At the same time, there existed a lack of desire towards a modern state, which formulated during the Italian colonial period (VANDEWALLE, D. 2012). A conservative attitude was state-wide practiced and there was no intention to make an approach towards Western values and state-characteristics.

Nevertheless, foreign actors' approach soon became hard to oppose. Overt American interests significantly increased in 1959, when a huge oil field was discovered

by Standard Oil of New Jersey. Up until the discovery, Libya's importance exclusively relied on a strategic ground that had classic Cold War – predominantly realist thought – motivated relevance for both West and East. Precisely, its geographic location qualified it an essential part of strategies of containment, defense and in general, influence. However, the new explorations elevated the role of Libya as both the quality and quantity of the country's newly found commodity transformed regional and global markets (ST JOHN, R. B. 2011) at a record pace and opened a new chapter in the history of the whole oil industry (YERGIN, D. 1991). The explorations and subsequent upstream activities fundamentally changed the country's labor structure too, oil-industry became prominent. The coming years of the 60s brought an intense US pressure to lure Libya to the West through trade unions and labor policies within the oil sector due to their high influence over society. Precisely, anti-communist trade unions received support from Washington in an attempt to counter the spread of groups deemed as radical (BINI, E. 2012). The US government's intent was to prevent the establishment of strong trade unions in order to avoid strikes and to ensure the steady improvement

of Libya to become one of the top oil-producing countries. At the same time, the development of Libyan life conditions was crucial in order to oppose Communist influence's spreading. Economy-boosting steps followed with the Eisenhower-doctrine being the most comprehensive, and the oil-sector-transforming actions being the most debated ones. The Soviet Union also provided economic help, especially at the coastal – and mostly inhabited – parts of the country and opened its own Embassy in Tripoli, which had strategic relevance (ST JOHN, R. B. 1983). Shortly after the opening of this Soviet Embassy, small groups constituting of Egyptian nationals started attempts to influence society from bottom levels, including schools, small shops, markets, etc. with communist ideology (US EMBASSY IN TRIPOLI 1957). The bipolar game of chess was on in the Libyan society.

The federal state of Libya had an evolving issue: corruption circulating around oil trade. With abundance of demand from the Mediterranean Sea and no other source of income, many tried to get rich through such deals in an environment far from decent. It was a single but important indicator of the incapability of the central authority to effectively govern

domestically. The three territories possessed greater autonomy than the central government and they were immensely different. Tripolitania was the closest to the attributes of modern state with its denser, more educated and experienced population, while Fezzan was the other end of the scale. In this environment, American and British oil companies continuously raised their presence in the country, requiring the import of skilled labor as the country was not ready for this scale of demand. However, the Libyan government also took measures to 'Libyanize' workforce aiming to preserve national sovereignty (BINI, E. 2019). Still, it aligned with American interests in repressing trade unions sympathizing with communist ideals. This has brought about the dominance of corporations and the total exploitation of workers in the subsequent period. It was also an opportunity for those, who sensed the vulnerability of the monarch. And so, somewhat ironically, it ultimately contributed to the outbreak of the Six Day War, from which Qadhafi emerged to be the leader of the country.

### **I.3.3. Decades of 'revolution'**

In 1969, the Muammar Qadhafi-led Revolutionary

Command Council (RCC) overthrew King Idris and began his 42-year-long reign as the leader of Libya. The aspects of this revolution were similar to the one executed in Egypt by Gamal Abdel Nasser and the newly established socialist party was immensely comparable to that of its Eastern neighbor's. Until the introduction of the Jamahiriya, the state of masses in 1977, this single party-state was in place, where debates and discussions occurred within the boundaries of the Libyan Arab Socialist Union (ASU). The power of tribes started to decrease simultaneously with the strengthening of central authority. The state of masses effectively steered the country through the "revolution" that achieved a central motive in the everyday operations (MUNDY, J. 2018). Assets were taken and redistributed on a great scale and the number of workers' associations was on a steady increase. The greatest sign of unpredictability was the lack of constitution and hence any legal baseline. Over 400 Congresses operated at municipality level dealing with local issues while national matters were meant to be handled in the General People's Congress. However, the insufficient attendance truly represented the stage of democracy (MATTES, H. 2008). The strong central

government held a total control over the planned economy (VANDEWALLE, D. 1998). The Jamahiriya did not uphold a significant central army, military power comprised regional militias (ANDERSON, L. 1986) that were all deployed in case of war. On the other hand, an exceedingly wide-range of network of domestic intelligence was maintained to ensure nothing was missed (AIKINS, M. 2012). The strong grip of state was only eased by the end of the 80s. It was necessary, due to the combination of sharp fall of oil prices, unsuccessful military conformation with Chad, inability to supply the population appropriately but mostly due to a changing international environment. Libya opened up to the world at the dawn of the new century and a sort of liberalization commenced, only it was too late.

Qadhafi's actions in domestic politics are best described as balancing (OGUN, M. N. et al. 2020) among the various tribes. Coming from a small one of these that had no vital debate with the others, he effectively managed to maintain stability and control at the wheel (implemented Sharia law, built up an extensive surveillance web and became domestically untouchable). As he was receiving the support of the Qadhafi, Maqariha and Warfalla tribes, he had comprehensive

influence over the military, police and surveillance bodies. Even though public institutions existed, those were intentionally weakened (COMBAZ, E. 2014) and the power was exercised through these tribes (SMITS, R. et al. 2013). Nevertheless, he was the first leader of the country who effectively attempted to modernize the state and improve life conditions and living standards while maintaining sovereignty and preventing getting indebted to foreign actors. Efforts on nationalization of the oil sector composed a part of this strategy. Still, it was never an intention to reach a workforce of Libyan nationals above 70 percent within this sector due to the unavailability of sufficient skilled labor in the country. As a result of massive oil incomes, GDP per capita was around a steady 6500 USD by the 1990s, which was multiple times higher than that of Syria, Morocco, Egypt, Jordan, Algeria, Tunis or Lebanon (WORLD BANK 2019). On the other hand, regional differences – most notably between Tripolitania and Cyrenaica – strengthened over the decades leading up to tensions on the Tripoli-Benghazi axis.

### **I.3.4. The Gordian knot: real expectations for light at the end**

Nowadays, a heavy flow of criticism is being directed towards Libya, countless researchers and politicians pronounce it to be a failed state (ENGEL, A. 2014). The severity or accuracy of these claims receives support or refutation depending on subjective views. Notwithstanding, a couple of factors should not be omitted from such debates. What we call Libya today has gone through its biggest development over the course of the past hundred years and has arguably reached its current stage at a faster pace than the average. The tribal society, which previously maintained a conservative attitude found itself at the core of an extensively nationalized labor environment under an administration that commenced to lay a previously unexpected magnitude of effort into organizing every aspect of life. Paradoxically, this four decades did increase attributes of nationhood within the borders. Obviously, the “failure” to avoid tribal oppositions have led to the massive unrest, which receives greater visibility today. Still, historic experience tells us that the great territorial size, scarcity of peoples and diversity of tribes (KAPLAN, S. 2019) would

have required a lengthier timeframe to reach a thorough sense of national unity.

Furthermore, the lack of experience with democratic institutions and political participation presented various obstacles (SZMOLKA, I. 2014) in the UN-created Government of National Accord (GNA). This vast 'institutional vacuum' rooted in influential tribes' elevated role in state matters (MUNOZ, G. M. 2014) during the Qadhafi era but once this sort of 'balancing' ceased to exist, domestic politics became anarchic for the first time. The structure of society was broken by the betrayal of the political elite (BARTU, P. 2014) resulting in a further loss of credit and trust but most importantly in an impairment of a slowly-reached level of integrity. At the same time, the role of tribalism remained essential – if not even more important – within security and political context. Many signs show that communities today attest a preference of tribal bonds over national requirements (AL-SHADEEDI, A.-H. – EZZEDINE, N. 2019) as no single entity proves to be influential enough. Unintentionally, the UN has contributed to the status quo since the Skhirat Agreement in 2015 neglected tendencies of historic influence among tribes of West and East; it brought about

new winners and losers. Thus, the biggest criticisms against the GNA – the inability to ever have been able to take control and to survive without tangible international support – were actually triggered by the UN itself.

Another structural disturbance this seems to have aided is the strengthening of local identity at the detriment of tribal influence. The strongest support of this argument is the battle for Tripoli, which was preceded by a relatively fast march of the Libyan National Army (LNA) deploying local tribes (LACHER, W. 2019) supported by various foreign groups. The stalemate was reached South of the capital and a trench war developed as the territories of four powerful tribes (LACHER, W. 2020) were reached. The subsequent defection from Haftar's troops and hence the need to increase the involvement of outer parties, i.e. the Wagner group came as a necessity. Namely, it manifested that multiple Eastern militias prefer their territories' protection over the conquest of remote lands, even if those are in country. In addition, Haftar's circuitous taking of Benghazi also fits into this equation for it would hardly have succeeded without the support received from Russia, Egypt and France. These raise questions on the real influence and capability

of the Commander of the East. In a greater context, this implies any sense of nationhood secondary at best behind regionalism and local patriotism. On the other hand, it should be noted that both Tripolitania and Cyrenaica have firmly denied the possibility of splitting up the country (HÜSKEN, TH. 2013), which does signal the presence of some national bonding. Still, fundamental differences in political orientation (JALU, A. T. 2017), radical views (VARVELLI, A. 2013) and the presence of insurgencies and terrorist groups (PUSZTAI, W. 2014) will most likely hinder any meaningful development for the foreseeable future.

Arguably the most important constituents of the outbreak of the first Civil War were the sense of unjust, oppression, as well as lack of sufficient representation among territories. Nothing could exemplify this better than the fact that Qadhafi first lost support in Benghazi. In the capital of Cyrenaica and most urban-developed city – alongside Tripoli –, a deeply-rooted sense of abuse was perceivable as riots broke out. Tripoli was perceived to have been prioritized over the decades amid of obvious differences in economic capacities. By the first decade of the new millennia, approximately 70 percent of Libya's oil incomes originated in

Cyrenaica but the generated value was not reimbursed with sufficient developments (MARTIN, PH. – WEBER, CH. 2012). Instead, this region accommodated the country's poorest living standards and state of infrastructure (EL-KIKHIA, O. M. 2013). This was the heritage from being the No. 1 oil producing region in Africa for four decades. Qadhafi's stubbornness during the bipolar era could be balanced through the available channels but changes in world politics and economics left the dictator without the room for movement he was used to. Henceforth, he was not anymore able to balance these underlying tensions out, they only needed a spark to come to the fore.

It seems obvious from the above pages that the Libyan society is at a decisive crossroads. But the outcome of the Second Civil War is not purely a national matter. As opposed to the first one, it entails an increasing number of foreign actors in the form of proxies that participate due to geopolitical, economic and security reasons. The problem is that these actors are competing each other alongside their own interests thus continuing to fuel the flame of conflict. Most notable instances include the France – Italy and Russia – Turkey dimensions but there are many more. The core of this issue is that

this exceedingly high number of foreign participants are able to build on the divided Libyan society. The manifold tensions and oppositions articulated above all serve the opportunity for these actors to get involved. Purchasing oil from the Civil War-torn country and so financing military operations, deploying UAVs to neutralize hostile groups endangering operations of domestic militias, providing training, weapons and other supply all constitute their toolset and they have immensely been part of past years' happenings. Most importantly, they do not foster settlement among the parties as (1) those are trying to get the most favorable deal, which would guarantee them the desired rights, or (2) they are welcoming the financial attributes of the status quo too much to be interested in stability. As a result, all the foreign-mediated permanent truce negotiations fail to achieve their articulated purpose. Any positive advancement towards order stands on vulnerable ground due to the presence of the numerous points of influence of patrons operating proxies in the current conflict.

### **I.3.5. Conclusion**

This work has explored motives governing social issues

within today's Libyan society that have evolved and strengthened during the Cold War. Unequal return from invested labor and representation – among others – have led to heightened tensions and eventually to riots against the regime. This conflict erupted with significant European and NATO involvement but the aftermath brought about a predominantly Libyan-paved path under the UN-created government. This entity overruled some decades-old unwritten concepts functioning within the society, contributing to further fragmentation. The inability of the international community-recognized GNA to preserve its power and the simultaneous build-up of General Haftar by foreign actors have together induced the subsequent fierce fights. As a result of significant social vulnerability, an extensive number of foreign powers could initiate building up their proxies to take benefit and influence the outcome of the struggle for political power in Libya to their advantage. Hence, the conflict became even more complex. The results of the investigation presented a weak but existing sense of nationhood, which is preceded by regionalist motives deriving from systematic inequalities inherited from the Qadhafi-era and exploited by

Contemporary Global Challenges in Geopolitics, Security Policy and World Economy  
various actors at the present time.

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## **II. Current Challenges of Sustainability**



## II.1. Interagency cooperation of UN agencies within the framework of SDGs

BORA BESGÜL<sup>26</sup>

### Abstract

*This paper aims to draw an accurate picture of the interagency cooperation of United Nations (UN) agencies within the framework of the newly established Sustainable Development Goals (SDGs). In order to understand how and to what extent different agents in the UN system cooperate, the research project applies semi-structured interviews with UN officials as the primary data collection method. Expert interviews have been selected within UNIDO, UNDP, UNODC, and WHO, taking into account that these agencies have strong cooperation due to the nature of their assigned tasks. Although UN funds and programmes are overall highly diverse, this research focuses only on the cooperation within the UNIDO-UNDP and UNODC-WHO partnerships and seeks to conduct a cooperation analysis that can be applied easily to other complex institutions within the UN system. The author also investigates to what extent the inter-agency cooperation has changed after the adoption of the SDGs and what are the virtues and shortcomings of the inter-agency cooperation as things stand. Overall, cooperation problems, horizontal governance, a lack of joint programming, and the absence of a decent communication channel hinder attaining a strengthened partnership between the agencies.*

**Keywords:** United Nations, agencies, cooperation, Sustainable Development Goals

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### II.1.1. Introduction

A crucial development in terms of UN interagency cooperation was the adoption of the Millennium Declaration and its Millennium Development Goals (MDGs) (LE BLANC, D. 2014). Although it can be claimed that these goals have been successful on a large scale, it is hard to maintain that the interagency cooperation has

been strengthened, a problem which seems to have led to less efficient service delivery. Nevertheless, the adoption of the 2030 Agenda and its Sustainable Development Goals (SDGs) in September 2015 appeared to be the cutting edge of the United Nations system. The United Nations agencies have aligned themselves with specific goals which are cross-cutting, allowing for greater cooperation

among different agencies and ensuring effective implementation in order to resolve one of the foremost criticisms the UN received in the time of MDGs (namely, that UN activities were not unified due to duplication of tasks and miscommunication) (KLINGEBIEL, S. 1998). This research starts with the questions: How has inter-agency cooperation changed after the adoption of the SDGs? Plus: What are the virtues and shortcomings of inter-agency cooperation now?

In order to answer these questions, the author has had to investigate existent cooperations among UN agencies. However, concentrating on every partnership in the UN system would make the research very broad and hardly possible due to the high number of joint projects among agencies as well as time and budget constraints. The activities of the UN funds and programmes are highly diverse (BARKIN, J. 2015). Some institutions have a sectoral orientation (e.g. nutrition), others a target-group-specific one (e.g. children). Meanwhile, the most extensive UN program, UNDP (United Nations Development Programme), has no fixed focus but nevertheless plays a crucial role in coordinating the UN's development activities. Therefore, the author has had to narrow down the scope of

their research by focusing only on specific agencies. Agencies were selected on the basis of the fields they operate in common, and of their links to another UN organ.

The data collection process was conducted with semi-structured interviews with UN officials of certain agencies as United Nations Industrial Development Organization (UNIDO), United Nations Development Programme (UNDP), United Nations Office on Drugs and Crime (UNODC), and World Health Organisation (WHO). Moreover, the preliminary research has revealed that no previous research has been done in terms of inter-agency cooperation in the time of SDGs. Even though SDG 17 aims to increase partnership for the goals, it barely emphasises the importance of the UN agencies' interagency cooperation. Finally, because there is a practical application for the future activities of the UN, and there is an evidence-based gap concerning interagency cooperation within the UN system, researching this topic appears to be both relevant and timely. To this end, the paper aims to address this evidence-based gap and to attract subsequent analysts into the topic.

Even though some documents point out the problem of inter-agency cooperation in the UN system (Sixty-ninth General Assembly

Thematic Debate United Nations 2015), the existing literature puts its emphasis more on the possibilities of strengthening cooperation of UN with the regional and sub-regional organisations in the field (SILVA, M. L. 2003) and overlooks the importance of cooperation among UN agencies to reach desired targets. As emphasised earlier, Goal 17 itself also barely draws attention to the UN agencies' cooperation with only some partial exceptions: "In order to gain access to science, technology, and innovation and enhance knowledge sharing on mutually agreed terms, improved coordination among existing mechanisms, in particular at the United Nations level, should be enhanced," "Global macroeconomic stability, including through policy coordination and policy coherence, enhances policy coherence for sustainable development. (UNDP Goal 17 Targets 2018).

Stephan Kliengebiel made the following claim about UN cooperation: some substantive profiles of some agencies were unclear – notably, UNDP's functions; there was inadequate political control and coordination within the UN; there was insufficient coordination between the UN and the specialized UN agencies and, last but not least,

there had been a proliferation of UN development-cooperation agencies, entailing fragmentation of tasks as well as overlapping functions and duplicated work, inadequate quality and insufficient cost awareness (KLINGEBIEL, S. 1998). Further relevant research was done by Steffan Bauer and Frank Biermann (BAUER, S. – BIERMANN, F. 2004). This study analyses the progress of cooperation and collaboration between UNDP and the United Nations Environment Programme (UNEP), with a view to the integration of their respective policy objectives within the overall framework of Sustainable Development (SD) in particular. The paper also indicates that the policy integration for SDGs between this cooperation is somewhat problematic due to administrative pathologies. Additionally, it points out that the structural imbalance between environmental and development institutions obstructs policy integration on the ground. A cohesive approach that recognises how the SDGs are interlinked is required (UNODC Guidance Note 2018). Finally, after resolution A/72. L52 of the General Assembly, UN Deputy Secretary-General Amina Mohammed claims that there is strong evidence that the cooperation among the UN Agencies has so far been a cacophony whereas today

we have an opportunity to make a symphony for the SDGs, which can make a real difference to the UN on the ground (UN News 2018).

In this respect, the Digital Era Governance (DEG) concept can make a particular difference in the context of the UN system; reverse agentification and disruption, joined-up governance, a horizontal approach, re-planning of back-office functions, network simplification, interactive information-giving and searching, restructuring on the ground of demand, data warehousing, agile administrative processes, sustainability, providing electronic services, utility computing, a new form of automated processes, channel streaming, and open-book government are some key elements and components of DEG which can be applied to the UN administration system in order to achieve the increase in service efficiency and effectiveness that the UN craves.

The UN is an intergovernmental organization with social, environmental, and economic goals. “The work of the UN can be divided into two broad categories: promoting economic and social development, and enhancing regional and international security” (MORAN, T. H. 2009). SDGs bring a change of paradigm for international policies

on cooperation and their targets, so they can also increase inter-agency cooperation. In this regard, this paper suggests; “Paradigm change in the paradigm change” by proposing that the new paradigm, in cooperation with SDGs, fits well with the new understanding of public administration with the concept of DEG, since it highlights networking, information and knowledge management, the “best mixture” and horizontal governance. These principles should be used as a means to achieving much needed inter-agency cooperation.

One of the most significant characteristics of Government 2.0 – another name for DEG - is networking, facilitating total information awareness for all participants in cooperation with net-centered governance to make the right decisions and react at short notice. Moreover, it determines the design, architecture, and processes of the working organization as a platform – the stage of interaction for the smart masses (KARVALICS, L. Z. 2008). The UN system, inevitably, needs a new way of networking which unites all the relevant agencies (UNIDO, UNDP, etc.), local institutions, and individuals within a single, joint platform.

Significantly, all the information and knowledge

processes must be planned, maintained, watched, and, last but not least, measured. More reliable and more professional knowledge management is a must, since government 2.0 implies a solution for supplementing needed knowledge from a broader community that crosses the borders of inter-agency cooperation (KARVALICS, L. Z. 2008). Then again, well-planned, well-maintained, and measured information and knowledge management can contribute to total information awareness for the agencies, enabling them to reach information synchronously from more comprehensively constructed data sets. Importantly, DEG also offers an opportunity to integrate all knowledge processes of crucial importance and accordingly, helps agencies to achieve better service delivery. The new organisational order is not based on a command and control or hierarchical structure, but is more like a flat organisation, which is known as a delayered (horizontal) organisational structure.

The use of the Government 2.0 approach to the UN serves as practical foundation. The approach is mostly based on horizontal governance, which replaces hierarchical leadership with collaboration, shared responsibility, and coordination for decisions and

outcomes (MORAN, T. H. 2009). SDGs aspire for much-needed cooperation between UN agencies. However, whether UN agencies' central relations are based on hierarchical (vertical) or horizontal governance remains an important question. There have been tensions between upper-ranked and lower-ranked employees over the delivery of services and meeting the community needs (ibid.). Pollitt and Bouckaert have emphasised the issue with their use of the term "incompatible statements" (POLLITT, C. – BOUCKAERT, G. 2004).

Following the literature review, the research indicates that there is no quantitative data available capable of measuring the interagency cooperation of intergovernmental organizations such as can be seen in the UN system. Therefore, in this study, qualitative data collection methods inevitably came to the fore in order to answer the research questions. Hence, the paper analyses cooperation between chosen agencies in the UN system by means of semi-structured interviews. The author expected to reveal the extent to which UN agencies cooperate during the implementation of UN services by conducting semi-structured interviews with internal and external experts of the UN system. The questions were

prepared under three different headings: introductory questions, specific areas of analysis, and concluding questions. The areas of analysis section features five different sub-categories, which this study claims are essential points to be investigated: these are joint projects, knowledge, coherence, performance, and mainstreaming.

On the other hand, this study was limited due to the lack of relevant documentation that can be tracked. Although the agencies cooperated well with the researcher, not all the answers were documented as files that can be accessed. Moreover, even though it is possible to find documents on joint projects, it is unlikely that they will help understand the true level of cooperation between the agencies. Therefore, it was essential to conduct expert interviews as well as interviews with staff members who are involved in inter-agency communication. This research particularly emphasised this part of the data collection methods. However, while the statements of experts are well-grounded, they are still subject to criticism on account of various types of unconscious/conscious bias or subjectivity. In order not to fall into the trap of only seeing one side of the story, it is essential to talk to people from as many different backgrounds as

possible, as well as to talk to staff members of different ranks in the agencies. Ultimately, the author considers this study to be more policy-oriented research rather than causal research.

## **II.1.2. Interviews**

The author has conducted eight expert interviews: one interview in the field of UNODC-WHO cooperation, three interviews in UNIDO-UNDP cooperation, and two external university professors with a thorough knowledge of the subjects and who cooperates closely with the UNODC. The first interviewees in both associations were chosen based on the network of the author, who continued to select the following interviewees with the snowball method. However, in the field of UNODC-WHO cooperation, the desired number of interviews could not be achieved due to very tight schedules of staff members of the UN. Consequently, two university professors from Vienna University were chosen to complement the one expert in this cooperation who had been interviewed before. On the other hand, a semi-structured interview process was applied because the questions to be asked were predetermined, and the difficulties of setting up another

interview with those interviewees had to be taken into account. The answers are anonymous in this paper due to some of the statements made by the interviewees in sensitive areas that could bring them administrative problems in their institutions. Therefore, indications such as „Interviewee 1”, „Interviewee 2”, and so on have been used. The interviews were divided into parts comprising a basic introduction to interagency cooperation; knowledge, coherence, performance and mainstreaming; and a conclusion with recommendations regarding the chosen agency’s cooperation.

### **II.1.3. UNODC – WHO Interagency Cooperation**

Every interviewee stressed the importance of good cooperation. The organizations benefit from cooperation on account of their systems and similar objectives. According to Interviewee 1, the cooperation of UNODC-WHO seemed to require an integrated approach to reach desired outcomes since drug issues require both health (WHO) and law enforcement (UNODC) to approach problems together. “The Executive Heads of UNODC and WHO committed fully to implement within their respective mandates and roles

operational recommendations of the outcome document entitled ‘Our joint commitment to effectively addressing and countering the world drug problem’ adopted by the thirtieth special session of United Nations General Assembly.”<sup>27</sup> WHO is the directing authority in the UN system on health issues at the international level and is responsible for providing leadership on global health matters. On the other hand, UNODC is the directive entity for addressing and countering the world drug problem, preventing crime and violence, and strengthening the Member States’s justice systems, and it is the convening agency of UNAIDS for the response to HIV among people who use drugs. Both of these mandates are complementary in nature and practice, as the expert from UNODC stated (Interviewee 1). On the other hand, the cooperation between UNODC and WHO is not necessarily a result of the SDGs framework, according to Interviewees 1, 2, and 4, 7. Despite this, SDGs have become an additional instrument that allows greater cooperation, serves as a means of identifying common ground, and represents an aspect of strategic engagement that is both holistic

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<sup>27</sup> MOU was signed between UNODC and WHO in 2017.

and comprehensive, according to Interviewee 2. Interviewee 2 stated that SDGs make projects even more relevant, measurable, and give both organizations another instrument for cooperation to strengthen existing efforts and thereby foster both the information and knowledge management of DEG and overall coherence. According to Interviewee 3, “All UNODC programs are now tagged to SDGs, meaning that all programming has to take into account the different SDG targets and report on them. UNODC is a custodian to some indicators also related to SDGs 3, 5, 10, 11, 15, and 16. Therefore the work is mainstreaming to contribute to the achievement of these indicators”.

Cooperation within the framework of SDGs is rather difficult to analyse, as it always intertwines with other SDGs and non-SDG-related matters; due to their mandates, all the projects that UNODC and WHO jointly undertake implement a focus on SDGs. For example, according to Interviewee 2, UNODC-WHO joint prevention work on substance/drug use disorder is reflected in SDG 3.5 “Strengthen the prevention and treatment of substance abuse, including narcotic drug abuse and harmful use of alcohol.” At the same time, drug prevention

and treatment contribute to the achievement of SDG5 “Achieve Gender Equality and Empower All Women and Girls,” Target 16.1 of SDG 16 “Significantly reduce all forms of violence and related death rates everywhere,” Target 16.2 “End abuse, exploitation, trafficking and all forms of violence against and torture of children” and Target 16.4 “By 2030, significantly reduce illicit financial flows, combat all forms of organized crime”. One of the main principles of the UN, according to Interviewee 2, is to do evidence-based programming in order to get the numbers right. UNODC and WHO support networking as well as information and knowledge management (and the overall knowledge and performance of the UN) by conducting joint studies on homicide, which is one of the SDG indicators, namely 16.1 “Significantly reduce all forms of violence and related death rates everywhere.” On SDG 5, for example, according to Interviewee 2, UNODC has developed a comprehensive gender strategy agenda – the strategy for gender equality and the empowerment of women (2018-2021) -which is the first institutional framework on gender equality for the UN Office in Vienna (UNOV) and the UNODC. The strategy was developed with the recommendation of UN Women,

which assisted the development of its terms of reference and reviewed it. This gender strategy agenda is a clear example both of knowledge management and of ensuring the participation of other agencies and organizations (even though UN Women is not classified as an epistemic community). The strategy seeks to ensure that gender equality and the empowerment of women are integral parts of all aspects of the work of UNOV/ UNODC in making the world safer from drugs, crime, and terrorism and in ensuring the peaceful uses of outer space. Interviewee 5, in turn, mentioned that UNODC and WHO have had an MoU since 2017 which created a joint programme on the prevention of drug use and drug use disorders; the treatment of drug use disorders; access to controlled drugs for medical purposes; new psychoactive substances; prevention, diagnosis, treatment, care and support for HIV, viral hepatitis and tuberculosis; prevention of violence and violence-related deaths; and finally, monitoring drug use and its health and social consequences. UNODC and WHO also conduct studies on drug use disorders, aiming at understanding the root causes, as well as on homicide.

The mainstreaming of cooperation between UN institutions

has created a more effective and efficient means of communication to third parties as well. UNODC is now able to get access to ministries of health in order to give advice and provide assistance in scaling up fundamental prevention, treatment, and care assistance throughout the health sector in the Member States. In contrast, the Health Ministries traditionally do not fall under the scope of UNODC but WHO. Thanks to the cooperation between UNODC and WHO, today, the Ministries of Health in the Member States have evaluated UNODC's incentives and suggestions with the same procedure as if they came from WHO and have started to organise their health policies accordingly, especially in the matter of drug matters and sexually transmitted diseases. "This is significant for carrying out comprehensive programming. We have reached over 30 countries globally in West Africa, Southeast Asia, Southeast Europe, and Latin America" (Interviewee 2). At the same time, there are challenges and obstacles. The main challenges, as Interviewee 2 mentioned, have been due to the different organisational structures and cultural differences between the two organisations. Although the mandates are related, the implementation carried out differently. Interviewee 3 said

that communication is not entirely efficient. The goals of the projects, according to the interviewee, are significant, and, in his opinion, there is no decent communication channel with constant reporting and information exchange. The interviewee mentioned that very often, only one side reports on progress, and which of the sides is more proactive usually depends on the project and funding (donors). This statement highlights an example of there being room for better information and knowledge management by means of Digital Era Governance (DEG) between UNODC and WHO. According to Interviewee 2, a more structured coordination mechanism would benefit cooperation between both organisations. Similarly, additional joint programming would further increase efficiency and avoid duplications and donor fatigue.

From the interviews, it became clear that the current achievements are not directly a result of the SDGs. However, the SDGs have provided an additional mechanism for cooperation and, as such, have made joint programming more likely. Some of the best practices include joint studies and comprehensive programming, including ministries of health and law enforcement.

#### **II.1.4. UNIDO – UNDP Interagency Cooperation**

All the interviewees mentioned the importance of constant cooperation in order to achieve beneficial communication and successful ongoing work on joint projects. According to Interviewee 2, sufficient communication and cooperation among the system are vital to identifying common goals and learning from each other, which, in turn, result in creating good practices. At the same time, what became clear from the interviews is that cooperation is instead based on joint projects and not directly on SDGs. It is because the projects include SDGs and are not created per se because of one particular SDG. However, the SDGs are cross-cutting issues in all agencies and have made cooperation stronger.

In this sense, interviewees 4 and 6 state that the works of UNIDO and UNDP tagged to similar targets related to poverty reduction, creating shared prosperity, advancing economic competitiveness, environment, and energy in which objectives embodied with the SDG 9, which calls to “Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation.” • To this end, in 2018, UNDP and UNIDO strengthened their cooperation

through an inter-agency agreement that combines the core competencies and specialised expertise of UNIDO with the broad country-level representation and delivery capacity of UNDP. The operational focus of the agreement lies in two components: cost-effectively expanding UNIDO field coverage through the establishment of UNIDO Desks in UNDP Country Offices, and developing joint activities in private sector development. As a result, UNIDO Desks have been set up in 16 countries, and UNDP and UNIDO have developed several joint programmes aimed at strengthening private sector enterprises and institutions in support of national development goals.

However, the positive expectation from the interagency cooperation agreement framework established between UNIDO and UNDP is just one side of the coin, because the cooperation between UNIDO and UNDP turned out to be very difficult due to some reasons that were uncovered in this analysis. Interviewees 4 and 6 mentioned that after the cooperation interagency agreement was signed, a few UNIDO staff members were positioned in the offices at UNDP, which was supposed to increase the level of communication and networking of DEG between the

Agencies. Instead, according to the interviewees, it has caused a lot of internal conflicts and confrontations since both agencies have a different organizational culture in addition to being accountable to different organs: UNDP to the General Assembly (which is financed through voluntary rather than assessed contributions), UNIDO to the ECOSOC (which is funded by both voluntary and assessed contributions). For example, while UNIDO applies more to the use of the tools of Government 2.0, UNDP would follow more traditional methods of knowledge sharing.

Moreover, with regard to coherence, information, and knowledge sharing, Interviewee 5 said that it is only in a few projects that the organizations are working together and that the cooperation observed is rather weak. No constant communication or reporting is taking place, but instead, there is a task that has to be done. According to Interviewee 4, much of the work that the UN does is, in general, very interconnected and complementary: when the work is coordinated or, better still, if it is jointly carried out, this ensures effectiveness, prevents duplications, and is cost-effective. Consequently, the interviewee believes that the organisations should work on a better communication strategy.

Interviewee 6 mentioned that the variety of organisational structures is one of the main differences, meaning that the communication channels are different in both horizontal as well as vertical organization structures, and, therefore, it is difficult to unify the communication flow. Interviewee 4 said that even though they work with UNDP, he never meets with them, not just because the communication is weak, but also because the locations are different, the headquarters of UNIDO is in Vienna and headquarters of UNDP is in New York. Finally, although the research paper focuses on the cooperation of the agencies within the framework of the SDGs, interviewee 4 pointed out that it is difficult to measure the cooperation in terms of the SDGs because the projects have had a longer lifespan than simply since the time the SDGs were adopted until now.

## **II.1.5. Conclusion**

After the semi-structured interviews with UN experts, the study has revealed that there is significant coherence in the UNODC and WHO joint Programme on Drug Dependence Treatment as well as in the activities of UNIDO and UNDP. However, it also discovered that there is no decent communication

channel based on constant reporting and information exchange in the observed partnerships; or if there is reporting, very often only one side reports on progress. It appears that knowledge management and mainstreaming is performed well by UNDP through monitoring and reporting by providing support to governments to integrate SDGs. The participation of non-members is secured in UNDP by the executive board and by the participation of other organisations in UNODC (UN Women) and by an access of UNODC to the ministries. The performance of the UN is also ensured through programme harmonisation (MoU of UNODC and WHO from 2017). The mainstreaming of the development activities and paradigm is also seen in the efficient reorganisation of offices (UNDP). However, mainstreaming could still be improved so as to achieve an efficient, more structured coordination mechanism between the agencies.

On the other hand, the study has discovered that the SDGs have made the projects more relevant and measurable, and have given both organisations another instrument for cooperation to strengthen existing efforts and thereby foster information and knowledge management and

improve coherence as a whole. SDGs were also found to be a motive to strengthen development cooperation across the whole UN System and UN Agencies. However, the projects in question have a longer lifespan than the SDGs, and some preconditions were secured shortly before the adoption of the Agenda 2030, mainly thanks to the resolutions of the UN General Assembly on UN reform and global governance. In other words, some projects started before the adoption of SDGs and will end after the SDG period. Consequently, the author strongly recommends further research should be done after the ongoing projects have ended. Then the real impact of the SDGs may be understood more precisely.

The research also introduces DEG into the UN system. It seems that the solutions of DEG play an essential role in the newly formed social and technological environment. Even though some features of DEG (restructuring, sustainability, joined-up governance, networking, and information and knowledge management) have already been applied in observed partnerships of UN Agencies, as revealed by interviews, there are still some other

affordances of DEG which could usefully increase the efficiency and effectiveness of service delivery.

The author strongly recommends rethinking the interagency cooperation and horizontal governance based on the “best mixture”, in the meantime adopting a new way of networking that includes all the relevant local institutions and individuals on a single electronic platform (so that all of the actors - local, regional and global - could share their knowledge quickly and easily). This would create more durable and more professional knowledge management system, one which would cross the boundaries of interagency cooperation (so as to ensure broader participation of epistemic communities and synchronised access to information from more extensively created data sets). The author recommends firstly prioritising horizontal governance based on shared responsibility and coordination, and secondly encouraging MoUs and interagency agreements, since MoUs have played an essential role in improving coordination and decreasing duplicated work among agencies.

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## II.2. On the effectiveness of the „greening” component of the EU’s Common Agricultural Policy

ANTAL FERENC KOVÁCS<sup>28</sup>

### Abstract

*This article addresses the effectiveness of the greening component in the EU’s new, post-2020 Common Agricultural Policy (CAP). Reflecting on the insufficiencies in the environmental performance of the current CAP, the EC regulation proposal for the new CAP places environment and climate goals at high priority, and ‘greening’, in addition to farmers’ income support, is in the centre of the proposed measures. In the new delivery model, Member States shall draw-up their own CAP strategies, aligned with their own, local, specific conditions. In this article it is proposed that CAP ‘greening’ is conceptually a Payments for Environmental Services (PES) program and Member States could reference research findings on PES effectiveness globally in their CAP strategy planning.*

**Keywords:** agri-environmental programs, EU Common Agricultural Policy, greening, Payments for Environmental Services

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### II.2.1. Setting the scene

The European Commission’s Communication in 2017 set the conceptual framework for the new, post-2020 Common Agricultural Policy of the European Union (CAP), titled “The Future of Food and Farming” (EC 2017). Within a new EU strategic context, the new CAP model aims at more result driven, smarter, modern and sustainable agriculture in the next financial period (ibid. p. 10).

The new CAP would be framed in three main objectives: (1) to foster a smart and resilient agricultural sector; (2) to bolster environmental care and climate action to contribute to the environmental and climate objectives of the EU and (3) to strengthen the socio-economic fabric of rural areas. These objectives were designed using inputs from evaluations on the performance of the 2014-2020

CAP<sup>29</sup>.

Conceptually, the CAP ‘greening’ mechanism is an institution, which is aimed to pursue farmers to choose agricultural practices and implement efforts to conserve, or improve the state of the environment. For these practices, direct payments are granted to farmers, in the current, reformed CAP, in an amount of 30% of the member state’s annual budget (ceiling) for Pillar I<sup>30</sup>. (EUROPEAN PARLIAMENT 2013 title III), therefore, from the perspective of the overall performance of the CAP, the effectiveness of these payments is of crucial importance.

Matthews envisaged the failure of CAP greening (MATTHEWS, A. 2013). That time he concluded that ... (the Commission) wanted a universal set of measures ...to apply to all farms ...avoid giving Member States discretion...and most importantly wanted greening to be associated with Pillar 1 payments in order to promote legitimacy...(ibid., p.5). Gocht and others using a CAPRI model<sup>31</sup> based

simulation found, ex-ante, that both the economic and environmental impacts of CAP would be minor (GOCHT, A. et al. 2017).

Ex-post evaluations found CAP successful in the economic and social cohesion areas, however, pointed out mixed results concerning environmental and climate goals (EC 2018b p. 6). Alliance Environment (ALLIANCE ENVIRONMENT 2019) concludes that biodiversity, alongside other environmental objectives, was secondary to socio-economic concerns (ALLIANCE ENVIRONMENT 2019 p. 158). The EC states: ... (CAP) had not always been found sufficiently focused and the “greening” measures had not fully realized their intended potential (EC 2018c p. 10). ...implementation of greening by Member States and farmers could be improved to deliver better on its objectives (ibid. p.7). Simoncini and others in a recent paper, to enhance the mainstreaming of biodiversity and ecosystem services, recommend further CAP reforms (SIMONCINI, R. et al. 2019).

The strategic objectives of the new CAP have been designed with this background, and, in particular, details of objective (2) of the new

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29 2014-2020 refers to the multiannual financial framework of the EU.

30 CAP is composed of two pillars: agri-environmental measures are part of Pillar I; Pillar II are focused on agri related regional development.

31 CAPRI is a modeling and analytical framework of CAP ‘greening’ developed as part of the project:

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The Common Agricultural Policy Regionalized Impact, financed by the European Commission.

CAP point out the need for ...higher ambitions...and more focus...on resource efficiency, environmental care, and climate action...(EC 2019b) The Commission identified three top priorities for the post-2020 CAP: higher environmental and climate action ambitions, better targeting of support and stronger reliance on the virtuous Research-Innovation-Advice nexus as (EC 2018b, sec. 1.1). Further, as regards the nine specific objectives, three of them concern directly the environment and climate:

- ⊕ contribute to climate change mitigation and adaptation, as well as sustainable energy;
- ⊕ foster sustainable development and efficient management of natural resources such as water, soil and air;
- ⊕ contribute to the protection of biodiversity, enhance ecosystem services and preserve habitats and landscapes.

To emphasize the high priority on environment and climate, the intervention logic of the new CAP is built on a “need” basis, then why the intervention is beneficial for the environment and climate and finally, where simplification rests, compared with the 2013-

2020 CAP scheme<sup>32</sup> (EC 2019b). The core of the new delivery model is that, to implement the CAP, each Member State (MS), shall design its own strategic plan (CAP Strategic Plan) on the country specific need basis (EC 2018a). An improved system (Performance Monitoring and Evaluation System, PMES) will support monitoring and evaluation of each MS’s contribution to the objectives of CAP, as well as the objectives in the EU’s environmental and climate legislation (EC 2019b p. 4) The new CAP would require strong ambitions from MSs and improved effectiveness in designing and implementing the CAP ‘greening’ element. Matthews concludes that the new CAP is ... a potential, or the possibility, for MSs that wish focus more on raising the level of environmental and climate ambition to do so (MATTHEWS, A. 2018b). That regards ambitions, during the early phase of policy debate on the post-2020 CAP, the Commission proposed the idea of national co-financing of CAP Pillar I measures. MSs agri-ministers rejected the idea upfront: a big question mark if the ambitions are real. Nevertheless, it is foreseen that the idea will come up again in future CAP proposals, as recommended strongly by

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32 Complexity also is a general critique of the 2014-2020 CAP

Matthews (MATTHEWS, A. 2018a). This would require genuine ambitions from MSs, as well as creativity and innovation. Best practices and financing schemes for PES programs, introduced later in this paper, could provide references in this endeavor.

The environmental focus in the proposed new CAP implementation would be reinforced by three central tools, each concerning 'greening'. First, conditionality, i.e. the linkage between payments and delivery of environmental obligations, meaning that, if the obligation is not met, the payments may be reduced. Second, Eco-Schemes, new payment schemes for environment and climate conscious practices in Pillar I that will replace environmentally conscious practices in Pillar I and cross-compliance in Pillar II in the current, 2014-2020 CAP. Under the new regime, MSs will be offered the flexibility to draw-up several eco-schemes, and farmers would be allowed to choose which one to apply.

The construct of the new CAP implies strengthened subsidiarity by shifting the responsibility of implementation from Brussels to the national governments. The EU will provide the framework, but the effectiveness of the policy will largely depend on the strategic design and implementation by the

Member States.

In the context of environmental economics, the concept of CAP 'greening' is not new. It is an agri-environmental program (AEP), which has several decades of history in Europe and other parts of the industrialized world. Historically, AEPs have either been managed by governments, covering whole national territories, or privately organized, focusing on a defined ecological area. Examples for government lead programs are the Conservation Security Program in the US, dating back the 1930s, or in Europe, in the early 1990s, the Agri-Environmental Program, a supplement to the Common Agricultural Policy. (Council Regulation 2078/92). The Catskill project in the US<sup>33</sup> and the Vittel case in France<sup>34</sup> are the most well-known AEPs organized privately

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33 In the 1980's New York city chose natural filtration of its drinking water reserves in the Catskill Mountains region, by providing long-term payments for land management changes, as an alternative to investing in water treatment facilities.

34 Initiated in the 1990's, Nestlé Waters, the owner of Vittel, a prime brand of bottled water, in order to protect the quality of water, entered into long-term contracts with the landowners in the Vittel catchment area in North-East France to dramatically change their agricultural practices (PERROT-MAITRE, D. 2006).

in developed countries. The basic concept of both public and private AEPs has been that changes in agricultural practices would result in conserving, or improving the state of the environment, i.e. resulting in healthier ecosystems and improved ecosystem services. In general, public programs tend to address nature conservation in its entirety and complexity, while privately organized programs usually focus on a specific ecosystem service, e.g. maintaining the quality of a drinking water reserve. While both types are meant to address the problem of environmental externalities, there are several major conceptual differences between government and private programs. Governmental programs are seen to follow mostly the Pigou-concept: taxing negative and subsidizing positive externalities, beneficiaries are indirect and cannot be excluded (e.g. from enjoying cleaner air). Private programs are more Coasean: enforceable property rights (and low transactional costs) are preconditions. Beneficiaries are direct and others can be excluded. For example, one has to pay to visit and enjoy nature in a protected park (BAUMOL, W. J. – OATES, W. E. 1988; KEREKES S. et al. 2018). Nevertheless, both government and private programs are usually implemented within complex

institutional and regulatory environments and carry a mixture of both Pigouvian and Coasean features (SCHOMERS, S. – MATZDORF, B. 2013).

Over the past three decades, similar to government lead AEPs in industrialized countries, Payments for Environmental Services (PES) have gained popularity in the developing world, primarily pursued by the World Bank (FERRARO, P. J. – KISS, A. 2002). By the end of the 2010s, more than 500 PES, or PES-like programs have been implemented globally. While the concept of the PES scheme is more-or-less standardized, each program has its own particular features, depending on the geographical location, ecological conditions and socio-economic framework. Over the past three decades enormous data and information have accumulated on implemented PES programs allowing research, among others, on the drivers of effectiveness and efficiency, recently in the mainstream of scholarly discourse and the foci of this article.

In this article it is proposed that, as CAP ‘greening’ is a construct that complies with the criteria of Payments for Environmental Services schemes, research findings on the effectiveness of PES programs would serve

reference to MSs CAP Strategic Planning. The setup of the article is the following: In Section 2, the new CAP regulation proposal, focusing on ‘greening’ is put in context, reviewing the policy background and intervention logic of both the current and the proposed new CAP. Chapter 3 introduces PES and the research on PES effectiveness, and argues why CAP ‘greening’ is a PES-type construct and how its effectiveness can be viewed in the PES framework. In Chapter 4, potentials in the effectiveness of the new CAP will be discussed in the PES framework, then Conclusion in Chapter 6 sets directions for further research.

## **II.2.2. CAP and its „greening” component**

As agriculture has pivotal impact on climate and environmental sustainability, CAP is a major instrument to implement the EU’s environmental policies. Sustainable management of natural resources is one of the three policy objectives in the 2014-2020 CAP (along with assuring viable food production and balanced territorial development), and its greening component (CAP ‘greening’) relate directly to the EU’s biodiversity strategy. CAP financing amounts to about 30% of the total EU budget,

and ‘greening’ is a major element in the CAP intervention logic and direct payments mechanism. Therefore, financial efficiency and environmental effectiveness of the CAP ‘greening’ is of crucial importance. To provide a framework for further analysis in the subsequent sections, in this section the policy context of the CAP greening measures is reviewed.

### **Policy framework of the CAP greening component**

The policy framework of the CAP greening component is set by the EU’s biodiversity strategy, along with the Birds Directive and Habitat Directive. The headline target of the Biodiversity Strategy to 2020 (EC 2011) positions the objectives of the EU in a global context: “Halting the loss of biodiversity and the degradation of ecosystem services in the EU by 2020, and restoring them in so far as feasible, while stepping up the EU contribution to averting global biodiversity loss. Among the six targets of the strategy, Target 3. (Ensuring the sustainability of agriculture, forestry and fisheries) has particular relevance to the CAP:...by 2020 the agricultural area ...under the CAP shall be maximized, so as to ensure the conservation of

biodiversity and to bring about measurable improvement in the conservation status of species and habitats that depend on or are affected by agriculture and the provision of ecosystem services... Action 8 within Target 3 is specified as follows: Enhance CAP direct payments to reward environmental public goods such as crop rotation and permanent pasture; improve cross compliance standards for Good Agricultural and Environmental Conditions (GAEC)... (ALLIANCE ENVIRONMENT 2019 p. 4).

Since 2015, the economic and policy context of CAP has changed significantly: agricultural prices have fallen substantially; international trade negotiations moved from multilateral to bilateral and the EU signed up to new international commitments: COP21, i.e. the Paris climate agreement and the UN Sustainable development goals (SDG). The commission concluded that, in order to maximize its contribution to the (EU's) Sustainable Development Objectives the CAP must be modernized...simplified... and made more coherent with other EU policies... (EC 2018a).

The intervention logic of the current CAP is framed in the setup of horizontal, Pillar 1 and Pillar II measures. In the current, reformed CAP, the long time existing direct payments to farmers (Pillar I) were complemented with measures with direct impact on the environment (EUROPEAN PARLIAMENT 2013), as defined in Chapter 3 of the regulation: Payments for agricultural practices beneficial for the climate and the environment. These payment for 'greening' is conditional to the practices of diversifying crops, the maintenance of permanent grasslands and designating ecological focus areas (ibid. Article 43, 2.).

The architecture of the new CAP (*Figure 1*) is supposed to deliver the higher environmental ambitions. Hereinafter, to discuss the details, the relevant EC Communication (EC 2018a) and a blog by Matthews (MATTHEWS, A. 2018b) are referenced. Increased flexibility towards implementation and voluntary actions are two key elements of the setup and the whole system rests on enhanced conditionality. 226 thousand station (*Figure 1*).

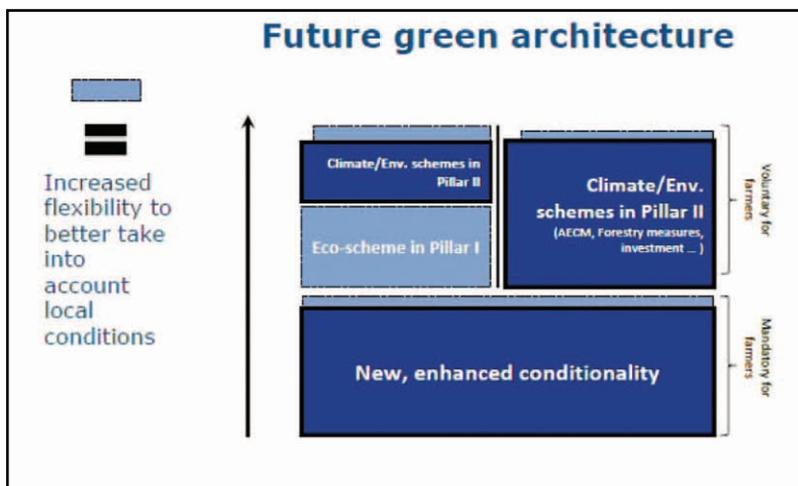


Figure 1: Architecture of the new CAP  
 Source: MATTHEWS, A. 2018b

### Policy framework of the CAP greening component

The core of the new proposal on conditionality relates to the 10 Good Agricultural Environmental Conditions (GAEC) in four effect groups: (1) climate change; (2) water; (3) soil and (4) biodiversity and landscape. In the proposal, new requirements are added to crop rotation, maintaining permanent grassland and ecological focus area, in the current CAP, and direct reference is made to respect obligations under the Water Framework Directive and the Sustainable Use of Pesticide Directive. The requirement of enhanced conditionality (i.e. the possibility to reduce payments upon non-performance), as it will

be discussed later, would align with researchers’ findings that suggest conditionality to be one of the three key PES effectiveness factors. However, it is not clear, if, in practice, payments would be reduced, or even rejected upon non-performance.

### *Eco-schemes*

In the new CAP, MSs would be required to draw-up various eco-schemes, depending on their local conditions and needs, defined as voluntary schemes for farmers. Eco-schemes would be paid for additional to the basic income support, or as a compensation for additional costs incurred. The Commission would recommend designs for eco-schemes, however,

Member States would be free to design their own ones, subject to approval by the Commission.

*Agri-environment-climate measures*

In the AECM scheme beneficiaries are compensated for the costs incurred and income foregone resulting from the commitments made. As opposed to eco-schemes, which incentivises farmers, under AECM payments it was allowed to make payments to both farmers, as well as other beneficiaries. As regards voluntary AECM, several intervention measures in the Rural Development Regulation would be collapsed into a single scheme in the new simplified system.

### **II.2.3. CAP „greening” in the PES framework**

#### **The PES concept**

In the academic literature PES is the acronym for Payments for Ecosystem Services, or Payments for Environmental Services. PES is a program of voluntary

transactions between buyers and providers of ecosystem services, or land-use practices that lead to the services. The original definition, broadly accepted by the scholarly community, is attributed to Wunder (WUNDER, S. 2005). A Payment for Environmental Services scheme is:

1. A voluntary transaction, where
2. A well-defined ecosystem service (or land-use likely to secure that service)
3. Is being ‘bought’ by a (minimum one) buyer
4. From a (minimum one) ecosystem services provider
5. If and only if the provider secures the ecosystem services provision (conditionality).

### **II.2.4. CAP „greening” in the PES framework**

PES, an economic instrument, is supposed to align with the underlying ecological processes. These processes are conceptualized as ecosystems and ecosystem services represented with the cascade model (*Figure 2*):

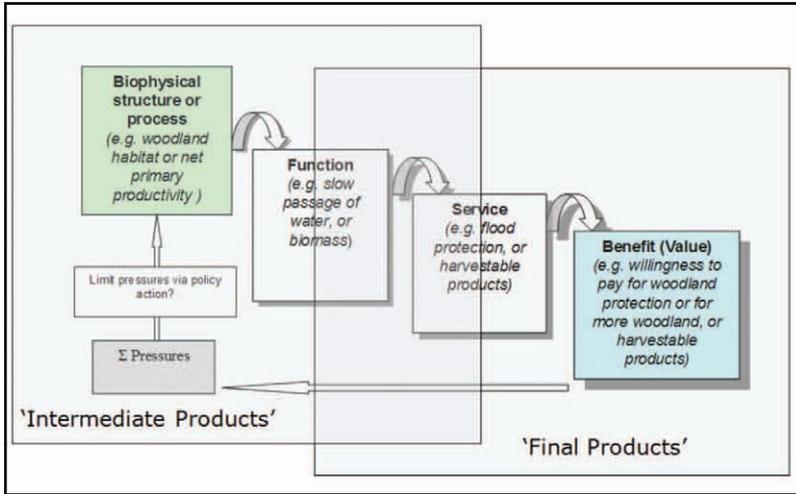


Figure 2: Cascade model of ecosystems and ecosystem services

Source: HAINES-YOUNG, R. – POTSCHIN, M. 2010

Conceptually, the biophysical structure, i.e. ecosystems, with complex functioning provide ecosystem services to beneficiaries. In the PES scheme the beneficiary is willing to pay for the ecosystem service and the provider of the service (with a title to the land where the biophysical structure is located) is willing to accept the payment and deliver the service. With broad academic consensus, ecosystem functions and services are grouped in four categories: provisioning (e.g. supply of wood, fish, etc.),

regulating (e.g. carbon absorption, water retaining, etc.), cultural (e.g. touristic sites, etc.) and supporting services, this latter supports all other services. The biophysical and financial flows in the PES scheme is shown in Figure 3. The essence of the PES scheme is that payment is made to initiate the conservation, or improvement of the biophysical structure that would entail improved supporting functioning, finally resulting in improved provisioning, regulating and/or cultural services.

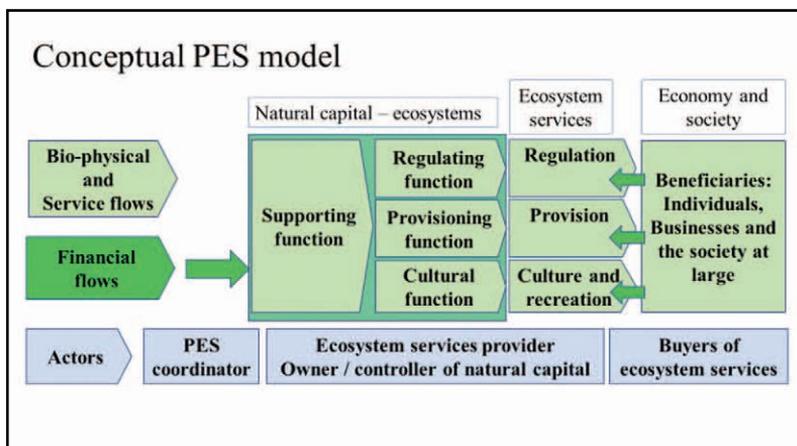


Figure 3: PES scheme – biophysical and financial flows  
 Source: author's design

The PES program can be organized and the services bought directly by the beneficiary, or by an intermediary, such as the government. User-financed programs typically focus on benefiting from a single ecosystem service, for instance improved quality of waters enjoyed by the population of a downstream settlement. A reforestation program by the government can provide benefits indirectly to people in large distances, as well.

The concept of Payments for Environmental Programs in developing countries was developed by World Bank economists as a means to shift international aid to environmental investments. The first PES program, a construction on World Bank loan and ODA funding, was implemented in

Costa Rica, aiming at reducing deforestation (PAGIOLA, S. 2008). As information and experience accumulated from programs around the world, the number of academic writings has been growing and beyond analyzing individual programs, research shifted on empirical analysis and drawing conclusions on structuring, design, governance, implementation and operational issues (ENGEL, S. 2016). Schomers and Matzdorf suggest that pooling research findings and experience both from developed and developing countries would result in research synergies for all (SCHOMERS, S. – MATZDORF, B. 2013). This article argues for moving beyond this proposition and use research findings on PES effectiveness in CAP Strategic Planning, outside the classic

domain of PES.

### **CAP ‘greening’, as a PES scheme**

With reference to Matzdorf and Meyer, it is argued that the CAP ‘greening’ component, an agri-environmental policy instrument, is conceptually a PES scheme (MATZDORF, B. – MEYER, C. 2014), as it fulfills all the conceptual requirements for PES, as defined by Wunder:

1. farmers can voluntarily apply for direct payment, including the greening component;
2. the land-use, or land-use change (the subject of the transaction) is defined: crop diversification, maintaining permanent grasslands and ecological focus areas in the current CAP and eco-schemes in the upcoming CAP;
3. The buyer of the land-use service is the government of the Member State – indirectly the EU;
4. The service provider is the farmer – all eligible farmers in the EU can apply;
5. Conditionality: In principle, if the service is not provided, payment is withdrawn and penalty levied.

This argument is supported

by another article by Matzdorf, ascertaining that around the world PES commonly refers to government lead payment schemes that cover territories at national level (SCHOMERS, S. – MATZDORF, B. 2013). This applies to CAP ‘greening’, too, as the implementation of CAP is managed on a member state level. This classification leads to the proposition that findings related to PES programs globally would serve references to assessing CAP ‘greening’, as well. *Figure 4* presents the logic of the CAP green intervention in the PES conceptual framework. The Member State government is the service buyer, the farmers are the service providers. CAP payments are made for the services provided: diversifying crops, maintaining permanent grasslands and meeting the requirements in terms of EFA. It needs to be emphasized that the CAP payments are made for the actions that lead to ecological (socio-economic) outputs, not for the additionalities in ecosystem services, per se. Therefore, conditionalities of payments are linked to monitoring the actions by the farmers’, and not for ecological improvements, which is an important feature of the CAP model, addressed further in the Discussion section.

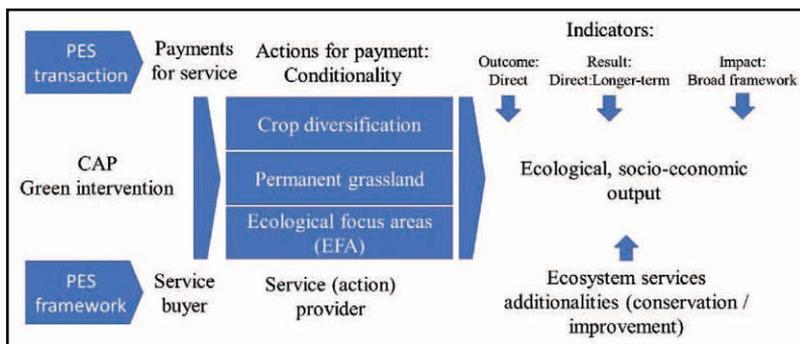


Figure 4: The 2014-2020 CAP in the PES conceptual framework  
 Source: author's design

The outcome of the CAP implementation is measured using the outcome, result and impact indicators, set in the CMEF. Also, the outcome can be assessed using measures of improved ecosystems and ecosystem services additions. This can lead to linking the outcome of the CAP with ecosystems accounting, the global, United Nations lead program, which aims at integrating environmental assets and services in the national statistical systems (KOVÁCS A. F. 2018).

### Research on the effectiveness of PES programs

Due to the differences and availability of data, comparative analysis of PES programs is difficult and complex, nevertheless several recent studies report on analytic

works at higher abstractions, using meta-data, primarily sourced from related academic papers (SCHOMERS, S. – MATZDORF, B. 2013). Recent research works on PES highlight that effectiveness would largely depend on the specific features of each PES program. Börner and others, using the approach of change theory, synthesize 30 influencing factors of PES effectiveness, classified in three groups: context ~, design ~ and implementation factors, and along five dimensions: costs, additionality (compared to the counterfactual), spill-over (indirect effects on lands not in the program), link-conditions (e.g. monitoring costs) and welfare effects (e.g. equity) (BÖRNER, J. et al. 2017). As each PES program is a unique institution with specific governance system, Meyer and others apply qualitative comparative institutional analysis to investigate the governance

structures of PES programs in Germany and China, respectively. This research suggests that in each case (i.e. Germany and China) the preferred, effective institutional arrangements are dominated by a combination of factors (MEYER, C. et al. 2018). Overall, scholarly articles highlight three main factors, which are key to the outcome and effectiveness of PES programs: (1) geographic targeting, (2) payment differentiation and (3) conditionality.

#### *Geographic targeting*

Geographic, or spatial targeting means the method of allocation of financial resources over a selected geographic area on a costs-benefit basis. In practical terms, it is a payment scheme aiming at yielding the most significant increase in environmental service delivery (WÜNSCHER, T. et al. 2008). A comparative scenario analysis showed that targeting, using spatial data, would lead to higher efficiency outcomes (ibid.).

#### *Payment differentiation*

As opposed to lump-sum payments per area, payments can be differentiated on the basis of provisioning costs (cost of providing the service), or on the

basis of environmental benefits (paying higher amounts to sites that provide higher benefits) (ENGEL, S. 2016).

#### *Conditionality*

Conditionality refers to the idea that payments are made if and only if the ecosystem service is provided or an activity is implemented that is clearly linked to provisioning the service (ENGEL, S. 2016). Payments can be made ex-ante, or ex-post. Implementation of conditionality requires monitoring compliance and sanctioning non-compliance.

It is concluded by various authors that applying these three conditions is very data-demanding and can significantly increase PES implementation costs, while the risks associated with the program's outcome remains high, due to other influencing factors. Nevertheless, Engel references cases, when 50-100% increase in biodiversity benefits could be attained combining the tools of spatial targeting and payment differentiation, which could compensate for an increase of about 70% in costs (ENGEL, S. 2016).

### **II.2.5. Discussion**

In this article, it is argued

that CAP is a PES-like program, therefore, research findings on PES effectiveness can serve useful references to studying the effectiveness of the CAP, but more importantly, designing the measures in the new CAP, i.e. the CAP Strategic Planning by Member States.

Research on PES effectiveness identified three key factors that drive effectiveness: conditionality, geographic targeting and payment differentiation. It is reasonable to propose that the potentials for improved effectiveness of the new CAP should be searched within the context of these three factors. In particular, the subject for investigation is the following: to what extent the choices of Member States offered by the flexibilities in the new CAP can direct the CAP mechanisms towards improved conditionality, geographic targeting and payment differentiation – so that to induce improved effectiveness of CAP?

As pointed out, enhanced conditionality is the foundation for every measure, both in Pillar I and Pillar II. It is assumed that monitoring and evaluation would largely advance through the new Performance Monitoring and Evaluation Framework. Indicators would be chosen aligned with the CAP strategic objectives, and a

major change, compared with the current CMES, is the intent to select a limited, but more targeted set of indicators that reflect whether the supported intervention contributes to achieving the objectives versus an established baseline.

Apart from the advanced monitoring system for the overall performance of CAP, the success of conditionality depends on the mechanism if individual farmers' practices meet the requirements, and payment is made accordingly. The author has not found evidence on reduced, or rejected payments due to non-performance regarding the current CAP. In the PES context, conditionality would mean payment conditional to action, therefore the real effect of conditionality on effectiveness in the new CAP would depend on a mechanism of payment conditionality in place at the MS level. It is not yet clear how such conditionality would be made operational by the member states, supervised by the EC.

In the proposed regulation of the new CAP, improving the targeting of payments refers to payments targeting farmers. This seems to be a socio-economic goal and not an environmental one that would influence environmental effectiveness of the new CAP. The PES context suggests geographic targeting, rather than targeting the

farmers, meaning that payments should be focused on geographic locations with foreseen higher ecological impact. The new CAP would allow Member States to draw-up eco-scheme alternatives that could account for different ecological impacts in different geographic locations. This could, in principle, drive the new CAP towards environmental effectiveness. Likewise, payments for agri-environment-climate measures should be differentiated depending on geographic locations. Or, alternatively, payment for such measures would be offered for farmers in areas with the highest potential output, i.e. ecological improvement. It has to be noted that some elements of geographic focusing already exist in the current CAP. For example, payments for certain agricultural or forestry practices in Natura 2020 regions.

Finally, payment differentiation is a very problematic issue. As discussed in the section on the PES concept, in most PES programs, including the CAP, payments are made for measures, or acts that lead to improved ecological status. However, the same agricultural measure in one geographic location would result in different ecological outcome in another location. Environmental economics would suggest that in

such cases payments should be differentiated, likewise, when the cost structures of the measures vary in different locations. Nevertheless, from a political perspective it would be difficult to effectuate differentiated payments for the same measures within a given Member State.

## **II.2.6. Conclusion**

In this article it is proposed that CAP can be seen as a PES program and findings on PES effectiveness would apply in case of the new, upcoming CAP. It was presented that elements, that regard the key drivers of environmental effectiveness, are embedded in the EC's proposal for new CAP regulation, nevertheless, there seems to be a gap between how the concepts of conditionality, ecological targeting and payment differentiation are conceptualized by researchers in the PES framework, and the system of interventions in the CAP. PES findings could support further research on the intervention logic and measures both regarding the current and the upcoming CAP, so that Member States' ambitions could be underlined by creativity and innovative approaches in their CAP Strategic Planning, aimed at a new, innovative CAP with enhanced

environmental effectiveness.

University of Budapest and the Pallas Athene Domus Educationis Foundation for their joint grant support to the author's research work including writing this article.

### *Acknowledgement*

The author acknowledges and give thanks to the Corvinus

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## II.3. Industry 4.0 and the circular economy

ZSÓFIA NEMES<sup>35</sup>

### Abstract

*Industry 4.0 and circular economy (CE) have been mutually interdependent concepts since the beginning of the 21st century. The key drivers behind them are undoubtedly very similar: enhancing productivity through more sustainable and efficient resource management (including waste as well), plus optimising material flows and building networks between different actors such as corporations, public sector organisations and customers. This paper aims to introduce the main pillars, goals and benefits of Industry 4.0, while reflecting on the potential correlations with CE and industrial symbiosis. The methodology is based on a literature review, focusing on global trends in industrial production innovation during the 2010s and the significance of the newest industrial revolution in terms of sustainability.*

**Keywords:** Industry 4.0, circular economy, smart solutions, sustainability

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### II.3.1. Introduction – What is Industry 4.0?

Industry 4.0<sup>36</sup> is a term which refers to the so called fourth industrial revolution and has been widely used in regulation and policy-making processes, as well as in practice, since the beginning of the 2000s. According to the definition of the Directorate General for Economic and Scientific Policy of the European Parliament, “Industry 4.0” describes the organisation of production processes based on technology and devices

autonomously communicating with each other along the value chain: a model of the ‘smart’ factory of the future where computer-driven systems monitor physical processes, create a virtual copy of the physical world and make decentralised decisions based on self-organisation mechanisms.” (EUROPEAN PARLIAMENT – DG FOR ECONOMIC AND SCIENTIFIC POLICY 2016 p. 6).

An integral part of the concept of Industry 4.0 is the development of a lifecycle approach to all products, which requires very tight

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36 also referred as to I4.0

and intelligent business-to-business networking from the raw material phase through production, delivery and use to the end of the product life cycle. Key to this is a smart approach to design, manufacturing and logistics, which strives for the most efficient resource management possible, and provides an excellent basis for industrial symbiosis. This, of course, has very significant environmental benefits, as it can greatly reduce the use of raw materials and energy. The model can also contribute to the social and economic dimensions of sustainable development, e.g. it offers new forms of training and job opportunities, and can help social

inclusion (STOCK, T. – SELIGER, G. 2016).

Figure 5 shows the four industrial revolutions and their main achievements, starting from the introduction of the steam engine and mechanisation of production at the end of the 18th century, continuing through the evolution of mass production and computer-led, automated technologies until we reach today’s ongoing and developing phase which is based on ‘smart’ industry, and connects the whole process of production, distribution and consumption via the internet and different applications.

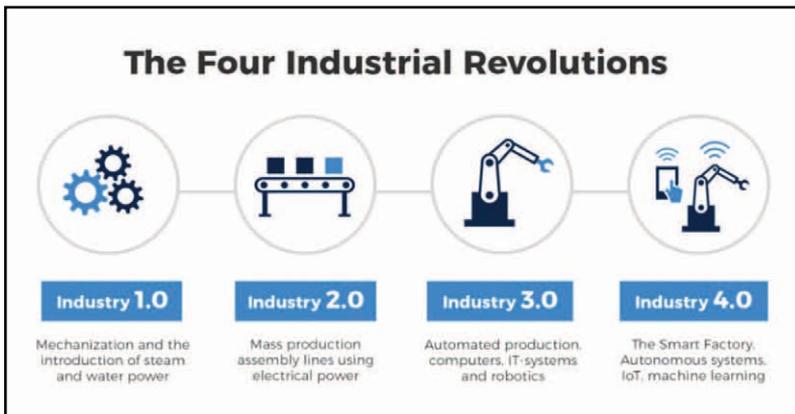


Figure 5: The Four Industrial Revolutions

Source: SPECTRAL ENGINES 2018

### II.3.2. Industry 4.0 and the model of Circular Economy

The connections between

this new approach of industrial production and the concept of circular economy (CE) are very obvious: both aim at closing the

loop of material and resource flows while creating a lot of added value across all dimensions of sustainability. Industry 4.0 and CE may play crucial roles in the development of the so-called early-industrialised countries, but their effect is also highly relevant and significant in the most developed economies, e.g. Germany, where the original scientific background of the fourth industrial revolution was created thanks to a manifesto published in 2013 by the German National Academy of Science and Engineering (FORSCHUNGSUNION/ACATECH 2013).

Industry 4.0 requires a high level of research and development activity, computer technology, smart solutions, newly invented applications etc. which affect the manufacturing equipment, jobs, organisational issues, the production process and in the end, the product itself. In economic terms, the main aim is to bring demand and supply as close as possible to each other, through taking into consideration individual preferences and requirements from the customers' side, and at the same time, integrating the customer in the value chain in the earliest phase (HAGEL III, J. et al. 2015).

The vision of circularity appears everywhere in the new business models of Industry 4.0.

Easier and faster adaptation to changes in the market and demand have always been in the focus of companies, and thanks to the new technologies, access to data and the already mentioned smart tools and solutions, this aim is becoming more and more realisable – resulting in lower material and environmental costs, while shifting towards a circular paradigm and leaving linear systems behind (GARCIA-MUINA, F. E. et al. 2018). According to the recent literature and the theoretical background of the concept, but even more based on the already existing best practices worldwide, connecting a circular approach with smart industrial production may contribute to the competitiveness not just of certain companies, but also communities, regions, and even states (so from micro to macro, from local to global level).

Networking and enhancing cross-sectoral cooperation between companies, stakeholders, NGOs, local communities etc. are both equally important in the implementation of CE and Industry 4.0. The basic principles of the cooperation are the same in both cases – in actual fact, the one serves and supports the other (Zimmerman, 2018). The word 'symbiosis' appears everywhere when it comes to describing a more

effective and environmentally conscious production process. Creating symbiosis starts with exploring interdependence and the potential added value of coordinated activities. Industrial symbiosis is one of the most important dimensions of the circular economy and the industrial revolution of the 21st century.

### II.3.3. Industry 4.0 and the Internet of Things (IoT)

Internet of Things (IoT) is a commonly used buzzword, usually referred to as a synonym for Industry 4.0. It is obvious that there is an overlap between the two; however, it is very important to distinguish and precisely define

the meanings. IoT is a vital element of smart manufacturing (*Figure 6*) and makes it possible for physical products of different industries to communicate with each other via microchips and sensors embedded into the objects, as well as to be connected to the internet. In short, thanks to the IoT system, it is possible to track the lifecycle of each product. This smart technology is crucial for managing waste once a product cannot be used by the customer any more. More precisely, it helps avoid producing waste; instead, tracking the given product might contribute to finding the most suitable form of reuse, recycle or any other sustainable, environmentally and economically beneficial solution. (McKINSEY & COMPANY 2010).

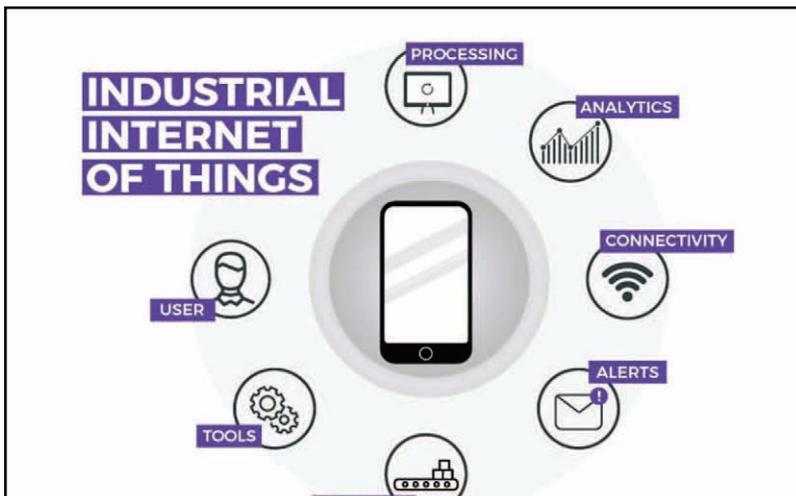


Figure 6: The role of IoT in Industry 4.0.

Source: ZIGURAT GLOBAL INSTITUTE OF TECHNOLOGY 2020

The Internet of things and Industry 4.0 are mutually interdependent concepts and approaches towards the economic development of the 21st century, providing digital solutions for making production and consumption of goods and services more sustainable, effective and easily accessible. If properly implemented, IoT and Industry 4.0 can foster data, information, material and resource flows, and serve the transition of the economy towards a circular model (CE).

### **II.3.4. Benefits of Industry 4.0**

The most important benefits of Industry 4.0 can be summarised and categorised as follows (BUSINESS DEVELOPMENT BANK OF CANADA 2017):

1. Moving towards Overall Equipment Effectiveness (OEE), boosting productivity and providing optimal solutions e.g. for equipment maintenance.
2. Reducing and saving costs of manufacturing, primarily thanks to real-time production monitoring and control.
3. Improving quality through a real-time control process, eliminating customer returns and decreasing waste

production.

4. Faster and more effective innovation capacities, supporting collaboration between experts.

It must be highlighted that the original motivation or guiding principle of Industry 4.0 was not providing solutions to ecological/environmental challenges, much rather it was enhancing productivity and competitiveness. But at the same time, while increasing productivity at corporate or sector level, all the innovation and initiatives have supported the change of traditional – linear – patterns of economy and manufacturing. Current literature is focusing more and more intensively on the deep and detailed analysis of the environmental impacts of Industry 4.0. The positive effects can be as difficult to identify and measure accurately as the potential negative effects. However, the topic is highly relevant for environmental economics, industrial ecology and many other fields of science. Some sources claim that even though the positive theoretical correlation between smart manufacturing, circularity and sustainability are undoubted, the long-term effects of such an economic/industrial transition are still unpredictable and unclear (BONILLA, S. H. et al. 2018).

Measuring energy and

material efficiency through case studies and research at companies implies Industry 4.0 is a possible tool for a complex environmental/economic evaluation of the situation (BEIER, G. et al. 2017). Other studies intend to analyse the effects of cooperation networks between companies and institutions of the public sector – and pay special attention to how smarter technologies and new business models appear in the sustainability strategies of corporations and environment policies of different regions or countries (LIN, K. et al. 2017).

### **II.3.5. Industrial parks, ecosystems and I4.0**

The methodology of evaluating the environmental ‘effectiveness’ of I4.0 is very complex and depends on what researchers would like to focus on (networking, energy issues, business models, value chain, waste management etc.), but one thing is certain: despite all the methodological and conceptual barriers, case study analyses are crucial. The connections between the concept of circular economy and the practice of sustainable industrial production can be examined through the operation of industrial parks in different parts

of the world. There are already existing best practices of Industry 4.0 in these industrial parks which might contribute to a much better understanding of the issue and shed light on further important correlations between CE and I4.0.

Since the 1990s, the number of the so-called eco-industrial parks<sup>37</sup> has been increasing worldwide. “An EIP is an industrial park where businesses cooperate with each other and, at times, with the local community to reduce waste and pollution, efficiently share resources (such as information, materials, water, energy, infrastructure and natural resources), and minimise environmental impact while simultaneously increasing business success” (PAN, M. et al. 2015). These entities are based on new, innovative solutions, and contribute to the renewal of traditional industrial sectors. The eco-parks are appropriate tools for creating high added value in environmental, economic and social terms, as well as for paying special attention to the protection of natural resources and ecosystems. That is why it can be stated that eco-industrial parks include the key elements and aims of the model of circular economy. When examining eco-industrial parks, the concept of industrial symbiosis

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<sup>37</sup> also referred to as EIP

(IS) must necessarily be taken into consideration. The essence of IS is a sustainable, resource- and cost-efficient industrial production through creating synergies between economic, governmental and civil actors, in order to support sustainability. Applying Industry 4.0 to EIPs might be the best way to create the highest value added in terms of environment protection, economic and social benefits.

One of the most important conditions of creating and maintaining a well-functioning symbiosis is the access to information and providing enough data to the members of the network. High quality ICT infrastructure is an essential element of any industrial ecosystem. The innovations of Industry 4.0 can help overcome the potential barriers of communication between the actors of the cooperation network within an EIP; they may also optimise the symbiotic relations and resource flows and as a consequence, decrease the costs of sharing information and any goods.

As has been discussed above, the number of eco-industrial parks is growing worldwide, and nowadays the question arises in many cases: How can the model of Industry 4.0 be 'translated', that is to say, applied to a symbiotic unit? There are some very interesting case studies which

examine the possibilities for how physical entities like industrial companies can become part of a virtual space which supports maximising all benefits from their collaboration. One of the most dynamically developing EIPs of the world is located in Singapore, called Jurong Island. The artificial island has an extremely modern infrastructure and more than 100 multinational companies located there, e.g. Shell, ExxonMobil or British Petrol. The aim of mathematicians and IT experts is to use data and cyberspace to optimise the symbiotic connections and circularity in this given example (PAN, M. et al. 2015).

Why is it necessary to facilitate the spread and development of Industry 4.0 worldwide? The answer is strongly connected to one of the biggest challenges of our times: the rapidly growing population and consumption which lead to an extremely high level of environmental risks and unsustainable use of resources. In the new terminology of Industry 4.0, experts, policy makers and practitioners often substitute the expression 'supply chain' with 'supply network'. The supply network requires a very tight partnership between manufacturers, customers and a lot of other actors in order to establish an ecosystem

of production and logistics (WORLD ECONOMIC FORUM 2019). From a circular economic point of view, the key issue is the optimisation of waste management and utilisation of resource surpluses – the latter includes, in addition to waste, other resources as well, such as by-products or even surpluses of human resources that can be shared within an industrial symbiosis.

### **II.3.6. Conclusion**

The implementation of CE and Industry 4.0 are determining factors in the rise of developing economies as well as for the future of the richest countries. It seems to be even more obvious that making the secondary sector circular and adopting symbiotic models will play a decisive role in determining which regions or countries will be able to rise and catch up the most

developed ones in years to come. However, smart manufacturing has numerous barriers which must be taken into consideration. Some barriers can be interpreted as high risks or challenges, primarily arising from cyber security and data protection issues. The potential risks of making even more and more data online available are, of course, real and might concern all of those actors who would play a central role in spreading I4.0. The crucial point is to have favourable regulation, financial resources, technology and institutionalised cooperation which can support the spread of smart industrial production and circular economy – under secure conditions. This will definitely influence the global competition between the three ‘great players’ (the EU, China and the USA), and the sustainability and competitiveness of many developing economies as well.

