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Economic Development and Innovation at Local Level – Local Business Environment Index (LBEI)

Clara Volintiru, Mihai Volintiru, George Ştefan

Abstract: This paper presents a novel metric for assessing economic activity at local level: Local Business Environment Index (LBEI). In the development of this metric system we explore a large set of variables that are disaggregated at municipal level for the case study of Romania. Following the existing literature on the different drivers of economic development, we propose four major axes of assessment: entrepreneurship, innovation, investment financing, and public authorities’ support. We present the overall ranking of the level of attractiveness of the local business environment in the Romanian municipalities, among which the highest scores belong to cities of various sizes: Bucharest, Cluj-Napoca, Timișoara, Alba-Iulia and Sibiu. Each municipality has a different distribution of specific strengths. We look in-depth in the final section of this paper at the sub-index of Innovation, dominated by Timișoara or Cluj, rather than the capital city.

Keywords: Innovation, Entrepreneurship, Economic Development, Romania

Introduction

As the world is increasingly worried about both the level and the sustainability of economic development, the factors underpinning this process must be better understood. We have long focused on the overall national rates of growth, and paid too little attention to growing subnational differences. A recent study (Cristea et al 2017) shows how dynamic some of the Romanian municipalities are—both from an economic and a demographic perspective. Much like the Hanseatic League of the Middle Ages, or the City States of the Renaissance, contemporary metropoles in Europe are responsible for the bulk of the continental economic growth via trade and services. As was aptly recently summarised: „Urbanists say that the 19th Century was a century of empires; the 20th Century was a century of nation states; and the 21st century will be the century of cities” (Silva 2018). At global level, 50% of the population is urban, 70% of energy consumption is centred in cities, and it is also cities that are responsible for 80% of the world’s GDP.

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2 Acknowledgements: This research would not have been possible without the gracious contribution of Marius Cristea, Marcel Ionescu-Heroiu, and Sebastian Burduja, to whom we are very much indebted for some of the empirical data, for the careful consideration of the conceptual model we propose here and their most generous feedback. Any failure remains our own.
We nevertheless face a methodological conundrum in the statistical and institutional assessments: what is the territorial unit of measurement for growth and development? Do we look at metropoles only, or do we account for secondary cities too? Do we assess the economic activity of the city, or that of its larger urban zone, or region of origin? Do we account for NUTSII or NUTSIII regional units? To what degree are the local authorities of a city or a region in charge of developmental policies and investments? To answer some, or any of these questions, we must account for country-level specificities of territorial organisation. In a recent compilation effort, the European Committee of the Regions (CoR) developed an overview of levels of institutional and fiscal decentralisation in all EU countries, (potential) candidate and Eastern Partnership countries in the online portal „Divisions of Power”. Browsing through the Division of Power database is enough to see the large extent to which EU member states differ in their territorial organisation. While efforts are increasingly made to create a certain convergence in the division of powers in the EU, with a focus on increasing the competences of local governments (LGs), the way a local or regional authority fits within the larger setting of the states is nevertheless an issue of historical institutional lineage.

We propose here that for the case study of Romania, a relevant unit of measurement is that of municipal cities that are also the administrative centres of their counties. Usually, these are also the most developed cities in each county. Accounting for urban-driven economic growth, we therefore develop a pilot study of its drivers at local level. In doing so, we contribute not only to the academic literature on economic development, but also (we hope) to the conceptualisation of institutional architecture of public administrations. By understanding the degree to which economic growth ignites at local level, we obtain a greater perspective on what it is that can be done to nurture it.

Much in the same way as many of the existent tools for evaluating the business environment at national level (e.g. Global Competitiveness Report (WEF), Doing Business Index (WB), Country Risk Report (OECD)), we propose the LBEI as a tool for subnational assessments. With the notable exception of the subnational and regional Doing Business reports of the World Bank, few comparative tools have focused specifically on the subnational business environment. Gary Bland and Peter Vaz have developed the first meta-analysis of existent subnational business environment indexes, and observe that only „a few of them have been applied repeatedly as intended by index proponents, but nearly half of the indices have been discontinued” (2017:1). Only two EU member states appear to have subnational diagnostic tools for economic governance or business environment: Bulgaria and Croatia (see Bland and Vaz 2017:6). In contrast to these existent measurements, we do not build our methodological approach on international indexes, nor do we use business surveys. We refer to hard data in order to develop a comparative diagnostic in the specific case study of Romania, and our focus is more on within-country comparisons, rather than across-cases comparisons. The fundamental premise of our study is that while the distinction between the capital city and secondary cities is a marked tendency, there are a number of comparative advantages of specialisation in the secondary cities that often make them prone to
developing a better business environment for certain businesses or sectors.

This paper presents a novel metric for assessing economic activity at local level: Local Business Environment Index (LBEI). In the development of this metric system we explore a large set of variables that are disaggregated at municipal level. Following trends in the existent literature on the different drivers of economic development, we propose four major axes of assessment: entrepreneurship, innovation, investment financing, and public authorities’ support. If we derive the first three from the classic economic literature (Schumpeter 1934), we add the later pillar on the basis of recent empirical studies in the context of EU convergence at subnational level (Volintiru 2017).

**Literature Review: Entrepreneurship as a Driver of Economic Development**

The way in which entrepreneurship stimulates economic growth has been analysed from many perspectives, particularly in terms of contributions to innovation, and stimulating competition and lower prices. One of the most important researchers in the field of competitiveness, Michel Porter, considers that entrepreneurship is the basis of the (competitive) national advantage (Porter, 1990).

It has further been noticed that, since the 1970s and 1990s, the emergence of small businesses and entrepreneurship were brought back to life – in essence, economic activity shifted from large companies to smaller ones – which often included outsourcing the various processes / activities from large corporations. As Carlsson (1999) shows, this fact is best seen in the United States economy, in terms of the share of employees of Fortune TOP500 companies in relation to total employees. It decreased from about 20% of total employees in 1970 to 8.5% in 1996.

According to Acs and Audrestsch (1992), entrepreneurs, as well as small firms in general are an important driver for growth, development and innovation, contributing to job creation and positive industry dynamics. They also argue that an increase in the share of small firms can gradually result in companies being less prone to exports. Also, the same authors consider that entrepreneurship leads to a qualitative change in demand for capital goods and advisory services, in addition to the diversification of supply and, finally, the methods and objectives of R & D activities. Another study, conducted by Audrestsch and Thurik (2000) for the period 1984-1994 in 23-member countries of the OECD, shows that an increase in the entrepreneurial rate (i.e. number of business owners per employee) generates a lower unemployment rate.

Thurik and Wennekers (2004) assert that the relationship between economic growth and entrepreneurship is bi-directional. On the one hand, entrepreneurship stimulates economic growth through a “Schumpeter” effect in developed countries; on the other hand, the low rates of economic growth in some states could stimulate people towards self-employment, especially in countries with less generous social protection systems. According to Ebner (2006), Schumpeter's theory “explores economic development in the institutional setting of modern capitalism, perceiving entrepreneurship as its endogenous developmental force, which is embedded in a variety of institutional forms that shape the pattern of capitalist evolution”.

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Economic Development and Innovation at Local Level –  
Local Business Environment Index (LBEI)
Moreover, at the centre of Schumpeter’s theory on economic development is the fact that entrepreneurs have the role of generating innovations to become increasingly competitive. Thus, in the innovation process firms are attracting finance through the banking system (loans). Subsequently, by taking credit and assuming the entrepreneurial risk, innovations created by companies are capitalized in new goods and production methods which generate entrepreneurial profits.

The innovation process is considered one of the most critical issues in understanding economic growth. In essence, economic growth could be attributed to the three main factors:

- an increase of production factors,
- an improvement of resource efficiency,
- an improvement of knowledge and innovation rate.

Thus, considering the full employment of resources and efficient allocation as given, economic growth is therefore driven by the accumulation of knowledge and innovation. At the same time, the innovation process is, usually, shaped by a function of (1), the incentives (i.e. institutions) that stimulate innovation, and (2), access to knowledge. Also, innovation implies an extension of the knowledge stock that could/should be economically used.

Existing literature extensively covers economic development, both the drivers and implications. There are different metrics and conceptualizations on what it is economic development. One of the oldest approaches is to measure economic development based on growth dynamics, a quantitative approach reflected in frequently used indicators such as GDP. While growth is undoubtedly part of the development story, the last decades have supplied a rich body of literature on varied approaches in political economy accounting for institutional or democratic quality. The modernization theory that dominated many of the 90s scholarly debates linked economic development closely to democracy and neoliberalism. Beginning with the early 2000’s up until present day, economic development is frequently discussed from a sustainability perspective. Growth is no longer seen as a goal in and of itself if it does not account for environmental or social issues.

This article does not set out to add to the vast conceptual lineage of economic development, but rather to apply existing models to the subnational dimension. We do however subscribe to a larger conceptualisation of economic development. For example, recent studies have showed the clear causal link between the quality of governance and entrepreneurial activity at regional level in the European Union (Nistotskaya et al 2015). The European Quality of Government Index which is at its third edition shows a clear correlation between institutional performance and economic development measured as GDP.

There is a series of conditions through which SMEs can contribute to economic development, amongst which access to financing solutions is paramount (see Beck and Demirguc-Kunt 2006, Beck et al 2008). This is one of the reasons for which our Index
Economic Development and Innovation at Local Level – Local Business Environment Index (LBEI)

accounts too for local investment financing. Further, there is a series of studies that point to the effects of local concentration and general quality of the environment and broader multiplication effects (Rosenberg 1997, Porter 2000, Howells 2005). This shows the relevance of subnational measurements. Finally, we focus on the specific case study of the economic impact of regional innovation (Howells 2005, Cooke and Lazzaretti 2008, Wright et al 2008, Youtie and Shapira 2008) and smart specialization (McCann and Ortega-Argiles 2015, Capello and Kroll 2016) — elements that constitute one of the main pillars of our subnational index of the quality of the business environment.

In terms of the elements that create a propitious business environment at a local level, as mentioned above, we can distinguish both economic factors (e.g. concentration) (see for example Porter 2000), as well as institutional or political factors (e.g. quality of governance) (see for example Nistotskaya et al 2015). As such, both our theoretical assumptions, as well as the empirical evidence from existing studies inform the composition of the index we present here.

In post-communist societies, entrepreneurship activities do not have the same iteration background (or force of habit) as in Western Europe. The centrally planned economy of the previous regime has left an inheritance of various norms, practices and expectations that can sometimes be in conflict with the competitive free market. As showed in behavioural studies on Romania and other European countries, norms stick and it takes a long period of time to change them (see most recently D’Attoma et al 2017, Todor 2018, Volintiru 2018). In this context, an increasing importance for encouraging entrepreneurship (as a driver of economic development) is business education. Not incidentally, we used the presence of universities as a dummy variable for a preliminary assessment of the unit of measurement for the present study. It is in university cities and through the faculties majoring in business, that the majority of support programmes for entrepreneurs are currently implemented in Romania. A growing trend of private suppliers of training in Romania can be seen over the past decade, but in terms of the number of beneficiaries, the ratio of private versus public suppliers (i.e. universities) of training programmes is heavily skewed towards the latter.

Local Business Environment Index (LBEI): Methodological Aspects and Results

The theoretical framework behind our analysis consists of the pillars identified by the Austrian economist Joseph Alois Schumpeter to be essential in the capitalist development model, namely:

(1) **local entrepreneurship** (E);

(2) **innovation** (I);

(3) **investment financing** (L).

As we mention above, these three layers embedded in local policies and economic ecosystems, encourage market competition, new products and jobs, economic development and capital accumulation. Entrepreneurs support innovation through new ideas and, at a local level, risk-taking creditors finance the implementation.
Table no. 1: The four pillars of entrepreneurship

<table>
<thead>
<tr>
<th>Local entrepreneurship (E)</th>
<th>Innovation (I)</th>
<th>Investment financing (C)</th>
<th>Local Public Support (LPS)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>40%</td>
<td>20%</td>
<td>30%</td>
</tr>
<tr>
<td>Number of active companies with Romanian capital (15%)</td>
<td>Number of employees from high tech sectors (10%) (^3)</td>
<td>Loans to non-financial companies (Romanian Lei and foreign currencies) (5%)</td>
<td>Capital expenditures (5%)</td>
</tr>
<tr>
<td>Number of active companies with foreign capital (10%)</td>
<td>Number of students (10%)</td>
<td>Foreign Direct Investments (15%)</td>
<td>EU funds expenditures (5%)</td>
</tr>
<tr>
<td>SRL-D companies (EU-funded start-ups) (15%)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Data sources

|-----------------------------------------------------------------------|---------------------------------------------------------------|--------------------------|-----------------------------------|

Local Business Environment Index

| Very low | 25% | 50% | 75% | High | 100% |


We added one more pillar to these existing three, represented by (4) **support provided by local governments** (LPS). In the current context, in which a large set of measures are being deployed at European level to support and encourage entrepreneurship as a driver for economic growth, local governments’ involvement is an essential metric for the quality of the local business environment. We also included this dimension to mirror the way national evaluations of the business environment frequently evaluate both economic and political traits. Table 1 shows the economic data used to build every pillar and the importance (weight) associated with those pillars in our model.

Of these four domains, we realised a **Local Business Environment Index (LBEI)**,

\(^3\) The sectors taken into account to approximate the number of employees employed in the High-Tech fields were: (1) Manufacture of basic pharmaceutical products and pharmaceutical preparations, (2) Manufacture of computer and electronic and optical products, and (3) Manufacture of electrical equipment.
including nine components to estimate how the municipalities from Romania, is attractive in terms of entrepreneurial activity and how the local authorities succeed in supporting private initiative.

**The relationship between the LBEI and GDP per capita at the municipality level**

Subnational studies have seen a steady growth over the past years, as it is clearer than ever that from an empirical perspective, subnational differences have become too large to ignore. It is often the case that in many countries there are very few localities that record the average regional or national values of any given indicator. Rather, we find large discrepancies and extreme values. Romania is no exception, with some of the fastest growing GDP per capita in Europe at the level of the capital city of Bucharest, and plunging poverty level and economic stagnation in many of its smaller localities.

These discrepancies invite researchers to question overall regional or national assessments and to look for the specificities of economic development and drivers of growth at a more granular level. The heterogeneity of the sample of cases is thus diminished and we can more accurately perceive the mechanisms at play.

In the figure below, we have correlated the attractiveness of entrepreneurship at the municipality level with the nominal GDP per capita estimated for the 41 municipalities. It can be noted that there is a positive relationship between the two variables. Also, the intensity of the relationship (measured by the R square coefficient) is relatively strong, at almost 51%.