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## **III. Security and Defence Policy Issues**



### III.1. Russian gas export towards Bulgaria: inconsistent political response due to energy security challenge

NELI KIRILOVA<sup>38</sup>

#### Abstract

*This paper<sup>39</sup> examines the relation of state ownership in Russian oil and gas companies, why they are interested in export through Bulgaria as a transit country towards Europe, and why they face an inconsistent political response by Bulgaria since its EU membership. The theoretical body is split in three parts, applying deductive approach. First, the role of state ownership is compared in motivation factors for multinational enterprises of Russia, China, India, and Turkey. Second, the importance of oil and gas companies for Russia is outlined, and the aim for monopoly of Gazprom on European markets. Third, a gap is found in the necessity to examine geopolitical factors shaping the individual interests of different EU Member States concerning energy import from Russia. The empirical part addresses the effects of the energy security strategies of Russia and the EU to the inconsistent political responses of Bulgaria.*

*Among the main findings, three factors are identified to influence Bulgaria's political decisions regarding its energy security. First, it is the geopolitical location as a transit route for Russia and Turkey towards the EU. Second, it is the high dependence on Russian import, and third, the obligation to follow EU rules for diversification of supply. In this context, it is concluded that Bulgaria could undertake stable political decisions regarding its energy market only if agreed with both Russia and the EU. The opportunities for EU-Russia compromise agreement on the energy security contradiction are examined on the example of Turkish Stream gas pipeline project. Recommendations for further analysis on Russian energy projects towards Bulgaria suggest research on the stability of political affiliation of its governments<sup>40</sup>.*

**Keywords:** Europe, Bulgaria, Russia, energy, geopolitics?<sup>41</sup>

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39 The paper has been written as a result of the CUB course 'Emerging Asian MNCs Strategies', with tutor Dr. Szunomár Ágnes

40 The structure of energy relations Russia-Bulgaria-EU is assessed. It does not reflect the change of circumstances due to COVID-19, such as the global fall of petrol price in April 2020.

41 List of abbreviations:

EU – European Union

MNEs – multinational enterprises

FDI – foreign direct investment

OFDI – outwards foreign direct investment

### **III.1.1. Introduction**

Previous studies have explored which are the motivation factors of Russian multinational enterprises for outward foreign direct investment (OFDI) towards Europe, as well as the push and pull factors of other leading regional investors such as China, India and Turkey. The current paper briefly compares the role of state ownership for them, outlining the advantages and disadvantages of state ownership for Russian FDI in oil and gas companies, with an overview of the main Russian oil and gas MNEs investing in EU countries.

This paper evaluates how political changes affect investment in gas-transit pipelines, for example the change of Russian energy export towards Europe after worsening the relations with Ukraine. In the case study of Bulgaria, it discusses why Bulgaria attracts Russian energy investment, and which are the geopolitical reasons for contradictory political decisions towards Russian energy import. The contradictory interests of Bulgaria, due to its EU membership requirement for diversification and its geopolitical proximity with Russia causing energy dependence, are outlined as a source of blocking political decisions. Finally, the

opportunities for compromise agreement between Russia and the EU, which could contribute for a stable political discourse of Bulgaria, and the perspectives for Turkish Stream, are analysed.

### **III.1.2. Theoretical Background**

This section compares the role of state ownership in the main motivation factors of Chinese, Indian, Turkish and Russian MNEs to expand towards Europe. Then, it shows the importance of Russian state interests in private oil and gas companies, and the need to examine specific examples of Russian export to South-East European countries.

#### **Motivation factors for China, India, Turkey and Russia to invest in Europe**

China. The main motivation factors for foreign direct investment of Chinese multinational enterprises explained by Schüler-Zhou, Schüller, and Brod, are driven by the Chinese government which guides the global growth of its companies, while the domestic market growth is highly restricted. They see Europe as a target for market and asset growth of Chinese companies, especially in high-tech and brand names, while the global

financial crisis sets welcoming investment climate (SCHÜLER-ZHOU, Y. et al. 2012). The main obstacle in Chinese expansion towards Europe is the lack of harmonized FDI policy, statistical reporting, and clear rules for MNEs location among the EU Member States, despite the common foreign and trade policy of the EU (SCHÜLER-ZHOU, Y. et al. 2012). The Chinese government is strongly supportive for the OFDI of Chinese MNEs. However, it needs to approve in advance which companies and where exactly could invest, using the economy as a part of its foreign policy strategy for growth and influence.

India. In contrast to China's government expansion strategy, the main motivation factors for foreign direct investment of Indian multinational enterprises are based on India's family ownership structure (GERŐCS T. 2017). Gerőcs argues whether Indian companies are able to successfully compete with dominant Western companies within the multipolar economy. India is closely related to the British colonization, therefore its historically inherited competitive advantages include cheaper labour market and quickly adopting strategies to fit the European market requirements (GERŐCS T. 2017). However, Gerőcs argues

that their main disadvantages are lack of experience and proper assessment of the foreign markets, as well as wrong choice of partners and inadequate governmental policy. The lack of experience and knowledge in investing abroad are disadvantages for companies not supported by the government. The private investment structure of Indian MNEs considerably slows down the process of expansion.

Turkey is a regional power in the EU neighborhood, 'a natural heir of the Ottoman empire' (SZIGETVÁRI T. 2018 p. 14.). Turkey has specific interest in growing its multinational companies towards South-Eastern Europe due to cultural proximity and minor geographic distance (SZIGETVÁRI T. 2018 p. 13.). Its interest preference is diversified towards countries of the Southern Caucasus, Balkans, Southern and Eastern Europe based on industry specifics, where Bulgaria is preferred for manufacturing (SZIGETVÁRI T. 2018 p. 24.) and as a main transit road of Turkish export towards the EU (SZIGETVÁRI T. 2018 p. 31.). Among China, India and Turkey, only the least is highly interested in investing in Bulgaria due to its geopolitical location. Bulgaria provides for Turkey a transport link towards Western Europe. This is among the main pull factors of Turkish MNEs

investment, based on geographic and partially cultural proximity.

Russia. Weiner sees as main pull factors for Russia the combination of resources, markets and strategic assets, considering that control over gas pipelines would minimize the costs and secure the export for Russia. Among the main push factors for Russia are the flight of capital escaping state capture and the unity with Russia's foreign policy aims (WEINER Cs. 2017 p. 22.). Weiner compares Russian outward companies which are mostly private, to the Chinese ones which are mostly government supported. Nevertheless, he underlines that Russian embassies regularly provide information allowing Russian companies to contact the foreign companies, while in return the Russian state influences them via oligarchic ownership (WEINER Cs. 2017 p. 25.). Therefore, government support is essential for the rapid and successful expansion of MNEs, but it is only possible if the company is in line with Russia's foreign policy goals.

Investment in South-Eastern Europe. Considering the difference of motivation for foreign direct investment in multinational enterprises, after the brief comparison it is visible that companies supported by the

government, which is the case of China and Russia, have much more chances for successful investment abroad. They have access to the necessary information of how to approach the foreign market, but also the obligation to adhere to the foreign policy goals of their country. Looking at the geographic scope of aimed investment, Russia and Turkey would be the most interested in the South-Eastern part of Europe due to their geographic proximity and historical past, which would stimulate either rivalry or partnership.

### **State interests in Russian oil and gas companies and selection of markets**

State interests in Russian oil and gas companies. In the case of Russia, despite declared independence of its state-owned energy companies, they comply with Russia's foreign policy goals (Jirusek, Vlcek, and Henderson). Oil and gas companies are of highest strategic importance for Russia, as well as those for defence, electricity and mining (JIRUSEK, M. et al. 2017). The high importance of oil and gas for Russia means that they could be used as a political instrument for influence. For example, the Russian oil company Lukoil is suppressed by the government

to invest in Kazakhstan (WEINER Cs. 2017 p. 28.), which shows its high dependence on governmental approval. The functioning of Russian energy multinational companies follows the principle of oil companies buying refineries and gas stations abroad, and specifically Gazprom investing in infrastructure (WEINER Cs. 2017 p. 44.). Gazprom is found to invest in Poland via EuROPol GAZ, along with Lukoil and Severstal, in the Czech Republic via Vemex, in Hungary through a former Gazprom manager, M. Rakhimkulov and ownership by Gazprombank of the Hungarian bank 'ÁÉB' (WEINER Cs. 2017 p. 51.). Gazprom invests in Slovakia via Vemex, Sofrusgas, the oil revenues of Russia via Lukoil, Yukos, and Transpetrol prior to the privatization in 2002 (WEINER Cs. 2017 p. 54.), while Slovenia would benefit as a transit country of South Stream. However, the created single gas and electricity market of the EU and the improved climate governance, in the view of Deák, is a reason for change of this established strategy, leading to Lukoil selling European assets, while Rosneft decreasing European investment (DEÁK A. 2017).

Selection of markets. The interest of Russian companies to invest in Europe and Asia depends on location factors such as geographic

and economic proximity, as well as administrative and cultural similarity (WEINER Cs. 2017 p. 30.). More specifically, Weiner considers Russia's investment to be tied with the presence of Slavic languages and Russian diaspora, and attracted by the positive narrative for the historical past, which is present in Bulgaria. Analysing its neighbourhood investments, Weiner concludes that in the Baltic countries Russia faces Swedish competition, in Poland it faces German competition, while political disputes destabilize the investment climate. Due to cultural and linguistic similarity, Russia tends to invest in South-Eastern Europe and the post-Soviet space (WEINER Cs. 2017 p. 37.). Weiner considers that Russian multinationals mainly export towards their main trading partner - the EU, while the EU weights less importance to Russian import (WEINER Cs. 2017 p. 32.). Therefore, in his view, Russia needs the EU's south-eastern countries more than the EU needs Russia, neglecting the fact that Russian market could expand towards the East or to address bilateral relations.

### **The Gap: geopolitical interests of individual EU Member States**

The particular situation of

different south-eastern EU Member States is not widely discussed in the literature, especially their consideration due to geopolitical proximity and energy dependence on Russia. Therefore, to identify what are the specific interests of such countries, and whether an EU or other alternative could satisfy the needs of their energy markets should be explored. For this reason, we will focus on the case study of Bulgaria to find out whether Russia needs export towards Bulgaria, whether Bulgaria needs Russian import, whether its EU membership provides a better alternative, or other options exist.

Despite planning diversification energy policies, the EU import for 2018 is mostly from Russia, Norway and Nigeria (Eurostat, 2018). By the end of 2019 Russia plans to finish three gas pipelines - TurkStream under the Black Sea, Power of Siberia towards China, and Nord Stream2 towards Germany (CHOLAKOV, P. 2019). A conflict of interest appears if any of these routes is not in line with the EU regulations for energy diversification. Such conflict of interest concerning the Russian energy import in Bulgaria is the result of two main factors - its energy dependence on Russian gas and its commitments to comply with the EU energy diversification

as a Member State since 2007 (KIRILOVA, N. 2015). This conflict of interest results in contradictory political behaviour of Bulgaria regarding the import of Russian gas (KIRILOVA, N. 2015).

This contradiction raises the following questions: Why Bulgaria attracts Russian state-owned oil and gas companies? Why its political decisions concerning the energy transit pipelines are unstable – destabilising its partnership with both the EU and Russia at the same time?

### **III.1.3. Methodology and methods**

The methodology is based on qualitative analysis of secondary data through publications in European, Russian and Bulgarian journals, combined with analysis of the energy strategies of the EU, Russia and Bulgaria. The case study of Bulgaria is applied to show whether the EU needs Russian energy import or Russia needs oil and gas export towards the EU. Bulgaria is examined as a transit opportunity for Russian OFDIs, followed by an overview of the Bulgarian energy market. Based on this, it is discussed why Bulgaria attracts state-owned Russian oil and gas companies, and why its political decisions concerning

the EU - Russia energy relations are unstable. The contradiction between Bulgarian energy relations with Russia and its commitments as an EU Member State are examined. The opportunities for compromise agreement between Russia and the EU are outlined, and Turkish Stream in this context.

### **III.1.4. Discussion: reasons for contradictory political decisions of Bulgaria**

#### **Russian view of Bulgarian energy market – a transit opportunity towards the EU**

Through its energy security strategy and particularly the transport of gas, Russia implements its foreign policy goals in political, economic and security spheres (NOWAK, Z. et al. 2015). The foreign investment of Russia, being a global player, reflects changes in the world order and global crises, such as the global financial crisis in 2008, the worsening of Russia-Ukraine relations after 2014 and the COVID-19 in 2020. The role of state ownership is positive in providing guarantees during crises, but it negatively affects the relations during interstate conflict due to its control over management presence and interests (WEINER Cs. 2017 p.

26.). For example, after worsening the Russia-Ukraine relations in 2014, the Russian pipeline projects Nord Stream and TurkStream had to avoid crossing Ukrainian territory in supplying the EU with natural gas (CHOLAKOV, P. 2019). Therefore, for Russia exporting gas through alternative transit pipeline routes became highly important. Raychev outlines the importance of energy security within a contemporary hybrid war, showing the Russian pressure via cut of the delivery to Ukraine which blocks EU delivery; dominance over gas fields near Crimea; presenting itself as a credible partner, simultaneously pursuing alternative energy markets (RAYCHEV, Y. 2017).

The Russian point of view on Bulgaria as a gas market is ambivalent. Russia acknowledges the close relations with Bulgaria due to historical ties, cultural similarity and energy dependence (KREMLINWATCH 2019). But it is aware of the political divisions within Bulgaria, some in support of, while others opposing Russia (KREMLINWATCH 2019). Russia defines the current governmental stream from Bulgaria as ambivalent, due to pressure of pro-Russian groups, while vocal criticism towards Russia is not expressed (KREMLINWATCH 2019). Despite that, Russia keeps the monopoly on the

Bulgarian gas market since 1974, currently operated by Bulgargaz, delivering to the Bulgarian Energy Holding, while the latest contract for supplies dates forth to 2030 (homepage<sup>42</sup> of GAZPROM EXPORT). A possible reason for this monopoly is that in Bulgaria, Poland, and Hungary the energy companies are either state owned or favoured by the government, which is an obstacle to market competition, while prices are centrally controlled in line with income (LABELLE, M. 2015). Russia gains a huge part of its taxes via energy export - 67%, so it aims to support elites in Bulgaria, Serbia, Turkey, Hungary and Germany (CHOLAKOV, P. 2019). This would guarantee positive attitude of these countries to provide access to their territory for alternative energy transit routes.

**Bulgaria's contradictory needs: energy dependence on Russia, but diversification required by the EU**

Bulgaria perceives Russia as a security guarantor rather than a threat until its EU membership, after which the amity-enmity relations develop (HITEVA, R. P. – MALTBY, T. 2014 p. 125.). The National Security Strategy from 2011 states that energy stability is crucial, while the dependence on energy resources leads to vulnerability. In Bulgaria, diversification of suppliers and market participants is needed, while state-ownership and monopoly create obstacles for liberalization (HITEVA, R. P. – MALTBY, T. 2014). The main disparity is between the attitude of Bulgaria towards Russia before being an EU member welcoming Russia's energy monopoly, and after being an EU member claiming that diversification is crucial for the stability, therefore gas market monopoly is unacceptable. This disparity is a root cause for Bulgaria's changing attitude towards Russia's energy investments, which is further discussed.

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42 <http://www.gazpromexport.ru/en/partners/bulgaria/> – 2019. 05. 25.



Figure 7: Map of the Bulgarian natural gas pipeline network, which denotes areas with no access to natural gas

Source: HITEVA, R. P. – MALTBY, T. 2014 p. 124.

The prism of the Regional Security Complex Theory explains the concept for Russia in Bulgaria, which changed from a guarantor of

the energy security to obstacle for diversifying the energy market by EU model (MALTBY, T. 2015). In line with this argument, Politico

announced that the reason for a fall of the Bulgarian government in 2014 was the withdrawal from South Stream gas pipeline project, which Bulgaria originally supported, but due to EU requirements, it had to leave (GARDNER, A. 2014). Other authors claim that Bulgaria stopped the construction of South Stream due to pressure not only from the EU, but also NATO, opposing to Gazprom's leadership of the project (GEROPOULOS, K. 2014). Among the main reasons for Bulgaria's hesitant behaviour could be the EU avoidance of Russia in its external energy policy, aiming alternative routes and suppliers (SIDDI, M. 2019). Siddi explores the strategic importance of energy for the governments, which they aim to secure by all means, according to strategic EU policies. On this background, Bulgaria is considered to adapt to EU membership via revising its energy security strategy, and responding to unexpected changes of Russia's gas supply in 2006, 2009, and increasing gas prices (MALTBY, T. 2015).

Analysis from 2012 proposes two guiding directions for Bulgaria's energy security policy – to invest in green energy or to diversify its gas supply developing own reserves (STEFANOV, R. – TSANOV, M. 2012). Some Western authors consider that Bulgaria has the duty to implement

its obligations with the Western allies, not its relations with Russia (HANLON, B. 2018). But Bulgaria is nearly 100% dependent on Russian gas import (NITZOV, B. et al. 2010). Oil import from Russia to Bulgaria is rather high, too (NITZOV, B. et al. 2010). Hiteva and Maltby outline as major deficiencies of the Bulgarian energy policy the delayed diversification of gas import, slow liberalization of internal market, EU legislation, and low residential gasification. They examine the reasons for delay of a strategic position for national gas pipeline of Bulgaria as a source of power for opposing stakeholders (HITEVA, R. P. – MALTBY, T. 2014). Indeed, a main challenge in the National Security Strategy of Bulgaria from 2011 is whether to choose nuclear energy or the European Energy Market renewables, while the monopoly of gas supply burdens the country (DECHEVA, R. 2015). Hiteva and Maltby argue that state ownership of Bulgargaz and Bulgartransgaz, which closely collaborate with Gazprom, is an obstacle to the EU legislation, and opposes the Bulgarian Energy Strategy's objectives (HITEVA, R. P. – MALTBY, T. 2014).

Due to the necessity to cover contradictory interests, the Bulgarian attitude towards Russia as a supplier is simultaneously

supportive and denying. A basic contradiction is that Bulgaria interrupted two of the energy projects of Russia, South Stream and Belene, while officially not considering Russia as a threat to the security, rather than a “brother (Slavic) country” (RAYCHEV, Y. 2017). In 2014 Bulgaria rejected participation in South Stream, the predecessor of TurkStream, after the assessment that it did not comply with EU regulations (CHOLAKOV, P. 2019), not providing an opportunity for Russian gas pipelines to cross its territory. But it did not state a clear denial either, showing inconsistent political response towards energy trade with Russia. In 2018 Bulgaria explored options to restart joint with Russia nuclear plant project Belene, assessed in 2013 by the government of the same prime minister as unprofitable and corrupt (ASSENOVA, M. 2018). This contradiction of the same government is an indication for attempt to serve the unilateral interest once of the EU, and second time of Russia. Nevertheless, it does not comply with either of them, showing that Bulgaria could not defend one single interest under the same government, which makes it inconsistent. Externally it is not clear whether Bulgaria opposes or accepts the actions of Russia, for which reason it should clarify its national interests and goals

(RAYCHEV, Y. 2017). The main challenge is a contradiction present since Bulgaria’s EU membership in 2007. The EU diversification standards and Russia’s gas monopoly in Bulgaria leave the country in a stalemate.

### **Stability of Bulgaria’s political decisions: via EU – Russia agreement. The compromise of Turkish Stream**

Explaining the opportunities for compromise agreement between Russia and the EU is a necessary condition prior to Bulgaria undertaking any decisive action. Both Russia and the EU are currently interdependent in terms of energy security, looking for alternative guarantees for demand and supply in the long term (NOWAK, Z. et al. 2015). The legal foundation which sets the energy relations between Russia and the EU is based on several strategic documents. After the Russia-Ukraine gas dispute in 2009, the EU and Russia created an Early warning mechanism aiming to prevent interruptions of gas, electricity, oil, and to provide communication (European Commission, 2019). The EU-Russia energy dialogue, set in 2000, was needed by the EU which imports oil, uranium,

coal and natural gas, and needed by Russia which used its markets (European Commission, 2019). This dialogue was interrupted after 2014 due to the crisis in Ukraine. Both examples show that the EU and Russia implement an energy dialogue. However, it is not stable due to the lack of stability in energy transit countries, such as in Ukraine. The stability in the EU-Russia energy dialogue depends on the stable political decisions of the energy security of transit countries. Such stability could replace the inconsistent political behaviour of Bulgaria regarding its energy market, only if it is agreed with both the EU and Russia.

For Russian energy export, Bulgaria is a country of strategic importance for transit, opening access towards Western Europe. Due to its geographic location, Bulgaria is seen in a similar way by Turkey – as a gas transport corridor towards the EU. In the context of unsuccessful energy projects led by Russia, appears the question of how the gas transit pipeline Turkish Stream could progress successfully. It is an energy export project from Russia through Turkey towards Bulgaria and the EU. Due to Turkish Stream, the dependence of Turkey from Russia increases, and the access of Russia to Europe through the Balkans increases

(PIERINI, M. 2018). It is possible only in coherence with the EU regulations, with proven interest of Russia and Turkey, and if Bulgaria agrees to provide its territory for transit towards Western Europe. Surprisingly, despite its previously ambiguous response, since January 2020, Bulgaria started receiving gas from Turkish Stream. Due to that, Russia decreased the price of gas import towards Bulgaria with 40% in 2020. Analysing this opportunity a year earlier, Bechev thought that the attempt of Russia to operate TurkStream via the Balkans would not be successful. The geopolitical advantage for Russia in building TurkStream was deepening the relations with Turkey towards the Balkans and avoiding Ukraine, planning to cross Bulgaria, Serbia, Hungary and Austria (BECHEV, D. 2019). Opposing Gazprom's interests, EU monopoly rules did not allow a company to own an infrastructure through which it may sell its own gas (BECHEV, D. 2019). If the infrastructure was owned by the Serbian Srbijagas and the Bulgarian Bulgartransgaz, and if Bulgaria provided the investment of \$1.6 billion which was not likely to receive neither from Moscow, nor from Brussels (BECHEV, D. 2019), it could succeed. But the main problem for the EU remained - the ownership of gas and transit

route could not belong to the same company, in contrast to Gazprom's interest to own both.

It could be concluded that Russia is highly dependent on energy export towards the EU, even though it could diversify its routes towards the East. One of the opportunities for a successful project is Turkish Stream, but it is only possible if the EU regulations change or if Russia adapts to the EU standards. This means that Gazprom cannot be simultaneously the owner of the energy transit pipelines and the natural gas. However, in order to sell shares to local companies from Bulgaria and Serbia, they should possess enough funding to buy the shares. If Bulgaria cannot provide enough funding from Russia, or the EU, or any other source, the project cannot cross its territory. The fact that gas from Turkish Stream reaches Bulgaria since January 2020 shows consensus in the political decision of the country to accept it. However, it is not clear how this was funded. There is no guarantee how this would develop in the future.

It would be an achievement if the inconsistent line of political behavior was interrupted. But the political uncertainty is a result of the contradictory needs of Bulgaria. It became even more dependent on Russian gas, and at the same time

still obliged to comply with the EU diversification rules. The country needed to either prove interest in operating the project, or to withdraw on time, without raising any doubtful expectations. Russia already faced Bulgaria's hesitation in South Stream, the EU also faced the unstable government choices of the country. It was a matter of political will to implement one stable decision, no matter whether approving the project or rejecting it. The only way for Bulgaria to prove itself as a reliable partner was by defending steadily a certain decision. In recent decades, in the light of unstable governance, stable decisions have been barely possible. Therefore, Turkish Stream and any other energy transit project planned to cross the territory of Bulgaria are only possible during internal political stability. Bulgaria's political decisions should be, coordinated with both the EU and Russia, in the interest of the country. But the questionable consistency of political decisions of Bulgaria's current government raises doubts regarding the continuity of their implementation.

### **III.1.5. Conclusion**

The current paper provided a wider context of Russian state owned MNEs compared with the

structure of Chinese, Indian and Turkish MNEs. It explored their motivation to invest in Europe. It outlined Russian oil and gas state owned companies Lukoil and Gazprom, reaching the EU markets and particularly Bulgaria as an energy transit country. It assessed the reasons for unsuccessful energy transit pipelines through the country, discussing the inconsistent political response of Bulgaria after its EU membership which contradicted its dependence on Russian energy monopoly.

The findings show that the main reason for unstable political behaviour of Bulgaria towards the energy projects initiated by Russia is its obligation to comply with the EU rules for diversification of routes and suppliers. At the same time, Bulgaria remains highly dependent on Russia's energy import, whose monopoly over the Bulgarian gas markets has been increased since 2020. This contradiction captures Bulgaria in a position of perplexed own interest, incapable to respond to the needs of either Russia, or the EU. Specifically, Bulgaria needs diversification of its markets in order to comply with EU rules. But it is highly dependent on Russian energy import, which creates a limitation for diversification. Bulgaria cannot afford to lose Russia as an energy import partner.

At the same time, the EU requires Russia to change its approach, which is barely possible. This outlines the complicated situation of Bulgaria, between energy import from Russia and EU requirements for diversification. The only solution, which would allow Bulgaria to take a decisive action, is that Russia and the EU discuss together with Bulgaria and agree how the energy transit pipelines through the country to be addressed in a common approach.

### **III.1.6. Recommendations**

For further analysis of gas pipeline projects, led by Russia and operated through the territory of Bulgaria towards the EU, I would highly recommend the stability of Bulgarian governments to be explored. The reasons for change between pro-Russian and pro-Western attitude of the same government should be enlightened, and specifically the effect on the energy security of the country.

#### *Acknowledgement*

The present publication is the outcome of the project „From Talent to Young Researcher project aimed at activities supporting the research career model in higher education”, identifier EFOP-

3.6.3-VEKOP-16-2017-00007 co- Hungary and the European Social  
supported by the European Union, Fund.

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## III.2. The End of the Superpower Era – Retrenchment of the USA and the Resurgence of Great Power Politics

ATTILA MEZEI<sup>43</sup>

### Abstract

*My paper tries to answer the question what actions should the USA take in order to keep its pre-eminence in the medium to long term future. The 21st century presents the USA with several challenges around the globe and the country needs to adjust its commitments to the new era. I try to examine the balance of power with the help of the neoclassical realist school. The increasingly multipolar world changes the contemporary realities of international relations and with the help of balancing strategies my paper tries to identify how the actions of the United States will shape the international relations in the coming decades. In my opinion, the inevitable retrenchment of the United States will bring back traditional great power politics.*

**Keywords:** USA, neoclassical realism, balance of power, retrenchment, multipolarity

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### III.2.1. Introduction

The 21st century ushered in a new era in international relations. The quick dissolution of the Soviet Union and the fast integration of Central and Eastern European countries into the European Union increased the relative power of the United States tremendously. It seemed that the unipolar world has finally arrived and the United States would dominate the world virtually uncontested.

The 9/11 terrorist attacks and the USA's prolonged quagmires in Afghanistan and Iraq were not foreseen by the leadership of the country because their perception about the capabilities of the United States were excessive. Quick and decisive victories were envisaged in both states by then President George W. Bush (BUTT, A. I. 2019).

However, as the United States got overburdened by the costs of these foreign adventures the balance of power started to shift. Russia elected Vladimir Putin, a strong

president to lead the country out of its miserable place where it got after the fall of the Soviet Union. In addition to that, after the end of the 1970's China's GDP growth has been outstanding thanks to several reforms the country implemented (ZHU, X. 2012).

The costly "war on terror",

the new challenges of a rising China and a defiant Russia coupled with a more and more inward looking American population have caused the United States to re-evaluate its place in the world. The threats to continued global primacy are summarized (*Table 2*).

actors	external threats		internal threats
state	Rising China	Opportunist Russia	
non-state	„War on Terror“		disillusioned population

Table 2: Problems that threaten the global primacy of the United States of America

Source: edition of the author

### III.2.2. Isolationism or Global Leadership?

The vast majority of international relations experts see the problems that the United States of America, the current strongest state in the international system faces. However, there are different approaches to these problems. What does the United States need to do in order to ensure its primacy in the coming decades as well? Isolationism or leadership around the globe?

America faced similar questions in the 20th century as well. After each world war, different approaches were adopted. The main question is, what should the USA do now, when the balance of power seems to change. In my opinion, neither isolationism nor global leadership should be the answer.

#### The Case Against Isolationism

In my opinion, the isolationism that the country

practiced before and after the First World War cannot be repeated in the 21st century. The international system that the USA built after the Second World War, globalization and the global interdependence of the world economy make it virtually impossible to withdraw from the world stage as the country did a century ago.

The post WWII system is still dominant regardless the attempt of emerging (or re-emerging in case of Russia) powers' efforts. The Bretton Woods system ended in the 1970s, but the USD is still a major reserve currency and its role in the international economy is still substantial. No other currency comes close to its influence on the international economy. The Russian ruble or the Chinese renminbi are both far behind the USD in importance.

Furthermore, the United Nations is still a cornerstone of the system, and every major power is heavily invested in maintaining its relevance. There are no alternative institutions in the world that substantially threaten the power or

influence of the post-Second World War ones. There were initiatives to create rival economic institutions without the Western powers. The most glaring example for an effort to create a quasi-economic alliance is the BRICS.

This informal group of states comprising Brazil, Russia, India, China and South Africa could have been the most threatening initiative to the power of the United States. However, the threat of combining the major emerging powers never really materialized. Nowadays thanks to the different growth of its members the BRICS countries do not seem to be successfully cooperating against the USA. Its alternative international financial institution the New Development Bank (NDB) which intended to provide an alternative to the IMF and World Bank has only a capital of \$100 billion (HARPER, J. 2019). In comparison the IMF has more than two and a half times more money to distribute immediately if necessary (WROUGHTON, L. 2010).

In addition to the weak alternative institutions that the rivals of Western states half-heartedly started, all the major powers stayed committed to the above mentioned international institutions (UN, IMF, WB etc.) that are the cornerstones of the post-WWII international system. This means that the United

States cannot withdraw from the existing structure. If it would like to abandon or decrease its role unilaterally, the rising economic powers such as China could utilize the vacuum and fill it, thereby taking advantage of the system and exerting influence through it with relative ease. Additionally, the cautionary tale of the League of Nations serves as a powerful analogy that dissuades the United States to leave the international structure. The story of the League showed that without the backing of the great powers another major conflict could broke out.

Those who see problems the country faces (*Table 2*) can reach the conclusion that a major step back from the world stage would release the burdens the United States has to carry thanks to its global engagement. The USA pays a lot financially in order to maintain the international institutions it helped to create. However, the United States cannot relinquish its global commitments from one day to another. Its defence umbrella and its alliance systems keep a lid on a lot of problems. Nuclear proliferation and regional rivalries would multiply if the United States withdrew its forces and commitments rapidly (HICKS, K. 2020).

## **The Case Against Global Leadership**

Isolationism seems not to be an option. Should the United States continue to be a global leader as was practiced during the presidency of George W. Bush? After the end of the bipolar world, for nearly three decades the United States has vastly extended its commitments and its military deployments (WERTHEIM, S. 2020).

The era of seemingly unchallenged unipolarity has ended, and the country seems to show the symptoms of overextension. The U.S. presidential election of 2016 showed that the American people would like to leave global leadership behind. Trump won the presidency with a nationalist and more inward looking message. Global leadership and extension of external commitments are especially hard in a democracy where the voters are disillusioned. The prolonged and unsuccessful endeavours to topple hostile governments and non-state actors in the Middle East and replace them with strong friendly democracies failed to convince the voters to commit more resources around the globe. A lot of them wanted Trump's "America First" approach (KAGAN, R. 2018).

More than three years have passed since the inauguration of

the new president, and the new 2020 presidential election seems to follow the pattern of a decreased importance of foreign policy as well. Trump's approach to foreign policy has not changed. The debates among the leading Democratic candidates were heavily focused on domestic issues and the topic rarely changed to the foreign policy realm. Former Vice President Joe Biden stresses the importance of American leadership around the globe (BIDEN, J. R. 2020). As of this writing the former VP is defeated all of his rivals and he is the leading democratic candidate for presidency (homepage<sup>44</sup> of FIVETHIRTYEIGHT). Even if Joe Biden would win the 2020 US election, his rhetoric is focused more on relying on allies rather than on going in alone. Furthermore, Congress would be a check on Mr. Biden's more active foreign affairs, because a vast portion of the American population would not support a foreign policy similar to the approach of President George W. Bush.

The second top democratic contender (who dropped out of the race, but had a lot of support in the beginning of the Democratic primary) Bernie Sanders would not have changed the course of the

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44 <https://projects.fivethirtyeight.com/2020-primary-forecast-2020.03.23>.

Trump administration's 'America First' approach a lot. The former candidate would have implemented a more value based foreign policy, although it would have backed this approach by diplomacy. Sanders (as well as Trump) would like to avoid another endless war, and would even roll back support for regimes that have been important U.S. allies for decades such as Saudi Arabia. (homepage<sup>45</sup> of BERNIE SANDERS)

It seems that the American public left the idea of the global leadership behind. If the public does not endorse this policy the leadership of the country cannot go down a path that resembles the course of American foreign policy in the 1990s and early 2000s.

This domestic factor cannot be left out of the equation when it comes to evaluating the foreign policy of the country. Structural theories lack the importance of unit level factors and emphasize the international system instead of paying attention to the internal characteristics of the states. However, Innenpolitik theories overemphasize the importance of domestic variables over systemic ones. In my opinion this approach is flawed as well, because the relative power should be the chief

independent variable as neoclassical realists suggest. (GIDEON, R. 1998 pp. 149–151.)

### III.2.3. Balance of Power

I argued against the two extremes: isolationism and global leadership in the chapters above. The international system and the balance of power is constantly changing. This change explains the behaviour of states that is why it is important to define it carefully. The balance of power as a concept aims to describe the production of certain constellation of forces in the international system. Several international relations scholars tried to capture this phenomenon. My definition of the concept of what balance of power is: An inherent tendency of international politics to produce a certain distribution of power that is acceptable by the major players of the world.

The distribution of power in the beginning of the 21st century is no longer acceptable for several major stakeholders in the international system. States as China and Russia feel themselves emboldened to challenge the status quo and the factors (*Table 2*) explain the behaviour of the United States. The seemingly unchallenged global primacy of the USA has ended and the country has to adjust its

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45 <https://berniesanders.com/issues/responsible-foreign-policy> – 2020. 03. 02.

course of action accordingly. On the surface the United States is still the *primus inter pares*, but the perception of relative power has changed over the years.

I use the neoclassical realist school to analyse the situation, because I think it describes the different foreign policy choices of the major powers better than other international relations theories. In my opinion structural realist theories (neorealism, offensive realism, defensive realism) do not take into account the unit level factors that influences the foreign policy decision making. And Innenpolitik theories highlight the domestic factors and downplay the importance of the systemic forces.

The systemic pressures on the United States would encourage more engagement without leaving several parts of the globe to be handled by allies. The main thesis of John J. Mearsheimer's offensive realism is that states look for opportunities to gain power. And defensive realism claims that preserving power rather than increasing it is the main goal of states (MEIRSHEIMER, J. 2014 p. 21.).

The United States has been worrying too much about too many problems connected to foreign policy in the past century (WALTZ, K. N. 2008 p. 328.). This has made the country's population (*as Table 2*

and the presidential races of 2016 and 2020 show) disillusioned about the constant overseas engagements. Domestic factors such as this heavily affect the USA's foreign policy decision making.

On one hand, structural realist theories have a hard time explaining the changes in contemporary international relations. Offensive realism would prescribe the United States an approach that is more direct without leaving certain parts of the world behind. In contrast, the decreasing influence of the country in the Middle East is a good example of a decline in influence and a strategic modest withdrawal from a region thanks to mainly domestic factors. In addition, defensive realism would suggest that China and Russia would not have made several risky steps in order to upset the balance of power. The annexation of Crimea and the Chinese activities in the South China Sea are glaring examples that defy the logic of defensive realism.

On the other hand, neoclassical realist theory suggests as the relative power of a state rises, it will seek influence abroad. This is clearly the case with Russia and China and as the perceived relative power of a state such as the USA falls, its action and ambition will be scaled back accordingly. (GIDEON, R. 1998 p. 152.)

It does not matter that the absolute power of the United States does still overshadows China's and especially Russia's. Both of the new contenders would like to challenge the United States even though their material and military capabilities in absolute term are dwarfed by the USA. The perceived relative power of China and Russia has been increasing and this phenomenon

means the United States has to alter its course if it would like to maintain its position as the strongest state in the international system.

Balance of power theory suggest several approaches to the problems the United States faces. *Table 3* shows how the threat of China and Russia has been encountered recently.

type	mechanisms	objectives	examples
hard balancing	formal alliances matching arms build-ups	confront/ balance powerful/ threatening state	Triple Alliance vs. Triple Entente Allied vs. Axis Powers NATO vs. Warsaw Pact
limited hard balancing	coordinated military activity, short of formal alliances limited, asymmetrical arms build-ups	restrain power/ threatening behaviour	China vs. U.S. India and U.S. vs. China (2010-)
soft balancing	limited institutional alignments informal ententes	restrain power/ threatening behaviour	Concert of Europe (1815-53) Russia and China vs. U.S. (1996-) India and Japan vs. China (2014-)

*Table 3: Types of Balancing*  
Source: PAUL, T. V. 2018 p. 22.

### III.2.4. Retrenchment

The United States has been trying to save the world order and its position with limited hard balancing and soft balancing behavior (*Table 3*). The George W. Bush and Barack Obama administrations emphasized a

world without spheres of influence, and based their actions accordingly. However, the Trump administration de facto departed from this point of view. I agree with an international relations scholar, Graham Allison's assessment that now is the time to return to great power politics and revive the approach of spheres

of influence in the coming years (ALLISON, G. 2020).

This means that the United States has to rely more heavily on its allies to carry out operations especially in the anti-terrorist front to relieve pressure on the country. A good example for this approach is France's operations in Africa, especially in Mali (MELLY, P. 2019).

The alliance system of the United States is extensive and leaves no corner of the world behind. The country can utilize these relationships to contain the external threats. It shall retrench from positions that are not vital to its national interest. The question is: what are the regions and problems that the United States should no longer waste resources solving? The internal factors of the country pushes it out of regions such as the Middle East. Several endless and costly wars threaten the president's perceived leverage in the foreign policy questions concerning the region.

In addition to the domestic pressures, Russia entered the region through its ally: Syria. The resurgence of great power politics is the most visible in the Syrian civil war. The country is not vital to the United States' national interest and the Trump administration has tried several attempts to withdrew from the troubled region. Besides

Russia, another regional power Turkey also stepped in as a major player in the Syrian civil war (FEAVER, P. – INBODEN, W. 2019). In addition to that Turkey and Russia are both active in Libya as well (EL-GAMATY, G. 2020). This part of the world is not the major realm the United States should focus its resources. It should leave great power politics to decide the future of these regions instead of trying to solve the problems by itself.

The relative perceived power of the USA declined since the war on terror started in the beginning of the 21st century. Now, with a more inward oriented president the country is beginning to withdraw from Afghanistan and hopes to find a resolution to the 18-year-long war. It is not the outcome the country hoped for in the beginning of combat operations, but it can relieve a lot of stress and burden from the shoulders of the country (GAZI, S. 2020).

Furthermore, the EU, the United Kingdom, Australia, Japan, South Korea and Canada are all major allies of the United States with substantial economic and military might. Even though the Trump administration withdrew the USA from the TPP (Trans-Pacific Partnership), the trade deal was salvaged. Australia, Canada and Japan led efforts to preserve the

deal to create a free-trade zone of 500 million people with 11 member states. In addition to these countries Colombia, Indonesia and South Korea signalled their interest to join the TPP. These steps show how the allies of the United States could fill the place of the country in regions where the country needs to scale back its presence. (DAALDER, I. H. – LINDSAY, J. M. 2018)

### **III.2.5. Resurgence of Great Power Politics**

The second half of the 21st century and the beginning of the 21st brought different eras in international relations. Now the inherent tendency of international politics produces a new constellation of world order that emphasizes great power politics more than in the recent decades. As the relative power of the United States declines, new challengers appear on the international scene. The American taxpayers seem no longer interested in paying virtually alone the bill of maintaining the current liberal world order. The United States has been encountering both internal and external factors that increase consumption and the costs of protection and production. If we take a look at the enormous military budget of the country it is easy to see that maintaining several

overseas military bases and military operations in multiple countries cost a lot. The comparative advantages over other societies have been undercut by the diffusion of the country's economic, technological, and organizational skills. In comparison, the rising states on the periphery such as China enjoy lower costs, rising rates of return on its resources and the advantages of relative backwardness. The constant high growth rate of China has been increasing its relative position in the international system that produces a disequilibrium (GILPIN, R. 1981).

This disequilibrium is balanced by the United States and its allies (*Table 3*). Compared to the past, the difference is the relative position of the United States in the system. In the coming decades the country has to rely more and more on its allies to carry out the tasks of maintaining the liberal world order. The partial withdrawal otherwise known as retrenchment of the USA paves the way for the revival of spheres of influence from their slumber. As the example of France shows, the former colonial power carries out anti-terrorist operations on the ground with its own forces in its former sphere of interest. The USA should pay special attention to rival great power's overseas military bases. China's base in

Djibouti is troubling (HEADLEY, T. 2018). The USA should use its alliance system and already existing international institutions to counter the spread of foreign military bases of its competitors. The Russian naval base in Tartus (Syria) is a good example how these facilities can help expand the power projection capabilities of a great power (KARMANAU, Y. 2019). These foreign bases are much more important tools for influencing the balance of power than the weak alternative institutions the emerging powers tried to create.

Russia is active not just in Syria, but in Europe as well. Eastern and Central European countries are threatened the most by the resurgent Russia. The sanctions of the EU and the increased military spending of European NATO member states shows the burden-sharing of the alliance that seems to take place. (BESWICK, E. 2019) Even though the United States no longer has the position it held in the 20th century, its allies have major military and economic potential. The USA should encourage its allies to take up more responsibility to maintain the current international system and not let rival powers get opportunities to grow without balancing them.

### **III.2.6. Conclusion**

My paper tries to show the external and internal factors that lead the strongest state in the international system to re-evaluate its positions around the globe. The seemingly uncontested primacy of the United States enabled the country to send its military into conflicts that cost a lot of resources. These engagements drained the USA and its voters and made them disillusioned about foreign endeavours. Furthermore, China and Russia have perceived their relative power grew in the international system. This phenomenon has been making them challenge the position of the United States in the system.

The USA has been trying to balance and maintain its dominant position around the globe with soft balancing and limited hard balancing. (PAUL, T. V. 2018 p. 22.) On the surface, this strategy can remain the same. The country has a wide alliance system across the globe.

However, the approach to foreign policy and the international system needs to be changed. The United States needs to retrench from regions that are not vital to its national interest and share more burden of maintaining the dominant position in the system with its allies. European allies can help contain Russia since they are the ones who are the most incentivized to do so.

France and other stakeholders can help mitigate the threat international terrorist organisations pose. Australia, Japan, South Korea and other allies can use their economic power to contain China.

These developments have been resurrecting spheres of influence. The coming decades will no longer resemble the virtually unipolar position of the USA as was the case in the 1990's and early 2000's. In my opinion the resurgence of great power politics is inevitable. The United States and its allies can maintain their pre-eminence in the international system with burden-sharing. These states can use their economic and

military might to balance against rising powers and keep them in check. If they miss this opportunity, and follow outdated strategies, their relative position in the international system will deteriorate.

### *Acknowledgement*

The present publication is the outcome of the project „From Talent to Young Researcher project aimed at activities supporting the research career model in higher education”, identifier EFOP-3.6.3-VEKOP-16-2017-00007 co-supported by the European Union, Hungary and the European Social Fund.

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### III.3. Building Resilience as a Security Strategy for Donors and Hosts: The Case of the EU and Jordan concerning the Syrian Refugees

ALEASSA LINA DHAHI SALIBAH<sup>46</sup>

#### Abstract

*Resilience became a cornerstone of the 2016 EU Global Strategy on Foreign and Security Policy (EUGS), which refers to building state and societal resilience among EU neighbors as one of the key strategic priorities of the EU foreign policy, as well as an immigration combat tool, especially, after the 2015-2016 immigration crisis. Thus, building resilience aims to secure the EU and its neighbors. Thus, this paper's question is What are the implications of building resilience as a security strategy for the donors in case of the EU and Syrian refugees hosting countries in case of Jordan? Although, the EU's approach toward building resilience has been criticized as jeopardizing the national security of the hosting countries by affecting the economy and the social cohesion of the hosting countries, however, in this paper, based on document analysis from official websites for the EU and Jordan, and textual analysis, I argued that the implications of building resilience for the donors in case of the EU is that it is a strategy to achieve security on the national level while for Jordan as a hosting country, it is a strategy to achieve security on the national and humanitarian level.*

**Keywords:** resilience, the Syrian crisis, national security, humanitarian security

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#### III.3.1. Introduction

“Syria is the biggest humanitarian and refugee crisis of our time, a continuing cause of suffering for millions which should be garnering a groundswell of support around the world.” This is how

Filippo Grandi, UNHCR

High Commissioner describes the Syrian crisis (GRANDI, F. 2020). Nine years have already passed this on-going war in Syria with no glimpse of a light at the end of the tunnel. Since 2011, the world has been watching one of its worst crises ever, with no signs of a feasible peaceful resolution for the conflict in the near future. Until now,

400.000 people have been killed since 2011 as estimated (Council on Foreign Relations, 2020) ,millions have become displaced in their home, other millions have become refugees. The United Nation Refugee Agency (UNHCR) has registered over 5.6 million Syrian refugees mostly in Turkey, Lebanon and Jordan, Iraq and Egypt (The United Nations High Commission for Refugees, 2020). While some of those refugees have dangerously managed their way through the Mediterranean to Europe, the majority remain in at the neighboring countries including Jordan.

For this reason, the on-going war in Syria does not only affect Syria alone, but it has drastic consequences on the whole region. As for Europe , the on- going crisis cannot be separated from its 2015-2016 Europe Migrant Crisis , also known as the refugee crisis, when Europe received more than 1.3 million asylum seekers, of whom 378,000 were Syrians , accounting for 29% of all of Europe’s asylum seekers , the highest share of any country (Pew Research Center , 2016). This crisis made the EU adopt a different approach to respond to its current problems, in particular, the refugee crisis. Hence, building state and societal resilience became

one of its five priorities of foreign and security policy as emphasized in its 2016 Global Strategy (EUGS) (European Union External Action, 2016).

This shift was in parallel to the international community’s shift to building resilience of the refugees and the hosting communities in response to the Syrian crisis , 2015 Regional Refugee and Resilience Plan (United Nations Development Program, 2019) .Hence, Building resilience as illustrated by the commission as the ability of the states, societies, communities and individuals to manage, tackle, adapt, and recover from shocks and crises (European Commission, 2012) became the new approach for the EU and the international community in response for this crisis. For this reason, this paper’s main question is.

### **III.3.2. What are the implications of building resilience as a security strategy for the donors in case of the EU and Syrian refugees hosting countries in case of Jordan?**

In order to answer this question, the paper will proceed as follows: the first section addresses

how the Syrian refugee crisis has been securitized to be considered as a threat for both Jordan and the EU and the need for a different response. The second section conceptualizes resilience, traces its origin and mapping it in the EU's humanitarian and development policy, to understand the EU's building resilience characteristics. Next, the paper proceeds to map resilience in the EU's foreign and security policy, tracing the context of the EU's-Jordan relation and analyze the shift in the EU's foreign and security policy in terms of its relations with its southern neighbors including Jordan; this shift that moves from a duty-responsibility approach to a threat-responsibility approach as illustrated in building resilience. The following section provides empirical insights on the EU's building resilience in Jordan and some evidence on the ground. Next, the significance of building resilience in response of the crisis for both Jordan and the EU is illustrated. Finally, the conclusion and the implication for policy makers and upcoming research in regard of resilience.

As for the methodology of this paper, a descriptive mythology is used to describe building resilience, the characteristics of the EU's resilient approach and

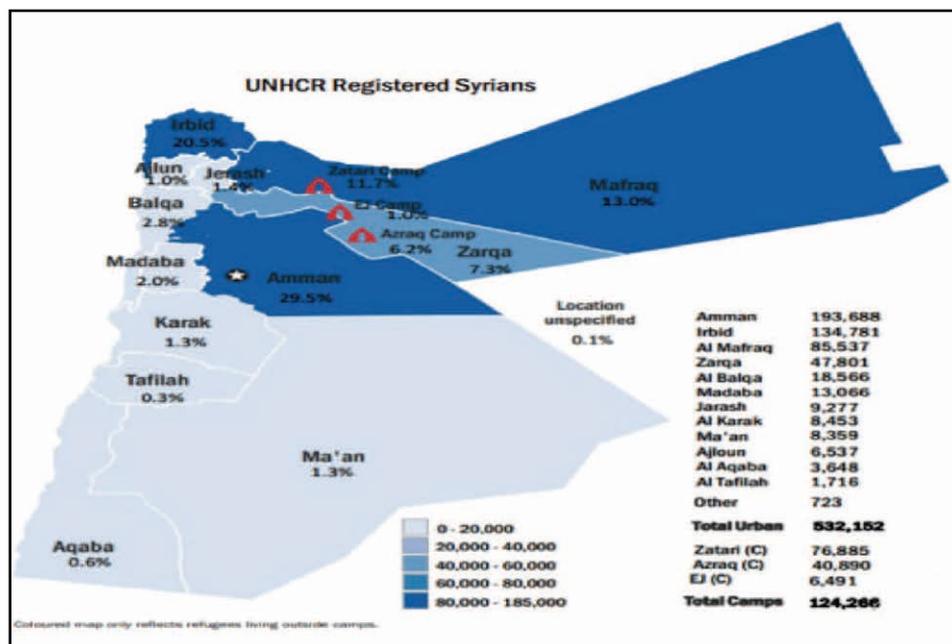
the EU's empirical approach for building resilience in Jordan. For this reason, this paper primarily builds upon the analysis of various texts, including official EU's and Jordanian policy documents, websites, NGO's websites, NEWS reports, and scholarly literature.

### **III.3.3. Securitizing the Syrian Refugee crisis**

The impact of the ongoing war is not only restricted to Syria, but also the whole region including Jordan. The sudden influx of refugees has magnified the country's own problems; as Jordan is a middle-low class country with a very limited resources, an increasing rate of poverty and a high rate of unemployment amid a region of turmoil, the Syrian refugee crisis has placed financial, social, and institutional strains on Jordan as a host community. The latest Jordanian census of November 2015 shows that there are about 1.4 million Syrian refugees in the country's different governorates. As of April 2020, there were 656,213 registered Syrian refugees and asylum seekers in Jordan by the (UNHCR) (The United Nations High Commission for Refugees, 2020) which means that more than 50% of Syrian refugees in Jordan are unregistered. The majority of

the 656,213 Syrian refugees in Jordan live in the local communities rather than refugee camps. Out of the registered Syrian refugees, only (123,366) live in the official camps for the Syrian refugees in Jordan -Zaatari, Margeeb Alfhood,

and Azraq- consisting 16% of the total Syrian refugees registered with UNHCR. The distribution of registered refugees in Jordan within the camps and the Jordanian governates according to the UNHR in March 2020 (*Figure 8*).



*Figure 8: UNHCR Registered Syrian in Jordan April 15 2020*  
 Source: Operational Portal Refugee Status UNHR, 2020

It is in the light of this and the distribution of refugees within the local communities that the Syrian refugees are securitized and might be considered as a threat to the socio-economic stability, social cohesion, political stability of the kingdom, its national security, and the humanitarian security of the refugees and the Jordanian

host communities. For this reason, conceptualize national and humanitarian security is crucial for this paper to see how the refugees were securitized.

A classical definition of security has been an issue of debate, especially from a realist view of security which recognizes the state as the main actor, and survival

as its ultimate objective, thus, it simplifies the complex concept of security as almost a „synonym for power”. Therefore, the concept of security emphasizes the use of force and military power to deal with external threats and ensure the survival of the state (BUZAN, B. 1983). In addition, Joseph J. Romm indicates that the phrase “national security” was not so often used until World War II in the 1947 National Security Act, which established the National Security Council (ROMM, J. J. 1983).

Yet, the concept of security has been broadened after the cold war, because threats were not only restricted to traditional military threats, but also of economic, political, social, environmental form. The United Nations Office for the Coordination of Humanitarian Affairs (OCHA) expanded the definition of security calls to emphasize the humanitarian security. Hence, security also covers tackling different threats including; economic: indicates the need of the creation of jobs and applying measures against poverty; Food: applying measures against hunger and famine ;health: implementing measures against disease, unsafe food and lack of access to basic health care ;environmental: implementing measures to address environmental degradation, natural

disasters and pollution; personal: implementing measures against physical violence, crime, terrorism, domestic violence and child labor; community: implementing measures against inter-ethnic, religious and other identity tensions; and political: measures against political oppression and human rights abuses (Human Security Unit, United Nations , 2009).

For this reason, Buzan, Waever and Wilde categorize sectors of security analysis as follows: military -political security which is the framework for the stability of states, organizational systems of government and ideologies that give them legitimacy; economic security and its essence is the access to the resources, finance and markets necessary to maintain suitable levels of welfare and state power; societal security is concerned with sustainability and satisfied level of development; and environmental security (BUZAN, B. et al. 1997).

The impact of the Syrian refugees on Jordan can only be understood within the framework proposed by Buzan. The scope of this paper cannot cover in details the impact of the refugees on Jordan; the socio-economic impacts of massive number of refugees and their pressure that burdened the poor infrastructure of the country, the extra demand on water, energy,

shelter, educational and health services, the competition on the labor sector that had burdened the country, the political and security impacts as the country is a part of a coalition that targets terrorist groups and combats extremist radical ideologies, a threat to its internal and external security is likely to happen as al Rukban attacks (BBC NEWS 2016). This reason forced Jordan to adopt different policies to deal with security challenges in term of refugees from an open door policy at first to more tightened and

strict policy in front of refugees (RASHEED, A. – BEAUJOUAN, J. 2020).

Consequently, refugees can be seen as a threat to Jordan on the national and humanitarian level. As for Europe, the on- going crisis cannot be separated from its 2015-2016 Europe Migrant Crisis, also known as the refugee crisis, when Europe received more than 1.3 million asylum seekers, from which 378,000 were Syrians, accounting for 29% of all of Europe’s asylum seekers, the highest share (Figure 9).

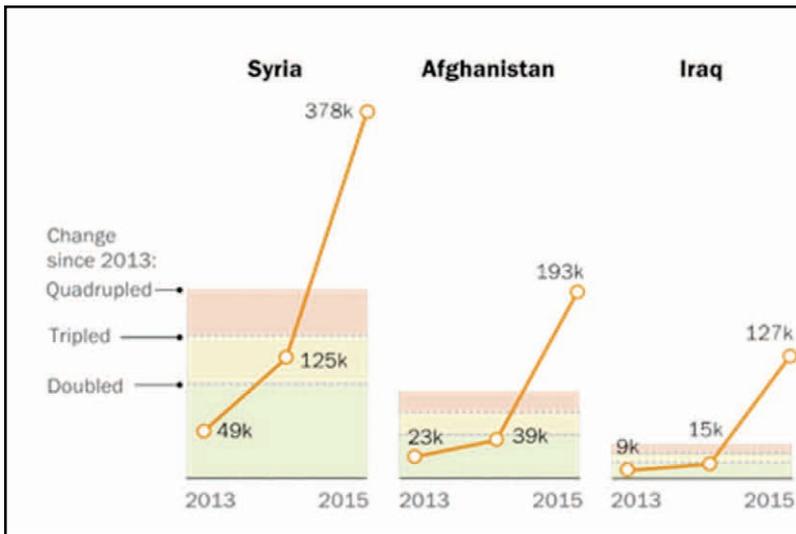


Figure 9: Number of first-time applications to Europe from countries of origin with a long -lasting conflicts in thousands (Syria, Iraq and Afghanistan from 2013 to 2015)

Source: Pew Research Center, 2016

This chart illustrates the security fears of a new wave of refugees to Europe especially from Syria, when in compared

with other conflicted countries, it has the highest share of applicants .The securitizing of refugees as a threat to Europe as they might

affect its social cohesion, fears from terrorists among refugees or terrorist attack, beside the problem of securing its borders in the face of new wave of refugees.

All of these can make refugees as a threat to Europe's national security. For this reason, and in parallel to the absent of a foreseeable solution in the near future for the crisis, building resilience of the refugees and the host community became the new national, regional and international approach in response of the Syrian refugee crisis for both Jordan and Europe. The following section will conceptualize resilience as a term and its use in foreign and security policy for the EU and Jordan.

### **III.3.4. Conceptualizing resilience**

The crisis of the Syrian refugees does not only represent a humanitarian crisis, but moreover, after the Europe Migrant Crisis , also known as the refugee crisis, which began in 2015, the European Union (EU) has taken the migration and displacement as key priority in the 2016 European Union Global Strategy (EUGS) for Foreign and Security Policy. In other words, in order to respond to such a crisis, the EU has adopted building resilience of states and societies as one of its

five priorities and a key security policy (European Union External Action, 2016).

Resilience as a word stems from the Latin word "resilire." "Salire" means to leap or jump; the suffix "re" indicates repetition, or backward motion. As for its origin, resilience is often traced back and attributed to the ecologist Holling who used the concept to refer to the ecological systems' ability to absorb change and disruption (HOLLING, C. S. 1973; WALKER , J. – COOPER , M. 2011). Others have emphasized the important contributions from psychology, where resilience implies a shift in the focus from vulnerability and deficits to protective factors and adaptive capacities (BOURBEAU, P. 2013).

Risk scholars as the risk scholar Wildavsky, illustrated and defined resilience as "the capacity to deal with unanticipated dangers after they have become manifest, learning to bounce back" (WILDAVSKY, A. 1988 p. 77.). Consequently, resilience also found a home in the natural disasters studies.

As for the EU, building resilience has been integrated into the EU humanitarian and development policy by the EU Commission from 2012, as it was understood as the capability of

states, societies, communities and individuals to manage, tackle, adapt, and recover from shocks and crises (European Commission, 2012). However, it is important to be mentioned here that the EU was not the only one to consolidate resilience to its policies, others like the UN, the US and other NGOs have also adopted it, but it is beyond the scope of this paper to trace the resilience history for them.

On the other side, mapping resilience in the EU humanitarian and development policy, as will be illustrated in the following section, is crucial to understand the characteristics of the EU building resilience and how it is applied on its Foreign and security policy.

### **Mapping resilience in the EU humanitarian and development policy**

Since its publication of The EU Approach to Resilience: Learning from Food Security Crises in 2012 (European Commission, 2012), the European Commission has systemically used the term in its humanitarian and development policy. In this document, the Commission has illustrated that resilience is the ability of the states, societies, communities and individuals to manage, tackle, adapt, and recover from shocks and

crises. Borrowing from the Global Alliance for Resilience Initiative, it confirms that resilience-based approach is the base to reduce vulnerability, in particular, to climate change-induced disasters (Tocci, N. 2019).

In the Conclusion of the Council of the European Union on The EU Approach to Resilience in 2013, resilience has been stretched to be more comprehensive; it was not only restricted to natural crisis, but also resilience to other kinds of crisis including, for instance, conflicts and weak governance. More importantly, the council has highlighted two important aspects of building resilience. Firstly, the humanitarian and development nexus and the significance of their actors working together; secondly, the Council's emphasis that building resilience requires working closely with local communities, civil society, local authorities, and the private sector. Nevertheless, it recognizes that resilience is an overall national government responsibility (Council of the European Union, 2013).

Following that shortly, the European Commission published the Action Plan for Resilience in Crisis Prone Countries, designed to reinforce the momentum of the resilience agenda (European Commission, 2013). The

importance of this document as Tocci confirms is that the three characteristics of the EU building resilience are clearly notable. First, the plan affirms that all EU actors (humanitarian, development, political) should work differently and more effectively together to achieve resilience objectives. Second, it asserts the responsibility of the national and local government to achieve resilience, which implies the need for integrating resilience in national policies and planning for development. In addition, the plan asserts that a resilience approach has to be sustainable, multi-sectoral, multi-level, multi-partner, and jointly planned by the people, communities, or governments at risk (Tocci, N. 2019).

Third, a resilience approach is characterized as people-centered and focused on the most vulnerable groups. The indication is that resilience does not only aim to increase their ability to absorb shocks and to cope with stresses, but it also constitutes an opportunity for transformation, in regard to adaptation, to changing environments, improving livelihoods and economic opportunities (Council of the European Union, 2013).

What is important here, in term of the Syrian refugee crisis, is the indication of the notion that crises

present possibilities and chances for development, which can be read as a precursor for the EU framing refugees as an economic asset and a development opportunity for the refugee's hosting states. This can be found in later policy documents like *Lives in Dignity: From Aid-dependence to Self-reliance: Forced Displacement and Development* (European Commission, 2016). Growing concerns over the refugee and migration crisis in 2015 paved the way for this policy which aims to fostering the resilience and self-reliance of forcibly displaced people.

This illustration was crucial in order to understand the EU's approach towards resilience and its characteristics, and since this paper aims to illustrate resilience as a security strategy of the EU towards the Syrian refugee crisis, the following section addressing and mapping briefly the EU foreign and security policy in term of its relation with Jordan, the shift in its approach after the 2015 refugee crisis toward its Southern neighboring countries, and its adoption of building resilience as one of its five priorities in its 2016 European Union Global Strategy (EUGS), in comparison with the 2003 European Security Strategy (ESS). Though this shift was not only restricted to Jordan, in particular, but it was extended to be

a priority of building resilience of the EU as a whole, its states, and the Southern and Eastern neighboring countries.

### **III.3.5. Mapping EU-Jordan foreign and Security Policy**

As Jordan is a significant partner of the EU at the global and regional level, and due to its important role in promoting stability, moderation and inter-faith tolerance in the Middle East, the EU has realized the important role of Jordan as a source of stability in the region, and the importance of increasing its support for such a significant actor in the region. Hence, the EU has sought for the advancement of its relation with Jordan and increasing its cooperation with it on different levels and across different sectors. In this regard, the mission of the EU Delegation to Jordan is to ensure the representation of the European Union to the country ,to implement , to follow up and to advance their bilateral relation in different fields ranging from politics, economy, trade, security, rule of law ,external assistance and cooperation (Press and information team of the Delegation to Jordan, 2019).

On the multilateral level, Jordan- EU relation can be traced back to the 1970s, when the founders

of the EU (the European Economic Community and the European Community) started to design various processes as a principal guide to their relationships with Mediterranean countries, including Jordan. The implementation of this was through several policy frameworks including the Global Mediterranean Policy of 1972 (BOCCI, F. 2007), the Euro-Arab Dialogue of 1973 (ALLEN, D. 1977) ,the Euro-Mediterranean Partnership (EMP)Barcelona Process of 1995 , the European Neighborhood Policy (ENP) of 2003/2004, as well as the Union for the Mediterranean (UFM) of 2008 (YOUNGS, R. 2015).

On the bilateral level, the EU and Jordan have an Association Agreement since 2002, which is considered as the main block for their bilateral relationship. This agreement has linked them together and has established a strong partnership across many sectors. In October 2010, the EU-Jordan Association Council agreed on an advanced status' partnership, which has resulted in an increase in the scope of political cooperation, open up doors for greater integration, an approximation of economic legislation and the reduction of trade barriers. The EU-Jordan action-plan, which governed their cooperation from 2012-2016,

demonstrated this advanced status. In 2014, the EU and Jordan agreed on a mobility partnership that aimed to improve the management of mobility and migration (Press and information team of the Delegation to Jordan, 2019).

In line with the 2015 revised European Neighborhood Policy, the EU and Jordan have adopted the EU-Jordan Partnership Priorities. Under the Partnership Priorities, the cooperation is designed to mutually reinforce these objectives: i) macro-economic stability, sustainable and knowledge-based growth; ii) strengthening democratic governance, the rule of law and human rights; and iii) regional stability and security, including counter terrorism. Moreover, it seeks to enhance cooperation in different issues including migration and mobility, economic, social and political inclusion of vulnerable groups, including youth and women (FAKHOURY, T. 2019). Further, as will be illustrated in a following section, Jordan signed the 2016 Jordan -EU compact, after London conference 2016 for supporting Syria and the Region. The compact aims at improving the living conditions of refugees and their host communities (Briefing European Parliamentary Research Service, 2017).

As mentioned, Jordan

is covered by the European Neighborhood Policy (ENP) 2003-2004, which is a broad framework of bilateral agreements between the EU and other Southern neighboring countries through regional cooperation initiatives including the Eastern Partnership and the Union for the Mediterranean. This framework aims to strengthen the prosperity, the stability and security of all members and It is based on democracy, the rule of law and respect for human rights (DAMEN, M. – JONGBERG, K. 2019).

Driven by overwhelming internal developments, including, not restrictively, the Eurozone crisis, the entering into force of the Lisbon Treaty and regional developments including the Arab uprisings in 2011. The EU has revised the ENP twice ;First, throughout the first months of 2011 in which the EU ,resorting to the ENP, as a response to the Arab uprisings, demonstrated support for the emerging processes of political liberalization (European Commission and High Representative of the Union For Foreign Affairs and Security Policy, 2011). The second revision of the ENP was in 2015; the 2011 revised ENP's ineffectiveness to accommodate the promise of the Arab uprisings in line with the outbreak of new conflicts in the southern neighboring countries

led to this review (BADARIN, E. – SCHUMACHER, T. 2020).

The significance of the 2015 ENP revision policy is its implication in term of the EU foreign and security policy in regard of its southern neighboring countries, and how it became a watershed for the EU-neighborhood relations that showed the de facto abolition of the EU's long-standing ambition to pursue a values-based agenda, in favor of democracy promotion in the EU southern neighborhood (DELCOUR, L. 2015). Moreover, the 2015 review of the ENP integrated building resilience for the first time into the realm of EU foreign policy towards the southern neighbors, though vaguely and abruptly (BADARIN, E. – SCHUMACHER, T. 2020).

What is more, the latest ENP review was concluded in November 2015, eight months before the adoption of the 2016 European Union Global Strategy (EUGS). In that respect, it was closely coordinated with the deliberations leading to the EUGS. The Global Strategy was presented in June 2016, after a comprehensive review of the EU's external policies. In the EUGS, resilience is emphasized as a strategic priority out of the five priorities of the EU. The EUGS mentions the commitment to state and societal resilience, to the east

and south neighbors, as the main objective of EU external action (European Union External Action, 2016) (COLOMBO, S. et al. 2017).

Borrowing from the 2012 Commission Communication on the EU's approach to resilience, the EUGS defines resilience as 'the ability of an individual, a household, a community, a country or a region to withstand, adapt and quickly recover from stresses and shocks' (European Commission, 2012, p. 5) (European Union External Action, 2016). The implication of resilience, in the EUGS on its relation with the southern neighbors, represents a complete shift in its paradigm towards its southern neighbors including Jordan.

Indeed, the European Union's policy towards its Southern neighborhood has been through different changes. From the 'Barcelona Process' of the 1990s to the European Security Strategy (ESS) of 2003 (YOUNGS, R. 2015) ,the EUs' policy frameworks championed and portrayed the EU as a normative power whose impact resorted on being an exemplary source of peace, wealth, and democracy (MANNERS, I. 2003). The EU, reflecting on itself, saw the usefulness of its norms and values starting from democracy, free trade, human rights and rule of law, consequently, wanted to export

them to its southern neighbors as a common interest for both (PARIS, R. 2010). Thus, as the south was seen by the EU as unstable and a source of dominant threat, both the ESS and ENP aimed to present a fit-sized policy to stabilize the EU southern neighbors by exporting EU's norms.

This narrative of duty-responsibility dominated the EU foreign policy discourse even during the initial response to the Arab uprisings, as emphasized by the first review of the 2011 ENP and its so called "strategic option" that emphasize its support to the Arab risings (The European Parliament, 2011).

However, driven by internal and external development, the second review of the 2015 ENP implied the significance of supporting its partners in the region. More than ever, stabilization has become the main principal guiding the EU's new strategy for security and prosperity, through 'more effective partnerships towards a more stable EU Neighborhood'. Achieving this goal required mainly building resilience of [the] partners with whom the EU will engage to enhance cooperation on security and migration-related issues (European Union External Action, 2016).

In addition, the EU's

optimistic view of Europe itself with the ESS opening assertion that 'Europe has never been so prosperous, so secure, nor so free' (Council of the European Union, 2003, p. 3) has been transformed in the EUGS with the acknowledgment of Europe insecurity as the opening asserts that; 'we need a stronger Europe. This is what our citizens deserve, this is what the wider world expects. We live in times of existential crisis, within and beyond the European Union' (European Union External Action, 2016, p. 13). Hence, crisis and instability are inevitable and framed as normal while peace and stability are the exception (DENNISON, S. – WITNEY, N. 2015).

This shift in the EU's view about itself, the neighboring and the whole world; the need to embrace insecurity narrative, learn to live with it pro-actively, and the inevitability of shocks and crisis (REID, J. – EVANS, B. 2014) transformed the EU duty-responsibility to threat-responsibility narrative. As a result, building state and societal resilience of the EU, the southern and eastern neighboring states became the priority of the EU foreign and security policy and the path to stability and security.

However, this shift does not mean that the EU has simply abandoned its normative agenda

in favor of a crude transactional one that makes the EU simply overpasses and ignores severe violations of rights and laws by states beyond the EU's borders (BICCHI, F. – MARTIN, M. 2006) ,rather, the EU pragmatically faces the reality that this agenda is insufficient to unstable region. Thus, building resilience is like a middle ground between over-ambitious liberal peacebuilding and under-ambitious stability (ANHOLT, R. – WAGNER, W. 2016).

In other words, in order to achieve these goals and to spread the EU's norm, building resilience is essential. The emphasis is not only on state resilience, but also on societal resilience through coping and learning. This requires cooperation and working with the partners in the south, with emphasis on the local and the host state's responsibility of building resilience. More importantly, the EUGS emphasis on the state and societal resilience implies not only the need for strengthening the capability of states to prevent crisis and reduces their impact after occurring ,but also signifying the importance of the political, social, economic, and governance resources of societies to prevent shocks, as well as to cope with them, not only by absorbing them, but rather, by actively strengthening themselves

(COLOMBO, S. et al. 2017).

The same notion applies to Jordan, resilience was not absent from the local mind as a response for the Syrian crisis, the following section will map resilience in Jordan planning toward the Syrian crisis as it became a security strategy against the negative impacts of refugees.

### **III.3.6. Jordan policies in response to the Syrian refugee crisis and the shift to building resilience**

Amid a region of turmoil and surrounded by intractable conflicts, Jordan has always been a safe haven for refugees and forced migrants throughout its history. Although Jordan is not a signatory to the 1951 Refugees Convention and its 1967 Protocol, it has always shared the burden of refugees in the context of international cooperation and burden-sharing. Despite of all the challenges it faces, as Jordan is a middle-low class country with a very limited resources, an increasing rate of poverty and a high rate of unemployment, Jordan has received different waves of refugees. After receiving Palestinians since the first Arab-Israeli war of 1948, Jordan has also received refugees from Lebanon during the 1975-1991 civil war, Iraqis refugees in two waves; the 1991 Gulf War and after

the American invasion in 2003, and most recently Syrian refugees with the rising of the Syrian conflict since 2011 (ALOUGILI, M. A. 2019).

As mentioned earlier, the impact of the influx of 1.4 million refugees had added a large strain on the country with increasing external and internal pressures and threats. On the external level, the influx of refugees reflected the need to secure its borders fearing from terrorist attacks, as the latest 2016 Al-Rukban attack along the Syrian-Jordan northern borders where five soldiers were killed (BBC NEWS 2016), or fears from terrorists disguised among the refugees. As for the internal level, strains on the infrastructure with an increase demand on water, electricity, health and educational services, and more importantly, security services for the refugees and the local communities meant a great pressure on the already limited-resources country. Moreover, an increasing discontent among the local communities created another pressure on the government with fears of instrumentalizing this discontent to destabilize the country (ALOUGILI, M. A. 2019).

However, despite of all these challenges, the government and, by the help of the intranational community including the EU, has managed to contain the crisis to a

certain extent. The government's adoption of a reactive and shifting approach, based on the course of the Syrian conflict, enabled it to make such a containment (Jordan Response Platform for the Syria Crisis, 2014).

Tracing this shifting approach goes back to the rising of the conflict in 2011. At first, Jordan followed up an open policy and welcomed those refugees. This is not something new, as the country historically had open policies towards migration and refugees in general. Al Za'atari, the first official refugee camp for the Syrian refugees, was created by the UNHCR in July 2012, followed by Mrajeeb Al Fhood in April 2013, by the United Arab States of Emirates funding. Al Azraq was opened in April 2014, and King Abdullah Park as a temporary camp in Irbid Governorate was opened (ACHILLI, L. 2017). On the other side, authorizing building camps thought as a way to increase international visibility and to attract international aids through encampment (ALSHOUBAKI, W. 2020).

Although the government was tolerant and welcomed the Syrian refugees at the beginning, those refugees were denied the right to work and were strongly incentivized to settle in camps rather

than in urban areas Neighboring. However, as the conflict escalated from 2013, security fears increased restrictions over refugees and securitizing Syrian refugees began by the government since then. In March 2013, the government established the Syrian Refugee Camp Directorate (SRCD), later was replaced by the Syrian Refugee Affairs Directorate (SRAD) as a branch of Jordan's security services aiming at policing refugees' movements inside and outside the Syrian camps (RASHEED, A. – BEAUJOUAN, J. 2020).

The rapidly increasing number of the Syrian refugees in the country changed the Syrian refugee crisis into a Jordanian crisis that proved the inadequacy of its legal framework for dealing with refugees. Jordan's legal framework is based on its 1998 Memorandum of Understanding (MoU) signed with UNHCR, according to this memorandum, Jordan accepts the definition of "refugee" as contained in the 1951 Convention and agrees that refugees should receive treatment according to internationally accepted standards (SALIBA, I. 2016).

For this reason, the government realized the need to establish a better legal framework and a national policy to deal with such a crisis. Its efforts with the UN

support, led to the formulation of the National Resilience Plan (NRP) in June 2014, a three-year programme of high priority investments by the government in order to respond to the impact of the Syrian refugees in Jordan. According to this plan, Jordan intended to invest US\$2.41 billion over three years in local institutions and host communities in these sectors: health, education, water and sanitation, livelihood and employment, energy, housing, and social protection (United Nations and Host Community Support Platform, 2014).

In line with the NRP, the Jordan Response Platform for the Syria Crisis (JRPSC) was created in September 2014. It aimed at coordinating, guiding, and helping in the preparation, implementation and monitoring of the (Jordan Response Plan) JRP 2015 and the JRP 2016. The JRP was first launched in December 2014, a one-year programme. It was planned as a co-work between the Ministry of Planning and International Cooperation (MoPIC) and the UN (Jordan Response Platform for the Syria Crisis, 2014).

The significance of the 2015 JRP is that it reflected the drastic shift in the approach to the Syrian refugee crisis. Before 2013, the priority of the Jordanian government was the humanitarian relief to those

refugees, however, from 2014, national and international actors worked together to implement an integrated and a comprehensive response to the crisis. Put differently, resilience approach was adopted by Jordan and the UN. Based on a long-term sustainable development for both the refugee population and the host communities, it addressed issues of social integration, capacity building, prevention of extremism, with an emphasis on the protection of the Syrian refugees (RASHEED, A. – BEAUJOUAN, J. 2020).

The JRP estimated almost US\$3 billion to be pledged in 11 strategic sectors. Donors' contributions to the plan are arranged through one channel, the Jordan Resilience Fund (JRF), launched by Jordan and the UN. As a result of the continuous influx of the Syrian refugees, and to emphasize on a more long-term resilient planning, the JRP 2015 was renewed until 2020 in two periods: the JRP 2016–2018 and the current JRP 2018–2020 (RASHEED, A. – BEAUJOUAN, J. 2020). The shift of the JRP, to cover two years instead of one, indicates a shift from emergency intervention to a more sustainable, long-term planning to endure the crisis.

However, the government's strong commitment to achieve development since 2014 failed

to address the need of both the refugees and the host communities leading to discontent among the host communities and increased tension between the two sides. Thus, the Jordanian authorities added two essential pillars to the 2016 JRP – refugees and resilience – to address both the needs of the Syrian refugees and the host communities as a consequence of the demographic pressure there. In other words, building resilience for both the refugees and the host communities became the priority of the Jordanian government, to ensure its stability, preserve its social cohesion, and consequently its security.

As a result, the country managed to address those needs and preserve its social cohesion, though in a limited way. In the field of education, for instance, several initiatives that aim to address disrupted social cohesion among the host communities have made limited, but positive, progress. One of these initiatives, Generations for Peace, that came into existence in 2015 and still going, as a result of cooperation between UNICEF and the ministry of education in Jordan. It aims to address violence at schools and reduce it by designing different after-school activities bringing Syrian and Jordanian students together (SALEM, H. –

MORRICE, L. 2019).

Another way in which Jordan has tried to achieve the refugee-resilience pillars is by requiring aid organizations to address both refugees and host communities to avoid tension between them. According to the Jordan Response Information System for the Syria Crisis, the registration of any project and its obtaining the government approval require targeting at least 30% vulnerable host (Jordanian) communities under the refugee component, and at least 30% refugees under the resilience component (Rosanne & Giulia, 2019).

Finally, with the aim of bringing a more regionally coherent process that integrate refugee and resilience programming, Jordan signed the Regional Refugee and Resilience Plan (3RP), a jointly-led plan by the United Nation High Commission for Refugees (UNHCR) and the United Nation Development Programme (UNDP) launched in 2015. It constitutes one regional plan, with five separate chapters covering Turkey, Lebanon, Jordan, Egypt and Iraq; each chapter comprises the national response plan for the Syrian crisis, in case of Jordan, it comprises the Jordan Response Plan. This plan aims to achieve strategic regional cooperation that could ensure

protection, humanitarian assistance and resilience for refugees and their vulnerable host communities (United Nations Development Program, 2019).

The final point to be mentioned here is that the JRP is parallel to another ten years national policy Known as Vision 2025, launched in 2015. Its aims to achieve sustainable and inclusive growth, with the reflection on the government's strong will to turn the Syrian refugee crisis into a development opportunity. An essential element of this vision is the establishment of almost 18 special economic zones to facilitate exporting goods to markets in the EU under relaxed rules of origin, thus creating employment opportunities for Syrians and Jordanians as agreed on the 2016 Jordan-EU compact, as will be illustrated in the following section (Briefing European Parliamentary Research Service, 2017).

After illustrating how building resilience became a strategic priority for both the EU and Jordan and how it contributed to preserve Jordan's stability, the following section highlights the EU empirical approach and its role in building resilience in Jordan as an international donor to highlight some of its most important instruments and its role in Jordan.

### **III.3.7. The EU building resilience in Jordan**

The EU has always looked to consolidate its role in Jordan. This was emphasized with the review of 2015 ENP and the partnership priorities. In the context of building resilience, the EU aimed, and still does, to integrate its instruments in the national plans, and work with a multitude of state and non-state actors in implementing projects addressing directly issues of livelihoods, economic growth, protection and conflict resolution (FAKHOURY, T. 2019).

After the London 2016 conference, Supporting Syria and the Region that brought together the world leaders, NGOS, and private sectors to address the Syria crisis, the international communities emphasized the need, not only to raise funding to tackle this issue, but more importantly, to set ambition plans to integrate humanitarian and sustainable development for both the refugees and the host communities. Since then, the EU approach toward building resilience became its priority (UNHCR, 2018).

In addition, the EU has co-hosted the 2017, 2018, and 2019 Brussels Conferences for Supporting the Future of Syria

and the Region. From the first conference, the EU's strong commitment to building resilience was emphasized. First, it has designed a financial tracking system to confirm that it has delivered on its pledges committed through the 2016 EU-Jordan compact. Second, in order to ensure the development of host communities, it has funded projects that have linked refugee aid to the establishment of new local institutions, for instance, the implementation of an Election Observation mission in Jordan (Briefing European Parliamentary Research Service, 2017).

As for the financial assistance, since the beginning of the Syrian crisis, the European Union is a leading donor for supporting Jordan to deal with the impact of the Syrian crisis. It has pledged since then almost €2.1 billion through bilateral assistance (€12 million), humanitarian aid (€360 million) and resilience assistance (€59 million). These were directed through different instruments to address the refugees-resilience pillars. The humanitarian aid provides services such as healthcare, food and basic needs assistance, support during the winter months, shelter, water and sanitation for both the refugees, at the camps and other urban areas, and also includes vulnerable Jordanian families (*Figure 10*).

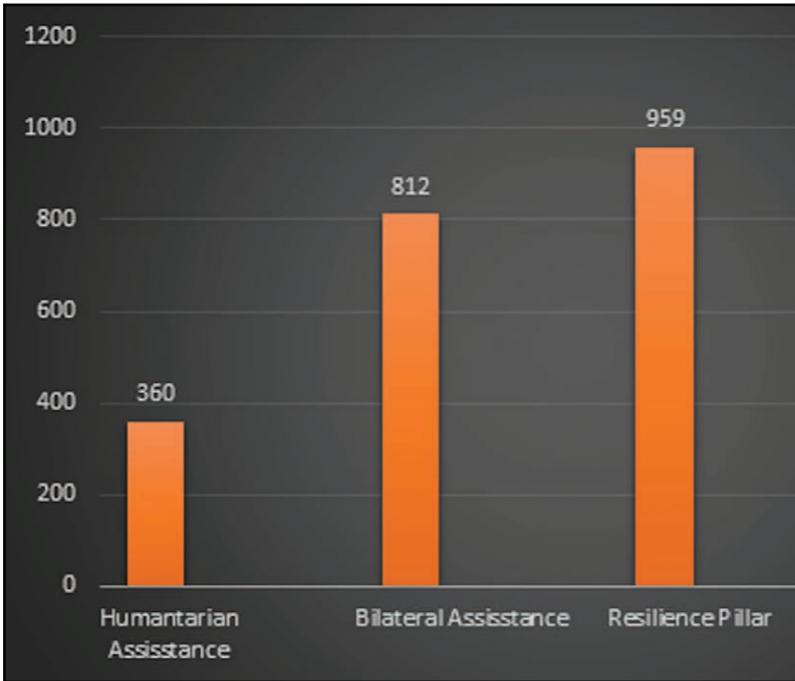


Figure 10: EU Financial Support to Jordan in Response for the Crisis since 2011 in millions €

Source: Press and information team of the Delegation to Jordan, 2019I

Other instruments like the Regional Trust Fund in Response to the Syrian Crisis the ‘MADAD Fund’ was established in 2014. It mainly tackles longer term resilience and recovery needs (economic, educational, social and psycho-social) of Syrian refugees in neighboring countries such as Jordan, Lebanon, Turkey and Iraq. Its support also extends to the host communities.

Through this fund, the EU has committed €300 million as resilience support for Jordan in line

with The Jordan Response Plan (Press and information team of the Delegation to Jordan, 2019). The aim of this fund by focusing on education, livelihood, water and sanitation, and health is helping in achieving humanitarian security for the refugees and the vulnerable Jordanian families so that they can live in dignity as much as possible.

In the field of education, for instance, this fund has contributed with over €380 million till 2018 making the EU the largest donor to deal with the Syria crisis in that

respect. The fund aims to support the education sector as a whole, through its cooperation with the Ministry of Education and the Ministry of Labor to improve training and skills to facilitate access to the labor market (European Commission, 2019).

Other instruments like the Macro-Financial Assistance (MFA) aims to support Jordan's economic recovery and its economic reforms. The EU signed the first MFA in March 2014 in a programme of €180 million, the MFA II was renewed in September 2017 to pledge additional €200 million and finally the Commission proposed MFA III programme worth €500 million in September 2019. The programme is provided in a form of low-interest, long term loans that aim to support the country's economic growth and create more jobs (European Commission, 2019).

Above all, the 2016 EU-Jordan compact represents a great shift in the EU-Jordan thinking about building resilience and how they seize to instrumentalize the refugees as a development opportunity and economic asset for Jordan. This compact was signed in February 2016, it aims at integrating humanitarian and development funding through multi-year grants and concessional loans; \$700 million to be pledged through annual grant loans for three years, and

concessional loans of \$1.9 billion. In turn, Jordan is required to meet certain targets. One of these targets is linked to formal labor market access. Jordan has to issue 200,000 work permits for Syrian refugees in specified sectors in return for the EU commitment to relaxing trade regulations. In addition, Jordan must employ certain quotas for the Syrian refugees in different businesses, improve the investment environment, and legitimize Syrian businesses in the country. The objective of this is to improve exports from 18 designated economic zones and areas, stimulate economic growth and Jobs creation in Jordan. Finally, Jordan commits to provide school places to all Syrian children, and some work training opportunities (BARBELET, V. et al. 2018).

The significance of this framework lies in different issues. first, it brings together the humanitarian and development sectors to create a more effective response to the refugee crisis. It shifts the nature of the response to the crisis from the humanitarian into the development pillar by extending the access of refugees into the labor market (ROSANNE, A. – GIULIA, S. 2019), this in turn, contributes to their humanitarian security and the development of the host communities.

Second, linking trade to refugees, by simplifying rules of origin, aims to enable Jordanian companies in the manufacturing sector to diversify their products and to create incentives for new and decent jobs for Jordanians and Syrians. As a result, according to the EU delegation in Jordan, 15 companies have applied to gain benefits from the agreement, 13 have been authorized to export to the EU, with 6 exporting a value of €19.26 million since July 2016 (Delegation of the European Union to Jordan, 2019).

Third, the compact has achieved a considerable progress in education and labor market access for the Syrian refugees. When it comes to education, even prior to the compact, the government has been working to provide the Syrian refugees their right of education by expanding the use of double shift schools, with the first morning shift for the Jordanian student, and the afternoon shift attended mainly by the Syrian refugees' children. However, According to the compact, Jordan pledged that every Syrian refugee child would be in school by 2016–17, alongside a promised investment of \$97.6 million to open an additional 102 double shift schools (BARBELET, V. et al. 2018). For this reason, in 2019/2020 school year, a total of

136,437 Syrians aged 5-17 were enrolled in public schools from the 232,127 constituting 59% of the whole (Education Sector Working Group in response to the Syria crisis, 2019).

It might indicate that Jordan does not compile with its commitment, yet it does not seem the case. According to the 2015 Education Sector Working Group, less than 45% of Syrian children (43,791 girls and 41,740 boys) were in schools (BARBELET, V. et al. 2018). This means that Jordan has made a considerable progress despite of all its challenges and it is trying to fulfill its commitment. Moreover, there are different challenges for the children that cannot be addressed easily. The strict administrative procedures make their enrollment very difficult, in addition, the increase of the Syrian family dependency on children to earn money force them to drop school to support their parents (YOUNES, M. – MORRICE, L. 2019).

As for the labor sector, the compact can be seen as a considerable progress towards the Syrian refugees. Prior to the compact, Syrian refugees had to apply for the same work permits as labor migrants, who pay almost €900 annually for a work permit. The high fees and administration

procedures, including the missing official documentation for those refugees, meant that only around 3,000 permits were issued to Syrians before (BARBELET, V. et al. 2018).

By the compact, the government committed to facilitate the regulations and reduce the high fees. Syrians are recently required to pay only JD10 (12 €) administration fees. Moreover, as of July 2018, the government had taken the needed steps to open formal employment opportunities for Syrians. While in 2017 46,000 work permits were granted in sectors approved for foreign workers, in July 2018, a total of 105,000 work permits were issued to Syrian refugees and the total became 179,445 as of January 2020 (The United Nations Refugee Agency, 2020). Syrians have also been formally allowed to work outside the camps for almost one month before coming to renew their work permits (RASHEED, A. – BEAUJOUAN, J. 2020).

However, there are many barriers which remain in front of those refugees. There are restrictions over the economic sectors since they are not authorized to work in all sectors and sometimes those do not correspond with the typical skills profile of Syrian refugees. For instance, tertiary-educated Syrians cannot get permits in

their occupation. Moreover, the informality of Jordan's economy, the slow growth rates, the poor foreign investment climate and the high unemployment rates, have increased the difficulty in front of the creation of formal jobs (HUANG, C. – GOUGH, K. 2019).

By no means, it cannot be said that the compact is flawless or it is the best solution possible. Yet, there are some advantages too. First, the government is always taking more steps to make it workable, as the 2018 review indicates, more work permits were issued (HUANG, C. – GOUGH, K. 2019). More importantly, this compact is the first inclusive response to tackle the refugees crisis in Jordan, it's a more sustainable and a longer-term solution (BARBELET, V. et al. 2018).

The claim is never to argue that nothing is expected from Jordan now, on the contrary, this compact, its positive and limited progress show the government's commitment to the refugee-resilience pillars, yet, more is expected on that turn to help those refugees and to address their basic needs to be less dependent on the humanitarian aids.

The final section of this paper will address the significance of building resilience to address the Syrian refugee crisis for both of the EU and Jordan.

### **III.3.8. The Significance of building resilience to address the Syrian crisis for the EU and Jordan**

The significance of building resilience for both the EU and Jordan stems from different reasons. When it comes to Jordan, the already heavy -burdened country with its own problems, finds itself dealing with an enormous pressure to respond to the refugee's basic needs. This tremendous sudden increase in the population means more demand and competition for access to public services, schooling, health services, infrastructure and jobs. The unforeseeable resolution for the Syrian crisis accompanied with fears of those to return home. According to UNHCR Jordan spokesperson Lily Carlisle, only 20,000 Syrian refugees have returned to Syria after the borders reopening in October 2018 (TURNBULL, E. 2019). meaning that a better solution is needed.

In addition, the escalation of tension between the host communities and refugees, the dissatisfaction among the Jordanian Public, and fears of refugees to be politicized or instrumentalized to destabilize the country as in the light of the 2018 mass protests when refugees were linked to the government decision for cutting

bread subsidies (ALOUGHIL, M. A. 2019) makes building resilience a better strategy to tackle the issue. Through the compact, for instance, it aims to decrease a greater competition between the Jordanian and Syrian through a certain quota for the refugees in certain sectors and special economic zones. This contributes to preserve social cohesion and avoidance of politicizing the refugees.

Moreover, a less restricted administrative procedures for those refugees in camps allows them to rely on themselves , run their own shops, get benefit from the educational programs run by different organizations in the camp, they can even be seen as an example of humanitarian innovation as in the case of Zaatari camp, for instance, where it is partially powered using renewable solar energy (PASHA, S. 2019). For this reason, building resilience for Jordan is a pragmatic policy that contributes with a limited but a positive impact for those refugees and their host communities.

As for the EU, supporting Jordan is also important and this stems from different logic and reasoning. First of all, the EU's approach to Syrian refugees in Jordan-as in the Arab Region- is webbed within a broader crisis governance. By 2015, the arrival

of more than one million refugees to the European Union (EU), with the highest share of those to the Syrian refugees, led to an intra-EU governance crisis on matters of refugee resettlement and asylum policymaking. It also triggered a big wave of securitization in which the EU tightened border controls (FAKHOURY, T. 2019).

The so-called 'refugee crisis' narrative was in full swing and refugees were framed as a threat and a source of vulnerability (CASTAÑEDA, H. – HOLMES, S. M. 2016). The European Agenda of Migration 2015 was adopted back then. It emphasizes the importance of formulating more efficient border control policies, and It also highlights the significance of greater cooperation with third countries, and supporting the countries bearing the burden of displaced refugees. This makes building resilience an ideal solution. In the Jordanian case, it usually concentrates on addressing the pressure on the limited capacity and resources to address the needs of this huge number of refugees (BADARIN, E. – SCHUMACHER, T. 2020). In other words, EU building resilience in Jordan through the 2016 compact, its funding, integrating the refugees into the labor market, and easing rules of regulation to encourage trade, all come within the EU strategy to

secure its southern borders and increase those refugees' capacities to prevent them from leaving into Europe.

As Geddes and Scholten assert that the EU attempts to keep people in their place through working on non-migration policies, through empowering the adaptive capacity of those refugees to remain where they are instead of leaving (GEDDES, A. – SCHOLTEN, P. 2016). Also, Bourbeau suggests that such stability at home needs a strong focus on requirements for change in third countries through resilience, which goes parallel to the European states' sovereignty and security of their national and common borders (BOURBEAU, P. 2013). To spell it out differently, the EU new approach represents a refugee containment strategy that aims not only to provide humanitarian assistance to refugees and host populations but also falls within a broader politics of stabilization, development and improvement of local asylum regimes that aspires to contain the refugee movement as close as possible to Syria (FAKHOURY, T. 2019).

Moreover, adopting resilience comes along a more pragmatic and realistic approach of the EU towards Jordan, within its southern borders. EU realizes the importance role of Jordan as a peaceful partner,

and a corner stone for the stability in the region. Hence, building its resilience, through supporting its economy, is crucial to avoid a new crisis that might lead to a new wave of refugees (ROSANNE, A. – GIULIA, S. 2019). At the same time, this new strategy helps to improve the EU's image, after it has been criticized for its strict policy in dealing with the refugees amid the 2015 immigrant crisis, as the UN Secretary-General, Ban Ki-moon expressed in front of Australian Parliament in April, 2016 that EU policies negatively affect the obligation of member states under international humanitarian law and European law (KINGSLEY, P. 2016). In that respect, building resilience shows a pragmatic approach toward the crisis without endangering its national security and receiving more refugees.

### III.3.9. Conclusion

In a time of a prolonged crisis, with no foreseeable solution in the near future, it might be unsurprising that the EU, as a donor, and Jordan, as one of the largest hosting countries of those refugees, turn to resilience: a concept that embedded effectiveness, efficiency, and sustainable reduction of needs. In this article, I have argued that securitizing the Syrian refugee

crisis by the EU and Jordan make resilience a pragmatic approach and a strategic security to preserve their national security. The Key characteristics of the EU resilience thinking including: empowering the humanitarian-development nexus, responsabilizing local governments of crisis-affected countries, and shaping refugees as an economic development opportunity lead and legitimize EU resilience-building efforts in Jordan. My examples about the EU building resilience in Jordan illustrate the significance of its contribution in that respect and its implication for both Jordan and the EU.

Drawing on my analysis, one conclusion of this paper is that for Jordan building resilience in response to the Syrian refugee crisis is illustrated as a strategy to promote national and humanitarian security with a positive but limited impact. Building on Buzan, Waever and Wilde ,categorizing sectors of security, (BUZAN, B. et al. 1997), building resilience in Jordan preserves essential sectors of national security including political, economic, social and environmental sectors.

By integrating the refugee-resilience pillars, the kingdom managed to prevent politicizing and instrumentalizing refugees as a mean for destabilization,

decreased the public dissatisfaction with the influx of the refugees and preserved its social cohesion through integrating the refugees into the labor market with a specific quota and in specific sectors to reduce competition with Jordanians. On the economic level, increasing the access of resources, organizing it, and decreasing the demand on the basic needs for the refugees and most vulnerable Jordanian families proves its positive impact. The EU contribution in this respect is crucial, in particular in sectors like education, water, solid waste management, where the EU has the largest share in addressing the needs in these sectors which in turn, contributes to Jordan's national stability and security.

As for the humanitarian security for those refugees, many instruments prove its positive but limited impact. Of these instruments is the EU Jordan compact that pledges the government to issue 200 000 work permits for the refugees. Although only 172000 had been issued by 2019, and not all of those Syrians are working, but this cannot be seen other than a means to help those refugees to be more self-reliant since prior to this compact, strict -local policies prevent those refugees from access to the labor market. Now some of those refugees are running their own shops in their

camps as in Zaatari. In addition, this compact and other EU financial instruments like the EU regional trust fund contribute to address the basic needs for those refugees in line with the Regional Refugees and Response Plan. The positive impact of these instruments in the educational sector proves to be of great influence. The enrollment of 136 000 Syrian Children in the 2019-2020 year in comparison with 43000 in 2015 is a clear evidence here. The access for other services like health or water are also in progress according to the UNHCR.

As for the EU, building resilience may prove to be a strategy to contain refugees in the region and prevent migration to Europe and to protect its national security, as migration policies experts like Andrew Geddes asserts. The decreasing number of the Syrian asylum seekers to Europe in comparison with the 1000000 in 2016 can be seen as an indicator for its efficiency. However, one of the implication of this paper is that more empirical research is needed in order to understand the exact impact and efficiency of building resilience for Jordan and the EU. In addition, it concludes that the current instruments may seem effective yet the policy makers need to make it more workable and address the need of all the refugees

not only the registered one.

And finally, building resilience may seem workable to decrease the negative impacts of the Syrian crisis, but this cannot deny the fact that we need more efforts

to achieve a peaceful resolution for the on-going war in Syria because this is the real help and this is what the Syrians are desperate to see to end their suffering.

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## III.4. The Origins of Tunisia's Women's Rights Movement: A Social Movement Theory Approach

XÉNIA SIPOS<sup>47</sup>

### Abstract

*International relations remain state-centric; non-state actors however, also contribute to shaping political, economic and social processes of the international order. From among these, women's rights movements in Tunisia are examined in this paper. The growing significance of women in all fields of the Tunisian society can be observed since the country's independence from France (1956). The article aims to define the elements that played an important role in shaping women's rights on the macro level, the factors that contributed to women's empowerment on the micro one, and the ways of interaction between the two levels. The complexity of the topic requires the application of a multidisciplinary approach where the interactions of different actors are taken into account on both macro and micro levels. Besides clarifying the basic concepts, both qualitative and quantitative analyses are applied to identify the aforementioned conditions. The Tunisian case study is analysed on the basis of the top-down – bottom-up approach through the application of the social movement theory of Anthony Oberschall, according to whom several conditions (discontentment, risks, and political opportunities) contribute to the mobilization of social movements. While the process of Tunisian feminism is described as a state-controlled process, the research proves that the roots of Tunisian feminism have long been present in the Tunisian society.*

**Keywords:** gender equality, Arab Spring, social movement theory, Tunisian feminism

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### III.4.1. Introduction

The Arab Spring brought about an active participation of women's rights activists and organizations with the aim of achieving total equality in all fields, including the same share in inheritance, eradicating violence

committed against women and abrogating the law of 1973 that, in accordance with Islamic principles, banned Muslim women from marrying non-Muslim men (MOGHADAM, V.M. 2018). Moreover, as a consequence of the outstanding role Tunisian women played in the Arab Spring, a widespread debate

also started in the post-Arab Spring period. The debate had its effect mainly on the drafting of Tunisia's new constitution between 2011 and January 2014, the first draft of which intended to bring in the 'complementary clause' of article 28: "women are complementary to men" (complementarity clause) (NORBAKK, M. 2016).

In order to better understand the current processes and the discourse on gender equality as an outcome of the events of 2011 it is indispensable to retrace the situation of Tunisian women from the years before the coming to power of the first president of independent Tunisia, Habib Bourguiba (1958–1987) (BOULARES, H. 2011), until the beginning of the 1960's. The time frame is also restricted until the first half of the 1960's as by this period the measures of the modernization process of Bourguiba had already had their effect on Tunisian women. Several aspects prove that Tunisia stands out from other Muslim countries in terms of women's rights. Above all, in 1956 Le Code du Statut

Personnel (Personal Status Code, henceforward referred to as CSP) abolished polygamy, provided women the right to divorce and to child custody, and set a minimum age for marriage<sup>48</sup>. In 1958 Bourguiba introduced compulsory education for young women and people living in rural areas (CHABCHOUB, A. 2014). Moreover, with the introduction of family planning in the 1960's and the legalization of abortion in 1973 (JOMIER, A. 2011) Tunisia anticipated France, where it was only legalized in 1975.<sup>49</sup> Concerning the political arena, the aforementioned achievements brought about an outstanding number of female representatives sitting in the Tunisian parliament. According to the ranking of the

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48 Code du Statut Personnel [1956], [http://observatoire-enfance.tn/documents/code%20du%20statut%20personnel\\_fr.pdf](http://observatoire-enfance.tn/documents/code%20du%20statut%20personnel_fr.pdf) (Retrieved 22 February, 2020)

49 According to Islam, abortion is only allowed if pregnancy poses a serious threat to the life of the woman and a choice must be made between the life of the mother and her baby. The legalization of abortion in Tunisia was also exceptional if we compare Tunisia with other Muslim countries in the region. Except for married women who can prove that pregnancy carries a physical threat to their health, in Morocco abortion is strictly prohibited by the law and is punished by imprisonment or fines (EL AMRAOUI, A. – NAAMI, M. 2018).

Inter-Parliamentary Union (IPU) based on information provided by national parliaments since 1997, a significant increase can be observed regarding the proportion of seats held by women in the Tunisian parliament. Compared with data from 1997 when women made up only 6.7% of all seats of the parliament and Tunisia was only the second Arab country in the ranking after the Syrian Arab Republic (9.6%), in 2004 a significant increase took place (the proportion of seats held by women increased to 22.8% from the ratio of 11.5% of the previous years). With regard to the up-to-date ranking of IPU (as of 1 October, 2019), with 78 female representatives out of the 217 places in the National Constituent Assembly (NCA), which means a 35.9% representation, Tunisia occupies the 31st place worldwide and ranks the highest among other Arab countries<sup>50</sup>. The proportion of seats held by Tunisian women can also be regarded as an outstanding achievement if we compare it with the international standard, i.e. the requirements of the United Nations Convention on the Elimination of All Forms of Discrimination against Women (CEDAW), which

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50 See Women in national parliaments. Inter-Parliamentary Union, <https://data.ipu.org/women-ranking?month=10&year=2019> (Retrieved 22 February, 2020)

document determined that 30% participation is necessary for the interests of women being taken into account<sup>51</sup>.

The paper aims to approach the question of Tunisian feminism through the application of the social movement theory which will enable the writer to identify the interactions of different actors on the level of the political leadership and that of the sub-state actors. By taking into account the historical, political, economic, social and even cultural characteristics of the North African country at the dawn of its independence and by applying the social movement theory of Anthony Oberschall (OBERSCHALL, A. 2001), the paper seeks to analyse the circumstances which resulted in encouraging women to stand up for their rights and which pushed the government to dedicate a significant role to the empowerment of women in its modernization efforts. Concerning the contribution of non-state actors

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51 See under The Convention on the Elimination of All Forms of Discrimination against Women (CEDAW) and its Optional Protocol Handbook for Parliamentarians [2003]. Inter-Parliamentary Union, <https://www.ipu.org/resources/publications/handbooks/2016-07/handbook-parliamentarians-convention-elimination-all-forms-discrimination-against-women-and-its-optional> (Retrieved 3 April, 2020)

to shaping political, economic and social processes in a still state-centric international order, it can be said that the establishment of a strong and dominant position of Tunisian women in the society resulted in the proliferation of civil societies. Among them, the creation of l'Union Nationale de la femme tunisienne (National Union of Tunisian Women) in 1956 can be highlighted<sup>52</sup> as this organization still plays an important role and determines the shaping of the political and social processes. Finally, the paper aims to verify that while the empowerment of Tunisian women is described as being state-controlled (state feminism), the roots of Tunisian feminism have long been present in the Tunisian society.

### **III.4.2. Social movement theory: an answer to social problems?**

In order to be able to analyse whether Tunisia disposed of all the necessary circumstances that enabled it to form a social movement with the aim of improving the

situation of women at the dawn of the country's independence, it is indispensable to give a brief overview of the concept of social movements and their classification.

It must be underlined that social movements cannot be explained under one single concept. However, as all definitions agree on the main aims of these movements, the paper states in the conceptual explanation that social movements are created to find answers to certain problems, and usually mobilize large masses of people for the sake of achieving common benefits or resisting against social issues they believe would be harmful for the whole society. Concerning the feminist movement, DeFronzo and Gill identified some overlaps between different social movements. On the one hand, representatives of the feminist movement stand up for the achievement of equal rights for both genders. In order to realize this goal they de-construct and rebuild the existing stereotypes about the position of the disabled group, i.e. in this case women. Therefore, feminist movements are categorized as identity movements. On the other hand, feminist movements also demonstrate similarities with reform movements as representatives of both social movements attempt to overthrow existing norms with

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52 See under the official website of L'Union Nationale de la femme tunisienne (National Union of Tunisian Women), <http://www.unft.org.tn/fr/index.php?rub=248&srub=296> (Retrieved 23 February, 2020)

the aim of triggering change they believe would be beneficial for the whole society (DEFRONZO, J. – GILL, J. 2020). Anthony Oberschall distinguished the macro and micro levels from each other and identified those elements that contribute to the formation or growth of social movements. According to him, both social, cultural, organizational and political changes can end up in the creation of new social movements. Concerning the macro level, Oberschall identified four conditions that can trigger the coming into being of new movements: dissatisfaction, changes in aspirations/values and belief in the ability of triggering change, increased capacity to realize the aim of the movement and finally, changes in opportunities (e.g. more favourable political environment) (OBERSCHALL, A. 1997). With regard to the micro level, the participation in collective actions depends on the deliberation of the possible advantages of such an act and the probability of the fact that the movement will achieve its main goals (OBERSCHALL, A. 2001). Jenkins further reinforced the aforementioned findings of Oberschall and stated that grievances are constant elements of triggering the formation of social movements, consequently social conflicts of interests, long-term

changes in the group's resources and/or opportunities as well as changes in power relations are seen as necessary circumstances that result in the rise of collective actions (JENKINS, J. C. 1983). The paper does not work with the traditional hierarchical division of macro and micro levels as most of the circumstances present on the macro level can be better understood on the level of the sub-state actors and thus the two levels merge into each other. Instead, it analyses the aforementioned necessary conditions in general, regardless of the given level where these conditions seem to appear. It must be emphasized that while the social movement theory of Oberschall provides a great basis for analysing the necessary conditions which shed light on the origins of the Tunisian women's rights movement, it must not be forgotten that the theory is a Western understanding of the formation of social movements and thus has its own limits. In order to get a more comprehensive view of the activities of Tunisian women, in the long run the cultural and special historic context of the North African country cannot be neglected from the research.

As the Tunisian case study of the evolution of women's rights movement analyses the evolution of women's rights movements in

Tunisia, the question of how gender operates in social movements and to what extent collective actions contribute to the social construction of gender must be mentioned, too. Since gender hierarchy is constructed through organizational practices both on the level of the political leadership and that of the society, it is important to approach the evolution of Tunisian feminism in the context of early representatives of the movement and see whether women were the first advocates of fostering broader rights and opportunities for women.

### **III.4.3. Circumstances leading to the formation of social movements – the Tunisian example**

#### **Dissatisfaction and belief in the ability of carrying out changes**

While Oberschall separately mentioned the necessary conditions leading to the formation of new social movements, the paper merges dissatisfaction with belief in the ability of carrying out changes as well as increased capacity to realize the aims with changes in opportunities. The logic behind this division and the discussion of these circumstances under two separate subchapters is explained by two

significant facts that arise out of each other. The colonial period went hand-in-hand with the adoption of certain elements of the Western culture, among them an increased belief in the ability of carrying out changes to improve the conditions of women. As a consequence of the Western impact and the actions taken by the forerunner of Tunisian feminists, such as Tahar Haddad (1899–1935), a feeling of dissatisfaction infiltrated the early representatives of Tunisian women’s rights activists.

As it has already been highlighted above, contrary to Western feminist movements, up until gaining independence from France in March 1956, Tunisian feminism must be understood in the context of the colonial past of the North African country and its struggle for independence. In fact, this struggle was also a personal rivalry between Bourguiba and Salah Ben Youssef on the basis of the secular versus religious conservative values which further had a great impact on the Tunisian feminist discourse (WILLIS, M. J. 2014). Arfaoui distinguished three waves of the Tunisian feminist movement and indicated the period between the 1920’s and 1956 as the birth of Tunisian feminism (ARFAOUI, K. 2007). In order to refer to the colonial context

of the North African country, it must be mentioned that the first wave of Tunisian feminism was also interlocked with the greater participation of women in the nationalist movement for independence. Although the social activity of women at that time highly depended on the support of their male relatives, the first wave was significant from the point of raising women's awareness for the socioeconomic problems that posed a serious obstacle to achieving equal conditions for women. The high rate of illiteracy (nine tenths of women were illiterate in the 1920's) is a good example that carrying out radical changes was inevitable. Starting from the 1920's, upper-class women stepped up to demand broader opportunities for women to receive compulsory education and access to teaching jobs as a preliminary condition to ensuring greater chances for women in the labour market, participation in political life and in all spheres of the society. However, it is also indispensable to mention that the initial activities of women's rights advocates not only took place with the approval of male relatives and their encouragement, but were also influenced by such great men like the reformist Tahar Haddad who openly raised his voice against the injustices women used to face

in the colonial period (ARFAOUI, K. 2007). Similarly to Tunisia, the same process took place in Morocco where great supporters of women's rights such as the Islamic scholar, Allal al-Fassi (1910–1974) denounced the inferior position of women and called for general reforms that aimed at revising the traditional practices (polygamy, the obligation of wearing a veil (hijab), early marriage, etc.) deeply rooted in the religion (GRAY, D. H. 2013). Based on these facts, it can be said that while the traditional social patterns established a patriarchal society in Tunisia which could be seen through all government organizations and every aspect of life, men as forerunners of women empowerment played an important role in the reconstruction of gender roles in a rather conservative society. The general dissatisfaction as a result of unequal opportunities in education, the labour market and political participation raised awareness among women and resulted in upper-class women taking the role for the benefit of other female members of the society in the hope of achieving their emancipation following their independence. However, the initiatives coming from great reformer men proves that Tunisian feminism was in fact a “masculinized” feminism.

### **Increased capacity, changes in opportunities**

In the forthcoming, the characteristics of the Tunisian society in light of the state-building process as well as the socioeconomic challenges following the country's independence will be demonstrated.

First of all, it must be emphasized that in Tunisia, the centralization of power brought about a strong political leadership with President Bourguiba taking this role in 1957. Due to the poor indicators of human development, Bourguiba realized that a modernization process was inevitable to set the country on the path of development. Therefore, the ideology of liberation was replaced by the idea of state-building which compared with the initial aim of women's rights activists, resulted in their reduced role (SADIQI, F. 2008).

The process of state-building under President Bourguiba and the measures that he took to set the country on the path of modernization cannot be understood without having a general knowledge about the socioeconomic challenges the country had to face following the obtainment of its independence in 1956. Moreover, these socioeconomic challenges also raised awareness among women to

take actions for achieving equality in opportunities. Between 1911 and 1956 the North African country saw a duplication of its own population under the age of 35. This meant that by 1956 the total population reached 3 782 000 with an approximate annual growth of 75 000 people (DE LEMPS, A. H. 1958) and while between 1911 and 1921 the annual growth only reached 8%, this rate increased to 25% between 1936 and 1946 (TLATLI, S. E. 1957). As a result of this rapid population growth, a change took place in the structure of the population: 41.8% of Tunisians were under the age of 14 and 9% between the age of 14 and 19. This also meant that in total half of the Tunisian population was under the age of 20 in contrast to the age group above 60 where this rate only reached 6.7% (DE LEMPS, A. H. 1958). The rapid population growth was closely connected with challenges in schooling: the data indicates that in 1956 the literacy rate only reached 15% and only one child in thirty received a high-school education. Owing to the educational reforms Bourguiba introduced in 1958, women and people living in rural areas could also benefit from schooling. Thus during the first decade of independence the number of those pupils who attended primary school rose from 15% to 90%. Moreover,

the number of university students also demonstrated a significant growth, from 2000 to 10 000 students being enrolled in academic studies (TESSLER, M. A. – KEPPEL, M. E. 1976). However, despite the aforementioned socioeconomic challenges, the economic growth showed a steady increase: the GDP reached 2.37% between 1938–1950, 3.41% between 1950–1960 and further rose to 6.92% between the period of 1970 and 1980. This continuous growth would only be abated between 1980 and 1990 with a GDP growth rate of 3.56% (AVAKOV, A. V. 2010). As a consequence, the rejuvenation of the population posed a serious challenge to the economy of the newly independent country both from the point of view of schooling and production. Therefore, only two solutions were left for the newly independent Tunisia: to rely on foreign aid or take immediate steps to slow down the rapid population growth.

Bourguiba chose the latter option and started an economic development program which meant that everything, including female participation in the labour market, was subordinated to the political direction of Habib Bourguiba who saw female participation as compatible with the traditional roles of women. One crucial point

in understanding the formation of social movements and the role women's rights activists played in ameliorating the situation of Tunisian women following its independence is through the CSP in which President Bourguiba abolished polygamy, provided women the right to divorce and to child custody and set a minimum age for marriage. Taking into account the low literacy rates at the time of Tunisia's independence and the burden that the rapid population growth posed on the economic growth of the country, it can be said that immediate measures were necessary to ameliorate the situation of the people, namely, achieving gender equality which could ensure a privileged position for women in the society. Referring back to the social movement approach of Oberschall, it is important to highlight that with a president who started a modernization process with the aim of setting the country on the Western model of development, the political environment was quite favourable for carrying out changes. The growing dissatisfaction coming from the direction of sub-state actors was also present. In this regard, it must be seen whether carrying out these reforms was the result of the pressure from those women's rights activists and reformers who were mentioned above, or whether the

initiatives of President Bourguiba were taken to set an example for other Arab countries in the region. Jomier argued that there was no pressure from women's rights organizations on the government to introduce the CSP, therefore this decision was a natural outcome of the measures of the government to improve the situation of women in Tunisia and to ensure their privileged position in the society (JOMIER, A. 2011). Charrad also reinforced the argument of Jomier and pointed out that the CSP was introduced right after Tunisia gained its independence from France, so at that time there were no grassroots organizations present who could push the government to accept the CSP (TCHAICHA, J. D. – ARFAOUI, K. 2017). While the CSP could be seen as a progressive measure from the government to abolish inequalities between men and women and to establish the basis of a secular state, Arfaoui concluded that in fact, the absence of women in participating in the promulgation of the CSP demonstrated the weakness of women's rights organizations in taking important decisions (ARFAOUI, K. 2007). Based on these findings, the CSP can be seen as a crucial point that established a dominant role for the government in taking unilateral decisions and thus determined the limited role

of women's rights organizations in the future. Even though Tunisia disposes of all those elements that constitute a convenient environment (e.g. heterogeneous society, educated youth capable of triggering change, absence of the intervention of the military in state affairs) for the proliferation of civil societies, women's movements were deeply affected by the political leadership of the country. Therefore, the changes following the Arab Spring must be understood in the context of the political direction the previous regimes of the country decided to choose. Moreover, the aforementioned context is the reason the post-Arab Spring period is seen as a starting point of a wide debate on the gender question and an increased role of women's rights organizations in social and political affairs, namely, the drafting of the new constitution between 2011 and 2014.

#### **III.4.4. Conclusion**

The paper aimed to demonstrate the growing significance of non-state actors in the shaping of economic, social and mainly political processes of a still state-centric international order. The author decided to select the Tunisian case for analysis as women's rights organizations

also played an important role in the events during and following the Arab Spring. However, it was also found to be important to demonstrate that understanding the events of the post-Arab Spring period and the outstanding role of women in Tunisia compared with other Arab countries necessitates the tracing back of the roots of the formation of women's rights movements. Based on the social movement theory of Anthony Oberschall and the application of a new approach, the paper tried to elaborate the Tunisian model of the formation of social movements (*Figure II*). Since both the macro and micro levels of analysis showed some overlaps, the new approach also meant the merging of both levels. By bringing statistical data from the colonial period and the first years of the presidency of Habib Bourguiba the paper illustrated those socioeconomic challenges which on the one hand triggered dissatisfaction from sub-state actors and urged activists to stand up for demanding a wider range of rights for Tunisian women. On the other hand, the challenges urged the government to take necessary measures to rein in the rapid population growth and reduce the high rates of illiteracy and unemployment. The growing abilities of sub-state actors to carry

out changes and the favourable political circumstances under which the government launched its modernization process had its effects at the turn of the millennium. Compared with the beginning of the 1950's the fertility rate shrank from 6.9% to 2%, the net rate of primary school enrolment reached 99%, the ratio of literacy between men and women became equal and Tunisia scored the highest values on the Gender Development Index in the Maghreb in 2002 (0.734) (AVAKOV, A. V. 2010). All these indicators underpin the conclusion that a correlation does exist between fertility and education. However, it must be mentioned too that the research encountered challenges during the quest for statistical data as most of the data are only available from the 1960's, thus the research resulted in a limited number of statistical data to work with.

The paper aimed to verify that even though Tunisian feminism was closely controlled by the state, its roots had long been present in the society. As the research has mentioned, Tunisian feminism was rather a "masculinized" feminism given impetus by great reformers such as Tahar Haddad which proves that the environment could be favourable for women's rights activists to

step up for the common benefit of Tunisian women. However, the socioeconomic challenges pushed the political leadership to introduce such measures which would serve the common good of the whole society. This is the context in which the CSP came into being and this is the discourse in which the empowerment of Tunisian women must be understood since the very beginning. Women's rights activists have been present since the struggle of nationalist

movements for independence, but the state-building process in which everything was subordinated to the national development overwrote the conventional way of the evolution of feminism. Therefore, in Tunisia the empowerment of women reflected a bi-directional process and the interactions on the level of the political leadership and the sub-state actors resulted in a reverse situation with the state being the key player in the formation of the social movement.

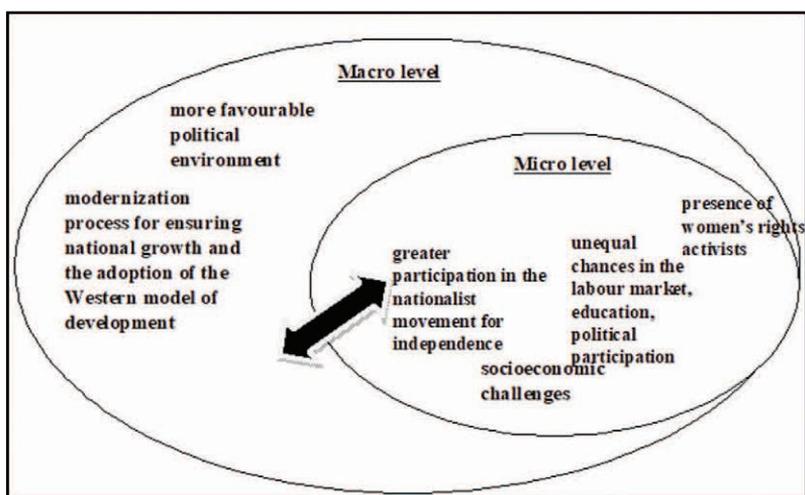


Figure 11: Demonstration of the main elements of the mobilization of social movements on the macro and micro level

Source: Edited by Sipos Xénia based on the social movement theory of OBERSCHALL, A. 2001

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## III.5. Onset analysis of the frozen conflict taking place in Eastern-Ukraine

OLEG TANKOVSKY<sup>53</sup>

### Abstract

*The paper discusses the background of the ongoing frozen conflict in Eastern-Ukraine. Within the country groups of the Post-Soviet region, especially among those countries which became independent from the Soviet Union directly, this is not the first case to experience these kinds of conflicts. Prominent examples are Moldova and Georgia for frozen conflicts from the mentioned region. These countries are facing major geopolitical challenges since declaring their independence. This paper aims to analyze the background of the ongoing conflict in Ukraine, to understand the real cause behind the breakout of violence. The paper forms the hypothesis that the real driving forces and motivations were not ancient hatred or the involvement of the Russian Government, but rather the clash of local elites and their promises of opportunities for better living. To prove this, the paper uses the scholarly work of Civil War Studies focusing on qualitative methods. The paper suggests that although the involvement of the Russian troops was proven, the conflict itself cannot only be considered as a hybrid-war between two Eastern-European countries, as it also shows signs of a classic civil war. The paper will discuss all the criteria of a classic civil war, and in the conclusion it will form a clear statement regarding this conflict.*

**Keywords:** Ukraine, Donbass, frozen conflict, onset analysis, ethnic conflict

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### III.5.1. Introduction

The number of new armed conflicts have declined in the past seventy years and civil wars in recent periods are far more common than international wars (SINGER, J. D. – SMALL, M. 1994). Instead of interstate wars a new wave of conflicts has started in which different kinds of militias and armed groups have begun to challenge

the incumbent government's sovereignty (JOHNSON, C. 2008). During the bipolar world order the main reason behind this was more obvious: the two major actors in foreign policy were fighting proxy wars against each other. But the current case in Ukraine is a vastly different situation from past events. This topic is highly relevant and important, as the conflict is still ongoing and the root causes from

both sides have not yet been analyzed. On the other hand, the case of Moldova (KAUFMAN, S. J. 1996) and Georgia (NODIA, G. O. 1995) are showing very similar processes. These kinds of frozen conflicts prevent them from joining any military alliances, which could have an impact on the geopolitical and economic challenges they may face in the mid- to long-term.

During the last 5 years since the outbreak of the Ukrainian conflict, many analyses have been published about the Russian intervention and the combination of various methods used in this conflict (ALLISON, R. 2014), that is to say, the expression of a hybrid war has gained traction among scholars. On the other hand, in the scientific works of civil war studies, the topic of Ukraine has not been widely discussed, and an onset analysis in the case of this conflict has been glaringly missing. The aim of this work is to provide a deeper understanding of the main reasons of the outbreak of the conflict, and to present a comprehensive view of the conflict, as manipulations and fake news are presented on both sides. The purpose of this study is to create an overview from articles written not only by western scholars, but also by Russian and Ukrainian scholars in order to stay authentic and present a balanced

view. The main goal of this study is to analyze the onset of the Ukrainian armed conflict, its origins, and how this very problematic situation could have occurred between these two ethnic groups. The paper forms the hypothesis that the real driving forces and motivations were not ancient hatred or the involvement of the Russian Government, but rather the clash of the local elites and the promising of an opportunity for better living. Without the financial backing and influence of these elites, would this conflict have started anyway or not? In parallel, the dynamics of the East-Ukrainian conflict will be examined and analyzed as well, in order to gain an informed understanding of these very complex events. It is an important and highly relevant question to understand the real driving forces of the conflict, as previously the Russians and Ukrainians had a friendly relationship over past decades. By uncovering the main causes behind the deterioration in their relations, a similar conflict could be averted in the future.

In the first part of the study the basic context of the armed conflict is presented using normative and descriptive methods as a facilitating means by which the different aspects of the two sides can be observed. In this part

a brief overview of the historical background in Ukrainian - Russian relations will be presented, how relations developed through the centuries, especially during the period of the Soviet Union, in order to better understand the grievances and ancient hatreds between the two ethnic groups. It will be highlighted how the nationalistic policies developed over the past 25 years since Ukraine became independent. The roles that these nationalistic policies played in the everyday lives of Ukrainian citizens will be listed, and also how these policies changed after the revolution. A short overview will be given on how the language laws changed in the past thirty years, as this will help us in understanding the motives and perceptions of the rebel side.

In the second part of the case study the real motives and driving forces will be analyzed in order to understand the onset of the conflict. In this part qualitative research methods would be more suitable, as this part will focus primarily on exploratory aspects, provide insights into the problem, uncover trends and dive deeper. Qualitative methodology deals with high flexibility and applicability: a textual record exists for almost every major international event in modern world history. It also delivers impressive explanatory insight,

rigor, and reliability (MORAVCSIK A. 2014), which will be useful in analyzing the onset of the armed conflict. In this section the concepts of security dilemma, opportunism, humanitarian intervention and the dichotomy of greed vs grievance will be used to analyze the conflict. The motivation behind the rebellion will be examined on the basis of these aspects, and on the other hand an explanation will be provided as to how this opportunity occurred for the revolting groups. The preferences and perceptions of the eastern Ukrainian ethnic Russians will be listed, along with the motives and driving forces of the Ukrainian government as well.

Lastly, the end of the conflict and how it might continue or be solved in the near future will be presented in parallel with a geopolitical outlook on the conflicts in the region. At the end of the study the findings and results of the study will be stated with a conclusion regarding the main research question.

### **III.5.2. The main context of the armed conflict**

#### **Literature review – civil or hybrid war?**

After Russia's actions (or reactions) in the Ukrainian conflict

the expression “hybrid war” has been widely used. At the same time, it has also become a threatening expression in the Baltic States, Poland or even Kazakhstan as the fear from a similar intervention using conventional or irregular armed forces, financing anti-establishment protests or very effective Russian language based misinformation campaign has been rising. Therefore, it is worthwhile discussing the question, whether the frozen conflict in Eastern-Ukraine can be considered a hybrid war rather than a civil war. Hybrid war is a blending of conventional and non-traditional tactics to achieve political–military objectives (HOFFMAN, F. G. 2007). Based on another definition, hybrid warfare is a military strategy which employs political warfare and blends conventional warfare, irregular warfare and cyberwarfare with other influencing methods, such as fake news, diplomacy, lawfare and foreign electoral intervention (STANDISH, R. 2018). In my understanding, the expression “war” itself is misused. It is correct to state that conventional, irregular, political and information tools have been used in the described conflict in a combined way. However, it is also important to note that this is not a new method of modern warfare, since it turns out that

already in ancient times most wars consisted of these multiple aspects. Therefore, warfare can be considered as a hybrid method of the armed conflict, but the war itself does not have any new or unconventional aspects.

The only new thing that emerged with this conflict is the efficiency of the informational warfare from the Russian side. For example, during the 2004-05 Orange Revolution in Ukraine, or the 2008 Russia-Georgia War, Russia was already using information warfare tools, but they were much less effective (KOFMAN, M. – ROJANSKY, M. 2015). According to a recent poll, the number of pro-Russia voters among the Russian speaking population of Ukraine jumped significantly due to television-fed perceptions that ethnic Russians would become second-class citizens in Ukraine. On the other hand, these manipulations could be much stronger among the population of Crimea as their majority (85%) do not perceive themselves as European (O’LOUGHLIN, J. – TOAL, G. 2015). In fact, non-linear or non-traditional warfare, as it is described in Russian Military Doctrine (2010), is simply the attempt to catch up to the level of the United States’ methodology of global war on terrorism which has already been used in Iraq, Afghanistan, and

elsewhere (GERASIMOV, V. 2013).

On the other hand, armed conflicts are considered as civil wars if there are more than 1,000 deaths, if there is effective resistance from the rebel side, and the national government's involvement is also required (COLLIER, P. – HOFFLER, A. 2007). According to Sambanis, a civil war is any armed conflict that involves military action internal to the metropole, the active participation of the national government and effective resistance by both sides (SAMBANIS, N. 2004). There is another definition by Kalyvas: civil war is an armed combat within the boundaries of a recognized sovereign entity between parties' subject to a common authority at the outset of hostilities (KALYVAS, S. 2003). According to the most commonly used and also measurable definition, civil wars are those internal conflicts that count more than 1,000 battle deaths in a single year, and also include cases with at least twenty-five battles within a year (BLATTMAN, C. – MIGUEL, E. 2010).

Based on these definitions, can the armed conflict in Ukraine be considered as a civil war? Predominantly, the country has two different identities with two major groups using a different language, and even in the previous centuries

there were some clashes between them. Regarding the aspects of the theoretical definition, the fights were internal, the resistance was effective on both sides, and the number of deaths were far more than 1,000 in the year of 2014. This means that the armed conflict that happened in Eastern-Ukraine meets all the criteria of a civil war. Nevertheless, in spite of the fact that recently Ukrainian officials often refer to the conflict as a war between Ukraine and Russia, in the beginning of the conflict it was termed as Anti-terrorist operations (SUTYAGIN, I. 2015), which also refers more to a civil war than an interstate war. It is also important to note that the involvement of irregular Russian troops, which was a supportive intervention on the side of the rebels, has been proved and confirmed (KOFMAN, M. et al. 2017). But this is more a reference to the means of the warfare and not to the war itself, since without the original motive of the rebels there would not have been any fights nor any need for these involvements.

In my understanding, the usage of the expression 'hybrid-war' due to the external support of Russia on the side of the rebels is not appropriate, as with this approach most of the civil wars in the 20th century could be considered hybrid wars because an external world

power could always be found in the background as a supporter. I reckon that this is not the right interpretation. On the other hand, the scholarly works of civil war studies provide a better understanding of the whole standoff. Nevertheless, to be as precise as possible, the case of the Ukrainian armed conflict is a very unique one. Similarities can be found to the cases of Moldova and Georgia, but there are major differences as well.

### **Historical overview**

The current population of Ukraine is divided based on the spoken language and we can allocate them to exact territories. This is highly important as over the centuries it changed the local population's dialect and identity for the long term, which has led to the highly divided country that we are facing today. The first event of Ukrainian nationalism was the Khmelnitsky led Cossack uprising (SUBTELNY, O. 1988). However, the uprising was against the Polish – Lithuanian Empire, and as a result of the fights Cossack Ukrainians became part of the Russian Tsar's Empire but they did not receive their autonomy, which they were expecting. During the 19th century there were some major migration movements; Russians migrating to

Ukraine, Ukrainians migrating to other parts of Russia, but there were no conflicts recorded between them. In the First World War 3.5 million Ukrainians were fighting for the Russian Tsar, but ethnic atrocities were recorded only between Polish and Ukrainian groups (SERHIENKO, Y. G. – SMOLIY, A. B. 1994).

Between the two world wars the situation was already more problematic. Right after WWI there were three different Ukrainian revolutionary movements and the country was totally divided. It was a very chaotic situation in which practically everyone was fighting against everyone. The end result was that western Ukrainians became citizens of the newly emerged Polish Republic, and the central and southern Ukrainians became citizens of the Ukrainian Soviet Socialistic Republic (SMELE, J. 2015). In the first couple of years during which extremely nationalistic leadership was in power in Ukraine, many changes came about such as an elevated importance of the Ukrainian language, culture, history, and literature. Then during the 1930's these policies changed after Stalin came to power and new approaches were implemented. Every nation was equal, it was a golden age for each ethnic group living in the territory of Ukraine (DUMITRU D.

– JOHNSON, C. 2011). However, there was an important event in this period, namely, the Holodomor or known as the great famine. Scholars do not agree whether this famine was genocide or not, but the Ukrainian parliament recently declared that it was (KASIANOV, H. 2014). Even to this day, the Ukrainian population has bad memories about this famine and blame the Russians for it. During the Second World War under the Nazi regime Ukrainian nationalistic movements were rising again, but without any significant result. As a result of the Second World War multi-ethnic territories became part of Ukraine such as Ruthenia and areas previously ruled by Poland, such as Romania. There was another territorial change later, when in 1954 Khrushchev transferred Crimea from the Russian SFSR to the Ukrainian SSR (KUBIJOVYC, V. 2016).

### **The language question since the independence of the country**

From the 1990's after the dissolution of the Soviet Union huge changes came in Ukraine. The national language became massively important again, while Russian was a state language too. The new governments had a

more nationalistic view than the communist leaders had, which affected all the minorities living in the territory of Ukraine in a negative way. There are many statistics about how the number of minorities changed in the past 25 years, and how they declined as a result of nationalistic policies (SIDOR, D. 2005). Recently, the country has been quite divided in the use of language. Even in Kiev, 50% of the population speaks Russian as their first language. Until 2012, the previous language law dating from the Soviet times was in force, which did not really regulate the use of language at all. Then during the reign of Yanukovich, a new modernized bill was accepted by the parliament: any language other than Ukrainian would be considered a regional minority language if it was used by more than 10% of the local population. As a result minority languages could be used in courts, schools and government institutions in these regions. After the revolution, on the first day of the interim government this bill was repealed. The first decision of the new government was to dismiss the use of the Russian language as a regional language all across Ukraine (BBC, 2014). Following this, many Russian speaking Ukrainian citizens felt that this was not their country anymore, nor did

they feel safe. Of late there have been many discussions and ongoing debates regarding the new language law accepted in May of 2019, which has banned the use of Russian language in cultural products, movies, books, songs, etc., not to mention banning the official use of the language. The language law has been highly criticized and described as ill-defined, illegal, and unconstitutional. Currently, it is being reviewed by the Venice Commission and has also been discussed at the UN's Security Council (brought up by the Russians).

It also worth noting how the country was divided by the election results. In the western and central territories pro-EU powers always led in the polls, whereas in the eastern and southern territories which are dominated by Russian speakers, most of the time pro-Russian powers were elected. But this divide never caused any ethnic atrocities in the country before. Thanks to their common history and culture, people always believed that they were the closest relative nations in the world. My conclusion would be that there was no significant hatred between the two sides before the Euromaidan revolution, until 2014 when the new nationalistic government came into power. Although the number of

nationalistic Ukrainians increased in the past five years, their influence is still insignificant for the overall population of the country.

### **III.5.3. Onset analysis**

#### **The main background and driving motives of the conflict**

The huge country of forty-two million people has been struggling with its identity questions already for 25 years, ever since it became independent from the Soviet Union. None of the Ukrainian governments could resolve the internal divisions or build strong political institutions, implement economic reforms, overcome corruption and reduce the influence of powerful oligarchs. All the presidents have allowed oligarchs to gain increasing control over the economy, which is how the country found itself in the situation by 2010 in which Ukraine's fifty richest people controlled nearly half of the country's gross domestic product (WILSON, A. 2013). According to these numbers it's not even a question that elites are dominating not only the economic life of Ukraine but the political life too. In each region or county, we can easily allocate an oligarch who controls the region. Why is this important? Because without

their support the chance for a violent conflict would be relatively small. In order to understand the onset of the Ukrainian conflict, we need to examine this question in detail: what was the main driving force of the whole process, greed or grievances? This is a classic question in every civil war case study and both greed and grievance can be a right assumption.

In favour of understanding the onset of the conflict the perceptions of the parties need to be examined. The pro-European nationalistic Ukrainians consider Ukraine as a regional power. According to the country's resources it could even be true. Unfortunately, as a result of non-consistent governance in the past 25 years, it was never true. While in most cases Ukraine could act as an independent actor in world politics, Ukraine always had a strong and close cooperation with Russia (ROSE, W. 2000). The security dilemma was never a major question for the Ukrainians, in spite of the fact that in the Budapest Memorandum they received assurances from the world's great powers for their safety and integrity. Nevertheless, some western Ukrainian oligarchs decided to lead the country towards the EU and NATO. And that was the time when the real security dilemma occurred, especially in the

eastern part of the country.

Posen already in 1993 came up with this theory regarding the real security dilemma, and he warned the political leaders that this kind of approach in Ukraine could lead to a conflict later. According to Posen, a security dilemma is when offensive and defensive military forces are more or less identical (POSEN, B. 1993). If offensive operations are more effective than defensive operations, actors will choose the offensive options if they wish to survive. In case of Ukraine this theory is correct in two aspects. Firstly, there was the occupation of Crimea by Russian forces. They had superiority on the peninsula, and the political crisis in Kiev was still not resolved. That was an unexpected opportunity for Moscow (MARXSEN, C. 2014). But after these events, Russian speaking eastern Ukrainians wanted to have a similar process, that's why eastern oligarchs started to fund and financially support local militias to revolt against Kiev. After the violent regime change led by the far right nationalists, the local population of Eastern Ukraine started to fear them, which was another important reason that led to the conflict. From another perspective, Ukrainian leaders have always faced the security dilemma, as their big brother Russia was

much stronger and they had always been dependent on them. For this reason they had to act in accordance with Russian interests.

Among civil war scholars, the question of humanitarian intervention also plays an important role. In this case it is less important, but still worth providing a brief overview of this question too. According to Evans and Sahnoun, humanitarian interventions are highly important in case of a civil war, in order to protect innocent civilians. Based on that, these kinds of operations are rather described as the responsibility to protect the people than as an intervention by a third party (EVANS, G. – SAHNOUN, M. 2002). In their opinion a stronger third party always has the right to protect civilians, and this is more important than the sovereignty of a state. On the other hand, Luttwak argues against this statement. According to him we should never make interventions; rather he argues that countries have to “make war to make peace” as in the long term this is a more peaceful solution of the conflict. Hatred between ethnic groups will be less relevant after the conflict has been solved internally, and the peace can stay for longer than in case of an intervention (LUTTWAK, E. 1999).

In Donbass, some humanitarian aid was sent by

the Red Cross and also by the Russian government, but regarding humanitarian intervention the events in Crimea were more significant. As the peninsula is mostly inhabited by ethnic Russians, and there was a threat by the far right nationalistic groups, Moscow had the opportunity to intervene. It could be analysed in another case study whether it was legal, not to mention the geopolitical background. Ultimately, according to official statements made by the Russian Government, the most important factor for intervening was that they wanted to protect the local Russian population, as they were afraid of an attack by the far right thugs against Crimea. Based on my readings and knowledge of the topic, the main reason for Russia’s annexation of Crimea was the opportunity and chaos left behind after the unexpected regime change in Kiev. It can even be claimed that the invasion was Russia’s reaction or answer to the revolt that took place in the Ukrainian capital in late February 2014.

This question of greed or grievance plays an important role in civil war literature as well. Paul Collier and Anke Hoefflers provide us with an influential scheme of analysis. They have introduced a conceptual dichotomy in the literature: greed vs. grievance.

The greed argument refers to self-interested, even selfish behaviour as the main motivation behind civil wars, whereas the grievance approach identifies discontent and frustration as the primary motivation for political action (COLLIER, P. et al. 2005). Later Collier and Hoeffler modified their original concept and changed it into a broader meaning as opportunity. As greed is an important motivating factor for any side, without having a good opportunity itself it doesn't amount to anything – Ukraine being a good case in point. All the political leaders were led by greed in past decades, but this was not enough to start a war; they were not even interested in it. But when a political standoff occurred between the two identities of Ukraine it was the perfect time to drive the country into a violent conflict. We can see great examples for this theory in the Ukrainian case.

According to another explanation weak states and weak governance always create an opportunity for frustration that motivates insurgency. According to Levi a strong state is representative and accountable to its people, and able to protect the population from violence (LEVI M. 2006). In the case of Ukraine neither conditions were met. The Poroshenko government was not representative,

as it represented only the western regions of the country. It was not accountable either, as the level of corruption was still one of the highest in the world; only in a few Central-African countries was the situation worse. And if we have a look at whether the government was able to protect its citizens or not, then we can state that it wasn't in their capabilities either. After the regime change pro-Russian militias could rise up against the central government in the eastern territories. Had there been strong leadership, not to mention the government's legitimacy, this could not have happened, at least not on such a large scale.

It can be clearly stated that the pro-European more nationalistic oligarchs had the opportunity to start an uprising based on Yanukovich's decision in late 2013 not to sign the commercial treaty on the Deep and Comprehensive Cooperation with the EU. But after the regime change in Kiev, the pro-Russian elite had the same chance, however their case was even more problematic since recruiting soldiers to fight against their own government is never easy. The decision of an individual to participate in a rebellion always depends on potential costs and benefits. Insurgents will join an uprising only if the expected benefits are higher than what is

offered by the current status quo (MULLER, E. N. – OPP, K.-D. 1986). This is why most of the opportunity theorists do not perceive domestic violence as an emotional reaction to grievances but rather as a rational response to the circumstances.

On the other hand, among the most important driving forces of a civil war we can usually find not only the opportunity, but the motivation as well (ZEYNEP, T. et. al. 2011). As the Ukrainian society has always been relatively divided, the motivation for an uprising was hiding in the dark waiting for an opportunity. The nationalistic pro-western elites always wanted to get closer to Europe and break up with the Russians, but they could never recruit enough supporters for this idea. On the other hand, pro-Russian elites always believed in the country's integrity and in its Russian based identity. Minor clashes between the two perspectives had already been registered during the last 15 years, but in most cases economic interests played the most important role. As long as both parties could realize their major incomes from the country, there was no need of any armed conflict. But as a result of the revolution, this stable status quo changed, and the economic stability of the Eastern part of the country was threatened. All in all,

it can be claimed that the main driving force of the violence both in Kiev and Eastern Ukraine, were not the grievances or ancient hatreds, but rather the influence of their nationalistic and greedy leaders.

To summarize the beginning of the violence, the onset and the main driving force of the conflict, we can state that the most important ingredient was the opportunity presenting itself on both sides. On its own, however, this opportunity would never have led to a violent conflict, but it was definitely the spark which had been missing previously. Regarding the motivations of the parties, the security dilemma played an important role as well, which led to fear later. Compared to other similar conflicts, we can maintain that ethnic differences did not play an important role, as only some far right nationalistic Ukrainians shared this approach. These nationalists were always in the minority; they never had any major support from the population. In spite of being a divided country having two different identities – in fact there are no significant differences between them either culturally or historically – this has never been a real problem in Ukraine. The other important driving force of the armed conflict was the political and ideological differences between

the elites, who could successfully influence their population in a nationalistic way. Without the help and support of the elites, violence would never have started either in Kiev or Eastern Ukraine. The crisis occurred because of many reasons, such as the more than twenty years of weak governance, a corrupt economy dominated by oligarchs, heavy reliance on Russia, and sharp differences between Ukraine's linguistically, religiously, and ethnically distinct eastern and western halves (McMAHON, R. 2014).

### **End of the Conflict**

After the escalation of the fights in January 2015 the European leaders organized a second summit in Minsk in order to negotiate a ceasefire as soon possible. As a result, on the 12th of February the Minsk II treaty was signed by the parties. Leaders of Belarus, Russia, Germany, France, Ukraine, DPR and LNR participated in the negotiations. Following the 16 hours of overnight discussions the parties agreed to a package of peace-making measures. The negotiations were observed by the OSCE as well (OSCE, 2015). They agreed on the withdrawal of heavy weapons from the front line, the release of prisoners of war, and on

constitutional reform in Ukraine. From this point we are talking about a frozen conflict, as the ceasefire is still in power, but there was no peace treaty signed. Both sides withdrew their heavy weapons sooner or later, they successfully exchanged their prisoners, but the central government still couldn't regain its control over the Russia-Ukrainian border, and they didn't introduce any constitutional reforms (BENTZEN, N. 2016).

The DPR and LNR territories are integrated into the Russian economy, and both territories use the ruble as their currency. Nobody knows what will happen in the near future in Eastern Ukraine. Some fights are still being recorded between the sides, but they are not significant and the front lines have not changed since the signing of the treaty. The election of the new president has also not resulted in any change in the conflict yet. Basically, this is a very similar situation to that which was noted in Transnistria, Abkhazia or South-Osetia. According to international law, the central governments of Ukraine, Moldova or Georgia do not have the right to join any military cooperation (such as NATO) until they reach their total territorial integrity. For this reason, the current status quo is very much in favour of the Russian government. How long

these frozen conflicts can survive, is the crucial question – and anyone's guess. Until a long term agreement is reached concerning the status of these territories, the situation will probably stay the same.

### **III.5.4. Conclusion**

At the beginning of the study the historical background between the Russians and Ukrainians was discussed. Following that, the real driving forces of the violent conflict were defined. Based on the findings, the most important components in the conflict were the motivations and perceptions of the oligarchs and the local elites. The cultural divisions and identity differences would have never led to a conflict in this case, as the Ukrainians and Russians have much more in common with each other than they have differences. According to Posen this cautious situation was always present in Ukraine; the elites just had to wait for the perfect opportunity.

Based on the analysis, the main reason behind the dynamics of the fights were the wrong measures carried out by the newly formed government. Had they begun to negotiate with the eastern militias, no fights would have been necessary. This would have led to a more federal country, which was

obviously not in their interests. The question of the security dilemma played an important role on both sides as well. It can be claimed that the unexpected happenings and the reactions of these events is what ultimately led to this violent conflict. We examined the motivations and perceptions of both sides. There were no significant ancient hatreds between the parties; animosity did not play an important role in the shared Russian-Ukrainian history during the last centuries. Nationalistic aspirations were neither prevalent nor popular in Ukraine; the Poroshenko administration, however, took major steps in that direction.

In essence, the general population never really supported the government's operations against the rebels. The question of humanitarian intervention has also been discussed, as the eastern Ukrainian Russians started to revolt against Kiev after the process took place in Crimea and they were expecting a similar outcome in their case as well. On the other hand, for the eastern oligarchs the situation in Kiev was not sustainable at all due to the ban of the Russian language in schools and in the media. This conflict was a nightmare for every participant, except for the far right radicals; tragically, these kinds of violent people always show up

when they have the opportunity to fight. My answer to the main question is that the conflict would not have occurred without the help of the local Russian elites. What is also important to note is that if the Ukrainian government's reaction to the revolts in the Eastern part of the country had been peaceful, the whole situation would never have flared up, or at least not in the immediate future. Without the support of the elites on both sides the conflict could not have escalated to the extent that it did, which is why the elites must be mostly held responsible.

To conclude, based on the events and outcomes, we can claim that the hybrid war against Ukraine appears instead to be an unplanned series of actions and reactions rather than a consciously planned chain of events on both sides. The intervention of the Russian conventional and irregular forces in Ukraine should be analyzed in a much more flexible way. It has also been suggested that the expression "hybrid-war" itself is a misused term. Basically, it describes the employment of every possible

tool to intervene in the interests of the local ethnic Russians, their political, economic, military and national interests. As far as is known from other conflicts, this is a methodology for spreading influence based on power which would have been familiar to other military powers as well. The paper's aim was to provide a clear understanding of the interests and motives in case of each participant. As a result, it can be claimed that the Ukrainian case is a very unique one and cannot be particularly compared to other similar conflicts in the Post-Soviet region, as the role of the local elites was significantly higher than in any other case.

#### *Acknowledgement*

The present publication is the outcome of the project „From Talent to Young Researcher project aimed at activities supporting the research career model in higher education”, identifier EFOP-3.6.3-VEKOP-16-2017-00007 co-supported by the European Union, Hungary and the European Social Fund.

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## III.6. Inequality and marginalisation as boosters of violence: Studying Latin America from a neo-institutionalist perspective

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### Abstract

*The origin and persistence of violence in the less developed regions have been a highly debated topic, in which the case of Latin America is yet to be resolved. This region is one of the most violent ones in the world even though there are no ongoing armed conflicts between states. In this context, the question of what the main drivers of violence in Latin America are arises. The complexity of this phenomenon requires explanations that consider both political and economic factors to provide a deeper understanding of the situation. This paper addresses this question by following the neo-institutionalist approach of North, Wallis and Weingast, who argue that there is a so-called “limited access order” in which participation in organisations and benefits is restricted, triggering violence and social unrest. The study analyses two main boosters of violence in Latin America: limited access to land ownership as the main expression of inequality, and the prevalence of clientelism and corruption as typical operating schemes of the dominant coalitions in the region. It gives rise to a complex assessment of the so-called limited access order and its particular characteristics in Latin America, in which both inequality and marginalisation have had an impact on the development of violence in the region. The research contributes to the study of violence from a neo-institutionalist perspective and implies ways to better understand other limited access order regions in the world.*

**Keywords:** Latin America, neo-institutionalism, violence, inequality, clientelism

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### III.6.1. Introduction

Violence is one of the most important problems in human societies. The problems people have coexisting peacefully have

persisted throughout human history. All societies face this problem to a greater or lesser extent. While it has not been possible to eliminate violence completely, some societies have managed to contain and diminish it. However, the control

of violence has not been achieved in many parts of the world yet. Nowadays, this problem, with some exceptions, is more prevalent in less developed regions.

From the economic neo-institutionalist perspective, some proposals have shed light on the problem, enabling an understanding of the phenomenon of violence. In this sense, North, Wallis and Weingast provided a valuable contribution to the field (NORTH, D. et al. 2009). They proposed the existence of different social orders, each distinguished by their mechanisms to deal with violence. Social orders are patterns of human organisation in which societies create rules that give individuals control over resources and social functions. According to these authors, there are two main social orders in the modern world: limited access order and open access order.

Limited access order is a kind of order in which there is a dominant coalition whose members have special benefits. The dominant coalition is made up of elites that agree to respect each other's privileges including access to resources and creation of organisations. By limiting access to these privileges to members of the dominant coalition, elites create incentives to cooperate rather than fight among themselves. The

privileges and rents (economic assets) of the elites in the dominant coalition depend on the limited entry to the coalition, and this is enforced by the continued existence of a certain political regime controlled by them. In this social order, violence should be controlled and contained by the dominant coalition.

On the contrary, open access order exists when a large number of individuals have the right to access resources and form organisations that can engage in a wide variety of economic and political activities in a society. The right to have access to these benefits is defined impersonally. Impersonality means that all the sectors of society are treated equally. Impersonality makes equality possible. The particular identity of individuals is not taken into account; thus, there is no room for dominant coalitions or nepotistic relations. This forms the basis for civil society, with many groups capable of becoming politically active when their interests are threatened.

Based on the proposal of North, Wallis and Weingast, it is possible to state that limited access order, also called natural states order, is the dominant social organisation in Latin America (NORTH, D. et al. 2009). None of the countries of this region exhibit the characteristics of

open access societies. This means that, in each of these countries, there is a dominant coalition that limits access to valuable resources and maintains a set of privileges, thereby preventing violence among the participant actors of the coalition. Latin America's colonial past has been an important precedent in this sense. Many of the elite groups who defeated the foreign conquerors clung to power, perpetuating an environment of inequality and marginalisation in which they have had exclusive access to resources and the opportunity to create their organisations.

In limited access societies, as in Latin America, the existing dominant coalition manipulates the economy to create rents by limiting access to organisational membership and valuable resources. This situation holds the coalition together, enables elite groups to make credible commitments to support the regime and, most importantly, refrain from violence. However, the control of violence also depends upon many other factors, particularly in the case of Latin America. Therefore, as will be explained, the system imposed by dominant coalitions in this region has not been able to control the violence but has instead increased it due to the negative externalities that it has created.

Following the proposal of North, Wallis and Weingast, two main particularities of limited access order in Latin America were identified. The first one is the restricted access to land ownership as the main form of inequality in Latin American societies. Considering the important economic role of land, the rents created by its use have strengthened the elite groups and have maintained a dynamic of poverty and inequality in the rest of society. The second aspect is the prevalence of clientelism and corruption as typical operating schemes of the dominant coalition in Latin American countries, a situation which has triggered widespread social marginalization, which has in its turn led to strong social unrest. These two key factors have had a crucial impact on the emergence of different forms of violence that the elites have not been able to fully control yet. This is a paradox because dominant coalitions seek to reduce violence in the societies where they function instead of increasing it, but this has not been the case in Latin America.

The neo-institutionalist approach proposed by North and others allows an understanding of the logic behind the social orders; in this case, limited access order as the prevalent pattern of social organisation in Latin America

(NORTH, D. et al. 2009). At this point, it should be noted that Latin America is a very heterogeneous region, which means that the limited access order is present at a different stage of development in each country. Nevertheless, the aim of this paper is to highlight the role of inequality and marginalisation as boosters of violence, regardless of the differences in state structure and the sophistication of the organisations the elites are able to maintain.

### **III.6.2. Land ownership and inequality in Latin America**

Latin America is a region in which countries' economies are still very dependent on the land. They are still agrarian societies to a large extent, which can be explained by the fact that they are very rich in natural resources. Actually, this region has the largest arable land reserves in the world (UN 2014). However, the distribution of land ownership is one of the most unequal in the world. This condition is a very serious and unsolved problem in the region (GUEREÑA, A. 2016).

It is important to highlight that, according to classical economic theories, land is one of the main factors of production for the economy, together with capital and labour. Unfortunately, the

availability of land in the world has decreased gradually in the last few decades (KASWAMILA, A. 2016). One of the major causes of land loss is deforestation through human intervention, which has intensified since the time of the Neolithic Revolution, and especially during the Industrial Revolution – precisely, the two revolutions considered as boosters of new social orders by North and others (NORTH, D. et al. 2014).

Considering the importance of this resource, one of the main rent sources for the elites in Latin America has been the oligopoly of land, as the access of the peasant population to land ownership has been restricted for a long time. As a result, inequality in the distribution of land in Latin America is a very serious problem. According to the data of the Food and Agriculture Organization (2017), in terms of the Gini coefficient applied to land distribution, Latin America reaches 0.79. A very high number compared with Africa and Asia that reach 0.56 and 0.55 respectively.

Dispossession of land in Latin America is an issue with very deep roots. Since independence, land distribution was openly inequitable. The leaders and groups that defeated the Spaniard conquerors retained their upper-class privileges, perpetuating a

legacy of inequality in broad sectors of society. From that time until now, the struggle for land ownership has caused numerous conflicts in Latin America. The dispossession of peasants is a common pattern in many countries – states seize their lands and force them to leave – triggering violent revolutions, some of them with terrible consequences. The „Landless Workers Movement” in Brazil, the Colombian internal conflict due to the lack of agrarian reform, and, in general, the violent eviction of peasants in all Latin American countries are some examples of this phenomenon (GUEREÑA, A. 2016).

Land plays a crucial role in Latin American economies since it is not only the main factor of production but also one of the most important sources of wealth. Therefore, social status and power relations are determined, to a great extent, by the structure of land tenure (VOGELGESANG, F. 1996). In Latin America, 48.6% of people that live in rural areas are poor (FAO 2018). This is explained by the fact that, once the land is taken away from peasants, elite groups give it to large national and foreign companies to exploit. Generally, landless peasants have just two options: work for low wages for large landowners, or move to the cities, where it is difficult for them

to find an appropriate place to work and live. This situation has perpetuated social inequality and, in many cases, has encouraged the creation of guerrilla groups or criminal gangs, which are recurrent perpetrators of violence in Latin America. In particular, guerrilla groups emerged during the Cold War backed by leftist ideologies – after this period some of them laid down their arms and continued their efforts as political parties.

Through the accumulation of land, the Latin American elites limit access to valuable resources and the activities derived from them. They use their power to influence political and regulatory decisions that may affect their interests around land, ensuring the distribution of benefits in their favour (GUEREÑA, A. 2016). Moreover, the rents created by the use of land strengthen the dominant coalitions in these countries. Thus, there is an urgent need for a reorganisation of landed property in Latin America that allows for an opening of economic and political competition for land ownership and the subsequent integration of marginalised communities, decreasing violence in these societies. More access to land ownership for peasants is crucial in order to reduce persistent inequality and social unrest in the region. Likewise, it is necessary

to establish an institutional control based on impersonal rules that guarantee property rights to all people in these societies.

Moreover, a better distribution of land ownership may improve the economic performance of these countries. It has been shown, for example, how the extreme concentration of land ownership slows long-term economic growth (DEININGER, K. – SQUIRE, L. 1998). In effect, redistribution leads to greater agricultural productivity, favoring improvement in rural incomes and economic growth in general (VOLLRATH, D. 2007). In connection with this, it is important to note that, for most Latin American countries, commodities are their main export products. However, the strong dependence on the export of raw materials has made these countries vulnerable to external shocks, which is a very common pattern of the economy in countries with limited access order. In this sense, remaining in an economic model based on extractivism is also a hallmark of significant backwardness that prevents these societies from progressing towards a more advanced pattern of social organisation.

### **III.6.3. Corruption and clientelism: Dynamics of marginalization**

Personal relations are fundamental to accessing organisations and exclusive privileges in Latin America. This is one of the main characteristics of limited access orders and, indeed, this region is a very good example of it. “Personalisation” is a very important factor, not only within the elite groups but also when external actors want to interact with them. This condition has turned the region into a fertile ground for phenomena such as corruption and clientelism. The analysis of these two dynamics is crucial to understand the relationship between the elite groups and the rest of society in Latin American countries. In both cases, the dominant coalition takes advantage of its position and privileges to establish power relations with other actors. This results in the perpetuation of a highly personified system of social relations. As North and others pointed out “non-elites are not masses of undifferentiated individuals who are treated impersonally (NORTH, D. et al. 2009). Protection is extended through patronage or clientage networks” (p. 35).

The existence of these dynamics in Latin America is related to the historical legacy of the colonisation times – as in the

case of land distribution exposed above. The colonial system imposed an economic and social model called “hacienda” in which large tracts of land were controlled by a few landowners. This model was based on the concentration of land ownership and the monopoly of the labour force in the hands of the landowner. Thereby, the landowner was the most important and powerful actor, and the establishment of relations with him went through the exchange of favours at his convenience. Thus, these societies were based on hierarchical power, loyalty and submission by establishing relationships of exchange. Over time, the ‘hacienda model’ became the fundamental basis of economic production, political system, and social relations in Latin American countries. Although this model formally disappeared, it was the origin of phenomena such as clientelism and corruption.

The concept of clientelism, according to Gordin, is referred to an asymmetric relationship of power that involves a particularistic transaction associated with the distribution of public goods in exchange for favours (GORDIN, J. 2006). Clientelism establishes informal relations of power that facilitate the mutual exchange of services and goods between two

socially unequal persons or groups (SCHROTER, B. 2010). This results in the development of personal networks of exchange in the context of negotiated relationships between the dominant coalition and the rest of society. In Latin America, clientelism is observed when politicians or bureaucrats create laws or modify the existing ones to generate privileged rents for specific individuals with state backing (PRITZL, R. 2000). In this way, clientelism turns the political system in a negotiated relations network devoid of impersonality.

Likewise, there is a serious problem of corruption in Latin America. According to Treisman, corruption is defined as the misuse of public goods for personal gain (TREISMAN, D. 2000). Corruption occurs more frequently in scenarios of low alternation in power, where political actors are strongly embedded in institutional structures (MORALES, M. 2009). Limited political competition increases the chances of the government elite to commit acts of corruption. In the case of Latin America, a big percentage of politicians have been involved in the theft of public funds. Currently, the corruption in this region has reached unprecedented levels. As a consequence, social unrest has resulted in higher levels of violence.

The phenomenon of corruption networks in Latin America could be also analysed from the perspective of interest groups, as was proposed by Mancur Olson (OLSON, M. 1965). According to this approach, corruption emerges in the context of interest groups. An interest group is the formal or informal union of individuals that are grouped around homogeneous interests. These groups arise when it comes to defending or imposing their particular interests through the political process. In this sense, every group strives to obtain a better collective position amid the competition or take ownership of the rent revenues generated by the state interventions. However, this necessarily implies the marginalisation of certain sectors of society. These sectors promote violence due to their exclusion from the social dynamics of personalist privileges.

Corruption has become an inherent condition of Latin American countries. In fact, the generalisation of this practice has gradually established it as a social norm (MISHRA, A. 2006). Its systematic and planned nature has established corruption as a new way of rent-seeking. Moreover, it is a determining factor in the levels of inefficiency and injustice in the distribution of income (ROSE-

ACKERMAN, S. 2001). The recent discovery of big corruption scandals in Latin America has resulted in a lack of credibility among the institutions and has triggered a tide of distrust in traditional politicians and in democracy in general, which has been reflected in the last elections of several Latin American countries.

To sum up, in limited access societies, like the Latin American ones, there is no reinforcement of the rules by impersonal means, as happens in open access societies. On the contrary, who you are and what your position is are important issues when it comes to obtaining rights and having access to organisations and resources. This access is limited because personal relations are important not only within the dominant coalition but also when external actors interact with it. It is important to note that, in the last couple of decades, political changes in some Latin American countries have allowed members of the excluded groups to reach the highest offices, as in the cases of Evo Morales in Bolivia and José Mujica in Uruguay, opening the possibility of a social transformation. However, this is still a fledgling phenomenon since the dynamics of exclusion perpetuated by traditional elites remain the most prevalent pattern

in Latin American societies today.