**Figure no. 1: LBEI and GDP per capita**

*Source: Authors’ calculations*
Table no. 2: Local Business Environment Index (LBEI)- municipal level data

<table>
<thead>
<tr>
<th></th>
<th>Innovation (I)</th>
<th>Local entrepreneurship (E)</th>
<th>Investment financing (C)</th>
<th>Local Public Support (LPS)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>București</td>
<td>3.2%</td>
<td>27.7%</td>
<td>30.0%</td>
<td>3.8%</td>
<td>64.7%</td>
</tr>
<tr>
<td>Cluj-Napoca</td>
<td>13.3%</td>
<td>32.3%</td>
<td>11.7%</td>
<td>6.0%</td>
<td>63.2%</td>
</tr>
<tr>
<td>Timișoara</td>
<td>14.8%</td>
<td>20.6%</td>
<td>16.2%</td>
<td>4.6%</td>
<td>56.2%</td>
</tr>
<tr>
<td>Alba Iulia</td>
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<td>15.6%</td>
<td>25.7%</td>
<td>1.7%</td>
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</tr>
<tr>
<td>Sibiu</td>
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<td>13.1%</td>
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<td>Tg. Mureș</td>
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<td>13.8%</td>
<td>17.4%</td>
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<tr>
<td>Târgoviște</td>
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<td>40.4%</td>
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<td>Oradea</td>
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<td>12.4%</td>
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<td>38.7%</td>
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<tr>
<td>Baia Mare</td>
<td>6.2%</td>
<td>19.0%</td>
<td>12.5%</td>
<td>0.9%</td>
<td>38.7%</td>
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<td>14.6%</td>
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<td>10.1%</td>
<td>6.2%</td>
<td>36.2%</td>
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<td>Arad</td>
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<td>11.2%</td>
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<td>Slatina</td>
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<td>31.4%</td>
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<td>Miercurea Ciuc</td>
<td>0.1%</td>
<td>12.3%</td>
<td>12.5%</td>
<td>5.1%</td>
<td>30.0%</td>
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<tr>
<td>Tg. Jiu</td>
<td>1.4%</td>
<td>11.2%</td>
<td>15.0%</td>
<td>2.2%</td>
<td>29.8%</td>
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<td>Deva</td>
<td>3.9%</td>
<td>12.8%</td>
<td>11.7%</td>
<td>0.9%</td>
<td>29.3%</td>
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<tr>
<td>Focșani</td>
<td>0.1%</td>
<td>9.2%</td>
<td>18.2%</td>
<td>1.8%</td>
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<tr>
<td>Suceava</td>
<td>3.1%</td>
<td>9.5%</td>
<td>14.7%</td>
<td>1.5%</td>
<td>28.8%</td>
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<tr>
<td>Slobozia</td>
<td>0.8%</td>
<td>8.1%</td>
<td>17.6%</td>
<td>2.3%</td>
<td>28.7%</td>
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<tr>
<td>Zalău</td>
<td>1.5%</td>
<td>14.1%</td>
<td>11.0%</td>
<td>1.0%</td>
<td>27.6%</td>
</tr>
<tr>
<td>R. Vâlcea</td>
<td>0.0%</td>
<td>10.9%</td>
<td>9.7%</td>
<td>5.2%</td>
<td>25.8%</td>
</tr>
<tr>
<td>Alexandria</td>
<td>2.0%</td>
<td>8.6%</td>
<td>12.0%</td>
<td>2.9%</td>
<td>25.6%</td>
</tr>
<tr>
<td>Buzău</td>
<td>0.8%</td>
<td>10.8%</td>
<td>12.7%</td>
<td>0.2%</td>
<td>24.4%</td>
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<tr>
<td>Bacău</td>
<td>1.6%</td>
<td>9.6%</td>
<td>11.4%</td>
<td>1.4%</td>
<td>23.9%</td>
</tr>
<tr>
<td>Galați</td>
<td>1.9%</td>
<td>11.8%</td>
<td>7.7%</td>
<td>1.4%</td>
<td>22.8%</td>
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</tbody>
</table>
In the figure below, we categorized the 41 municipalities into three categories (High, Medium and Low). Each of these is then divided into three further categories (High - AAA, AAB, ABB, Mid - BAA, BBA, BBB, and Low - CBB, CCB, CCC), so we classify municipalities from Romania according to the index value obtained on several grades (classes) of entrepreneurial and investment rating. As we can see, the best municipalities from Romania have BAA grades (Bucharest and Cluj-Napoca), representing an Upper Medium grade. Also, the majority of municipalities from Romania (21 from 41 municipalities analysed) have a BBB rating, respectively a Lower Medium grade environment for investment and entrepreneurship.

**Figure no. 3: LBEI ranking**
Figure no. 4: Municipalities Ranking based on Local Business Environment Index (LBEI)

Source: Authors’ calculations
According to our analysis and methodology, not one single municipality analysed here does not have a High grade in terms of the entrepreneurial and investment environment (rating AAA, AAB, or ABB).

**Innovation at Local Level in Romania**

Romanian municipalities have been particularly poised to take advantage of the principle of smart specialization, as in for many of them the innovation component (see values in Table no. 2) has been a driving force in the economic growth patterns. Most importantly, cities with a strong university campus presence that engages in technical specialisations pose a privileged vantage point for competitive economic activities.

When looking at the Innovation subcomponent of our Local Business Environment Index (LBEI) we find a very different ranking than that of the overall IBAA. We find the capital city of Bucharest much further down than other university cities in Romania. Most prominently, we see Timișoara occupying the first position, with Cluj-Napoca taking second place.

For Timișoara the number of employees in the High-Tech sectors is the driving indicator of its ruling position on this Innovation ranking. Similarly, we see Sibiu, Târgoviște or Târgu Mureș in a similar position of high labour force-driven innovation. For Cluj-Napoca on the other hand, we note that the average rate of students is what constitutes its prime innovative advantage. In the case of Cluj, we see what form public support for high tech or creative enterprises takes as a start-up incubator project – Cluj Innovation Park. Although a pole of high-tech start-ups in its own right, one of the main driving forces of the city’s innovation potential at this stage is the ratio of students per 1,000 persons. In total numbers, the volume of students in Bucharest clearly far outnumber any other municipality in Romania, but to account for sheer numbers would be misleading, as the innovation environment is reliant upon concentration as well. For this reason, we look at the number of students relative to the total population size of the municipality in question. If, as in the case of Cluj and other university cities such as Iași, Brașov, Craiova or Alba-Iulia, the concentration of students is greater than in Bucharest, there would be a higher overall Innovation ranking in our index.

**Figure no. 5: Innovation sub-index ranking**

*Source: Authors’ calculations, based on data collected from Integrated Educational Registry, National Institute of Statistics*
As mentioned above, the High-Tech sectors taken into consideration here are: (1) Manufacture of basic pharmaceutical products and pharmaceutical preparations, (2) Manufacture of computer and electronic and optical products, and (3) Manufacture of electrical equipment. In Romania, there are 131 companies (around 9250 employees) that are active in the field of manufacturing basic pharmaceutical products—NACE code 2110. Further, according to Eurostat, more than 860 companies operate in manufacture of computer and electronic and optical products – NACE division code 26, representing 31670 employees. At the same time, in the sector of manufacturing electrical equipment - NACE division code 27 - in Romania there are 615 companies with more than 40050 employees in 2015.

According to a recent report from LSE Cities, it is often the case that “cities outperform their national contexts for productivity, competitiveness, innovation and economic growth”, and that “cities with high R&D spending have reaped the benefits of such investment, in the form of sustained growth and higher levels of job creation”. In the case of the majority of Romanian municipalities, RDI concentration is closely linked to the size of the academic institutions. In addition to RDI that is based in university campuses, there are also a number of national research institutes that are also predominantly based in Bucharest and the other main municipalities. Under the National Academy, we find approximately 50 institutes in Bucharest, as well as in Cluj, Timișoara or Târgu Mureș.

At the European Union level, expenditure on R&D is highest in the business enterprise sector, followed by the higher education sector, with the government sector ranking only third. In contrast, in Romania, we can see that for a long period of time the private sector and governmental spending were approximately equal parts in total R&D spending, with the latter being even higher in most years. Only recently, we see in 2016 from the latest available data from Eurostat, that the percentage of private sector spending has risen to a comparable level with the EU average. Nevertheless, the higher education spending, while playing a vital role in producing the human capital for innovation and research, is not able to deploy similar levels of funding for such activities as in other member states. We see thus a much higher reliance on public funding, thus creating the basis for a symbiotic relationship between university centres, private actors and public institutions. In this context, support from local governments (LGs) can be an important driver of innovation and economic development, and it is this situation that is reflected in the Index we present here.

4 This classification is adopted for international trade activities, in the evaluation of the National Forecasting Commission, http://cnp.ro/user/repository/analiza_comert_exterior.pdf - see classification at pg. 35, Annex 9.

5 Most of which can be found in municipal cities, such as: Biotehnos SA (Bucharest), Antibiotice S.A. (Iași), Sindan (Bucharest), Farmacom SA (Bucharest), Meddo (Sebeș), Mark Pharmaceuticals (Iași), CH.P.M Impex SRL (Bucharest), GlaxoSmithKline (Bucharest), Fabiol (Bucharest), Mebra (Brașov), Pasteur Romania (Bucharest) and others.

6 Celestica (Bihor county), Zes Zollner Electronic (Satu Mare), Steinel Electronic (Argeș county), Flextronics Romania (Timișoara), Benchmark Electronics Romania (Brașov), Psicontrol (Brașov), Sav Integrated Systems (București), IOR SA (București), Ophir Optics (București)

7 Most important companies in the field of manufacture of electrical equipment are Eaton Electro Productie (București), Romcab (Tg. Mureș), Prysmian Cabluri și Sisteme (Slatina), Coficab Ploiești (Ploiești), Icme Ecab (București), Energobit (București), Electromagnetica (București), Elba (Timișoara)

8 https://files.lsecities.net/files/2015/02/Innovation-in-Europes-Cities_Bloomberg-Mayors-Challenge1.pdf, last accessed on 11.03.2018
Romania developed back in 2014 the Operational Programme for Competitiveness 2014-2020 that took as a cornerstone in its funding priorities and eligible projects two National Strategies: National Strategy for Competitiveness 2014-2020, and the National Research, Development and Innovation Strategy 2014-2020. Within each of these tactics, a number of strategic sectors have been outlined, with the purpose of concentrating European and national funding on those priorities. Smart Specialization was the frameworks employed to define these priority sectors for Romania. Smart Specialization is a methodology adopted by the European Commission for the implementation of the Cohesion Policy, aiming to establish the specific areas in which countries and regions have „a competitive advantage or have the potential to generate knowledge-driven growth”.

**Conclusions**

This article presented an original dataset and methodology for evaluating the economic attractiveness of the main municipalities in Romania. Building upon the landmark theoretical models of Schumpeter, as well as recent empirical evidence, we developed a metric for systematic comparison across four key dimensions: (1) local entrepreneurship activity (E), (2) innovation potential (I), (3) investment financing capacity (C) and (4) support provided by local governments (LPS). The resulting Local Business Environment Index (LBEI) allows us to scale the Romanian municipalities in terms of economic development potential at local level. In an age of growing disparities at a subnational level, a fine-grained tool of assessment such as IBAA can much better reflect the economic relations on the ground than larger regional measurements that rely on average values. We thus adopt a “mesoeconomic” perspective on what are the key drivers of economic development at municipal level.

In the second section of this article we explore one of the subindicators of the IBAA—the innovation potential. We find that within this dimension, several municipalities in Romania score much higher than the capital city of Bucharest - leaders in this ranking are the university cities of Cluj-Napoca and Timișoara. This brings to light the degree to which different cities in Romania have different competitive advantages and strategies in the intentional or unintentional pursuit of economic development.

Our findings can be further developed in several ways. Firstly, the logic of the metric we propose here is permissible to annual evaluations, thus allowing us to create in the future a cross-temporal analysis of economic development dynamics at subnational levels. Secondly, based on the relative values of each of the subindicators in the LBEI, in-depth and comparative case studies can be developed. For example, a previous study explored the measures that local public authorities have adopted in order to have a larger level of European Funding than other municipalities (Volintiru et al 2017). One can easily imagine similar studies on the benchmark municipalities on entrepreneurial activity, or innovation potential. Thirdly, the methodology we propose here can be reproduced in the case of other European Union member states, so as to achieve a greater comparative perspective across different national contexts.

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9 [http://s3platform.jrc.ec.europa.eu/what-is-smart-specialisation](http://s3platform.jrc.ec.europa.eu/what-is-smart-specialisation), last accessed on 13.03.2018
References:


Romania-China Relations. Political and Economic Challenges in the BRI Era

Liliana Popescu, Andreea Brînză

Abstract: Our paper explores the bilateral Romanian-Chinese relations, including the wider context of the EU-China relationship. There is a history to Romania-China relations, which favours Romania, given the closeness of the two countries during the Cold War period. The pursuit of EU membership by Romania contributed to a diminished attention paid to other parts of the world in the 2000s. This situation is changing. The EU membership enrolled Romania in common EU policies, including trade policy. The EU-China relations developed visibly, particularly after 2003; a renewed impetus is noticeable starting with 2009, and again in 2013. Romania’s renewed interest and opening towards China coincides with the year when the Belt and Road Initiative (BRI) was launched. Even though there were cancellations and delays in implementing certain common projects, there are good prospects for improvement and new openings.

Keywords: Romania-China relations, Belt and Road Initiative (BRI), 16+1 Initiative, EU-China relations

1. The Romanian-Chinese relations, change and continuity (1949-2006)

During the past decades, Romania-China relations have undergone spectacular changes, ranging from strong relations, during Nicolae Ceaușescu’s era, to rather fluctuating relations in the present. Politically, one may identify various periods of ups and downs, whilst economically the trend has been upward. Trading between the two countries is still going through a phase of improvement, although the overall balance has been negative for Romania for over a decade now.

Political relations between Romania and the People’s Republic of China have a long history, starting in 1949, when Romania was one of the first countries which recognized the newly proclaimed republic. Starting with that point in history, relations between Romania and China passed through a golden age, thanks to the fact that both countries were part of the so-called “communist block”, but also because, at some point, each decided to distance themselves from the USSR. Nicolae Ceaușescu’s rule was a very prolific period for Romania-China relations, both countries living today in the shadows of those good relations. China offered support to Romania in case of an invasion similar to that of

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Czechoslovakia in 1968 (Tomozei, 2017), while Romania was considered as a mediator between China and the United States, whose relations improved with the visit of President Richard Nixon in China, in 1972. After 1980, the relations between the two countries was characterized by a period of inertia, both states focusing on their internal affairs: China with its policy of opening-up, Romania trying to pay its foreign debts (Chiriu and Liu, 2015). Soon after the Revolution took place in Romania in 1989, China accepted and recognized the new Romanian government.

A period of ups and downs for Romania-China relations followed, with Romanian leaders having different visions regarding the development of relations with China. The new relations started with the visit of former Romanian President Ion Iliescu to China in 1991, and continued with the visit of Chinese Premier Li Peng in Romania in 1994. During Premier Li Peng’s visit to Europe in 1994, Romania was the only CEE country included in his itinerary, which underlines the importance Romania had for China’s external relations in the region at that time (Bridge, 1994). Another auspicious moment for Romania-China relations was the visit of President Jiang Zemin in Romania in 1996, a visit that was returned by the Romanian President Emil Constantinescu in 1997. Jiang Zemin had spent some time in Romania in 1977, when he was working as engineer at ARO Câmpulung (Evenimentul Muscelean, 2011), being accustomed to the Romanian language. His affinity for Romania could have been used more by our authorities to strengthen the Romanian-Chinese relations.

The high-level visits were continued in the early 2000’s with the visits of Prime Minister Adrian Năstase in China in 2002, 2003 and 2004. His second visit took place soon after the SARS outbreak, a fact that impressed the Chinese officials, who declared, regarding Romania, that “a friend in need is a friend indeed.” (Ge, 2017:128) In 2003, Ion Iliescu paid another visit to China and together with his Chinese counterpart, Hu Jintao, “announced that the two countries will develop a comprehensive friendly cooperative partnership.” (Ge, 2017:128) This partnership was illustrated by Hu Jintao’s visit to Romania in 2004, when Romania and China strengthened their relations. Unfortunately, Hu’s visit was the last visit paid by a Chinese president to Romania. On the other side, Romania’s last president who visited China was Traian Băsescu, in 2006. Being a chief of state originating from a right-wing party, Traian Băsescu did not seem to pay a particular attention to deepening Romania’s relations with China, but only in keeping them at an operational level.

Romania’s foreign policy in the 1990s and early 2000s was very much oriented towards two goals: becoming a NATO member, for security reasons, and becoming a member of the European Union, mainly due to socio-economic, but also to the attractiveness of core European values and norms. In April 2004, Romania became a NATO member and finalized negotiations to become an EU member in December same year. Romania became an EU Member State starting with 1 January 2007. Ever since, Romania has grown and matured as part of the European Union complex system and community of states and peoples, with whom it shares a host of common interests and challenges.

If we look at the Romanian-Chinese political relations over the last three decades, we may notice that the high-level meetings had a gap between 2006-2013, except for the visit of Prime Minister Emil Boc in 2011, which seems not to have had any palpable results.
China meanwhile developed stronger relations with the EU as a bloc (to be discussed below). Also, China contributed to the alleviation of the consequences of the financial and economic crisis the EU entered in 2009, thus playing an important role to the EU’s stabilisation.