### **III.6.4. The failure in controlling violence: The effects of inequality and marginalization**

Despite being a region that does not have ongoing armed conflicts between states, Latin America has the highest rates of violent deaths, which makes it one of the most dangerous places in the world. Central America and South America have 25.9 and 24.2 homicides per 100,000 inhabitants respectively, compared to 13.0 in Africa, 5.1 in North America, 3.0 in Europe, 2.8 in Oceania and 2.3 in Asia (UN OFFICE ON DRUGS AND CRIME 2019). The reality behind these figures is very complex. Many analyses of violence in Latin America tend to focus on superficial criteria; however, this situation is a result of deeply rooted problems (SOLIS, J. – CERNA, S. 2014). Dynamics of inequality and marginalisation that persist in Latin American countries are an important part of the unsolved problems that have to be taken into account in any new approximation of this phenomenon.

In this sense, persistent violence in this region could be explained mainly by two causes. One of them is the lack of

opportunities as a result of the high levels of poverty and inequality in the society. The land, as the main production factor in Latin America, and its unequal distribution is one of the most important drivers of this phenomenon. This kind of marginalisation makes excluded people try to find other ways to live, in many cases criminal activities. The other cause of violence is social unrest. Popular indignation at the increasing clientelism and corruption dynamics is an incentive for creation of illegal groups that fight against the elite groups in order to take away their privileges or remove them from power.

The fact that access to organizations and resources is limited and there are exclusive privileges for certain groups generates a strong social discontent that leads to high levels of violence in Latin America. Since several groups find illegal ways to have access to the arms market, the monopoly of violence by the state is not a fulfilled condition in the region. Thus, the use of violence is not exclusive to the dominant coalition. This is a very serious threat for the elite groups in the region. A violent environment is detrimental to the interests of elites because they could lose their rents.

Consequently, elite groups are able to avoid conflicts among

themselves, but not conflicts caused by other actors in society. This means that, although violence among the dominant coalition members is controlled through the incentives of maintaining their negotiated privileges, violence that results from inequality and social unrest is difficult to control. This condition has implied, in fact, the loss of rents. Colombia is a clear example of this situation in the region. This country had an internal conflict of more than fifty years because of the lack of agrarian reform which was prevented by elite groups in order to maintain the unequal distribution of land. This prolonged conflict caused a great loss of rents because of the illegal occupation of large extensions of territory, the extortion practices carried out by rebels, the loss of economic resources and, in general, the cost of the war (CLAVIJO, S. 1998; RESTREPO, J. – APONTE, D. 2009).

It is important to highlight that in some countries, elites tried to control violence in certain parts of the territory by giving arms to some groups of the society aiming to restrict the activities of criminal gangs. Examples of this kind of policy were programmes such as the surveillance and security cooperatives “Convivir” and “Soldados de mi pueblo” in

Colombia, “Rondas campesinas” in Peru, and “Colectivos Chavistas” in Venezuela. However, the results of these programmes were mixed and frequently controversial as some of the groups exceeded their functions and began paramilitary actions generating even more violence than before their creation (KOESSL, M. 2015; MOYA SÁNCHEZ, T. 2018).

### **III.6.5. Conclusion**

Throughout the analysis, it was possible to observe that the colonial era left an important legacy in Latin America, which is reflected in the unequal land distribution and the perpetuation of clientelist relations in this region nowadays. These two factors are crucial to understanding the origin and the persistence of violence based on the dynamics of inequality and marginalisation. In the first place, the problem of land distribution in Latin America is quite serious. Land ownership has been a key rent source for the elites. The hoarding of land by a handful of elites has been one of the main reasons for the high levels of poverty and inequality that affect mostly peasants and rural people. Consequently, many social conflicts have arisen provoking an increasing level of violence in Latin American countries.

Furthermore, the economic

and political dynamic of the elite groups revolves around corruption and clientelism. On the one hand, corruption, in the form of the abuse of power to obtain personal benefits, has perpetuated the misuse of public resources. Moreover, the way to interact with the dominant coalition is, in most of the cases, through bribes and exchanged favours. On the other hand, the predominance of economic and political relationships organised along the lines of nepotistic personal networks guarantees that access to key resources remains restricted to a certain group of people. The continuation of the colonial asymmetric relations based on power hierarchies is a pattern replicated under the current clientelism mechanisms. These dynamics created a system of interactions characterised by highly personified relationships in which only certain persons have access to organisations and resources, a situation which prevents their democratisation. The consequence is the marginalisation of many sectors of society and, overall, the increase of social unrest which results in the massive replication of violence in these societies.

To sum up, limited access order in Latin America has prevented violence among the coalitions in power but it has created negative

externalities such as inequality and marginalisation, the main consequence of which has been the emergence of violence. To solve this problem, Latin American countries have to provide to all the sectors of society equal opportunities for participation both at the economic and the political levels, as open access societies have done. In this sense, reforms that encourage a more equal land distribution must be promoted. Clientelism and corruption must be banished from the political sphere. Unfortunately, the dominant coalitions of Latin American countries do not seem to have an interest in changing the situation and may be willing to continue dealing with the violent environment as long as they keep their privileges.

Finally, on a side note, another interesting issue to consider when analysing the inequality and marginalisation in Latin America is the role of religion in legitimising the social order but remaining as a factor that has been unable to prevent violence. Since independence and for a long time, the Catholic Church was a very powerful and privileged institution in the Latin American countries. Despite the fact that it has lost influence in recent decades, its legacy is still present in many ways in the region. It had an impact on the formation of elites and the

maintenance of the status quo. research in this area.

The importance of submission and the exaltation of poverty can be considered as teachings of the Catholic Church that helped control certain demands of the population and fostered existing inequities in society. However, although the Catholic Church managed to promote a certain social order, it has been unable to help control the violence in the region. This paradoxical role of religion in Latin America is an underexplored but thought-provoking topic for further

### *Acknowledgement*

The present publication is the outcome of the project „From Talent to Young Researcher project aimed at activities supporting the research career model in higher education”, identifier EFOP-3.6.3-VEKOP-16-2017-00007 co-supported by the European Union, Hungary and the European Social Fund.

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## **IV. Contemporary Challenges in World Economy**

## IV.1. Traditions, Institutions, and Growth: the Case of Hungary

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### Abstract

*Institutions are an organized group of people with a particular purpose. Therefore, if we want to understand institutions, we need to understand the people that are part of it. In this context, this work aims at understanding the role of traditions and trust in Hungary in order to understand its institutions, its societal order, and its economic performance. Traditions and trust are here identified in the institutional economics framework. The approach comes from the observation that, during the years 1987-2015, Hungary has been particularly puzzling in showing both economic growth and order based on smaller communities and personalistic relations. We use data from the European Social Survey to map the beliefs connected to this definition, such as level of trust, importance of traditions. We will therefore consider ‘beliefs’ as the independent variable, and ‘GDP growth’ as the dependent variable. We find that both in Europe and in Hungary more specifically, a more closed and conservative society go hand in hand with higher GDP growth rates for the year 2002-2018. The work aims at proving that we can find both in Europe and Hungary a new middle ground between a limited and an open-access order defined in the institutional economics framework.*

**Keywords:** institutional economics, traditions, Europe, convergence, economic performance

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### IV.1.1. Introduction

This work is inspired by the works of Douglass North and by the institutional economics framework. It is in particular inspired by what the author identifies as the “central puzzle of human history” (NORTH, D. 1990), which accounts for the systemic reasons that further

explain economic divergence. In this context, this work aims at identifying what makes Hungary different in terms of its economic environment. It does so by first focusing on the reasons proposed by North, excluding the irrelevant ones, and then integrating them with ideas of other authors that help us operationalize them (NORTH, D.

et al. 2009).

This work is, in general, more of a part of the literature that tries to understand how political and economic regimes affect each other. The general goal is to position Hungary on a value map based on North's framework and to understand in this way how the country's institutions traditionally perform. As a consequence, the first part of the paper will discuss the different institutional economics approaches and we will conclude this section by saying that the approach that can account for the differences among societies more in detail is the one that focuses on cognition, beliefs, and experience. In the second part, we will describe more in detail how these elements can be used to elaborate a specific methodology based on descriptive statistics and fact-finding analysis, and how to perform a macro-analysis with individual characteristics.

#### **IV.1.2. Literature Review**

The goal of this section is to understand the relationship between culture and institutions and its different approaches. In the first part, we will review North's main contributions to the field. Next, we will review how the relevant concepts apply to Hungary, especially through the work of

other scholars. Finally, we will review possible future directions for the field and pose the research question.

#### **The New Institutional Economics and Hungary**

Douglass North is mainly known for being one of the major representatives of the new institutional economics discipline. The primary contribution of this field is the challenge it poses to neoclassical economics. The "mainstream" of economics postulates that people have rational preferences, their goal is profit maximisation, and that they act based on rational information. However, North always questioned if we can truly see these assumptions unfolding through time. According to him, humans do act intentionally, but through the lenses of cognition, culture, and experience (WALLIS, J. 2015).

For this reason, it is fundamental to differentiate between "rules of the game" (institutions) and the actors that play the game (organisations). Institutions change slowly, but they are what determine the structure of, and possible changes in, an economy. In fact, if we focus only on the individual level as in neoclassical economics, it is impossible to see how these

bigger dynamics unfold. The case is made clear in one of North's main books, which is called "Institutions Institutional Change and Economic Performance" (NORTH, D. 1990). The book is in a way a continuation of "Structure and Change in Economic History" (NORTH, D. 1982). In the earlier book, the author had already explored the concept of beliefs and ideologies. The former, together with norms and culture, are defined as "the cumulative experience of society passed down through culture and formed through repeated interactions of many people through norms of behaviour" (WALLIS, J. 2015). Beliefs are the continuous and marginal change that actors cannot manipulate. They are a function of what happened in the past and can impede change in the present. In a similar way, they can be a way to understand why a society structures itself in a certain way instead of another. Also, why a society goes down a certain path instead of another one.

North states that institutions are the rules of the game and that these rules include formal rules, informal rules, and norms of behaviours. More precisely, institutions are "the humanly devised constraints that shape human interaction" (NORTH, D. 1990 p. 3). For this reason, institutions shape the system of incentives.

They also reduce uncertainty by shaping everyday life. The scope of institutions is to create a stable but not necessarily efficient human interaction. In this sense, institutions are as well the natural outcome of human interaction based on the natural limits to human capacities for cognition and culture. Seeing how cognition and culture shape economic performance becomes a fundamental problem in establishing a framework for how institutions influence a particular place and time.

The real question is to understand if a society is limited access order (based on personal relations) or open access order (based on unpersonal relations). The open and limited access orders are in fact characterised by almost polarised patterns. In the open access order, we can witness social and economic development, contained or almost no negative economic growth, rich and vibrant civil societies, and bigger and more decentralised governments. On the other hand, in limited access order societies we can find slow-growing economies, polities without consent of the governed, a relatively small number of organisations, smaller and centralised governments, and a predominance of personal relations. This distinction creates a rigid dynamic: if you want a more

prosperous society, you need to have better institutions. If you want better institutions, you need better rule of law, perpetually living organisations and consolidated political control of the military.

But how to have better institutions? According to this paper we should look at the relationships between cognition, culture, and experience on one side; and economic performance on the other. We should look at institutions as a projection of the values of the society they represent. Once we do this, we can link the values to economic performance to categorise societies as open access order, limited access order, or a combination of the two.

### **Which beliefs and which economic performance in Central and Eastern Europe?**

Central and Eastern Europe shows attributes of the open and limited access orders. We can see sustained economic growth, polities with the consent of the governed, a relatively small number of organisations, and a declining civil society. As an external observer, it is unclear whether personal or impersonal relations are predominant. The paper aims at looking at this through its

analysis of cognition, beliefs, and culture. This uncertainty is given as well by the fact that the focus on institutional economics and Eastern Europe has so far been focused on the transition from planned to capitalist economy (NEUBER, A. 1993; GEHLBACH, S. – MALESKY, E. J. 2012). As a consequence, is Central and Eastern Europe a limited or open access order? Or in between?

Other works already tried to measure the impact of institutions on economic performance (TABELLINI 2010). However, the difference of this work stands in doing it specifically for Hungary and by connecting the North framework. Hungary is chosen as a representative country of Central and Eastern Europe. When in fact people think about Central and Eastern Europe, the idea is more about its “convergence towards the West” rather than understanding its intrinsic characteristics. In other words, in a world in which neoliberalism hold sway, there is no space for the fundamental question that should drive social sciences: how do we explain the political and economic differences between countries? And in a way influenced by North: can economic prosperity and poverty be viewed as a consequence of specific cultural patterns? And how can we create

effective economic institutions?

### **Economics and Beliefs**

The question then becomes: how do cognition, culture and experience shape economic performance? This question is much more complicated than it looks. It puts together different fields, from institutional economics to behavioural economics. It takes into account microeconomics, as it deals with how individuals make their choices. On a broader sense, economics is the science of how individuals organise their resources. But do individuals think the same when taken singularly and in a group? And do they really act “rationally based on all available information” anyway?

According to North (NORTH, D. et al. 2009), a society is the aggregate number of individuals collectively dealing with a range of individual decisions in such a way to produce common and shared beliefs about choices, consequences, and outcomes. This is shaped by a fundamental causal belief: that there is a connection between actions and the world around us.

According to the other main authors on the topic (ROBINSON, J. – ACEMOGLU, D. 2006), individuals have indeed well-defined

preferences over outcomes or the consequences of their actions. In fact, „They evaluate different options, including democracy and non-democracy, according to their assessment of their (economic and social) consequences” (ROBINSON, J. – ACEMOGLU, D. 2006). However, according to the authors, individuals act strategically and for this same reason, they use game theory as a main theoretical framework. In contrast, in this work, we assume that choices do matter, as in North’s framework.

Some of these gaps have already been filled. For example, Zak (ZAK, P. – KNACK, S. 2005) states that „cheating is more likely (and trust is, therefore, lower) when the social distance between agents is larger, formal institutions are weaker, social sanctions against cheating are ineffective, the amount invested is higher, and the investors’ wages are lower. (...) when formal institutions are weaker, adversely impacting income growth”. Other contributions are given on the impact of size family on economic growth (GREIF, A. 2020), and social capital and trustworthiness on institutions and growth (KEEFER, P. – KNACK, S. 2004).

On a level more connected to institutional economics, some work has already been done to understand the Hungarian case in

terms of values and institutions. In his paper “Hungary on the world value map”, Keller (KELLER T. 2010) uses the work of Inglehart (INGLEHART, R. 1997) to understand which characteristics of Hungary are outside the other trends and peculiar of this specific nation. The author maps fifty societies in terms of closed-open minded, secular-rational, and traditional-religious approaches. These values are selected according to Inglehart’s value theory (INGLEHART, R. 1997), which categorises the history of all human societies into two macro-phases: modernisation, which makes some societies evolve from religious to rational beliefs, and post-modernisation, which make some societies evolve from rational to performance-innovation beliefs. Inglehart proves this passage by analysing more than twenty variables. Keller, on the other hand, uses three specific dimensions extrapolated from this theory and from the available European Social Survey variables. The author finds that, even if adjusted by GDP growth, age and education level, Hungary comes out at the extremes of both “Western” and “orthodox” cultures. It also comes out as especially closed, based on values of self-expression, and rational, as based on secular-rational values. All of this especially if compared to

other countries with a similar level of economic development, as for the year 2009.

### **IV.1.3. Methodology and Variables**

As mentioned before, the goal is now to map Hungarian values and to link them to the economic performance. Hungary is once again chosen as a representative example. This, however, poses a number of questions. First and foremost, we need to clarify what we mean by values. According to North, societies change in response to random events and according to slow but constant dimensions which he identifies in cognition, culture, and experience. We will here focus on tradition and trust, as the main elements that characterise the difference between a limited access and open society. We also imply that such a set of shared beliefs implies shared ideas about choices, consequences, and outcomes. We do not focus right now on cognition and experience, even if we might do that in later works, for two different reasons. For what concerns the former, it depends on the fact that the field itself is still at an embryonic stage for what concerns macroeconomics. Also, the dimension that would be useful in terms of institutional economics,

which are the social dimensions of behavioural economics, can be analysed in terms of values and beliefs (LOEWENSTEIN, G. et al. 2014). The social dimensions include trust, dishonesty, reciprocity, and social norms. For what concerns the latter, further work about Hungarian culture needs to be explored.

If we then decide to analyse the traditions and trust according to North's framework, we will need to select which variables are both available in data terms and can be linked to the open and limited access orders. Such variables can be found in the European Social Survey<sup>57</sup>. For what concerns GDP, this work uses the GDP (constant 2010 US\$) from the World Bank Open Database. The percentage variations are also calculated using these values. We select some countries<sup>58</sup> based on the

data availability for the longest time span possible, which is between 2002 and 2018. In other words, countries are selected on whether the data is available for both the first and last European Social Survey round available.

We choose the variables that better represent the divide between a personalistic versus an impersonal society. For this reason, we choose to look at the level of trust in people, in the country's own parliament, in the legal system, in the police, in politicians, in political parties, and in the European parties. We choose such variables because we assume that a limited access society would have low trust level in supranational institutions. We map the variables for Hungary and for the year 2018, which is the most recent available. We also map the importance of following customs and traditions as it is very representative for what we are looking for.

In the second part we take this same variable, the importance of following customs and traditions, and we calculate the average for different countries in Europe and across different European Social Survey Rounds (from 2002 to 2018). We also calculate the average GDP growth for the same period, and we put the countries on a graph. On the vertical axis we have the change

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57 More specifically the variables are: *imptrad* (Importance of traditions), *trstep* (trust in the European parliament), *trstplc* (trust in the police), *trstprt* (trust in your country's parties), *ppltrst* (trust in people), *trstlgl* (trust in the legal system), *trstplt* (trust in the politicians).

58 The countries are: Austria (AUT or AT), Belgium (BEL or BE), the Czech Republic (CZ or CZE), Finland (FIN or FI), France (FRA or FR), Germany (DEU or DE), Hungary (HUN or HU), Ireland (IRL or IE), Italy (ITA or IT), the Netherlands (NLD or NL), Norway (NOR or NO), Poland (POL or PL), Portugal, Switzerland (CH or CHE), and the United Kingdom (GBR

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or BG).

in the importance of traditions and customs, while on the horizontal axis we have the variation in gross domestic product. We compare the average of these variables to other countries in Europe to see if there is any unusual trend or outlier. Finally, we repeat the same exercise, but we input the single available years for Hungary instead of different countries. We have the variation of the importance of traditions on the vertical axis and the variation in gross domestic product on the horizontal one.

### IV.1.4. Mapping the Relevant Beliefs in Hungary and Europe

We chart different relevant variable according to the institutional framework (Figure 12–13). We find that Hungary has a normal distribution for all variables, but it has a high trust level for the police and the legal system. On the other hand, the country values very much traditions and customs.

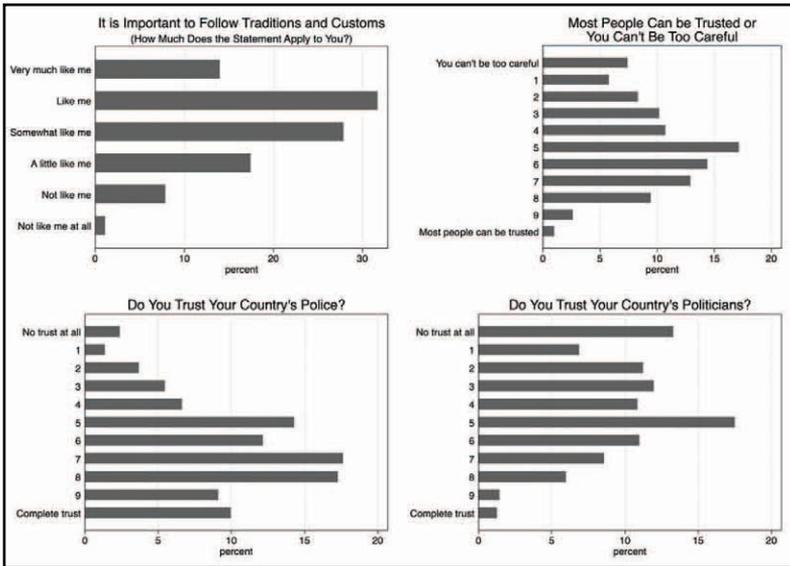


Figure 12: Levels of Trust and Importance of Traditions in Hungary  
 Source: Edited by Elena Cossu based on the data of ESS Round 9: European Social Survey Round 9 Data (2018). Data file edition 1.2.

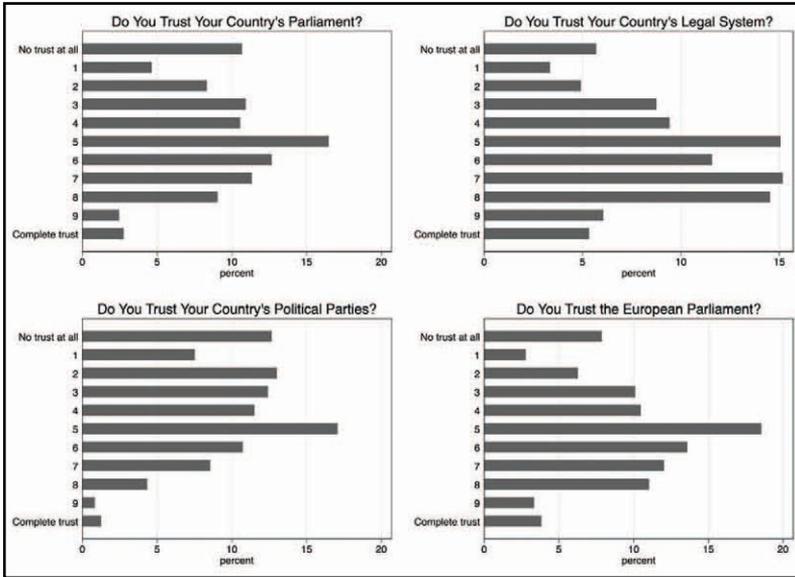


Figure 13: Levels of Trust in Hungary

Source: Edited by Elena Cossu based on the data of ESS Round 9: European Social Survey Round 9 Data (2018). Data file edition 1.2.

These figures show us that the perception of Hungary as a limited access society based on personal relations rather than impersonal ones is fundamentally wrong (Figure 12–13). The country, even if the figures are not perfectly

distributed, shows moderate level of trust across all variables.

We calculate the average of all the previously shown variables (Figure 14) and we put them next to each other in reference to different countries in Europe.

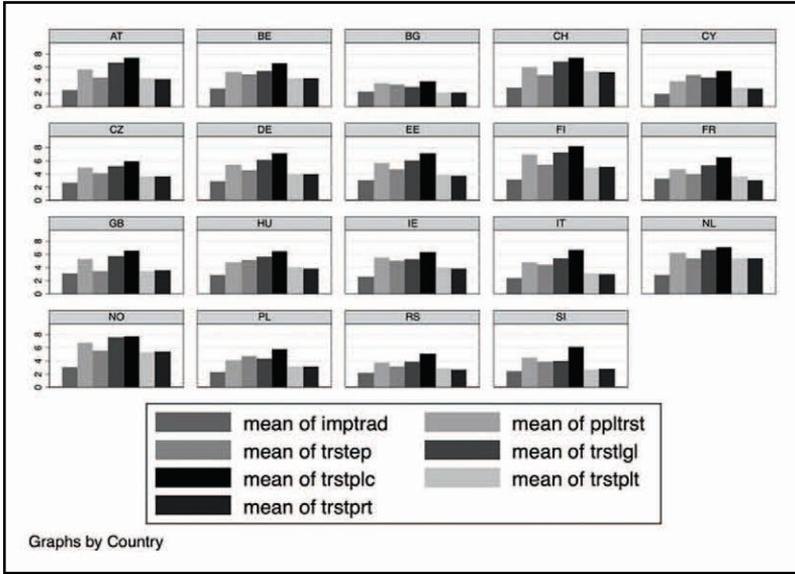


Figure 14: Averages of the Levels of Trust and Importance of Traditions in Hungary and Other European Countries

Source: Edited by Elena Cossu based on the data of ESS Round 9: European Social Survey Round 9 Data (2018). Data file edition 1.2.

Here we see that even compared to other countries Hungary does not appear as an outlier. Also, we can intuitively see that on average European countries trust the police more than the other institutions.

#### IV.1.5. Change in Conservatism and GDP Growth in Hungary and Europe

Figure 15 shows the most interesting result. When we look at the change in importance of traditions, the more we go right

the more the country in question incremented the level it believed traditions were important. For example, the fact that Ireland, Poland, and Hungary are in the right side of the scatterplot showed that these three societies became increasingly more prone to give relevance to traditions between the years 2002-2018. The GDP (constant 2010 US\$) variation shows as well that there is a correlation between this and the importance of traditions. The correlation, of course, does not imply causation. There are many intervening variables that could explain the existence of this

relation, including “the catch-up” with other economies during these years due to historical and technical reasons. Nevertheless, the institutional economic theory would predict that the opening of

a society towards more impersonal relations and more economic prosperity go hand in hand. With this analysis, we prove that at least for what concerns Europe such assumption does not hold.

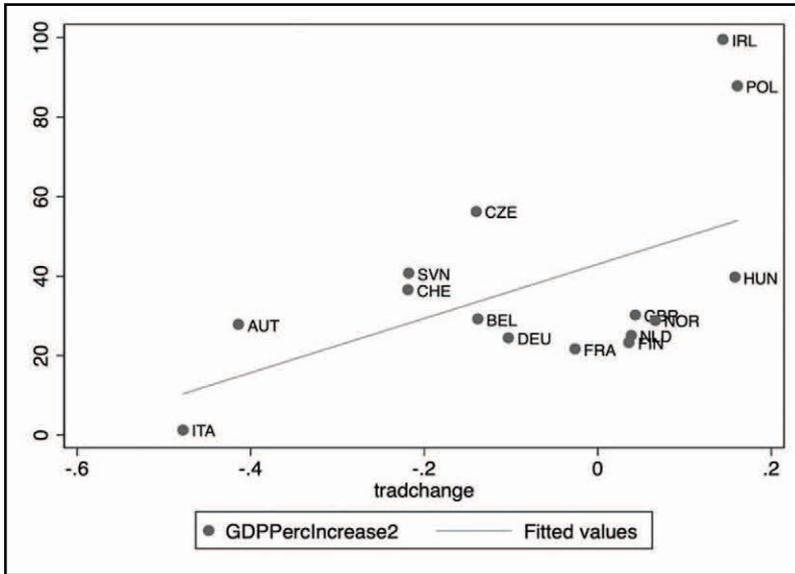


Figure 15: Change in importance of traditions Versus Change in GDP (constant 2010 US\$), 2002-2018

Source: Edited by Elena Cossu based on the data of ESS Round 9: European Social Survey Round 9 Data (2018) Data file edition 1.2., and the World Development Indicators, The World Bank (2020)

We now want to look at one case more specifically to uncover the dynamics in this process. We take Hungary as one major example of becoming less democratic while economically growing over the years (TOPLISEK, A. 2019). We find that except for the recent years, and 2018 more specifically, Hungary did prove the

paradigm of impersonal relations and economic growth correct (Figure 16). However, in recent years, the tendency has turned with higher relevance of traditions and sustained economic growth. The reasons for such turn could be multiple and go beyond the scope of this paper. However, they show a new model worth exploring in the

future.

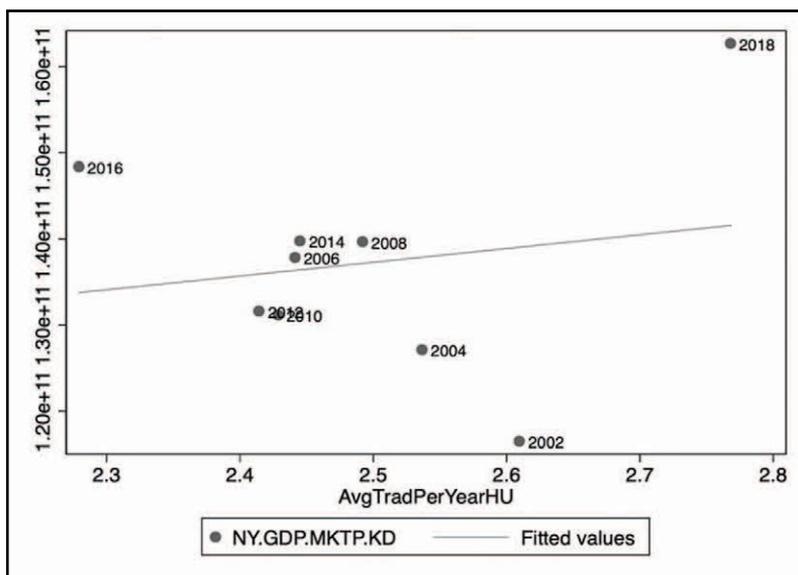


Figure 16: Average in importance of traditions Versus GDP (constant 2010 US\$) for Hungary, selected years

Source: Edited by Elena Cossu based on the data of ESS Round 9: European Social Survey Round 9 Data (2018) Data file edition 1.2., and the World Development Indicators, The World Bank (2020)

#### IV.1.6. Conclusion

The analysis of the level of trust and the importance of traditions in relation to the gross domestic product variations showed that the institutional economics paradigm is not reflected in the data concerning Europe for the years 2002-2018. The overmentioned paradigm is one that states that the more impersonal societies and economic prosperity go hand in hand. In reality, what we see is that an increase in preferences toward customs and tradition goes

hand in hand with more gross domestic product growth. This implies multiple things. First, it suggests that countries that have grown in the last two decades have a different pattern compared to the ones that developed their potential in previous times. However, it also shows the Hungary is a prime example of something in between a limited and an open access society, or more specifically a system both tending to conservatism and economic prosperity.

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## IV.2. Companies in Different States: The common logic of free trade agreements and transfer pricing

ESZTER KOVÁCS<sup>59</sup>

### Abstract

*This paper explores the strategic decisions of multinational enterprises (MNEs) selling their products to related parties in international markets. In order to minimize cost and maximize profit, companies manipulate their intrafirm activities: they set the transfer price (TP), change the location of their operations (by production displacement, providing services etc.), or create artificial transactions. These patterns guide the formulation of some theory and the development of a microeconomic model. The optimal choices firms make depend heavily on three considerations: where the competitive advantages are at a higher level, where lower tax and tariff rates are paid, and where to produce at a lower level of cost. Firms' reactions to a given import tariff or corporate income tax (CIT) are illustrated by game theory. We identify companies and countries as common actors in economies and examine interactions between them with a scenario analysis of the 8-way interaction. We concentrate on an MNE perspective and evaluate the cooperating behavior of inter-companies which take actions to reach higher profit levels in our game. The game is continued and free trade agreements (FTAs) appear. Profit still retains its centrally important role to multinational enterprises well beyond other political interests. The results suggest that a situation where the lower tax rates combined with eliminated tariff rates generate greater profitability to MNEs.*

**Keywords:** free trade agreements, multinational enterprises, transfer pricing, game theory

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### IV.2.1. Introduction and relationship to the literature

Tariff and tax policies have frequently been analyzed, since free trade agreements have spread all over the world. However, modelling the interactions between

intra-group firms and their operating environment (depending on tariffs, taxes, and regulations) through game theory has not been probed by many papers. Global trade trends have changed, since modern free trade agreements may result not just in free trade, but in the elimination of non-

tariff barriers. This phenomenon creates increased intra-firm trade between related companies which are determined to transfer prices to maximize their profits. Some researchers have provided evidence of this. For example, Blouin and others argued that transfer prices are used for corporate tax and tariff savings (BLOUIN, J. et al. 2018).

The application possibility of game theory offers another view, since compared to usual economic models the actors' decisions can also be modelled. Modelling of economic situations with the help of game theory has been adopted by researchers and economists. The mainstream decision-making evaluation approaches introduce different actors in a trade policy who contribute to the desired outcomes. The strategic interdependence among countries' tariff-setting decisions was first illustrated by Harry Johnson (JOHNSON, H. 1953). He regarded tariffs as the outcome of a static game, where the rules are the following: there are two countries – two goods, and the players are welfare-maximizing governments. Gowa and Mansfield report an application of the prisoner's dilemma which is the standard optimal tariff game (GOWA, J. – MANSFIELD, E. D. 1993). In a multinational enterprise context, several researches have focused on

the context of country-firm relations. Rosenthal studies the problem of setting transfer prices in a vertically integrated supply chain with a cooperative game (ROSENTHAL, E. 2008). Pogorelova examines the complex nature of transfer pricing with the determination of strategic considerations of organizations guiding the application of game theoretic models (POGORELOVA, L. 2015). Sung and others study the impact of rule of origin (ROO) requirements, accompanied by free trade agreements (FTAs), on a multinational firm's production decisions (SUNG, H. L. et al. 2016). Zissimos identifies a new terms-of-trade externality related tariff setting (ZISSIMOS, B. 2009).

While prior literature finds evidence that corporate income taxes or tariff rates separately influence on MNEs' transfer pricing behavior, the literature has not addressed the two considerations together from a game theoretical perspective.

In this paper, we develop a model and investigate a game involving the introduction of strategies, and the selection of the best strategy for a corporate group. It could be a new, newly approach in the literature. Our goal in developing the model is to provide a simple rationale for the MNEs' behaviour. Choosing the

best option means the highest profit for players. Determining what is optimal is based on the responses to several questions: What prices are set by related parties? Is it known how much the firms should pay via tariffs or taxes to a certain country? How will a parent company and its affiliates react to a given set of tariff or tax rate changes? As a result, theoretical results are obtained.

#### **IV.2.2. Boundaries have disappeared, players have become interconnected**

The appearance of multinational enterprises (MNEs), and the creation of free trade agreements around the world has continued to increase for over half a century. These processes have opened the borders of national economies, in both economic and physical terms. MNEs have integrated their processes, while countries have chosen a certain form of interaction. In the early years, the major principle was liberalization under non-discrimination; since then this trend has shifted to the creation of free trade agreements. With the “modernization” of these agreements, the concept has changed; now FTAs mean the elimination of tariff-, and non-tariff barriers (GEP 2015). The importance of access to mutual

benefits has drawn attention to the fact that there is a need for close cooperation among economic actors. As Freund and Ornelas highlight (FREUND, C. – ORNELAS, E. 2010), the most popular form of reciprocal trade liberalization in the past 15 years has been the regional trade agreement (RTA). On 9 March 2020, 304 RTAs were in effect (homepage of WTO DATABASE).

The Cobden–Chevalier Treaty was the first modern bilateral trade agreement between Britain and France. It was concluded in 1860 when France eliminated import barriers to British manufactured goods. Britain in turn removed import prohibitions from French commodities. Each country reduced its tariffs and granted the other most-favored-nation (MFN) consideration. After the 1944 Bretton Woods conference, intergovernmental economic relations and interactions emerged. In 1948, the General Agreement on Tariffs and Trade (GATT) became the first multilateral trade agreement, with 23 signatories. It included more than 45,000 tariff concessions. The Uruguay Round negotiated between 1986 and 1994 created the World Trade Organization (WTO) in 1995 with the signatures of the contracting parties. The WTO extended reductions in duty to services,

created the dispute settlement procedure and negotiated intellectual property rules for the first time. Regional trade agreements created under the first wave of regionalism are inactive today, due to political and economic changes. In the 1990s, increased economic interdependence prompted the creation of new organizations; thus the second wave was more successful (KUTASI G. 2014).

Several different types of interactions are possible, inter alia, extending through a gradual deepening of interactions in four stages: 1. competition, 2. coordination, 3. cooperation, and 4. integration. Economic relations begin with a mutual understanding that brings participants together. In the world economy global conditions have changed and interdependency has intensified as international collaborations have emerged in the last fifty years (PALÁNKAI T. et al. 2014). There is an impressive amount of literature that examines trade relations, their aspects, features and effects; however, many theories tend to increase the confusion, rather than

aid understanding. Interactions are analyzed from many points of view.

In this paper, I refrain from analyzing international economic relations in terms of distinctions among competition, coordination, cooperation and integration, but I introduce intra-group transactions as a necessary part of global free trade. Therefore, I argue that any type of interaction may be preferred. Competition refers to conflicting parties who are involved in a game to gain certain advantages. Coordination assumes a kind of commitment, a willingness to displacement towards the other party. Commitment is not certain in this case. Cooperation means compliance with rules which are derived from commitment. In this situation, the commitment is certain, and parties only decide on the degree of interaction. Integration occurs when parties choose a form of commitment, and determine the degree of dependence. *Table 4* shows these strategic options, with darker tones indicating stronger characteristics (FELDSTEIN, M. S. 1988).

	willingness to commitment	interaction	interdependency
competition			
coordination			
cooperation			

	willingness to commitment	interaction	interdependency
integration			

*Table 4:* Types of integrations by the gradual deepening of their characteristics  
*Source:* Edition of the author

These concepts introduce the optional strategy of players from a game theoretical perspective. In game theory, coordination is the harmonization of individual interests, while cooperation occurs when the individual's actions are directed to a common purpose that does not necessarily coincide with the individual's own interests (KÓCZY Á. L. 2006). In this research, I deal with only the cooperation of corporate group members.

In the global economy, all participants' common cooperation is better placed to achieve higher global growth, while individual instances of cooperation by actors does/do not necessarily generate higher utility. That is why we have to differentiate between utility, profit, and the welfare level. On the microeconomic level, customers may cooperate or compete in order to acquire greater utility. Global companies, in general, compete with each other to maximize utility, while intragroup cooperation creates increased profit for members, and cooperation between nations generates higher welfare for countries. Frieden and

others highlight the importance of international cooperation, since uncoordinated national policies have caused global crises (FRIEDEN, J. et al. 2012). However, this study only shows the generally accepted view and does not deal with extreme opinions.

A number of empirical research studies have demonstrated that free trade agreements appear to have a relatively large positive effect on the behavior of a multinational firm within a free trade area. Antrás and Foley pointed out that increased multinational firm activity in a regional free trade area is likely to generate benefits within the region, as multinationals typically exhibit high levels of productivity, pay high wages, and create positive spillovers for other firms (ANTRÁS, P. – FOLEY, F. 2009). CHEN (2009) highlighted that an increasing number of multinational firms move their production inside an integrated zone, and benefits are generated by lower costs and better access to markets; thus free trade agreements are dedicated to achieving global economic growth. International trade transactions

involve complex issues, and thus must be examined jointly.

Before making a decision on a transfer price, firms must consider the possible revenue, the costs of their activities, and preferable taxation and tariff assumptions, particularly when corporate group members operate in a broad international network and their activities are highly integrated. Many examinations have analyzed optimal MNE strategies (HYDE, C. E. – CHOE, C. 2005; DÜRR, O. M. – GÖX, R. F. 2011). Different countries may prescribe different administrative requirements that may create additional options to maximize profit. Global firms need to comply with tax and tariff laws, while countries tax their profits.

### **Modern free trade agreements**

The general trend is that modern trade agreements consist of eliminating tariff and nontariff barriers (free movement of capital flows), protecting intellectual property rights (patents, copyright), operating investor-state dispute settlements (ISDS), and rule of origin (ROO) regulations, and harmonizing regulatory standards (LAURSEN, F. 2003; GNANGNON, S. K. 2018; RODRIK, D. 2018). When a government's economic policy

is carried out concerning trade and the enhancement of welfare, it essentially creates winners and losers in the economy. This situation provides a context to investigate which scenario brings greater economic benefits to various players.

It is especially important to note the rule of origin, which determines product requirements regarding the “made in” label. FTA members export to other member countries without tariffs, but the regulation requires that the exported product should originate from a member country. Most FTAs (CETA, NAFTA, EU – Mexico FTA, etc.) apply the ROO in several product categories.

### **Main characteristics of a corporate group**

A general presentation of MNEs helps to understand the optimal strategy of these firms, which is profit maximization. MNEs' core activity describes the participants' contributions to value creation and highlights the main functions, risks and assets used by members within the group. Their business activity helps to understand how the profit is allocated between subsidiaries. A corporate group divides its activities into divisions (such as procurement, production,

wholesale, services, marketing, logistics etc.) and places them in the relevant markets (YAO, L. – YINZHENG, S. 2016).

### **Firms and transfer prices**

The operation of MNEs includes several intercompany transactions between related parties. To price these transactions, companies use a transfer price (TP) that could be below, above or equal to the real market price. “Transfer prices are the prices at which an enterprise transfers physical goods and intangible property or provides services to associated enterprises.” (OECD, 2017 p. 17.)

The taxable profit of entities is based on the transfer prices that have been used among parties. Normally, TP would alter the calculated profit before tax of entities but this does not affect how that combined profit is split between the related parties. Consequently, this means that profit will shift from one country to another. If those entities are taxpayers in different countries, transfer pricing therefore affects the share of that combined profit taxable by each country.

### **Pricing in line with the “arm’s length principle”**

According to international

standards, all participants in a corporate group must be taxed on the basis that they act following the arm’s length principle in their transactions. The OECD (2017) highlights the importance of real pricing and determines the arm’s length principle in Article 9 (1) of the OECD Tax Convention: „[When] conditions are made or imposed between... two [associated] enterprises in their commercial or financial relations which differ from those which would be made between independent enterprises, then any profits which would, but for those conditions, have accrued to one of the enterprises, but, by reason of those conditions, have not so accrued, may be included in the profits of that enterprise and taxed accordingly.” The principle is a comparison between dependent and independent parties.

### **IV.2.3. Model**

In this section, we develop a simple extension of microeconomic profit model and set up a game to define and analyze players’ possibilities concerning profit maximization. For this experiment, we use a 3 player – 3 country game, and determine the combinations of these factors, thus the model contains 8 strategies (*Figure 17*). Under perfect information

conditions, players will select an option that is the best strategy for profit maximizing.

Three basic elements are required and established to create and use a game theoretic model: the players, the laws of a game

(strategies), and the consequences of the players' choices (payoff). The object of the game is to find the winning strategy, or strategies (AXELROD, R. – HAMILTON, W. D. 1981; KÓCZY Á. L. 2006; COLMAN, A. M. – GOLD, N. 2017).

players	$N = \{3\}$
strategies	$S = \{\text{Scenarios}\}$
payoffs	$\pi = \{\text{Profit of a player}\}$

Table 5: Basic elements of the game  
Source: Edition of the author

To set up a game, it is necessary to set axioms. According to Neumann and Morgenstein (NEUMANN J. – MORGENSTEIN, O. 1944), utility theorem rational behavior operates under axioms, which are completeness, transitivity, continuity, and independence. An individual who has to decide when faced with the probabilistic consequences of different choices is to behave as if the players were maximizing the expected value of some function. In future, this is defined in terms of the possible outcomes at some specified point.

Axiom 1. Completeness: either M is preferred, L is preferred, or the individual is indifferent.  $L < M$ ,  $M < L$ ,  $L \sim M$ ;

Axiom 2. Transitivity: assumes that preferences are consistent across any three options. If  $L < M$  and  $M <$

$L$ , then  $L < N$ , and similarly for  $\sim$ ;  
Axiom 3. Continuity: if  $L \leq M \leq N$ , then there exists a probability  $p \in [0,1]$ , such that  $pL + (1 - p) N \sim M$ ;  
Axiom 4. Independence: if  $L \leq M$ , then for any N and  $p \in [0,1]$ ,  $pL + (1 - p) N \leq pM + (1 - p) N$ .

Assumptions: The players are interconnected, they are parts of a corporate group and cooperate with each other: the producer subsidiary (P) procures the materials from its input provider company (I), manufactures final goods in country B and sells the products to its other related party, who is a Distributor (D). Company P has two options for procuring input materials, and two options for selling: from inside, or outside of country B. Country B and Country C are potential FTA members, while Country C is outside the

agreements (Figure 17). Country A has both a location advantage relating to inputs and a corporate income tax advantage, while country B has low factor skills. The governments apply a variant CIT rate ( $t$ ) on reported profit. Without a free trade agreement, if two of the three countries (namely countries B and C) interact, a specific tariff rate ( $T$ ) is applied on import goods,

according to ROO. Country B does not impose tariffs on raw materials imported from country A. Firm I provides all the input materials to Company P, while P sells all its products to Company D. Products are homogenous. Finally, we assume that  $t^C > t^B > t^A$ . Given these assumptions, we expect the three players to seek greater benefit in their strategies.

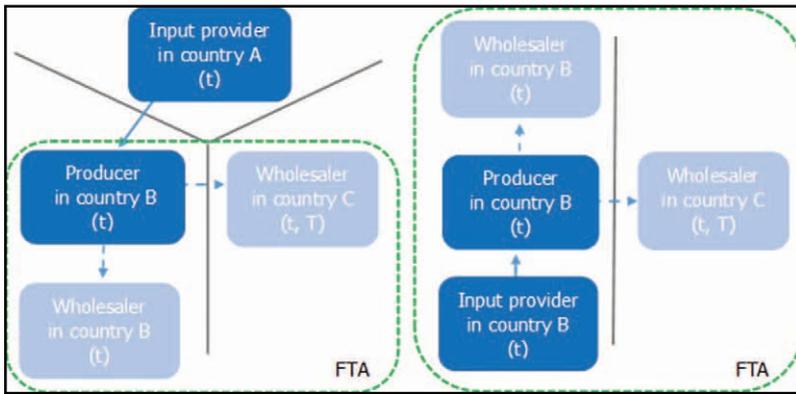


Figure 17: (a) (b): Model  
 Source: Edition of the author

For the sake of simplicity, the research does not address the allocation of costs to certain types of costs, except in situations where this may be explicitly necessary for the analysis of the corporate income taxes and tariff examined, as the division of revenues is not intended to be discussed; therefore, we use a simple variant of general equation of profit used in microeconomics.

The players' decisions are

not centralized, but they can make decisions together; thus their choices depend on the decisions made by states. Although states are actors in our game, in this research study, we analyze only the MNEs' perspectives and reactions to a certain settlement made by a government.

In our transfer pricing problem, we formulate a cooperative game with total profit

sharing. In cooperative games, parties are allowed to formulate coalitions in order to reach higher profits. It can happen that a player creates significant advantages for the others at his/her own expense (AXELROD, R. – HAMILTON, W. D. 1981).

The structure of this game

needs to be generalized according to game theoretic settings. Supposed that the three players are presented with their options.

With three intra-group firms and three countries in the model, we are able to define the following strategies from the producer’s point of view.

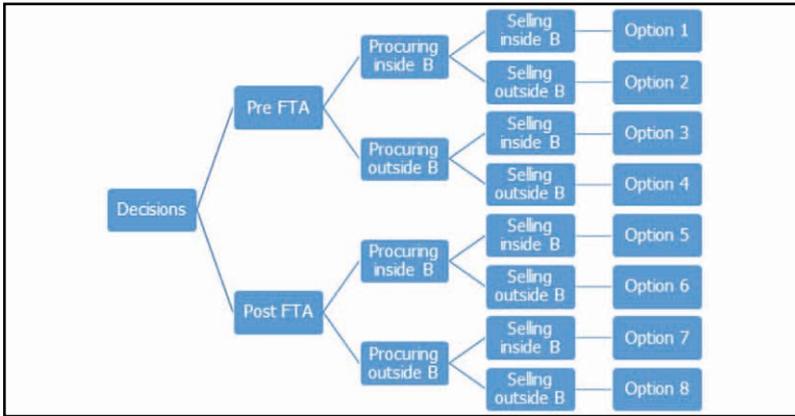


Figure 18: Decision-tree for companies’ profit analysis  
 Source: Edition of the author

To construct a payoff matrix for the model, we obtain the profits for all companies and scenarios. Let the set of total revenue include the price and quantity of products sold to the other related party. Let the

set of total costs include the cost of materials and goods sold to relevant companies, and operating as well as other costs.

In our model, we use the following abbreviations.

i:	index (I; P; D) to represent the companies, respectively
$x_i$ :	product quantity
$p_i$ :	price applied by company i
$c_i$ :	company i’s costs
$TR_i$ :	company i’s total revenue
$TC_i$ :	company i’s total costs

$\pi_i$ :	company i's profit according to strategic options
$t$ :	tax rate (different in country A, B, and C)
$\tau$ :	tariff rate applied by country C
$r_i$ :	raw material price appearing in companies I, P and D
$f_i$ :	final goods production price relating to companies P and D
$m$ :	margin applied by company D
$o_i$ :	operating expenses appearing in company i
$e_i$ :	Other costs appearing in Company i
$\rho$ :	rule of origin value ( $0 < \rho > 1$ )

Table 6: List of mathematical symbols used in determining profit  
 Source: Edition of the author

Option 1 When all members of a corporate group operate in country B, tariff payment obligation cannot be interpreted. Regarding tax payments, the three companies are obliged to pay the same CIT rate ( $t^B$ ). Therefore, Company I's profit is:

$$\pi_i^B = TR_i^B - TC_i^B = (p_i^B - c_i^B) \cdot x_i^B \cdot (1 - t^B), \quad (1)$$

on condition that the three firms' costs and product prices are as follows:

$$c_I = o_I + e_I, \quad c_P = r_P + o_P + e_P, \quad c_D = \underbrace{r_D + f_D}_{\text{(Cost of good sold)}} + o_D + e_D, \text{ and}$$

$$p_I = r_I, \quad p_P = \underbrace{r_P + f_P}_{\text{(Final product price)}}, \quad p_D = r_D + f_D + m_D,$$

The corporate group's total profit is:

$$\sum_{i=I}^D \pi_i^B = \pi_I^B + \pi_P^B + \pi_D^B \quad (2)$$

Option 2 The corporate group decides to appear in foreign markets, so the producer exports the products to its related party D, to country C.

In this situation, the distributor firm faces a tariff rate ( $\tau$ ) and a higher CIT rate ( $t^C$ ) compared to option 1. Companies I and P's profits are as in eqs. (1). In country C, as the government imposes a tariff rate on import goods, and determines a CIT rate, its profit is:

$$\pi_D^C = TR_D^C - TC_D^C = (p_D^C - c_D^C) \cdot x_D^C \cdot (1 - t^C), \text{ where}$$

$$c_D = (r_D + f_D) \cdot (1 + \tau) + o_D + e_D,$$

$$p_D = r_D + f_D + m_D. \quad (3)$$

with full corporate group profits as in eqs. (2).

Option 3 The headquarters of the MNE is obliged to reallocate its profits to a lower CIT rate country, thus one part of the value chain is moved to another country. Since the corporate tax rate is the lowest in country A, the materials have been imported and shipped from country A, and the final products have been sold to D, operating in country B. The manufacturer and the wholesaler MNEs' profit is determined as in eqs. (1); Company I's profit is given by:

$$\pi_I^A = TR_I^A - TC_I^A = (p_I^A - c_I^A) \cdot x_I^A \cdot (1 - t^A), \text{ where}$$

$$c_I = o_I + e_I,$$

$$p_I = r_I. \quad (4)$$

The full corporate group profit is derived from eqs. (2).

Option 4 When the corporate group locates its input production in country A and exports the final product to its distributor, a related party operating in country C, it faces a lower tax rate, and a tariff rate compared to option 1. The lower level of CIT increases, while the tariff rate reduces the total corporate profit. I's profit is as in eqs. (4), P's profit as in eqs. (1), and D's profit as in eqs. (3).

Option 5 All corporate group members operate in country B, thus tariff elimination has no influence on the members' profit levels.

Option 6 Company P procures its input goods in country B, and sells the final goods in country C. Firm D decides to comply with ROO to make tariff-free transactions, which is why it produces inputs within the free trade agreement.

Option 7 Company I (located in country A) provides its input materials to Company P (located in country B), which produces and sells the final goods in country B. For tax optimization, all members of the company group are able to manipulate transfer prices.

Option 8 The procurement process occurs from country A, while final goods are sold to country C. In this situation, the corporate group is forced to make a choice. On the one hand, if it manipulates the transfer prices to save profits in country A, where the lowest tax is, it will only be able to obtain its raw materials at a high price.

On the other hand, if it intends to exploit the benefits of a free trade agreement, the company is not able to manipulate transfer prices to precisely the point where:

$$\frac{f}{p} > \rho \rightarrow p, \quad \frac{f}{p} < \rho \rightarrow p \cdot (1 + \tau) \tag{5}$$

#### IV.2.4. Analysis of results

In a game theoretic model, rational players must select the best strategy among all alternatives in order to maximize their rewards (CHEN 2008), which, at the same time, is the purpose of the game.

If all players operate in country B, they will all reach a different level of profit. At the group level, the corporate group’s payoff is B, which means a certain profit level is included in tax rate (see options 1 and 5).

In option 2, since it is

necessary to pay tariffs, and the CIT rate is the highest in country C, it is certain that the total profit level is lower than in option 1, thus the payoff is worse than in country B. Let this payoff be E.

Regarding options 3 and 7, we face the lowest tax rate in country A, and as the corporate group allocates its profits to country A, this is the most profitable of all the options. Let this scenario’s payoff be A.

Options 4 and 6 suggest a complicated structure, which is why it is hard to define the payoff; however, we can be certain that it is

worse than B, although it is better than in option 2. Let this payoff be C or D.

Finally, concerning option 8, if the MNEs are committed to comply with ROO, they cannot move their profits; at least, not as much as they can in options 3 and 7. In that case, where the value added to a product created within

a free trade agreement is less than the ROO value, the distributor company has to pay customs duties, but is able to manipulate its transfer prices. Therefore, the payoff of this option is worse than A, but better than D.

The predicted strategies of the game are presented as a solution:

Companies with different profit levels		Total profit, $\sum_{i=I}^D \pi_i$
Option 1	$\pi_I^B = [r_I^B - (o_I^B + e_I^B)] \cdot x_I^B \cdot (1 - t^B)$	B
	$\pi_P^B = [(r_P^B + f_P^B) - (r_P^B + o_P^B + e_P^B)] \cdot x_P^B \cdot (1 - t^B)$	
	$\pi_D^B = [(r_D^B + f_D^B + m_D^B) - (r_D^B + f_D^B + o_D^B + e_D^B)] \cdot x_D^B \cdot (1 - t^B)$	
Option 2	$\pi_I^B = [r_I^B - (o_I^B + e_I^B)] \cdot x_I^B \cdot (1 - t^B)$	E
	$\pi_P^B = [(r_P^B + f_P^B) - (r_P^B + o_P^B + e_P^B)] \cdot x_P^B \cdot (1 - t^B)$	
	$\pi_D^C = \{[r_D^C + f_D^C + m_D^C] - [(r_D^C + f_D^C) \cdot (1 + \tau) + o_D^C + e_D^C]\} \cdot x_D^C \cdot (1 - t^C)$	
Option 3	$\pi_I^A = [r_I^A - (o_I^A + e_I^A)] \cdot x_I^A \cdot (1 - t^A)$	A
	$\pi_P^B = [(r_P^B + f_P^B) - (r_P^B + o_P^B + e_P^B)] \cdot x_P^B \cdot (1 - t^B)$	
	$\pi_D^B = [(r_D^B + f_D^B + m_D^B) - (r_D^B + f_D^B + o_D^B + e_D^B)] \cdot x_D^B \cdot (1 - t^B)$	
Option 4	$\pi_I^A = [r_I^A - (o_I^A + e_I^A)] \cdot x_I^A \cdot (1 - t^A)$	C/D
	$\pi_P^B = [(r_P^B + f_P^B) - (r_P^B + o_P^B + e_P^B)] \cdot x_P^B \cdot (1 - t^B)$	
	$\pi_D^C = \{[r_D^C + f_D^C + m_D^C] - [(r_D^C + f_D^C) \cdot (1 + \tau) + o_D^C + e_D^C]\} \cdot x_D^C \cdot (1 - t^C)$	
Option 5	Eqs. Option 1	B
Option 6	$\pi_I^B = [r_I^B - (o_I^B + e_I^B)] \cdot x_I^B \cdot (1 - t^B)$	C/D
	$\pi_P^B = [(r_P^B + f_P^B) - (r_P^B + o_P^B + e_P^B)] \cdot x_P^B \cdot (1 - t^B)$	
	$\pi_D^C = \{(r_D + f_D + m_D) - [(r_D + f_D) + o_D + e_D]\} \cdot x_D^C \cdot (1 - t^C)$	
Option 7	Eqs. Option 3	A
Option 8	$\pi_I^A = [r_I^A - (o_I^A + e_I^A)] \cdot x_I^A \cdot (1 - t^A)$	

Table 7: Payoff matrix for Companies I, P, and D  
Source: Edition of the author

and to be a game, in the strong sense, the following conditions must hold for the payoffs:

$$A > B > C > D > E$$

With these options determined, we showed why three rational players might cooperate, even if it appears that it is in their individual interest not to do so.

We conclude that rule of origin and transfer pricing are essential parts of analyzing multinational enterprises and free trade agreements, since they influence the players' strategies on both sides: on the corporate and the government side.

Reviewing these options, we assume trade liberalization usually lowers import prices, benefitting the importer country. However, rules of origin affect exporter companies' decisions regarding raw material procurement or production location.

MNE's profit allocation activity across countries is more likely when the tax gap is large. When exporting within the FTA, firms have to give up profit shifting, at least to ensure value added criteria can be preserved. It should be noticed that even though companies sell products without tariffs, it does not mean they

benefit from free trade, even if they manipulate their transfer prices. Our model can explain this fact.

## IV.2.5. Conclusion

Model based analysis with game theory offers a relatively broad introduction to multinational enterprises' strategic decisions concerning profit maximization. The main objective of this paper was to determine and characterize the optimal decisions of players. Our theoretical analyses focused on the behavior of multinational enterprises. We used a game theoretic model to analyze how firms react to different corporate taxes. In addition to our work, we presented the effects of nontariff rates. The relationship between tariffs and taxes created different strategies which are applicable to large corporations.

Our main findings are the following: Firstly, a firm's strategy necessarily changes when the additional tariff disappears compared to the original sets. A free trade agreement increases the profits after tax of an MNE. Secondly, raising the tax rate encourages the company to shift its profits to another country where tax rates are lower. Thirdly, reciprocal tariff elimination – *ceteris paribus*

– affects the company’s decisions relating transfer pricing. These findings are in line with the general economic view and are in close accord with the real corporate decisions, and might describe the main characteristics of a corporate group concerning its profit maximizing activities.

As a final note, analyzing FTAs with ROO, we conclude ROO has a positive and negative effect at the same time; it can be a good tool for tax authorities to prevent profit allocation, but also a poor tool, since firms stop utilizing tariff concessions to relocate their activities in order to save profits.

We have introduced an MNE perspective, but there remains room

for further research. It is intriguing to investigate how states react to MNEs’ decisions: i.e. What is the degree of the concessions? What are parties willing to advance to each other in terms of optimal tariffs and tax rates set.

#### *Acknowledgement*

The present publication is the outcome of the project „From Talent to Young Researcher project aimed at activities supporting the research career model in higher education”, identifier EFOP-3.6.3-VEKOP-16-2017-00007 co-supported by the European Union, Hungary and the European Social Fund.

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## IV.3. The Institutional Economics Approach to Populism: Precising the Theoretical-Methodological Framework

MÁTÉ MÁTYÁS<sup>60</sup>

### Abstract

*This work follows up on Zoltán Ádám's similarly titled article presented and published at the International Economic Forum on Reform, Transition and Growth of the Corvinus University of Budapest. It undertakes the same effort of investigating the question of what populism is and how it may be conceptualised in the institutional economics context. However, this work arrives at rather different findings. It brings in a broader range of literature on populism studies and connects them through electoral behaviour to institutional economics. For more contrast, it also applies the same case study method Ádám uses focusing on post-communist Hungary. As a result, with identical transaction cost considerations, this paper makes the case that instead of a "a form of government that reduces political uncertainties inherently present in liberal democracies", more feasibly, populism is a political behaviour – a strategy utilised by political actors aimed at reducing political and economic competition. The work demonstrates how this conceptualisation makes more precise operationalisation and analysis possible by re-interpreting Ádám's analysis of Hungary's post-transition political economy; and concludes with proposing novel considerations of populism as a universal, global political economic phenomenon.*

**Keywords:** populism, institutional economy, political economy, political economic transition

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### IV.3.1. Introduction: populism as stable governance?

In a pioneering contribution to the understanding of populism, Ádám writes that institutional economics stands to contribute to the understanding of a widely contested, infamously slippery

phenomenon. (ÁDÁM Z. 2018) Very similar in its structure and goal to (ZANKINA, E. 2016), the two studies choose somewhat different strategies to define populism and demonstrate its mechanisms – yet arrive at similarly alarming conclusions. Both claim that populism is about reducing transaction costs, therefore, it is a

rational choice of the electorate. But they caution how populism “hollows out” democracy and the rule of law<sup>61</sup>. Going one step further, *Ádám* sees little room for limiting such anti-democratic tendencies because as he argues, populism may be seen as the coveted stability by many<sup>62</sup>.

Therefore, getting the “stability aspect” of populism right is crucial. Indeed, *Ádám* himself cautions from characterising populism fully stable<sup>63</sup>. The present

study directs the attention to this paradox. Agreeing with the goals set out by the said analyses<sup>64</sup>, this study aims to give a contrasting account of populism’s definition and consequences by arguing that populism, in essence, does not “reduce transactional costs” (ZANKINA, E. 2016 p. 182.) equally for every relevant actor (or groups thereof). Rather, populism is a political strategy which aims to create differentiated transaction costs. While it cuts transaction costs for some, it raises for others; and the repeated, intentional application of this strategy – rather than utilising a specific ideology – is what essentially makes an actor populist. The strategic selection of whose transaction costs decrease – who get included in the populists’ alliance – as opposed to whose transaction costs increase, will get excluded is the essence of populist political strategy.

To support this point, the paper adopts a strategy in three

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61 “...I argue that populist parties create a democratic and institutional deficit and contribute to a shift from representative to procedural democracy. Although the ‘soft’ populists do not contest the principles of democratic governance, their increased use of informal power coupled with procedural but value-empty adherence to democracy threatens the very foundation of democratic rule which is a priori value-driven.” (ZANKINA, E. 2016 p. 195.)

62 “...more predictable and hence eliminates a considerable amount of uncertainties surrounding political exchange is the survival of the regime with its patterns of redistribution and allocation of power. In societies characterized by a limited capacity of people to hold their government accountable and impose checks on power, such political stability appears attractive as opposed to its alternative, which is essentially anarchy.” (*ÁDÁM Z.* 2018 p. 95.)

63 “this is not to say that predictability of political actions increases from the

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point of view of individual political or business actors.” (ibid.)

64 “...to understand what makes populism a rational choice for an increasing number of people in an increasing number of people in an increasing number of countries. I assume the underlying reasons have to do with the terms of political exchange in democracies (...) with political transaction costs” (*ÁDÁM Z.* 2018 p. 63.)

major sections. First, it reviews and compares the literature on which both *Ádám* and *Zankina* build. This entails the brief overview of the transaction cost concept-related institutional economics scholarship and how it is related to populism studies in both authors' work. It finds that additional strands of populism conceptualisations need to be added – and the explicit link between the sustained support for populism is missing in both works. Hence the literature basis is augmented with a brief consideration of electoral

behaviour. This motivates the theoretical choices in the second section, the case study analysis. In it, after justifying the analytical strategy and the case selection, the paper investigates the political economy of mass media in post-communist Hungary 1989–2020 qualitatively. The third main section re-contextualises the findings: the conclusion that populism is a political strategy of imposing differentiated transaction costs and offers new ways of researching the phenomenon. A summary concludes. The study implies that there is a narrow path for more optimistic evaluations of the chances of non-populist politics in eastern Europe. Populism is not found to be as stable as the already existing accounts suggest, some of the possible pain points – as argued, primarily in the media – are identifiable.

### **IV.3.2. Comparative literature review: linking institutional economics and populism scholarships through electoral behaviour**

#### **Institutional economics: transaction costs**

It is curious that in spite of the fact transaction costs are central

to both Zankina's and *Ádám's* accounts, neither of them clearly define the concept in their texts<sup>65</sup>. The most explicit and detailed description in their cited literature is found in (FURUBOTN, E. G. – RICHTER, R. 2005 p. 48.)<sup>66</sup>. This terminology merits closer attention because focusing on it leads to analytical choices that are different from the Bulgarian and Hungarian case studies of populisms. Namely, since transaction costs pertain to the functioning of different institutions, they are likely to be different for different institutions – and are born by diverse sets of decision-makers in diverse ways. Although they are rarely quantified

(WILLIAMSON, O. E. 1985), distinct interests (and interest groups) may very well arise<sup>67</sup> based on the differentiated effects of transaction cost increases and reductions. This diversity blunts the uniform analysis of “social costs”: one cannot suppose a uniform effect of the same transaction cost change on different actors and groups thereof. These diverse effects require a differentiated treatment of transaction cost analysis with a keen attention as to who is the subject of transaction cost changes;

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65 However, they both refer to the same body of institutional economics when evoking the term. They include the seminal works of Coase, Williamson, Douglass-North, Olson, etc. in both accounts.

66 “...transaction costs include the costs of resources utilized for the creation, maintenance, use, change, and so on of institutions and organizations (...) transaction costs consist of the costs of defining and measuring resources or claims, plus the costs of utilizing and enforcing the rights specified. Applied to the transfer of existing property rights and the establishment or transfer of contract rights between individuals (or legal entities), transaction costs include the costs of information, negotiation, and enforcement.” (FURUBOTN, E. G. – RICHTER, R. 2005 p. 48.)

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67 That transaction costs are specific to certain individual organisations and institutions is in line with most of the literature, not only deduced from (FURUBOTN, E. G. – RICHTER, R. 2005 p. 48.). e.g. Dahlman analyses them “...assuming the existence of some side effects, namely, a difference between social and private costs...” (DAHLMAN, C. J. 1979 p. 144.) As this study has been conducted from a constructionist point of view (akin to that of the selectorate theory (MESQUITA DE, B. B. et al. 2003), relational sociology (DONATI, P. ed. 2011; DÉPELLEAU, F. – POWELL, C. J. eds.), agent-centric historical institutionalism (SCHARPF, F. W. 1997; BÜTHE, T. 2016), it also points out that “social costs” are also born by specific individuals (or groups thereof) which may also have further distinct political and economic implications – not to be treated uniform across the board when understanding social and political economic macrophenomena (MAYNTZ, R. – SCHARPF, F. W. eds. 1995 p. 44.).

which stakeholder, interest group, network is impacted by what kind of change and how it affects their perceptions of interests and political economic outlook.

Moreover, such a detailed definition also helps to establish different categories of the concepts. Williamson creates a three-fold categorisation: search and information costs, bargaining and decision costs, policing and enforcement costs<sup>68</sup> (WILLIAMSON, O. E. 1985). What complicates the transaction cost analysis of populism is the above referenced inevitable diversity of a massive macro-phenomenon: different sorts of actors undertaking different sorts of transactions. As emphasised by *Ádám*, there are formal and informal transactions – in the author’s judgement, institutions – at play; but perhaps even more importantly, private–private economic (on the market), government–private economic (legal-regulatory) and political (voting) exchanges complicating transaction cost considerations. The three categories of transaction costs may have different weights in different contexts. Due to populism being the central concept of this investigation,

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68 In his revised version of the paper published a year later (*ÁDÁM Z.* 2019), *Ádám* also introduces these distinctions – as also discussed later.

this study elects to focus mostly on government–private exchanges. To better understand the links and applicability of transaction costs in the populism context, the next subchapter turns to the scholarship of the concept of populism.

### **The concept of populism**

In both case studies of Bulgaria and Hungary, the authors resort to somewhat dissimilar conceptualisations of populism – and draw conclusions from those. In the comprehensive overview of populism scholarship (*GIDRON, N. – BONIKOWSKI, B.* 2013), the vast array of populism definitions can be divided into three major groups: the ideational (e.g. *MUDDE, C.* 2017), discursive stylistic (*MOFFITT, B.* 2016), and the political mobilisation (termed political strategic here)<sup>69</sup> traditions (*WEYLAND, K.* 2001; 2017). Perhaps the biggest weakness in *Ádám*’s account is that it discounts the entire strategic school of thought to the point of not mentioning it<sup>70</sup>. Nevertheless, arguably, the strategic approach

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69 This is also based on, and compatible with the structure of the authoritative handbook on populism. (*KALTWASSER, C. R. et al. eds.* 2017)

70 Although the work refers to (*WEYLAND, K.* 2001; *PAPPAS, T. S.* 2014; *MÜLLER, J.-W.* 2016), but their core findings are not utilised.

is the most compatible with the conceptual and methodological toolkit of institutional economics. This is because to link ideological and discursive stylistic understandings of populism with institutional economic outcomes, one must suppose that policymaking is based on policymakers' ideological considerations or what they explicitly express. However, especially in the context of populism, this approach may be very misleading<sup>71</sup>.

This study therefore holds that ideational and discursive stylistic approaches, while suitable for different kinds of analyses such as legal and political sciences, are ill-equipped to serve as conceptual grounds for economic – also

institutional economic – studies. But political strategic definitions suit the purposes of institutional economic analysis as they directly reference institutions. As early as 1985, Mouzelis writes that “Any failure to take into serious account the organisational aspects of populism not only results in the populist phenomenon results in the populist phenomenon appearing as a set of disembodied ideological themes, it also tends to dilute the specificity of a concept that could otherwise be very useful...” (MOUZELIS, N. 1985 p. 341.) This is the basis on which Kurt Weyland developed perhaps the most influential political strategic definition of populism: “populism is best defined as a political strategy through which a personalistic leader seeks or exercises government power based on direct, unmediated, institutionalised support from large numbers of mostly unorganized followers.” (WEYLAND, K. 2001 p. 14.)<sup>72</sup>

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71 Additionally, the authoritative ideational definition of populism promulgated by Mudde defines it as a “thin-centred ideology” (MUDDE, C. 2004). Beyond the theoretical problem how ideology, a concept takes a physical property so much as to have a thin “centre” and how such a thin “centre” may be consequential and operationalised for political economic analysis, as Gidron and Bonikowski observe that “Thin-centred ideologies are those that do not provide answers to all the major socio-political questions...” (GIDRON, N. – BONIKOWSKI, B. 2013 p. 6.) Moreover, Aslanidis also points out similar weaknesses, even though he puts forward a discursive approach. (ASLANIDIS, P. 2016)

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72 Notice how directly these conceptualisations reference organisations and institutions in relations to seeking or exercising government power – policymaking. However, while policymaking and sustained government power rests on “direct, unmediated, uninstitutionalised” mass support, the linkage between the two is not explicit.

	political ideology	political style	political strategy
definition of populism	a set of interrelated ideas about the nature of politics and society	a way of making claims about politics; characteristics of discourse	a form of mobilization and organization
unit of analysis	parties and party leaders	texts, speeches, public discourse about politics	parties (with a focus on structures), social movements, leaders
relevant methods	qualitative or automated texts analysis, mostly of partisan literature	tinterpretive textual analysis	comparative historical analysis, case studies
exemplars	Mudde, Kaltwasser	Kazin, Laclau, Panizza	Roberts, Weyland, Jansen

*Table 8: Characteristics of the three approaches to populism*

*Source: GIDRON, N. – BONIKOWSKI, B. 2013 p. 17*

This study argues<sup>73</sup> that while policymaking in a democratic polity<sup>74</sup> rests on elaborate institutional designs with a plethora of actors participating, the primary logical linkage between mass support and government power are elections (and their institutional foundations). As Gidron and Bonikowski immediately add in their review of the populism scholarship

after introducing Weyland's definition: "What matters here then is not the content of policies or the style of discourse employed by political actors, but rather the relationship of those actors toward their constituents." (WEYLAND, K. 2001 p. 11.) Depending on the sets of actors supporting populists – indeed, the intricate, interrelated networks of interests –, incentives to draft policies in one certain way or another may be very different from what "social" transaction costs would prima facie predict. As it has been argued mass electoral support is a vital component in sustained, effective populist politics. Hence in this literature review it is necessary to include electoral behaviour considerations into its transaction

<sup>73</sup> This is deduced from the selectorate theory (MESQUITA DE, B. B. et al. 2003)

<sup>74</sup> Definitions of polity abound in political science. For sake of brevity, this study uses it in a sense similar to "political class", "political elite" – referring to individual actors who have immediate opportunities or are (close to) to substantially influence top-level political decisionmaking regardless of ideology, membership, or identity.

costs-centred investigations.

### **Electoral behaviour and institutions**

(Dalton and Klingemann 2007) recounts several different approaches to examining electoral support. They include classical theories of social position (e.g. class and religious divisions explaining outcomes of party competition); partisanship and party identification (which draws on the previous school's insights and aims to explain the growing personalisation and issue voting tendencies in contemporary politics by changing socioeconomic settings), economic voting (a well-known enterprise researching the interaction between economic developments and voters' choices as rational utility maximisation), and political communication (SEMETKO, H. A. 2007).

Accordingly, "the rise of populism" has been widely researched from the corresponding plethora of viewpoints. These attempts have produced a mixed record. There are impressive accounts claiming that globalisation – e.g. Chinese import penetration (AUTOR, D. et al. 2016) –, trade openness and regional economic integration and the ensuing socioeconomic structural changes,

such as economic inequality are positively associated with voting for populist candidates (for example RODRIK, D. 2018). However, there are studies contesting the economic sources of populist electoral support<sup>75</sup> (INGLEHART, R. – NORRIS, P. 2016), instead favours a socio-cultural, demographic factors to explain the support for the phenomenon. These accounts vary widely, too (for example (BUSTIKOVA, L. 2019; SANTANA, A. et al. 2020) in terms of their focus, conceptualisations, methods, explanatory power, and conclusions. The often-emphasised personalisation, leadership and charisma elements (also emphasised

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75 "...the economic anxiety, discontent, loss of legitimacy, fairness concerns that are generated as a by-product of globalization rarely come with obvious solutions or policy perspectives. They tend to be inchoate and need to be channelled in a particular programmatic direction through narratives that provide meaning and explanation to the groups in question." (RODRIK D. 2018 p. 23.) Or "The evidence (...) suggests that the rise of populist parties reflects, above all, a reaction against a wide range of rapid cultural changes (...). It is not an either/or story, for the two sets of changes may reinforce each other in part – but the evidence in this study suggests that it would be a mistake to attribute the rise of populism directly to economic inequality alone." (INGLEHART, R. – NORRIS, P. 2016 p. 30.)

by (ÁDÁM Z. 2019) can also be contested in their definitions, mechanisms, and effects. What seems to correlate in a certain case study at one point in time regarding the same populist phenomenon seems to be completely off at a different date. There is also research analysing the international background of these changes on the international relations aspects of populism (for example KROUWEL, A. – ABTS, K. 2007) – whether it is “authoritarian diffusion” or “integration maturity” (in the EU context (ENDRŐDI-KOVÁCS V. 2013)). Indeed, the turbulent changes since the end of the Cold War bipolar international system have reconfigured much of the global political economy, and roots of populism can be discovered in these trends. Nevertheless, 1989 and 2004 (in case of eastern Europe’s European integration) seems to be rather far from directly explaining the “populist explosion” (JUDIS, J. B. 2016) of the 2010s, especially the latter half of it; and mostly intertwined with the globalisation arguments.

However, this paper offers to integrate the positive elements of previous scholarship in a communicational perspective. The implicit supposition behind this theoretical choice (made explicit here) is that the political economy

of mass communication, media economics have changed drastically due to the infocommunicational revolution of the 1990s and 2000s with the advent of the internet and social media. A strong, but often neglected line of populism scholarship theorises (see for example (MAZZOLENI, G. 2003; 2008; 2014; AALBERG, T. et al. eds. 2017; WAISBORD, S. 2011; 2018) and offers evidence (e.g. MURPHY, J. – DEVINE, D. 2018) on the link between the changes in the mass media and the rise of populism. Therefore, this study applies the logic that – as much of the political communication literature attests – voters base their electoral choices not on perfect information and rational cost-benefit analysis (HUCKFELDT, R. 2007 p. 113.)<sup>76</sup>, but on the availability – supply – of information (SCHMITT-BECK, R. 2004). That may be tainted by organised interest groups, democratically elected governments themselves: “...the systematic attempts by government officials and policy elites, as well as by pressure and single-cause groups, to gain access to and manage the media for the purpose of enhancing respective interests

<sup>76</sup> This bounded rationality approach is also in line with the epistemic foundations of institutional economics (WILLIAMSON, O. E. 1985; FURUBOTN, E. G. – RICHTER, R. 1994).

or to damage antagonists (...), neo-populist leaders and parties would engage in different forms of ‘communication strategies’ (...). ‘For their different reasons, the media and the movement needed each other. The media needed stories, preferring the dramatic; the movement needed publicity for recruitment, for support, and for political effect. Each could be useful to each other: each had effects, intended and unintended, on the other.’” (MAZZOLENI, G. 2003 p. 17., quoted by GITLIN, T. 2003 p. 24.) Hence, the role of the political economy of information supply, the transaction cost analysis thereof is at the centre of this current investigation.

### **IV.3.3. Case study: politics and mass media in post-communist Hungary**

#### **The case study method and selecting the case of post-communist Hungary**

Based on the above review and arguments, the interaction among political parties and media outlets are compared to electoral outcomes with media coverage serving as the direct channel of information which shapes voters’ electoral choices because “Depending on the degree of integration of the

media systems with the dominant political elites of a country, the established news media reflect the values and views of the elites to which they themselves belong.” (MAZZOLENI, G. 2003 p. 16.) This degree of polity–media integration – in terms of institutions, coalitions and alliances, political economic interdependencies – is investigated in the single case study context of post-communist Hungary. Hungary has been chosen because it has travelled perhaps the most remarkable political economic trajectory in eastern Europe as authoritative political scientists Levitsky and Way observed: “The clearest case of this new pattern of competitive authoritarianism is Hungary” (LEVITSKY, S. – WAY, L. 2020 p. 60.). Indeed, the reconstitutionalisation of the country’s legal, political and party system, drastic changes in its economy even in comparison with other populist regimes<sup>77</sup>

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<sup>77</sup> Both the lack of meaningful, large-scale sanctions and sustained constitutional supermajorities have not co-existed in similar contemporary political economic regimes (such in Bulgaria, Israel, Russia, or Turkey). Indeed, by the end of the current term, PM Orbán is set to become the longest-serving head of government of Hungary since 1848. In Europe, his time in office has only been rivalled by Chancellor Merkel of Germany (whose CDU/CSU party has not

justifies the scrutiny. (ibid.) The transaction cost perspective is augmented with an agent-centric historical institutionalist<sup>78</sup> analytical toolkit here, focusing on the main stakeholders<sup>79</sup> and

prioritising the political economic exchanges among them: the polity (political parties) and media actors (and different media outlets, organisations) as well as the electorate (voters)<sup>80</sup>.

attained legislative majority in general elections). In similar dominant party systems in Malta and Bulgaria, the largest political parties also failed to achieve supermajorities.

78 See footnote 11.

79 “An agent-centric historical institutionalist analysis requires the analyst to identify the key stakeholders and determine the interests that such potential actors are likely to pursue, then theorize how those actors, their

interests, and the way in which they pursue those interests will be affected by the opportunities and constraints of the broader institutional configuration and by institutional feedback.”

(BÜTHE, T. 2016 p. 489.)

80 Although not specifically analysed here, operationalisation may be quite precise using party’s vote counts, opinion poll support, and media audience sizes. See also footnote 25.

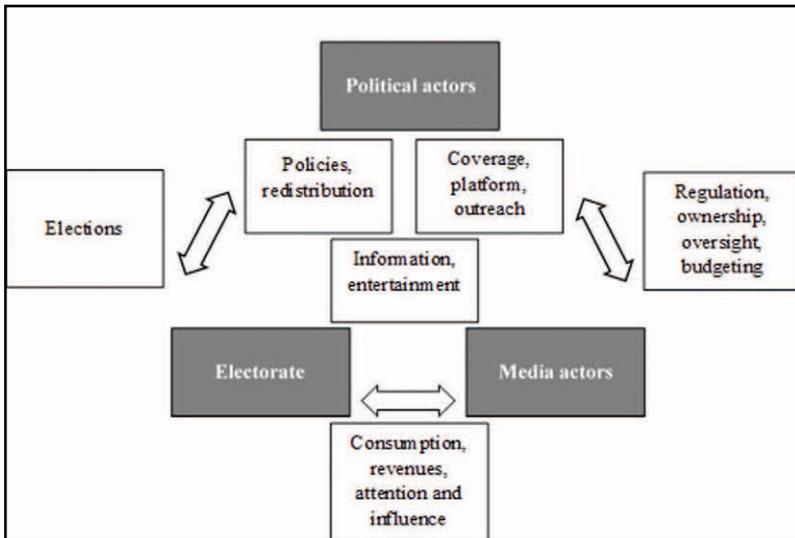


Figure 19: The simplified logical scheme of political economic exchange relationships (interactions). The inner group of boxes show interaction flows anti-clockwise; the outer boxes characterise interaction flows clockwise.

Source: the author’s own edit

These are the political and economic exchange relationships,

interactions based on which transaction costs of each stakeholder group and network are considered. For this reason, the history of these exchanges is reviewed in post-communist Hungary (1989–2020), briefly describing the pre-2010 era and then turning to the ongoing populist political economy of the mass media under populist Fidesz rule.

### **Analysing the political economy of the mass media in post-communist Hungary**

The notion that the relationship among actors in the polity and media is a complicated,

interrelated one is well established in Hungarian academia. Unlike many other post-communist eastern European countries, during the transition, the legal regulation of Hungarian media had been unresolved (PAÁL V. (ed.) 2013). Neither the weakening remnants of the state communist party, nor the divided democratic opposition actors amongst themselves were able to compromise on transitioning the media system<sup>81</sup> from communist state media to democratic, market-based free media. (ibid.) The “frequencies moratorium” was not introduced until a democratic resolution could be reached by democratic political means. This froze in the media governance and market structures inherited from state communism. The monopoly of public television and radio broadcasters (often reaching multiple millions of viewers and listeners)<sup>82</sup> were in place until 1997 (GÁLIK M. 2004), and many of the newspapers went through “spontaneous privatisation”<sup>83</sup> –

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81 The term is borrowed from the seminal work (HALLIN, D. C. – MANCINI, P. 2004).

82 The evening news of the public service programme may have reached as many as four million people in the 1990s (KOLLEGA TARSOLY I. ed. 2000). Also available at <https://mek.oszk.hu/02100/02185/html/516.html>

83 Influential newspapers often ended up in foreign owners’ portfolios who

usually a highly opaque process managed by the communist successor party MSZP (PAÁL V. ed. 2013).

As soon as the first free, democratic elections in 1990, the “media war”<sup>84</sup> had begun among members of leading right-wing and liberal parties. The stakes were high: ending the “frequencies moratorium”, regulating the Hungarian media system – and thereby also controlling key media outlets’ content output. Introducing a media law would have required a qualified majority,

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were either party allies or indifferent towards intervening in Hungarian domestic politics. Sipos also recounts right-wing MDF attempts at gaining control over privatised newspapers, but their attempts failed either politically or economically (SIPÓS B. 2010). The largest daily Hungarian newspaper (1990 until 2016), Népszabadság, had direct MSZP party foundation stakes in its ownership structure. (GÁLIK M. 2004) For more on foreign ownership in Hungarian media, see also (GALAMBOS M. 2008).

84 The sequence of these political events were publicly named as such and termed identically by academia, too. See for example (BÁRÁNY A. 1998; BAJOMI-LÁZÁR P. 2001; ROVÓ A. 2019). Relatedly, the concepts of “media balance” or “media imbalance” (médiaegyensúly, médiaegyensúlytalanság) and “media dominance” (médiafölény) had also been introduced in Hungarian public life (SIPÓS B. 2010).

but the governing right-wing entailing MDF (1,214,359)<sup>85</sup> and its junior coalition partners did not manage to secure that<sup>86</sup>. Moreover, the first freely elected governing majority could not entirely control the monopolistic public service broadcasters over the course of the “media war”, either (PAÁL V. ed. 2013).

Their opposition won a massive electoral victory in 1994: MSZP (1,780,009) alone had obtained the majority of seats in the National Assembly. However, they chose to form a coalition government with the second biggest liberal party SZDSZ (1,064,788) to command a supermajority in the parliament<sup>87</sup>. Some observers claim

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85 Hungary’s mixed electoral system consisted of two rounds of elections effectively until 2014. The reported numbers throughout this analysis are the number of votes each party’s national list had received in the first round of elections (before 2014); their source is the National Elections Bureau’s (Nemzeti Választási Iroda) website. It is also important to note that the turnout fluctuated somewhat between 56.26% (1998) and 70.22% (2018); and the population have slightly fallen under 10 million in this era.

86 FKgP (576,315), KDNP (317,278)); against its liberal (SZDSZ (1,050,799), FIDESZ (439,649)) and left-wing (MSZP (535,064)

87 Opposition parties: MDF (633,157), FKgP (476,127), KDNP (379,322),

that one of the main reasons for this decision had been to legislate a new media law and secure domination over the Hungarian media system (PAÁL V. ed. 2013)<sup>88</sup>. The uneasy left-liberal coalition's infighting constituted the second phase of the "media war" which ultimately resulted in a compromise Media Law of 1996 (effective from 1997) (CSEH G. – SÜKÖSD M. 2001). The tremendous change, introducing commercial competition in thus far monopolistic electronic national media and new regulation and oversight institutions<sup>89</sup>, however, also happened under dubious circumstances. The two major national commercial TV channels' (TV2 and RTL Klub) tenders were not selected and implemented transparently – incomplete offers illegally (as ruled by a Hungarian court) approved; and an entirely viable and legal application was

rejected<sup>90</sup> (GÁLIK M. 2004).

However, in 1998, the Fidesz party (1,340,826) managed to form a right-wing majority coalition – after transforming itself from the junior liberal, anti-communist party to a right-wing catch-all party and despite finishing only second to the ruling left-wing MSZP (1,497,231) hit hard by corruption scandals. (JUHÁSZ G. 1999; PAÁL V. ed. 2013) From the 1998 general election, Hungary's party system started to transform from a multipolar one to a clear-cut bipolar party system (FRICZ T. 1999; HORVÁTH, A. – SOÓS, G. 2015). This featured competition between the left-liberal parties<sup>91</sup> and the right<sup>92</sup>.

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Fidesz (378,678)

- 88 Outgoing right-wing MDF PM Boross is quoted to have said: "I am convinced that (...) free democrats [SZDSZ] joined the coalition primarily (...) to grab the media world. I believe that it is obvious in the television and radio, too, how they are executing mid-level personnel changes." (PAÁL V. ed. 2013)
- 89 Of course, the Media Law of 1996 also established a novel regulatory framework – with rules convenient to the governing parties.

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90 While the author describes the two major national commercial TV channels as neutral towards politics (GÁLIK M. 2004; BATORFY, A. – URBÁN Á. 2020 p. 49.), other commentators have also pointed to certain biases in their coverage. Altogether, Gálik's observation that infotainment rather than focused political coverage became more and more dominant with the advent of commercial television in Hungary is apparent. ((anonymous Member of Parliament 2002))

91 With the ever-dwindling support for liberal SZDSZ (344,352), and the massively popular left-wing MSZP.

92 With Fidesz gradually winning over other parties' – MDF (127,118), FKgP (597,820), KDNP (did not get into parliament) – supporter base. However, the extremist right-wing (MIÉP) also entered parliament in 1998 and remained a potent "force"

Thus, changes in the polity, the party system and the media system coincided – even though right-wing attempts to create a friendly media “ecosystem” largely failed<sup>93</sup>. With PM Orbán’s Fidesz and its junior coalition partners in charge, however, the third phase of the “media war” ensued: the previously multi-party decision-making boards of public broadcasting media and national mass media oversight institutions became increasingly less diverse – to the point of Fidesz unilaterally controlling them<sup>94</sup>. Nevertheless, Fidesz holding sway over the fast decreasing public service broadcasters<sup>95</sup> (VÁSÁRHELYI

M. 1999; POLITICAL CAPITAL 2002; URBÁN Á. 2004) was hardly a serious challenge to the booming commercial media – although, finally, the right-wing could establish smaller media outlets promoting messages favourable to the governing parties (SIPOS B. 2010).

Ultimately, the 2002 elections brought about a slight, but consequential defeat for PM Orbán’s Fidesz (2,306,763)<sup>96</sup> amid a

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opposition delegates on the boards. The repeated failure over several months to elect presidents to lead the broadcast providers typifies the operational disorders that plagued the system. Viewer ratings for public-television channels began to drop immediately after the launch of commercial channels, a trend that continued in the years that followed. In 2008 the largest public channel was watched by 11% of Hungarian viewers; by 2012 the percentage had dropped to 9.2%.” (POLYÁK G. 2015 p. 282.) Not even today is the transformed public service media a major player on the market.

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in Hungarian politics as the “Jobbik phenomenon” (RÓNA D. 2016) later attests.

93 Already the first freely elected National Assembly’s right-wing parties had tried to establish and acquire their own media outlets (e.g. Napi Magyarország, Magyar Nemzet, etc.); nevertheless, it was late in the 2000s when right-wing media truly managed to become a “force” to reckon with. (BAJOMI-LÁZÁR P. 2001; PAÁL V. ed. 2013)

94 Commonly called as the “maimed curatoria” (csonka kuratóriumok) after the media oversight and governance bodies’ and boards’ “missing” opposition members. (POLITICAL CAPITAL 2003; PAÁL V. ed. 2013)

95 The public service TV channels that once enjoyed a monopoly, suffered a huge loss of audiences: “Between 1999 and 2002, i.e. under the first Fidesz government, there were no

96 Fidesz achieved this on a party list joined with MDF. This may be interpreted as an increase in its vote share, but other smaller right-wing parties were annihilated (neither FKgP or KDNP could enter parliament on its own right anymore). It is widely believed that “...Fidesz and Viktor Orbán concluded that they had not been radical enough, and they attributed their electoral defeat to the presumed persistence of the ‘left-liberal media dominance’ and their

sharpening divide between the left-liberal and right-wing camps. The MSZP–SZDSZ coalition (2,361,997 and 313,084, respectively) coalition reclaimed their positions in media and information authorities; and sustained a coalition government until 2010. The “media war” lost its saliency as an immediate political issue – but attempts to gain control and exert influence by other means<sup>97</sup>, establishing commercial mass media outlets remained in practice (SIPOS B. 2010). Additionally, while Hungary’s EU accession had a profound impact on the country’s political economy, its implications for the Hungarian media system have been far more modest. The international factors, such as “integration maturity” (ENDRŐDI-KOVÁCS V. 2013) cannot be seen as bearing strong influence on the political economy of the Hungarian media. Some authors show nuanced difference in regulatory affairs and content output of the Hungarian media before and after the country’s EU integration (GÁLIK M. – NAGY

K. 2010), but previous trends on the market did not change<sup>98</sup>. Indeed, the EU does not have a strong, independent media policy, the regulatory and governance powers are mostly left at the member states’ discretion. (European Parliament 2018)

Over the course of the “media war”, it remained constant that governing parties heavily controlled the “money taps”<sup>99</sup> (BÁTORFY, A. – URBÁN Á. 2020). However, this started to prove insufficient (and increasingly unsustainable after the 2008 financial crisis) for the left-liberal parties in the more and more competitive media system. During the left-liberal MSZP–SZDSZ coalition’s eight years, massive changes – exogenous to polity-media networks – upended power relations on the media markets and in their political ties.

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anti-government coverage.” (BÁTORFY, A. – URBÁN Á. 2020 p. 49.)

97 For example, civil society organisation had been another way of mobilising mass support – but, ultimately, (GRESKOVITS B. 2017a; 2017b; 2020) find that despite their important role in consolidating Fidesz mass support, they were unable to be the “winning solution” against the left-liberal camp.

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98 For example, there are no decipherable signs of trend reversals on the market of dailies and weeklies. (MATESZ 1993)

99 Bátorfy and Urbán evaluate the pre-2010 era’s government media spending as “relatively balanced” (BÁTORFY, A. – URBÁN Á. 2020 p. 49.). That is, in comparison to the post-2010 trends; governments and administrations of both sides effectively boosted “friendly” media outlets’ revenues by direct government or state-owned enterprise advertising or by directing party-connected businesses advertising to them.

With the advent of popular access to broadband internet, online mass media gained increasing audiences<sup>100</sup>. Also, fringe news and opinion websites, communities, and social media became influential<sup>101</sup>. These processes started to level the mass media landscape somewhat – divided between the left-liberal and right-wing political parties. Left-liberal politics has also become more and more fraught with large-scale corruption and mass political scandals from 2006 onwards. Under these conditions, even left-liberal leaning media outlets turned out to be less loyal and more critical to the government (BÁTORFY A. 2017)<sup>102</sup> at a time when

the 2008 global financial crisis hit the population and the state budget tangibly. This also played a role in right-wing opposition media and communication networks' influence and popularity. In 2008, foreign mass media investors decreased their portfolios all across eastern Europe's tight markets – making it easier for domestic actors to shore up stakes. (BÁTORFY A. 2017) These processes played out at a time when traditional mass media outlets suffered from the double crisis of falling advertising revenues and the increased competition with new, online media<sup>103</sup>. With Fidesz

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100 In 2000, Origo.hu became the most widely read online news outlet according to the company's website. (homepage of NEW WAVE MEDIA GROUP). Its readership has soon reached 1 million, and by 2018, it grew above 2.7 millions monthly (BÁTORFY, A. – URBÁN Á. 2020)

101 With regards to one of the major party system changes, the emergence of the right extremist Jobbik party, (RÓNA D. 2016) emphasises the role of Facebook as well as its partisan online media outlets (e.g. Kurucinfó, Barikád (later renamed Alfahír)) building on a vivid nationalist subculture which goes back to the 1990s.

102 The notion of “loyal journalism” appeared soon after the democratic transition (BAJOMI-LÁZÁR P. 2001 pp. 149–151.) in the highly partisan Hungarian media system. Paál mentions the tendency of liberal

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news outlets to criticise even their “own side” (PAÁL V. ed. 2013); while regarding the campaign leading up to the 2010 general elections which granted Fidesz its first legislative supermajority, analysts point to an overwhelming negative news agenda which “...Fidesz did not become ‘more balanced’ in the eyes of the voters, but the agenda – in line with priming theory – re-tuned the competition to be about issues unfavourable to MSZP.” (BECK L. et al. (szerk.) 2011 p. 213.)

103 “Advertising revenue has been shrinking in almost all segments of the market. In the Hungarian television market it dropped by 42% between 2008 and 2013; print media saw a 48% decline.156 Though digital media (internet and mobile) registered a 95% surge in advertising revenue during this period, most of this growth benefited global intermediaries (primarily Google) rather than

– and also the right-wing extremist Jobbik (RÓNA D. 2016 – building up an increasingly potent media and communication network, the 2010 elections brought about a drastic change in the party system and competition therein.

Most of Hungarian media scholars agree that with the first one-party populist Fidesz (2,706,292) two-thirds supermajority in the National Assembly obtained in 2010,<sup>104</sup> the media system went under a systematic capture (see for example BAJOMI-LÁZÁR P. 2013). As PM Orbán's party re-constituted the post-communist state, the media system also had to conform to the new political reality. The toolkit of the populist transformation of the Hungarian media system was not so much exceptional<sup>105</sup>, rather

than rapid. The Media Law of 2011 transformed the industry's regulation and oversight bodies (BAYER J. 2011) – stacking them with Fidesz political actors and loyalists. The public media also went through a similar, drastic Fidesz-led reform with astonishing additional budget resources which affected its content, too – most of the observers characterise it as a government mouthpiece ever since. Perhaps a more novel development was the introduction of taxes in a manner that disproportionately affected companies<sup>106</sup> and media outlets (POLYÁK G. 2015 pp. 298–301.) strategically important for the Fidesz party. As usual for previous governments, too, Fidesz has re-routed the government advertisement expenditures in an even more strategic manner – on a larger scale than ever before (BÁTORFY, A. – URBÁN Á. 2020). Interestingly, at first, the strategy did not prove to be an unwavering success if one considers Fidesz

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Hungarian content providers. In the small Hungarian media market, the recent policies that I have been discussing have destabilized the economic situation of the entire media market, thereby making the media substantially more susceptible to outside influence.” (POLYÁK G. 2015 p. 308.)

104 MSZP (990,428), Jobbik (855,436), and for the first time, the green party LMP (383,876) entered the parliament. Their combined vote count of 2,229,740 falls significantly behind Fidesz vote count.

105 Indeed, in his revised 2019 article, Ádám makes a similar observation regarding Fidesz strategy for transforming the political economy

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of Hungary: “When Orbán took over with a two-thirds majority in 2010, he did not have to invent a political system based on centrally controlled, hierarchical power structures and vertical political exchange. All he had to do was further centralize the control over political and economic resources.” (ÁDÁM Z. 2019)

106 See for example the investigative journalism piece by (ERDÉLYI P. – MAGYARI P. – PLANKÓ G. 2014).

electoral support. Even though in 2014, Fidesz won its second two-thirds national legislative supermajority, this was due to the electoral reform they introduced previously and tailored to their own electoral needs (ÁDÁM Z. 2019): in fact, Fidesz vote count was lower than in 2006 (2,264,780) when PM Gyurcsány's MSZP had defeated them<sup>107</sup>, but still translated into two-thirds of the seats in the parliament.

The next year, 2015 marked a major shift in media policy. A rather public fallout between one of the richest businessmen in the country (often characterised as an oligarch), Lajos Simicska<sup>108</sup> and PM Orbán rippled through the entire media market. Simicska had to give up its manifold stakes in media and communications from mass media outlets to advertising companies. (POLYÁK G. 2015) Not unrelated, Fidesz-linked investments in mass

media outlets soared. This time even the largest players in several types of media, such as the leading online news outlet, Origo.hu or the second largest national commercial television stations, TV2 – had been acquired by Fidesz-friendly business actors. (ibid.) Related companies (e.g. audience measurements, PR and communication agencies, publishing houses), too got purchased by the Fidesz network actors. (ibid.) “As of 2017, the Fidesz media juggernaut included all of Hungary’s regional newspapers; its second-largest commercial television company and second most popular news website; its sole national commercial radio network; its only sports daily; its only news agency; and a large number of papers that purvey what can only be called yellow journalism.” (KREKÓ P. – ENYEDI ZS. 2018 p. 46.) In the general elections of 2018, Fidesz (2,824,551) achieved its third supermajority electoral landslide in the National Assembly with its highest vote count ever<sup>109</sup>. A couple of months after the elections, in an unprecedented move, several media owners donated their multibillion stakes to a single, centralised foundation Central European Press

107 This is at rather similar turnout levels (2006: 67,83%; 2014: 61.84%).

108 It is widely known that the former college roommate of PM Orbán, “...Lajos Simicska, the owner of companies that operate numerous media outlets, is one of Fidesz’s founders. He served as the party’s financial director between 1993 and 1998 and as the president of the tax authority in 1998 and 1999” (POLYÁK G. 2015 p. 54.) went on to become an influential businessman winning large government procurements until his fallout with the PM.

109 Opposition parliamentary parties: Jobbik (1,092,806); MSZP (682,701); LMP (404,429); and for the first time, former MSZP PM Gyurcsány’s left-liberal DK party (308,161).

and Media Foundation (Közép-Európai Sajtó– és Médiaalapítvány, KESMA) which had been made exempt from competition authority scrutiny by the PM’s order (MAGYAR KÖZLÖNY 2018), and now effectively controls the vast majority of Hungarian media market, some studies estimate as many as 78% percent of it (MÉRTÉK MÉDIAELEMZŐ MŰHELY 2019). With that, the populist Fidesz-led centralisation and concentration of the Hungarian media system seems to be complete – with dire consequences to plurality and the quality of democracy in Hungary<sup>110</sup>. Politically, there seem to be no potent challenger in sight<sup>111</sup>.

110 The risk levels of media pluralism is one of the lowest in the EU (Bognar et al. 2019), and according to evaluations from the Freedom House, Hungary’s quality of democracy ranks the lowest being the only “partly free” country in the block. (FREEDOM HOUSE 2019)

111 In the local elections in October 2019 Fidesz lost the Budapest mayoral elections alongside with a few other bigger towns. This, nevertheless, is still a far cry from an opposition capable of potently challenging its

### IV.3.4. Discussion and final remarks: contextualising the results and outlook

The above analysis shows co-movements among developments in the party system and the media system. However, the conclusion that these phenomena are interrelated especially in the context of populism needs further corroboration from several methodological viewpoints (comparative case studies, quantitative analyses, etc.). For that, conceptualisations focusing on notions other than transaction costs, i.e. audience costs (for example FEARON, J. D.; SCHULTZ, K. A. 2001; SLANTCHEV, B. L. 2006), party system institutionalisation (e.g. ENYEDI ZS. 2016; ENYEDI ZS. – BÉRTÓ, F. C. 2018), etc. may not only be valid, but necessary to be utilised. But for the purposes of this paper, the following transaction costs considerations may be deduced.

populist hegemony; the latest opinion polls still show an overwhelming lead in Fidesz electoral support.

	electorate, voters	Fidesz	opposition	Fidesz	opposition
		-related media		-related socioeconomic actors	
search & information costs	–	–	+	–	–
bargaining costs	–	–	–	–	–

	electorate, voters	Fidesz	opposition	Fidesz	opposition
		-related media		-related socioeconomic actors	
policing and monitoring costs	+	-	+	-	+

Table 9: The findings of the study. + signs indicate increases in transaction costs, – signs indicate decreases

Source: the author’s own edit

Different kinds of transaction costs exert differentiated effects depending on an actor’s position within the political economy and stakeholder networks. For opposition parties and their allies, most transaction costs have drastically soared, with perhaps, the exception of bargaining costs. This is because there is only one relevant actor who remains to be bargained with, and that is the central, Fidesz-linked network. However, that actor is more difficult to deal with due to its monopolistic position and anti-pluralistic, non-consensual populist strategy<sup>112</sup>.

As for the Fidesz party-led networks – in not only the media, but the wider economy –, their transactional costs have been

reduced immensely. The party and its allies have certainly been making it easier for their members to access information, negotiate new deals, and carry them out on a more personalised, individual, private discretionary basis<sup>113</sup>. This is especially true for Fidesz-linked media actors: information is the currency of mass media – and not only that, but also revenues from government and government-linked advertising have exploded (POLYÁK G. 2015; BÁTORFY A. 2017; BÁTORFY, A. – URBÁN Á. 2020). Opposition and independent media have been starved from this, significant outlets are having financial difficulties, even going bankrupt (such as leading daily newspaper Népszabadság in 2016). Additionally, their access to government information has been

112 This is unless one believes in collusion among members of the opposition and the governing party as some of the influential cartel party literature suggests (KATZ, R. S. – MAIR, P. 2009). The existence of such trends in post-2010 Hungary have been claimed time and again, but without sufficient proof.

113 Ádám presupposes horizontal and vertical political exchanges and a sort of populist incorporation and de-institutionalisation which centralises power (ÁDÁM Z. 2019). In consequence, this study finds similar trends.

made more difficult.

The key stakeholder is, however, the electorate, individual voters as they are not only the consumers of mass media, but also determine the political support for government actors who gain the power to manage most of the transaction cost scheme. While it is difficult to characterise such a big group uniformly, most of them can certainly feel that search and information costs have gone down regarding political exchange. KESMA media outlets dominating an overwhelming majority of the Hungarian media landscape (MÉRTÉK MÉDIAELEMZŐ MŰHELY 2019) – and therefore, political information – supply a unified, unison message – sparing the electorate the cognitive burden of comparing contested arguments and facts, cognitive dissonance which emerges in a pluralistic information environment. Bargaining costs can also be considered to have decreased because with Fidesz's 10-years dominance, the number

of actors whose consent one needs to win to implement any agreement have been reduced. Although this can be argued to give Fidesz actors an upper hand in any negotiation with the electorate, it is certainly true that the populist polity still depends on the votes of the wider public. Therefore, this interdependency still mitigates Fidesz power, thus altogether, the electorate's bargaining costs can be considered to have decreased since 2010. Policing costs borne by the electorate, lastly however, might be argued to have increased. Without external watchdogs, checks and balances, the monolithic Fidesz network alone monitors and verifies the implementation of any political exchange. Corruption diverts massive resources from their original purposes, the efficiency of public services deteriorates. Nevertheless, taken together over the ten years of Fidesz governance, the increase in policing costs does not offset the – perception of – “benefits” resulting from the electorate's search and information as well as bargaining costs reductions. Therefore, the strategically important stakeholder group, the electorate's transaction

cost considerations play well into the Fidesz party political strategy, and may explain its sustained electoral support.

These findings may be seen as somewhat already reflected upon in *Ádám's* revised paper in 2019.<sup>114</sup> However, as the present paper argues, understanding the network positionality of actors and their groups (whether they are included in Fidesz and its media, business, political, social “winning coalition”<sup>115</sup>) – rather than presupposing “vertical” and “horizontal” exchanges among them – is crucial for properly appraising the transaction costs consequences. *Ádám* draws important – modified – conclusions which the present analysis also supports<sup>116</sup>, and himself revises the “populist stability” argument by reflecting on how certain transaction costs

may rise<sup>117</sup>. This paper, by offering a differentiated analysis, puts the media as a collection of political economic actors who channel – and mediate (hence the name) – among the electorate and the polity into the focus of transaction cost investigation of populism. The media-centric political strategy analysis of populism is also consistent with the informational autocracy (GURIEV, S. – TREISMAN, D. 2019) concept.

The analysis shows that political actors’ rhetoric and policies are important, but it is possible and even necessary to understand populism as a political strategy for engineering mass support. In fact, as a political strategy, it can be devoid of ideological, policy, and discursive-stylistic considerations, yet still be a meaningful (behavioural) analytical category. This suggests that going beyond the median voter paradigm, populists do not behave to appeal to the “centrist” voter anymore rather than to increase polarisation, mobilise, and expand their supporter base while denying opponents the chance to legitimately organise. Thus, it is a political behaviour primarily, rather than an ideational or stylistic phenomenon<sup>118</sup>. When

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114 “As decisions are centralized and more concentrated, bargaining and enforcement costs are reduced. However, other types of political transaction costs may increase at the same time.” (*ÁDÁM Z.* 2019 p. 389.)

115 The term is borrowed from (MESQUITA DE, B. B. et al. 2003) and utilised in the same manner.

116 “...through extensive clientele building, distorted elections, and skilfully engineered redistributive policies, Orbán was able to keep a sufficient part of the electorate on board to attain two more two-thirds victories at elections in 2014 and 2018.” (*ÁDÁM Z.* 2019 p. 397.)

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117 See footnote 53.

118 This is not to deny the analytical usefulness of the ideational and

applied systematically by an actor – the populist; or a stable alliance of populist actors such as a party, coalition, junta, etc. – it leads to autocratisation (LÜHRMANN, A. – LINDBERG, S. I. 2019) due to the anti-pluralistic, centralising logic of the populist political behaviour. Populism is the political strategy, behaviour which, when applied consistently, is capable of degrading a democracy into autocracy, and even further, to dictatorship. If multiple, non-aligned political actors systematically apply the strategy, it leads to increased polarisation. This is in line with *Ádám* and Zankina and much of the literature on populism's impact on democratic quality (Gidron, N. – Bonikowski, B. 2013). However, depending on who (what kind of collection, networks of actors) and to what extent applies populism, it may also lead to the breakdown of

previously monopolistic political economic structures – introducing political economic competition into a previously non-competitive field. If populism is further applied in this context, to re-monopolise the polity and economy, it only changes the nature of autocracy. But if it is abandoned for accommodating pluralistic interests, it can be regarded as the political strategy of democratisation<sup>119</sup>. To what extent one or the other processes arising from populist behaviour and strategy (or the combined applications thereof) actually ensues, what are the real-world examples and implications, is up for debate and further research.

Such a perspective questions the stability of populist politics. Indeed, in his revised study, *Ádám* identifies several potential weaknesses of it. The current study suggests another addition – of primary importance – to these with regards to the media

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stylistic-discursive approaches, but to specify and nuance their field of application. The ideational and discursive-stylistic conceptualisations may be very useful for understanding (and perhaps forecasting) campaign communicational or elite coordination strategies. However, for understanding economic policymaking, they are much less potent. It is, however, possible to combine them to create an even more precise understanding of real-life political economic processes. Such as (MOUZELIS, N. 1985) envisages.

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119 This feeds back into (*ÁDÁM* Z. 2019 p. 387.) arguing against the established viewpoint that populism can be a democratising “force” (MUDDÉ, C. – KALTWASSER, C. R. 2017). This study finds that applying populist strategies may introduce more democratic features into a political system, but logically speaking, the more systematically applied populism is, the more likely it is that populism will decrease pluralism and turn out to be anti-democratic.

system. Hungary's example may be interpreted that populist actors can hold onto power only as long as they control mass media.

### IV.3.5. Summary

This study has revisited the transaction cost analysis of the key case of populism, Hungary after 2010 with the aim of nuancing and re-focusing previous attempts at understanding the phenomenon. After reviewing seminal works on the subject, it has showed the need of adding additional strands of populism and electoral behaviour research to the investigation which tilted the analysis towards the political economy of the media. Therefore, this study aimed to showcase parallel developments in the party system and the media system. Due to spatial constraints, the analysis cannot be complete; but the above description of

the political economy of the Hungarian mass media suggests profound co-movements in polity–media networks' properties (size, resources, cohesion, etc.) and parties' electoral performance. The tentative conclusion is offered that an electoral behavioural, mass communications approach to populism as a political strategy is superior to the dominant ideological or discursive-stylistic conceptualisations in political economic research.

### *Acknowledgement*

The present publication is the outcome of the project „From Talent to Young Researcher project aimed at activities supporting the research career model in higher education”, identifier EFOP-3.6.3-VEKOP-16-2017-00007 co-supported by the European Union, Hungary and the European Social Fund.

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## IV.4. How Robotisation is Changing Production-Related Decisions

ROLAND GURÁLY<sup>120</sup>

### Abstract

*In this paper I examine the effect of robotisation on the decision of firms regarding where to place their factories. The main research question is whether, due to technology developments, the place of production will flow back to capital intensive states and regions, or whether instead labour intensive regions will be able to maintain their current share of production? To answer this question, I outline a methodology framework which considers both quantitative and qualitative factors, e.g. labour, the level of robotisation, capital, geography and investment related decision making. To understand the relationships among the quantitative factors, different versions of the production function have been studied, while for the qualitative part, some FDI analytic methods have been used. In the comparative analysis section, the level of robotisation is compared with the level of economic development in key selected states and the current FDI trends are examined.*

*After researching the issues, I found that in the examined period probably there will not be an overall definite shift from the current production sites as labour costs are in most cases no longer the deciding factor in the majority of investment decisions today.*

**Keywords:** robotisation, production function, trend analysis, FDI decision making

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### IV.4.1. Introduction

Automation is a global trend which attracts more and more attention nowadays. Researchers from different disciplines (engineers, economists, social scientists, etc.) are trying to understand its impact on many issues: technological efficiency, economic efficiency, our current and future life standards and the

labour market. One of the main problems researchers face when analysing the effects of automation is that there is no widely accepted definition for what kind of activities should be considered and what the timeframe should be.

Another problem is that there are relatively few well-established economic studies in the field. In terms of scientific work, automation and robotisation are still mostly

technical science related issues, and most of the related papers and analyses are from this domain, notably the research discussions that are currently taking place in the IT discipline. In the social, political, and economic context the topic is still less dominant. Obviously, there are a lot of discussions – sometimes even with the involvement of scientists – on certain new elements of automation and with particular emphasis on the wider impact of digitalisation: such as the effect of mobile phones on our lives, how self-driving cars will reshape our future, etc., but in terms of establishing new frameworks, or theories for the likely impacts, there is still a lot to be done. What is generally in focus is the possible disappearance of certain jobs and/or job categories. Some estimations project that one-quarter or even half of today's jobs might be endangered in the medium-term (FORD, M. 2015).

The analysis seldom goes deeper: e.g. what will the effect of automation/robotisation on the principles of economics, since labour is a cornerstone of many theories? Moreover, the analysis usually does not go further to answer questions like: what will be the spill-over effects of changing (at least partially) from human workers to robots, and how will it

affect the economic shape of certain organisations, sectors, regions, countries and even continents?

The above-mentioned high-level questions are very complex and a fully adequate answer to them is indisputably beyond the limits of the current paper. In this paper I have therefore narrowed down the investigated subject to areas where the effects are better demonstrable.

In terms of the examined area, I distinguish between automation and robotization. Automation in my understanding is a wider process that impacts basically everything: manufacturing industry, the transport industry, the service sector, households and the IT industry in general (clouds, software maintenance, AI, etc.). It is also crucial to note that automation, as it is understood in most cases, is a new process going through a growth curve, it is happening now, and even the framework within which it could be investigated is still forming. It is inevitably difficult to analyse the effects of a process which is very wide in its scope and has little or (in some cases) no history.

Consequently, in this paper I concentrate on robotisation only. Under the term “robotisation” I mean physical robots in the wider sense (not only humanoids), whose tasks are automatically

to execute physical actions. One of the related definitions is: “a device that automatically performs complicated, often repetitive tasks (as in an industrial assembly line)” (Merriam Webster dictionary)

Narrowing the investigated area still further, I concentrate only on robotisation in manufacturing industry. The reason is that in this sector, robotisation is not a new phenomenon since the first industrial robot, Unimate, was produced in 1961 and installed in GM’s factory for die casting handling and spot welding. As robotisation became widespread in the 70s, there is already approximately half-

century’s worth of data available on the efficiency gains, the costs and benefits. However, in order to make the analysis more traceable (when and where possible), I focus only on two decades: the last decade for data inputs and the decade to come for forecasting the likely tendencies. This should ensure that only grounded future development scenarios are investigated. This timeline is in line with a recent report from PwC, titled: “Will robots really still our jobs?” (HAWKSWORTH, J – BERRIMAN, R. 2018). They differentiate three “waves” of the current industrial revolution (*Table 10*):

Wave 1: Algorithmic wave to early 2020s	Automation of simple computational tasks and analysis of structured data, affecting data-driven sectors such as financial services.
Wave 2: Augmentation wave to late 2020s	Dynamic interaction with technology for clerical support and decision making. Also includes robotic tasks in semi-controlled environments such as moving objects in warehouse.
Wave 3: Autonomous wave to mid-2030s	Automation of physical labour and manual dexterity, and problem solving in dynamic real-world situations that require responsive actions, such as in transport and construction.

*Table 10:* Automation waves, description and impact  
*Source:* HAWKSWORTH, J – BERRIMAN, R. 2018 p. 2.

Regarding the economic dimension, as mentioned, many studies focus on the potential job losses within an economy or in different sectors. One of the important conclusions of the above-mentioned PwC report is that automation will affect

different sectors quite differently. In terms of potential job losses, the manufacturing sector is the second most impacted after transportation and storage. According to their calculations, in manufacturing industry during the second wave approximately 20% of the jobs can

be lost and in the third wave another 20% (HAWKSWORTH, J – BERRIMAN, R. 2018) In this paper I have chosen a different path: I concentrate on how robotisation affects the decisions of firms (mostly larger multinational organizations) concerning FDI today and how this decision making mechanism might be altered in the examined period. I also investigate what kind of geographic effects these changes might cause.

In terms of methodology used, first, I will consider the production function: in which form it is adequate to the new situation and can it help us answer the main research question of the paper? I will then investigate how the level of robotisation can be measured, and what indicators can be used for that. Finally, to understand the decision mechanism of firms, some FDI principles will be interpreted.

In the comparative analysis part, I show the level of robotisation in different states and how it correlates with their development level. I will show that the more developed a state is the higher the chance that the level of robotisation is higher. Then I convert this finding to the level of firms, to show what is the factor-mix for firms making investment decisions, and to what extent robotisation might impact this. Macro level conclusions are then derived from the micro level

institutional changes. With the help of these methodologies I will try to answer the main research question: in the light of technology developments, will the place of production flow back to capital intensive states and regions, or will labour intensive regions be able to maintain their current production share?

The novelty of the paper is first that it attempts an analysis of robotisation from many angles; and second, that it links different type of methods to it, both quantitative (like the production function) and qualitative (like the FDI related theories) and examines different dimensions: it considers both micro and macro levels, while addressing an economic issue with growing significance.

#### **IV.4.2. Methodological framework and literature review**

As mentioned in the introduction, the current discussion on automation and focuses on the increase in efficiency versus the possible loss of jobs generally, e.g. some researchers focus on the positive effects of technology development (TOADER, E. et al. 2018) and say the automation will continue to create more jobs as it has happened during every

industrial development waves from the first industrial revolution and it will continue to bring great benefits to our life (AUTOR, H. D. 2015). Others say that this time it might be different as the jobs lost might not be substituted with the same amount of new jobs (FORD, M. 2015) or they focus on the possible wage inequality increase due to the higher level of automation (ACEMOGLU, D. – RESTREPO, P. 2018). More balanced analysis says that “About half of all workers will confront the need to significantly adapt to the new workplace environment” (OECD 2018). The debate usually focuses on the pluses and minuses, but all more or less agree that the effects will be large: many experts forecast significant changes due to automation (MANYIKA, J – SNEADER, J. 2018).

There is also more or less agreement that the developments will be unevenly spread geographically, e.g. that developed economies and especially the higher industrial ones will benefit more than most of the developing ones. Michael Spence and his co-authors argue that the developed world will be the ultimate winner of the current changes. “All these trends play to the strengths of developed countries, where skilled work forces, large quantities of capital, huge customer bases, and dense clusters of high-

tech companies combine to power modern economies.” (LUND, S. et al. 2019). They mention that some middle-income countries, such as China and Mexico might catch up in the new era of globalisation, but many developing countries will face significant difficulties if they are not able to change from their cheaper labour driven economic contribution. The same conclusion is made by executing a different methodology: capital is overwhelmingly important, and this has been proved via an extended multiple-cone HO analysis that was used to compare the different development path of two countries with similar roots: Singapore and Malaysia. The related conclusion is: “capital accumulation is the key driver determining countries’ industrial development and differences in production technology employed in each country” (SUZUKI, K. – DOI, Y. 2019). Automation experts are also convinced about it: “Improvements in automation technology such as robotics are poised to bring more automated manufacturing production work to developed countries, rather than offshore it to lower-wage countries” (ATKINSON, R. D. 2019). If even the supporters of automation think that the gains will be unevenly distributed geographically, then it worth

analysing deeper what are the driving forces behind new possible investments in a more robotised world.

To answer the research question, I first gathered the set of factors to be investigated:

- ⊕ Labour: this indicator provides information about the availability of labour (number and skills) and the general cost of manufacturing workers (and their managers) in a state or region.
- ⊕ Level of robotisation: is expressed by an indicator showing the relative level of robotisation in a certain state.
- ⊕ Capitalisation: indicates what is the relative availability of budget for investments into robots for example.
- ⊕ Geography: shows the characteristics both the state/region where the investor is located and both the state/region where the investment is to be made.
- ⊕ Decision making mechanisms: manifest what are the driving forces for making an investment.

To provide a part of the analytic framework, the production function is a useful method as it integrates a lot of the factors that are interesting for the analysis,

particularly labour, capital and (in the extended versions) technology.

The production function is the relation between the inputs (quantities of physical inputs) and the outputs (quantities of goods) of a production firm. The term can be expressed with reference to the service sector as well, but as my investigation focuses on the manufacturing industry, the above mentioned one suits the current purpose.

The function in its simplistic form is formulated as (MANKIV, N. G. 2009):

$$Y=F(K,L)$$

Where,

Y: is the output of goods

K: is capital

L: is labor

The function therefore says that output can be increased if a firm decides to increase capital (investment) or labour (number of employees) or both. The function can be considered in an extended manner, e.g. the Cobb-Douglas production function where other factors are considered, e.g.:

$$F(K,L) A K^\alpha L^{(1-\alpha)}$$

Where:

$\alpha$ : measures the share of capital in income

A: if its greater than zero it measures the productivity of the available technology (MANKIV, N.

G. 2009).

Also, the production function can be analysed at different levels. It can be at an organisation level as mentioned above, but also a generic, industry wide one can be formulated: “..the production function sets the highest possible limit on the output which a firm can hope to obtain with a certain combination of factors at the given state of technical knowledge during the production period. This maximum output ...holds for all other firms in the same industry.” (AIGNER, D. J. – CHU, S. F. 1968) Besides, the aggregate production function is also formulated by Solow as follows:

$$Q=F(K,L,t)$$

t represents time here, but in the context of making technical change possible: “I am using the phrase „technical change” as a shorthand expression for any kind of shift in the production function. Thus slowdowns, speedups, improvements in the education of the labour force, and all sorts of things..” (SOLOW, R. M. 1957)

Obviously, the production function has newer updates, e.g. the New Keynesian Model developed by Calvo (CALVO, G. A. 1983), its extension as a Simple New Keynesian Model (SIMS, E. 2010) or for example a model on exogenous growth (BARRO, R. J.

1990). However, it is not necessary to go into a deep understanding of the production function, as for the current analysis only its basic characteristics are necessary. The ultimate goal of the firms is not production volume, but to generate profit. It can be calculated with embedding the production function into it as:

$$\text{Profit}=\text{PF}(K,L)-\text{WL}-\text{RK}$$

where

WL: is labour cost

RK: is capital cost  
(Mankiw, 2009)

To summarise, the factors that can increase profit are:

- ⊕ Larger workforce
- ⊕ Larger capital
- ⊕ Better technology (e.g. Cobb-Douglass)
- ⊕ Lower labour cost
- ⊕ Lower capital cost
- ⊕ Lower technology cost  
(Combining the Cobb-Douglass production function with the Mankiw profit function)

If capital and its cost is considered as constant for the sake of simplicity, what can be observed is that the labour and technology improvement are in competition with each other both in terms volume and in terms of costs. In terms of volume: a firm can increase its output either by

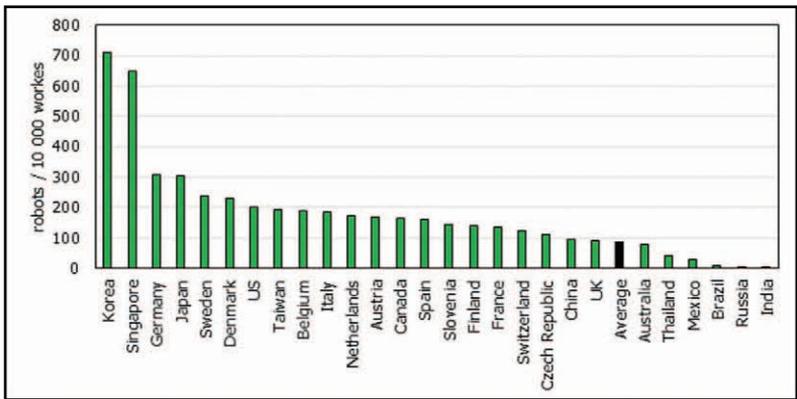
employing more workers or by investing in better technology. In terms of costs: a firm can choose to invest where the labour costs are less or can choose to upgrade the production capabilities its present firm by improving technology. Normally the two intentions are executed in parallel. But their ratio to each other is still interesting as it reveals to what extent labour and technology cost count.

To answer that I consider other factors as mentioned at the beginning of the section.

The first one to be answered is the level of robotisation. Above, in the Cobb-Douglass version of the production function, technology development was already involved, but here – in line with the new wave of automation as mentioned in the introduction – I would like to show

some quantification for robotisation. This is not a straightforward task as there is not a clear definition of what robotisation is and it is even harder to calculate it. On the other hand, there are organisations dealing with this issue and as I am dealing with robotisation in relative terms and not in absolute ones, it is appropriate to choose a study of one organisation in the field and use their data.

The Information Technology and Innovation Foundation (ITIF) is one of the possible sources. One of their reports shows the number of robots implemented. More importantly it shows the number of robots relative to the manufacturing workers, so this statistic fits my exercise quite well. *Figure 20* shows the ranking of the most robotised states in the world.



*Figure 20:* Number of robots used in 2017/10,000 workers  
 Source: on the bases of ITIF data ATKINSON, R. D. 2019 p. 5.

This ITIF statistics gives valuable input not only in terms of the level of robotisation but it can also serve as a geographic indicator at the same time. In terms of geography the other component needed to make comparisons is the availability of capital, as besides labour and the level of robotization this was the other important factor from the production function. Again, as the current analysis does not aim to make precise calculations on absolute values and only relative

tendencies are important here, I use the GDP/capita as a simplified indicator for that. This indicator is not necessarily the best fitting one to represent K in the production function, but the correlation is obvious: the more developed states, with a higher GDP/capita, have more money to spend generally and it is also generally valid for the companies located in developed states. *Figure 21* shows the GDP/capita order of the selected states.

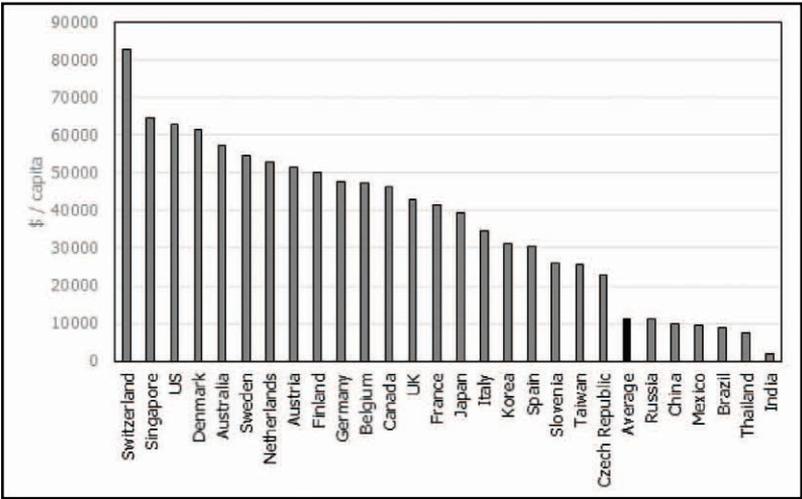


Figure 21: GDP/capita in USD in 2018

Source: WORLDBANK (for Taiwan IMF DATAMAPPER data for 2019 is cited)

The last items for the methodological framework is the most complex one: the decision-making mechanism behind a foreign direct investment (FDI) decision. It is not only complex but also quite different from the others

as it relates to human behaviour and strategies in different situations and consequently, it is more a qualitative approach. There are several FDI theories in existence, with a large literature. Here I introduce only the most relevant ones as the aim is

to arrive to a comparative analysis where the FDI related decision making is only one element.

Firms consider a wide range of factors (although at different levels) when deciding for an OFDI decision. Probably the most cited framework is established by Dunning and it is called the OLI paradigm (DUNNING, J. H. 1979). The OLI paradigm divides the factors that impact the decision making of firms into three categories: Ownership, Localization and Internalization advantages. Ownership means: the investing company has special human capital, and knowledge (e.g. skills, know-how, patents, etc.) that is transferable to another location to create additional value there. Localization: the firm invests into another firm or establishes a greenfield location in order to get closer to customers, save on transport costs, obtaining cheap inputs, avoiding trade restrictions, etc. Internalization: the firm chose to own a certain external site as it can gain better control as compared to licensing/subcontracting the production for example.

Another important classification is to categorise the factors as push and pull factors. Push factors are the internal or domestic factors that enable and/or force the organisation to pursue investment outside its home

country, pull factors are those which make a certain firm/location/country attractive for the investor. One of the key principles affecting this categorisation is the motives of the investor: the decision can be based on market-seeking, resource seeking, efficiency seeking, asset seeking. Within the categories many factors can be found, for example market size, market growth, access to regional markets, country specific consumer structures, etc. (DUNNING, J. H. 2004). Also, location factors can be split into quantitative (transportation, labor, material cost, taxes, etc.) and qualitative ones (land characteristics, labour market, infrastructure, etc.) (CLODNITCHI, R. 2018). To show the positive effect of pull factors, Singapore can be mentioned: their road to success was paved by an intensive economic policy which focused on education, research and development, and by creating a well-established institutional framework which contributed to the success of the local sites of transnational companies and their subcontractors and enabled them to move upwards in the global supply chain (MAGASHÁZI A. 2018).

#### **IV.4.3. Comparative macro level analysis**

Referring back to the

methodological section, the factors to be analysed together are labour, capital, level of robotisation, geography and the decision-making mechanism for investments. As mentioned in the methodological section, the current paper focuses on identifying general correlations and drawing some high-level conclusions; deeper analysis of certain factors will be done in subsequent work. Therefore, the different factors are presented in the following manner:

**Labour:** Labour is represented as a relative share, e.g. number of workers and their wages, to the level of robotisation, e.g. number of robots on the basis of ITIF numbers.

Robotisation level is also represented as a relative share to the number of workers and their wages in a certain state (ITIF numbers).

**Capital:** following the reasoning in the methodological section, GDP/capita will represent the relative (possible) share of capitalisation.

**Geography:** The presentation of the three factors above in different states on the basis of ITIF and IMF data.

**Decision making:** as mentioned in the methodologies part this factor is quite different from the other four, therefore it is analysed separately.

Regarding the above, my analysis focuses on the first four factors. Mixing the two figures from the methodologies section, I represent the relative share of robotisation (to labour) in selected key states and at the same time the relative maturity level of the certain state (GDP/capita). (Figure 22)

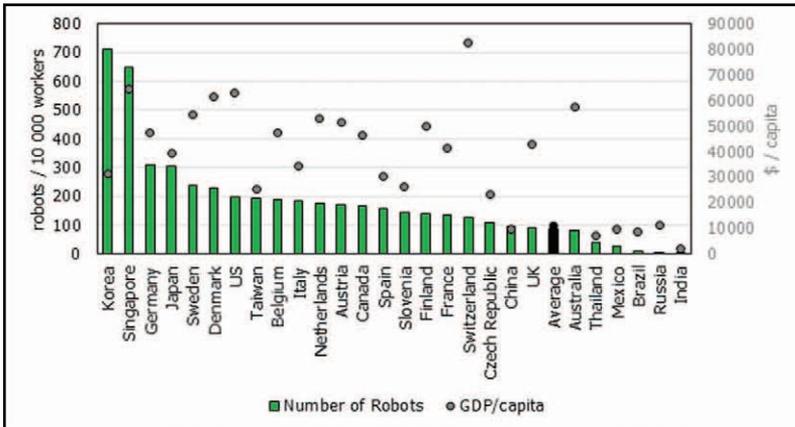


Figure 22: Number of robots used in 2017/10,000 workers

Source: on the bases of ITIF data ATKINSON, R. D. 2019 p. 5. and GDP/capita in USD in 2018, WORLD BANK (for Taiwan IMF DATAMAPPER data for 2019 is cited)

Figure 22 has two main messages. First of all, it indicates that the difference in robotisation is very large, and the most robotised state in relative terms, Korea has more than seven times more robots than the world average. Other important economies such as Brazil, India or Russia have an almost negligible level of robotisation. In actual fact, the difference in order might not indicate the real picture, as in nominal terms the gap is widening as robotisation is growing. The growth rate is quite incremental: ITIF numbers (ATKINSON, R. D.

2019) show that there is a heavy growth in robotisation, the rate has risen from 66 robots/10,000 workers (in 2015) to 85 (in 2017), an almost 30% increase in only 2 years.

Second, the GDP/capita level ranking of a certain state does not necessarily correlate to the level of robotisation, as the straight orange line shows large differences. The fact that certain states over- or underperform their expected robotisation rate when wages are also considered is also discernible (Figure 23).

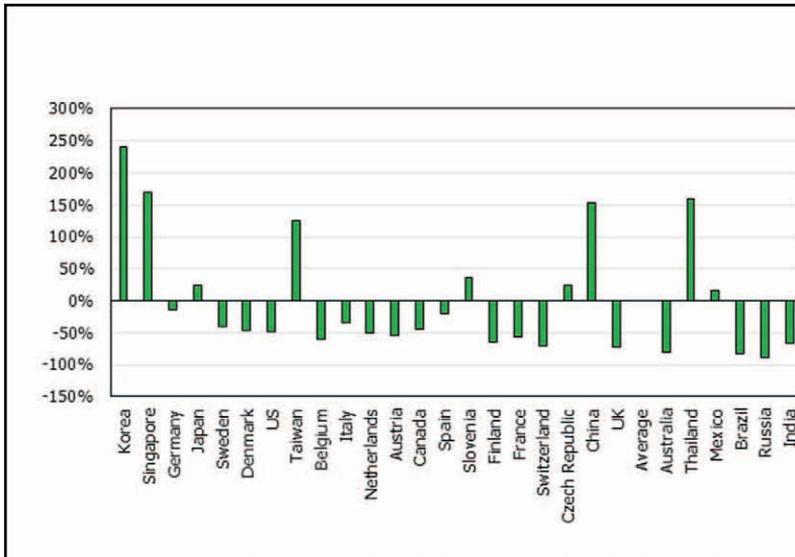


Figure 23: relative ratio of robotization compared to wages  
 Source: based on ITIF findings ATKINSON, R. D. 2019 p. 5.

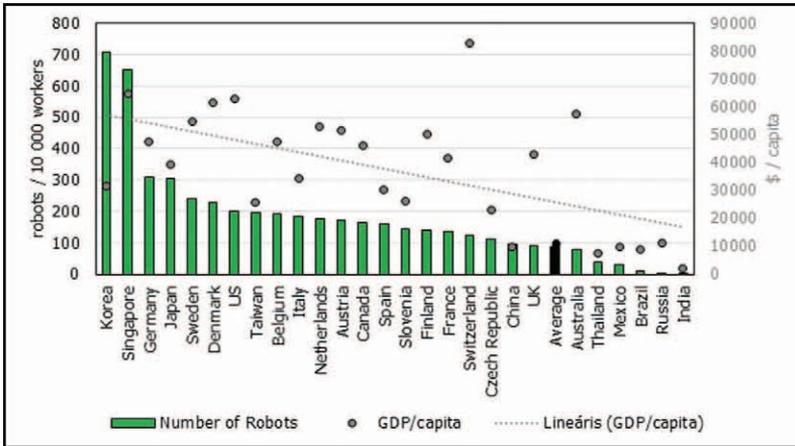
Wages are worth taking into account as the payback period for

investing in a robot is different in an economy where the wages are

high than in an economy where the wages are low. The outcome of the scaling nevertheless shows significant differences. For some economies, a clear justification can be easily found: for example, China is a production focused economy, so it makes obvious sense to invest more in robots, probably for manufacturing reasons. Switzerland on the other hand is quite strong in the banking sector, where robotisation (in the sense of

hardware robots as defined earlier) is not yet present.

Despite the differences between certain states, as in this paper I focus on general trends, the question here is, is there is a correlation between levels of robotisation and the economic prosperity of a given state? Following an update of the data used in *Figure 22* with trend analysis the results are presented (*Figure 24*):



*Figure 24:* Number of robots used in 2017/10,000 workers with trend analysis  
*Source:* on the bases of ITIF data ATKINSON, R. D. 2019 p. 5. and GDP/capita in USD in 2018, WORLD BANK (for Taiwan IMF DATAMAPPER data for 2019 is cited)

The trend clearly shows that a generally higher level of economic development means a higher level of robotisation. In other words, the more developed states are investing more in robotisation and, as mentioned above, the process of robotisation is accelerating. This

might imply that the technology gap could increase in the future. This, in turn, raises the theoretical possibility that certain investments will not mature as firms located in the developed economies with a high level of robotisation (*e.g. being on the left side of Figure 24*)

in the future might not make some investments in a developing state, as they would ensure the required production is achieved with a higher level of robotisation instead. However, to understand if this is really likely to happen as a general trend, I also consider some of the FDI related principles mentioned in the methodological section.

Foreign Direct Investment (FDI) essentially proceeds since the start of international trade in mass levels. The immediate high level assumption often associated to FDI investments in the manufacturing sector by following the logic of the production function is that a large organisation from a developed country, where the labour costs are high, looks for efficiency improvement and therefore outsources part of its production to a developing country, where labour costs are low. If this assumption is mostly true, robotisation as a possible substitute for cheap manufacturing labour will likely to change the motives of firms. Therefore, it is inevitable to take a look at current FDI statistics and to assess the motives and factors for FDI decisions.

Originally the obvious path was that the investment went from the more developed parts of the

world (e.g. first Europe and after the second world war from USA also) to developing continents, countries. However, recently the direction of the flow became quite mixed and the share of IFDI in developing countries outstripped developed countries (2018). (UNCTAD: WIR, 2019.) Recent statistics show that for example the outward FDI (OFDI) of China (what is considered as the main “production-hub” of the world) exceeds inward FDI (IFDI) (UNCTAD: WIR, 2019) This result runs counter to the assumption from a statistical point of view, e.g. as mentioned the new era of robotisation is already underway, so why is it not perceptible in the data?

Without going deeper in the FDI related theories, an outcome to be observed that labour is mentioned but it is only one factor among many other factors. Such observations notwithstanding, the fact that there are many other factors does not necessarily mean that the labour factor is not the most dominant factor affecting decision making. To investigate that, there is a need to see the weight attached to the various different factors behind FDI decisions. Undoubtedly, it is not an easy task to accomplish. On one hand these decisions are usually made at an organization level and they are mostly acting in a

globally competitive environment. Therefore, their business decisions and motives are usually not shared publicly, or when they are shared, we cannot know if the shared facts completely cover the real motives. For example, investors seldom label an investment openly as market seeking, or as a step to use cheaper labour. Besides, the decisions are often made by only a few persons (in some extreme cases by only one ultimate owner) and they might be unaware of their full set of motives and the weightings attached to them in making the final decision.

Despite this, there are some quantified outcomes. An example for that used the data of 35,000 cross border investment projects in the European Investment Monitor database (data assessed from 1997 till 2010) and found that in the EU-15 investments were mainly resource seeking ones, whereas in the EU-12 investors were dominantly looking for markets (SERWICKA, E. et al. 2014). So what is surprising that efficiency seeking, within which labour cost is classified, is not the primary aim when targeting the economically two very different (especially in the observation period) parts of Europe.

When looking outside Europe and considering Asian FDI policies, the motives can be different again. It is quite clear that most of the

Chinese OFDI decisions are not efficiency – seeking, they are often resource – seeking (e.g. the ones in Africa) or market-seeking (in the developed countries) (KAMAL, M. et al. 2019).

This means that the assumption that OFDI decisions are dominated by the search for cheaper labour costs than exist in the home country, is not valid. Therefore, the answer to the part of the initial research question that asks whether due to the robotization the place of production will flow back to capital intensive states and regions, is no, it is quite unlikely to happen this way in the examined period for the examined sector. On the other hand, the answer for the second part of the research question, e.g. that labour intensive regions will be able to maintain their current share of production, still needs some consideration.

There are lot of changes in the global economy and robotisation is only one them. Here I am not only thinking of crises, effects of war, pandemics, but also other developments mainly arising due to globalization, which is changing the motives and nature of investments as well. One of them is that the “labour intensiveness” label on a state or region becomes quite relative, as first of all the relative ratio towards the investor is likely

to alter over time, and besides that, the same region can be as attractive or non-attractive in terms of its market, while there can also be a range of other factors, cultural, language commonalities, etc. that are emerging or shrinking or else valid on a case by case basis.

In the case of Tesla for example, the factories are highly robotised. The company has already two factories (called Gigafactories) in the USA and it will open two more in China and Germany (homepage<sup>121</sup> of Tesla). If the company had strictly followed the initial conclusions of the macro analysis of this paper, it would have extended its USA based factories or built new ones there. However, there are a lot of other factors that might play a role, and the market-seeking explanation is an obvious interpretation for such plans. Also, Tesla is positioned as an environmentally friendly company, so lowering greenhouse emissions due to transportation might also be a factor in their decisions over where to produce their cars.

So to answer the second part of the question, the countries, regions that were previously chosen due to their relatively cheaper labour costs (or more precisely, they were labelled to be chosen

due to this factor dominantly) are currently in a changing environment and therefore in the future they can attract their current and future investors due to changes in the factor mix for FDI decisions. Labour costs will still play a role in many cases, but this factor will be less of a dominant consideration and this is not only due to robotisation. How these developments affect decisions that are likely to happen and what role robotisation will play within them still needs to be studied. The initial conclusion is that in the new environment during the examined period, most regions and/or countries labelled as labour intensive are likely to keep the investors in their manufacturing industry and even attract some more, but this attraction will be less based on labour cost than assumed by the initial research question.

#### **IV.4.4. Conclusion**

When analysing how robotisation might affect the decision of firms regarding where to place their factories, I set up a methodology framework where I considered factors like labour, capital, level of robotisation, geography and decision-making mechanisms. To understand the correlation among the first four, different versions of the production

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121 <https://www.tesla.com/gigafactory-berlin> – 2020. 06. 09.

function was studied, while for the decision-making part, some FDI principles were presented.

In the comparative analysis section first, current statistics were analysed e.g. the level of robotisation versus the manufacturing workers in key states, and also the correlation of robotisation to the GDP level of a particular state. The trend is that more developed states generally employ a higher number of robots, so in theory the possibility to divert/eliminate FDI away from labour intensive states or regions is open.

However, when looking at the FDI statistics and motives the result was the opposite. Developing states are increasing their share in incoming FDI and also the majority of the FDI related decisions are not aiming for pure efficiency increase, so labour cost is not the dominant factor nowadays in investment decisions.

With the analysis I could give an answer to the initial research question: will the place of production flow back to capital intensive states and regions, or will labour intensive regions be able to maintain their current production share? The answer is that in the examined period it is not likely to have a reverse flow of FDI from the developing states to the developed states, although there are some indications that the developed states might gain more due to the current trends in globalisation, including automation. In addition, less developed regions and states might maintain their current investors and even may attract more, but this process is less likely to happen due to their cheap labour but more because of other emerging positive factors that might turn to be attractive for the investors.

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## IV.5. How does digitalisation influence financial inclusion in the emerging countries? – A cross-country comparison

GÁBOR SZTANÓ<sup>122</sup>

### Abstract

*This research paper examines the impact of financial technologies in the emerging countries, with a special focus on cross-country heterogeneity in terms of financial inclusion. Although the level of financial digitalisation and access to financial services are diverse in the emerging countries most of them experienced the recent trend of digitalization in the past decade. Financial inclusion has improved globally in recent years, but with large heterogeneity among regions, and sometimes within the same country as well. In order to assess the level of inclusion, two new indices have been developed: one for the traditional dimensions of financial inclusion, and one for digital advancements. The empirical contribution of the paper shows that improvement in digital financial solutions are significant primarily in countries where the traditional financial inclusion is better. Some countries, such as Kenya, Uganda, Iran and Mongolia outperform their peers, while other countries still have room for further expansion in financial technology.*

**Keywords:** financial inclusion, financial development, emerging countries, Findex survey

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### IV.5.1. Introduction

In previous decades, the financial sector was characterised by technological innovations that made transactions faster, cheaper, and more convenient. In the last 10 years, this change has continued more rapidly, although in a slightly different way. According to recent

academic findings at least three processes have influenced these recent trends.

The first one is the group of innovations that were delivered by non-banking firms, the so-called ‘fintech industry’, which has gained substantial importance all over the world, besides the innovations coming from traditional banks.

The second influence is based on the digital innovations that reached the B2C sector, as average people have become the primary users of these new technologies. Third, digital financial solutions shaped the way that we should regard financial inclusion and financial literacy, as more people are able to use financial services, including many of those who were unserved, or underserved in the emerging countries. Fintech solutions are cheaper than traditional banks, therefore they can provide services in less profitable business segments, and furthermore, they may be influential in emerging regions, where the entry-costs are too high for traditional banks.

The main causes and results of this rapid development is an element of professional debates. On one hand, it is a valid argument that the new wave of digitalisation, the third industrial revolution, hit the financial sector as one of the sectors that just mildly adapted new technologies. As Arner and others noted, emerging platforms, companies and technological solutions simply became ‘too large to ignore’, for policymakers and thereby they became an integrant part of the economic ecosystem (ARNER, D. W. et al. 2015). However, in a way this is a similar argument to that of Ansart and

Monvoisin, who emphasised the importance of a crisis experience in the emergence of new financial approaches. The new megatrend was born after the global financial crisis, but the development is still ongoing and follows a different path in various countries and regions. I am going to show the most important differences, while analysing data retrieved from the World Bank and highlighting some positive examples of fintech success stories (ANSART, S. – MONVOISIN, V. 2017).

This paper is organised as follows. Chapter 2 provides a literature review on financial inclusion and development, and the problems related to their measurement. Chapter 3 summarises the current experiences based on the World Bank’s Fintech survey, while in Chapter 4 I am going to present a new methodology to assess the financial advancement of a given country, with specific regard to digital financial issues. Chapter V.5.5. concludes.

## **IV.5.2. Financial development and inclusion**

Financial development is defined by the World Bank as the development of the countries’ financial system, the measurement of which consists

mainly of macro-level indicators. The four dimensions of financial developments are depth, access, efficiency and stability, and are measured by several indicators. For example, the depth of financial system is regarded as a proportion of credit compared to the GDP, or similarly the size of stock market capitalization and the amount of marketable government debt. Efficiency is regarded as the size of interest margins in case of credits, and among others, turnover in case of exchanged stocks. Stability is connected to the performance of the financial sector, as compared to others; therefore, it is described with indicators such as liquidity ratios, volatility or sensitivity to external shocks. The accessibility dimension of financial development is quite natural, and closer to a microeconomic approach. In case of financial institutions, the number of people that use financial services daily is the most important one, but similarly the number of ATM machines and commercial bank branches could be measured as well. This latter dimension comes closest to the concept of financial inclusion. At the same time the World Bank defines the following: 'Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs

– transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way' (PEARCE, D. – ORTEGA, C. R. 2012).

Financial development and inclusion are two different concepts but they definitely have an impact on each other. Financial inclusion is more user-oriented, though: policy goals usually state that more and more people should be involved, and not merely be provided with the possibility of financial inclusion. As the financial services offered by institutions could be regarded as supply, financial inclusion is the demand that can be defined on a micro-level. In the literature financial services usage is mostly connected to end-users such as the household, and in many cases also to micro, small, and medium-sized enterprises.

As many authors argue, a financially more inclusive society could reduce poverty and decrease inequality (for examples DEMIRGÜC-KUNT, A. et al. 2018; OZILI, P. 2018). Increasing financial inclusion globally, and therefore providing access to financial services to more people around the world, is also one of the Sustainable Development Goals adopted by the United Nations.

Although financial inclusion is mostly measured in terms of accessibility to formal financial

services like bank deposits, loans or ATMs, or the number of bank accounts / debit cards per 1000 persons, digital financial services may open new horizons in financial inclusion and in financial development.

The IMF categorises digital financial services based upon the user needs it fulfils, and differentiates solutions connected to payment, saving, borrowing, risk management and advising areas (IMF 2019). The most visible and so far, most developed area of financial services is the payment infrastructure. Increase in mobile payments and P2P payments have rapidly grown recently, sometimes in line with the development of the classical bank services, sometimes autonomously. Virtual currencies are highly debated not only within professional circles, but among users as well. While many virtual currencies like Bitcoin, Ethereum, etc., are regarded as risky investments, the technology has advantages nonetheless, therefore many central banks are planning to introduce their own, legal, virtual currency, often called 'CBDC'. So, both in terms of payments and savings, traditional banking services are developing together with new fintech solutions, causing uncertainty at times. However, although the technology might

be similar in terms of various solutions, the business model and the legal position can largely differ, not only country-by-country, but also on the same market. As virtual currencies are highly volatile and difficult to regulate users are often discouraged from using them, but innovative payment systems are largely encouraged, especially if it shows a bank-like business model. Fintech solutions in borrowing are mostly used in credit evaluation by traditional banks, while in some regions issuing microcredit has grown in popularity over the past decade and shows a potential way forward for less-developed regions as well. Risk management and advising are areas that may have potential expansion both for traditional banks and new financial service providers too.

Ozili argues that there are five channels of digital financial improvement that may help to increase financial inclusion (OZILI, P. 2018).

1. Fintech services are cheaper and more affordable for poorer people.
2. As they are not burdened by as many regulations as banks, fintechs can focus on improving technology and security.
3. Fintech companies may help regular banks become more

sustainable and help them in data-driven processes.

4. Because of less regulation, it is easier for fintechs to access emerging funds.
5. Being location-free fintechs are not only convenient but enable people to access financial services anywhere.

From the viewpoint of fintech companies, developing and emerging countries are suitable places to expand market share, and for gaining new customers. Additionally, the regulative environment is usually supportive – or at least not as restrictive since these countries have less experience in regulating financial services.

At the same time, it must be added that these innovations are not free of risk or concerns for regulators of all kinds. As mentioned earlier these companies are not regulated like other banks, and since they provide mostly cross-border services this makes it more difficult to protect consumer rights. Regarding issues related to cyber security the landscape is quite unclear: although banks are obliged to protect their systems, fintech companies ‘cannot make mistakes’. In the event that a fintech company loses its credibility in protecting data and being resilient, their customers are more likely to

react by refraining from using their services.

The connection between financial innovation and financial inclusion, and in general the impact of financial inclusion has become one of the most dynamically growing fields in development economics. Regarding the respective literature, theoretical discussions on the topic mostly concluded that financial technology has a positive impact on emerging markets, offsetting the possible risks.

Among others, Philippon argues that financial technologies make financial services cheaper and therefore more affordable, meanwhile the usage of big data may enable the financial sector to reach a broader range of users. In his contribution he highlighted the usage of big data by robo-advisors that may help to overcome prejudices, but the fact that financial advice is provided by non-humans poses a challenge to regulators (PHILIPPON, T. 2020). This argument is close to those put forward by Thomason and others. They argued that the technology, and specifically the blockchain technology may provide an affordable digital identity for less creditworthy customers, thereby helping to overcome the current barriers (THOMASON, J. et al. 2018).

Looking at the empirical

findings of the respective literature it is hard to find evidence on the net impact of such technologies, for several reasons. Firstly, these trends are still ongoing and in most cases, they have not been fully developed; therefore we cannot be certain of the medium or long-term impact. Secondly, as has been shown, there is large heterogeneity among countries and many other factors also coexist at the same time. Thirdly, digital finance is not a stand-alone phenomenon; we also need to consider changes in the institutional, legal and economic environment.

On the other hand, many papers argue that technology may indeed have impacted parts of the financial sector. For example, Bayero found that awareness of technology, customer value, and infrastructure are associated with financial inclusion in a cohort of Nigerian adults. In his paper he used a survey-based approach, arguing that the business model of service providers is not significant, but that the customer approach toward technology and availability is indeed significant (BAYERO, M. A. 2015).

Using a quantitative general equilibrium model Beck and others found that mobile money has a positive impact on growth and macroeconomic

development. After building the model with market frictions, such as enforcement constraints, information asymmetries and theft, they calibrated the model for the Kenyan economy and used a firm-level survey showing that companies benefited from mobile money solutions (BECK, T. et al. 2018).

Regarding the reactions of the households I found two similar papers, with interesting contrasts. Using survey-data Jünger and Mietzner explained the factors that make it more likely for German households to use Fintech solutions, while Li, Wu and Xiao did the same for Chinese households. The first paper found that German households with a higher education and financially more literate were more sensitive to Fintech. In China, households with a lower income and less financial literacy gained more from using digital financial services (JÜNGER, M. – MIETZNER, M. 2019; LI, J. et al. 2019).

### **IV.5.3. Recent trends in financial inclusion**

Regarding country-level data, the digitalisation of the financial sector is far from complete, but the rapid progress is worth further consideration. As mentioned earlier, the first level we can analyse is

rather the accessibility of financial services than financial inclusion. In this chapter I am going to use two databases that were published by the World Bank. In the Global Financial Development Database many variables are collected in connection with financial services and financial development. Nearly half of them are statistical data on the respective economy, or on the local financial markets; the other half are survey-based, connected to the Findex database, which is the other database I am going to use. This latter is a cross-country survey-based database that quantifies the level of financial inclusion of the respective countries at a given time. Participants in the Findex survey are asked to answer questions concerning how they use financial services, if they do. In the case that they do not use financial services – e.g. they do not have an account – the causes of being unserved are also investigated.

Although there are several good proxies for measuring the accessibility to conventional financial services, it is challenging to find suitable measures for the advancement in digital financial services. The fact that someone has a bank account is the basic indicator in measuring financial accessibility. Those who do not have access are called financially unserved or

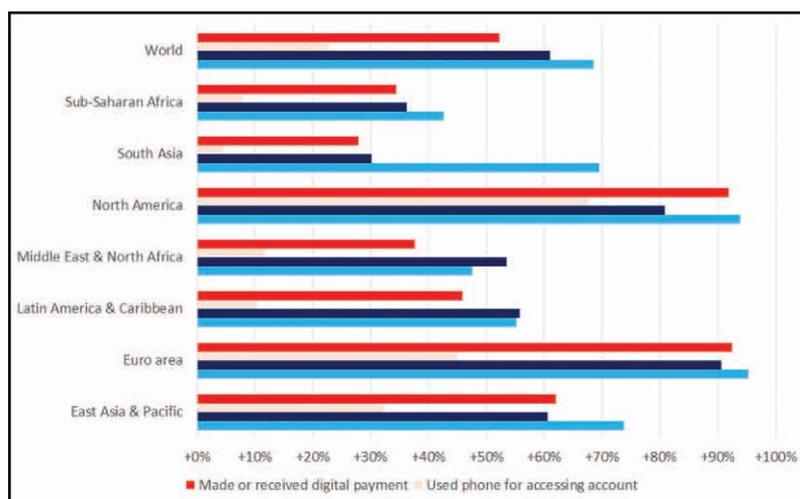
underserved, and their integration into the financial system – either via traditional banks or other digital solutions – is an identified goal of many policymakers. Bank account ownership is quite similar to the approach of counting those people whose wages are transferred to their bank accounts. Therefore, the ratio of the people who have an account in a financial institution (among those older than 15-years-old), and the ratio of working people receiving their wage by transfer to a bank account are two indicators that show the general, classical approach to financial services. Regarding digital financial services, the ratio of people who made or received digital payments seems to be logical, and is therefore used. The ratio of people who use their mobile phones or the internet to access their accounts is considered to be a proxy of digital financial literacy, even though this accessibility belongs to the holding of a normal bank account, maintained at a financial institution. In the database there is an indicator, namely, the ratio of people who claimed to have a mobile money account, nevertheless these innovations are not widespread enough to draw meaningful cross-country conclusions.

Regarding global numbers, the majority of people already have

access to financial services: nearly 69 percent of the responding adult-age people said that he/she has an account at a financial market institution. This figure is a notable increase in the last decade as the same ratio was 51 percent in 2011, and 62 percent in 2014. Similar to earlier years there is some heterogeneity in the accessibility regarding users' gender and age. In 2017, 72 percent of male responders said they had a bank account, while 65 percent of the women responders did so. Older adults (above age 25) with a higher income and living in urban areas, had greater financial accessibility.

Beyond account ownership it is worth looking at the results from survey questions related to wages – whether the wage was received

in an account via the use of mobile banking and mobile payment. Account ownership and usage may be regarded as traditional proxies of financial inclusion, while usage of mobile banking and mobile payment capture the importance of the new, technology-driven digital involvement. There is heterogeneity among the regions in terms of the popularity of banking services (*Figure 25*). Those who have a bank account mostly use it to receive wages. Except for Sub-Saharan Africa and South Asia the majority of people with an account receive their wages via their account. Many people who qualify for a governmental subsidy have opened an account because it was required for receiving state funds.



*Figure 25: Regional differences in using different types of financial services*  
 Source: Global Findex Database, own calculation

In recent years traditional banks started to develop online banking applications, and the Findex survey has undertaken to investigate their popularity. Although a mobile phone and internet connection is required to access online banking platforms, it is closely connected to traditional banking services as they build on a normal bank account, therefore having a traditional account in a financial institution is a prerequisite. This is in line with survey results showing that in regions with high incomes the popularity of online banking is greater. Digital solutions such as digital wallets in Sub-Saharan Africa, or innovative digital payment systems in East Asia, are independent from traditional services, and they represent the new wave of fintech services.

The popularity of digital solutions might be proxied mostly by the usage of digital payments. A small majority of people used digital payments in 2016, but also with a large heterogeneity among regions. In poorer regions, digital payment usage is also smaller, but a more detailed analysis would be needed in order to assess the difference between emerging and advanced countries.

In general, we may say that classical banking solutions may largely correlate with modern financial ones, but there are some results worth noting. In East Asia & the Pacific region it appears that the difference in usage between traditional and new financial solutions is smaller, but in regions like Sub-Saharan Africa and South Asia it is still large.

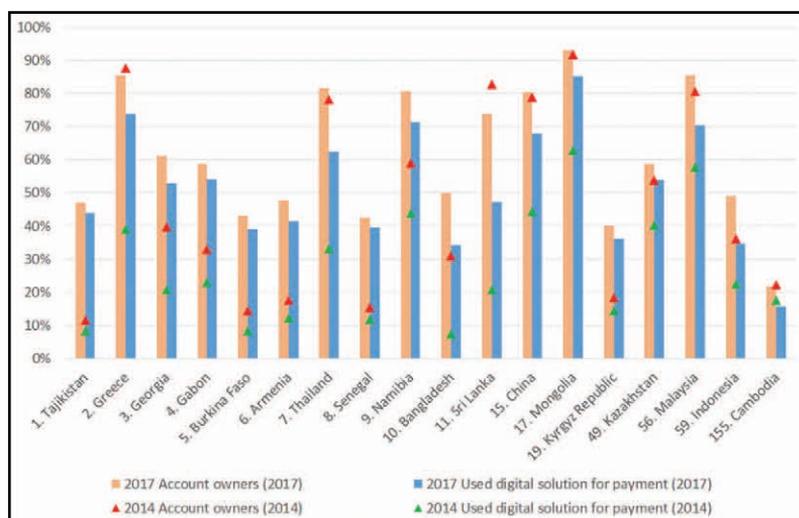


Figure 26: Change in popularity of chosen financial services in various countries

Source: Global Findex Database, own calculation

Regarding trends there are many countries that made a significant improvement between 2014 and 2017 (Figure 26). In most cases the improvement was a jump from a very low base – in Tajikistan, Armenia, Senegal neither traditional banking – proxied by bank account usage, nor the more innovative digital solutions were very popular in 2014, but an improvement was visible in the abovementioned 3 years. In some countries, and these cases are the more important, the change was smaller in absolute terms but the outcome is more visible. In China in 2014, 42 people of 100 said that they used digital solutions for payment purposes compared to 2017 when it increased to 68

people. Similarly, in Mongolia, the usage of digital payments rose from 61 percent to 82 percent in 3 years (for further remarks on the Findex survey DEMIRGÜC-KUNT, A. et al. 2018).

As noted by the IMF in their policy paper world regions differ from each other in the advancement and level of technological adoption. In Africa, mobile payment gained considerable ground and markedly enhanced the level of financial inclusion. On average the level of financial development and inclusion improved significantly in the last decade in Asia. However, this coexists with a large heterogeneity: intra-regional differences are more pronounced as highly developed countries compete with emerging

regions; differences within countries are also substantial. In Europe financial inclusion is relatively large, with differences, although Fintech startups still have room for further growth alongside traditional banking services. In Latin-America many central banks are considering the adoption of CDBC, but at the same time the regulatory environment differs widely. Mobile money services are under-developed compared to the penetration of the internet and the number of mobile phones in the region (IMF – WORLD BANK GROUP 2019).

In the empirical part I am going to further elaborate on this heterogeneity by trying to provide a robust methodology to assess financial development in the light of new financial solutions, and by providing a comparative assessment based on the Findex Survey prepared by the World Bank Group in 2017.

#### **IV.5.4. Measuring traditional and digital inclusion**

In the empirical part of the paper I am going to quantify the level of financial inclusion in the wide range of countries based on the last update of the World Bank's Findex survey conducted in 2017.

First, I am going to create two composite indices to capture the level of financial inclusion based on the question responses in the survey. Out of the two indices one tries to capture the development of conventional banking in the respective country, the other reflects the popularity of digital financial solutions. As we mentioned, the latter is more challenging but still possible to estimate. These numbers will be compared to the scores in the peer-group, and to the development of the respective economy, proxied by GDP per capita.