An important observation one may make with regard to the period 1989-2006 is that the level of economic development of the Sino-Romanian relation did not match the high level of political contacts that occurred during this period, which was characterized by numerous bilateral visits of heads of state or government.

2. The China-European Union relationship. Cooperative, competitive and challenging aspects

2.1. Cooperative dimensions of the bilateral relation

A cornerstone for the bilateral EU-China relation in the last decades is represented by the creation of the EU-China Comprehensive Strategic Partnership in October 2003. It is interesting to note that the first EU Security Strategy was launched in the same year (the so-called Solana strategy) and that within that document the EU asserts its vision of a multipolar, peaceful and cooperative world order. This vision converged with China’s view. “It also coincided with one of the worst crises in the transatlantic relations, mainly due to disagreements over the US-led war in Iraq and the foreign policy stance of the first Bush administration.” (Casarini, 2013) Germany and France were the leading EU Member States to coordinate their opposition to the American-led invasion of Iraq.

It is worth noting that the period of colder EU-China political relations corresponds to less frequent Romania-China high-level meetings and political closeness. Romania had been negotiating its accession to the EU between 2000-2004, and the foreign policy positioning as well as trade policy were the main topics in the negotiation process.

However, after 5 years, the EU-27 and China launched the High-Level Economic and Trade Dialogue. (Beijing, April 2008) In continuation of the informal commitments made in 2003, and as a response of the eurozone crisis, China through its PBOC accelerated the diversification of its foreign reserves to multiply its reserves in euro currency, also buying Europeans bonds pertaining to the most-hit countries by the financial crisis in the EU. 30% of Beijing’s total foreign currency reserves (which, at $3.5 trillion, are the world’s largest) are euro-assets. “China’s monetary activism has made the Sino-European strategic partnership stronger by identifying and pursuing a core common interest: the survival of the eurozone and its common currency.” (Casarini, 2013)

Against this background of growing trade and financial interconnectedness, at the 16th EU-China Summit, held in November 2013, the EU-China 2020 Strategic Agenda for Cooperation was adopted. The 2014 Policy Paper on the EU reiterated that the EU and China “share important strategic consensus on building a multipolar world” (Ministry of Foreign Affairs, 2014) – which seems to set an essential ground for the bilateral cooperation. The year 2013 was also the one when President Xi Jinping launched his new “silk road” – the Belt and Road Initiative (at that time, One Belt One Road, OBOR). In September 2015, the European Commission signed a Memorandum of Understanding
Romania-China Relations. Political and Economic Challenges in the BRI Era

(MoU) with China: EU-China Connectivity Platform, to “enhance synergies” between the Belt and Road Initiative (BRI) and the EU’s own Investment Plan for Europe (the so-called “Juncker Plan”).

In 2016, the EU Council was assessing that “[t]he EU-China 2020 Strategic Agenda for Cooperation fulfils an important role as the highest-level joint document guiding the EU-China Comprehensive Strategic Partnership.” (Council of the European Union, 2016)

The ground for cooperation between the EU and China is represented by a series of elements: the shared preference for multipolarity, the strengthened financial and economic interconnectedness, the will to widen and deepen the cooperation and build more connectivity between China and Europe – just to mention the main ones. The BRI represents “a long-term Chinese connectivity vision with no a priori parameters or methods, actors or mechanisms, nor much granularity to date. It therefore allows a great deal of flexibility and could—possibly—become a leading new model of cooperation and global governance.” (Popescu and Secriérù, 2018) The underlying idea of BRI is that deepened connectivity and a more complex interdependence will contribute to more cooperative interactions, to peace and prosperity. This reminds us of the concept of functionalism, advanced during the Second World War by a theorist of Romanian origin, David Mitrany, whose work *A Working Peace System* (1943) inspired one of the most important and influential theories of European integration – neofunctionalism. Mitrany identified competition between various political units as being the cause of international conflicts. He also stated that eliminating these divisions and political competitions is impossible. What is needed is to multiply the interconnections between the units on the basis of common functions (or needs). (Popescu, 2009)

2.2. The competitive dimensions of the bilateral relationship

The competitive dimensions of the EU-China relationship are multiple. A series of authors and reports are documenting asymmetries in the economic relations. Apart from the trade imbalance, which tilts dramatically in favour of the Chinese side, there are other concerns as well. “Of greater concern is that in some industries the Chinese market may be closing to foreign business. For example, new restrictions on food imports, coming into effect on 1 October 2018, can be expected to hinder trade. Furthermore, the ongoing trend in multiple industries of huge state-owned enterprises being established through mergers poses a real threat to private businesses.” (European Business in China, 2017) A recent report of the European Chamber of Commerce in China remarks the areas in which Chinese investors are favoured in their access to European markets in comparison with Europeans in China. It concludes that there is much need for a successful completion of EU – China negotiations for a Comprehensive Agreement on Investment, preferably within the next 12 months (European Business in China, 2017). China’s markets are not so open as declared, according to some authors. There is a need to move towards liberal commercial order that president Xi was pleading for in Davos. (Small, 2017) “From a broad European perspective, a shift by China to address the issues of EU rules, and to cooperate with the EU on joint investment projects for infrastructures would be a welcome turn of events.” (Godement and Vasselier, 2017) The green commitment of China is also
an element of division in the bilateral relations. For the EU and the Europeans at large, protecting the Earth, the quality of the air and other ecological matters, represent core values.

Starting with the 16+1 initiative in 2012, the area of Central and Eastern Europe became an area of competition in certain ways. But this is an issue to be discussed later on in the paper. The area of EU's Eastern neighbourhood became gradually of increased interest for China and the launch of the BRI enhanced this interest. Belarus is the closest to China from all post-Soviet European states. Accidentally or not, Belarus is also the state which was most reluctant to join EU initiatives, the Eastern Partnership for example, and whose human rights track record has received a lot of criticism from Brussels, as well as from Strasbourg (Council of Europe). Its economy is largely a state controlled economy. The fact that the EU is has a set of economic standards and benchmarks in terms of market economy, rule of law, democracy and liberty, generates tasks and burdens for the Eastern EU neighbours (former Soviet republics) in terms of reforming their state administration and politics. The offers coming from China, loans, investments, and so on, do not have normative strings and conditionalities attached to them and seem to be more palatable on many occasions. On the other hand, a series of issues related to the security-development nexus, pillar of the EU–China 2020 Strategic Agenda for Cooperation, are “seen as problematic, like issues of public mismanagement of funds, state dependence on Chinese funds, unequal distribution of benefits of the investments.” (Ghiasy and Zhou, 2017)

A Chinese viewpoint stresses the fact that “TTP and TTIP build on the interests of the West’s own network, thus blocking the strategic objectives of OBOR.” (Liu, 2017:140) Extending the free-trade within the developed world can only hinder China’s attempt at extending its connectivity in the areas/regions beyond the BRI. For sure, there are other competitive aspects to the bilateral relationship as seen from Beijing, and which are less visible and less known to Europeans.

2.3. Challenging aspects of the EU-China relationship

Both cooperative and competitive dimensions of the bilateral relationship may generate challenging aspects. In the following lines, we enumerate and discuss some of the main challenges as seen from an EU viewpoint. BRI, China’s growing economic presence in EU countries and its neighbourhood, as well as 16+1 create a series of challenges for EU, as follows:

➢ Building a common EU voice in relation to the BRI. Apart from the fact that BRI was defined in rather unclear lines by the Chinese part, leaving a lot to the inventiveness and local conditions of possible partners, there is no common policy of the EU with regard to this broad and strategically important Chinese foreign policy direction. “At present, bar the EU-China Connectivity Platform, Brussels does not have a common voice and strategic

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1 Trans-Pacific Partnership. For more details about the TPP please access the following link: https://ustr.gov/TPP/
2 Transatlantic Trade and Investment Partnership. For more details about the TTIP please access the following link: https://ustr.gov/ttip
3 One Belt One Road. You can find more information about OBOR/BRI at: https://eng.yidaiyilu.gov.cn
response to the Belt.” (Ghiasy and Zhou, 2017) The EU needs more “understanding of all of the Belt’s implications on the EU’s own stated foreign, security and economic interests.” (Ghiasy and Zhou, 2017)

➢ Creating a common foreign policy position towards South and Central Asia – which is an important and main branch of BRI – is yet another challenge for the EU. The creation of the Eastern Partnership belongs to a recent period (2009) and it was generated both by Russia’s aggressive behaviour in Georgia (2008), as well as by the interest of post-Soviet states in developing closer ties with the EU. Will China’s BRI generate a comparable positioning of the EU with respect to South and Central Asia? This is a question which remains open to future answers.

➢ A challenge related to EU’s behaviour with respect to its own Eastern Member States (MS) has also been generated – at least as a result of the creation of 16+1 initiative in 2012. The CEE members of the EU are present within this initiative. They are less developed than their Western counterparts, they rely a great deal on European structural funds, on investments, and find themselves challenging the expansion of the Eurozone. The opportunities opened by the Chinese partners are tempting and became a subject of criticism by some Western European leaders, as we will discuss further down. How is the EU going to respond to further deepened economic interconnectedness between Eastern EU MSs and China? To what extent the political dimension of the transatlantic security alliance will impact this issue? Will the Chinese offer these countries what amounts to, as Godement and Vasselier write, a “form of competition to EU-derived funding and projects”? (Godement and Vasselier, 2017: 68) The presence of the BRI related Chinese offers to Eastern EU MSs may create a pressure and challenge to EU’s Cohesion Policy and perhaps on other policies. The two authors mentioned above discuss the issue in terms of a challenge of EU fragmentation, when writing: “were EU structural funds to dry up, new barriers to rise inside the EU, or, perhaps most challenging of all, more thoughtful and attractive Chinese offers to appear on the table, this situation might still change.” (Godement and Vasselier, 2017)

➢ The interest of EU’s Eastern neighbours in fulfilling EU’s conditionality in order to qualify for further economic agreements and advantages may suffer as a result of an enhanced presence of Beijing in the region. With respect to Belarus, for instance, Popescu and Secrieru write: “EU interests might be harmed by Chinese financial support allowing the Lukashenko regime to further ward off Western pressure to embark on political reforms.” (Popescu and Secrieru, 2018)

➢ The European Union might be faced with a deeper challenge, of reframing its relation with China in strategic terms. A new EU strategy on China is needed, believes part of the Brussels leadership. In a Joint Communication to the European Parliament and the Council on “Elements for a new EU strategy on China”, there is the following mention and proposition: “Drive forward infrastructure, trading, digital and people-to-people connectivity between Europe and China based on an open rules-based platform with benefits for all the countries along the proposed routes.” (European Commission, 2016)
Connected with the previous one, the EU is challenged to keep pace with China’s impetus of emerging economy, and perhaps also with a surging demography which contrasts the ageing population of the Old Continent.

Finally, but perhaps extremely important, there is the cultural challenge – which works in both senses – for Europeans and Chinese. It is not only a matter of differing political systems, ways of conducting public business, governance, but also of values, of ways in which things are done, principles and their implementation.

On the other hand, China’s involvement in Central and Eastern Europe was approached with scepticism by the European Union, which sees China’s forays in the region more as a *divide et impera* strategy, rather than a way to spur investments and to facilitate the development of the countries from the CEE region.

Although China developed railway links with the some of the biggest European cities, the Chinese investments in Eastern Europe are what set off the alarm for the EU. (European Parliament, 2018) Looking next door, on the Asian continent, the EU connected the dots between some of China’s biggest investments and learned an important lesson. Trying to avoid a debt trap that entangled some of the countries from Asia (Sri Lanka for example), the EU wants to make sure that EU countries do not fall into the same mirage of Chinese infrastructure development. An important example in Europe’s own backyard is the case of Montenegro, which has constructed a highway with Chinese loans. Without preferential interest rates and connecting an area without too much population or trade potential, Montenegro’s government debt exploded to 80% of its GDP (Reuters, 2018) and threw the burden on the population by rising taxes and cutting some benefits (Reuters, 2018).

The new string of pearls that China created around Europe by acquiring shares into some of the most important European ports also created frictions with China. Rotterdam, Antwerp, Marseilles, Bilbao, Piraeus (European Parliament, 2018), to mention just a few, are some of the most important ports that China controls through its companies like COSCO and China Merchants Group International. The idea of the string of pearls developed around the Indian Ocean speaks about the possibility to use these commercial ports for military purposes. What the EU fears does not seem to be the military potential, but the fact that China can cripple its economic development.

In more general terms, the EU is somehow forced by the expansive Chinese economic impetus to deal with its own insecurities. Some EU analysts and leaders see the subregional initiatives which involve China as a danger. “As one observer put it, “If 16+1 is not an existential threat to the EU, the addition of 16+1, 5+1 [the Nordic alliance] and 7+1 [Mediterranean Union] would certainly be on.” (Godement and Vasselier, 2017:68) Is this interpretation a matter of European cultural framing? Is it a real threat? Are outside threats more dangerous than internal EU threats? How can the EU overcome its own insecurities? These, and many others, are questions raised as a result of the growing presence of China in the EU and surrounding areas.
3. Opportunities created by the Belt and Road Initiative (BRI) for the EU. The value of 16+1

3.1. Opportunities created by the BRI for the European Union

BRI creates new opportunities for the EU-China relationship. Some of the challenges presented above, as well as some of the competitive aspects discussed earlier may be seen and approached as hidden opportunities. The very fact that China launched an initiative meant to connect even more the country to Europe represents an opportunity, which may be transformed or not in advantages by the EU as a political-economic entity as well as by Member States. To give an example, China’s AIIB\(^5\) project, together with EBRD\(^6\), and a series of countries, Azerbaijan, Georgia, and Turkey, are involved in the Trans-Anatolian gas pipeline (TANAP) that connects the Caspian Sea to Europe. The link of this pipeline to a Trans-Albanian pipeline and ultimately to Italy, would lead to the reduction of the EU’s dependence on Russian gas. However, China’s pattern of engagement is not anti-Russian. On the contrary, Beijing found formulae of engaging with Central Asian states, as well as with Eastern European countries (Belarus is the best example) without antagonizing or even engaging Russia.

The European Commission signed a Memo of Understanding (MoU) with China (September 2015): EU-China Connectivity Platform, to “enhance synergies” between the BRI and the EU’s own Investment Plan for Europe. The effects of this MoU are still to be studied. The EU and China could work together to strengthen stability in Eastern Neighbourhood, as some theorists have put it. (van der Putten, 2015) To a certain extent, China’s presence through loans, projects and investments in this region may act as a counterbalance to the already competitive environment created between the EU and Russia.

There is an opportunity created for the EU’s foreign policy to become more robust, by rethinking at least three areas: its Eastern Neighbourhood policy, its policy in Central Asia and South Asia, as well as accelerating strategic thinking related to China.

With respect to EU’s Eastern MSs, the presence of the consultations and memoranda signed in the framework of the 16+1 initiative may represent an opportunity for the EU to strengthen its Cohesion Policy, and find new ways to counteract the growing inequalities within the EU, the gap between a richer and a poorer EU. It is true, on the other hand, that there is a contrast between the approach taken by China with respect to Western EU, on the one hand, and Central-Eastern EU, on the other hand. “Chinese FDI\(^7\) in Western Europe, mainly in the United Kingdom, Italy, France, Portugal and the Netherlands is aimed at engaging with Europe’s strategic assets and research and development networks.” (Zeneli, 2016) Apart from these countries, Germany is also an important FDI recipient. At the same time, the reasons for China’s interest in Central and Eastern Europe (CEE) are different: its

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\(^5\) Asian Infrastructure Investment Bank. You can find more information about AIIB at: https://www.aiib.org/en/index.html

\(^6\) European Bank for Reconstruction and Development. For more information please access the link below: https://www.ebrd.com/home

\(^7\) Foreign Direct Investment.
strategic position and ability to reduce transportation costs for delivering Chinese goods to Western Europe; new market opportunities, given the 120 million citizens size of the CEE; ongoing privatization opportunities, including large scale infrastructure projects and public procurement opportunities; locating production facilities closer to their EU destination markets. (Zeneli, 2016)

Many analysts concluded that the biggest feud between China and European Union is that the latter does not seem prepared to grant China market economy status (Oehler-Şincai, 2018), not because the EU fears China, but because EU leaders believe China does not have a free market-led economy.