In the survey many questions were asked about banking habits and most of the results reported are presented as percentage points of the responders who answered positively for the binary questions (yes/no). In order to create the two composite indices three variables for each index were selected from the survey to represent the most important characteristics of traditional and digital financial use. In order to make them comparable, answers from each country were converted into scores: the respective countries' survey results were divided by the result of the country that reached the highest score. Therefore, the scale became relative and comparable by saying that the survey results had been translated to a development level

that was compared to a theoretical best result. The received scores have been simply averaged and multiplied by 100 in order of convenience, so both indices vary from 0 to 100, where the most financially inclusive country scores the highest, but not necessarily 100 points.

The indicators that were selected for use were those that

corresponded with general habits, related to financial services, and measured in the entire population of the respective country. Although survey-based indicators usually have several disadvantages, the nature of the topic and the carefully conducted sampling clear doubts about systematic distortion (for the methodological annex DEMIRGÜÇ-KUNT, A. et al. 2018).

	max. value		max. value
people who have a financial account (% age 15+)	Denmark (97.3%)	people received digital payments in the past year (% age 15+)	Norway (89.8%)
debit card ownership (% age 15+)	Netherlands (98.8%)	people made digital payments in the past year (% age 15+)	Norway (98.8%)
people who borrowed from a financial institution (% age 15+)	Norway (39.5%)	people who used the internet to buy something online in the past year (% age 15+)	Denmark (81.4%)
traditional inclusion	Norway (99.7 points)	digital inclusion	Norway (99.16 points)

*Table 11:* Indicators used in composing the inclusion indices  
*Source:* Findex survey, own calculation

Having the composite indices for the traditional and digital inclusion, it is possible to compare the level of inclusion in different regions and in the different income groups. Using the country categorisation of the IMF, peer groups have been constructed, therefore countries in the same region, with a similar level of

general development (income) will be compared in a further analysis. As we may have predicted, high income economies performed pretty well, and regions where financial inclusion is known to be widespread scored at the top. These results suggest that composite indices are robust enough, and they capture the level of development

in an appropriate manner. Regions in high-income countries of Latin America & Caribbean, and in the Middle East & North Africa reached a relatively weak score, and each country achieved lower scores in digital inclusion. In Europe & Central Asia, and in East Asia high income countries reached a higher score than in traditional inclusion. In the upper-middle income category it seems that the difference between traditional and digital inclusion is larger than in the high-income group. In this income category, East Asia performed relatively well, while Sub-Saharan Africa outperformed the Middle East & North Africa. In the lower middle-income group, the gap between traditional and digital inclusion widened further. Europe & Central Asia reached better scores in both dimensions, while East- and South Asia had better scores in the traditional dimension only. In low income countries the Sub-Saharan

region is interesting: they have the best score in the digital dimension, with relatively small differences compared to the traditional dimension. The financially less inclusive region is South Asia, in both dimensions. Based on peer group average scores it is possible to conclude that countries with higher income scored relatively better in both dimensions. Therefore, the financially historically well-developed high-income countries, especially in Europe and in North America have digitalised their financial system, and people have become highly acclimatised to this. In Asia, countries are very heterogeneous, while in Africa digital inclusion has been relatively more successful in poorer countries than other regions. Despite the closeness to the USA and the general level of development, people in Latin-America seem to be underserved by financial services, both in traditional and digital terms.

income group	region	traditional inclusion	digital inclusion
high income	East Asia & Pacific	74	77
	Europe & Central Asia	75	78
	Latin America & Caribbean	61	44
	Middle East & North Africa	69	61
	North America	87	87
upper middle income	East Asia & Pacific	61	47
	Europe & Central Asia	49	39
	Latin America & Caribbean	42	27
	Middle East & North Africa	39	26
	Sub-Saharan Africa	46	38
lower middle income	East Asia & Pacific	38	18
	Europe & Central Asia	39	28
	Latin America & Caribbean	30	17
	Middle East & North Africa	27	12
	South Asia	33	15
	Sub-Saharan Africa	28	23
low income	Latin America & Caribbean	24	15
	South Asia	19	7
	Sub-Saharan Africa	20	16

Table 12: Group average scores in traditional and digital inclusion

Source: Findex survey, own calculation

Although averaging of the scores showed the regional differences, it is an interesting finding to observe how traditional and technology-driven inclusion progresses: in most of the countries better traditional inclusion occurs with better digital service, and among the regions, most of the time the region that is developed in one area also performed relatively well in the other, except in a few cases. In high income countries it is quite

intuitive; although digital financial services developed, traditional banking did not become any worse. On the graph below, we may visually identify those countries that differ from their peers, in any dimension. After filtering the high-income countries, deducting the peer average from the score and using a scatter-plot diagram we can classify the countries into four groups.

Countries marked with II

seem to perform better in both scores, while group III scored lower than their peers. Group I has better digital financial inclusion than their

peers, while group IV has better traditional inclusion, but worse digital services when compared to their peers.

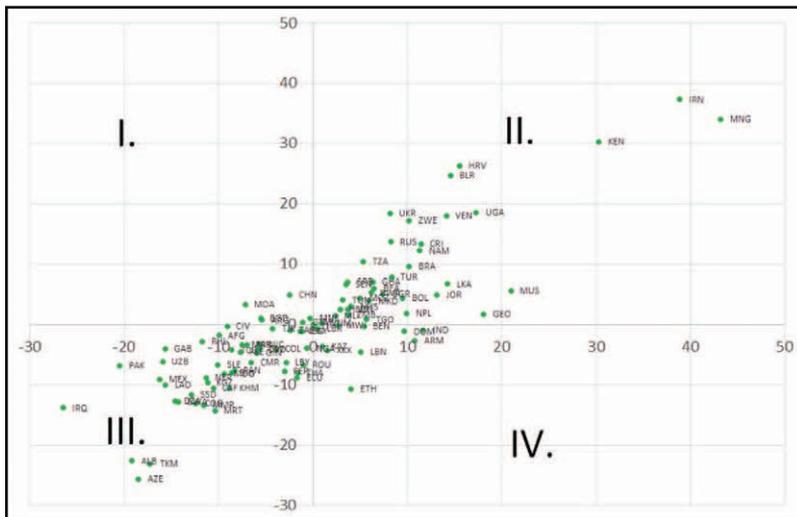


Figure 27: Difference of individual country scores from the group average  
Source: Findex survey, own calculations

As most of the countries are in either Group II or Group III we may conclude that based on the indices constructed, the traditional and digital inclusion usually come.

For the traditional index:

$$\lg(\text{GDPcap}) = -70.75 + 13.64 * \text{INCL}$$

For the digital inclusion index:

$$\lg(\text{GDPcap}) = -95.63 + 15.68 * \text{INCL}$$

To assess the relative development compared to the GDP the following regression was used:

$$\lg(\text{GDPcap}) = a + b * \text{INCL} + \varepsilon$$

Using linear regression, the following parameters have been regressed:

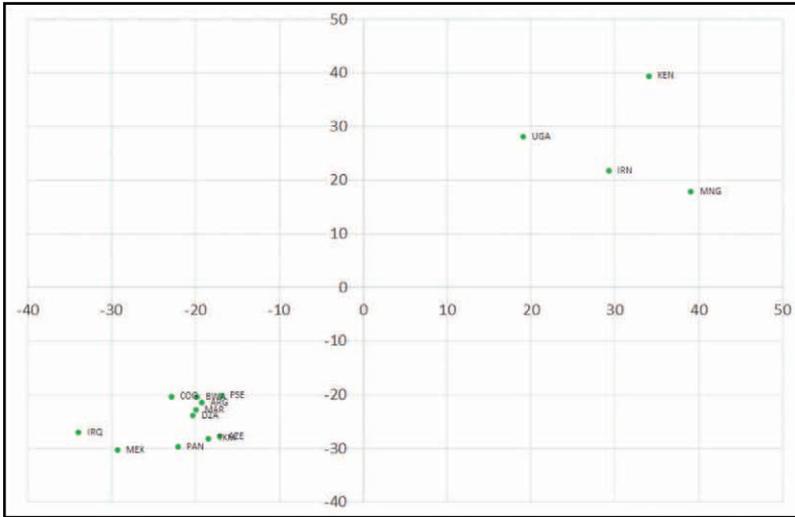


Figure 28: Emerging countries that stand out in financial inclusion compared to its own level of development

Source: Findex survey, own calculations

Based on the equation above, the estimated level of financial inclusion has been calculated based on one single factor: the level of GDP per capita in the respective country. Those countries that scored better than their GDP would predict have gained relatively more financial inclusion compared to itself, while those who did not meet the theoretical score lagged behind somewhat.

As this equation (and all the regressions) is estimated to have the minimum distance from the observations on average, the majority of the values are distributed around the curve. Therefore we shall define that those countries stand out whose scores

differ from the predicted line with at least one standard deviation. In case of traditional inclusion, it is 16; in case of the digital inclusion it is 14-point deviation from the regressed line.

Therefore, we found that a significant difference from the estimated level comes together: four countries, namely Kenya, Iran, Mongolia and Uganda perform better in both traditional and digital dimensions, while countries such as Congo, Argentina, Iraq, Mexico underperformed. In the latter countries there is a potential space for further expansion of digital financial solutions.

Limitations are at least twofold. Firstly, the data was

constructed based on a survey, which is typically limited in terms of errors, willingness to answer and coverage. Secondly, the design of the survey primarily asks questions about traditional bank services; very few questions deal with digital solutions. Additionally, it is impossible to differentiate responders that used digital services connected to a traditional bank account from those who used Fintech solutions solely.

#### **IV.5.5. Conclusion**

Financial development and inclusion are two different concepts but they definitely have an impact on each other. Financial inclusion is more user-oriented, though; policy goals usually state that increasingly more people should be involved, and not only be provided with opportunities for financial inclusion. Ozili argues that there are five channels of digital financial improvement that may help to increase financial inclusion (OZILI, P. 2018).

Regarding global numbers, the majority of people already have access to financial services: nearly 69 percent of the responding adult-age people said that he/

she has an account at a financial market institution. This is a notable increase over the last decade as the same ratio was 51 percent in 2011, and 62 percent in 2014.

Concluding the empirical part of the paper it has been found that traditional and digital financial inclusion mostly comove: in peer group analysis most of the countries either outperform or underperform in both dimensions at the same time, while compared to general development only a few countries outperformed significantly, and those which did, also differed in the same direction. The financial inclusion of four countries (Mongolia, Kenya, Iran and Uganda) offers a good example to the other emerging countries and may be interesting to discuss further.

#### *Acknowledgement*

The present publication is the outcome of the project „From Talent to Young Researcher project aimed at activities supporting the research career model in higher education”, identifier EFOP-3.6.3-VEKOP-16-2017-00007 co-supported by the European Union, Hungary and the European Social Fund.



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## IV.6. Comparative Study on Sovereignty in Oil Dependent States

NAVID SAEEDI SAKHA<sup>123</sup>

### Abstract

*Currently, states with economies relatively dependent on oil have serious issues with managing their economies. By way of illustration, their fiscal policies, wealth distribution, and foreign policies depend on the oil income. Hence, the oil revenue affects interests, opportunities, and threats of a state. Consequently, sovereignty of these states is profoundly under the influence of the existence of oil and the global oil market. Although there is a similar impact on their economies and policies, their basic characteristics force them to take different attitudes toward managing the oil revenue. For example, arable land traditionally affects how much an oil state is relied upon, and its agriculture is an important factor in the managing of the oil revenues. This article introduces factors in order to better understand the differences and similarities of oil dependent states.*

**Keywords:** oil dependent states, comparative analysis, sovereignty, state formation

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### IV.6.1. Introduction

Sovereignty is discussed in many oil exporting countries (OSTROWSKI, W. 2008; 2011; PHILLIPS, J. et al. 2016). Oil revenue impacts sovereignty in different ways. The issue has baffled the economy and politics of exporting countries for many years. Each country has been trying to reduce its dependency on this revenue. Although some countries have been successful in diversifying their economies, others are still struggling with this matter. Hedging

the economic and political risks of the ‘resource curse’ highly depends on country context as implementing the same policies would not be a hundred percent successful if implementing is possible at all.

Though countries are unique in how they gained influence from natural resources, they can be defined by factors explaining their differences and similarities. Even though national oil companies manage oil reserves in many countries, the governance of the companies is very different (MARCEL, V. 2006). Their culture,

strategy, relations with foreign companies, other states, and internal ethnic and economic parties are also different.

Oil revenue provides political parties with a favorable resource in order to seize power in different territories. Territories are geographic spaces that are occupied by certain institutes. Consequently, geographic factors must be considered in comparing the sovereignty of the oil dependent states. In this article geographical and historical factors will be discussed that are important when comparing the oil dependent countries.

## IV.6.2. Selecting Countries

Twenty countries have been chosen for comparative analysis of economies of oil dependent states. The countries were chosen based on the higher than ten value of their oil rent indicator presented by the World Bank (*Table 13*). Venezuela, Syria and Yemen have been excluded because of their high instability in the recent decade. Ten years average of oil rent is calculated because the measure has been increasing and decreasing due to price variation.

country name	oil rent (% of GDP) – ten year average (2007–2017)	population (2018)
Kuwait	48,46005240	4 137 309
Libya	45,59870515	6 678 567
Iraq	43,36415544	38 433 600
Congo, Rep.	39,37753117	5 244 363
Saudi Arabia	38,25646494	33 699 947
East Timor	35,76729506	1 267 972
Oman	33,56869215	4 829 483
Angola	30,61964888	30 809 762
Equatorial Guinea	30,00982555	1 308 974
Gabon	26,67060754	2 119 275
Azerbaijan	24,90845195	9 942 334
Qatar	24,06470271	2 781 677
Algeria	21,47362910	42 228 429
United Arab Emirates	21,19306067	9 630 959
Iran	20,47091576	81 800 269
Chad	19,45659262	15 477 751

country name	oil rent (% of GDP) – ten year average (2007–2017)	population (2018)
Brunei	17,75970428	428 962
Kazakhstan	14,49420048	18 276 499
Turkmenistan	11,13579151	5 850 908
Nigeria	10,38545983	195 874 740

Table 13: Oil rent and population  
 Source: World Bank

**IV.6.3. Sovereignty**

Sovereignty is about establishing an autonomous state and independently making and implementing regulations, laws and policies (BROWN, W. 2011). A sovereign state can enforce laws and regulations that are respected by external and obeyed voluntarily by most of the domestic interest groups (KRASNER, S. D. 2007). Other states respect the sovereign state’s autonomy and cooperate with it based on mutual agreement. Also a sovereign state gives its citizens a framework to undertake economic activities and pursue their goals.

The separation of the sovereignty to domestic and foreign aspects which is inferred to as a “territorial trap” (AGNEW, J. 1994) can be misleading. A state’s sovereignty does not simply separate world to “us” and “them”. Space does not introduce a boundary to a state’s society, economy, and politics. Ethnic

expand on both sides of borders. Provinces in the vicinity have more economic structures and relations. Regions and provinces share the same environmental challenges and characteristics.

Territory, sovereignty, and power are three concepts closely linked together (PAASI, A. 2003). Territoriality is an effective instrument to reify power. State institutions seek to maintain their power in their territory. Besides, territoriality gives states the base to construct state-society relations.

Borders and territories are built on societies that are not discrete. Territories are not historically fixed. Territories of modern states are built on areas that had a previously different social, economic, and political order. In formation of modern states, capitalism and global division of labour has played a key role (PAASI, A. 2003). Countries can have diverse economic patterns in different provinces. However, policies do not compensate for this

diversity. States' major goal is to secure their sovereignty through maintaining power. Economic distribution and securing economic resources can play a vital role in preserving power. In this matter geographic factors can play vital role.

Oil wealth has various effects on oil dependent states. Some examples of the effects are civil wars, regime durability, power balance, and state institutions (SMITH, B. 2004; BJORVATN, K. et al. 2012). However, the effects are not fixed in all countries. There are similarities and differences in both economic and institutional implications. Although national oil companies (NOCs) are formed in nearly all countries, they have different sovereignty implications for their countries (MARCEL, V. 2006). NOCs have different strategy, culture, and governance.

States differ in their geographic characteristics. As a matter of fact, each of them is unique. However, there are some political and economic geographic variables that can help to compare sovereignty of oil exporting countries. In this article five variables are considered in order to compare the oil states: distance from power poles, trade routes, state formation, arable lands, and social fractions.

#### **IV.6.4. Distance from Major Powers**

Distance plays a crucial role in conflicts and rivalries (TIR, J. – DIEHL, P. F. 2002). Contiguous states have a higher probability of conflict and enduring rivalries. States have always been under the influence of major powers that are closer to them. This situation has been modelled in geopolitics by gravity theory and entropy-maximization models (O'SULLIVAN, P. 1995). Regional and global military and economic powers have a great influence on the economy and politics of states. Economic relations are highly influenced by distance while economically powerful countries have a wider sphere of influence. Hence geographic distances combined with historic relations can highly influence the state economies, policies, and sovereignty.

Oil dependent states are in different regions and parts of the world. However, they can be categorized by their regions (*Table 14*). North African Countries are near Europe and have always been in close contact with Europe. Sub-Saharan African Countries were under European states' sphere of influence. However, due to their more distance and lack of access

to the Mediterranean Sea, these countries have a rather historical impact from Europe.

The former Soviet Countries were a part of the Soviet Union. After the dissolution of the Soviet Union, these countries remained under Russia's influence. They are all landlocked. Kazakhstan has a land border with both Russia and China. Turkmenistan has only a sea border with Russia and is of almost similar distance from both Russia and China. Azerbaijan has a land border with Russia and is close to Turkey and the Black Sea. Kazakhstan has been mostly under the influence of Russia, but it is changing due to China's growing trade and investment in the country. In addition, Russia has the military upper hand in Kazakhstan, though Azerbaijan has tighter relations with the EU.

Persian Gulf Countries are far from other global powers. Many

of them were under the rule of the Ottoman Empire for a while. After World War 1, European countries were involved in the region. However, due to their distance their influence was limited. The most influential force in this region appeared through economic and sea power. Iran is slightly different from other countries. Iran was an autonomous country and was not under Ottoman rule, whereas southern parts of the country were heavily under the influence of the UK, and the northern part of the country was under the influence of the Soviet Union. Due to the advantage of sea power in this region, the United States became the main influential power after the United Kingdom. Middle Eastern Countries have more economic relations with the EU. However, they are mostly under the influence of the US.

region	cou	distance				import origin (2017) (%)				f c s	f m b
		RU	CN	DE	US	RU	CN	EU	US		
former-Soviet country	KZ	1759	2070	2484	6475	38,00	17,00	21,00	3,90	RU	RU
	TM	2476	2440	2493	6966	10,00	11,00	30,00	2,10	RU	nm
	AZ	2800	3052	1927	6630	17,00	9,70	26,00	3,30	RU	US
Persian Gulf country	IR	3034	2872	2530	7258	2,60	37,00	23,00	0,24	–	nm
	IQ	3312	3400	2079	6934	0,86	28,00	12,00	2,10	UK	US
	KW	3413	3294	2430	7280	1,70	16,00	22,00	11,00	–	US
	QA	3529	3201	2784	7629	0,23	7,70	36,00	3,80	UK	UK US
	AE	3564	3112	2994	7822	0,78	16,00	23,00	4,90	UK	UK US FR
	SA	3810	3589	2632	7525	0,79	19,00	34,00	8,00	–	US
	OM	3618	3060	3180	7998	0,38	6,30	13,00	4,00	–	US
	North Africa	DZ	4965	5753	2672	5460	4,40	17,00	45,00	3,50	FR
LY		4579	5029	1750	6274	1,70	13,00	45,00	1,40	IT	US
Sub-Saharan Africa	TD	5175	5356	2504	6854	0,21	24,00	37,00	3,50	FR	FR
	NG	5887	6164	2901	6624	1,90	28,00	32,00	6,00	UK	US FR
	GA	6388	6400	3579	7207	0,05	15,00	43,00	2,70	FR	FR
	CG	6214	6139	5718	7410	0,62	9,00	31,00	2,70	FR	nm
	AO	6808	6467	4317	7982	1,10	21,00	39,00	3,10	PT	nm
	GQ	6285	6376	3410	7030	0,07	22,00	45,50	9,70	UK	nm
South East Asia	BN	3959	2257	6590	8965	0,02	21,00	9,00	8,30	UK	UK
	TL	4974	3382	7782	9204		17,00	6,00	1,20	PT	nm

*Table 14: Country distance from economic and military poles and its implications*  
 cou = country, f c s = former colonial status, f m b = foreign military base, nm = none major, AE = United Arab Emirates, AO = Angola, AZ = Azerbaijan, BN = Brunei, CG = Congo Rep., CN = China, DE = Germany, DZ = Algeria, EU = European Union, FR = France, GA = Gabon, GQ = Equatorial Guinea, IQ = Iraq, IR = Iran, IT = Italy, KW = Kuwait, KZ = Kazakhstan, LY = Libya, NG = Nigeria, OM = Oman, PT = Portugal, QA = Qatar, RU = Russia, SA = Saudi Arabia, TD = Chad, TL = East Timor, TM = Turkmenistan, UK = United Kingdom, US = United States of America

*Source:* The Observatory of Economic Complexity, Britannica Dictionary, The World Factbook (CIA)–

Access to South East Asian oil dependent countries is mostly by sea powers. Brunei Darussalam can be accessed through the South China Sea. It was under the influence of China, Japan, and the United Kingdom. Timor-Leste was under Portuguese sovereignty, and it remained that way for a long time. Both countries have wide economic relations with Asian countries especially Indonesia and China.

African countries have more economic relations with the EU. European countries had a vast presence in the region in the colonial era and the continent is now of great importance for the EU. It should also be noted that there are US military bases in North African countries. Furthermore, China is increasing its economic relations with Sub-Saharan countries.

#### **IV.6.5. Trade Routes**

Trade routes are very important for states in order to secure their economy and sovereignty. Landlocked countries depend on their neighbor's infrastructure, peace, and politics (FAYE, M. L. et al. 2004). Landlocked states often have trouble accessing global markets and lag behind in their economic development from their neighbors that have access to sea routes. Sea routes often have

international security implications. Choke points such as the Hormuz Strait and the Malacca Strait create specific security implications for the countries that depend on the routes for trade.

Oil dependent countries rely on trade routes not only because of the energy transport and trade but also for their overall economic and political activities. The routes are significant not only due to exporters' policies but also because of world energy security. Since any disruption in the energy supply can affect the importer state's economy, it usually takes part in policies regarding energy routes for example by financing and interfering in the security of surrounding regions of the trade routes.

The Hormuz Strait is a gateway for trade of the Persian Gulf Countries. In 2018, twenty one million barrels per day flew through the Hormuz Strait, that equals to 21% percent of global petroleum liquids consumption. Since it is the only trade route for most of the region's countries, their relations have been affected by this geographic phenomenon (JAFARI, V. A. 2012). Controlling three islands, which are important for the geopolitics of the strait, has been under dispute between Iran and the UAE for a long time (CALDWELL, D. 1996).

Since the importance of the Hormuz Strait for global energy security, regional countries such as Iran can threaten to shut the strait as a means of power balance in international disputes. On the other hand, the United States has measures in order to secure the route (TALMADGE, C. 2008; KATZMAN, K. et al. 2012). All states of the region have reacted to this matter since they have no other option for their trade. Saudi Arabia is the only one in the region which has a sea route other than the Persian Gulf. However, transporting all the oil production to the Red Sea ports by Saudi Arabia is a great challenge.

Landlocked countries of the former Soviet states have a different situation. They rely heavily on infrastructure provided by their neighbors in order to export and import different products. Most energy routes going out of Turkmenistan and Kazakhstan were through Russia and their main export targets were European countries. Hence, they relied on Russia in their economic and foreign policies. However, in recent years China expanded its infrastructure to these two countries. Azerbaijan had a similar situation to other former Soviet states. However, Azerbaijan expanded its energy export routes to the Mediterranean Sea through Georgia and Turkey to Ceyhan port.

Diversifying the trade routes is a great challenge for these countries since this matter heavily relies on their neighbors' foreign policies (FAYE, M. L. et al. 2004).

The neighbors of landlocked states try to benefit from the needs of diversifying trade routes. The Caspian region and Iran relations are affected greatly by energy dynamics of the region (MILES, C. 1999; ATAI, F. – AZIZI, H. 2012). Azerbaijan and Turkmenistan proposed pipelines that would go through Iran to reach international sea routes. The United States has hindered both plans in order to prevent Iran from playing a major role in the region's geopolitics. Azerbaijan's pipeline went through Georgia and Turkey with higher costs. For Turkmenistan another pipeline route had been proposed that went through Afghanistan, Pakistan, and India which has not been executed since because of the regional relations (MAINI, T. S. – VAID, M. 2013).

Sub-Saharan Countries mostly face the Gulf of Guinea and the South Atlantic Ocean. Hence, they have better accessibility for foreign states and companies. There are many diverse destinations for the export of these countries based on contracts of these states. However, North African states remained mostly under European

influence due to their vicinity to the Mediterranean Sea. Most of the oil and gas of Algeria and Libya goes to European countries.

South East Asian oil states face a different situation. Brunei is close to the South China Sea and is a great source of energy for China in order to bypass the Malacca strait to China. Since there are many energy consuming countries in the region, energy security has a great implication for relations of the states in the region (HONG, Z. 2010). Timor-Leste and Brunei Darussalam export most of their oil to countries in the region. Hence, these countries as energy exporters play a significant role in forming relations of the region. Timor exports most of its oil to Singapore so Timor is not susceptible to Malacca Strait security. However, Brunei exports its oil to other regions especially India. Hence, its oil must pass through the strait and any conflict in the region can damage its exports significantly.

#### **IV.6.6. State Formation**

State formation in rentier states is influenced by oil revenue which is in contrast with the European model of state formation (SCHWARZ, R. 2008). Rentier states rely less on domestic taxation revenue. Consequently, they are

less accountable than other states. Oil revenue gives politicians direct means to seize power without concerning other domestic sources in the state formation process. However, there is difference in context of the countries that prevent us from radical and firm conclusion (MOORE, M. 2004). The history of states explains the differences of state formation among different oil dependent states and forms of state apparatuses relations with citizens. State formation processes have an impact on state's approach in building institutions.

Most of the oil dependent countries had regime transformation after the discovery and export of oil in commercial quantities. Furthermore, oil revenue had a great role in the formation of many of the states such as Saudi Arabia, Kuwait or the UAE. Although the regime transformation differed in each country, oil revenue gave each of the states an opportunity to seize power regardless of their domestic economic structure. Subsequently, sovereignty has a different relation with state legitimacy comparing to resource poor countries. Oil dependent countries mostly rely on authority in order to enforce sovereignty in the countries.

*Table 15* shows some of the state fragility index and the year constitution of countries drafted.

Middle Eastern Arab countries have the best situation on the list. After those, the former Soviet states come on the list that are least fragile. The state legitimacy and human rights index are in a bad situation in all countries. Other than these two indexes, Middle Eastern Arab countries are doing well in other state fragility measures such as economic inequality.

Since state's revenue and fiscal policies are very important determinants of state formation and governance, oil revenue which consists of a significant portion of the oil dependent states' revenues had a profound impact on state formation (MOORE, M. 2004). The

Constitution which is the base for the legal system and formation of a modern state can be considered when the nation-state relation has been formed. Most of the countries drafted their constitutions after the oil in their countries had been exploited. Furthermore, the countries which drafted their constitution before exploiting oil revenue amended it profoundly. As a matter of fact, most of the Middle Eastern countries formed after oil had been discovered in the region and oil revenue played an important role in their formation such as Saudi Arabia and Qatar. The countries in other regions are not exceptions.

region	cou	human rights	state legitimacy	economic inequality	public service	first modern constitution drafted year
former-Soviet country	KZ	7,3	7,3	3,9	2,0	1995
	TM	8,9	9,7	6,4	5,0	1992
	AZ	8,3	9,0	5,5	4,8	1995
Persian Gulf country	IR	8,1	8,9	6,7	8,7	1906
	IQ	6,7	8,5	3,6	3,4	1970
	KW	9,1	9,7	5,3	6,4	1962
	QA	9,3	8,4	4,7	3,2	1972
	AE	7,6	6,6	2,8	1,6	1971
	SA	4,7	6,1	6,8	7,9	1992
	OM	6,4	6,4	4,6	1,3	1996
North Africa	DZ	6,6	7,4	6,0	5,4	1989
	LY	8,3	8,0	8,1	8,9	1951

region	cou	human rights	state legitimacy	economic inequality	public service	first modern constitution drafted year
Sub-Saharan Africa	TD	8,8	9,6	9,0	9,1	1957
	NG	7,5	7,0	4,2	2,9	1999
	GA	8,9	9,0	5,3	3,9	1961
	CG	8,4	9,0	8,1	8,9	2002
	AO	6,7	8,0	9,3	8,7	1975
	GQ	7,4	7,8	5,9	6,3	1968
South East Asia	BN	7,1	7,7	7,5	1,5	1959
	TL	8,6	9,8	8,1	8,1	2001

Table 15: Fragility index, constitution draft year

cou = country, AE = United Arab Emirates, AO = Angola, AZ = Azerbaijan, BN = Brunei, CG = Congo Rep., DZ = Algeria, GA = Gabon, GQ = Equatorial Guinea, IQ = Iraq, IR = Iran, KW = Kuwait, KZ = Kazakhstan, LY = Libya, NG = Nigeria, OM = Oman, QA = Qatar, SA = Saudi Arabia, TD = Chad, TL = East Timor, TM = Turkmenistan

Source: Fund For Peace, Britannica Dictionary, The World Factbook (CIA)

### IV.6.7. Arable land

Oil dependent countries with the highest GDP per capita tend to have low arable lands. Countries with higher arable lands didn't succeed in achieving high revenues (Figure 29). The agricultural sector has been vulnerable in oil economies due to different economic effects known as 'Dutch disease' and 'resource curse' (KATOUZIAN, M. A. 1978; POLLARD, H. 1985; OKONKWO, I. C. 1989). The effect of oil revenue on agriculture is both economic and political. Fluctuations and shocks of oil price affect the prices of tradable goods and movements of resources in and out of different sectors of an

economy. On the other hand, oil revenue has political and economic effects on agricultural, rural, and peasantry bases of the country.

Oil dependent states distribute oil wealth by various means such as tax policies, investing in different sectors, and giving resources to state owned enterprises. Though these means can distribute wealth to affect state-society relations and bolster their political power, they have changed the economic balance of countries between sectors and regions. This matter profoundly affects the agricultural sector. The countries with less arable land such as Middle Eastern Arab countries have fewer problems in managing

their economy. However, countries with more arable lands and agrarian bases are more sensitive to policies and regulations.

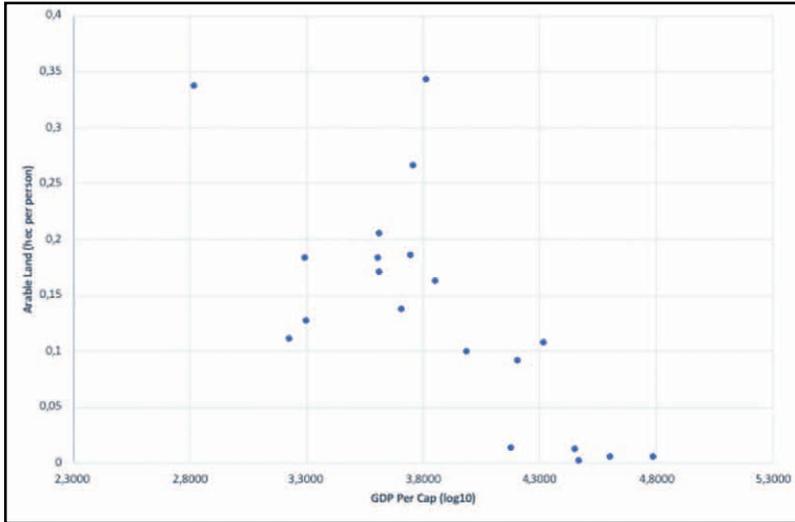


Figure 29: Arable Land Relation with GDP per Capita  
Source: World Bank

#### IV.6.8. Social Fraction – Polarization

Ethnolinguistic and the various effects of religious diversity have been discussed such as the civil war, conflict potential, and economic development (MONTALVO, J. G. – REYNAL-QUEROL, M. 2005a; 2005b). Countries with a higher ethnic and religious diversification have higher unrests and probability of civil war which harms economic development. Resources are allocated to resist the unrests and policies are set more considering security instead of economic development. State institutions

have been establishing to address this issue.

There are articles opposing the view that ethnic and religious diversification can affect state institutions and economy in a meaningful way (FISH, M. S. – BROOKS, R. S. 2004). However, ethnolinguistic and religious polarization measures have been introduced to better address the matter of ethnics and religions. The measure considers the distance between ethnic groups in a country. The polarization index has been introduced to better justify civil wars and domestic conflicts that the diversity index couldn't prove

(MONTALVO, J. G. – REYNAL-QUEROL, M. 2005a). The index's impact has been measured on other economic and political measures too (BRÜCKNER, M. – GRADSTEIN, M. 2015; PYTHON, A. et al. 2017).

#### **IV.6.9. Conclusion**

Oil dependent countries have been acting in different ways. However, they have in addition, similar behaviors. In order to better understand their foreign and domestic policies, this article suggests various geopolitical measures are to be probed. This paper gives a theory and suggests some measures in order to interpret the states' behavior

Arable land has very important economic and political implications for countries. Countries with more arable land have a bigger agrarian social base. Taxing of the agriculture base can give revenue for central government. On the other hand, agrarian society has a specific social and economic structure. However, oil economics have different social and economic criteria. Countries with a less agrarian social base seem to have fewer problems in managing oil economics.

State formation in oil states provides information about how oil has been building their nation-state relation. Most of the countries

have drafted their constitution after the exploitation of oil reserves. The countries that drafted their constitution before the exploitation of oil reserves faced difficulty in adjusting their political, economic, and social structure in order to manage oil revenue. An example of this situation is Iran which drafted its constitution in 1906. But, afterwards went through different unrests which have been related to oil revenue's effect.

The oil dependent states that have difficulty in building their nation-state relations have difficulty in absorbing different ethnic groups under one nation. Oil dependent states, as developing states, have attempted different ways to discipline the different ethnic groups in their countries. In order to better understand this matter, one should, in addition, consider the threat of civil war from ethnic groups.

Distance from major powers and trade routes give states and political parties opportunities and threats in managing their territories. Different political parties can absorb resources and aid from global or regional powers which can affect domestic politics and sovereignty. Distance and trade routes form the countries' relations with their neighbors that have similar ethnic and religious divisions.

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## **V. Rising Powers of Asia**

## V.1. Rebalancing and Counterbalancing of Myanmar between India and China

HNIN MYA THIDA<sup>124</sup>

### Abstract

*Myanmar is a small country with great geostrategic significance between India and China. It is important for Myanmar to maintain good relations with these powers. As a small and fragile state struggling with domestic constraints and international pressure, Myanmar usually relies on the diplomatic shield of its great neighbors. Myanmar's bilateral relations with these two countries have been an important role for all successive Myanmar governments. After 2011, the relations have been remarkable changes in Myanmar domestic politics when the first elected government took power into office. Then, Myanmar could adjust its foreign relations deviation from the conventional way of bandwagoning strategy to China. Under the incumbent government since 2015, Myanmar has expanded its international relations in regionally and globally. In a scenario, there may be criticism that the improvement of bilateral ties with India can diminish Sino-Myanmar relations interpreting Myanmar's defiance to China. This paper will be based on the analysis of the past and present situation of Myanmar-India relations. The research will attempt to explore the recent progress of Myanmar-India relations and how these changes effect Sino-Myanmar relations.*

**Keywords:** balancing strategy, Belt and Road Initiative, China, India, Myanmar

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### V.1.1. Introduction

Myanmar, a member of ASEAN countries (Association of South East Asian Nations) is situated between India and China. Myanmar's geostrategic location at the tri-Juncture of East Asia, South Asia and Southeast Asia is essential for these two countries. Both countries share long border with Myanmar and consider this small

strategic neighbor as its security buffer between their intense rivalry. Because of these sharing borders, most of their frontier areas and borderlands have always encountered with sensitive issues concerning insurgency problems, border trade, cross-national criminal issues.

Myanmar and India have long standing border of unfenced 1,640 Km and a long coastline

border of 2,276 Km sharing part of Bay of Bangel. For India, Myanmar is the natural ‘Land-bridge’ and the only ASEAN country sharing land boundary with India as the nexus between India, Southeast Asia and East Asia (YHOME, K. 2015). Myanmar stands at the center of the India-Southeast Asia geography that makes its geopolitical significance. Myanmar

was strategically important for India especially in implementing its Look East Policy. It is also the only one country at the intersection of India’s “Neighborhood First” policy and “Act East” policy and is also essential in practicing India’s regional diplomacy in Indo-Pacific (ATMAKURI, A. – IZZUDDIN, M. 2020).



Figure 30: Myanmar between India and China  
Source: The Myanmar Embassy, Tokyo

In the early years of its independence, Myanmar had adopted and applied non-aligned foreign policy with the purpose of preserving its sovereignty. Under the

military government in Myanmar, India practiced the negligence policy by condemning the regime’s brutal act upon democratization movements. But, after recognizing

Chinese predominance in Myanmar since 1988, following the government's suppression of 1988 students' uprising and at the same time the Tiananmen Square's incident in China, New Delhi made readjustment its foreign policy toward Myanmar. Another reason why India's 'constructive engagement' or 'rapprochement to Myanmar' was its thirst for economic development as the result of severe economic crisis of 1991 (GOTTSCHLICH, P. 2017).

Since that time, bilateral relations between the two countries have been improving. The 'Look East Policy' under the administration of Prime Minister P.V. Narasimha Rao (1991-1996) tried to reinforce economic development focusing on Asian markets and an extension of trade relations towards Southeast Asia. It is the significance of Myanmar which is situated the tri-juncture of East Asia, South Asia and Southeast Asia in order to accomplish India's new foreign policy orientation. In recent years, the popularity of Belt and Road Initiative which is Chinese grand strategy is an impetus to India to leverage its multifaceted cooperation with Myanmar in all sectors as well as aiming at driving Myanmar away from Chinese sphere of influence.

Myanmar's bilateral

relations with these giants are not always excellent. Its geostrategic significance between these two countries and within region always entails Myanmar into a struggle balancing with or against them. Moreover, both of these countries are seeking access to Indian Ocean, through Myanmar, for the development of their landlocked provinces in Southwest China and Northeast India (ZHAO, H. 2008). In compared with China, India has not taken the serious problems and any confrontation with Myanmar. It can be said that bilateral relations could remain on good terms without any confrontation.

Myanmar's relations with China is more fluctuant than the relations with India. Behind the 'Pauk-Phaw' relationship, the Myanmar government has been recognizing Beijing's growing influence on the country and, at the same time, its over-dependence on China. Myanmar has attempted to mitigate its heavy reliance on China but there was no option except to do so because of military rule which was imposed sanctions by West. Myanmar's regime in 2011, the Chinese introduction of Belt and Road Initiative and implementation of strategic deep-sea ports and special economic zones in Myanmar has put Myanmar into a new enlightenment. There is the

permanent truth that a stuck state between great powers is always balancing its relations in dealing with those countries. Based on this, this paper will try to analyze the improving Myanmar-India relations and how it affects on Myanmar-China relations.

The remainder of this article is structured as follows: first, it outlines the brief history of Myanmar's relations between India and China. Second, it presents growing Myanmar's significance as the geo-economic crux beyond its occupied geostrategic focus with three sub-topics. Third, it discusses the progress of Myanmar-India relations and the analysis of its impacts on Sino-Myanmar relations. The fourth is the result and discussion part following the conclusion section as the last.

### **V.1.2. Traces of Relations: Myanmar between India and China**

Myanmar and India possessed the same historical background of being under British colonial rule and Myanmar (Burma at that time) was the largest part of British India. Moreover, their similar religious belief has led the two countries to closer ties and more understanding in bilateral relations. At the early years of independence, Myanmar-

India relations were good under Prime Minister Nehru from India and U Nu from Myanmar and they played the leading role in Non-aligned Movement together. In 1951, the two countries signed a Treaty of Friendship referred to as 'for ever thereafter'. In 1954, the five principles of Peaceful Coexistence were signed between India, China and Myanmar. These five principles are the following (EKELEN VAN, W. 2016):

1. mutual respect for each other's territorial integrity and sovereignty,
2. mutual non-aggression,
3. mutual non-interference in each other's internal affairs,
4. equality and mutual benefit and
5. peaceful co-existence.

At that time, the bilateral relations were like-minded and India assisted Myanmar in battling with Communist insurgencies by providing arms and financial aids from Commonwealth countries. However, the 1962 military coup led by General Ne Win in Myanmar strained the well-established relations. The military junta put the country in the xenophobic "Burmanization" of society and introduced "Burmese Way of Socialism" followed by nationalization of private

businesses and expropriation of property without compensation as well as the exodus of around 300,000 people of Indian origin (LEE, L. 2014). Since that time, New Delhi neglected its small non-democratic neighbor for long time until it started to recognize the ascent of China and Chinese influence toward Myanmar. In 1988 the student uprising had been brutally suppressed by military, India became the first country that officially condemned the authoritarian Myanmar regime and the only one neighbor accepting fleeing dissidents.

In the mid 1990s, India's policy toward Myanmar moved from its opposition of military rule to a pragmatic approach, non-interventionist policy. New Delhi abandoned its strong support to pro-democracy forces in Myanmar and chose the engagement with ruling military regime because the cooperation of Myanmar government was essential in order to accomplish its geostrategic and geo-economic purposes (GOTTSCHLICH, P. 2015). Moreover, the achievement of India's Act East Policy, the friendly relations with Myanmar was essential for India. Under the 'Act East Policy', Myanmar is the important bridge to connect India to other Southeast Asian countries. At

present, Myanmar-India relations is dramatically developing under NLD government (National League for Democracy). Myanmar was one of only two Southeast Asian countries to attend Prime Minister Narendra Modi's swearing ceremony when he won re-election in May 2019.

On the other side, Myanmar and China have possessed long-standing close relations since Myanmar gained its independence in 1948. The term 'Pauk-phaw' or fraternity has been used and accepted as diplomatic rhetoric to depict Sino-Myanmar relations (CHAN, D. S. W. 2017). But the term of 'Pauk-Phaw' is debatable when China's overwhelming influence in Myanmar has increased time by time. The two causes may be Myanmar's longtime domestic instability and Chinese hegemonic position on its internal affairs particularly its control over ethnic armed organizations (EAOs) in Sino-Myanmar bordering regions. Both causes have the prominent reasons why these consequences are brought about and how they are.

All successive governments took priority to have national consolidation and ending the armed conflicts between army and these EAOs. The incumbent NLD government (The National League for Democracy), the first democratically elected government,

has prioritized the national reconciliation through peace negotiation process in believing that only peaceful Myanmar continues its economic development. For the latter, the most powerful EAOs settling at Myanmar-China border, are illegally supported by China as they are ethnic Chinese origins, Han ethnic Chinese as Kokang in Myanmar and Jingpo ethnic Chinese as Kachin ethnic of Myanmar (HAN, E. 2017). Occasionally, these Myanmar ethnics of Chinese origins are used to be the tools that can enable to threaten the stability of Myanmar by Chinese government. On the other hand, China plays an important role in Myanmar peace process as negotiator between central government and EAOs.

The State Law and Order Restoration Council (SLORC) (1988-1997) and the State Peace and Development Council (SPDC) (1997-2010) faced with the international isolation and sanctions and then had extreme dependence on China for economic investments and diplomatic protection (HAN, E. 2017). As a consequence, China became the main consumer of Myanmar's natural resources and main investor in all economic sectors. But the remarkable geopolitical change was materialized in the aftermath of Myanmar peaceful democratic

transition in 2010 in which the first elected government held the power. The new government conducted its foreign policy reorientation to the West especially the United States that could assume as Myanmar's effort to take away from China. Even Myanmar government could make a gallant decision to suspend the most controversial project of Ayeyarwady Myitsone Dam construction against China in 2011.

Myanmar relations with India and China is always up and down in history but the robust one. During the 1990s, the relations have been changing more pragmatically and positively by New Delhi and Beijing focusing on their national interest. Moreover, Myanmar's democratic transition in 2011 have vigorously altered the long-time geopolitical structure opening the country's new strategy.

### **V.1.3. Myanmar as a Geo-economic Juncture beyond its Geostrategic Hub between Two Major Power Neighbors**

#### **India's Return to Myanmar**

After passing the deserted period to Myanmar, the following reasons were traced behind that

policy changes by India: the economic development of India's Northeast; India's increased interest in trade and investment with ASEAN; India's search for energy security; and the growing influence of China in Myanmar (ZHAO, H. 2008). Firstly, Indian armed successionist ethnic insurgencies have settled along Myanmar-Indian border of India's northeast regions. It has been the most crucial reality for India to achieve strong cooperation with Myanmar government in combating these insurgencies so as to achieve peace and prosperity in these regions. Northeast India has always been the most formidable problem for New Delhi's policy priority.

Secondly, India's increased interest in trade and investment driven by "Look East Policy" pushed India towards accelerating its integration with ASEAN countries. "Look East Policy" was initiated in 1991 by the Narasimha Rao government with the purpose of developing political contacts, improving economic integration and strengthening security cooperation with Southeast Asian countries (HAOKIP, T. 2011). According to this, Myanmar is the only one country that can connect India with Southeast Asia as a 'land-bridge'. Thirdly, the abundance of natural resources of Myanmar including

oil and gas, is attractive for India to fulfill its increasing domestic demand for oil and gas. The oil and gas fields in Myanmar such as Shwe, Yadana and Yetagun were expected to meet these necessities and this could support India to get cheaper and more secure routes than transporting through pipelines from Central Asia that would need to cross Iran, Afghanistan and Pakistan.

Finally, it was the rise of China that India could be stimulated to get closer relations with Myanmar by analyzing its previous policy failure. India and China are long time regional rivals. Myanmar is strategically situated between them as a buffer state and that strategic small country might be the risk or opportunity for their great power status. Myanmar is in vital position for the security of both countries as well as the back door for both. After 1988 student uprising, the isolated Myanmar military regime, faced with strong economic sanction by the West, was totally dependent on China by exploiting and importing all its natural resources. As long as China became the only one reliant partner for Myanmar, its influence on Myanmar was larger as well. That was the strong desire of India to remove Myanmar from the Chinese sphere of influence. Moreover, Myanmar is an important

member of Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), an organization that enable to accomplish New Delhi's aims of increasing bilateral and multilateral cooperation with regional countries.

### **The Important Interest of India and China in Myanmar**

In 2015, with the changing of Myanmar politics through democratization, Indian government upgraded its policy to improve relations toward Myanmar. India always recognizes Myanmar as its crucial partner because of its membership in Association of Southeast Asian Nations (ASEAN), its critical role in the fight to end insurgency in its northeast border and its importance in implementing Mode's Act East Policy. New Delhi has been investing in ASEAN-wide

infrastructural projects with the aim of bolstering trade in the ASEAN-India Free Trade Area (ATMAKURI, A. – IZZUDDIN, M. 2020). India also affirms Myanmar as a gateway to link the rest of Southeast Asia for its economic development.

Likewise, some infrastructure projects are being implemented such as the India-Myanmar-Thailand Trilateral Highway and Kaladan Multi-Modal Transit Transport (KMMTT) that that provides connection from Sittwe deep-water port to Kolkata. India aims to use Sittwe port as a counter balancing to China's BRI in Indo-Pacific region. The construction of Sittwe port is part of the Kaladan multi-model transit transport project to expand a multi-modal sea, river and road transport corridor for shipment of cargo from eastern port of India to Myanmar through Sittwe port as well as north-eastern part of India via Myanmar.

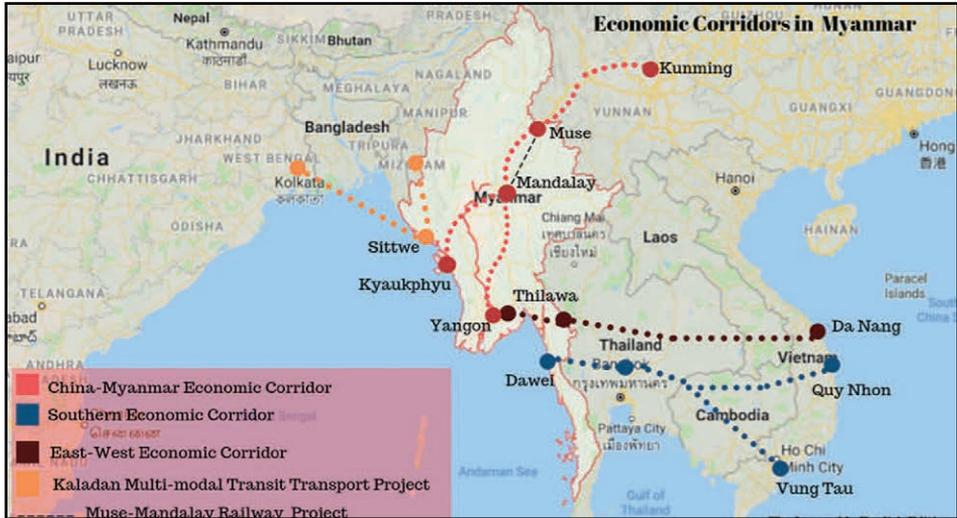


Figure 31: Myanmar’s Economic Corridors  
 Source: www.beltandroad.news

Belt and Road Initiative (BRI), also known as One Belt, One Road (OBOR) is Chinese high ambitious grand strategy launched by Chinese President Xi Jinping aimed at connecting China and the rest of the world with a network of roads, high-speed rail, power lines, ports, pipelines, and other infrastructures networks. Under BRI, more than 60 countries from Asia, the Middle East, Europe and Africa, will take part in the project based on three key pillars such as utilizing industrial capacity, nurturing a network of economic interdependence, and fostering regional stability and prosperity (HENG, K. – Po, S. 2017). Like any other ASEAN countries Myanmar has launched cooperation with

China in BRI project. In mainland Southeast Asia, Myanmar is the important country as the linking the southern Chinese province of Yunnan with Myanmar’s Kyaukphyu port that allows oil and gas delivered to China without bypassing Malacca straits, i.e., as a land corridor to overcome the so-called Malacca dilemma. Moreover, it can provide China to access the Indian Ocean that is necessary both for trade and security and also from military point of view.

Accordingly, it can assume that the interests of both India and China meet at the same point of strategic Western part of Myanmar, Rakhine state. India is worried about China-Myanmar Economic Corridor (CMEC) that is vital for

China to reduce its reliance on Malacca Straits and access to Bay of Bengal and Indian Ocean. There is already running oil and gas pipeline from Myanmar to China under this project. For China, the strategic advantages coming from this project area are more crucial than oil and gas transportation. The CMEC involves the Kyaukphyu deep-sea port with a special economic zone (SEZ), the China-Myanmar border economic zone and new Yangon urban development project. While China is running the Kyaukphyu port project with special economic zone, India is developing the Sittwe port project simultaneously.

### **The Progress of Myanmar-India Relations: A Threat for China and Hope for Myanmar?**

In 2017, Indian Prime Minister Narendra Modi visited Myanmar as his first bilateral visit to Myanmar. That was the third by an Indian prime minister in five years and second by him in three years. At the historical visit, Prime Minister Modi met with State Counsellor Aung San Suu Kyi who was strongly criticized by international community in concerning with the Bengalis issue in western part of Myanmar. He supported Myanmar's government

proper management on that issue and fully realized the country's real situation on conflicts between ethnic Rakhine people and migrated Bengalis people following the attack of ARSA (Arakan Rohingya Salvation Army). In his visit, the following joint statement was released:

'India condemned the recent terrorist attacks in northern Rakhine State, where several members of the Myanmar security forces lost their lives. Both sides agreed that terrorism violates human rights and there should, therefore, be no glorification of terrorist as martyrs' (ROCHE, E. 2017)

Myanmar stands as one of the strategic neighbors of India sharing borders with a lot of Indian northeastern states including militancy-hit Nagaland and Manipur states. Many of the tribes in India's Northeastern region are ethnically linked to some Myanmar tribes and at least five major militant groups from India's Northeast have been fighting for their autonomy setting up in Sagaing region of Myanmar border (ZHAO, H. 2008). There are a lot of cooperations between India and Myanmar to fight against the insurgent groups. On 16 May 2019, the two countries carried out a three-week-long military operation to fight several militant groups hiding along Indo-

Myanmar border. In addition, they signed a Memorandum of Understanding (MoU) on defense cooperation aimed at enhancing military training, joint surveillance, and maritime security (DELHI, A. B. N. 2019).

In July 2019, Myanmar and India signed a defense cooperation agreement aiming at advancing military-to-military cooperation between Indian Armed Forces and Tatmadaw (Myanmar Army) (PANDA, A. 2019). It was signed after the extensive talk between Commander-in-Chief of Myanmar's Defense Services Senior General Min Aung Hlaing and India's Minister of State for Defense Shripad Yesso Naik (DELHI, A. B. N. 2019). Indian government delivered Myanmar navy Advanced light Torpedo (TAL) Shyena torpedoes which were manufactured by Bharat Dynamics Limited (BDL), a public sector enterprise under the control of India's Ministry of Defense ("Indian Torpedoes Delivered to Myanmar Navy," 2019). Again in the same year, Myanmar navy acquired a diesel-electric Kilo-class submarine, INS Sindhuvir, which India had modernized after purchasing from Russia in the 1980s (SIDDIQUI, H. 2019).

India has launched military engagement with regional countries

as part of its 'Act East Policy. For Naypyidaw, these military purchase assists Myanmar's maritime interests and maritime security, especially on the back of its neighbors Bangladesh and Thailand acquiring submarines from China (ATMAKURI, A. – IZZUDDIN, M. 2020). Under India's "Naval Diplomacy", the Indian navy initiated CORPAT (Coordinated Patrol) with Myanmar since 2003. According to CORPAT, India has done military exercises with other countries like Bangladesh, Indonesia and Thailand.

India looks Myanmar as an important buffer for its national security interests, it provides military and also conducts joint military exercises with Myanmar Army like the India-Myanmar Bilateral Military Exercises (IMBAX-2017 and IMBEX 2018–2019) (ATMAKURI, A. – IZZUDDIN, M. 2020). In July 2019, during a visit of Commander-in-Chief of General Min Aung Hlaing to India, a new Memorandum of Understanding on defense cooperation was signed aiming at advancing military-to-military cooperation between Indian Armed Forces and Tatmadaw (Myanmar Army) (PANDA, A. 2019).

Myanmar army has bought most of its military weapons and fighter jets mostly from China while facing with arm-embargo

imposed by West. But there is growing dissatisfaction in Myanmar military because of substandard and unqualified military weapons as well as lack of sufficient technical support by China. Some fighter pilots from Myanmar Air Force often lost their lives in air crash accidents. Coincidentally, India's "Made in India" arms industry has identified Myanmar as a key to increasing its military exports and then Myanmar bought India's first locally produced anti-submarine torpedo, called TAL Shyena in 2017. "Made in India" initiative was launched in September 2014 with the aim of becoming India as a global manufacturing powerhouse and production hub and the defense industry has regarded as one of the government's key strategic plans (ROSSITER, A. – CANNON, B. J. 2019).

On the one hand, there is an incredible change in Myanmar-China relations. In January 2020, President Xi Jinping paid a two-day visit to Myanmar on the occasion of the 70 years anniversary of Sino-Myanmar relations. He was the first Chinese leader to visit Naypyidaw after Jiang Zemin back in 2001. During his visit, 33 projects were signed for joint projects between the countries. The most significant fact is that China didn't ask to start Ayeyarwady Myitsone dam project that was the most controversial

and sensitive issue in bilateral relations. That may be satisfied with Myanmar people's desire and decrease the risk of tensions between the two countries. It may be China's trade-off between the Mega Dam Project and Kyaukphyu port and special economic zone that can bring a wide range of interests through BRI. The good-well visit of President Xi highlights how important Myanmar's role is for Beijing.

Most recently, a delegation led by President of Myanmar visited India according to the cordial invitation of the President of the Republic of India from 26 to 29 February 2020. Both sides welcomed the synergies between Myanmar's independent, active and non-aligned foreign policy and India's Act East and Neighborhood First policies ("India-Myanmar joint statement during the state visit of the Myanmar President to India," 2020). New Delhi also revealed its support for the steps taken by the Government of Myanmar addressing the challenges in Northern Rakhine State in which the crisis happened between ethnic insurgent group and army.

Furthermore, India reiterated its support to Myanmar government's repatriation process for displaced persons from Rakhine State that was signed an agreement

between Myanmar and Bangladesh. For Myanmar, the situation of Rakhine State, which is located in the western part of Myanmar, is complex and challenging issue that has drawn much attention by the international community. On 25 August 2017, the violence was triggered in Rakhine State when the extremist group known as Arakan Rohingya Salvation Army (ARSA) committed the collective attacks on Myanmar security forces (more than 30 police posts). Later, this terrorist groups targeted, attacked and threatened innocent civilians in the Rakhine state. This was not the first time for these violence attack and they carried out similar assaults on police posts that nine police officers had been killed in October 2016 (RAKHINE 2017). Myanmar Army planned a military operation to fight against these militants in order to protect the lives of civilians and to maintain the sovereignty of the country. The brutal terrorist attacks of ARSA led to the escalation of violence and the subsequent mass displacement of Muslim people flee into Bangladesh which has changed the entire situation and negatively affected the perception and attitude of the international community on Rakhine issues. The Government of the Republic of the Union of Myanmar fully shares the concern of the international community

regarding the displacement and suffering of all communities affected by this violence, and it has made great strides for restoration of the rule of law, peace and stability and preparation for repatriation of displaced people from Rakhine State. In order to solve this issue, the Governments of Myanmar and Bangladesh signed the “Arrangement on Return of Displaced Persons from Rakhine State” on 23 November 2017, the Terms of Reference (ToR) for the Joint Working Group on the repatriation of displaced Myanmar residents from Bangladesh (Embassy of the Republic of the Union of Myanmar, Belgrade, 2019, p.3). As a result, Myanmar has been received full support by India as New Delhi understands the prevailing situation on the ground and recognizes Myanmar’s effort to accomplish main objectives to establish peace, stability, rule of law and sustained development in Rakhine State, meanwhile international community impose pressure on Myanmar government based on unreliable and one-sided narratives and sources which could only hinder progress (ibid). So, India’s stance on this issue from the side of Myanmar means to provide the Myanmar government the diplomatic shield in international arena. Moreover, regarding defense

and security cooperation, New Delhi agrees to assist Naypyidaw in the capacity building of the Myanmar Defense Services and to enhance maritime cooperation by recognizing the importance of addressing maritime challenges and strengthening maritime security.

#### **V.1.4. Result and Discussion**

Although India is regarded as the largest democratic state in the world, it had never kept exhorting Myanmar in its democratic norms because it strongly embraces the principle of non-interference based on the “Five Principles of Peaceful Co-existence” since 1950s. Moreover, trade and economic linkages were weak compared to Myanmar’s economic relations with China. The less economic connections meant the less risk of possible clashes between the two sides. In comparison with China, India did not deliver the serious problems and any confrontation with Myanmar. For all of these reasons, India could build steady relations with Myanmar without leading to the terrible bilateral relations.

Considering China, Beijing’s illegal support of Myanmar EAOs with arms and ammunition was a cause of being disappointed by Myanmar government and

that was one of the deterrence for peace reconciliation process of Myanmar. Furthermore, the growing concern of Chinese influence over Myanmar, the mount of antagonism between local people’s and Chinese investment companies because of social discontent and the lack of Myanmar government’s specific rules and regulations in order to settle the disputes have lost the mutual trust in bilateral cooperation. In the past, although the isolated Myanmar was bandwagoning China with no option, the new geopolitical shift has paved the way for Myanmar to achieve more opportunities to extend its international relations around the world.

In the current situation, Myanmar is struggling with economic setback, political instability and social unrest. Apart from these challenges, the country has faced with international pressures to deal with the displaced Myanmar residents from Bangladesh. Both India and China give full confidence to Myanmar effort in solving this issue. As a less powerful state with international pressure, Myanmar absolutely needs the diplomatic support by these neighbors. However, as a small country between two powerful states, Myanmar inevitably faces with both threats and opportunities

offered by both sides. Myanmar should establish friendly relations with both giants to take advantages of Sino-Indian rivalry using its strategic value instead of leaning on one power.

Under the NLD government led by Aung San Suu Kyi, some political analysts surmised that Naypyidaw would intimate with the West by leaving China behind. But in reality, Myanmar is getting closer to China than the previous time. The incumbent government is consciously aware of the fact that it will not be beneficial for Myanmar to make any confrontation with Beijing. The government's policy is to build friendly relations with all countries in the world. Currently, there are remarkable improvements in Myanmar-India relations. The permanent truth is Myanmar is always an important neighbor both for India and China because of its geostrategic significance. If Myanmar can grasp its role between the two powers, it can possibly bring its economic development and political power.

From the point of view of the asymmetrical theory of international relations explored by Brantly Womack, small countries used to choose cooperative strategy to great powers instead of confrontation or competitive means except in one condition in

which they have no other choice of by doing this way in dealing with those powers (WOMACK, B. 2006). This is because of the power disparity between small and great powers. However, despite their vulnerability, small countries could take a number of measures to reduce their vulnerability, such as: the strengthening of national defense capabilities; entering into defense agreements with other states; underpinning security through economic growth; promoting internal cohesion; and adopting sound diplomatic policies at both bilateral and multilateral levels (TAN, A. T. H. 2017). By analyzing current scenario, it can be assumed that Myanmar government can well handle its good relations with both India and China by strengthening economic cooperation in western part of Myanmar by utilizing its bargaining strength. So, this is the interesting point of Myanmar government's strategy in managing its relations with these two great powers for the sake of its own national interest without destroying any of those relations.

### **V.1.5. Conclusion**

To sum up, China is the most important economic partner for Myanmar meanwhile India is also the reliable one that can support

Naypyidaw to develop its military capability and diplomatic support in encountering international pressure. On the other hand, Myanmar inevitably rely on Beijing's diplomatic support and protection in United Nations Security Council. Under the clever and proper management of Aung San Suu Kyi, who is a smart leader, Myanmar will never allow itself to become a foe or competitive one with any of those powerful states. It is never ever impossible for Myanmar to incline one side. It is obviously seen that today Myanmar has pursued friendly relations with all countries with its great effort. While Myanmar is escalating its relations with India, there is some concern that its political shift can deteriorate Sino-Myanmar relations or that will trigger Beijing's anger to Naypyidaw. In reality, the relations between Myanmar and Beijing are increasing in parallel with the progress of Indian-Myanmar

bilateral ties. That would be the successful proof of Myanmar's balancing strategy paving the way of development of Myanmar. The better the Myanmar-India relations, the lesser Chinese influence in Myanmar even if Myanmar cannot totally get rid of China's role in its country. In a nutshell, the progress of Myanmar-India relations can be an impetus for the development of Sino-Myanmar relations in any way.

#### *Acknowledgement*

The present publication is the outcome of the project „From Talent to Young Researcher project aimed at activities supporting the research career model in higher education”, identifier EFOP-3.6.3-VEKOP-16-2017-00007 co-supported by the European Union, Hungary and the European Social Fund.

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## V.2. The Role of ASEAN on the Territorial Dispute in the South China Sea

ROSITA WIDJOJO<sup>125</sup> – HNIN MYA THIDA<sup>126</sup>

### Abstract

*The South China Sea (SCS) is known for its significant strategic and economic role in the Indo-Pacific. The South China Sea is bordered by Brunei, Cambodia, China, Indonesia, Malaysia, the Philippines, Singapore, Thailand, Taiwan and Vietnam. It is one of the most important commercial trade routes in the region. However, it is simultaneously becoming the source of tension between China and other South East Asian nations for territorial control. In recent years, China has been asserting greater control, and ASEAN has sought to resolve maritime issues in the region. As the SCS is surrounded by mostly ASEAN member countries, problems arise when each country, including China, lays claim to the land and sea features in the SCS, driven mostly by strategic interests. Being members of ASEAN, where member countries need to resolve regional issues to maintain regional stability, ASEAN members with a claim in the SCS have their own national interests that make conflict resolutions complicated. At the 34th ASEAN Summit (June 2019), all member states agreed to adopt the ASEAN Outlook on the Indo-Pacific. The document emphasized ASEAN's role to strengthen regional commitment by respecting international law, especially the United Nations Convention on the Law of the Sea (UNCLOS). Maritime cooperation is seen as a peaceful settlement to resolve potential disputes.*

**Keywords:** ASEAN, South China Sea (SCS), maritime territorial disputes, UNCLOS

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### V.2.1. Introduction

The South China Sea (SCS) has been one of the major issues in world geopolitics. Strategic interests have placed the South China Sea (SCS) as one of the most

disputed maritime regions, mainly in terms of securing access to natural resources and trade routes. As the SCS contains an abundant source of oil and natural gas deposits, as well as being a major international trade route, the ongoing struggle is mainly between China and six

ASEAN states (Malaysia, the Philippines, Brunei, Vietnam, Singapore and Indonesia). China claims the entire sea as its territory (through its controversial nine-dash line), creating tension with ASEAN and also the United States (US) interest in its geopolitical strategy to prevent Chinese domination in East Asia. The SCS is one of the most complex disputes involving many countries and has the potential to escalate into a great power conflict (KEMPSTON, T. – THOMAS, N. 2013).

According to Severino, conflict arises because each country surrounding the SCS has a strategic interest in the SCS (SEVERINO, R. C. 2010). China fears threats from the southeast, while some accuse China of exerting dominance in the SCS to achieve a certain amount of control in the region. Vietnam needs to impose control in the SCS to avoid being surrounded by Chinese power. The Philippines feels compelled to extend its zone of jurisdiction westwards to the SCS, having been invaded by Japanese forces at the start of the Pacific War. A vast area of the SCS separates East Malaysia and West Malaysia, but the SCS also serves as a connection to both parts. Brunei Darussalam wants to ensure its claimed exclusive economic zone, which overlaps with other claims.

Severino added that other

countries, such as Indonesia, also have a claim in the SCS, although indirectly, to ensure that the abundant gas resources in the Natuna islands fall under Indonesia's authority for its exclusive exploitation (SEVERINO, R. C. 2010). The United States (US), although not supporting any country's claims, also seeks to ensure that its warships and aircraft are free to navigate in or above the waters of the SCS, to keep its trading links with South East Asia. Japan also has interests of securing the trading flows and energy imports through the SCS. Under the United Nations Convention on the Law of the Sea, or UNCLOS, coastal states are entitled to an Economic Exclusive Zone (EEZ) and beyond that are considered the high seas or international waters, common to all nations. However, each country has different strategic interests and with China imposing more power in the SCS, maintaining peace and stability becomes a fragile issue.

This paper would like to address concerns regarding the SCS issue between China and ASEAN, which have persisted for more than 50 years. On the one hand, China is one of the most important trading partners of ASEAN, but on the other hand, the SCS issue could put ASEAN into an increased potential confrontation with China. The

focus on ASEAN integration and community-building has earned secondary attention because of the energy spent on dealing with SCS issues. Countries find themselves squeezed over how they should define regional interest, how to ensure unity and solidarity in accordance with the “ASEAN Way” – which utilizes compromise, consensus, and consultation while prioritizing informal decision-making processes and non-conflicting ways of addressing outstanding issues – and how to ensure the mutual trust and confidence that have supported the ASEAN community thus far (asiatimes.com). Therefore, this paper’s objective is to provide insight into ASEAN and China in the SCS conflict, by taking into account how ASEAN member countries are seeking to settle the issue without fragmenting the relationship within ASEAN. By using exploratory study and supported by secondary information from previous studies and recent developments in the region, the main points in this paper are the following: identifying the main causes of the dispute; reasons why the SCS dispute is threatening ASEAN unity; and strategies for how ASEAN could overcome this dispute.

## **V.2.2. ASEAN as a Regional Organization**

### **The Establishment of ASEAN**

The Association of South East Asian Nations or ASEAN was established on August 8, 1967, in Bangkok, Thailand, with the signing of the ASEAN Declaration (or Bangkok Declaration) by the founding states of ASEAN: Indonesia, Malaysia, the Philippines, Singapore and Thailand. Brunei Darussalam joined in 1984, followed by Vietnam in 1995, then Lao PDR and Myanmar in 1997. Cambodia joined in 1999, and these countries make up the ten Member States of ASEAN (www.asean.org). The map of the region and the member states is presented (*Figure 32*).

The aims and purposes of ASEAN, as stated in the ASEAN declaration, are as follows:

1. To accelerate the economic growth, social progress and cultural development in the region through joint endeavors in the spirit of equality and partnership in order to strengthen the foundation for a prosperous and peaceful community of Southeast Asian Nations;
2. To promote regional peace

- and stability through abiding respect for justice and the rule of law in the relationship among countries of the region and adherence to the principles of the United Nations Charter;
3. To promote active collaboration and mutual assistance on matters of common interest in the economic, social, cultural, technical, scientific and administrative fields;
  4. To provide assistance to each other in the form of training and research facilities in the educational, professional, technical and administrative spheres;
  5. To collaborate more effectively for the greater utilization of their agriculture and industries, the expansion of their trade, including the study of the problems of international commodity trade, the improvement of their transportation and communications facilities and the raising of the living standards of their peoples;
  6. To promote Southeast Asian studies; and
  7. To maintain close and beneficial cooperation with existing international and regional organizations with similar aims and purposes, and explore all avenues for even closer cooperation among themselves.



Figure 32: ASEAN Member States  
Source: www.weforum.org, 2017

### The ASEAN Vision

The ASEAN Vision 2020, adopted by the ASEAN leaders on the 30th Anniversary of ASEAN, agreed on a shared vision of ASEAN as a cooperation of Southeast Asian nations, outward looking, living in peace, stability and prosperity, bonded together in partnership in dynamic development and in a community of caring societies. The ASEAN Community was established in 2015, which

comprised three pillars: the ASEAN political and security community, the ASEAN economic community and the ASEAN socio-cultural community.

For the ASEAN political and security policy, each member agrees to rely exclusively on peaceful processes in the settlement of intra-regional differences and to regard their security as fundamentally linked to one another and bound by geographic location, common vision and objectives. It has the

following components: political development; shaping and sharing of norms; conflict prevention; conflict resolution; post-conflict peace building; and implementing mechanisms.

The ASEAN economic community formed the ASEAN Economic Community (AEC) blueprint with a vision for 2025, in which it is aimed towards (1) A Highly Integrated and Cohesive Economy; (2) A Competitive, Innovative, and Dynamic ASEAN; (3) Enhanced Connectivity and Sectoral Cooperation; (4) A Resilient, Inclusive, People-Oriented, and People-Centered ASEAN; and (5) A Global ASEAN.

In the ASEAN socio-cultural community, the ASEAN Socio-Cultural Community (ASCC) blueprint also formed a vision for 2025, committed to creating opportunities for human development, including culture and information, education, youth and sports, health, social welfare and development, women and gender, women and children rights, labor, civil service, rural development and poverty eradication, environment, trans-boundary haze-pollution, disaster management and humanitarian assistance. Despite their distinct cultures, histories and languages, the 10 member states of ASEAN share a focus on jobs and

prosperity. Household purchasing power is rising, propelling the region into the next frontier of consumer growth. The region must now meet the challenges of providing enormous investment in infrastructure and human-capital development to ensure it realizes its full potential (www.weforum.org, 2017).

Today, ASEAN can be regarded as a successful regional organization preserving the peace and stability in the region, promoting cooperation within and outside the community. Compared to the EU as a regional organization, ASEAN has similarities and differences with the EU. The main differences are the means of settling disputes (KOH, T. 2017):

1. The EU has the European Parliament with the power to legislate, as well as the power to veto budgets and appointments. ASEAN has the ASEAN Inter-Parliamentary Assembly which has the power of moral suasion only.
2. The scope of power of the secretariat. The European Commission acts like a government and is entitled to enter into treaties. The commission has the power to put forward proposals for legislation. The ASEAN

Charter has enhanced the power of the secretary-general. One of his most important responsibilities is to issue an annual report card on each member state's compliance with its obligations.

3. The decision-making process, in which ASEAN takes all its decisions by consensus. The EU can decide by taking votes. There is a system of weighted voting, with different countries being given different numbers of votes. However, in the area of common foreign and security policy, decisions are based on unanimity.

Southeast Asia is a huge neighboring region for China, to which it is connected by land and the South China Sea. As the ASEAN becomes a community bringing all countries together, China's relations with ASEAN are based on two tracks: its bilateral relationship with each member, and its collective relationship with ASEAN as a whole. While handling complex bilateral relations with each country, China has given priority to developing the relationship with ASEAN. With rising disputes over the South China Sea, China's relationship with ASEAN has been

negatively affected (ZHANG, Y. – WANG, Y. 2019).

### **V.2.3. Geopolitical Aspects in the South China Sea**

#### **The geopolitics of the South China Sea**

The South China Sea is a marginal sea that is part of the Pacific Ocean and is the center of maritime Eurasia. It encompasses an area from the Karimata and Malacca Straits of Taiwan. The South China Sea (SCS) is one of the world's busiest waterways with 50% of world annual trade passing through the region. It is significant not only for its essential trade route but for its abundant natural resources such as gas, oil and its rich fish productivity. It is also critical because of the world's important linking point at the Malacca Strait, which connects the South China Sea and, through extension, the Pacific Ocean with the Indian Ocean. The region is also vital for the Northeast Asian countries of Japan, South Korea and Taiwan as 80 percent of crude oil imports to these countries passes through this region. According to the United Nations' Conference on Trade and Development (UNCTAD), roughly 80 percent of global trade by volume and 70 percent by value is

transported by sea and 60 percent of maritime trade passes through Asia via the South China Sea (“How much trade transits the South China Sea?,” 2017).

In addition, historically and geographically, the SCS is a key commercial thoroughfare connecting Asia with Europe and Africa, and its seabed is rich with natural resources. One third of global shipping, or a total of US\$3.37 trillion of international trade, passes through the SCS. About 80 per cent of China’s oil imports arrive via the Strait of Malacca, in Indonesia, and then sail across the South China Sea to reach China. The sea is also believed to contain major reserves of natural resources, such as natural gas and oil. The US Energy Information Administration estimates the area contains at least 11 billion barrels of oil and 190 trillion cubic feet of natural gas. Other estimates are as high as 22 billion barrels of oil and 290 trillion cubic feet of gas. The SCS also accounts for 10 per cent of the world’s fisheries, making it a key source of food for hundreds of millions of people.

Therefore, it is important not only for claimant states, but also for other countries, to secure the Sea Lanes of Communication (SLOCs). Moreover, the region is the subject of more than a dozen overlapping and interconnected disputes over islands, reefs, shoals and rocks scattered throughout the SCS and thus, being an important waterway, it is essential to have a well-recognized international rule of law. Nowadays, China’s assertive acts of establishing artificial islands and the installation of weapons over these areas threaten not only the sovereignty of claimant states but also the maritime security of the region. As a strategic point, the SCS issue has gone beyond the economic aims and become important for maritime security, peace and stability. Moreover, the South China Sea joins the Southeast Asian countries with the Western Pacific, acting as the throat of the global sea route (KAPLAN, R. D. 2011). Thus, all Southeast Asian countries have a great interest in establishing peace and stability in the region.



Figure 33: Geographical Positioning of Southeast Asian Countries

Source: [www.quora.com](http://www.quora.com), 2018

Figure 33 outlines the geographical positioning of Southeast Asian countries in the South China Sea. The Southeast Asian countries are mainly divided into two geographic groups:

Mainland Southeast Asia and Maritime Southeast Asia. The former part is historically known as Indochina, including Cambodia, Laos, Myanmar, Peninsular Malaysia, Thailand and Vietnam.

The Maritime Southeast Asia comprises Brunei, East Malaysia, Indonesia, the Philippines and Singapore. Among them, the five member countries are connected to the dispute in claiming land features and waters in the South China Sea as they have immense strategic interests in it. Although the rest of the countries are not directly involved in the dispute, these clashes impact hugely on all of the ASEAN countries as this is not simply an issue of territorial dispute but also indicates the complex geopolitical and geo-economic problems underpinned by possible military threats posed by China in terms of building artificial islands in the disputed waters.

### **ASEAN and SCS Dispute**

Most of the ASEAN countries are small and medium-sized countries with disparities in their economic development and diverse political systems. Despite their disparity, all Southeast Asian countries have clearly recognized the changing strategic environment such as the regional security, social economic development, threat spectrum, and norms and rules of states at the regional and global level. In the region, the structures of threats are changing in tandem with the situation driven by the

ideological war of two powerful blocs. Current threats have stemmed from climate change, pandemics, border war and terrorism as well as organized crime syndicates. Thus, all countries in the region have come to realize that they must adopt a more collaborative approach to address the unconventional form of threats (OEGROSENO, A. 2016). This perspective has influenced the process of solving the SCS dispute too. On the other hand, the territorial and sovereignty issues are invariably associated with patriotism and nationalism which lead to drawbacks in conflict resolution. In the SCS dispute, all claimant states are less likely to settle the issue through adjudication or arbitration. Instead they resort to various dispute settlement mechanisms like negotiation, enquiry, mediation, conciliation, regional agencies or arrangements, or other peaceful means (ibid).

In the same way, China prefers to resolve the issue in a bilateral way with each claimant state, but it is also the desire of ASEAN to settle the dispute through the strength of ASEAN as a coherent entity. ASEAN centrality plays an important role in preventing the association from being stuck between great power rivalry and in protecting its resilience. The SCS dispute has resulted in the member

countries themselves arriving at a common ground of consensus over the issue. All member countries have close economic relations or political cooperation with either or both the US or/and China and no country wants to incur the anger of these two powers. The competition between China and the United States has strongly impacted on ASEAN in which Washington impels ASEAN to play a stronger leadership role in the conflict, while Beijing insists that ASEAN has no role to play in its “near seas”, as the disputes are of a bilateral nature (VALENCIA, M. 2009).

So, it is one of the facts that the priority of own national interests of each member state entails a barrier to settling the dispute. As a result, the 45th ASEAN Foreign Ministers’ Meeting which was held in Cambodia failed to issue a joint communiqué. It was Beijing’s attempt to put Cambodia as the ASEAN Chair to block a joint communiqué consisting of China’s aggression in SCS (ROBERTS, C. B. 2018). The outcome was a terrible experience of deteriorating ASEAN unity. Beijing also uses economic diplomacy towards disputants and non-disputant countries by capitalizing on these countries’ economic dependence on it. Although China’s economic diplomacy does not directly

reflect on the issue, the effect on stakeholders can influence the outcome.

In ASEAN, the ASEAN Summit and the ASEAN Foreign Ministers’ Meeting are the two forums for dealing with the SCS issue (GERSTL, A. 2017). ASEAN had made historical success in dealing with the SCS - including the 1992 ‘ASEAN Declaration on the South China Sea’ and its united response by revealing the photo evidence of Chinese assertiveness on Mischief Reef in 1995. ASEAN aims to establish an effective conflict resolution framework that is a legally binding Code of Conduct (COC), and stresses its full implementation in all its aspects accordingly. In 2002, ASEAN and China were able to issue the Declaration of Conduct (DOC) on the Parties in South China Sea (DECLARATION ON THE CONDUCT OF PARTIES IN THE SOUTH CHINA SEA, 2012). In 2013, the Philippines succeeded in the international arbitration against China. In 2014, the United States and the Philippines signed an enhanced defense pact with the aim of strengthening bilateral relationships.

In April 2018, the 32nd ASEAN Summit was held in Singapore. At the Summit, two important documents were released:

the ASEAN leaders Vision for a Resilient and Innovative ASEAN and the Zero Draft of the Chairman's Statement of the 32nd Summit. The former consists of a nine-page document divided into a preamble and five sections including 37 points. Point (3) of the preamble addresses peace and security in general terms and specifically focuses on nuclear weapons, on noninterference in internal affairs of ASEAN member states, and on maritime issues. With regard to the maritime issues, it states that "maritime cooperation are enhanced in accordance with internationally-accepted treaties and principles, including the 1982 United Nations Convention on the Law of the Sea (UNCLOS)" (THAYER, C. 2018). In the Zero Draft, it could be seen that seven of 37 points are devoted to the South China Sea issue. In June 2018, the 24th ASEAN-China Senior Officials' Consultation welcomed the official announcement of COC in the South China Sea and underscored the need to make progress in dialogue and consultation to ensure mutual trust and confidence, stressing the importance of fully and effectively implementing the DOC toward an effective COC (ASEAN, China reaffirm strategic partnership, 2018).

The Philippines has

continuously presented its argument that the issue is not a matter of ASEAN because these are bilateral disputes (THAYER, C. 2018). Recently, it can be seen that bilateral relations between China and Cambodia is progressing over time. In February 2020, Cambodian Prime Minister Hun Sen visited China and showed Phnom Penh's firm support of Beijing's fight against the coronavirus epidemic. The very close ties between China and Cambodia may be a worrisome sign and could be construed as a set-back in solving the South China Sea dispute. Indonesia, not included as a disputant country, has proposed to boost its defense measures near the South China Sea, that is, in its Natuna islands by building a port and military air base runway. This is proof of how the SCS issue has concerned other countries as well.

Regardless of the SCS dispute, ASEAN-China relations in economic and strategic cooperation have been steadily developing. In June 2008, ASEAN and the People's Republic of China reaffirmed the importance of their strategic partnership and agreed to further strengthen their close relations at the 24th ASEAN-China Senior Officials' Consultation (ASEAN, China reaffirm strategic partnership, 2018). Both parties agreed to strengthen

their economic relationship, including the implementation of the ASEAN-China Free Trade Area (ACFTA) and the ACFTA Upgrading Protocol. The China-Indochina Peninsula economic corridor (CICPEC) is also one of the economic cooperation projects between China and ASEAN member countries. It was initiated in 2010 and incorporated later into the Belt and Road Initiative. This economic corridor aims to connect several cities in Southern China with major cities of Vietnam, Laos, Cambodia, Thailand, Malaysia and Singapore with highways and railroads (Xinhua Insight: New Momentum over China-Singapore Economic Corridor/ Shanghai Daily, 2014). China said the aim of CICPEC is to promote the “co-construction of the China-ASEAN Free Trade Area and the Maritime Silk Road” bringing regional prosperity and benefit to people along the route. Thus, the economic integration between ASEAN and China would be estimated to lessen the political tensions in the SCS dispute because of their strong focus on mutual economic interests.

### **Conflict Management in ASEAN**

Like other regional organizations, ASEAN has placed

priority on regional peace and security through constructive engagement among member countries. The 1967 Bangkok Declaration, which is the foundation of ASEAN, states that regional peace and security is one of the purposes of the Association. Apart from the Bangkok Declaration, there are two significant provisions of guidance for the mechanism of conflict resolution. They are the ASEAN Concord and the Treaty of Amity and Cooperation (TAC); both were signed in 1976. The former regards promoting cooperation among the member states through political, economic, social, cultural and security programs. The latter highlights the specific principles and policies for conflict management: (KOH, T. 2017):

1. Mutual respect for the independence, sovereignty, equality, territorial integrity and national identity of all nations;
2. The right of every state to lead its national existence free from external interference, subversion, or coercion;
3. Non-interference in the internal affairs of one another;
4. Settlement of differences or disputes by peaceful means;
5. Renunciation of the threat or use of force; and
6. Effective co-operation among

themselves (ASKANDAR, K. et al. 2002).

The Treaty of Amity and Cooperation has already formulated the dispute settlement Mechanism in which the regional arrangement is a means to resolve the disputes as mentioned in Article 33 of the United Nations Charter. Regardless of the mechanism available to reconcile the territorial dispute, the most important factor is the political courage among the claimant states to commit to a settlement of the dispute through a third party's involvement (OEGROSENO, A. 2016).

The great powers' competition in the region has had an impact on the regional geopolitical situation especially by means of the contest between Beijing and Washington. The United States' strategic goals for Asia have been notably emphasized since the end of the Cold War and have given its Pacific Command the task of disseminating the freedom of the sea lanes of communication (SLOCs). Although Washington had recognized the significance of Southeast Asia, the region did not always play an important role in US foreign policy. But the situation changed under President Obama's administration (2001-2008) following the 9/11 attack by terrorists, designating Southeast Asia as the "second front" of the

"global war on terror" (SIMON, S. W. 2015). Furthermore, President Obama initiated the "Pivot to Asia" strategy with the purpose of counterbalancing China especially deterring Chinese assertiveness in the SCS and the growing maritime capability of Beijing. The United States aimed to contain 'the rise of China' by integrating and establishing closer relations with Southeast Asian countries.

Moreover, Washington joined the East Asian Summit (EAS) in 2011. In 2013, the United States had identified six strategic partners and Singapore probably tops the list, although there is no formal defense strategy between the two states (SIMON, S. W. 2015). In contrast to the Obama administration, Donald Trump administration's "free and open Indo-Pacific" framework pays less attention to Southeast Asia or ASEAN as the secondary importance to the US after Northeast Asia (STOREY, I. – COOK, M. 2017). In 2019, Trump and Secretary of State Mike Pompeo failed to attend the annual ASEAN-United States leaders' summit and other ASEAN-related meetings as well.

On December 21, 2019, however, the U.S. Congress passed the State, Foreign Operations, and Related Programs Appropriations Bill. This legislation contains \$2.5 billion to implement the Gardner-

Markey Asia Reassurance Initiative Act (ARIA) (THAYER, C. 2020). In the four provisions of ARIA, the first one calls on the Trump administration to engage with ASEAN as the premier “problem-solving regional architecture” (ibid). Although ARIA’s provocations might bring clashes with Trump’s policy orientation, it can be seen as a glimmer of hope for ASEAN to be endorsed by U.S. to the region. The role of Southeast Asia under Trump’s presidency has diminished in comparison with former President Obama’s administration in three main ways: (1) Trump’s intention to dismantle the Pivot to Asia strategy initiated by Obama; (2) Trump’s withdrawal of America from the Trans-Pacific Partnership (TPP); and (3) the strong emphasis of Trump’s administration on combating ISIS in the Middle East at the expense of other regions including Asia, much less Southeast Asia (STOREY, I. – IZZUDDIN, M. 2017).

The United States is the country that has continuously claimed freedom of navigation in the SCS according to the United Nations on the Law of the Sea (UNCLOS). Among ASEAN countries, Singapore has also asked for the freedom of navigation although it is not a member of the disputant countries. For ASEAN,

it has used the hedging strategy in relation with the great powers, particularly the regional great powers. But the great power rivalry between the US and China has threatened ASEAN’s unity and its efforts to maintain regional peace and stability. The two powers have been attempting to establish closer relations with member states in a way that actually exacerbates this dispute through Washington’s funding of capacity-building projects in ASEAN member states, while Beijing provides individual states with aid (YANG, A. H. 2015). On the other hand, Beijing’s economic diplomacy as a soft power has been substantially employed in Southeast Asia and ASEAN’s excessive economic dependency on China has been counterbalanced by the US’s military engagement in the region.

The Belt and Road Initiative (BRI) plays a critical role in analyzing ASEAN-China relations. The Belt and Road Initiative (BRI), also known as One Belt, One Road (OBOR) is a highly ambitious grand strategy launched by Chinese President Xi Jinping aimed at connecting China and the rest of the world with a network of roads, high-speed rail, power lines, ports, pipelines, and other infrastructure networks. Under the BRI, more than 60 countries from

Asia, the Middle East, Europe and Africa, will take part in the project based on three key pillars such as utilizing industrial capacity, nurturing a network of economic interdependence, and fostering regional stability and prosperity (HENG, K. – PO, S. 2017). Southeast Asia is involved in both the Silk Road Economic Belt and the 21st Century Maritime Silk Road of Belt and Road Initiative (BRI) which hopes to foster the development of participating countries. Each of the participating countries is essential in successfully implementing China's BRI.

The holding of the second iteration of China's Belt and Road Forum (BRF) in April 2019 highlighted the important role of Southeast Asia, with nine Southeast Asian countries except for Indonesia attending the Forum. At the wider cooperation mechanism under the BRI, it concluded the Belt and Road Accounting Standards Cooperation Mechanism (with Vietnam and Laos) and a statement of intent for cooperation for pesticide quality specification setting (with Cambodia, Myanmar, Philippines, Thailand and Vietnam) (PARAMESWARAN, P. 2019). China realizes that the success of the BRI depends on the support and participation of other countries, particularly the neighboring

Southeast Asian countries (YU, H. 2017). Meanwhile regional economic integration plays a significant role for ASEAN countries in minimizing external uncertainties and global economic vulnerabilities, and the more comprehensive attachment to ASEAN is of paramount importance for China.

Amid the escalation of US-China rivalry, Southeast Asian countries are well experienced in dealing with great powers in the region by using the most effective strategies and holding the relations in balance. The ascent of China and the United States' involvement in regional affairs effected changes in Southeast Asia from the traditional balance of power strategy to the balance of influence strategy by inviting great powers' competition and their participation in regional economic and diplomatic affairs in order to develop the stakes in the region's peace and prosperity (CIORCIARI, J. D. 2009).

#### **V.2.4. The South China Sea (SCS) Dispute and the Effect on ASEAN Unity**

##### **The SCS Dispute as a Threat to ASEAN**

Globalization, from the positive side, tends to incentivize

countries in certain regions to form groupings to enhance their international status, and to better cooperate in terms of economic, socio-cultural and political considerations. The European Union (EU), the Visegrad Four, NATO, ACP (Africa, Caribbean and Pacific) group of states, and ASEAN,

can be seen as examples of these regional groups. However, recent developments show that issues and conflicts can endanger the group with the risk of disintegration, such as Brexit and the migrant crisis in the EU. Similarly, the SCS dispute is a threat to the unity of ASEAN as a regional organization.



Figure 34: China's Nine-Dash Line in the South China Sea  
Source: www.dw.com, 2015

ASEAN was formed in 1967 with the support of the West, notably the USA and the UK. In its early days, ASEAN's function was to act as a buffer in the region in the midst of the Cold War, to prevent the spread of communism, and to enhance development in the Southeast Asia region. As the Cold War ended in the mid-1990s, ASEAN began to

strengthen relations with China, Japan and South Korea in order to counterbalance the US influence in the Asia-Pacific region. As China grew to be a new world power in the 2000s, China began to have bigger ambitions in the Asia-Pacific region, notably in the SCS, which has long served as the busiest international sea trade route. China's maritime and air power expansion in the

SCS has been driven by attempts to establish a zone of supremacy with economic activities as the main objective (GILLEY, B. 2019). Meanwhile, the US shifted its attention to the Middle East. The SCS became a vulnerable area with many countries occupying parts of the sea, and unlike land, it is difficult to establish a clear border among these countries and sometimes the exclusive economic zone (EEZ) of one country overlaps with that of another. *Figure 35* shows conflict areas in the SCS. As in this case, ASEAN countries failed to unify themselves to deal with China's growing power; this requires a change in the political and sovereignty aspects among ASEAN member states.

The SCS dispute is one of the most complex and multi-layered geopolitical issues in the world. It involves territorial and maritime claims made by China, Taiwan, Vietnam, the Philippines, Malaysia, Brunei and Indonesia, and the tension centered on the area in which China claimed a "nine-dash line" in the SCS, encompassing approximately 90 percent of the waters. The line runs as far as 2,000 kilometers from mainland China, reaching waters close to Indonesia and Malaysia, and it is used by China as a geographical marker to assert its claim. China maintains

that any land or water in the nine-dash line belongs to its "historical maritime right" (ZHEN, L. 2016). Only four ASEAN member states are claimant states to the SCS, namely Brunei, Malaysia, the Philippines and Vietnam. Indonesia has maintained the official position that it is not a party to territorial disputes in the SCS but China's nine-dash line includes "traditional fishing grounds" that fall within the exclusive economic zone off Indonesia's Natuna Islands (HOANG, T. H. 2019). For example, China claims more than 80 per cent, while Vietnam claims sovereignty over the Paracel Islands and the Spratly Islands (*Figure 34*). Meanwhile, the Philippines claimed ownership of the Spratly archipelago and the Scarborough Shoal (*Figure 34*), with Malaysia and Brunei claiming the southern parts of the SCS. In July 2016, a ruling by the International Tribunal in the Hague determined that China had no "historic rights" over the sea, and ruled that some of the rocky outcrops claimed by several countries could not legally be used as the basis for territorial claims. Beijing rejected the ruling and described it as having "no binding force". The South China Sea territorial dispute has emerged as a challenge to the unity of the organization. ASEAN has discussed drawing up a code of conduct to

be signed with China governing disputes in the South China Sea, but Beijing is reluctant to sign on to a multilateral agreement.



Figure 35: Areas in the SCS Dispute  
 Source: www.eonomist.com, 2017

### How ASEAN Could Resolve the SCS Dispute

The South China Sea territorial dispute has emerged as a challenge to the unity of the organization. Southeast Asian nations have traditionally rejected looking for a bilateral solution with China, the region’s main economic and military power. Despite this, one year after the landmark ruling against China’s territorial claims, Philippine President Rodrigo Duterte agreed to solve the dispute with China through bilateral talks.

Similarly, Vietnam, the most outspoken critic of China, has softened its stance. In April 2018, the government said it would be willing to hold talks with China to resolve disputes in the area “in accordance with international law”.

However, there are many challenges ahead in the quest to realize its goals. For example, the incredible economic, political, religious, cultural, and linguistic diversity amongst the ASEAN member states creates barriers to unity and community building. The ‘ASEAN Way’ is anchored

on consultation and consensus amongst all ASEAN member states (ZHANG, Y. 2019). There are worries that ASEAN may not respond effectively to meet these challenges as the consensus can only be based on the ‘lowest common denominator’, and each member has veto power to oppose, postpone, or derail decisions and actions on urgent or critical problems (MORADA, N. 2017). ASEAN will continue to ensure its members’ sovereign rights and benefits as a ‘shared identity’, not a governing organization, while enhancing the role of collective governance. It is argued that, despite ASEAN’s promises, the ‘internal’ relevance of the community to each of its members remains largely secondary to national politics and policy priorities within each of the ASEAN member countries (TAY, S. S. C. 2017). The challenge is to be bold enough to condition minds to create a new and reformed ASEAN by agreeing to forge a new consensus (FUZI, A. 2017). In the ASEAN Charter of 2007 the Member States committed themselves to the peaceful settlement of disputes. The Protocol on Dispute Settlement Mechanisms adopted in 2010 builds on this commitment. The Protocol provides Member States with a framework enabling recourse in advance to traditional,

and largely optional, means of dispute settlement in the form of diplomatic, or non-adjudicative, modes, consultation, good offices, mediation and conciliation, to the quasi-judicial, arbitration, but no court (NALDI, G. J. 2014).

ASEAN has been working with China on an official code of conduct to avoid clashes in the disputed waters. A binding agreement has been discussed for years to little avail but in August 2018 it was revealed that all parties had agreed on a single draft negotiating text. ASEAN has discussed drawing up a code of conduct to be signed with China governing disputes in the SCS, but Beijing is reluctant to sign on to a multilateral agreement. ASEAN is also the only multilateral platform that China has agreed to engage on the SCS issue. This presents Beijing with a dilemma in dealing with ASEAN as a group and at the same time pursuing bilateralism with each claimant state (HOANG, T. H. 2019). China’s aversion to ASEAN’s collective approach on the SCS issue was well reflected during the formulation of the DOC Guidelines. The key issue is whether ASEAN member states should consult among themselves first before they consult with China. ASEAN members insist on such a consensual approach

towards China, while the Chinese side does not think this is in line with the understanding of the DOC. The whole issue of the SCS is not a matter between ASEAN as an organization and China, but among the relevant countries (SEVERINO, R. C. 2010). The reasons why China prefers bilateralism are self-evident: in bilateral contexts, individual Southeast Asian claimant states do not have the collective bargaining power of ASEAN. Dealing with each member state separately and bilaterally would give China an overwhelming leverage to dictate its terms, through coercion, co-option and/or commercial incentives (HOANG, T. H. 2019).

Southeast Asia is most influential when it works together, so multilateralism will continue to be critical. ASEAN should rely more on support from the larger constellation of countries committed to freedom of navigation and the protection of freedom of the seas to avoid being coerced into unfair agreements over resource development or rules of the road. If ASEAN continues to struggle, there may be opportunities for a subgroup to work mini-laterally to put forward solutions. For example, Indonesia, Vietnam, Malaysia, Brunei, and the Philippines could negotiate a consensus view on delineating maritime boundaries

and a maritime Code of Conduct (COC) outside of ASEAN and adopt that unified position together (PARAMESWARAN, P. 2016).

## V.2.5. Conclusion

With China emerging as a new power this has changed its position and ambition in the region. Along with the withdrawal of the US power in the Asia-Pacific, it poses a threat to ASEAN's credibility as a regional organization that previously managed to secure peace and prosperity in the region. ASEAN needs to adapt to these changes by confronting the challenges of regional militarization, economic, civilian, and environmental security issues. ASEAN itself is in a dilemma in regards to SCS maritime disputes, although it repeatedly defends a rule-based regional order and international law such as UNCLOS. Practically, ASEAN has not taken effective and determined action over the issue such that it can counterbalance Chinese hegemony. Fortunately, the SCS issue does not impact on the economic cooperation between ASEAN and China. Furthermore, ASEAN should try to grasp its significant position in the BRI as a counterbalancing tool to the Chinese assertiveness in the South China Sea. The most important

thing that can overcome the SCS dispute is to achieve the unity of ASEAN itself. Each country should prioritize the common interest over its own national interest. One way to enhance that is to review the ASEAN Charter so that it accommodates ASEAN towards becoming more functional and people-oriented, providing greater clarity in the conduct of relations between states and in resolving issues. It would also allow ASEAN to address power projections in the region and to adapt more quickly to

new and emerging challenges.

### *Acknowledgement*

The present publication is the outcome of the project „From Talent to Young Researcher project aimed at activities supporting the research career model in higher education”, identifier EFOP-3.6.3-VEKOP-16-2017-00007 co-supported by the European Union, Hungary and the European Social Fund.

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## V.3. Milestones of Eurasian Integration

BAUYRZHAN URAZIMBETOV<sup>127</sup>

### Abstract

*The Eurasian Economic Union is the largest and the most successful integration among post-Soviet integrations. Today, five countries are members of the union and four countries have free trade agreements with the union. However, like other unions the Eurasian integration has faced problems during the process of integration. For example, the issue of authoritarianism, corruption, the domination of Russia, the lack of balance between national interests and the union's interests in the decision-making process, and the different rates of development among member states are some of the obstacles to integration. Such issues in the integration process interfere with the successful development of both the union and individual member states. Moreover, core issues might derail the development of the state or union by taking it in the wrong direction and creating serious systemic problems in the future.*

*This article will examine the core issues and milestones of the Eurasian Economic Integration by use of a qualitative approach through the content analysis method with supporting arguments.*

**Keywords:** Eurasian Economic Union, Russia, Kazakhstan, regional integration, economic and political issues, geopolitics

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### V.3.1. Novelty and Relevance of the Topic

Regional integration is an important part of a state's development and in light of modern day realities no country is able to effectively exist and develop without integrating into the world economy (DOBROVOLSKY, A. M. 2019). From the perspective of international relations, the term "regional integration" is a relatively new phenomenon, the

usage of which spread after World War 2 (SKRIBA, A. S. – ALTUKHOV, A. O. 2019). Regional integration is a progressive and multi-stage economic integration, which transfers to the political plane at the final stage; the European Union (hereinafter EU) or the Eurasian Economic Union (hereinafter EEU) are two examples of this (SKRIBA, A. S. – ALTUKHOV, A. O. 2019). The EU is often highlighted as an example of being one of the most successful and complete realizations of

regional integration. Skriba and Altukhov claim that other future regional integrations as well as the EEU, will follow the EU's practice (SKRIBA, A. S. – ALTUKHOV, A. O. 2019) in order to minimize problems during the integration process. The global effect of the EU's economic integration resulted in the creating and developing of regional integration theories, such as regionalism, neo-functionalism, federalism, spillover theory, etc (SKRIBA, A. S. – ALTUKHOV, A. O. 2019).

Also it is worth mentioning the effect of globalization on economic integration. Here it is also possible to point to the example of the EU where, even though globalization brought with it enormous advantages and opportunities, it simultaneously brought growing competition in all spheres of services and trade (homepage of EUROPEAN COMMISSION. GLOBALIZATION AND THE EU ECONOMY). The European Commission also claims that due to globalization, EU firms and companies were given access to new developing markets and financial resources. Consumers in turn gained access to a huge assortment of goods with competitive prices – and this factor, along with growing production and increased salary rates, illustrates the

potential and important advantages that accompany globalization (homepage of EUROPEAN COMMISSION. GLOBALIZATION AND THE EU ECONOMY). This is just one example of many used by the EEU in their emulation of the EU.

The process of Eurasian integration started right after the collapse of the Soviet Union. There were several attempts at creating a strong and stable regional integration such as the Commonwealth of Independent States, the Collective Security Treaty Organization, the Eurasian Economic Community and the Eurasian Economic Union (ZHUKOV, S – REZNIKOVA, O. 2006). Despite the willingness of countries within the post-Soviet region to achieve economic stability and build strong economic integration, none of the above-mentioned organizations or unions have reached that goal yet mostly because of flawed institutional design. Furthermore, the lack of economic resources and interstate competition in the post-Soviet region also interrupted the attempts of Central Asian countries to create regional economic projects (ZHUKOV, S – REZNIKOVA, O. 2006). It was precisely because of such problems in creating strong economic integration, that the Eurasian integration (EEU) led by Russia borrowed the institutional

structure framework of the EU, which opened the way to create and develop several regional projects in the post-Soviet space (ZHUKOV, S – REZNIKOVA, O. 2006). At the same time, the creation of the EEU symbolized the readiness of the EEU's founding countries (Russia, Belarus and Kazakhstan) to be transformed into highly institutionalized and legalized frameworks and to copy the European experience in Eurasian integration practice (ZHUKOV, S – REZNIKOVA, O. 2006).

Therefore, by borrowing the elements of the EU project, the EEU tried to implement and use institutionalized legal regimes with binding effect.

Kazakhstan, Belarus and Russia agreed to establish the EEU by using the institutional frameworks of the EU, thereby expanding the West's influence in Central Asia from the East as a counterpart to the rapidly

developing economies of South Korea, Singapore, China, Japan, Taiwan and Hong-Kong. Today, five years after the establishment of the EEU, there are already five member states in the union. Kazakhstan, Belarus and Russia are the founding states, thus their membership counts from 1st of January 2015, with Armenia and Kyrgyzstan joining on 2nd of January 2015 and 12th of August 2015, respectively. It is also worth noting that the land territory of the union is over 20 million square kilometres, which is around 14 percent of the world's entire land area, with a total population of 183.8 million people. Additionally, the potential of the EEU in energetic and agricultural industries makes it a globally significant player in the international arena. The picture (*Figure 36*) shows the map of the EEU with member states (homepage of BAKIT CERTIFICATION AND COMPLIANCE).



*Figure 36: The map and brief information of EEU*  
*Source: homepage of BAKIT CERTIFICATION AND COMPLIANCE*

The map illustration above shows how territorially huge the EEU is. Even with only five countries in its membership, it is already playing a significant role in the global market due to its powerful agricultural and production capabilities.

However, along with the development of the EEU has also come trouble. As was mentioned above, before the creation of the EEU, post-Soviet regional integrations were failures. The major debilitating issues related to Eurasian integration have political and economic roots. For instance, dominant political interests significantly interrupt the process

of integration, along with the authoritarian regimes of member states, highly corrupted systems, lack of democracy and transparency, and the lack of comprehensive goals for all member states (OSADCHAYA, G. – VARTANOVA, M. 2018).

The goal of the research is to examine and analyze the major problems of Eurasian integration.

While collecting the information the content analysis methodology was applied. The content analysis methodology, the instrument of investigation, was used to define specific words, topics or definitions by studying publications, articles, books and other secondary sources in text

formats (homepage of COLUMBIA UNIVERSITY MAILMAN SCHOOL OF PUBLIC HEALTH).

The qualitative method approach was implemented in order to form a complete picture of the problem through a deep and detailed analysis of the EEU's integration milestones. The main information was taken from secondary sources including academic journals, newspapers, certain publications and articles. The work is intended to investigate main milestones based on the EEU's experience. The main part of the paper begins with the observation of main integration issues and milestones.

### **V.3.2. Global Milestones that affect the integration process of the EEU**

The EEU's integration began with Russia, Belarus and Kazakhstan – where all three countries were seeking for economic advantages and stability. Since the collapse of the USSR, Kazakhstan has aimed to establish economic regional integration. Russia and Belarus were the first countries interested in such integration and only in 2015 was the EEU officially established (homepage of EURASIAN ECONOMIC UNION). Unofficially, the leading country was always Russia, as it has a much larger population,

economy, and military capabilities than the other two founding states. Moreover, after the collapse of the USSR, Russia was always considered as the successor of the Soviet Union, which meant that the most of the Soviet authority was transferred to the Russian Federation.

From the very first steps of the integration, the problem of authoritarian regimes of member states caused issues. Authoritarian regimes do not rely on traditional means of legitimization, nor do they adhere to globally applied procedures of government formation based on free and open elections. Their leaders believe that their rule is perpetual and does not require the consent of the people. Authoritarian governments eliminate their competitors so that there is no opposition, and control all forms of media, believing that through such means they maintain stability in the country. Such thinking is not only deeply flawed but also counterproductive since it only serves to destabilize a country. The Eurasian Economic Commission for example has done a good job in building a common market for goods, services, capital and labor within the region. Russia on the other hand still puts its interests above other countries' interests in the decision-making

process. The problem is that the decision of the Commission can be changed or even vetoed by the decisions of Vice-Ministers of member states. In this way, the Commission, which is actually thought to be a supranational body, does not have any true power within the EEU. Moreover, the judicial system of the EEU is also under the constraints of member states. For example, the Commission cannot appeal to the EEU Court to force the member states to follow the rules and norms of the union. At the same time, it would be amiss to say that the EEU Court has not made any progress in its development. It has started to build a doctrine of priority of EEU rights and to prioritize the rule of law of the EEU over the national law (ELISEEV, A. 2019). It is also worth mentioning the case of a member state's attack on the progressive decisions of the Commission of the EEU. Russian government and municipal authorities regularly announced tenders to purchase fabrics for the needs of the Russian Ministry of Defense, who prescribed in advance which Russian manufacturers they should buy fabrics from. Thus, Belarusian and Kazakhstani manufacturers were not even included in the tenders, which resulted in the Commission making the decision in 2015 that

this was a violation of the EEU's public procurement rules and thereby canceled a dozen relevant orders of the Russian government. Nevertheless, in the end a higher standing body vetoed the decision of the Commission (ELISEEV, A. 2019). Another example of the Russian government's vetoing of the Commission's decision concerns price discrimination against Kazakh and Belarusian buyers in 2017. Upon further investigation, the EEU court determined that the actions of the Novolipetsk Metallurgical Combine Plant and the Russian company VIZ-Steel violated the price policy by adding a macroeconomic risk coefficient to the final price of their products, which overestimated the selling price by more than 20% of the base price. The Eurasian Commission imposed a \$3.5 million fine on the Russian companies, which unfortunately was ineffectual since the ruling was overturned (ELISEEV, A. 2019).

Today, countries of the post-Soviet space generally have the same problems as before: poverty, high inflation, aggravation of environmental problems, social inequality, drug addiction, terrorism, unemployment, corruption, technological backwardness in most industries, as well as the emigration of specialists, engineers,

and scientists to countries of the West (NEMTSEV, I. A. 2017). Most of the post-Soviet countries feel the pressure of the world market and its strong alliances, such as the US, Germany, France, Italy and other EU member states. The problems also include energy security, which includes the wear and tear of the enterprises of the fuel and energy complex, outdated infrastructure technologies (power lines, vehicles, gas pipelines), and energy and heat saving technologies are practically not used. The problem can be considered the lack of state ideology, a goal that could mobilize people to solve regional problems. In international relations, the problem areas are the difference in structural transformations in the conditions of the formation of a market economy, the lack of competitive production, and disagreements in the sphere of economy and business (NEMTSEV, I. A. 2017). Although post-Soviet region was always a plum for hegemonic powers.

The post-Soviet space itself creates huge geopolitical interests towards world powers as a region which is territorially located between the cultures of East and West. The collapse of the USSR led to the disintegrational processes within the region accompanied by color revolutions, interethnic and territorial conflicts (including

armed conflicts and separatism in a number of regions, for instance, Georgia, Ukraine, Chechnya, Armenia, Azerbaijan, North and South Ossetia, Abkhazia and so forth) (NEMTSEV, I. A. 2017). The struggle of elites for power, the decline in industrial production resulting from a reorientation towards raw material development, which does not lead to an effective economy, the deterioration of the quality of life of the population and the growth of crime were all influential in accelerating conflicts within the post-Soviet region. Moreover, it would be interesting to cite A. G. Dugin, Soviet and Russian philosopher, political scientist, sociologist, translator and public figure, who said: "...the collapse of the USSR was a social and industrial catastrophe, which consequently led to the coming to power of corrupt, criminal elements and agents of influence of the United States – all this was unprecedented in scale. The 90s of the twentieth century for Russia was a monstrous geopolitical disaster, Russia has turned into a secondary, corrupt, decaying third level power that is rapidly losing weight in the international arena and is on the verge of disappearing..." Russian President Vladimir Putin also stated that the collapse of the USSR was the largest geopolitical

catastrophe of the century, and that many of its current problems are the consequences of this process (NEMTSEV, I. A. 2017).

Although there is a presence of hegemonic behavior of Russia in post-Soviet space, it is important to say that the EEU member states are more afraid of falling under the pressure of Russia and of losing their state independences, which in turn stops the integration process. A particularly strong fear of falling under the influence of Russia is noticeable in the example of the Ukrainian authorities, where (under the influence and with the financial support of the United States) for several years there has been an increase in nationalist parties and organizations. Russophobia, the desire for European integration, is prevalent. Events in Ukraine led to increased tension in the entire Eurasian region, a decrease in regional security, which entailed an “economic war” between the West and Russia and weakened the vector of Eurasian integration. Therefore, the issues of regional security and integration in the Eurasian space have become even more relevant. It should be understood that there is no single concept of Eurasian integration: “the Eurasian philosophy of integration has so far been developed rather weakly and fragmentarily. The only thing that

cannot be doubted: the integration processes within these institutions are neither based on direct territorial expansion of Russia (as it was during the period of the Russian Empire), nor, obviously, based on communist ideology (as it was in the Soviet period). Therefore, it is logical to assume that the philosophy of integration of the post-Soviet countries will affect the whole of Eurasia - based on the cultural, ethnic and historical identity of each society, re-entering into a single historical “large space”. At the same time, the integration of the post-Soviet space (and later the Eurasian space) remains a necessary condition for solving the problems of the region.

Furthermore, member states of the EEU with their trade orientation towards third countries with developing economies are causing another possible risk to the integration process. For all member states of the EEU the main export goods are natural resources or their primary processing products, which in turn are more interesting to the markets of third countries because of their similar demand for natural resources and types of goods, claims Kuzmina Elena (KUZMINA, E. 2017). Moreover, Kuzmina, Head of Sector of the Center for Post-Soviet Studies, IMEMO RAS EAT Primakova, identifies four

risks which could be identified as milestones of EEU integration. For instance, the need for specialization and enhanced production in these countries. The minimum number of common production projects of member states as well as the lack of a detailed program for the development of production capacities and opportunities, results in a slowdown in mutual trade within the EEU. The primary trade effects from participation in the Customs Union are exhausted within a few years, not to mention the absence of customs duties on the majority of goods in the EEU. This is what happened in terms of trade between the EEU countries. During the first three years of operation of the Customs Union, trade between Russia, Kazakhstan and Belarus grew rapidly, but then unfortunately it started to decline. In order to increase trade again within the EEU it is necessary to develop new industries and increase the range of goods in the region. Simultaneously, there is a need to develop the specialization of countries in the manufacturing sector, as Nursultan Nazarbayev, the first President of the Republic of Kazakhstan has repeatedly said, so that we produce only a minimal amount identical goods in the common market (KUZMINA, E. 2017).

Moreover, the diminished ability to import finished goods from third countries at the end of 2014 as a result of the sharp drop in world oil prices and foreign exchange earnings from energy exports, reinforced the need for EEU member states to meet demand with their own industrial products. The substitution of imported products from third countries is becoming a priority area of cooperation within the union. However, an assessment of the national development programs of industries of the EEU member states revealed that countries are considering a single economic space only from the standpoint of additional export opportunities for national economies. Even so, this is supposed to saturate their domestic markets only with their own products using import substitution. The industry priorities for the development of industrial complexes of the EAEU countries have a high degree of coincidence, as well as the nomenclature of exported industrial goods, which leads to their competitiveness rather than complementarity.

Another risk revolves around the lack of investment in the sphere of innovation. Integration mainly occurs in traditional sectors of the economy that are exhausting their potential, in particular, in

the field of energy, chemical and petrochemical industries, and metallurgy. These products have low added value. According to the UN classification, the cost of a similar weight of high-tech products is ten times higher than the cost of raw materials of the same weight. In the context of the new integration policy (the implementation of measures to form a coordinated policy), the development of a coordinated industrial policy with effective mechanisms for building up productive capacity is of paramount importance. The Economic Commission for Europe (ECE) has identified the main directions of industrial policy. This is the aerospace industry (including the production of Earth remote sensing satellites and the helicopter industry), the automotive industry, the production of road-building machinery, machinery and equipment for agriculture and forestry, and hoisting and transport equipment. This also includes the production of industrial products for railway transport, electrical appliances, electronic and optical equipment and component base, machine tools, and power engineering. However, specific joint projects have not yet been developed. Integration in the innovation sphere could increase the sustainability of national

economies, since the pace of their economic development will depend not so much on resource opportunities as on the innovative nature of capital, as well as on the ability of a business to generate knowledge and to market it as innovative products. In addition, integration in the innovation sphere will overcome barriers associated with the lack of a common border and appropriate transport and communication capabilities on the path to the formation of a common single market. However, the main stumbling block is the lack of mutual investment in these sectors. Countries invest in their national industry as far as possible. Perhaps the only exception is the Russian-Kyrgyz Development Fund, which allocates funds for production and infrastructure projects.

Then, the lack of transport infrastructure, the insufficient level of logistics and other types of infrastructure within the EEU pose serious problems for integration. Although the development of transport infrastructure in all countries is proceeding rapidly, the unification of national transport systems into a single transport and logistics space is still a rather distant prospect. A big plus in the development of this sphere, of course, is the participation of EEU states in international transport

corridors, primarily between China and the European Union, as well as the North – South corridor. In 2014, the United Transport and Logistics Company (UTLC) was created in the EEU with the participation of Russia, Kazakhstan and Belarus, which is an operator providing rail transportation and forwarding services. Its aim is to service cargo transportation between the countries of Southeast Asia and the EU countries through the territory of the EEU and to reorient container traffic from sea to rail. The main driver for the development of international corridors today has been the emergence of standardized documents, for example, an invoice for transit traffic on the East - West routes through Zabaikalsk, Erlyan, Dostyk, Khorgos, Suifenhe. Another important factor is the signing of an agreement between the railways of China, Belarus, Germany, Kazakhstan, Mongolia, Poland and Russia on deepening cooperation on the organization of container trains in the China-Europe service. The main development problems are the growing demand for rolling stock for transportation under the conditions of an imbalance in the volume of cargo flows, limited throughput of border crossings between neighboring countries, as well as the limited throughput of the Eastern training

ground of the Russian Railways network, which constrains the increase in the speed of transit container trains. The automotive infrastructure has its own problems: its underdevelopment, and the poor quality of roads, especially non-main roads. Specialists see the solution to these problems in increasing the speed of transit container trains, expanding the use of information technology both in transportation and promoting transport services, as well as expanding the geography of transit container services. These are only the main obstacles, each of which contain a more detailed gradation of the problems connected with the development of integration in the EAEU (KUZMINA, E. 2017).

It is reasonable to conclude that the authoritative regimes of member states and their differing interests in development, in particular the lack of a common aim of the member states in EEU's development are creating major hurdles to success. Furthermore, orientation to the market of third countries, the need for the development of new production and specialization, the tendency toward competitiveness rather than seeking mutual benefit, the lack of investment in innovation, and the lack of transport infrastructure are the milestones which are being faced



by all member states of the EEU. In order to create opportunities and take steps forward from this point, Russia, Belarus and Kazakhstan need to change their perception of the EEU's authority that extends to all member countries and to make this authority supranational.

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## V.4. Ambiguities in Chinese strategy on the South China Sea

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### Abstract

*In this paper, I intend to observe the way my focus case country, The People's Republic of China tries and most often manages to maneuver its international policy in a paradoxical way that it would serve its long-time goals. For this case study I rely on the South China Sea dispute, which, being the most complex and most relevant territorial conflict of the Southeast Asian region, provides source material for identifying patterns of ambiguous, contradictive strategies. In my work I describe two incidents concerning multilateral agreements where such strategical elements are present and analyze the background as well as the possible reasoning behind Chinese strategy. I observe the positions of the other active participant states and look into future implications regarding the maritime dispute.*

**Keywords:** China, Code of Conduct, power, negotiation, arbitration

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### V.4.1. Introduction

Inequality between states – in the global and the regional sense as well - has been shaping the development of international relations since the beginning of history. Inequality exists in multiple specific forms, such as economic inequality (of which worldwide patterns can be scoped), or the historical experience of great powers that, by their stability and might, may guarantee international order in a global context or between the states of a more specific region (AYOUB, M. 2002).

This paper focuses on the regional form of the category. Certainly, the existence of an – unofficially designated – great (leading) power and, as a consequence, „lesser” states already implies unequal relations, yet when a clash of interest emerges in the given region, the situation becomes considerably more complicated.

In an ideal case, in any sort of conflict between states, an acceptable solution could be reached by taking already existing international rules, regulations and agreements into consideration. If there is no precept that would be

applicable to the dispute in question, new rules should be created and introduced by (or with the close assistance of) legal authorities. However, as sovereign states may choose to not abide by any segment of international law, or even break a treaty, disputes, especially those including multiple states, are neither simple nor ever quick to resolve. Mentioned violations are often followed by coercive actions or intervention by other participant states.

Aforesaid factors would already complicate any international conflict situation, especially one that includes an already present and relevant power-based inequality between its actor states.

The South China Sea dispute is a case that encompasses all traits described above. Most times referred to as simply dispute, it is in fact a manifold collection of bigger and smaller conflicting claims within the region, including the People's Republic of China, the Philippines, Vietnam, Indonesia, Malaysia, Brunei and the Republic of China (Taiwan). Those claimant states are interested in acquiring the rights of exploration and potential exploitation of natural gas and crude oil, fishing stock, and, most importantly, strategic control of shipping lanes essential for successful global trade. The claims

mainly include the Spratly Istands, the Paracel Islands, Scarborough Shoal, various boundaries in the Gulf of Tonkin and some further maritime features that are not regarded as part of the South China Sea. The official legal stage of the territorial conflict has been going on since 2013, when the Republic of the Philippines brought their claims against The People's Republic of China to court. In 2016, the Permanent Court of Arbitration ruled in favor of the Philippines. However, since China has rejected the ruling, as of yet there is no resolution recognized and accepted by all affected states (KIM, J. 2015).

This paper aims at discussing the ambiguous elements of Chinese behavior in the South China Sea dispute through two agreements of legal nature, with the intention to get answers to the following questions:

What are the common points of Chinese strategy in issues concerning international law, and what is China's overall attitude towards international law? What are the possible historical reasons for such controversial behavior? Can China, as a great power, keep up its foreign policy based on both friendliness and assertivity for a long time – and does the East Asian superpower even intend to do so? Furthermore, to what extent

can other participants of the South China Sea dispute have influence on what the near future holds for this hot spot conflict dominated by China?

#### **V.4.2. Ambiguities of a great power – the Chinese case**

Among the active participants of the South China Sea dispute, the People's Republic of China wields the most power regarding all aspects of finance, economy and politics. In fact, of course, it has risen to the level of being a global superpower, yet for this specific research it is more effective to take a closer look at the regional function of the East Asian state.

The role of implementing rules and regulations and making sure that each and every state adheres to them is something that the leading powers of certain regions tend to take on. That by itself may appear evident and above all beneficial to the amicability of relations between states. However, situations may instantly become more ambiguous if one counts with the fact that the country wielding the most power in the region – thus in given conflict able to act the part of the main peacekeeper - may not always subject itself to the rules it guards.

The theory that I introduce in

my work is that the above described behaviour is far from being new or uncommon among states in regional leading positions (AYOUB, M. 2002). For this specific paper, I intend to observe such patterns exhibited by the People's Republic of China in the South China Sea dispute, throughout the legal process that has been going on for almost a decade now.

The elements of this contradictory behavior consists of can be effectively indentified by tracing concrete events in the course of the disputes, with special regard to specific proceedings of international law and the powerful state's (in this case China's) immediate response to them as well as their following attitude and actions.

My assumption is that by pointing out and describing the ambiguous parts of China's behavior in the South China Sea dispute, a certain shifting quality could be distinguished.

One essential aspect of this study is that I intend to observe China's overall conduct in the conflict from a defensive realist viewpoint. As opposed to offensive realism, defensive realism suggests that having excessive power does not necessarily equal security (in this case for a regional leading state). On the contrary, via

provoking a balancing co-operation among other states, it might end up with just as much risk as lacking or having a limited amount of power (RADITIO, K. H. 2015). Therefore, ambiguous behavior projected by leading states in international conflict situations can be considered as part of a strategy aimed at gaining and maintaining a „right amount” of power.

### **V.4.3. The Arbitration**

Is the People’s Republic of China the kind of hegemon that would settle for the right amount of power? Undoubtedly, the Permanent Court of Arbitration Tribunal’s judgment in the case of Philippines v. China was as grave of a humiliation for the People’s Republic of China as it was a clear win for the Philippines. The case, most often referred to as the South China Sea Arbitration, was brought to the Permanent Court of Arbitration by the Philippines in 2013. It primarily concerned the clarification of the legal status of some maritime features in the area under UNCLOS. The Philippines’ main goal was to get a legal declaration of the fact that the nine-dash line – a line of demarcation based on an 1947 map that China used to corroborate its claims – is invalid as it violates

UNCLOS agreements of territorial seas and exclusive economic zones. Also, Manila wished to reaffirm their right to access the disputed Scarborough Shoal’s fishing grounds (McDORMAN, T. L. 2015).

At the very beginning of the proceedings, China declared that they would not participate in the arbitration, explaining their refusal more elaborately in a position paper (white paper) later, in December 2014. In 2016, Beijing openly referred to the ruling in favor of the Philippines’ appeals as „null and void”. Chinese reasoning was that the tribunal lacked jurisdiction and the arbitration itself was completely illegitimate, as the Philippines should have first chosen the option to settle the disputes through exclusively bilateral negotiation (TAFER, A. 2015; ROSYIDIN, M. 2019).

Such non-compliance is something that could be expected from the People’s Republic of China. After all, a state may choose not to abide by the rules and regulations of international law, especially in a case where those do not appear to agree with their claims and needs. The Chinese statements’ tonality might be assertive, yet it does not deviate from the East Asian superpower’s overall policy of handling disputes.

However, as it often happens

in a situation of non-abiding, complicating factors may arise. Here, the main issue is closely connected to the convention that the Philippines' arbitration lawsuit and the court's eventual ruling was based on. The People's Republic of China took part in negotiating UNCLOS from 1973 to 1982 and was among the signing and ratifying states in 1996. Although there has been some discussion about withdrawing from the convention, China has not chosen to take that step (RADITIO, K. H. 2015).

The fact of Chinese ratification still being valid definitely makes the situation inconvenient. One may pose the question why the People's Republic of China even agreed to officially accept the contents of this document. The territorial claims based on the nine-dash line were already present during the negotiations and certain provisions of UNCLOS go straight against those very claims.

A likely explanation for that lies in history. In the early 70s, when the negotiations of UNCLOS began, China, still in the throes of the Cultural Revolution (1966-1976), was in need of putting ideology before interest. Participating in the negotiations and later ratifying the convention were actions that supported the guidelines given by the former leadership: protect the

national interest, be anti-hegemonic and support the Third World. There is one particular step China took that demonstrates the willingness to comply with those guidelines: the East Asian state supported a group of developing countries from Latin America and Africa (Mauritius, Algeria, Colombia, Venezuela) in their demand for a more extensive, 50-200 nautical mile (nm) territorial sea under full national sovereignty, against the United States and the USSR, two hegemons with intentions to limit weaker states' maritime rights. Even though internal discussions in China were constant during the negotiations of UNCLOS, especially in the final stage, the need for acceptance as a freshly seated member of the UN (15 November 1971, as People's Republic of China) was present. China standing with mentioned leading developing countries in this issue is particularly interesting, as some of the Chinese officials taking part in the UNCLOS negotiations by that time had already realized that the requested 200 nm territorial sea would not necessarily be of Chinese national interest (ROSYIDIN, M. 2019).

At the beginning of or at any point during the legal proceedings of the Philippines' arbitration lawsuit, China could have withdrawn from the convention.

It appears, however, that keeping the ideology alive and, even more importantly, maintaining the role of a valuable, contributing member of international organizations such as the UN still holds more (long-term) significance than the option to withdraw and thus become free of UNCLOS regulations, with that probably also be able to the course of legal proceedings (WEISSMANN, M. 2010).

Certainly, the choice of withdrawal would not have had any immediate threat upon the regional (and global) position of the People's Republic of China. Nevertheless, it would have turned its relations more uncertain with the group of states negotiating and ratifying states (overall 157 signatories). Although non-compliance in the South China Sea Arbitration and declaring the ruling as being „null and void” is not an amicable or contributing move either, it is less of an openly assertive one. In the official sense, China is still a signatory of UNCLOS, more than that, a state that has used some of the convention's contents to aid less powerful countries' claims. It is only this one case Beijing does not abide by and holds its historical claims (based on the nine-dash line) unwaveringly.

#### **V.4.4. Paradox strategies**

This paradoxical stance makes the South China Sea dispute even more complex. Double standard elements can be identified and quite clearly defined here: the state wielding the most power – in this case the People's Republic of China – has actively participated in the negotiation and has officially signed the document on which the eventual resolution of the dispute would be based on, yet refuses to comply with its contents in the same territorial dispute where the outcome would not match their national interests.

Now, Beijing is more free to put their national interest before ideology: since the 70s, through all-round economic reforms and the opening-up policy, the East Asian state has managed to gain a significant degree of recognition from the West. With the arrival of the 21st century, owing to a manifold structural transformation of unprecedented pace, the People's Republic of China has risen to the status of an economic superpower. However, a position like that often comes with opposition.

The East Asian superpower has managed to shed the appellation Red China – a name with negative connotations, referring not only to communist-controlled China

(1927-49), but to China during the Cultural Revolution as well. Even though the expression is now almost exclusively used for these past eras of the state, a new name for a similar phenomenon has emerged along with the rise of China. China threat, first utilized by officials of the United States, now often appearing in Western press, means the imminent danger the enormous power of China is believed to pose for the US and to the entire Western world in not only a political and economic sense, but also in the military field, taking the newly powerful Beijing as a harbinger of armed conflict (POWLES, M. 2010).

Would China go to war? One way to counter the assumption is by observing the ambiguous, often contradictory elements – some of which can be indentified as double standard patterns – of Chinese strategy in the South China Sea dispute.

Beijing has chosen to stay a signatory of the UNCLOS, yet would not comply with the ruling of the South China Sea Arbitration. By complicating the matter this way, the possibility of a successful resolution is even further from the current status of the issue. With this, China has not only avoided any immediate obligations to give up any claimed territories in the maritime area in question, but also

escaped – or at least delayed open conflict with the UN or with any of the signing nations of UNCLOS. In contrast to Western analyses, the People’s Republic of China, while more politically assertive and defiant from an international legal point of view, has not become more aggressive militarily. China could have dislodged any of the islands controlled by other smaller claimants (Vietnam, Malaysia and the Philippines) but they have not done so. The patterns explained are more characteristic of an often confusing strategy of lawfare based on retardation rather than threatening aggressivity.

#### **V.4.5. The Code of Conduct**

In order to identify further ambiguities and double standard elements in the progress of the South China Sea dispute, one has to look no further than another essential document, one that is meant to accelerate the course of reaching an agreement in the issue. The Association of Southeast Asian Nations (ASEAN) first endorsed the idea of a Code of Conduct (COC) for the maritime area of the South China Sea in 1996. Negotiations of the possible contents of it, however, proved to be inconclusive. Thus, in 2002, the People’s Republic of China and

ASEAN settled for a (nonbinding) Declaration on the Conduct of Parties in the South China Sea (DOC). The very first draft of guidelines for the implementation of DOC was drawn up in 2005, but not adopted for a few years. Despite the promising initiatives, tensions on the South China Sea were present throughout the 2000s and have escalated steadily since 2009, confirming the need for a powerful official agreement between the claimant states.

Consequently, following more negotiations, in July 2011, the set of preliminary guidelines drawn up in 2005 was finally adopted. In August 2018, after consultations on a potential COC, an agreement on a single draft negotiating text for the COC was officially announced (THAYER, C. 2013).

The 19-page draft is structured into three sections: preambular provisions, general provisions and final clauses. It does not define the exact geographic scope of the South China Sea.

A large part of the draft is devoted to the prevention, management, and settlement of disputes in the South China Sea among the parties. However, it does not contain any specific reference to the mechanisms that could lead to a successful resolution. A proposal made by Vietnam states that the

settlement of the dispute should be conducted through friendly negotiations, enquiry, mediation, conciliation and other means that the participants are able to agree on. Vietnam concluded that nothing in the COC shall prevent the peaceful settlement of disputes under Article 33(1) of the Charter of the United Nations. The article lists other means such as arbitration, judicial settlement, resort to regional agencies or arrangements, or other peaceful means decided by the parties concerned.

In the second section of the draft, the Philippines, Indonesia and Singapore, Cambodia and China, respectively, propose four separate options on the duty to cooperate. The People's Republic of China's contribution is partly identical to the other options but the detail it provides on six areas of cooperation is exceptional. The areas are the following: conservation of fishing resources, maritime law and security cooperation, navigation and search and rescue, maritime scientific research and environmental protection, marine economy including aquaculture and oil and gas cooperation, and marine culture. Most significantly, China's suggestion on cooperation on the marine economy states that cooperation is to be carried out by the littoral states and shall not

be conducted in cooperation with companies from countries outside the region.

In a sub-section of the draft headed Self-restraint/Promotion, China suggests that military activities in the region shall be conducive to enhancing mutual trust. Beijing also calls for exchanges between defense and military forces as well as undertaking joint military exercises among China and member states of ASEAN on a regular basis. Interestingly, China and the Philippines agreeingly inserted point six that calls for the just and humane treatment of all persons who are either in danger or in distress in the South China Sea (KANG, H. K. 2012).

The draft certainly takes on several notable requirements for managing the tension surrounding the current dispute and possibly for achieving and keeping a sustainable level of peace between the states of the region. However, would the COC have the necessary impact in action?

The process, agreed on by all ASEAN member states and the People's Republic of China, is a well-made tool to remove any triggers of the conflict rather than a mechanism designed for the resolution of the dispute. Thus, China participating in the negotiations of such a co-operative

should have no influence on its position in any legal proceedings, present or future. Still, in nature, it is contradictive enough from the part of China to actively participate in the makings of the COC but to be unwilling to comply with the arbitration. The pattern is notably similar to that of Chinese attitude towards UNCLOS: amicable contribution in potentially feasible official ways to resolve the conflict but non-acceptance of the legal verdict that would provide a way to have a conclusion.

Certainly, differences between the two incidents can be observed. The first notable one is that the contents of which are detailed above is merely a draft, the consultations for the COC have yet to be concluded, the document itself announced and ratified. If the process continues at the pace it has been moving forward so far, it can take several years until the COC officially comes into action. This, again, fits well with the strategy of retardation China seems to have adopted for this situation of conflict.

Second, the draft includes not only the states holding territorial claims in the South China Sea dispute, but all members of ASEAN. Thus, it is not ideal for negotiating the management of resources in areas of overlapping claims. A truly effective COC would include

additional negotiations among the claimants on some of the potential triggers for conflict in which the observing (non-claimant) ASEAN member states have no direct stake. Furthermore, a Code of Conduct is not exclusively meant for dispute management and stability building in the South China Sea, but should emphasize freedom of navigation and human security of the large fishery communities in littoral ASEAN countries. Thus, ideally, besides the existing international law and norms, the Code of Unplanned Encounters at Sea should be an essential part of the COC.

In November 2018, an agreement was reached to finalize the Code of Conduct within three years, starting in 2019. A carefully negotiated, thoroughly worded COC – including the additional agreements between claimant states - would hold the possibility to allow participants to adjust their positions without violating any element of domestic or international law. However, negotiation of the COC has proven difficult, yielding no significant breakthrough so far. Among the factors hindering the finalization, there is the undefined geographic scope of the South China Sea as well as disagreement among the claimants over dispute settlement

and conflict management.

Certainly, some elements of the draft are ambitious and promising, yet taking all the differences among the negotiating parties into account, a COC in its current form would prove to be ineffective. Furthermore, its legal status remains undecided, as the draft does not include any reference to the COC as a treaty under international law.

#### **V.4.6. At the negotiating table**

What does the People's Republic of China expect from the Code of Conduct? The currently ongoing negotiation period for a final and official COC benefits China for multiple reasons.

While the talks have been going on for a while now with only a few points securely agreed on and further conflicting views appearing, Beijing has been establishing a so-called new status quo militarizing its claimed and occupied maritime features, intending to normalize its control in the disputed waters. A stable, sustainable status quo seems to be fitting well with China's current stance as well as their future objectives.

Here, a perceptible similarity with the UNCLOS situation has to be noted. China, as an

active participant of the COC negotiations, appears willing to reach an agreement that would provide resolution for the territorial disputes. However, Beijing has stated that they would refuse to join or ratify a COC of binding quality, one that could legally challenge Chinese claims. That provides the negotiators with a promisingly worded yet ineffective draft with conflicting elements. Again, this sort of contradictory attitude allows China to avoid open conflict with any of the participants as well as any obligation to enter an agreement that would risk their claims in the area. Also, with the artificial island building and militarization going on, China could be able to redefine the geographic scope of the disputed areas and along with that, the scope of disputed areas in favor of their geopolitical interests and aims (ROSYIDIN, M. 2019).

Consensus between ASEAN members is certainly not strong enough regarding this specific issue. Although there is a perception that consensus is key for ASEAN to address challenges in conflict situations such as the South China Sea, a narrow understanding of individual members' national interests has undoubtedly constrained attempts at developing firm cooperation in the region. The current decision-making process

operates in a simple way: If any one out of the 10 ASEAN member states objects to a proposal, that is enough to overrule the others.

That is exactly what happened back in July 2012, when a joint ASEAN Foreign Ministers' Communiqué failed to be issued due to the fact that Cambodia, then the ASEAN chair and a close economic partner to China, sought to minimize the internationalization of the South China Sea dispute, in hopes of keeping optimal relations with Beijing (THAYER, C. 2013).

#### **V.4.7. Conclusion**

The ambiguities can be observed in both cases: China's attitude towards UNCLOS (along with that, the South China Sea Arbitration) and the Code of Conduct. Active participation in the negotiation process but straightforward non-compliance with some part of the contents. In the meantime, assertive presence and activities in the region, resulting in frequent minor clashes, tension and constant open resentment from the US and from active participants of the conflict as well as from regional observer states, yet none that would seriously threaten the current status quo. As of now, Chinese strategy, based on contradictory actions and retardation, seems to be efficient.



Of course, politics based on a pattern of ambiguities can rarely be sustained for a long period of time. However, as long as it is in no participant's best interest to wage war with the People's Republic of China, the East Asian superpower can await – and build towards - a better setting of the conflict, one in which even an eventual legal process may have a more beneficial outcome for them (LI 2010).

It is not certain that a considerably better setting will come in the future. Nevertheless, for China, the current international strategy has so far resulted in successful retardation. Right now, it is a better way of conflict management than giving up their claims or kickstarting war by wielding „too much” assertive power without balancing it out with amicable actions.

The outcome will greatly depend on the strength of the

consensus between ASEAN states. If the Code of Conduct – or any similar agreement in the future – is negotiated by all members, perfect accord cannot be expected, taking into account the mere fact that claimant states and passive observers do not have the same interests in the region. Furthermore, some of the claimants have solid political and economic ties to the People's Republic of China, which definitely may alter their stance in future discussions.

If Vietnam as 2020 ASEAN Chair considers the factors described and works towards strengthening ASEAN ties so that they can be more durable than those of individual member states with China, the East Asian superpower might reconsider using the described ambiguities as part of their strategy – or at least, doing it as openly as it has been doing in the cases of UNCLOS and the COC.

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## **VI. Institutions and Policies of the European Union**

## VI.1. Creative industries in the economic structure of midsize towns in the Visegrad Countries

ZOLTÁN DOROGI<sup>129</sup>

### Abstract

*In this study, the creative economy of medium-sized towns with a population of between 100,000 and 300,000 in the Visegrad countries was analysed. The selection of this group of countries is justified by its diverse composition, colourful economic structure and variety of industrial backgrounds. The research focuses on the creative economy of the medium-sized towns in the East-Central Europe, and examines it in terms of the presence of so-called knowledge-intensive sectors. In this context, we also separate the individual economic sectors according to both a narrower and a broader interpretation of the creative economy. We found that in the sphere of the creative and knowledge-intensive economy, the sectors that are viewed as creative according to a broader interpretation are more typical, as opposed to the creative and research and development activities that are suggested by the more classical, narrow interpretation.*

**Keywords:** medium-sized towns, East-Central Europe, Visegrad countries, creative industries

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### VI.1.1. Introduction

The creative economy is an increasingly important part of the economy, as more and more groups of actors have the opportunity to become involved in creative thinking: in addition to research institutes and creative professionals, corporations and smaller companies have also established creative units. In the European Union's economy, the last few decades have been characterised by a process

of tercialisation, which means that a strengthened service sector can also be seen in the number of enterprises and employees. Within the tertiary sector, the privileged role of the creative industries is given in recognition of its creativity, its highly added value-orientated thinking and its approach towards the organisation of work, all of which explain why creativity is today seen as one of the factors underpinning international competitiveness. The presence of

creative industries in midsize towns can add dynamism to the economic role of these settlements, which can in turn boost their national and international role, contributing to the wider appreciation of the macro-region as a whole. This research therefore seeks to answer the question of whether the creative industries can be regarded as success factors contributing to the competitiveness of midsize towns in the Visegrad Countries. The creative industries are so-called soft factors, lauded as one of the factors influencing competitiveness today.

This study is a quantitative methodological research based on secondary data. To examine the creative industries, I used the topology developed by Eurostat (EUROSTAT 2009) and the ACRE project for knowledge-intensive activities. The data was collected from the EMIS - Emerging Markets Information Service, which is an international economic - financial database that has been created to support investors. It obtains data from the national financial and tax registers, ensures the authenticity of data that the sources are the national bases of annual financial and tax reports of companies. The

filtering system of the database allows collecting data at the settlement level.

### **VI.1.2. Differences in the definition of the creative economy**

Richard Florida's "creative class" approach to the creation and operation of the knowledge economy emphasises the conscious collaboration of local actors (FLORIDA, R. 2002). Based on these, the facilitator of the knowledge economy is the highly qualified human resource, plus the group of inhabitants who know and utilise its talents: for this reason, Florida's analysis supports an increase in the number of researchers and engineers (Talent). To create and use knowledge, it is essential to provide the appropriate technological background, the institutional and infrastructural environment of R&D (Technology). However, people's attitude to work is also important, i.e. openness to innovations, search for answers continuously and the socio-cultural, economic, and organizational background (Tolerance) (HOLLANDER, H. et al. 2019). (*Figure 37*)

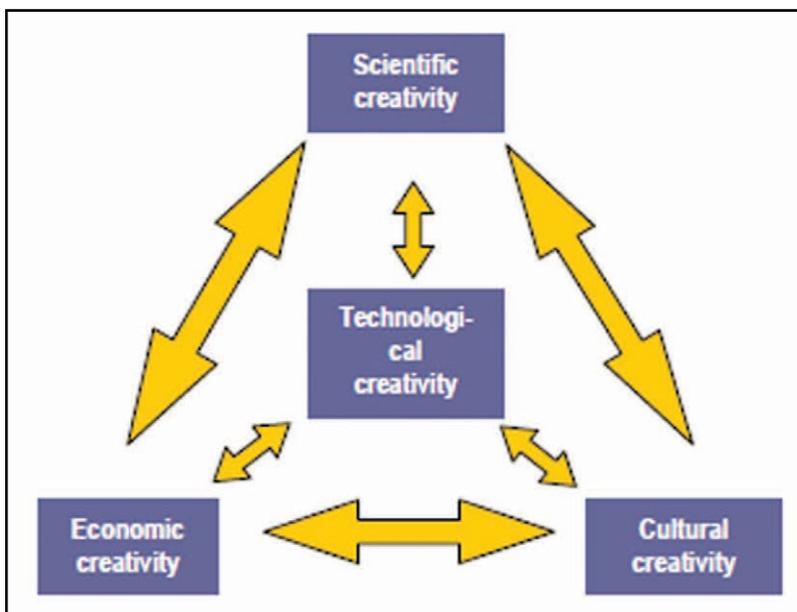


Figure 37: Appearance of creativity and relationship among creative industries

Source: KEA EUROPEAN AFFAIRS 2006 p. 42.

In addition to industry, the tertiary sector has become more important, based on a higher level of application of knowledge, because skilled and highly skilled workforce is not only capable of more efficient work processes, but also produces higher added value due to increasingly complex activities (SÁGVÁRI B. 2005; DG INTERNAL MARKET, INDUSTRY, ENTREPRENEURSHIP AND SMES 2016). Creativity is defined in the literature as one of the key factors for competitiveness (HALL, T. – HUBBARD, P. eds. 1998; FLORIDA, R. 2002). According to them, the competitiveness of cities is more and

more determined by cooperation of innovation, creativity and public administration. Florida, R already basically considers today's economy as a whole to be a creative economy, where the most important resource is knowledge; its proper exploitation ensures the development of the economy (HOLLANDER, H. et al. 2018). Growing number of workers participates in creative industries, the so-called creative class has been formed which is responsible for producing knowledge, developing newer and newer responses (PECK, J. 2005; DG INTERNAL MARKET, INDUSTRY, ENTREPRENEURSHIP AND

SMEs 2016). To understand the importance of creativity and the creative industry, it is necessary to define the phenomenon more precisely by placing it in context (UNCTAD 2010; 2013). Literature of scientific research also offers an opportunity for this, as it is characterized by a broader interpretation instead of

a uniformly accepted definition. Strictly speaking, the interpretation approaches creativity from the point of view of culture and creative art, while the broader one demonstrate the aspects of intellectual work, so practically any intellectual activity is perfectly acceptable (DG EDUCATION AND CULTURE 2010). (Figure 38)

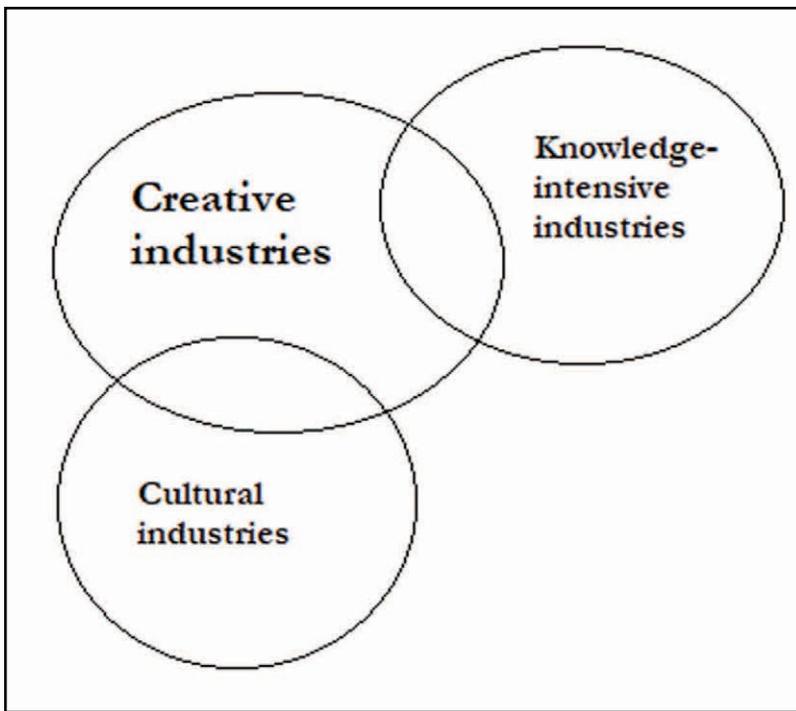


Figure 38: Outline structure of the creative economy  
Source: SÁGVÁRI B. – LENGYEL B. 2009 p. 19.

Creativity and competitiveness have become part of the definition of knowledge-based economy, but it is important to note that examples of creativity

cannot be measured and compared in isolation, but instead need to be evaluated on the basis of the goods they produce and their market value (SÁGVÁRI B. 2005). A study by

the European Commission (KEA EUROPEAN AFFAIRS 2006) seeks to answer the basic questions relating to creativity, while the connected nomenclature defined by the OECD is based on technological standards, and defined by factors of production, technology and product knowledge intensity (OECD 2001). Creativity contributes to specialisation, involving both the industrial and service activities of regions, where these actors are able to produce the greatest added value, thereby gaining a significant competitive advantage (DG EDUCATION AND CULTURE 2010). This process of specialisation in turn points towards new, potentially viable economic activities and sectors, as well as to cooperation opportunities (BORSI B.– VISZT E. 2010). Specialisation gives rise to new potential sectors of the economy, so by recognising them, it is possible to encourage their activity (SZAKÁLNÉ KANÓ I. 2012). Among other things, in cities demand is growing in the service sector for smart solutions in the area of healthy lifestyle, sports, health, tourism, and culture. The creative industries already represent a new approach towards both job creation and economic activities (KOVÁCS Z. et al. 2011). Eurostat's classification of economic activities is based on the OECD nomenclature; data is also available

for the long term in respect of different territorial breakdowns, something which makes spatial analysis possible. High-tech, medium-high-tech manufacturing sectors and knowledge-intensive service sectors were nominated due to technological standards. In the framework of the ACRE Project<sup>130</sup>, activities were separated and this classification has become generally accepted. The IT sector, research and development, creative industries, legal-business, financial activities and knowledge-intensive activities were distinguished in the ACRE classification. Eurostat adopts the following breakdown: medium-high-tech manufacturing, high-tech manufacturing, high-tech knowledge-intensive service, other knowledge-intensive service, market knowledge-intensive service, financial knowledge-intensive service (JENEY L. – VARGA Á. 2016). The data was collected from the EMIS – Emerging Markets Information Service, which is an international economic – financial database created to support investors. It obtains data from the national financial and tax registers and ensures the authenticity of data that the sources are the national

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130 ACRE Accommodating Creative Knowledge – Competitiveness of European Metropolitan Regions within the Enlarged Union, ID: 028270, <http://acre.socsci.uva.nl/>

bases of annual financial and tax reports of companies. The filtering system of the database allows collecting data at the settlement level. This analysis was prepared for 2017, due to the fact that the changes generated by the economic crisis have already taken place; they have been integrated into the urban economy. It is possible to choose the group of active, operating companies by omitting non-functioning, inactive organisations. The areas of activity can be selected on the basis of the Eurostat classification presented above.

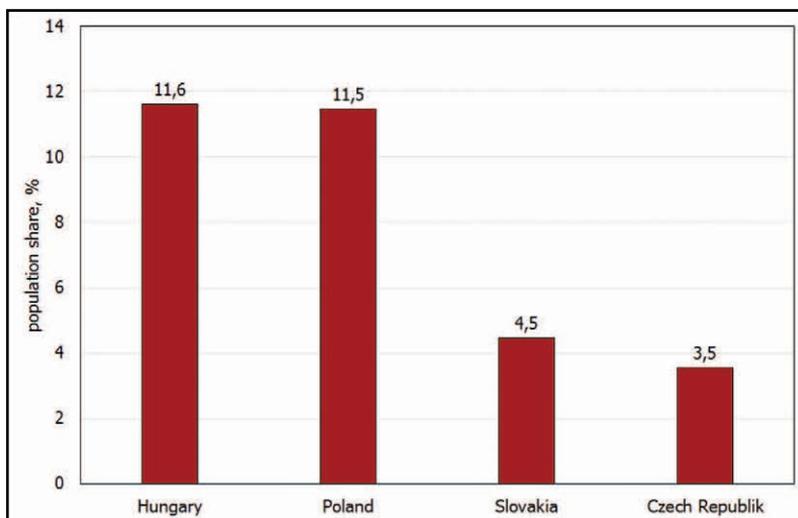
### **VI.1.3. Creative industries of midsize towns in V4 Countries**

The aim of my research is to map the creative sectors in the midsize towns of the Visegrad Countries, which also draws attention to the competitiveness of this group of settlements and the macro-region within the European Union (HOLLANDER, H. et al. 2018; 2019). Outsourcing of mostly labour-intensive production activities can be observed from the central regions towards peripheral ones, as a result of global economic policy trends in the recent years (LENGYEL, B. – SÁGVÁRI, B. 2009; KISS É. 2010). In the case of midsize towns, the role played by these

factors is important and influences competitiveness, as the economies of these towns and their narrower areas are more exposed to external changes (KRESL, P. K. – IETRI, D. 2016). Analysing the creative economy shows how innovations and the knowledge are utilised actors in the market, as well as to what extent this is a real competitive advantage for other actors in the economy (PECK, J. 2005; SZIRMAI V. szerk. 2009). In her monograph, Éva Kiss draws direct attention (KISS É. 2010) to the fact that the processes restructure the economic structure, taking place as a result of the economic reorganization of the last decades (MONTALTO, V. et al. 2018), especially in the industrial sector. The use of space in developed sectors is more moderate due to their smaller space requirements, but this does not mean a decrease in their significance and competitiveness. Specialisations appearing in more industrialised areas, as well as horizontal-vertical collaborations (clusters, supplier networks, other forms) increase the competitiveness of market actors, thus they can play a significant role in shaping the spatial structure of the narrower and wider area. The relationship that exists between creativity, the creative environments and the competitiveness of regions and cities has long been a well-

known phenomenon. In addition to international companies and universities, academic research institutes, the micro, small and medium-sized enterprise sector also demand attention in the study of the creative economy. Due to their resilience, these actors are able to react to changes as soon as possible, search for solutions, apply them and appear on the market (HOLLANDER, H. et al. 2019). Furthermore, these organisations are at the forefront of specialisation, as they perceive market needs as early as possible, so they can take advantage of their potential. From the point of view of the Visegrad Countries, progress is made in the increase of the proportion of tertiary and quaternary activities in the economy of this region, the number of people employed in creative activities, and the expansion of investments in this area. (BORSI B.–VISZT E. 2010; JENEY L. – VARGA Á. 2016) Despite the outstanding nature of the research field, it is basically one of the less studied areas for midsize towns (JELINEK Cs. et al. 2013; KRESL, P. K. – IETRI, D. 2016). Midsize towns with a population of between 100 and 300 thousand people are typically

regional centres, so although they play a significant role at the national level, they nevertheless receive less attention in studies of global competition (MONTALTO, V. et al. 2018). However, their influence and their spatial organising power extends to their neighbouring area, to a region, and they usually have the actors and the institutional background that together determine its economy. Their economic and cultural coordinating role is enhanced by the universities and research institutions located here. My study group includes midsize towns from all Visegrad Countries: 3 from the Czech Republic, 28 from Poland, 8 from Hungary, and one from Slovakia (Appendix 1). According to Eurostat data, the population of the Visegrad Countries at the 2011 census was 63.8 million. The selected group of midsize towns had a total population of 6.14 million, 9.62 percent of the group's population. In the Czech Republic, 367 thousand people (3.5) lived in midsize towns, in Poland 4.37 million people (11.48), in Hungary 1.16 million people (11.72), in Slovakia 240 thousand people (4.4 percent) (*Figure 39*)



*Figure 39: The population share of midsize towns in the total population in Visegrad Countries, 2011.*

*Source: EUROSTAT*

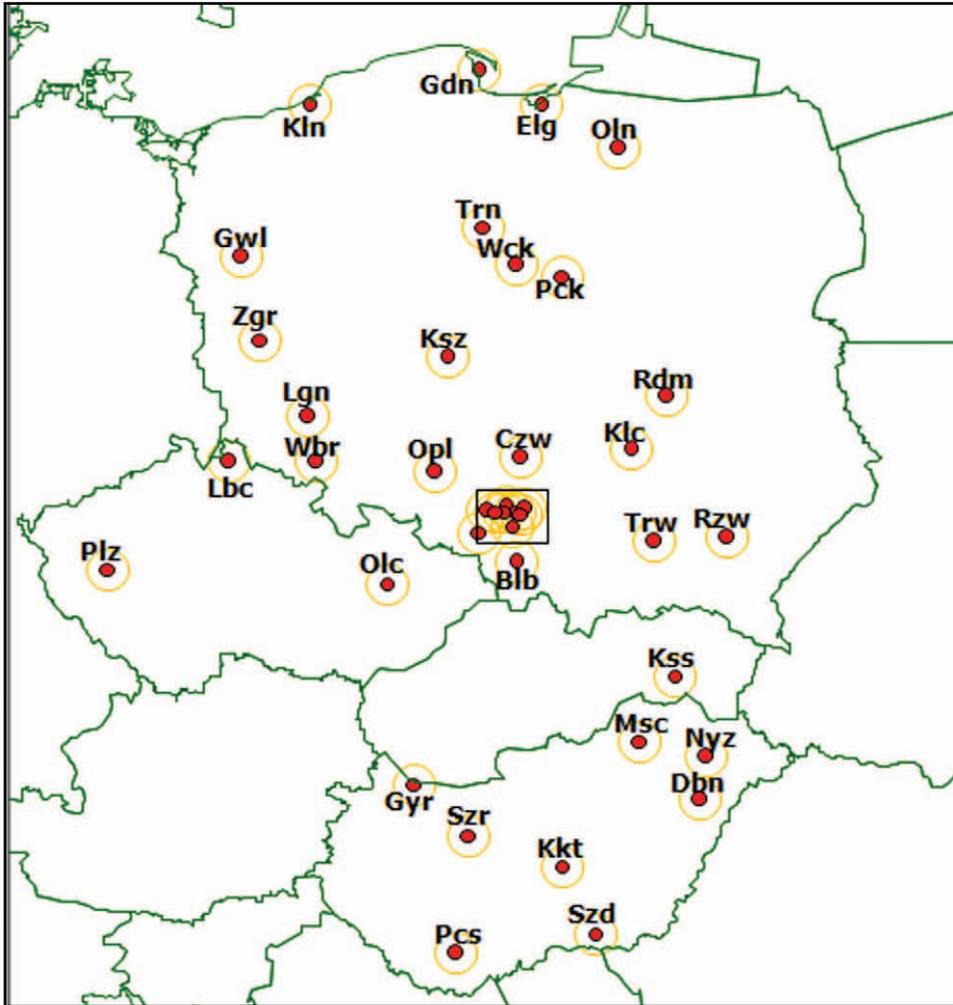


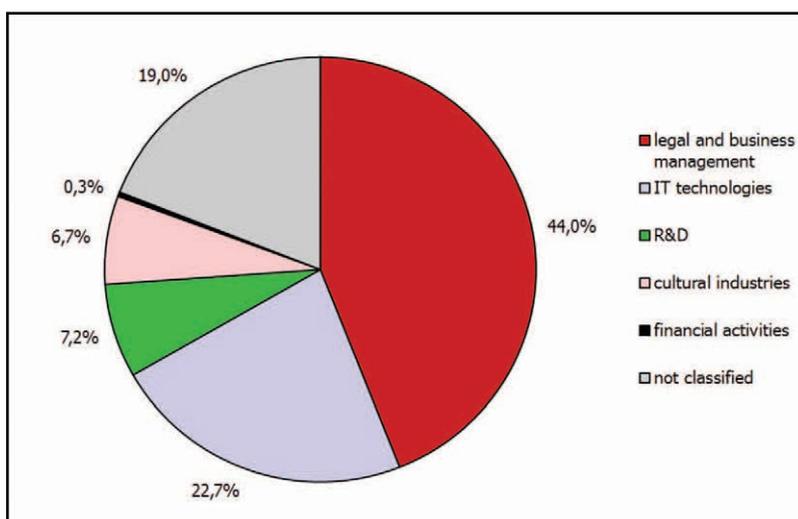
Figure 40: Geographical distribution of midsize towns in the Visegrad Countries  
Source: Edited by Zoltan Dorogi

As a result of the analysis of the economic processes and spatial structure of the midsize towns in the Visegrad Countries (Figure 40), it can be stated that in the field of creative sectors the activities are typical from the perspective of the broader interpretation, as

opposed to the classical, narrow-interpretation, which restricts the group only to creative and research and development activities. In the field of the creative economy, the over-representation of background activities and areas supporting the economy can be

clearly seen (*Figure 41*): legal and business management, business management activities (44 percent), engineering and technical services, telecommunications and information services (22.7 percent). Obviously, these activities are more strongly connected to local-regional enterprises and institutions; these ensure their daily operation as a background

environment. In contrast, financial activities reached only 0.34 percent of the total creative activities. As the basis of the creative and knowledge economy, the role of the manufacturing industry is prominent, especially in the field of highly added value sectors: chemicals, pharmaceuticals, machinery and car industry.



*Figure 41:* Proportion of creative activities in the midsize towns of the Visegrad Countries according to the ACRE classification, %, 2017.

*Source:* EMIS

The share of creative and knowledge-intensive sectors in the narrow viewpoint is moderate among other typically supportive areas. Scientific research and

development and classical creative activities (*Table 16*) account for barely 13.74 percent of all enterprises.

Broadcasting	Film, video, television program production, sound recording publishing
Arts, Entertainment, and Recreation	Other Professional, Scientific, and Technical Services
Publishing Industries	Gambling Industries
Sports, entertainment and leisure activities	

*Table 16:* List of creative activities from the classical, narrow viewpoint.

*Source:* Compilation of Zoltan Dorogi

Concentration can be observed in some activities, but further research is needed on industrial and economic specialisation at settlement level (*Figure 42*). IT technologies are connecting to both high-tech manufacturing and high-tech knowledge-intensive services. High-tech manufacturing (4 percent) and medium-high-tech manufacturing (17.8 percent) account for 21.8 percent of all businesses, more than one-fifth of all activities. This shows a strong connection of creative activities with the manufacturing industry, so on the basis of the manufacturing

industry the setting up of creative activities can also be more efficient. Two-thirds (67.4 percent) of high-tech knowledge-intensive services (28.5 percent) were related to IT technologies, 25 percent to R&D activities, and a further 7.6 percent to cultural activities. The share of other knowledge-intensive services is only 4.6 percent, but the creative industries mostly fall into this category (99 percent). Market-oriented knowledge-intensive services accounted for 44.66 percent of all activities, while the ratio of financial knowledge-intensive services was 0.34 percent.