2. The importance of 16+1

The 16+1 format is a mechanism of dialogue and cooperation between China and Central and Eastern European countries meant to improve trade and investments, develop infrastructure and the energy sector and also strengthen people-to-people relations. The 16 countries which take part in the forum are Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia and Slovenia. 11 of the 16 countries are EU members, while 5 are Balkan states.

The 16+1 forum took place for the first time in 2012 in Poland. Together with the BRI, it represents a Chinese strategy to extend its economic capabilities and influence toward other continents. Romania hosted the 16+1 summit in 2013, a moment that became a landmark for its bilateral relations with China. The 16+1 forum takes place every year in one of the CEE countries or in China. In 2017, the summit took place in Budapest (Hungary) and in 2018 in Sofia (Bulgaria).

The “16+1” was established before the launch of the BRI. After Europe was hit by the economic crisis, the CEE countries managed to keep their positive growth rates, and interaction with China started to increase rapidly.” (Zeneli, 2016) However, the importance given to the countries of Central and Eastern Europe (regardless of their membership in the EU or not) does not say the whole story. The level of China’s investment in this region is rather low: 2.7 percent of the Chinese money invested in the global economy. (Zeneli, 2016) The main investments in the CEE are directed towards acquisition and infrastructure building. Whereas in short time, particularly EU MSs from CEE grant immediate and convenient access to EU market, in the long run, BRI is meant to create work for Chinese state companies and “create efficiencies that lead—long-term—to better, more prosperous trading partners for China.” (Wood, 2017)

As Iulia Monica Oehler-Şincai notices, the CEE countries support the 16+1 initiative because “(1) they are interested in the diversification of their export markets and investment/financing sources; (2) most of them need a better infrastructure; (3) they perceive the cooperation with a strong country outside the EU as a supplementary negotiation power inside the EU (CEE-11: Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia) or during the EU accession (CEE-5:
Albania, Bosnia and Herzegovina, Former Yugoslav Republic of Macedonia, Montenegro, Serbia); (4) Russia’s opponents (including Poland and Romania) intend to diminish their dependency on Russian energy; (5) Poland is trying to balance the power between Russia and Germany and increase its regional role”. (Oehler-Șînci, 2018)

BRI creates opportunities for EU MSs from CEE by “increasing their own leverage with, and within, the EU itself.” (Godement and Vasselier, 2017:64) At the same time, some attempts on the Chinese part created disappointments for some states in this region. “Since 2013, China has been repeating the same pledge for a $10 billion (now $11 billion) credit line, and, in 2015, a $3 billion investment fund. [...] The problem is that the same announcements for the same funds by China have been repeated for the past three years, without much actual disbursement of funds.” (Godement and Vasselier, 2017:66) A point of contention is the “double standard” employed by the Chinese part in relation to Western and Eastern EU countries. As we have seen earlier, there is a different orientation of FDI in the two regions. The complaints coming from CEE officials point to the same direction. Yet, another criticism focuses on the fact that investments from China come with many strings attached, employ Chinese contractors and labour (Zeneli, 2016). In Brussels, on the other hand, the 16+1 forum is seen by some as “threatening its internal cohesiveness, as well as potentially building an internal pro-China lobby in Brussels.” (Ghiasy and Zhou, 2017:46)

Despite all these elements of criticism, the 16+1 forum created the opportunity of leaders from China and CEE countries to discuss openly, in various formats, sign memoranda, create conditions for economic cooperation and shared benefits. The Belgrade-Budapest railway project is often given as a good example in which Chinese investments contribute to connectivity within Europe. There are other examples, involving the countries in CEE, which prove that this format has potential, even though the positioning may need recalibration.


4.1. Romania-China relations (2007 up to present). Political dimensions

After a “political gap” in terms of high-level contacts, the bilateral relations restarted during Victor Ponta’s term as Prime Minister. In 2013, Victor Ponta made his first visit to China as head of the government. In November 2013, Romania hosted the 16+1 Summit, which brought to Romania the prime ministers and presidents from all the Central and Eastern European countries and the Chinese Premier, Li Keqiang. The summit was the apex of Romania-China political relations and succeeded in re-positioning Romania on the list of China’s closest friends in Central and Eastern Europe (CEE). During 16+1 summit, Romania signed with China more than 10 memoranda of understanding (Stirile TVR, 2013), which proposed projects valued at 8.5 billion euros (10 billion dollars) (Digi24, 2013). But even at the moment of writing, more than four years after the summit, none of the investment projects have been implemented and some of them are still under negotiation.
After Victor Ponta’s 2014 visit to China, the only important meeting for Romania-China relations was organized in 2015, between the Romanian President Klaus Iohannis and the Chinese President Xi Jinping in New York, during the UN General Assembly meeting. During the past two years, Romania-China relations have been affected by the succession of many governments lead by different prime ministers: Dacian Cioloș, Sorin Grindeanu, Mihai Tudose and Viorica Dăncilă. This political instability has had a powerful impact on negotiations regarding some Chinese investments in Romania like the Cernavodă Nuclear Plant, the Tarnița-Lăpuștești Hydropower Plant and the Rovinari Thermal Power Plant. For China, which is used to have a stable and long-lasting government, the Romanian political fluctuations contributed to rather stagnant bilateral relations.

The change of governments also hindered the development of closer relations under the Belt and Road Initiative (BRI) umbrella. This may be one of the reasons why a memorandum of understanding (MoU) regarding the BRI was signed only at a level of secretary of state or vice-minister from the trade ministries of both countries, without another MoU following at a higher level. Perhaps that another reason is the lack of clarity in defining BRI. Although Romania promotes its 2015 MoU, considering itself one of the first European countries to sign such an agreement with China, in the three years since its signing, it did not attract any investment or project as part of the BRI. Though many projects like the Cernavodă Nuclear Power Plant, the Rovinari Thermal Power Plant, the investments of Huawei Romania or other Chinese investments in Romania may be nominated as BRI investments, in fact these projects have been proposed before the initiative has been launched, in 2013. At the first Belt and Road Forum, organized by China in May 2017 in Beijing, Romania was not represented at the level of president or prime minister, but by the deputy prime minister and minister of environmental protection, Grațiela Gavrilescu – unlike other countries in Central and Eastern Europe, part of the 16+1 format.

Political divisions and bureaucratic inefficiencies also had an impact on Romania’s decision to join the Asian Infrastructure Investment Bank (AIIB). Thus, Romania was not part of the first wave of European countries which joined the AIIB as founding members in March 2015, a wave that included the United Kingdom, Germany, France, Italy and Poland. Romania started the procedure to join the AIIB in 2016, being admitted with the occasion of the first Belt and Road Forum, in May 2017. Romania is still in the process of ratifying the agreement through its internal mechanism, a process that might last until 2019.

**4.2. Sino-Romanian economic relations**

The Sino-Romanian economic relations did not follow an up-and-down path, but a smoother trajectory, at least when it comes to trade. During Ceaușescu’s era, economic relations were very good, with Romania having a positive trade balance. After the 1989 Romanian Revolution, trade with China entered a downward trend, for about a decade, reaching a minimum of around 175 million dollars in 1997. (Chiriu and Liu, 2015) After 2000, the imports from China started growing and they overtook Romanian exports to China and the trade balance becoming negative, while the gap between imports and
exports continued to widen. In 2017, the trade balance was still negative, but total trade has followed an upward trend, reaching 4.695 billion dollars. (Ministry of Commerce of PRC, 2017) Although China is Romania’s largest trade partner, things are very different for China, Romania occupying only the 68th position as its trade partner. (Ministry of Commerce of PRC, 2017) The negative trade balance of Romania may be seen in a larger perspective, as the European Union suffers from the same pattern.

Although there are over 10,000 companies in Romania with Chinese capital, many such companies are family-owned and SMEs, their capital amounting to only 442 million dollars. (Ministry of Justice, 2017) China is the biggest Asian investor in Romania, but it ranks only on the 18th position (Pencea and Oehler-Şincai, 2015:51) in the top of foreign investors by country of origin, which is dominated by European countries.

There are two categories of Chinese investments in Romania: the companies that invested directly in Romania and set up new industrial and technological investments, and Chinese companies which entered the Romanian market indirectly by acquiring other international companies which already had branches in Romania. In the first category, the most important companies are Huawei, ZTE, China Tobacco International Europe Company, Eurosport DHS (bicycle producer), Yuncheng Plate-Making (industrial park), Honest General Trading (tools supplier), Contex Digital Electronic. In the second category, we identified three companies: Smithfield Romania, Pirelli Romania and Rompetrol. Smithfield Romania is part of the American company Smithfield Foods, which was purchased by Shuanghui (China), now named WH Group. Pirelli Romania is part of the Italian company Pirelli, which was acquired by ChemChina. Rompetrol, also known as KazMunayGas International, is a Romanian-Kazakh company which is in process of being sold to CEFC China Energy.

While such private Chinese investments have been successful, projects negotiated by the Romanian state with Chinese state-owned companies have run into numerous roadblocks. Out of the four investment memoranda signed in 2013 (the construction of reactors 3 and 4 from the Cernavodă Nuclear Plant, the Târnăta-Lăpuștești Hydropower Plant, the Rovinari Thermal Power Plant, the Mintia-Deva Thermal Power Plant), with the occasion of Li Keqiang’s visit to the 16+1 Bucharest Summit, none has been implemented. There were numerous problems which have prevented these investments from materializing: corruption investigations, political instability through frequent changes of government, a lack of a long-term strategy which meant that some projects have been abandoned by different governments, bureaucratic inefficiency and red tape which prolonged negotiations, or administrative mistakes. These problems, which can be classified as non-traditional security threats, have affected not only state-to-state negotiations, but also the large private acquisition of KMG International by CEFC.

3. Challenges in the Romanian – Chinese relations nowadays

Some Chinese researchers present Romania-China relations as good relations. (Ge, 2017) However, non-traditional security threats like red tape, bureaucracy, corruption, or political instability have prevented the development of better economic relations, as investments estimated at almost 10 billion dollars have failed to materialize.
The Cernavodă Nuclear Power Plant is one of the most important Romanian-Chinese projects that have not been implemented. Because of the quick succession of Romanian governments, the negotiations were delayed for more than two years. The saga started in 2013, when under Victor Ponta’s watch, Nuclearelectrica (the Romanian company that owns the power plant) and China General Nuclear Power (CGN) signed a letter of intent regarding the construction of the reactors 3 and 4 of the Cernavodă Nuclear Plant. The project was estimated to cost around 6.4 billion euro (8 billion dollars) (RISAP, 2015). One year later, in 2014, CGN won the public tender for the project. After another year, in November 2015, Nuclearelectrica and CGN signed a MoU for the project. According to that MoU (Nuclearelectrica, 2013), the negotiations to form a joint venture should have lasted only ten weeks, but no agreement was reached, so that the negotiations had to repeatedly be extended until the present day. In all this period of two and a half years, five prime ministers have led the Romanian Government and the negotiations at Cernavodă.

Another project that did not take shape, and the cause can be attributed to political instability, is the Tarnița-Lăpuștești Hydropower Plant. This project is a pumped-storage hydroelectric plant and was linked to the Cernavodă Nuclear Power Plant. In 2015, when Victor Ponta was Prime Minister, Romania organized a public tender and three Chinese consortia were selected. (HotNews, 2015) But after Victor Ponta resigned, the project was removed by the next government from the list of projects in the new National Energy Strategy. (Ministry of Energy, 2016) In 2018, a different government wants to reintroduce the Tarnița-Lăpuștești Hydropower Plant in the final version of this National Energy Strategy. (Agerpres, 2018)

Yet, another case proves to be more complex: the case of the modernization of the Mintia-Deva Thermal Power Plant. In 2013, it was one the projects that were signed at the 16+1 summit, which was followed by a contract during Victor Ponta’s visit to China in 2014. A few months later, the contract was dropped because the initial agreement did not have all the approvals and because the technology used by the Chinese company was considered to be outdated. (Iancu, 2015)

The Rovinari Power Plant is another project with an unclear future. Like the other two projects, Cernavodă and Mintia, it was signed in 2013 between China Huadian Engineering and Complexul Energetic Oltenia, the Romanian company that owns the Rovinari Power Plant. Although a joint venture between these two companies was established in 2016 to implement the 1 billion dollar investment (Complexul Energetic Oltenia, 2016), the project encountered difficulties and the construction of the new units has not started yet.

Sometimes, the process of negotiations did not follow a smooth path even in the private sector. The case of CEFC’s acquisition of Rompetrol is the most important example. The problems started a decade ago, with the debts that the Rompetrol Petromidia refinery owed to the Romanian state. The Romanian investor, who bought the refinery, Dinu Patriciu, did not pay the debts, rolling them over. KazMunayGaz (KMG) did the same after taking over Rompetrol, which became KazMunayGas International (KMGI). When CEFC announced that it wants to buy 51% of KMGI, Romanian authorities froze its assets, including the Petromidia refinery, expecting to recover the debt. Eventually, CEFC, KMGI and the Romanian government negotiated an agreement and the transaction was
approved, but has not yet been finalized, because CEFC now has its own corruption issues. (South China Morning Post, 2018) The recent news showed that the transaction between KMG and CEFC was not finalised and the deal fell apart. (RISAP, 2018)

While all these projects have been plagued by problems and delays, Romanian politicians and officials remain interested in attracting Chinese investments. Every year there are numerous economic and trade delegations from China, visiting different Romanian counties, in search of business opportunities. The year 2018 may yet witness the finalization of CEFC’s acquisition of Rompetrol and maybe even the conclusion of the negotiations for the Cernavodă Nuclear Power Plant, which have the potential to boost Romania-China economic relations.

Two more aspects are worth mentioning. Firstly, the fact that in the Governmental Program of the present government (2018-2020), in the Chapter dedicated to Foreign Policy, the relationship between Romania and China does not appear to be a privileged one, on the contrary. China is mentioned in the section dedicated to developing relations with Asia and Latin America (a rather marginal part of the program), and rather briefly, as follows: “In our relation with China, we will work toward further consolidation, especially in the economic area, under the Comprehensive Partnership of Friendship and Cooperation, including the implementation of projects agreed during high-level bilateral meetings or in the CEE-China format”. As we saw, they are not. As we pointed in this article, the Chinese investments in Romania agreed at the 16+1 meetings are on the brink of failure, while Romania’s interest for China seems to decrease with each year. Secondly, if we look at the list of EU-China connectivity projects both in 2016 and 2017, there is no Romanian project included (Grieger, 2018).

Conclusions

The Romanian-Chinese relationship can be adequately approached only in the European and Euro-Atlantic context. Our paper presented some of the main elements that define this complex context, focusing only on the EU component, and including details as to the concrete economic and political dimension of the bilateral relationship. For at least a decade, Romania’s foreign policy was dominated by its interest in becoming a NATO and EU member. This period coincided with a slower pace in developing the Sino-Romanian relations. We noted the fact that in the 1990s and beginning of the 2000s, the economic bilateral relations did not match the high level dialogue that was present between Romania-China. The re-launch of the political dialogue at high level in 2013 encountered a series of barriers, on the Romanian side, among which the political instability in terms of the head of the government (5 Prime Ministers in 5 years) played an important part.

Romania-China relations have passed through different stages over the past decades. Economically, there has been an ascendant development, but with numerous bumps along the way, in the form of investments that never materialized. If we look at the political relations, there are periods of ups and downs, defined by the different approaches toward China of each Romanian government.
Romania’s recent apex regarding its political relations with China happened during PM Victor Ponta, when Romania organized the 16+1 summit (2013) and signed numerous memoranda of understanding with Chinese companies, mostly in the field of energy projects. But although almost five years have passed since then, no notable progress has been made. Some projects were abandoned, while others, like the Cernavodă Nuclear Power Plant or the Rovinari Thermal Power Plant, are still in the process of prolonged negotiations. The explanations are complex and they involve administrative hurdles, red tape, political instability, corruption on the Romanian side. Smoother and more efficient relations between Romania and China are to be noticed in the private sector in comparison with the public sector.

Starting with 2007, Romania’s trade became part of the Common Commercial Policy of the EU. Actually, we may notice common commercial patterns between Romania-China and EU-China beginning with the 2000s. The trade imbalance which disfavours Romania is noticeable.

To sum up, Romania-China relations have passed through many phases, but the most important aspect is that there is the potential to develop good economic and political relations. Romania’s interest in getting involved in the BRI is present, and there is a legal framework for it in the MoU signed in 2015. As the Chinese philosopher Lao Tzu once said: “The journey of a thousand miles begins with a single step.”

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“The Power of Producing Wealth, Infinitely More Important than Wealth Itself” – the Truth Transforming the Current International Order

Paul Dobrescu, Mălina Ciocea

Abstract: This paper discusses the causes of the imbalance that characterises the post-crisis world by looking at manufacturing capacities, public debt and trade deficit. It analyses the spectacular transformations taking place nowadays in liberal international order: rapid changes in the structure of global power and in the hierarchy of various countries and regions in international economy and trade. The article shows that while historically the hegemonic power defended the order it had instituted, in today’s world the US encourages bilateralism, and not multilateralism (one of the fundamental traits of globalization). Pro-globalization voices now belong to other contenders in the global economic race (like China).

Keywords: international order, manufacturing, public debt, trade deficit

Introduction

It has been ten years since the crisis of 2008-2009. We are inclined to believe that following the post crisis period economic life will resume its progress, albeit with slight alterations. Little did we realize that this is a period of massive resettlement, marked by distinct stages and evolutions. The most spectacular and profound, albeit silent, transformations are those of the current liberal international order.

In the hierarchy of the most vividly debated political themes in the last years, the crisis of liberal democracy and liberal international order undoubtedly occupies one of


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the top positions. Several books have been recently published on the topic of the crisis of international order, which reveal the viewpoints of important personalities3. This theme has been debated in both articles and dedicated issues of various journals alike, and it is one that in our eyes has a tendency to take unpredictable turns.

President Donald Trump’s win has been the trigger for the intensification of such debates. In the introduction to the Foreign Affairs’ issue on international order, Editor Gideon Rose highlighted that: “during his campaign [the 2016 electoral campaign] Trump did indeed offer a perspective on international politics closer to the nationalism and protectionism of the 1930s than to anything seen in the White House since 1945. If the new administration tries to put this vision into practice, it will call into question the crucial role of the United States as the defender of the liberal international order as a whole, not just the country’s own national interests.”4

In addition to President Trump’s political vision, a similar contribution to the debate on current international order has had the difficult internal political climate in the US. Richard Haass had just finished writing “A World in Disarray” when Donald Trump won the presidential election. The author felt the need to add a concluding chapter, “A Country in Disarray”: “When it comes to the domestic side, the argument is straightforward. In order to lead and compete and act effectively in the world, the US needs to put its house in order.”5

As with democracy, international order needs to deliver results, performance, and perspective. Just like democracy, international order has started delivering less. This is where the roots of the crisis, its very centre, lies. Liberal international order and liberal democracy are associated with each other because the efficiency, the attractiveness, and the prestige of internal order come from the efficiency, the attractiveness, and the prestige of liberal democratic life. The importance of the US in maintaining international order (and, in this context, the impact of the vision promoted by president Trump on international life) is crucial. However, in explaining the crisis of liberal international order, several causes and factors need to be taken into consideration equally, the most important of which are the economic ones. The structure of global power has changed, as too has the hierarchy of various countries and regions in international economy and trade. International order is the cumulated result of these rapid changes and so it must be.

Bill Emmott speaks about a feeling of decline that has permeated Western heartlands (the US, Europe and Japan), since the 70s6. The problem is that this feeling is supported by facts and evolutions and is consequently hard to shake. Irrespective of their various perspectives, analysts point to the economic root of evolutions after the Cold War and to the growing social gaps within states in the post crisis period. In what follows, we will focus on these transformations and possible instruments for intervention.

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5 Richard Haass, op cit., p. 287.

6 Bill Emmott, op. cit., p. 4.
Davos 2017

So far, the crises and subsequent triggers leading to changes in the current international order have followed a pattern. The rising power would request a place at the table where strategic decisions are taken in order to have the chance to influence various evolutions in its favour. The hegemonic power would then defend the order it had instituted. The rise of Athens falls into this pattern (perceived by Sparta as a danger, which led to the Peloponnesian war), as did the rise of Germany at the end of the 19th century and then again in the 1930s. American professor Graham T. Allison labelled this pattern Thucydides’ Trap7 to describe the situation of the current power at that time, that Sparta could not reach a compromise because it feared the rise of Athens. This led to a 30-year war that drained the two Greek states.

The spectacular change in this historical pattern was apparent at Davos, in 2017. The US announced that it will promote bilateralism, effectively giving up several multilateral arrangements (one of the fundamental traits of globalization), while China pleaded for globalization through its most authoritative voice. The paradox lies in the fact that the US, the promoter of globalization, took a step back from the order it had instituted, while China, the contender, occupied the pro-globalization seat left empty by the US. An analysis of the factors behind this crucial moment will facilitate an understanding of the current international order, the crisis that undermines it and future evolutions.

President Donald Trump’s position tells us openly that, from now on, the states’ interests will prevail in any geopolitical equation. This invites the reflection that up to now these interests may have been neglected. For a clear answer, we need to dive into “the peace treaty” that unofficially, but effectively, marked the end of the Cold War: globalization. This was the project that the American power, together with its close allies, offered to the world. Undoubtedly, this treaty furthered global interests, values, and evolutions. As early as 1999, Henri Kissinger remarked that “[t]he basic challenge is that what is called globalization is really another name for the dominant role of the United States.”8 In these circumstances, how is “America first” to be understood?

Throughout history, superpowers cannot be accused of not wanting to promote their interests, but rather of not “reading” adequately these interests. Making sense of the internal and external contexts is a difficult task that history can neglect to take into account. Errors are inevitable. Prompt re-evaluations, followed by unyielding corrections, can compensate for the weaknesses of initial projects. When they are postponed, the world is faced with the current paradoxical situation, which what happened in Davos in 2017 illustrates.

In the 30-year period that has passed since the end of the Cold War it is not the national interest that has been neglected; rather, the institutional structure that was meant to promote it has not worked to this end for a while. The emphatic proclamation

of national interest represents a (late) acknowledgement that the provisions of the “peace”
that has followed the Cold War, despite appearing to be highly favourable to the winners,
have ultimately not served this purpose. This is the moment when the US understood
that globalization cannot be controlled. What remains to be seen is whether a state –
irrespective of the magnitude of its power – can “free” itself from the flows of globalization.

In a recent publication, Edward Luce remarked: “In 1978, China had less than 1 percent
of global trade and in 2013 it became the world’s leading trading nation with almost a
quarter of its annual flows. As recently as the turn of the twenty-first century, the US
accounted for almost three times as much global trade as China … Nothing on this scale
or speed has been witnessed before in history.” Indeed, globalization has reconfigured
the development strategy in its entirety. It has become apparent for some time that
globalization no longer favours the states that established it. This late acknowledgement
comes at a cost for the superpower of the moment.10

“The structure of global power changes dramatically”

In the early days, the US and other developed countries benefitted considerably from
globalization, because they delocalized important production capacities in countries
with cheap workforce. Profits were generous, but were obtained with minimal effort;
gains without work are a poisonous gift, because they do not stimulate the endeavours to
procure wealth. Moreover, such gains were not distributed equitably in the US and other
developed countries. Delocalization (that led to the loss of numerous jobs) and the fact
that profits went to a small social segment generated the explosion of social inequality in
many developed countries, and especially the US.

The example given by Edward Luce is important because it illustrates how dramatically
the structure of global power (the power relationships and the international significance
of countries) can change. “As a group, emerging and developing economies now account
for almost 60 percent of global GDP, up from just under half only a decade ago. They
contributed more than 80 percent of global growth since the 2008 financial crisis.”11 In
discussions regarding the liberal international order, we tend to disregard the significance
of this phenomenon, which is the explanation behind changes at international level. In this
respect, Graham Allison remarked (in contradiction to analysts that mainly associate the
real problems of international liberal order with Donald Trump being elected president):
“Yet, the rise of China, the resurgence of Russia, and the decline of the United States’ share
of global power each present much larger challenges than Trump.”12

Apart from the strictly quantitative, statistical data, the economic competition at the
top has a very important qualitative component, associated with what we call the new

10 It is hard to understand why the US and other powers took so many years to understand that, while globalization
was instituted for a certain purpose, it has come to serve other interests. See the book by Paul Dobrescu, published in
2010 by the European Institute Publishing House, Iași, Globalization’s Cunningness. The Assault on American Power, for
a detailed analysis.
11 Christine Lagarde, The Role of Emerging Markets in a New Global Partnership for Growth, University of Maryland,
technologies. One of the issues of The Economist13 is dedicated to “The Battle for Digital Supremacy”, which at this moment is embodied by the US and China (that aims to become a global leader in the field by 2030). There is a lot of talk about artificial intelligence and the opportunities it opens in most fields. Vladimir Putin asserted: “Artificial intelligence is the future, not only for Russia, but for all humankind … Whoever becomes the leader in this sphere will become the ruler of the world.”

Since the Russian leader has been so clear about the importance of artificial intelligence, Moscow must be betting on certain advantages in this field. Current powers are striving to capture the truly revolutionary potential of new technologies – with the exception of the European Union.

The example given by Edward Luce is illustrative because it highlights a reality that we could call “the classical trap of development”. In crucial moments throughout history, states have to choose between wealth or the capacity to produce wealth. Following the Cold War, in the years of globalization, most developed states fell into this trap. It seems that the warning of Friedrich List, a great theoretician of development, formulated in the first half of the 19th century, when Germany was striving to bridge the gap with Europe’s developed states, has been forgotten: “The power of producing wealth is … infinitely more important than wealth itself.”

Delocalization has led to enormous profit; however, the price paid in terms of development is unacceptable. The countries that deliberately offered conditions for foreign companies to reach high profits became the destination of modern production capacities, of advanced technologies and modern management. In short, they became the beneficiaries of a windfall capacity to produce wealth.

At the beginning of the industrial revolution, China and India held about three fourths of the world’s manufacturing capacities. The European countries fought back. The Indian textile production, holding the world’s top position, was replaced by the Lancashire cotton industry; Chinese porcelain was replaced by European porcelain. In other words, European countries took advantage of the technological advances that enabled them to increase production and sell those products at a competitive price. The battle was clearly fought over manufacturing (or, in the terms discussed above, over the means to produce wealth). This was the moment at which the West understood the decisive importance of manufacturing. The result is well-known.

Developed countries behaved differently in the years of globalization. They yielded manufacturing means, sharing the belief that wealth belonged to them. Nowadays, it is the ‘weaker’ states that have “imposed” the solution, by providing cheap products to the rich and offering them the perspective of gains. This is how China invited the delocalization of an important part of the American and other develop states’ manufacturing. However this has been a short-term gain for the rich; it is the emerging states that have won. This is the strategic exam that neoliberal capitalism has not passed. Developed countries have focused on wealth, the emerging countries have focused on producing wealth. Through a historical

15 Friedrich List, op cit., p. 108.
perspective, this race can have only one winner. Any confrontation between existing and rising powers reveals paradoxes, mistakes, and blunders, but the confrontation nowadays is quite unique in that consequences have not yet been completely understood.

Criticism is now aimed at President Trump. However, if he ceased to be president, none of the economic problems of the US would change. Exploring the impact of the 2008-2009 crisis on the US economy will provide a clearer understanding of the tensions that can arise. Niall Ferguson asserted: “Plausible estimates for the losses that the financial crisis inflicted on the United States alone range from $5.7 trillion to $13 trillion, whereas the largest estimate for the cost of the war on terrorism stands at $4 trillion.”16 At the same time, the volume of national debt has evolved at disquieting rates. “It stood at approximately $4trillion when the Cold War ended, has risen to $20 trillion today, and is projected to exceed $25 trillion by the end of this decade. The United States has become a country that does not finish what it starts and then borrows exorbitantly to conceal its failures.”17

The Chinese-German “Half-Victory”

Crisis is the expression of an imbalance. The more important the field where the imbalance has become apparent, the more chronic the situation, and the more serious the crisis. The crisis does not end when its end is proclaimed, but rather when the imbalance that has generated it has been removed. We share the opinion of Mervyn King, former governor of the Bank of England, who, when asked about the actions taken by central banks to stop the crisis, answered: what was done in 2008 and 2009 “prevented a repetition of the Great Depression”. In other words, the crisis was stopped when it was still a recession, in order to avert a repeat of the nightmare of the 1929-1933 depression. The price to pay was to increase money printing and the transferring of this financial effort towards the public debt, more precisely towards the citizen.

In the meantime, other imbalances have come into being or deteriorated, and have been added to the ones that were never completely solved during the crisis. In a recent book18, Mervyn King discusses the contradiction between countries with high deficit and those with high surplus. An answer to the question “who are the winners of this turbulent time?” can be found from a political, military or economic perspective. At an economic level, two countries have clearly won: Germany and China. Germany’s trade surplus for 2016 was 300 billion dollars; China’s, over 200 billion. These numbers show something significant for international order. Massive trade surplus expresses a major imbalance. It has a precise correspondent in the deficit of the other trade partners. The existence of a surplus of such magnitude forces countries with trade deficits to borrow money or appeal to severe austerity policies. This institutes a gap in international order, and is a source

of tension and potential conflict. President Trump’s comment on the “bad, very bad” German trade surplus demonstrates the magnitude of this reality for the US.

The volume of public debt, and a stagnating or modestly growing global demand are the two illnesses directly affecting global growth and, implicitly, the state of international order. They strongly highlight the strategic advantage gained by states with a high trade surplus. Moreover, they show that the main dispute in the years to come will be between countries with debts and trade deficit and countries with financial power and trade surplus. The coming period will see an upsurge in protectionism and various forms of mercantilism and will resemble economic war.

No country with a high trade surplus yields advantages. There are few options available to a state with trade deficit. It can carry out austerity measures, to decrease social expenses, but the most realistic option is to increase exports, which requires internal restructuring and an increase in competitiveness. Take the example of Greece. This country cannot improve its economic state by appealing to excessive austerity, which has ceased to yield results. It is clear that another solution needs to be found, or else the trade balance of Greece or countries in similar positions will become worse and the international order will be undermined and will implode.

The winners of the post-Cold War period (countries with high surplus) are better equipped to use the advantages of globalization. It is for this reason that they support this process and are the main actors of global competition. In order to face this competition, the other developed countries need to borrow for the future. They will have to further “the paradox of policies”, in the words of Mervyn King: “Understandably concerned with the paradox of thrift, they adopted policies that led to the paradox of policy – where policy measures that are desirable in the short term are diametrically opposite to those needed in the long term.”

If this is what happens in developed countries, we can understand the magnitude of the significance of the trade gap for developing countries. In the end, there will be several countries like Germany, and a lot more like Greece. The imbalance evident in the existence of countries with high trade balance and countries with high trade deficit that borrow from the future, synthesized in “the paradox of policies”, can lead to serious tensions, and probably trigger a new crisis. “Whether the next crisis will be another collapse of our economic and financial system, or whether it will take the form of political or even military conflict, is impossible to say. Neither is inevitable. But only a new world order could prevent such an outcome.”

Other developed countries will be winners at political and military level. It has become extremely pressing to have peace, a peace that will confirm a new international arrangement, meant to bridge the gap in trade performance. The more the moment is postponed, the higher the risk for a new crisis, that will strengthen the advantages of countries with trade surplus. Sooner than later, a new Bretton Woods will be required, which should find its roots in this economic “half victory” of countries with trade surplus, and should prevent the risk of widening this gap.