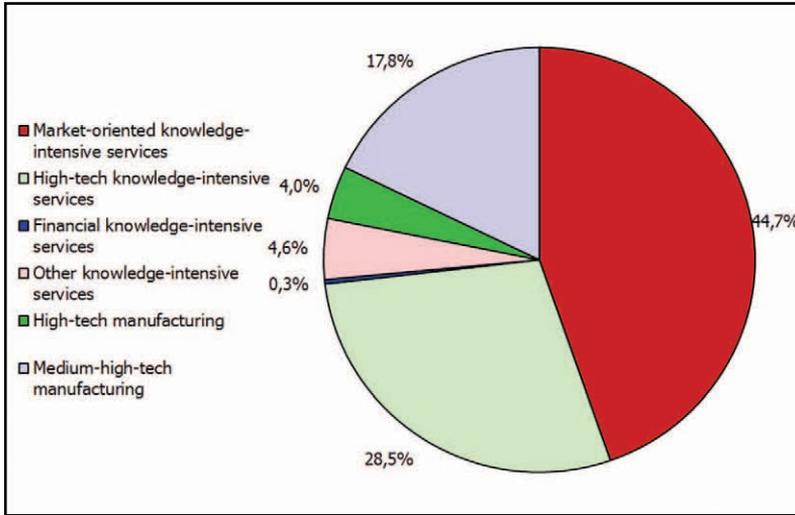


Figure 42: Proportion of creative activities in the midsize towns of the Visegrad Countries according to the EuroStat classification, %, 2017.

Source: EMIS

The concentration in the medium-high-tech and high-tech manufacturing industries, as well as in the field of high-tech knowledge-intensive services, can be described as a kind of specialisation, based on existing manufacturing capacities. Legal and business matters account for almost half of the activities in the creative sector, and the data for midsize towns, analysed one by one, can show the correlations between number/ratio of legal and business activities and the importance of the creative sectors. After that, IT, information technology and services are highlighted, which can be a kind of indicator of creative activities in the Visegrad Countries. The low figures for the

financial sector may be connected to the fact that in the midsize towns these institutions typically appear only in one location, while their main activities mostly take place in the cities. The presence of creative activities also provides an attractive milieu for knowledge capital, a closer connection with other stakeholders, for learning about and transferring knowledge and innovations (LENGYEL, B. – SÁGVÁRI, B. 2009; HOLLANDER, H. et al. 2019; MONTALTO, V. et al. 2019). Orientations range from Fordist, assembly-type work to highly skilled activities, and the emergence and expansion of new industries signals new directions for economic actors as a result of investments

(LUX G. 2009). Specialisation makes the new potential sectors of the economy clear, and it is possible to encourage these sectors by recognising them and seeking accurately to understand their needs, as they contribute both to attracting investments and to regional economic development.

#### **VI.1.4. Conclusion**

According to the research, the creative industries also appear prominently in the economic structure of the midsize towns in the Visegrad Countries with a population of between 100 and 300 thousand, which supports the modernisation of their economies. Thus, the midsize towns take part in the global economic process that is accompanied by the reorganisation of economic activities. The strengthening of the creative industries is clearly linked to the specialisation of the economy, and to the establishment of the knowledge industry. By establishing links with industry and becoming embedded in the local environment, developing creative industries indicate the strengthening of the competitiveness of the

analysed group of midsize towns. Based on the internal proportions of creative activities, it can be seen that a broader approach to creativity clearly prevails, as opposed to the classical interpretation of creativity. A high proportion of activities is related to background economic activities, a fact which draws attention to the existence of a critical mass or cluster of economic actors. The distribution of activities also confirms that the creative sectors are often related to the existing, knowledge-intensive manufacturing industry, so the existence of that industry facilitates the establishment of creative industries. Due to this, on one hand, it can be said that the traditions and economic structure of midsize towns determines the development of the creative industries at the settlement level. On the other hand, the presence of IT services and information technology shows the adaptability of the population and the economy, a fact which points to the growing importance of creative workers. Thus, as the midsize towns seek new economic ways forward, both support for the established economic factors and the seizing of new opportunities look achievable.

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**VI.1.6. Appendix**

midsize town	cou	population 2011	midsize town	cou	population 2011
Bielsko-Biała	PL	174534	Olomouc	CZ	99527
Bytom/Beuthen	PL	176902	Olsztyn	PL	174645
Chorzów	PL	111692	Opole/Oppeln	PL	131867
Częstochowa	PL	236796	Pécs	HU	156049
Dąbrowa Górnicza	PL	125905	Płock	PL	124553
Debrecen	HU	211320	Plzeň	CZ	167648
Elbląg	PL	124668	Radom	PL	221287
Gdynia	PL	249139	Ruda Śląska	PL	142510
Gliwice/Gleitwitz	PL	187474	Rybnik	PL	140924
Gorzów Wielkopolski/ Landsberg W.	PL	124534	Rzeszów	PL	179952
Győr	HU	129527	Sosnowiec	PL	216420
Kalisz	PL	105386	Szeged	HU	168048
Kecskemét	HU	111411	Székesfehérvár	HU	100570
Kielce	PL	202196	Tarnów	PL	176902
Košice/Kassa	SK	240433	Toruń	PL	111692
Koszalin/Köslin	PL	109248	Tychy	PL	236796
Legnica/ Liegnitz	PL	103238	Wałbrzych/ Waldenburg	PL	125905
Liberec	CZ	101607	Włocławek	HU	211320
Miskolc	HU	167754	Zabrze	PL	124668
Nyíregyháza	HU	119746	Zielona Góra/ Grünberg	PL	249139

*Appendix 1: List of midsize towns and number of their population in the Visegrad Countries, 2011*

*Source: compilation of Zoltán Dorogi*

## VI.2. A critical analysis of the EU's image as a model for Regionalism: Some Lessons from the Eurozone crisis

MELEK AYLIN ÖZOFLU<sup>131</sup>

### Abstract

*With its sui-generis institutional structure, the European Union (EU) is the most successful regional grouping in the world today. Therefore, it is usually referred to as a role model for other regional initiatives. In this respect, the mainstream literature puts its emphasis on the EU's exportability to other regions as an example of diffusing regionalism. In this context, this research seeks to address how the Eurozone crisis has affected the concept of regionalism in Europe. Accordingly, it argues that because of the eruption of the crisis within the European political context, the EU's image as the diffuser of regionalism might have been stalemated. This is because it triggered the nationalist and sub-nationalist waves along with the sentiments of Euroscepticism and anti-globalization all around Europe. In this vein, this article will investigate how the concept of regionalism is contested by the crisis context of the EU both at the sub-national and the supra-national levels.*

**Keywords:** regionalism, new-regionalism, European Union, Eurozone crisis, regionalization

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### VI.2.1. Introduction

After the end of the Cold War, which would imply the transformation of the traditional Westphalian nation-state and national borders, regionalism has gained critical importance in the face of the changing power distribution in the international system. In the multipolar world order, the collective regional

projects mainly driven by functional motives such as the access to the international markets in the face of the fast-growing economic and financial globalization process have gained a remarkable pace (BARBIERI, G. 2019). European integration, having a common identity, common goals within a specified geographical region is described as the most successful and important example of supranational

regionalism. That is why it is usually referred to as the 'model' for other regional initiatives. In this respect, the mainstream literature puts its emphasis on the EU's exportability to other regions as the model of diffusing regionalism (for overviews see Börzel and Risse, 2009; Lenz, 2015; Risse, 2015; Haastруп, 2013). However, this research argues that because of the eruption of the Eurozone crisis within the European political context, the EU's image as the diffuser of regionalism might be stalemated. This is because the Eurozone crisis has aggravated the tension between the supranational and subnational regionalism along with the sentiments of Euroscepticism and anti-globalization all around Europe. Therefore, the well-known phrase 'Sovereignty is Back, Integration Out' at the supra-national level uttered by Andrés Malamud is highly in question (MALAMUD, A. 2012). In addition, it has also reverberated the tension between supranational and subnational regionalism within the EU whose supranational structure has heavily affected the distribution of sovereign and representative powers within the domestic political context of the member states (TOSTES, A. P. 2013). While scholars (KENICHI, O. 1993; ALESINA, A. – SPOLAORE, E. 1997;

HOPKINS, J. 2007; ELLISON, D. 2008) previously associated the factors driving the desire for subnational regional autonomy with ethnic identity and democratization, this paper contributes to the existing literature by including the repercussions of the crisis which threaten the political economy interests of the subnational regional entities. Therefore, this article aims to fill this gap by contributing to the relevant regionalism literature.

To this end, this article aims to explain how the EU's image as a successful example of regionalism has been affected by the Eurozone crisis. The hypothetical background of this article argues that the success of the European integration as a diffuser of a certain model of regionalism cannot be maintained unless the Member States are willing to give up their individual interest to the collective interest. Accordingly, this article will first briefly discuss the concept of regions and regionalism in order to build up a definitional standpoint. That would provide a basis for the connection between regionalism and context of the EU. Secondly, it will shift to the EU and its integration process within the framework of the success of regional integration. Then, it will deal with the Eurozone crisis as triggering the cleavages among the

member states. In this way, it will question whether repercussions of the crisis did put the EU's image as a role model for regionalism into danger. After clarifying this inquiry, this article will be concluded with some findings of the research.

## **VI.2.2. Regions and Regionalism**

Despite the widespread interest in regionalism, there is a lack of consensus on the definition of the term within the literature. Regionalism is interpreted differently by different academic fields in different contexts and time-periods. Therefore, regionalism emerges as a contested phenomenon. In part, it comes from the fact that there is also no consensus on the definition of the concept 'region' itself (MANSFIELD, E. D. – SOLINGEN, E. 2010). In fact, where one region ends and the next begins is not clear. Moreover, every academic discipline has its own definitional standpoint to provide a basis for the framework of research. Within the international relations, there is a cleavage between rationalist and constructivist interpretations of the term. Rationalist explanations define regions through using more material delineations such as economic, institutional and intra- and interregional ties between

the States (Russett 1967). In this respect, political, economic and cultural factors play in the transformation of the regions (VÄYRYNEN, R. 2003). For example, during the Cold War, the regions were divided based on political and military motives which reinforced the establishment of organizations such as the North Atlantic Treaty Organization (NATO). However, the fragmentation of the great-power blocs since the 1980s led to the rise of sub-regional and micro-regional organizations such as the Visegrad Four, Shanghai group and Baltic Council of Ministers.

On the other hand, a constructivist definitional standpoint explains the appearance of the regions with the redefinition of the norms, identities, civic groups (VÄYRYNEN, R. 2003). The idea of what constitutes a region is subject to political actors' perceptions, their interpretations, and social constructions (KATZENSTEIN, P. J. 2005). Söderbaum defines that values and objectives contribute to the creation of a particular region or type of world order (SÖDERBAUM, F. 2003). Falk in his valuable contributions to the existing literature explains the contributions of regionalism in achieving world order values including peace, human rights and democracy (FALK, R. 2003). Katzenstein argues that

“regions are politically made” (KATZENSTEIN, P. J. 2005 p. 9.). This may be interpreted as that there are no natural ‘regions’. Accordingly, through social construction, regions are formed based on a collective perception of identities which leads to the creation of culture blocs. Actors create the social facts to which agentive or non-agentive functions are assigned. In this sense, constructivism regards the construction of the regions as a server to the political and economic ends.

Hettne argues that international relations treat regions as “supranational subsystems of the international system” (HETTNE, B. 2005 p. 544.). This subsystem consists of certain geographical proximity within which the states having shared perceptions interact extensively (THOMPSON, W. R. 1973). In this sense, high economic interdependence between a group of countries along with the shared political attitudes and values emerges (Deutsch 1957). Moreover, they are tied by their security concerns. That is why considering the economic, ecological and strategic interdependence, states of a given region are counted as being the members of the same ‘club’. Therefore, Hurrell argues that states should prioritize regional interests rather than the national egoisms

for the sake of forming cooperation at the regional level (HURRELL, A. 1995). Here, the tension between ‘full’ sovereignty of the states and subordination of the individual interest to the collective interest emerges. The issue is often in question within the context of the European integration which has necessitated states’ giving up their sovereignty in specific areas to the supranational competency of the EU.

The context and content of the regionalism became also subject to the transformation because of the shifting nature of world politics and the recent rise of globalization (HETTNE, B. – SÖDERBAUM, F. 1998; SÖDERBAUM, F. 2012). Thus, there is a distinction between the old and new debates of regionalism. Old regionalism refers to the limited scope of free trade arrangements and security alliances within the bipolar world structure (SÖDERBAUM, F. 2003). On the other hand, new regionalism is used as a post-Cold War term when economic globalization, which is boosted by regional institutionalization and regional groupings, has risen dramatically (RUMLEY, D. 2005). Moreover, the post-Cold-War era implied the increasing importance of regionalism in the multipolar world which provides a suitable ground for the rising powers to exert

their influence by strengthening their international positions thanks to regionalism (HETTNE, B. 1994). In this respect, new regionalism is associated with the transformation of the global structure towards globalization with the change in the world order, relative decline of the US hegemony, emergence of the economic blocs i.e. EU, NAFTA, Asia-Pacific, growth of economic interdependence, transnationalism and increased importance of the non-state actors (HETTNE, B. – SÖDERBAUM, F. 1998). Therefore, today the regionalism appears as a more complex phenomenon.

Accordingly, since there are different interpretations of the regions, there is no consensus on the definition of regionalism either. While some theorists define regionalism from a state-led perspective as a state-led project (GAMBLE, A. – PAYNE, A. 2003), others regard regionalism as a political project which promotes specific type of ideas, identities and ideologies within a given regional space (BØÅS, M. et al. 2003; HETTNE, B. 2003; 2006). In fact, the latter definitional standpoint comes from the fact that many new regionalism theorists incline to go beyond the state-centric approach in explaining regionalism to which the non-state actors are also heavily involved. Such an explanation implies the

transformation of the notion of traditional ‘Westphalian’ nation-state in the face of globalization (Cooper, Hughes & de Lombaerde 2008). Moreover, emphasis on the weakened capacity of the state in state-society complexes brings also Polanyian ideas regarding the political role of the civil society (SÖDERBAUM, F. 2003).

### **VI.2.3. The European Integration and Regionalism**

Regionalism as an attempt of the open-ended process of region formation is often associated with the institution-building (SÖDERBAUM, F. 2012). In fact, there are several regional organizations besides the EU covering the cooperation of states in economic, security and political spheres such as the African Union (AU) or the Association of Southeast Asian Nations (ASEAN). Nevertheless, with its highly elaborated institutionalization towards becoming a regional trading hub (Malamud & Schmitter 2011), European integration often provides the main role model to theorize the regional experiments. Moreover, while international organizations such as ASEAN remains a purely intergovernmental organization, the EU encompasses some degree of supranationalism as

well (CAMROUX, D. 2008).

In order to fully acquire the dynamics of regional integration initiatives, it is necessary to point out the main difference between regional cooperation and regional integration. In this way, the sui-generis formation of European integration may be uncovered in a more systematic way. Accordingly, regional cooperation refers to joint attempts of neighboring states to reach a cooperative solution in specific areas (WINTERS, L. A. – SCHIFF, M. 2002). In this respect, regional cooperation (especially economic) refers to the regional phenomenon in the rest of the world (CHRISTIANSEN, T. 2001). However, because of past problems and thus lack of trust between them, there is a high possibility that they end up not reaching any cooperative solution. Moreover, other constraining factors include financial burden-sharing and complex decision-making process aiming to maximize the interests of each state.

On the other side, Haas argues that the study of regional integration explains the reasons why states give up their full sovereignty in specific areas (HETTNE, B. 2006). The concept of integration is categorized by Joseph Nye as economic integration, social integration, and political integration (HETTNE, B.

2006). In this sense, from a neo-functional perspective, European integration is mostly referred to as a spillover of a common policy into areas of other common policies. Therefore, European integration is regarded as a form of incremental cooperation in economic, social and political fields. This form of cooperation invoking the idea of 'ever closer Union' was based on the calculation that each new step towards more integration which necessitated short-term sacrifices would bring long-term gains to the member states (HALL, P. A. 2015).

In fact, there are numerous other theories explaining European integration with different perspectives and reasons including intergovernmentalism, functionalism, neo-functionalism, liberal institutionalism or constructivism. However, what matters most for the main purpose of this article is to enlighten the underlying reasons for such integration. Whatever the approach is, the main driving factor in promoting regionalism through integration has been the preservation of sustainable peace and peaceful coexistence in the region (Haas, 1971). European integration was achieved through the elimination of the rivalry between France and Germany and through de facto solidarity to prevent the repetition

of the two world wars.

To this end, Germany was highly ready to adopt a federal system which would weaken the German nationalism for the sake of European integration that would overcome its economic and political isolation from the rest of Europe. In this sense, European integration aimed to overcome or abandon the mentality of 'nationalism' which had led to detrimental rivalry between European nations (SZUL, R. 2015). That is why European integration emerged as an antidote to the Nation States and nationalism which would European integration and regionalism as two allies. In this respect, European integration has foreseen weakening of nationalism, decentralization of the State power both in political and economic terms. In fact, the envision to preserve the peace did go hand in hand with the economic growth in the war-torn continental Europe. Economic unification marked the removal of barriers, curtailing of state intervention and preventing of distortion of competition and the free movement of goods, services, capital and labor with a certain degree of harmonization of the legislation at the European level (Egan 2010). To this end, the stages towards the economic integration i.e. Free Trade Area, Customs Union, Single Market

were followed by the member states (Egan 2010). With these aspects of transborder elimination of the rise of the nationalism and economic liberalization, EU is seen as the true agent of the globalization boosted and completed by regionalist aspirations.

The decades of European collaboration resulted in the establishment of the European Monetary Union (EMU) which appeared as the integral aspect of the Union. The institutional design of the EMU was based on the uneven integration of macroeconomic policies encompassing centralized monetary policy and decentralized fiscal policy (SCHIMMELFENNIG, F. 2014). Accordingly, the monetary policy is handled at the independent level of the European Central Bank while the EU has no legal competence over the fiscal policy of the Member States such as taxation, getting into debt or bailing out (SCHIMMELFENNIG, F. 2014). This institutional structure has paved the way for the aggravation of the Eurozone crisis, which appeared as an impediment to its image of the diffuser of regionalism. The structural reforms implemented during the crisis will be enlightened in the following to provide an elaborative analysis of the EU's commitment to its wave of regionalism.

### VI.2.4. European Integration as Sub-National and Supra-National Regionalism

This article regards two-faceted regionalism in Europe namely as sub-national and supra-national. While sub-national regionalism is explained as related to regions as the part of the nation-states, supra-national regionalism is explained as related to the integration of states belonging to the same world region (SZUL, R. 2015). Highlighting this difference is of critical importance since the

regional frictions at the sub-national level, which was witnessed during the Eurozone crisis highly stemmed from the divisions between central and regional governance. This is because Western Europe is encompassed of a variety of subnational regional structures such as federal, constitutional/legislative and local government regions as clearly outlined (HOPKINS, J. 2007). (Table 17) Accordingly, during the crisis, the EU’s supranational competency has triggered an already existent tension between the national governments and sub-national regional entities that have no place at the international table.

federal systems	constitutional/legislative regions	local government regions (examples)
Germany	Spain	France
Austria	Italy	Sweden
Belgium	Scotland, Wales & N Ireland (UK)	Denmark
	Aland (Finland)	Poland
	Azores and Madeira (Port)	

Table 17: Sub-national regional structures in Western Europe  
 Source: HOPKINS, J. 2007, p. 23

These frictions were aggravated because of the system of redistribution of money from richer regions to poorer ones as in the example of Spain and Catalonia or Scotland and the United Kingdom (UK) (SZUL, R.

2015). Therefore, from a political economy perspective, subnational regions economically doing better than the other regions are viewed as the principal losers (ELLISON, D. 2008). Alesina and Spolaore explain that integration to the supranational

institutions deepening the trade relations reduces the dependency on the state, which in return triggered the aspirations for greater regional autonomy (ALESINA, A. – SPOLAORE, E. 1997). The demands for self-determination of the richer regional entities came into question. The real paradox here is that regional entities aspire self-determination by becoming independent from the national governments however that does not necessarily mean that they have an anti-Euro-sceptic stance. The most remarkable example representing this paradox is Scotland which already organized a referendum for independence in 2014 (SCHNAPPER, P. 2015). EU's role in the Scottish referendum campaign is beyond the scope of this research. Nevertheless, this separatist movement has also affected the supranational level when the regions have attempted to call for a referendum on independence in the Member States because of the possible domino effect in other sub-national regions e.g. Catalans, Corsicans, Flanders and Basques.

### **VI.2.5. The Eurozone Crisis of 2009**

Against the promising background of the European integration described as often

ambitious and successful as being the most developed model of regionalism so far, the integration came to the point where massive cleavages among the member states along with the politicization emerged. This is where the hypothesis of this article comes from as already defined that the success of the European integration as a diffuser of a certain model of regionalism cannot be maintained unless the Member States are willing to subordinate the individual interest to the supranational level of collective interest. The crisis emerged as the rising of conflicting interests and priorities of the Member States which triggered the drift towards nationalism and Euro-scepticism within the European political context (ÖZOFLU, M. A. 2017). As a result, the Eurozone Crisis has first brought the sense of solidarity into question which would result that the notion of European identity as the facilitator of the aspirations of regionalism would be contested (ÖZOFLU, M. A. – KAHRAMAN, S. 2019). That was because of the fact that the reason for adopting common currency was an ambitious step towards building an upper collective identity at the European level (GALPIN, C. A. 2015). In this sense, that can be also interpreted as an ambitious aim towards realizing the aspirations of

regionalism. Therefore, the crisis was interpreted as both an economic and an identity crisis. Later, it also turned into a political one because of the design flaws of the EMU (ERGIN, N. E. 2013) and because of the friction between solvent and insolvent States which invoked harsh bailout debates (NICOLI, F. 2017).

In this sense, the Eurozone crisis reactivated the core-periphery divide or North/South split- manifested itself as Germany versus Greece or Spain- within the EU encountered at the level of 'supranational regionalism'. The member states which have been unwilling to subordinate their individual interests to the collective interest have been the ones financially doing well such as Germany and the Netherlands. The tension, especially between Greece and Germany, was self-evident during the bail-out negotiations. Firstly, the 'conditionality' which was imposed on Greece and other debtor member states, was a highly repeated term along with a threat of 'Grexit' during each round bailout negotiations (THEODOROPOULOU, S. 2016). Germany was extremely strict regarding the fiscal austerity measures and necessary policy changes in Greece (THEODOROPOULOU, S. 2016). Austerity measures taken by the

elites triggered a mass reaction at the public level. In their valuable contribution Hooghe and Marks (HOOGHE, L. – MARKS, G. 2009) argue that the European public shifted from 'permissive consensus' to 'constraining dissensus' with regard to the EU-level decision-making mechanism. In this respect, Eurozone crisis symbolizes the post-functionalist moment when the politicization of the European integration has increased unprecedentedly (SCHIMMELFENNIG, F. 2014). Accordingly, long-standing financial crisis has triggered the protectionist tendencies at the EU-wide level (New Delhi Times Bureau 2014). The concrete proof of such tendencies was the rise of Eurosceptic parties within the European political setting. It was affirmed by the victory of the Greek radical left SYRIZA which adopted an anti-austerity stance in January 2015 (New Delhi Times Bureau 2014). In a general overview, deteriorating economic situation that invokes the tendency of preserving national priorities limits the suitable ground which provides regions to act in collaboration in the economic sphere.

In this respect, the protectionist tendencies are felt also at the sub-national level by increasing dissatisfaction with the interregional distribution of funds

in regions. The crisis has triggered the calls for independence from member countries' richer regions (ERLANGER, S. 2012). This is because the richer and more productive regions consider themselves as being exploited by poorer regions within the Member States (New Delhi Times Bureau 2014). There happened a cleavage between them as net givers and net takers. That is why the independence debates of some regions from the member states came to existence. The most salient example that can be traced for the repercussions of the economic crisis on the policy on regionalism at the sub-national level has been Spain. Accordingly, the economic performance and austerities along with the revealed corruption and political sclerosis pushed Catalonia, which is a relatively richer region, towards independence (MASON, P. 2017).

On the other hand, to provide an elaborative analysis of the EU as an example of regionalism in the context of crisis, mentioning EU level measures to solve or at least manage the crisis is of critical importance. In fact, the Eurozone crisis has resulted in critical initiatives towards more fiscal unity and centralized control over national banks and budgets. This can be described as the 'functional spillover camp' by the elites who

were looking for functionally efficient and politically feasible solutions (HOOGHE, L. – MARKS, G. 2009). Therefore, measures were envisaged towards creating emergency funds and increasing the budgetary discipline in the member states (BEUKERS, T. 2013). Moreover, they came in the form of intergovernmental treaties to avoid both the increase in supranational competency of the EMU and revision of the major treaties, which could have implied the ratification by referendum in the Member states. The response was based on the strengthened cooperation of article 136 of Treaty on the Functioning of the European Union (TFEU) which was introduced to "(a) to strengthen the coordination and surveillance of their budgetary discipline..." in order to "...ensure the proper functioning of economic and monetary union" ( article 136(1) TFEU).

Accordingly, the first important step was taken to revise the infamous non-bail out clause which had triggered the triple sequence of financial crisis, sovereign debt crisis and Eurozone crisis (SCHIMMELFENNIG, F. 2014). The infamous non-bailout clause was replaced by the temporary assistance mechanism European Financial Stability Facility (EFSF) providing temporarily financial

assistance to highly indebted Greece, Ireland and Portugal in June 2010 (European Commission). Afterwards, the permanent international financing institution European Stability Mechanism (ESM) was established in 2012 (European Stability Mechanism). By creating €500 million fund, the establishment of the ESM was aimed to assure markets for long-term commitment to the single currency (GLENCROSS, A. 2013).

In addition, the vision for prosperous EMU was introduced in 2012 by the President of the European Council (European Council 2012). In this direction, the budgetary framework was integrated. EU institutions agreed to establish a single supervisory system (SSM) and single resolution mechanism (SRM) for banks as the two-pillars of the banking union (European Commission). Besides, economic governance of the EMU was reinforced. European Semester was initiated along with the legislative packages known as the Six-Pack (2011) and Two-Pack (2013), which were aimed to strengthen the discipline of the Stability and Growth Pact which limited government budget deficits to 3 percent and public debt levels to 60 percent of gross domestic product (KRECKÉ, E. 2018). With the German initiative, the Fiscal

Compact entered into force in 2013 to bind national commitments to run the balanced budgets towards ensuring national fiscal disciplines (GLENCROSS, A. 2013). It is of critical importance to highlight that the intergovernmental treaties signed during the crisis i.e. the ESM treaty and the Fiscal Compact did not require the unanimous ratification of all participating countries (KUMAR, R. 2014). Therefore, the reluctant member states could not block the deepening. Accordingly, ratification of the Fiscal Compact within the specified one-year time frame was mandatory for the Eurozone Member States.

The mandatory nature of the ratification can be interpreted as the top-down manner of the measures in the face of the crisis. Even so, the introduction of the new mechanisms to preserve the Euro implied the further deepening of the EU which appeared as unintended consequences of the crisis. In this respect, despite the massive increase in politicization of the European public and the rise of the Eurosceptic parties, the technocratic level of integration which was foreseen by the neo-functional agenda was achieved to be realized by the political leaders of the member states. Although EU level measures did not pave way for the establishment of radically new

frameworks such as EU treasury or post of minister of finance, the new mechanisms can play crucial roles in the prospective crises.

## VI.2.6. Conclusion

This research aimed to find out the nexus between European integration and its promises as a diffuser of regionalism to the other regions in the EU's crisis context. Considering the main fundamentals of the integration, it is observed that the two phenomena; regionalism and European integration were parallel during the post-war period. This was based on the diminishing role of the nation-state and redefinition of international (interstate) relations. It created a conviction that regionalism and the EU were "natural allies". The Eurozone crisis has initiated the disruption of the successful continuation of these aspirations because of the tendencies towards the nationalism at the supra-national level, and separatism at the sub-national level. Accordingly,

protectionist tendencies due to the longstanding financial crisis in the EU have led the rise of nationalism and Euroscepticism. Nevertheless, the EU has managed to introduce the new mechanisms in order to save the Euro. While the EU's image as a role model for regionalism might have been negatively affected during the crisis because of the politicization and Euroscepticism, the technocratic integration was still achieved. In this respect, even in the context where the Union's *raison d'être* is shaking, the EU showed its political commitment to its famous motto better together.

### *Acknowledgement*

The present publication is the outcome of the project „From Talent to Young Researcher project aimed at activities supporting the research career model in higher education”, identifier EFOP-3.6.3-VEKOP-16-2017-00007 co-supported by the European Union, Hungary and the European Social Fund.

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## VI.3. The Copenhagen dilemma and its possible solutions in the Council of Europe

ADRIENN TÓTH-FERENCZI<sup>132</sup>

### Abstract

*Scepticism towards effective multilateralism has been growing in recent years. The article has a focus on the particular situation of the Council of Europe and intends first to present the enlargement dilemma of the Organisation in the mid-nineties, whether to further invite Eastern European countries before their compliance with the requisite standards or let them wait for accession until their legal and institutional structures align more closely with European standards. The decision on an early invitation determined the path for the Organisation in the subsequent decades and besides institutional renewal, it led to political and legal challenges. The paper aims to present one political and one legal case study to illustrate the crisis of the main bodies of the Council of Europe, by using statistical data to support the arguments. Therefore, both qualitative and quantitative analysis are conducted to seek an answer to the question: how can the Organisation solve its own Copenhagen dilemma? The article also presents an outlook for the latest developments, namely the establishment of a new complementary procedure for monitoring the “rule of law” as a possible solution to future institutional challenges.*

**Keywords:** multilateralism, Council of Europe, institutional crisis, Copenhagen dilemma, rule of law mechanism

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### VI.3.1. Introduction

The Council of Europe is a classical intergovernmental organisation<sup>133</sup> (LINDSETH, P.-L.

2014) similar to other regional or global cooperation formats. It can be regarded as a thematic institution focusing on human rights, democracy and the rule of

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133 A broad range of literature is available on the terminology of international, intergovernmental

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and supranational organisations, distinguishing the key factors and functions of the different formats (LINDSETH, P.-L. 2014).

law standards, a legally binding convention system and serious monitoring structure developed since its foundation. As a result, the Council of Europe has become a unique multilateral organisation of its kind, and is regarded as the continent's leading human rights organisation. The Council of Europe is often confused with the European Council, another institution of the European Union responsible for planning Union policy. It seems that the two organisations are comparable but also differ in many respects<sup>134</sup> (HLAVAC, M. 2010). In light of the recent institutional and financial crisis of the Council of Europe caused by - among others - a concrete, classical geopolitical challenge, namely the annexation of Crimea, it appears to be justified to examine the factors leading to the situation which nearly paralyzed the Organisation. Will the Council of Europe learn its lessons and seek for effective guarantees to prevent similar circumstances in the future?

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134 Some scholars argue that the European Union's supranational elements – especially the EU laws' supremacy over the laws of individual Member States – distinguish it from international organizations. The European Union is really a sui generis project that has not been attempted anywhere else (HLAVAC, M. 2010).

## **VI.3.2. "Go East", the historical enlargement**

### **Pre-enlargement period**

This chapter aims at giving a general overview of the milestone events and documents leading to eastern enlargement; it will not seek to provide an exhaustive, chronological analysis of the pre-enlargement period. It is a basic principle that both statutory organs of the Council of Europe<sup>135</sup>, the Committee of Ministers<sup>136</sup> and the Parliamentary Assembly<sup>137</sup> in general closely follow the tendencies and events of Greater Europe for a timely and comprehensive response to all kinds of challenges. In the Europe of the 1980s fundamental changes were in the air. The Organisation has paid increasing attention to Eastern European countries since 1985. The Committee of Ministers dedicated a special session to relations with the Eastern part of Europe in January 1985 (GAZDAG F. – KOVÁCS P. 1999 p. 15.). In its Declaration commemorating the 40th anniversary of the Organisation, the Ministers for Foreign Affairs of the member states welcomed the reform process in some countries

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135 Hereinafter referred to as CoE

136 Hereinafter referred to as CM

137 Hereinafter referred to as PACE

of Eastern Europe and the possible future co-operation to establish genuine democracies throughout Europe (DECLARATION of the 84th Session of the Committee of Ministers). The Parliamentary Assembly decided to “grant special guest status for national legislative assemblies of European non-member countries which have shown their interest and which apply and implement the Helsinki Final Act and the instruments adopted at the CSCE<sup>138</sup> conferences...” (PACE RESOLUTION 917 (1989)). The Parliamentary Assembly defined the fundamental criteria for accession, stressing the importance of full implementation of commitments agreed in the CSCE framework (PACE RECOMMENDATION 1119 (1990)) and highlighting the protection of minorities through an urgent appeal to all parties concerned to refrain from violence and seek peaceful solutions

for ethnic problems (PACE RECOMMENDATION 1124 (1990)).

### **Dilemma of continued enlargement**

The openness towards Eastern European countries and coordinated efforts to identify the possible fields of cooperation, such as a common European cultural heritage led to the membership of Hungary and Poland in the European Cultural Convention, in 1989. Later Hungary, as the first country from the Eastern European club, joined the Organisation on 6 November 1990.

During the first three years of European democratic transition nine countries from the former Soviet-dominated area acceded officially to the Council of Europe: Hungary, Poland, Bulgaria, Estonia, Lithuania, Slovenia, Czech Republic, Slovak Republic, Romania (CoE WEBSITE, 47 members states). This relatively rapid transformation generated an institutional adaptation to the challenges of the new mission. New mechanisms and structures characterized the face and image of

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138 Conference on Security and Co-operation in Europe renamed to Organization for Security and Co-operation in Europe (OSCE) on 1 January 1995.

the CoE in the last three decades. This institutional development deserves to be given a separate analysis, which this paper will not undertake to present.

However, the invitation to join the Council of Europe was not an unconditional offer. The heads of States and Governments of the member states of the Council of Europe met in Vienna, on 9 October 1993. At the First Summit, the Vienna Declaration clarified the criteria of accession. The fundamental requirements were to sign and ratify the Convention for the Protection of Human Rights and Fundamental Freedoms, abolition of the death penalty as a part of it<sup>139</sup>, compliance of the institutions and legal system with the basic principle of the Council of Europe, free and fair elections on universal suffrage, freedom of expression, and respect of national minorities (VIENNA DECLARATION AND ACTION PLAN, CoE Summit, Vienna, 1993).

At the First Summit of Heads of States and Governments in Vienna, the number of members increased from 23 to 32. Despite the official

commitment of the Organisation to eastern enlargement, some voices questioned the necessity and meaningfulness of a rapid enlargement process. Those who raised concerns were convinced that an accelerated integration would lead to the weakening of values and principles, and the Council of Europe would be sold out (GAZDAG F. – KOVÁCS P. 1999). This question became an issue of the election process of the new Secretary General in 1994. The Government of France submitted the candidature of Catherine Lalumière, the Secretary general in office in November 1993, in the hope of her re-election for a second term (CM (93)195, Confidential<sup>140</sup>). At the same time the Government of Sweden submitted the candidature of Daniel Tarschys for the post in December 1993 (CM(93)222, Confidential). The Office of Secretary General Lalumière prepared a discussion paper for the 94th Session of

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139 The Council of Europe has made abolition of the death penalty a precondition for accession. No executions have been carried out in any of the Organisation's 47 member states since 1997. On Council of Europe website/Achievements

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140 The Committee of Ministers Resolution Res(2001)6 on access to Council of Europe documents recalls the rules governing access to its documents (except those relating to "human rights" and "monitoring" meetings) since 1 January 2001, namely: i. documents classified "restricted" are declassified a year after being issued, ii. documents classified "confidential" are declassified ten years after being issued.

Ministers for Foreign Affairs to generate a common reflection on the development of the Organisation and on the implications of continued enlargement, particularly of the Russian Federation's accession (CoE IN THE NEW EUROPE, DISCUSSION PAPER 1994). The Paper highlighted that the Council of Europe had become the European institution most capable of facilitating the democratisation process of Central and Eastern Europe, however through the enlargement process its role and forms of actions had also significantly evolved. The Reflection paper also pointed out that the new role of the Organisation is "highly influenced by the renewed outbreak of armed conflicts on our continent...as well as the emergence of new challenges (migration, rise of intolerance, social exclusion, etc.) and welfare state crisis". The Secretary General concluded that the Europe of the Council of Europe was less homogeneous and more unstable compared to the period before 1989. Secretary General Lalumière was deeply concerned about the prospects of future enlargement, especially the admission of the Russian Federation. She raised the political and institutional impact of future Russian membership on the activity of the Organisation, warning that

"in the short term this radical pursuit of an open-door-policy will.... entail increasing heterogenization within the Organisation. It may be accompanied by risks in the form of a lessening of member States' common resolve and a weakening of the Organisation. By virtue of its size, diversity and great-power status, Russia also raises special problems of integration" (DISCUSSION PAPER p. 6). The Secretary General in office predicted that "the accession of such countries as Russia and Ukraine is liable to cause an immediate increase in the number of applications lodged under the European Convention on Human Rights" (DISCUSSION PAPER p. 10).

By way of comparison, the candidate of Sweden for the post of Secretary General was deeply convinced that the Council of Europe should effectively promote the democratisation process by formulating serious conditions for the newcomers. The values and principles of the Council of Europe were never dealt with so intensively and thoroughly as during the enlargement. This process gave new impetus to the honouring of obligations and commitments by the member states in both organs of the Council of Europe. The enlargement process helped the Organisation to identify new

activity fields, the compilation and entry into force of the two legally binding instruments on national minority protection<sup>141</sup> which can be considered as a major step forward in the regulation of a highly sensitive area. The efforts by the Council of Europe aiming at promoting the development of democracy and rule of law mechanisms in Central Eastern Europe also contributed to the pre-accession strategy of the European Union (TARSCHYS, D. 1999 pp. 21–22.).

The enlargement process of the Council of Europe was affected by the election of Daniel Tarschys as Secretary General in April 1994. During his mandate between 1994–1999, Andorra (1994), Latvia, Albania, Moldova, Ukraine, North Macedonia (1995), the Russian Federation, Croatia (1996) and Georgia (1999) were granted full membership (COUNCIL OF EUROPE WEBSITE, 47 MEMBER STATES).

### **VI.3.3. Consequences of „early” invitation**

#### **From institutional renewal to the political and legal challenges of the**

### **Organisation**

The open-door policy of the Council of Europe exerted a serious impact on the activity and role of the Organisation and improved its visibility in the cooperation between international organisations. The new mechanisms of institutional reform helped the Council of Europe to redefine its mission, but the Organisation also faced different political and legal challenges nearly a decade later. The internal and inter-state conflicts of the new members determined the political agenda after a while, for which the human rights organisation endeavoured to articulate legal and human rights answers. The Council of Europe progressively developed, improved and strengthened the supervision process to help member states comply with the norms and standards of the Organisation, and to uphold the highest democratic and human rights standards. Both statutory organs established their own monitoring procedure through convention and non-convention-based mechanisms. However, the legal implications were much more tangible and highly visible. One of the most recognised achievements of the Council of Europe membership is the right of individual application to the European Court of Human

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141 The Framework Convention for the Protection of National Minorities and the European Charter for Regional or Minority Languages

Rights<sup>142</sup>. The opening up to Eastern Europe enlarged this right

to 800 million people throughout the Council of Europe area and resulted in immense growth in the workload of the Court. By the end of 2010 the Strasbourg Court was faced with 139, 650 applications pending before a judicial formation (In Annual Report, ECtHR<sup>143</sup> 2010).

142 Each member State must ratify the European Convention of Human Rights and Fundamental Freedoms when joining the Organisation and the Court rules on individual or State applications alleging violations of the civil and political rights set out in the European Convention on Human Rights.

143 European Court of Human Rights

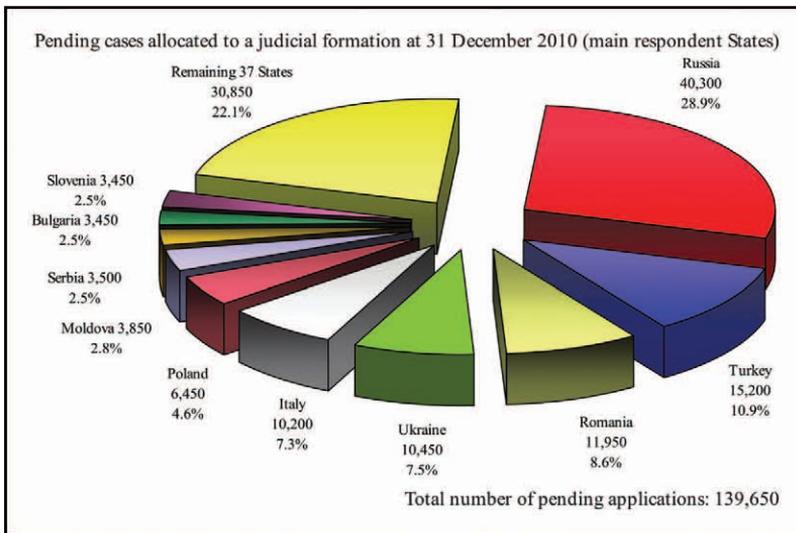


Figure 43: Annual report 2010, European Court of Human Rights, p. 147.

Source: Website of the European Court of Human Rights: [https://www.echr.coe.int/Documents/Annual\\_report\\_2010\\_ENG.pdf](https://www.echr.coe.int/Documents/Annual_report_2010_ENG.pdf)

### Case studies

As both political and legal questions are the focus of this paper, the most outstanding examples were selected<sup>144</sup>. The reason behind

the selection of the case studies was to present those events which have raised serious questions in recent years as regards the credibility, operation and functionality of the Council of Europe. According to the author's personal experience the political case nearly paralyzed the Organization in financial terms.

144 Selection based on the author's personal evaluation.

As to the implementation debates of the legal case, the supremacy of the Court was questioned.

*Political case study  
– Suspension of  
voting rights of the  
Russian delegation  
in the Parliamentary  
Assembly*

The direct event generating the institutional and financial crisis of the Council of Europe was the reaction of the Parliamentary Assembly of the Council of Europe to the Russian annexation of Crimea. The Organisation always seeks to respond first to the most pressing current political events and the Assembly immediately decided to limit the mandate of the Russian parliamentary delegation (PACE RESOLUTION1990 (2014)). In response to this decision, the Russian delegation left the parliamentary forum, so Russian parliamentarians did not take part in the activities of the Parliamentary Assembly for five consecutive years. Given the fact that the Assembly suspended their rights<sup>145</sup>, the Russian government

decided not to implement its financial obligation towards the Council of Europe. Accordingly, Russia has not contributed to the ordinary budget of the Organisation since 1 July 2017. As the situation escalated, the Assembly searched for solutions on how the Russian Federation could return and the Council of Europe could save face. The functioning of the Council of Europe was at stake in June 2019. At that time the Parliamentary Assembly adopted a resolution on 10 April 2019 (PACE RESOLUTION 2277 (2019)), which called on the Russian Federation to appoint a delegation to the Assembly and to resume obligatory payment of its contribution to the Organisation's budget, failure of which could lead to the suspension of its representation rights in the whole Organisation<sup>146</sup>. This resolution clearly shows the deep interest of the Council of Europe to preserve the platform characteristic of the Organisation. In order to keep Russia in, the Parliamentary

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(2014) points 15.1, 15.2, 15.3).

146 Article 9 of the Statute of the Council of Europe says: "The Committee of Ministers may suspend the right of representation on the Committee and on the Consultative Assembly of a member which has failed to fulfil its financial obligation during such period as the obligation remains unfulfilled."

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145 Voting rights, the right to be represented in the Bureau of the Assembly, the Presidential Committee and the Standing Committee, the right to participate in election observation missions ((PACE RESOLUTION1990

Assembly was ready to disregard its own criteria formulated only a few years earlier. Following serious debates in the PACE for years, the Russian parliamentary delegation finally submitted its credentials and the Assembly ratified them on 26 June 2019 (PACE RESOLUTION 2292 (2019)).

*Legal case study – Non implementation of the Court’s judgements*

Although the issues related to the functioning of the Court and implementation of its judgements seem to be purely legal problems, the Court faced more serious challenges than the simple increase in the workload in recent years. In the case of Catan and Others versus Moldova and the Russian Federation, in 2012 the European Court of Human Rights found Russia to be in violation of the European Convention On Human Rights. A series of decisions were adopted by the Human Rights Meeting of the Ministers’ Deputies - among others - during the March session in 2019 and stated that the Russian Federation was responsible for the violation of education rights (CM DECISION

CM/Del/Dec(2019)1340/H46-17). However, Russia is reluctant to implement the judgment of the Court. The Russian Federation<sup>147</sup> considers the Moldavian Republic of Transnistria as a sovereign state and does not wish to interfere with the domestic affairs of another country. As a response to the ruling of the Court, Resolution No. 21-P of the Russian Constitutional Court was adopted and came into force in July 2015. The resolution suggested that the legislators should introduce a special legal procedure according to which the RF Constitutional Court can resolve the issue of whether it is possible or impossible, based on the principles of supremacy of the RF Constitution and prevalence of the RF Constitution over other laws, to enforce a judgment of the European Court of Human Rights with respect to a complaint against Russia (ZAGONEK, J – BOULATOV, P. 2016). Both the political and legal cases raise the issue of the enforcement capability of the Council of Europe, but the latter one called into question the provision of the Convention for the Protection of Human Rights and Fundamental Freedoms<sup>148</sup>.

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147 Hereinafter referred to as RF.

148 Article 46 on the Binding force and the execution of judgments of the Convention for the Protection of Human Rights and Fundamental Freedoms.

### **VI.3.4. The Copenhagen dilemma and efforts to find a solution**

The term „Copenhagen dilemma” is used in the context of the European Union and refers to the recently detected problem when a member State appears not to comply with the mandatory conditions set before its accession. The expression was used by Viviane Reding, Vice-President of the European Commission in the debate of the European Parliament on the political situation in Romania, on 12 September 2012, when she pointed out a general and new phenomenon: „...we face a Copenhagen dilemma. We are very strict on the Copenhagen criteria, notably on the rule of law in the accession process of a new Member State but, once this Member State has joined the European

Union, we appear not to have any instrument to see whether the rule of law and the independence of the judiciary still command respect” (REDING, V. 2012). The notion became widespread in the political discourse of the European Union and adequately describes the situation that had evolved in the Council of Europe by 2017. As the latter one was an active part in the Euro-Atlantic integration process, considered as an ante-room of the European Union for many of its members states, it seems to be justified to borrow the expression describing the syndrome so perfectly. Of course, the situation in the two Organisations is not identical. In contrast to the EU, the Council of Europe developed rigorous monitoring mechanisms as one of the achievements of eastern enlargement. Still, the detailed and theoretically well-functioning system has an Achilles heel, namely, the Organisation has no real means to sanction non-compliance. This implies, in practical terms, that the respect for human rights and rule of law principles on the ground is up to the political will and interest of State parties<sup>149</sup>, in cooperation with

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149 Author’s personal opinion based on experience gained in the Rapporteur Group-Human Rights (GR-H), Rapportuer Group-Legal Cooperation (GR-J), Rapporteur Group-Social and Health Questions

the Organisation. Nevertheless, the syndrome of not respecting the commitments defined by the Copenhagen criteria for accession to the European Union gradually appeared in the Council of Europe and nearly led indirectly to the inoperability of the Organisation by 2019.<sup>150</sup>

The Council of Europe was aware of the problem and made several attempts to fine-tune the supervisory procedure at different levels, such as launching awareness raising measures, adequately defining the obligations with a view to clarifying the criteria, and increasing transparency. The Parliamentary Assembly decided to introduce “a periodic overview of groups of countries ...to launch issue-based, cross-country monitoring in close co-operation with the relevant Assembly committees as a complementary measure to the country-by-country monitoring” (PACERESOLUTION 2018 (2014)). Secretary General Thorbjørn Jagland<sup>151</sup> was pragmatic

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(GR-SOC), Rapporteur Group-Education, Culture, Sport, Youth and Environment (GR-C) as well as in Human Rights (DH) meetings of the Ministers’ Deputies in the Council of Europe between 2011-2016.

150 See the political case study of the present paper in Chapter III. 2.1.

151 Former Norwegian Prime Minister and Foreign Minister Thorbjørn Jagland became Secretary

and committed to regular and open dialogue with the political leaders on sensitive issues. The Venice Commission elaborated the rule of law checklist<sup>152</sup> to fulfil its main objective, to promote the rule of law and democracy (RESOLUTION RES (2002) 3).

Since these efforts have failed to achieve satisfactory results, the Ministers of Foreign Affairs instructed the Ministers’ Deputies in Helsinki, at their 129th Session of the Committee of Ministers on 17 May 2019, “to develop – in co-operation with the Parliamentary Assembly – a clearly defined complementary procedure, which could be initiated by either the Parliamentary Assembly, the Committee of Ministers or the Secretary General, and in which all three of them would participate”. The Ministers “agreed further

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General in 2009. He was re-elected in June 2014, he was the first to win a second term <https://70.coe.int/home/#160562>

152 The checklist intends “to provide a tool for assessing the Rule of Law in a given country from the viewpoint of its constitutional and legal structures, the legislation in force and the existing case-law. The checklist aims at enabling an objective, thorough, transparent and equal assessment.” (RULE OF LAW CHECKLIST, Venice Commission 2016 [https://www.venice.coe.int/webforms/documents/?pdf=CDL-AD\(2016\)007-e](https://www.venice.coe.int/webforms/documents/?pdf=CDL-AD(2016)007-e).)

that such a co-ordinated response ... encouraging member States, through dialogue and co-operation, to take all appropriate measures to conform with the principles of the Statute, ..., and may ultimately lead to a decision to act under Articles 8 or 9 of the Statute<sup>153</sup>, which lies with the Committee of Ministers”); (CM DECISION OF 129TH SESSION).

### **Adoption of a rule of law mechanism**

Following the decision of the Helsinki Session, intensive consultations started to elaborate the framework and content, the responsibilities and competences of the three main actors, namely the Committee of Ministers, the Parliamentary Assembly and the Secretary General. During

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153 Article 8 Any member of the Council of Europe which has seriously violated Article 3 may be suspended from its rights of representation and requested by the Committee of Ministers to withdraw under Article 7. If such member does not comply with this request, the Committee may decide that it has ceased to be a member of the Council as from such date as the Committee may determine.

Article 9 The Committee of Ministers may suspend the right of representation on the Committee and on the Consultative Assembly of a member which has failed to fulfil its financial obligation during such period as the obligation remains unfulfilled.

the French Presidency of the Committee of Ministers, from May to November 2019, efforts were made to finalise and adopt the new mechanism within a reasonable timeframe. The Joint Committee<sup>154</sup> held several meetings to clarify the details of competence issues of the two organs related to the modalities of the new procedure. As a result of this co-operation, vivid debates, and informal consultations in the Committee of Ministers, the latter one adopted the decision on the complementary procedure for the application of Article 8 of the Statute of the Council of Europe, as a consequence of a serious violation by a member State of fundamental principles and values of the Organisation under Article 3 of the Statute (CM CDECISION CM/DEL/DEC (2019)129/2) on 5 February 2020. In the appendix to this decision the Committee of Ministers defines

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154 The Joint Committee is composed of representatives of the Committee of Ministers and representatives of the Parliamentary Assembly. The Secretary General of the Council of Europe is entitled to attend the meetings of the Joint Committee in an advisory capacity. The functions of the Joint Committee are to examine the problems which are common to the Committee of Ministers and the Parliamentary Assembly. <https://assembly.coe.int/nw/Page-EN.asp?LID=JointCommittee>

the basic principles and practical modalities of the new mechanism. They highlight that: “The primary aim is to bring a member State, through constructive dialogue and co-operation, to comply with the obligations and principles of the Organisation, hence as far as possible to avoid imposing sanctions. This procedure, of an exceptional nature, is complementary to existing rules and regulations, building upon the 1994 Declaration<sup>155</sup>, and its implementation will not require any changes to the Statute. It will not affect existing procedures and mandates arising from statutory or conventional control mechanisms.” The appendix contains clear provisions for the steps, the initiators, the indicative timeframe, the road map and its implementation, as well as for the possible decision, including the voting rules on the suspension of a member State’s right. Although the possibility to suspend or exclude a member state not being in compliance with the basic principles of the Council of Europe was always incorporated in the Statute, the recent decision is a clear message that violation of the norms and

standards, as well as continuous, serious disrespect for the principles of the Organisation will not be further tolerated. However, it is important to note that the procedure is reversible: „should the member state remedy the situation and bring it into compliance with the Statute the decision can be revoked”. Otherwise, “in case of exclusion, the State concerned will have to reapply for membership” (CM/Del/Dec (2020)1366/1.7).

### VI.3.5. Conclusion

The Council of Europe celebrated its 70th anniversary in 2019. With the experience of seven decades in the protection of human rights, guaranteeing the rule of law and democratic principles this Organisation undoubtedly contributed to developing the normative basis for the single European legal area. Through its close cooperation with other international organisations, by inspiring and mutually strengthening each other’s activities, the Council of Europe became an active part of the European human rights architecture. In some fields its role and mission go beyond the standard setting activity of the United Nations or the European Union. The legally binding conventions on the protection of national

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155 Declaration on compliance with commitments accepted by member states of the Council of Europe (Adopted by the Committee of Ministers on 10 November 1994 at its 95th Session) - Decl (10/11/94)

minorities and their supervisory mechanisms elaborated in the mid-nineties can be considered unique. However, sceptical voices could say that any legislation is only as good as its enforcement. The policy of the Council of Europe is focused on dialogue, cooperation, follow-up activities and assistance. The Organisation has sought to avoid sanctions or confrontation and, as a matter of fact, it has not really disposed of any kind of efficient restrictive measures<sup>156</sup>. After the historical enlargement and institutional reform in the 1990s, the Council of Europe now faces another type of challenge: soft power human rights instruments, the “normative institutionalism” versus classical, “power realism”<sup>157</sup> which demands new approaches and methods. No one can predict whether the newly established

complementary procedure will succeed in achieving what its committed supporters hoped for in terms of the enforcement of norms and standards. Bearing in mind that the real goal is not to punish the members states but to motivate them with strengthened tools, in the event that the Committee of Ministers decides to apply the exclusion option, the mechanism must be considered to have failed<sup>158</sup>.

In the light of the findings of the present paper the Council of Europe apparently has a double history. During the first period lasting from its foundation until the eastern enlargement the Organisation focused on developing the institutional and legal framework of liberal democracies along the rules of intergovernmentalism. After the door was opened to Eastern Europe from a fully different historical, political, social background, the CoE irrevocably turned a “new page”<sup>159</sup>.

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156 Sanction capabilities of intergovernmental organisations would deserve separate analyses if the terms sanctions and intergovernmentalism are mutually exclusive factors.

157 Expressions in quotation marks borrowed from Professor Ferenc Gazdag, unpublished reviser opinion given to the present article.

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158 The Conclusion reflects the author’s opinion.

159 After Professor Ferenc Gazdag, unpublished reviser opinion given to the present article.

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## VI.4. New strategies for the Hungarian (Political) Elite in the Light of Demographic Trends among Hungarians in Transylvania

LÁSZLÓ PERCZE<sup>160</sup>

### Abstract

*A newly established and permanently changing world order is characterized by a kind of multipolarity (multi-centered world order is being unfolding). Besides power units like the USA and Russia, other emerging countries, China and India are going to play a decisive role in the future. The region of Central and Eastern Europe including the Carpathian Basin became more the part of the Western European sphere of interest, yet geographically lays at the border as a kind of buffer zone. The 20th century brought an artificial disintegration of this socially and economically integrated area. In this particularly complex geopolitical structure, the fate and the future of a still-existing Hungarian minority in the so called "Szeklerland", in Transylvania is very remarkable. A significant question occurs whether such a small community in Romania is able to define its own elite group. Moreover, does it have a clear vision/scenario for the future? The future demographic trends among the Hungarian population in Transylvania will undoubtedly have a major impact on the future strategies of its elite, mainly on a political level. The question is whether the elites are ready to face a significant decrease of Hungarians, especially in the so-called diaspora regions in the next ten years and whether they can go on with the existing strategies or they will need to readapt or change them in order to ensure the continuity of their representation.*

**Keywords:** Carpathian Basin, minority, demography, elite, strategies and scenarios

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### VI.4.1. Preface

The political elite, by the most accepted definition, consists of individuals who, through their positions in power organizations and movements, have a regular and serious influence on the results

of political processes and the functioning of political institutions, thus participating in decisions that affect the society as a whole (PUTNAM, R. D. 1976; HIGLEY, J. – MOORE, G. 1981). However, the specificity and interpretation of a minority elite is rather more

complex.

This paper is trying to unfold and demonstrate as a pilot the demographic situation in order to be able to give a basis for a further research of the Hungarian minority elites in Romania. The overall purpose is to outline the challenges facing the minority elite (political) in the country through exploring the expected demographic situation in the forthcoming ten years. The review of the methodological problems and difficulties of the elite research, mainly in the political science literature, is relatively available. However, the elite research in Romania is not as rich in a Central European comparison.

In this article, our subject of the research will be approximate through a literature review method. With the help of the current knowledge including substantive findings (stated by Erdélystat) as well as theoretical and methodological contributions to our particular topic, we will be able to define the forthcoming challenges facing the elites.

### **The Romanian electoral (political) system**

The Romanian electoral system is a bicameral system, composed of the Chamber of Deputies and the Senate, which

are elected in constituencies, on the basis of a closed list system and independent candidatures, according to the principle of proportional representation. The two Chambers have different numbers of members: The Chamber of Deputies is composed of 332 Deputies, and the Senate, of 137 senators. Thus, for the election of the Chamber of Deputies the representation norm is of one deputy to 70,000 inhabitants, and for the election of the Senate, of one senator to 160,000 inhabitants. The electoral threshold is 5% on national level or 20% in at least 4 constituencies, and 8-10% for coalitions or electoral alliances. The President is elected in a two-round system for a five-year term, and the winning candidate has to obtain a majority of 50%+1 of the votes of all registered voters.

While ethnic bloc voting among Hungarians in Transylvania has been a constant driving force behind the electoral success of RMDSZ and its political monopoly over the past 30 years, assuring political representation for the Hungarian minority on the national level, it is worth noting the decreasing trend among the number of voters during the same timeframe: it went down from 7.2% of votes in 1990 to 5.24% in 2012.

Another important fact is that

the majority of Hungarians live in so-called diaspora regions, thus 60% percent of voters are from regions where they form a minority. It is some of these regions where electoral disinterest, increasing assimilation, an ever-fracturing collective identity, and a significant demographic loss projected for the next 10 years – all lead the question: whether the existing strategies of the Hungarian political elite will have to be changed in order to assure political representation on a national level in the near future.

#### **VI.4.2. Demographic trends in Romania**

##### **Hungarian population in Transylvania: forecast for 2011-2031.**

In 2016 ErdélyStat, a site dealing with Transylvanian statistics and analyses published the digital version of a comprehensive analysis on the expected evolution of the Hungarian population in the upcoming decade (KISS T. – CSATA I. 2016): Hungarian population in Transylvania: forecast for 2011-2031.

These statistics have a special significance and is extremely relevant mainly for two reasons: first, it is the first of its kind in the post-1990 decade

and secondly, because it forecasts a serious decrease in the number of Hungarians in Transylvania within the next 10 years, especially in the so-called diaspora regions (Maros, Kolozs, Arad, Brassó, Temes, Fehér, Hunyad, Máramaros, Szeben, Beszterce-Naszód counties). According to the analysis the necessity for new strategies for the Hungarian Political Elite in the Light of Demographic Trends among Hungarians in Transylvania occurs.

##### **Hungarian population in Transylvania: historic context (1910/19 – 2011/2018)**

Following the Treaty of Trianon (1920) the ratio of the Hungarians in the Romanian population remained almost unchanged until the 1970s. According to former calculations (KISS T. 2010) based upon the 1966 census the number of Hungarians was 1 619 592, thus Hungarians made up 8.5% of the total population of Romania, and 23.8% of Transylvania. Today, according to the statistics based on the 2011 census, the number of Hungarians is 1 237 764, but the ratio dropped significantly compared to earlier decades, to only 6.5% of Romania's population, and to 19.1% of the

population in Transylvania.

It is also worth mentioning that while in 1910 Hungarians made up 64% of the urban population in Transylvania, by the 1990s the most important cities (Kolozsvár, Nagyvárad, Marosvásárhely etc.) have become predominantly Romanian, due to the Romanization

policies of the government<sup>161</sup>, yet, is also true that other natural factors played a significant role in this process: as well as other factors: emigration, decreasing birth rates, aging population, and increasing assimilation among the younger generations in the so-called diaspora regions and big cities.

161 Lucian Boia, Cum s-a românizat România, [How Romania Became Romanian] Humanitas, 2015

year	Hungarian population	% of total population	
		Transylvania	Romania
1966	1 619 592	23,8	8,5
1977	1 713 928	22,5	7,9
1992	1 624 959	20,8	7,1
2002	1 431 807	19,6	6,6
2011	1 279 402	18,9	6,3

Table 18: The number and proportion of Hungarians in Romania and Transylvania according to the censuses of the period between 1966 and 2011

The number refers to the whole territory of Romania (99 percent of Hungarians of Romania live in Transylvania)

Source: Kiss T. 2015 on the basis of census data

Today, according to the 2011 census, more than half of the Hungarians of Transylvania live in regions where they form a minority, and they make up the majority only in two counties, Harghita (85.21%) and Kovászna (73.74%), while they form a relatively large percentage of the population in Maros (38.09%), Szatmár (34.65%), Bihar (25.27%), Szilágy (23.35%) and Kolozs

(15.93%) counties<sup>162</sup>.

Therefore, in the past 30 years, the demographic trends have been negative for the Hungarians in Transylvania, meaning that their ratio dropped by 2% relative to the number of Romanians, most affected being the so-called diaspora regions. This fact is extremely important with regard

162 <http://www.recensamantromania.ro/rezultate-2/>

to the political context, as out of the approximately 1.2 million Hungarians only about 600 000 live in Szeklerland where they form the majority of the population. Thus, the majority of the Hungarian voters live in regions as a minority, and the mobilization strategies applied by the political elite (bloc voting under the slogans for national unity) should be applied in a different way.

### **The methodology**

The cohort component up until the recent past was a predominant method in the field of population projection and it still is a widely used method. Its advantage comes from the fact that proceeding from the age structure (that is recorded by census or other administrative database) it is able to approximate in a relatively accurate way the expected evolution of the number and structure of the population. This is true primarily for the number of deaths and birth rates. These predominantly depend on the age structure because the number of death cases depend on the level of aging and the number of births depends on the size of the female contingent with the fertile age.

On the other hand, the willingness for childbearing and the

probability for mortality in some cultures change in a somewhat slow way so there may be formulated more or less realistic hypotheses related to their future evolution.

According to the study when it comes to the migration and immigration, the capacity of forecasting of the demographer is quite limited. There are some theories that try to fix the location of migration within a human walk of life. And indeed, in some societies, entering the labour market, certain stages of the educational course of life or the founding of a family have a great chance to draw a spatial displacement. In spite of this, migration does not have a place universally recordable within the human stage of life.

The number of migrants depends on factors, that can change on the short term (for example migration politics) or those that are not in the range of competence of the demographers (for example the evolution of economic trends). Thus, the forecast calculations of population cannot be considered as forecasts for the future, only as model-calculation, in other words: "if...than" type of statements.

"Our own forecast calculations, that model the evolution of the Transylvanian Hungarian and the total Romanian

population between the years 2011 and 2031 can be considered also as a “if...than” type of analysis.” states Erdélystat.

„The question is even more complicated due to fact that because

we are speaking about a minority population, we had to determine (with the tools of demography) its borders and also what we consider to be ethnic border crossing.”

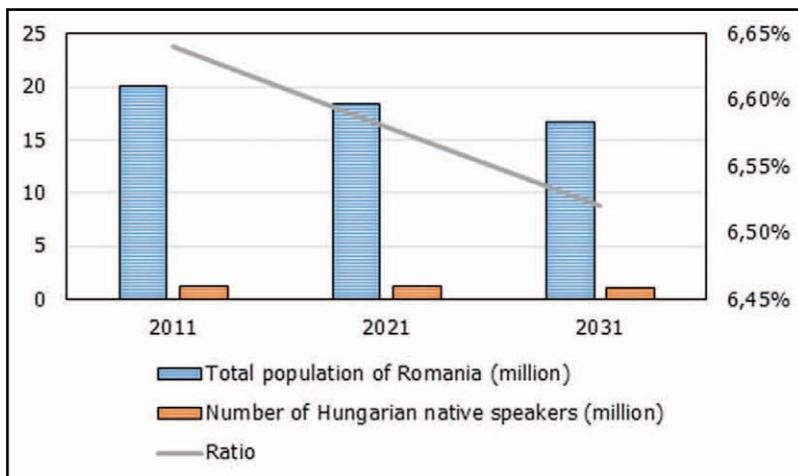


Figure 44: Hungarian population in Transylvania: forecast for 2011-2031

Source: Erdélystat

„It is also important, that in opposition to an analysis of ours, that was based on the 2002 demographical data, now we did not define the Hungarian community as an ethnic group, but a language-based one. We forecast the population on four levels. These are the following: Romania, Transylvania, the 16 counties of Transylvania and the 50 educational micro-regions.” states Erdélystat.

### VI.4.3. The results of the population-forecast according to the ethno-demographic regions

The Szeklerland region in the eastern part of Transylvania is the most compact Hungarian ethnic block, and the sole region being populated overwhelmingly by Hungarians. Szeklerland comprises Hargita and Kovászna counties, and the East-Central part Maros county. The proportion of Hungarians in this territory is 80 percent. The

475 thousand Hungarians living there make up 38 percent of the entire Hungarian community. The Hungarian majority of the territory creates a unique opportunity for putting to work minority institutions, the use of the Hungarian language, as well as to formulate ethno-political claims. It is worth mentioning that unlike the central and southern regions, Szeklerland and its inhabitants share a strong sense of regional identity, forming a strong electoral basis for RMDSZ, where electoral mobilization was and is the strongest.

There are two distinct patterns of electoral participation of the Hungarian minority: lower turnout in ethnically non-competitive counties (i.e. low ethnical diversity, with the size of Hungarian minority below 8% or above 50% of the county's total population); higher turnout in ethnically competitive counties (i.e. higher ethnical diversity, with the size of the Hungarian minority between 8% and 50% of the county's population).

The findings support the "strategic mobilization hypothesis" according to which electoral mobilization was unevenly distributed due to various stakes attributed to voting in different electoral districts, followed by a pragmatic cost/benefit logic adopted

by the leaders and partisans of the Democratic Alliance of Hungarians in Romania (DAHR)<sup>163</sup>.

### **Regional differences**

The border-region called Partium (Bihar, Szatmár and Szilágy counties) is another area with a relatively high concentration of Hungarians. According to the 2011 census 315 thousand Hungarians live there making up 25 percent of the Transylvanian Hungarian community. The proportion of the Hungarians in these three counties is 28 percent on average, but in the ethnically mixed North-Western part of the region almost half of the population is Hungarian.

Central Transylvania is composed by Kolozs county and the Western part of Maros county. Hungarians make up 22 percent of the population. The two main political and cultural centres of the Hungarian community Kolozsvár and Marosvásárhely, with 16 percent of Hungarians and 45 percent of Hungarians, respectively) are situated in Central Transylvania. The number of Hungarians in this region is 262 thousand making up 21 percent of the Transylvanian

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163 Tatar, Marius Ioan: Ethnicity, strategic mobilization and voting in the Romanian parliamentary elections of 2008, *Journal of Identity and Migration Studies*, 5(2), 86-107, 2011.

Hungarian community.

Northern- and Southern Transylvania and Banat are also home of Hungarian communities of significant size. These communities are dispersed, and live locally in a minority situation. The proportion of the Hungarians is below 10 percent in all of the counties situated in these three regions, yet the total number living dispersed in these extended areas makes up 17 percent of the Transylvanian Hungarian community.

From obvious reasons, and due to several factors the latter regions are the most vulnerable, and according to the study, the latter regions will suffer the highest population loss in the next ten years, and also due to certain assimilation trends (inter-ethnic marriages etc.) and a shift towards the so-called mixed parties (USR, PLUS, POL). Thus, there are significant signs indicating that the electoral preference of Hungarian voters living in minority areas may need re-evaluation.

It is worth noting, that the changing of the language ratio in some counties depends on a great extent on the initial starting point. Thus, from the counties of Szeklerland and Partium in the case of Hargita, Kovászna, Szatmár and Szilágy a growing of ratio is

expected, while in the cases of Bihar and Maros a slight decrease of ratio is likely. In all the counties outside of the mass Hungarian areas we can count on a significant decrease of ratio.

The bottom line of the analysis is that the Hungarian population of Transylvania will decline at roughly the same rate as that of the country as a whole, meaning that the total population will fall to 16.68 million by 2031 from the 20.12 million in 2011 while the ratio of Hungarians will edge lower to 6.52 percent from 6.64 percent.

Although the mortality rate in Transylvania decreased in the last few years, the Hungarian population in the Hungarian-populated regions decreased rapidly according to the latest statistics, which represents the changes in the Hungarian population in the first few months of 2018.

The Hungarian population decreased rapidly in Szeklerland, between January and November 2018, approximately 61,738 children were born, which is 197 more childbirths than in 2017 between the same months. In the first part of 2018, the rate of childbirth was low, but in the second part of the year, it increased significantly. Between August and November, 24,321 children were born which is more than the 23,080

in 2017. In the first eleven months, 76,493 people died which is 812 less than in 2017.

This strong positive trend leads back to November 2018 when only 6,794 death cases were registered, which is 431 less than two years ago. In the first eleven months of 2018, the population of Szeklerland decreased by 14,755 people which is still a very high rate and devastating number, but it is a positive fact that, in 2017, the population decreased by 15,764. The population's decrease was the strongest in March 2018, when Szeklerland lost 3,200 Hungarian residents in one month. The decreasing tendency in Szeklerland continues. In the counties of Harghita and Kovászna, 4,839 children were born in the first eight months of 2018 which is 22 less than the previous year's statistics. In the same year, 5,886 people died in Szeklerland which is a 4% of growth since 2017 when 5,657 residents passed away.

The low decrease of childbirth and the growing number of death cases is a combination, which means that the population decreased the most in Szeklerland from all the Transylvanian regions.

The rate of natural decrease between January and November 2018 is approximately 1,047 which is significantly more than in 2017 (796). However, the number of marriages increased in Szeklerland: in the first eleven months of last year, 2,597 couples got married, which is an average growth of 1,5%.

In the region of the Partium, 10,544 children were born until the end of 2018, and 13,706 people passed away. Kolozs and Maros counties are the most significant Hungarian-populated regions of Central-Transylvania. Here, 11,562 children were born, and 13,896 residents died in 2018. The statistics revealed that the population's decrease became more intensive in Central-Transylvania in the last few years, especially last year. Temes is the only Transylvanian county among the Hungarian-populated regions where the number of childbirths is more than the mortality rate: 6,630 children were born in 2018, and 6255 people died. In South- and North-Transylvania, the population's decrease is not as significant as in any other region.

The decline in the number of newborns was far more accentuated among Hungarians living in minority, in the so-called 'diaspora regions'. If the Hungarian

community living in Romania is not prepared to meet this challenge, there is a big chance that a lot of Hungarian language educational institutions will have to close in the coming decade. The result of this process could mean a break up in the chain of Hungarian language K-12 education in the diaspora regions.

#### **VI.4.4. Threats and weaknesses**

##### **Linguistic and cultural assimilation in the diaspora regions of Transylvania**

Another important factor of the declining number of Hungarians is cultural, linguistic assimilation. This phenomenon is particularly relevant in the so-called diaspora regions. Assimilation can be attributed to a number of factors, and mixed marriages are one of the most important among them. According to the latest statistics, the rate of mixed marriages in Szeklerland is 4.3 percent; in southern Transylvania it is 44.2 percent while in the Bánság region it amounts to more than 50 percent. It is a well-known statistical fact that most of the children growing up in mixed marriages will attend Romanian schools, and they tend to use Romanian as their first language

at home as well as in their everyday social interactions. According to the statistics only 32.2 of the children living in mixed marriages were registered as Hungarians by their parents during the 2011 census<sup>164</sup>.

Another well-known sociological fact is that people with a lower educational and social status are more prone to assimilation. One has to emphasize the rapid dissolution of the Hungarian language educational system in the area of the dispersed Hungarian communities. The cultural and linguistic assimilation of Hungarians is thus a lot more accentuated in the diaspora regions, as presented in a study published by KSH (KAPITÁNY B. – KISS T. 2010).

As the authors point out in the case of Kolozsvár, which has long been the cultural center of Transylvanian Hungarians, the ongoing trends in the Hungarian education system can serve as a relevant paradigm: while there are 5 Hungarian schools for the Hungarian elite in the city center, between 2005 and 2010 the number of Hungarian classes decreased from 10 to 5 in the suburban regions, the residence of the working-class Hungarians. The situation is even more dramatic in

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164 [http://regi.itthon.ma/erdelyorszag.php?cikk\\_id=2690](http://regi.itthon.ma/erdelyorszag.php?cikk_id=2690)

the southern diaspora region: for instance, in Szeben county out of the 800 children with Hungarian ancestry (many of them from mixed marriages) only 400 were registered as Hungarians at birth, and only 129 of them started their education in Hungarian.

With regard to the entire education system in Hungary the significant decrease of children in the elementary schools was registered in 1996/1997. In the case of high schools the critical point was reached in 2004/2005. Universities were first hit by it in 2008/2009, and while the number of university-aged Hungarians was 108 595 in 2009, this number dropped to 68 834 in 2018.

### **Demographic loss and the Future strategies for the Political Elite**

An important study published by Tamás Kiss concludes that in the past 30 years Transylvanian Hungarians have been an extremely politically activated ethnic group by the RMDSZ, one of the most stable ethnic parties in the region (Kiss T. 2016). Yet, according to the same paper, empirical evidence shows that while ethnic block-voting seems to persist, there was a shift in voters' motivations. In the 1990s ethnopolitical claims concerning

language use, the educational system and national symbols were the primary factors driving ethnic mobilization.

Yet it is worth noting, while there is no relevant statistical analysis on the 2019 EP elections, it has been observed, that for the first time after 1990 a significant number of Hungarian votes from the Central and minority areas, especially in the big cities like Kolozsvár, Marosvásárhely and other urban centers went to the so-called mixed parties, the Freedom, Unity and Solidarity Party (PLUS) and Save Romania Union - or rather Romanian party coalitions with an ethnic message for Hungarian voters. Previously, in the local elections of 2016, similar trend was going in Marosvásárhely, with regard to the mixed Freeman's Party (POL). RMDSZ lost a significant number of votes, mainly in the big cities and the regions where Hungarians are a minority. These developments are signalling an important shift in electoral behaviour.

As for electoral perspectives of the Democratic Alliance of Hungarians in Romania (RMDSZ), the party representing Hungarian speakers of Romania, the proportional evolution of Hungarian speakers among

voting age population is of crucial importance. The main question is, whether future demographic evolutions will make it possible for a party representing Hungarian speakers to pass the threshold of 5 percent at future parliamentary elections. According to the projection results the proportion of Hungarian speakers will remain quite stable at national level in the next two decades. In 2031 the proportion of those with Hungarian mother tongue will be of 6,4 among the total population and 6,5 among the voting aged population.

The political chances of so-called mixed parties, or Romanian parties with a mixed message – for Hungarian voters - was discussed<sup>165</sup> in an essay and an analysis (KISS T. – SZÉKELY I. G. 2018) published in 2012.

Over the past two decades RMDSZ has been the most stable actor in the Romanian party system, with a strong and constant electoral support based on ethnic voting, fuelled by the need for Hungarian unity.

However, as Tamas Kiss argues in his article (KISS T. – SZÉKELY I. G. 2018), beyond this apparent stability, the linkages

between RMDSZ and its voters have undergone a gradual, yet significant shift. The ethnic block voting of Transylvanian Hungarians was closely connected to the concept of a self-standing and parallel “Minority Society,” and to the practices of institution building that the minority elites engaged in in the early 1990s.

However, since its first participation in the Romanian government in 1996, RMDSZ has gradually departed from this strategy, a phenomenon that was also closely connected to a process of elite change within the organization. The present RMDSZ leadership puts less and less emphasis on policy programs that could reinforce the institutional system of the minority; consequently, it is unable (and unwilling) to organizationally integrate the community activists of the minority society who previously had played a key role in the process of (electoral) mobilization. At the rhetorical level, RMDSZ did not abandon the goal of building a parallel Hungarian minority society, but in its linkages to the Hungarian electorate, clientelistic exchanges have become predominant.

## Consequences

As a consequence of these

165 Miklós Bakk – István-Gergő Székely: Egy regionalista vegyes párt esélyeiről Erdélyben [On the Chances of a Regionalist Mixed Party in Transylvania], 2012.

events, and with the perspective of a significant decrease of Hungarians in the diaspora regions, in our view the Hungarian political elite is facing new challenges, as the electoral threshold for the parliamentary representation in Romania is 5%, and during the last parliamentary election in 2016 it had 6.19% of the votes, while in the EP elections it had 5.3% of the votes. According to scholars the difference is the result of a greater presence of the Romanian voters. According to experts the situation could become even more critical for RMDSZ, as the 2016 elections saw a turnout of 39.5%, and while the majority<sup>166</sup> of Hungarians voted for RMDSZ, it barely passed the electoral threshold (5%) with a result of 5,1%.

Two major consequences of the present election system will very probably have a negative effect, as pointed out by a Quaestum Analysis study in 2012.<sup>167</sup> 1. The first one, the motivation for voting for Hungarian candidates will decrease dramatically in counties with less than 7% Hungarian population. There is a strong

chance that the electoral preference of many Hungarian voters will turn to Romanian parties. At the same time, voters will probably be inclined to vote for Romanian parties, as they will think that the pose no threat to the RMDSZ parliamentary representation on the central level. 2. With only a minor chance for the RMDSZ to be in coalition governments in the future, the party will lose its weight and importance in the political arena - thus becoming less to Hungarian voters in the diaspora regions and cities.

These two effects even more strengthened by the demographic trends projected for 2030, which may jeopardize the parliamentary representation for the Hungarians thus making it inevitable for RMDSZ to develop new strategies for electoral mobilization.

#### **VI.4.5. Conclusion and discussion**

The above examined demographic exploration could be a field for a further investigation, which can be linked to the strategies of the elite (political) based on in-depths interviews regarding the future strategies of the Hungarian elites, the demographic issue and the projection for the near future will be of great importance as the

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166 Tibor Toró: Minority Elites and Political representation in Romania after 1989. The self organization of the hungarians at the local level, a case study.

167 <http://itthon.transindex.ro/?cikk=17409>

possible strategies for them.

The Hungarian political elite, which predominantly means RMDSZ, will be facing an important challenge: it has to find the proper tools to find the ever increasing assimilation trends among the Hungarians living in the diaspora regions, otherwise it might lose the majority of its electoral basis. According to the statistics, Hungarians living in the diaspora are less compelled to vote based on ethnic preferences<sup>168</sup>, and their weakening national identity means this trend will become stronger in the future.

Negative demographic trends, a significant decrease in number of Hungarians projected for 2030, a weakening national identity

among Hungarians living in the diaspora regions - in our view all these are posing a new and pressing challenge to the RMDSZ which will have to find the appropriate responses and strategies in order to ensure the political representation of the Hungarian community in the future.

The future demographic trends among the Hungarian population in Transylvania will undoubtedly have a major impact on the future strategies of its elite, mainly on a political level. The question is whether the elites are ready to face a significant decrease of Hungarians, especially in the so-called diaspora regions in the next ten years and whether they can go on with the existing strategies or they will need to readapt or change them in order to ensure the continuity of their representation.

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168 [https://www.researchgate.net/publication/314164896\\_Egy\\_regionalista\\_vegyes\\_part\\_eselyeirol\\_Erdelyben](https://www.researchgate.net/publication/314164896_Egy_regionalista_vegyes_part_eselyeirol_Erdelyben)

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**ISBN 978-963-503-834-3**