19 Idem, p.326.
20 Idem, p. 352.
2016, the crucial year of the post crisis period

2016 represented a decisive year for the understanding of the post crisis period and the particularities of current international order. It was the year that saw crucial events: Brexit, the election of president Trump, as well as a visible rise of populism. Sociological analysis shows that at national level, globalization has brought about important negative phenomena. In the case of the US and Great Britain, it has favoured the increase in social inequality, has increased polarization and has facilitated the appearance of social faults, that the general population has been quick to perceive and act on. This in part explains why Brexit was not supported by the majority of citizens from urban areas (London, Oxford, Cambridge), but was voted by dissatisfied citizens elsewhere.

In the US, inequalities are more visible than in other states or regions. These inequalities have been compensated by the conviction that “the American dream” perseveres, that the existence of opportunities diminishes these inequalities that merit and talent are rewarded and lead to higher social status. Events such as Brexit or the election of Donald Trump represent an accumulation of the discontent generated by several factors: an increase in the number of migrants, poor security for the average citizen, etc. Among these factors a crucial one is an increase in inequality and its consequences.

Jeff D. Colgan and Robert O. Keohane study this problem in one of issues of Foreign Affairs. They discuss the effects that the drastic decrease in the numbers of the middle class has not only on internal stability, but on international stability, as well. “Since the early 1980s, the effects of a neoliberal economic agenda have eroded the social contract that had previously ensured crucial political support for the order. Many middle – and working class voters in the United Kingdom, the United States, and elsewhere have come to believe – with a good deal of justification – that the system is rigged ... Ordinary people were left out. The time has come to acknowledge this reality and push for policies that can save the liberal order before it is too late.”

Three years after the monumental Capital in the Twenty-First Century saw the light of day, the book After Piketty was published. It is significant because it illustrates the dynamics of interpretations on social inequality. The editors of this recent book note that when Piketty’s book was published, many analysts doubted how accurate it was: “maybe, but also maybe not.” Then came President Trump’s victory, largely down to the audience in classically democrat areas (goes the editors’ argument). These areas “faced extreme economic dislocation in the recent past” and were untouched by Hillary Clinton’s messages. “And so, Piketty’s analytical political-economic case looks to us to have been greatly strengthened by Trump’s presidential election victory.” The conclusion is a warning for analysts: “If Piketty’s book was distastefully radical before, now it looks vitally necessary.”

24 Ibid.
25 Idem, p. 4.
The current period is characterized by the fact that international instability expresses states’ internal discontent, developed politically. Preoccupations with the resettlement of international order will become more acute, especially because these changes affect the most powerful country in the world.

The social and political life of developed countries is severely divided and the visions governing them are becoming increasingly radical. The middle class, that once ensured balance, is now decreasing. Prestigious authors, from Paul Volker to Allan Greenspan, from Henry Kissinger to Joseph Nye Jr., warn that it is not the economic situation (burdened by many difficulties) that is the most serious problem, but the lack of political consensus over strategic directions. This new phenomenon can feed not just the increase of tensions and conflicts, and the ascent of populism, but the appearance of “protofascist” positions, warn Heather Boushey, J. Bradford DeLong and Marshall Steinbaum. This situation carries the risk of suspending the very substance of democratic debate, which invites various viewpoints and approaches, against the background of shared values and options. When these options are so different that consensus cannot be reached, meaningful dialogue cannot take place and the “two sides of society” only aim at defeating the other, at the expense of social dialogue.

The enormous risk of this national imbalance spilling over to an international level cannot be ignored. To a degree, international order is the cumulated product of various internal situations; in any case, international order and internal order (especially of big states) are permanently interrelated. The corollary of this evolution can be a form of national self-centredness. Remember Jan Bremmer’s book, Every Nation for Itself. This leaves little room for shared problems and global challenges. International life is hardly sustainable at this moment, and is marred by many risks and tensions. The states’ retreat onto themselves can aggravate this already tenuous situation. The hegemon no longer has the power to dominate world problems on its own. Emerging states are increasingly powerful, but their role at a global level does not reflect the economic and military force they possess. We are living in a multipolar world, and “a multi-polar world is inherently more unstable than the post-war stability provided by the umbrella of the Pax Americana.” The US is still powerful, but the gap between the US and the contenders has visibly decreased. At the same time, with the launch of the formula “America first”, the US has rethought its priorities. Finding solutions to internal problems takes precedence over other objectives, including international ones.

“If nobody is ever willing to yield, we will all lose”

A close look at international life will show that, in fact, the European Union is the only significant power of our days “built on a multilateral basis”. It is important to reflect on this reality for several reasons. Firstly, this internal focus of nations leaves little room for shared problems. From any angle, the withdrawal of the US from the Paris Climate Agreement represents a blow to ecological preoccupations, in a moment when they

27 Mervyn King, op cit., p. 362.
become increasingly important not only for political actors, but for citizens in general. From this perspective, Xavier Solana’s warning remains significant: “Multilateralism is not a product of unsustainable solidarity, as some like to claim; it is the result of an enlightened interpretation of one’s own interests. With a constructive attitude, even a large number of disparate actors can reach agreements in which everyone wins by yielding a little; without it, prospects for sustained peace and widely shared prosperity become far bleaker. If all countries put their own interests first, paying no heed to others, competition will quickly overwhelm common interests. If nobody is ever willing to yield, we will all lose.”

A second perspective was intensely discussed at the 2018 Munich Security Conference. At a time when significant powers have focused attention internally, when the assertiveness of Moscow and Beijing has become increasingly visible, and the relationship between the US and the EU has been visibly perturbed, the model based on a multilateral arrangement, symbolised by the EU, has become something singular. Moreover, the real problems the Union has faced lately (until 2015 it was the world’s most important economic power, a place it has since ceded to the US and, if current tendencies are maintained, it will cede its second place position to China) can feed perceptions of vulnerability and temptations that were not visible 10 or 15 years ago. This is how to understand the serious, direct warning that Sigmar Gabriel gave at the conference: “Nobody should attempt to divide the European Union: not Russia, not China and also not the United States.”

The major test will be the efficiency of the multilateral model, the solution that the Union will find to its numerous problems. Because we are living in a time when unilateralism has been embraced by the American superpower, our fear is that the values and virtues of the multilateral model will continue to be asserted at the level of the Union, while in practice the European powers will follow a sort of ad hoc unilateralism. This fear continues to be fed by the consolidation of Germany’s position as Europe’s dominant power. The following graphs discuss Germany and the rest of the continent. Statistics do not encourage intuitive approaches. However, when Germany exports almost three times more than France, who places second, and when Germany’s exports are one fourth of the Union’s total exports, Germany’s political, economic and even decisional status is clear and the lines between its own interests and the interests of the Union become blurred. To synthesize, we fear that the virtues of the multilateral model will continue to be praised, while in fact the national values will prevail.

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“The Power of Producing Wealth, Infinitely More Important than Wealth Itself” –
the Truth Transforming the Current International Order

Graph 1 – EU exports by country of origin

Graph 2 – EU imports by country of destination

**Romania’s difficult choices**

Romania is experiencing one of the most difficult periods in its history, mainly because it has not built advantages, and the ones that it had, have been wasted (through deindustrialization, the destruction of the fleet, the deforestation, through selling, rather than processing, raw materials). Romania’s development has been ignored. A projection of development would have been a starting point for a future project. The very premises of development have been affected: demography, education and health. Romania has failed to learn from its own history (Romanian economic thinking has always underlined the importance of industrialization and of agriculture modernization). The country has failed to “make peace with socialism”, which the other former socialist countries did in the early 90s.

The main challenge for a country of Romania’s dimension and problems is to grasp the truth that a new economic reality has been born, which is characterised by several important traits. For instance, Asia now contributes close to two-thirds of global growth, which speaks volumes about power distribution at global level. A fault line divides countries with trade surplus and countries with trade deficit. In the context of low world demand, this fault line generates tensions that we cannot ignore. The growth of public debt impacts economic growth, as well. “Global debt – both public and private - has reached an all-time high of $164 trillion. Compared to its 2007 level, this debt is now 40% higher”[30], said Christine Lagarde, one of the most authoritative voices in the field. It is true that global economic evolutions for 2018 and 2019 are encouraging – “economies are moving up, not down”. However, tensions and imbalances are structural and have lasted for years, which turns the IMF Managing Director’s call to “fix the roof while the sun is still shining” into a precautionary measure in the face of a recession that might become a reality once more.

In our view, Romania has several priorities. Firstly, it needs to re-examine and profoundly amend its vision of the state that it has built over the last decades. The state is irreplaceable when it comes to economic growth. At any moment in history, development crucially depends on factors that fall into the state’s responsibility. “Economic development requires basic physical and human infrastructure: transportation, energy, education, science. Private sector capitalists rarely provide roads, airports, mass transits, mass education or basic research because there is no way to make these activities economically profitable. If the economy is to have vital prerequisites for growth, those prerequisites must be provided by some institution motivated by something other than short term profit. The state – with its concern over long-term national prosperity – has been critical to the provision of physical and human infrastructure. Governments build roads, build airports, build schools and pay for science. This is a gigantic contribution to economic development”[31]. The warning is clearly stated: “getting the state out of people’s

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lives” comes at “the cost of eliminating public provision of education and infrastructure”, which, from the perspective of development, “could be catastrophic”\textsuperscript{32}. This might be a good moment to ask whether there is a connection between the state of physical and human infrastructure in our country and the uncritical enthusiasm behind the adoption of the minimal state theories.

In turbulent times, the winners are the ones with a vision, which can channel their efforts. The goal shouldn’t be to have positive growth for one or two years and then have negative growth (which evolution characterised Romania after the crisis). Development rhythms should be constant for as long as possible, but this cannot happen in the absence of medium and long-term vision. Mervyn King was speaking about “the paradox of policy”, where a country’s leadership focuses on the problems of the moment and neglects long-term objectives, which can provide solutions to difficult moments, such as post-crisis at global level. Avoiding “the paradox of policy” is all the more valid in the case of Romania, which has focused on short-term problems for too long.

Most developed countries are facing an imbalance between the economic and social problems of development, which is expressed in increased social inequality. In the case of Romania, there are added difficulties. As Florin Georgescu, First Deputy Governor of the National Bank of Romania, mentioned, Romania has a rate of poverty and social exclusion risk of 39.5%, EU’s second highest (the mean being 24.4%)\textsuperscript{33}. The problem of social polarization affects stability, a crucial condition for sustainable economic evolution.

Romania is now faced with some extremely difficult choices. The US promotes bilateralism, and the EU is the symbol of multilateralism. We are NATO members and favour the partnership with the US, but the EU plans to build its own defence force. The Munich Security Conference has clearly shown the state of German-American relations in the field. EU needs to avoid being a “vegetarian in a world of carnivores”\textsuperscript{34}, asserted Sigmar Gabriel. No stronger warning is needed.

Any country that wants to rebuild itself needs at least two premises: a powerful, entrepreneurial state, and elites. At least for the moment, Romania is a vegetarian both ways, while the carnivores’ weapons (especially the economic ones) have become increasingly threatening.

\textsuperscript{32} Idem, p. 9.
\textsuperscript{33} Florin Georgescu, Crefitera economica, dezvoltarea României și reducerea sărăciei [Economic growth, Romania’s development and poverty reduction], www.bnr.ro/DocumentInformation.aspx?idInfoClass=6885...1.
\textsuperscript{34} Sigmar Gabriel, op.cit.
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Macedonia’s Stalled Bid for EU Membership: Is the Solution in Sight?

Olivera Kostoska

Abstract: The narrative for Macedonia’s EU accession efforts is basically about a stalled process for the best part of the last years. Although the Commission has recommended starting accession talks for several years in a row, Greek objections blocked progress, however, just as they did at the Bucharest NATO summit when Greece prevented Macedonia from joining NATO. In June 2018, following the withdrawal of the Greek veto as a part of the agreement to change the country’s name to the Republic of North Macedonia, the European ministers have decided that Macedonia’s EU accession talks will start in June 2019, provided a string of conditions are met. While some Member States expressed concerns about corruption and the rule of law in Macedonia (and Albania), the others have decided to support expansion for geopolitical reasons and to counter the rising Russian and Chinese influence in the Western Balkans. The aim of this paper is to critically evaluate the credibility of the EU enlargement process and the overall state of play in the formal accession of Macedonia including, for example, the progress in resolving a decades-old name dispute, and other indicators in alignment with the overall acquis and performance in terms of trade integration.

Keywords: Macedonia, EU, Enlargement, accession talks, acquis, trade integration

1. Introduction: What’s in a name of Macedonia?

The Western Balkan countries share a common heritage and history with the peoples of EU Member States and a future defined by shared challenges and opportunities. In the aftermath of post-communist transitions, through which most Central and Eastern European (CEE) countries embarked on a process of thorough economic and political reform and structural change, the Balkans continued to be marked by a series of ethnic conflicts, succession wars and circles of instability. The region’s peace and prosperity are an important goal for the EU, whilst the European perspective of the Western Balkans remains a foremost priority to achieving this goal. In order to specify the requirements for progress of the South Eastern Europe (SEE or later, the

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Western Balkans), the EU defined a regional policy approach (1996), that is regional cooperation and EU conditionality strategy (1997) which contained political and economic preconditions for developing bilateral relations. “However, it turned out that the consequences of the bitter conflicts that happened in the Balkans were complex and deep, and that the political climate in some countries in the region was not ready for a fast track EU accession together with the CEE countries, with the exception of the Republic of Macedonia.” The latter has developed its own path in the process commencing a regular political dialogue with the EU.

After the ethnic breakdown of the Kosovo crisis and the NATO intervention in Serbia, the EU’s rather unclear promises crystalized in a new mechanism – the Stabilization and Association Process (SAP) – that was officially launched in 2000 as a complement to the Stability Pact for South Eastern Europe. While the Stability Pact was designed as a framework for regional cooperation, the SAP was intended to provide a functioning political and legal framework for a series of (parallel) bilateral political, economic and trade relations between the EU and SEE countries. The key elements of SAP included a new generation of stabilization and association agreements and the new financial instrument CARDS (2000-2006) to support the implementation of reforms needed to join the EU. In 2003, at the Thessaloniki Summit, the Stabilization and Association Process was further upgraded and the European perspective of Western Balkans reaffirmed by the European Council, declaring that “the future of the Balkans is in the European Union”.

Fast forward to 2018 and Macedonia has been surpassed by a number of other Western Balkan countries. The Commission adopted a strategy for “A credible enlargement perspective for and enhanced EU engagement with the Western Balkans”, confirming the European future of the region as a geostrategic investment in a united, strong and stable Europe based on common values. The Strategy clarifies the steps necessary for Montenegro and Serbia to complete the accession process at the horizon of 2025; Montenegro (since June 2012) and Serbia (since January 2014) are the two countries with which accession talks are already under way, despite not having even been separate countries when Macedonia’s application bid was made. The country was granted a candidate status in 2005, but more than a decade later it remains a candidate only.

Macedonia, whilst not sharing the severity of state-building problems of Bosnia and Herzegovina or even Serbia and Kosovo, is of course held up by a serious external constraint on its status. The name issue and core problem of the Greek stance dates back

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6 D. Tilev (ed.), Ten Years of the Enactment of the Stabilization and Association Agreement, Skopje, Secretariat for European Affairs (SEA), 2015.
to the point of Macedonia’s independence from Yugoslavia in 1991. Since then, it has been an ongoing issue in bilateral and international relations. The country was admitted as a member in various international organizations, such as the United Nations, under the temporary denomination of the former Yugoslav Republic of Macedonia, but calls itself the Republic of Macedonia, a name that is challenged by Greece. The dispute arose after the break-up of Yugoslavia in 1991, when the name of the newly independent state was chosen. Greece did not acknowledge the constitutional name “Republic of Macedonia” claiming that its name, symbol and constitution belong to its cultural heritage and imply territorial claims to the neighbouring Greek province of Macedonia. The conflict intensified in 1993 when Macedonia incorporated the Vergina Sun into its flag, a symbol found among the tombs of the ancient kings of Macedon. Consequently, Greece decided to impose a trade embargo on Macedonia. An interim agreement signed in 1995 resolved this aspect of the dispute; Macedonia removed the symbol from its flag and allegedly irredentist clauses from its constitution, whilst both sides committed to continuing negotiations on the name issue under the UN auspices. For its part, Greece agreed that it would not object Macedonia’s accession to international organizations of which Greece was itself a member, so long as it would accede under the name of “former Yugoslav Republic of Macedonia”. Greece has since become a close economic partner and one of the largest foreign investors in Macedonia. However, the name issue has not been resolved, despite UN mediation. A number of countries have recognized Macedonia under its constitutional name, but this was of little help for the country to achieve its most important foreign policy goals. In December 2009, Greece vetoed the start of Macedonia’s EU accession negotiations, just as they did at the Bucharest NATO summit in April 2008 when Greece prevented Macedonia from joining NATO. In point of fact, the necessary resolution of the “name issue” was imposed by the Council as an additional criterion (outside the Copenhagen criteria) for the start of accession talks, effectively blocking the accession of Macedonia to the European Union.

The story for Macedonia’s EU accession endeavour is basically about a stalled process for the best part of the last years. Unlike the other post-communist countries of CEE and the Western Balkans, Macedonia has faced an additional obstacle on the road to EU membership. This very hurdle was not made only by the already demanding process of political and economic transition, nor by the standards and values of the EU, which were often found to be just as difficult to accept by other candidate countries. Given the above considerations, this paper looks at various dimensions of Macedonia’s relations with the EU and attempts to appraise critically the foremost problems and challenges the country is facing along the path towards EU membership. Without undervaluing the importance of the other objective difficulties, more or less experienced by the other candidates, special attention is placed on recent political developments in the

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country and the naming dispute, which has appeared to ultimately define the dynamics of Macedonia's EU integration. The rest of the paper is organized as follows. The second section summarizes the evolution of Macedonia's relation with the EU since independence. The third section examines the critical latest developments in Macedonia – the growing Russian and Chinese influence in the region, the recent political crisis in the country, the resolved name dispute with Greece and the EU’s response thereafter. The fourth section looks at assessments of the state of play in Macedonia, at least according to the European Commission. The fifth section discusses whether the delay in commencing negotiations is impacting on Macedonia’s economic progress, focusing on trade integration with the EU. The article ends with some concluding remarks.

2. Macedonia and the EU: A country stuck in an endless waiting room

The dispute with Greece has delayed the beginnings of the Macedonia's formal relations with EU. Back in 1997, the country and the then European Community (EC) signed a Cooperation Agreement, and an agreement on trade and transport intended for promoting the economic and political cooperation. In the late 1990s, Macedonia joined the Stabilization and Association Process (SAP), as an EU’s policy towards the Western Balkans. The fundamentals of SAP refer to the new generation of stabilization and association agreements and the new financial instrument CARDS (2000-2006) to support the implementation of reforms needed to join the EU. Macedonia was actually the first country in the region that signed the Stabilization and Association Agreement (SAA) in 2001, which entered into force in 2004. Since then, Macedonia's EU accession bid has been defined as the highest strategic priority and the membership has served as a point of consensus among the political parties. Alongside the procedural and technical commitments and criteria for accession to the EU, Macedonia has also started with the process of gradual political reconciliation. One of the boldest reforms was the process set out by the Ohrid Framework Agreement that was signed on 13 August 2001. This agreement ended the armed conflict between the Macedonian security forces and the parliamentary Albanian National Liberation Army. The ten points of the Agreement have actually provided foundation for a new power-sharing system and internal restructuring of Macedonia. The SAA is a complex and legally binding act, which, in political terms, has placed Macedonia among the countries with prospects for EU membership, while in economic terms, it has provided an access to one of the largest and most powerful markets in the world. The signing of SAA has also provided an impetus to accelerate the restructuring of the Macedonian economy and adapt the country to new market conditions. As a preferential agreement, the SAA was also intended to support the economic and political stability of the country and the region (stabilization) and to establish a stable political and economic link with the EU Member States (association).

The reforms undertaken within the SAA framework, as well as the arrangements with the IMF and World Bank have created conditions for Macedonia to apply for EU

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membership. After a short but intensive public debate and the adoption of parliamentary declaration supporting the submission, Macedonia has officially applied for EU membership on 22 March 2004 in Dublin, during the Irish Presidency of the EU Council. In May that year, the Commission was mandated to prepare the Opinion and in October 2004 the questionnaire was handed over to the Macedonian authorities. The preparation of questionnaire responses was the first serious test of Macedonia’s administrative capacity. The answers were completed by February 2005 and, based on information provided here as well as the one collected from other sources, the Commission has provided a favourable opinion on Macedonia’s application for EU membership. The European Council granted the status of candidate country to Macedonia in December 2005. Unfortunately, no date for the start of accession negotiations was given.\(^9\) In 2006, the Council adopted the “European Partnership” for Macedonia providing the framework for intensification of the accession-related reform programme and linking the allocation of EU financial assistance (at that time the CARDS programme) to the reform priorities identified in the regular European Commission reports produced as part of the SAP.\(^10\) In February 2008, the Council adopted Accession Partnership for Macedonia, updating the 2006 European Partnership and key benchmarks were defined as conditions for further progress in the process. In the meantime, a new tool was defined to support reforms in the “enlargement countries” with financial and technical help, viz. the Instrument for Pre-accession Assistance (IPA) which, for the period 2007–2013, had a budget of some € 11.5 billion.\(^11\)

Two particularly significant developments occurred in 2009. First, in July, the Commission proposed to grant visa liberalization to the country, which subsequently entered into force on 19 December that year following the necessary Council of Ministers decision. Second, the Commission recommended for the first time that membership negotiations with Macedonia be launched. Greek objections blocked progress however, just as they did at the Bucharest NATO summit in April 2008 when Greece vetoed Macedonia’s accession to NATO. In October 2012, the European Commission recommended for the fourth consecutive year that accession negotiations with Macedonia be started. On each previous occasion the start of EU entry talks had been vetoed by Greece. In 2012, Bulgaria also utilized its veto. Relations between Macedonia and Bulgaria have been influenced by conflicting views about history. The progress of bilateral relations was grounded on main concerns for regional development and cooperation in South Eastern Europe, as well as the shared interests of both countries for EU membership. After this period of isolation and supporting negativism between the two countries, history will mark the year of 1999 as particularly important for bilateral cooperation and dialogue. Namely, the Joint Declaration of 22 February 1999 has established bilateral process of resolving the long-lasting political and historic dispute, and opened the doors for new stages in the field of commerce, political and

\(^9\) Tilev, Ten Years of the Enactment of the Stabilization and Association Agreement.
Another positive step forward in the relations between the two countries was achieved in 2011 by signing the Memorandum of Cooperation in the field of EU integration. It provides access to lessons learned from Bulgaria’s accession process with the goal of strengthening the administrative capacity in Macedonia. Yet, the media continued with periodical reports on events in inter-state relations and that Bulgaria is considering the possibility to condition its support for Macedonia’s EU membership. Hence, one may not get surprised with Bulgaria’s position in 2012 to veto the Macedonia’s opening of EU accession talks in spite of a recommendation by the European Commission that membership negotiations be launched. High-profile contacts with Bulgaria intensified and there was a strong belief that sending positive public messages would reinforce the cooperation and make for reducing the stereotypes.

Though formal EU negotiations with Macedonia have been on hold for the last years, some forward progress in Macedonia’s readiness for EU entry has occurred. This has certainly been through the SAA and Accession Partnership, but also through the High Level Accession Dialogue (HLAD). The HLAD was launched by the European Commission in March 2012 with the aim of maintaining the speed of reforms and implementing the National Programme for Adoption of the Acquis. The HLAD covers five specific issues, which are as follows: freedom of expression, rule of law and ethnic relations, challenges for electoral reform, public administration reform, strengthening of the market economy and good neighbourly relations. The main objectives in the areas covered by the HLAD are summarized in Table 1.

Table 1: Objectives in the areas covered by the HLAD

<table>
<thead>
<tr>
<th>AREA</th>
<th>OBJECTIVES</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Media – Freedom of expression and professional standards</td>
<td>Decriminalization of slander and insult and to this end a law is being drafted on civil accountability for damaging the repute of others by way of slander or insult.</td>
</tr>
<tr>
<td>2. Rule of law and fundamental rights</td>
<td>Judiciary (efficiency, professionalism and independence); fighting corruption and interethnic relations.</td>
</tr>
</tbody>
</table>

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13 Dangerfield and Kostoska, “Integrating the Country that Cannot Say its Own Name: The EU and Macedonia”.


3. Public Administration Reform

Improving the management of human resources, improving the framework for administrative procedures and continuing the process of decentralization.

4. Electoral reform

Completing the reform of the election legislation, taking into consideration the recommendations of the OSCE with the aim of righting the flaws of the previous elections.

5. Strengthening the market economy

Achieving a dynamic economic growth; considerable effort to improve the labour and education market and the business environment and to enhance the making of the economic policy and its implementation.

Source: https://europeanwesternbalkans.com/2014/07/07/the-high-level-accession-dialogue-and-macedonia/#_ftn12

Taking a note of the results, the Commission has concluded that “in the absence of the negotiation process, the main fora for discussion and monitoring of reforms are the bodies established under the SAA as well as the High Level Accession Dialogue (HLAD) established in 2012. The HLAD has contributed to progress in most priority areas. The progress being made under HLAD will offer the country a good position when negotiations will eventually begin. However, it is not, and cannot be, a substitute for moving to the opening of accession negotiations”. Hence, opening the membership negotiations remains the primary goal of Macedonia and the European Commission.

3. Russian meddling and Chinese Interest – an alarm bell for the EU?

The 2013 Progress Report noted the impact of the political crisis involving the forcible removal of a large number of opposition MPs and journalists from the Parliament chamber in December 2012 during the adoption of the 2013 annual budget under controversial circumstances. The opposition boycotted parliament and threatened a boycott of the local elections. The protracted stalemate was resolved through the implementation of the 1 March 2013 political agreement. The 1 March political agreement also required a Committee of Inquiry and a Memorandum of Understanding, confirming the cross-party consensus on, and commitment to, the country’s strategic objective of the Euro-Atlantic integration. As well as a reminder of the potential for inter-ethnic flare-ups, this episode also illustrated the important role

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17 Macedonian Diplomatic Bulletin.
that the EU played in pressurising both sides into reaching an agreement to pursue a constructive solution. Meanwhile, Macedonia, under IPA II, continues to benefit from pre-accession assistance over the period 2014-20, with total indicative funding of €664 million. IPA II assistance will be focused to supporting the reform efforts in the field of the rule of law and governance, and growth and competitiveness.\footnote{Kostoska et al., "EU Regional Policy and Pre-Accession Support for the Republic of Macedonia", pp. 401-413.}

In 2015, Macedonia has faced its worst political crisis since 2001. The disruptive political culture, breakdown in dialogue and lack of capacity for compromise evolved into a continuing and protracted political crisis, including a boycott of parliament by the main opposition party and further erosion of trust in public institutions. The crisis developed further with the publication of intercepted conversations involving senior government and governing party officials suggesting breaches of fundamental rights, media freedom and elections, interference with judicial independence, and politicization and corruption in different areas.\footnote{European Commission, “The Former Yugoslav Republic of Macedonia Report 2015”, Brussels, 2015, \url{https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/pdf/key_documents/2015/20151110_report_the_former_yugoslav_republic_of_macedonia.pdf}, (accessed 10 March 2018).}

In response, the Commission presented a text about “Urgent Reform Priorities” to address the underlying rule of law issues. In parallel, the Commissioner and three members of the European Parliament facilitated a political agreement reached between the four main political leaders in June/July (Pržino agreement). Based on this agreement, Members of Parliament of the main opposition party returned to parliament on 1 September after having boycotted it for more than a year. This boycott severely affected the supervisory function of the institution over the executive branch. Under the High Level Accession Dialogue, work was carried on a new table of targets, accompanied by the “Urgent Reform Priorities”. In November 2015, the Commission stated that it was prepared to extend its recommendation to open the accession talks, conditional on the continued implementation of the June/July political agreement and substantial progress in the implementation of the “Urgent Reform Priorities”. The agreements and important decisions taken in summer 2016 have broken the ground for early parliamentary elections and provided an opportunity for Macedonia’s leaders to conclude the long-lasting crisis and address systematic issues.\footnote{European Commission, “The Former Yugoslav Republic of Macedonia 2016 Report”, Brussels, 2016, \url{https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/pdf/key_documents/2016/20161109_report_the_former_yugoslav_republic_of_macedonia.pdf}, (accessed 10 March 2018).}

Now that the country has emerged from this political crisis, expectations are high that it will get back on a track. Striving to demonstrate that the EU is indeed a strategic priority for the country, the new Government has engaged in resetting the prospects for EU integration and promoting friendly bilateral talks with neighbouring countries. In August 2017, followed by a great deal of public discussions and speculations, Macedonia signed a friendship accord with Bulgaria in an attempt to improve ties between the Balkan neighbours and revive efforts to join the EU and NATO.\footnote{S. Okov, "Republic of Macedonia Mends Ties With Bulgaria Eyeing EU", Bloomberg Politics, 1 August 2017, \url{https://www.bloomberg.com/news/articles/2017-08-01/bulgaria-republic-of-macedonia-sign-accord-to-repair-relations}, (accessed 1 September 2018).} The attempts for the resolution of naming dispute gained a new momentum, whilst Macedonia seemed determined to end the row with Greece over its name. After initial signs of a possible
breakthrough earlier this year, in June 2018 the country reached a deal with Greece to change its name to the Republic of North Macedonia and put an end to a decades-long dispute. The new name will be used for all purposes (internationally, bilaterally and domestically), so that even those countries that have recognized the name Macedonia will also have to adopt North Macedonia. The accord, which has been contested by nationalists on both sides of the border, must be ratified by the parliaments of both countries and also put to a referendum in Macedonia. A referendum was held on 30 September 2018, with voters asked whether they are in favour of EU and NATO membership by accepting the agreement between Macedonia and Greece. The referendum failed to secure the 50 percent turnout required to make the vote valid. The people who did vote massively backed the name change – more than 90 percent voted ‘yes’. But, this has never been in doubt, because the opponents of the change had urged followers not to vote, rather than vote ‘no’. Being consultative, as well as including constitutional changes, the referendum’s result still must be ratified by a two-thirds parliamentary majority. The Western leaders welcomed the result as positive, despite the low turnout. The European Commissioner for Neighbourhood Policy and Enlargement Negotiations said that the votes ‘for’ at the referendum were “significant” and urged Macedonia’s political leaders to “respect this decision and take it forward with utmost responsibility and unity across party lines, in the interest of the country”. Meanwhile, Greece has agreed to stop blocking Macedonia’s bid to join the EU and NATO, provided that the country completes its promised constitutional changes.

As a matter of fact, senior officials from both the EU and NATO were prompt to welcome the agreement. The two countries have been in a race to agree on a settlement before the EU summit in late June and NATO summit scheduled for mid-July 2018. After Greece and Macedonia resolved the dispute about the latter’s name which had blocked the EU membership process, opening talks would mark the clear step in the EU’s attempts to renew its expansion to the Western Balkans after years of neglect for the region. After a long debate at the meeting in Luxembourg, the European ministers have decided to give a conditional green light to the start of EU accession talks with Macedonia (and Albania). In other words, Macedonia’s EU accession talks will start in June 2019, provided that certain conditions are met. Despite the broad EU support to open the accession talks immediately, France and the Netherlands opposed the move, saying they first want to see Macedonia (and Albania) sustain their reforms. The other EU officials said France’s deeper concern was that opening accession talks with Macedonia (and Albania) “would play into the hands of far-right politicians who are gaining support with populist pledges to stop migration - including from relatively...

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poor eastern European Member States of the EU to the more prosperous western member countries... They don't want to open this before European elections next year”.25 However, Macedonia will have to show progress on making reforms in areas like judicial systems, proactive investigations into and verdicts in high-level corruption cases, intelligence and security services, as well as public administration. These steps will be assessed in a future Commission report and, “depending on progress made”, the first Intergovernmental Conference is expected to happen by the end of 2019.26 Romania is to take over the Presidency of the Council of the EU in January 2019, during a period that may prove crucial for Macedonia’s accession bid. Hence, the prominence that the Romanian presidency “will attach to the continuation of the EU enlargement policy and the development of political relations with the Western Balkan states”, the help with technicalities that the country has already offered and the principal support to the reform process are especially important for Macedonia.27

While Germany shares French concerns about whether accession talks could start with Macedonia (and Albania), the country has decided to support expansion for geopolitical reason and strategic dimension of bringing Western Balkans into the EU fold. While the EU has been distressed by one crisis after another (e.g. Brexit, Greek debt, migrants and refugees), nationalist and inter-ethnic tensions have continued to exist in the Western Balkans. The EU needs to increase its efforts and make its work more visible if the bloc wants to counter any Russian attempts to destabilize the region. In July 2018, NATO formally invited Macedonia to start talks to join the military alliance. Nevertheless, this prospect is at variance with how Moscow envisions the Balkans. “The Kremlin has made it clear that it wants to render Serbia, Montenegro, Bosnia and Herzegovina, and Macedonia ‘a strip of militarily neutral countries’”.28 In the late 2016, Montenegro accused Russia of trying to orchestrate a coup to thwart the country’s bid to join the alliance, although Montenegro formally became the 29th member of the North Atlantic Alliance in 2017. Yet, this Western Balkan country was thrust into the limelight because of criticisms the U.S. President Trump made of the Alliance calling into question NATO’s central principle of mutual defence.29 The comments came only a week after a strained NATO summit meeting in July 2018 when the President urged allies to speed up their progress in meeting the target of spending 2 percent of their GDP on defence. Although many experts agree to the principle that other countries should pay more, the critics oppose the manner in which Trump has

gone about it, issuing rhetoric that destabilizes the organization and undermines the allies, while appearing softer on Russian President Putin. According to a former supreme NATO allied commander, Montenegro has been under permanent pressure by Russia for more than a decade and thus, he found the President Trump’s comments about Montenegro “worrying”. After NATO invited Montenegro to join, Russia solemnly promised ‘retaliatory actions’. While Russia’s link to the coup plot has been difficult for Montenegro to prove, the political analyses for the region say that Russian influence causes a real threat to the small country’s sovereignty. To some Montenegrin officials, NATO is the best alternative for fighting against Russian influence in the region, so symbolically Montenegro gives a lot that is not calculated monetarily. Now that Montenegro is an official NATO member, Moscow is putting their eyes on Macedonia, the most serious candidate to become the 30th member state of NATO. In economic terms, Russia’s powers in the Western Balkans have been on decline for years. Trade and investment with other European nations is far more important than that of Russia. The country’s highest economic influence in the region is in the energy sector, although even this influence centres on certain countries such as Bosnia and Herzegovina, Macedonia and Serbia, which are dependent upon the Russian gas imports. In general terms, Moscow is trying to create an image of itself as a caring partner and a protector of sovereignty and of Orthodox Christianity – an antithesis of the interfering of the decadent West. The country’s style relies on time-tested tactic of Russia to exploit the pre-existing ethnic, historic and religious tensions, regional stereotypes, as well as the unresolved legacy of conflicts. The country’s propaganda extends this toxic ethnic and religious messaging and misinforms the public about the Russia’s interest and intentions in the region. Over recent years in Macedonia, Russia has established more than 30 Russo-Macedonian cultural associations, funded local media outlets, courted Russophile parties etc. Macedonia believes that the name deal and membership of EU and NATO are crucial components of the country’s strategy to normalise its relations with its neighbours and to become a more active player in the regional and global arena. “It follows, then, that scuttling the name deal would be an effective way of preventing Skopje from entering the alliance”. Opposition groups in Macedonia and Greece have seriously disputed the deal, and to make the things even more complicated, both countries’ governments have accused Russia for trying to destabilize the agreement. Hence, if the EU wants to transform the region, it has to be aware of the geopolitical changes that have taken place in the Balkans. In 2003, when the Balkan countries were given a green light to begin the long road to EU membership, there was little doubt that the region’s future would be European. Russia was looking at the Balkans mainly as a transit area for the country’s energy exports to the western European markets. The country’s ambition then was to keep a degree of influence rather

than to compete with Brussels. Back then, nobody was thinking about China’s presence in the Balkans. Nowadays, there is a widespread and growing geopolitical competition in the region. With the launch of ‘One Belt, One Road’ Initiative in 2013, China has become an unprecedented player in the Balkans. In concrete terms, this initiative is an enormously ambitious development campaign through which China wants to stimulate trade and trigger economic growth across Asia and beyond by building a huge amount of infrastructure across Africa, Asia and Europe. Nevertheless, many believe that this new “silk road” project is becoming a sort of reservoir for political influence in those countries where China is making an investment. The Balkan countries have incorporated a number of Chinese infrastructural projects that run contrary to the EU’s model of tenders regulated by detailed EU legislation. This makes China a political and normative danger for the EU’s stance in the Western Balkans – as long as the bloc is unable or unwilling to integrate these countries, they will be incited to form closer relations with China, which offers its financial assistance in a rather unconditional manner, as compared to the EU’s strict conditionality. The socially and economically depressed Western Balkan countries are pretty much aware that they would not be able to join the EU in the foreseeable future. Hence, the China’s short-term solutions to development problems offset the long-term political considerations about the EU membership. Moreover, unlike the EU funds, “which are frequently burdened with long waiting procedures and severe compliance restrictions, all of the mentioned Chinese investments are allocated based on swift decision making, without any strict compliance requirements.” In 2012, China launched the 16+1 initiative seeking to advance cooperation with 16 countries (including Western Balkans except Kosovo) in Central and Eastern Europe. Chinese activity in the Western Balkans is essentially a long-standing investment that seeks to gather economic, diplomatic and political influence. Yet, despite all these initiatives, no one looked at China as a key strategic player in the Balkans, mainly for the geographical distance. Nowadays, however, the geographical logic of Chinese investment overtures is evident if one draws a line that connects Greece, Macedonia, Serbia and Hungary into a single territorial unit. Macedonia is a geographical core of the Balkans, bordering Bulgaria, Albania, Greece and Serbia. The Chinese Exim Bank has provided much of the funding in the country for the construction of two highways by Chinese contractors. Nevertheless, China’s approach to the region is different from that of Russia. In other words, China does not strive for destabilizing the Western Balkans, but rather to integrate itself with the countries in the region that represent a channel to European markets and a way for China to project the country’s soft power and acquire friends among the candidates for EU membership. So, China, unlike Russia, is not interested in disrupting the Western Balkans’ EU integration process. Instead, the country is boosting it, as it believes that it would provide safety for its own investments and views engagement in the region as a way to make links with the EU even closer. In essence, the Chinese influence in the Western Balkans should not be overstated for several reasons. Firstly, while China is


looking for cooperation and trade opportunities, the country is not willing to get involved in the local rivalries and disputes. Secondly, even if One Belt, One Road Initiative is fully implemented and would thereby decrease the geographical distance between the Balkans and China, the latter is still too far away to have an influence in the same way as the West does. Thirdly, for all of the Western Balkan countries, the EU is a leading trade partner, accounting for over 73% of the region’s trade. The geographical proximity, and the cultural and social links, all suggest that the Western Balkans remain attached strictly to the EU. However, to use all of these advantages, the EU must mobilize its financial instruments quickly and make them available to the Western Balkan countries so they can address their development needs. Finally, the EU must send a strong political message that the region will join the Union eventually, to evade insecurity and maintain the influence of the bloc at a time when the presence of China and other external powers is rising steadily.

4. Ability to take on the obligations of membership: alignment with the Acquis

As regards the ability to assume the obligations of membership, the latest Commission assessments suggest that the country is moderately prepared in most areas, including those of competition, transport and energy. The country demonstrates a good level of preparation in areas such as customs union, company law, science and research and trans-European networks. Further efforts are needed across the board, especially in those few areas where the country is at an early stage of preparation, such as freedom of movement for workers. In order to expand further on Macedonia’s ability to take on the obligations of membership, Table 2 summarizes the latest assessment and is also indicative of whether the country’s preparations are moving forward. It covers all chapters of the acquis, and whether there has been any progress and how the overall level of preparation stands in each specific chapter. Table 3 and Table 4 show the number of chapters that fall into different categories of progress and level of preparation according to the Commission’s assessment methodology. Given that Macedonia was regional forerunner in the alignment with acquis just few years ago, the picture that appears here is somewhat concerning. Namely, “good progress” is assessed in areas regarding the political criteria (chapters 23 and 24), “some progress” is noticed in 23 chapters, while none of the previous recommendations have been addressed (no progress has been made) in 8 chapters. It is possible that this can be partly explained by the reduced capacity of the highly politicized administration during the last years. This is, however, not the only reason. It is now obvious that the Government gave much priority to the political criteria and regional cooperation and thus failed to look after the needed work on chapters – alignment with the policies and acquis and their implementation.

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36 Vuksanovic, The unexpected regional player in the Balkans: China.
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and execution. Besides, the Commission highlights the lowered quality of policy coordination in respect of European integration, including the policy measures and implementation of the EU financial assistance.

Table 2: Summary of Macedonia’s ability to assume the obligations of EU membership

<table>
<thead>
<tr>
<th>CHAPTER</th>
<th>EXTENT OF PROGRESS</th>
<th>OVERALL LEVEL OF PREPARATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Free movement of goods</td>
<td>No Progress</td>
<td>Moderately Prepared</td>
</tr>
<tr>
<td>2. Freedom of movement for workers</td>
<td>No Progress</td>
<td>Early Stage</td>
</tr>
<tr>
<td>3. Right of establishment and freedom to provide services</td>
<td>No Progress</td>
<td>Moderately Prepared</td>
</tr>
<tr>
<td>4. Free movement of capital</td>
<td>Some Progress</td>
<td>Moderately Prepared</td>
</tr>
<tr>
<td>5. Public procurement</td>
<td>Some Progress</td>
<td>Moderately Prepared</td>
</tr>
<tr>
<td>6. Company law</td>
<td>Some Progress</td>
<td>Good Level of Preparation</td>
</tr>
<tr>
<td>7. Intellectual property law</td>
<td>Some Progress</td>
<td>Moderately Prepared</td>
</tr>
<tr>
<td>8. Competition policy</td>
<td>No Progress</td>
<td>Moderately Prepared</td>
</tr>
<tr>
<td>9. Financial services</td>
<td>Some Progress</td>
<td>Moderately Prepared</td>
</tr>
<tr>
<td>10. Information society and media</td>
<td>No Progress</td>
<td>Moderately Prepared</td>
</tr>
<tr>
<td>11. Agriculture and rural development</td>
<td>Some Progress</td>
<td>Moderately Prepared</td>
</tr>
<tr>
<td>12. Food safety, veterinary and phytosanitary policy</td>
<td>Some Progress</td>
<td>Good Level of Preparation</td>
</tr>
<tr>
<td>13. Fisheries</td>
<td>No Progress</td>
<td>Moderately Prepared</td>
</tr>
<tr>
<td>14. Transport Policy</td>
<td>Some Progress</td>
<td>Moderately Prepared</td>
</tr>
<tr>
<td>15. Energy</td>
<td>Some Progress</td>
<td>Moderately Prepared</td>
</tr>
<tr>
<td>16. Taxation</td>
<td>Some Progress</td>
<td>Moderately Prepared</td>
</tr>
<tr>
<td>17. Economic and monetary policy</td>
<td>Some Progress</td>
<td>Moderately Prepared</td>
</tr>
<tr>
<td>18. Statistics</td>
<td>Some Progress</td>
<td>Moderately Prepared</td>
</tr>
<tr>
<td>19. Social policy and employment</td>
<td>Some Progress</td>
<td>Moderately Prepared</td>
</tr>
<tr>
<td>20. Enterprise and industrial policy</td>
<td>No Progress</td>
<td>Moderately Prepared</td>
</tr>
<tr>
<td>COMMISSION ASSESSMENT</td>
<td>NUMBER OF CHAPTERS</td>
<td></td>
</tr>
<tr>
<td>-----------------------</td>
<td>--------------------</td>
<td></td>
</tr>
<tr>
<td>Good Progress</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Some Progress</td>
<td>23</td>
<td></td>
</tr>
<tr>
<td>No Progress</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>33</td>
<td></td>
</tr>
</tbody>
</table>

Source: European Commission (2018)

Table 3: Progress of Macedonia by number of chapters of the *acquis communautaire*

<table>
<thead>
<tr>
<th>COMMISSION ASSESSMENT</th>
<th>NUMBER OF CHAPTERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good Level of Preparation</td>
<td>5</td>
</tr>
</tbody>
</table>

Source: European Commission (2018)

Table 4: Macedonia’s current ability to take on the obligations of EU membership according to state of play in number of chapters of the *acquis communautaire*
The Government should promptly address this negative trend and embark on measures that will strengthen the alignment capacity with acquis and coordination on European integration - including both administrative and policy capacity. Then again, these results may possibly be interpreted as a by-product of the changed EU enlargement strategy that gave priorities to the “fundamentals first” principles and the development agenda rather than the acquis alignment. Hence, the Commission should boost the alignment with EU policies and acquis in a more meaningful manner and reinforce the reform support in the scope of a wider economic and societal aspect.\(^{39}\)

5. **Trade integration of Macedonia: the EU remains a leading partner**

The integration of Macedonia in the world economy has developed through the three mutually compatible processes: integration into the multilateral trading system (membership in the World Trade Organization), integration into the European Union (Stabilization and Association Agreement with the EU) and regional trade integration (free trade agreements with the countries in the region and Europe).\(^{40}\) As a small country, Macedonia is highly open to trade (exports and imports in goods accounted for 105.8% of GDP in 2016). Thus, the country is vastly dependent on international developments and vulnerable to external shocks, such as the recent global economic crisis. “…, the real economy was hit severely at the end of 2008 through a collapse in export demand and loss of external financing. Industrial production and exports declined sharply”.\(^{41}\) Trade flows have been very dynamic in the past, thus confirming the continuous expansion of the Macedonia’s trade integration. Both export (from 1.3 to 4.8 billion US$) and import (from 2.1 to 6.8 billion US$) of goods have recorded a multiple increase in the period between 2000 and 2016.

The trade deficit of the country, which amounted to 18.1% of GDP in 2016, can partially be explained by import of the large items, which are necessary for the expansion of the economy, namely petroleum and petroleum products, textile yarn, iron and steel, non-ferrous metals, etc. (Figure 1). Such an import structure points to certain structural weaknesses of the Macedonian economy, i.e. dependency on energy imports and the low developing levels of the textile industry that is still dominated by

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imports for further processing.\textsuperscript{42}

Although the exports have diversified in recent years and the structure shifted (mainly on account of foreign investors) towards the higher value-added products (e.g. machinery and transport equipment), the country is moving very slowly away from products requiring unskilled labour, low technology and significant resources (including primary products) (Figure 2).\textsuperscript{43}

The EU remained by far the most important trading partner of Macedonia in both exports and imports (79.9\% and 62.0\% of total export and import of goods in 2016, respectively) (Figure 3). Trade integration is an essential component of the country’s economic development and the EU has the most important role in promoting such integration given that most of the country’s trade is with the EU Member States. Macedonia is the first country that signed the Stabilization and Association Agreement (SAA) on 9 April 2001 and has also become the first country where SAA entered into force on 1 April 2004.

\textbf{Figure 1: Republic of Macedonia: import structure}

(product groups with the highest \% share of total imports, according to Standard International Trade Classification, average 2000-2016)

\begin{figure}
\begin{center}
\includegraphics[width=\textwidth]{macedonia_imports.png}
\end{center}
\end{figure}

Source: National Bank of the Republic of Macedonia and author’s calculations


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Figure 2: Republic of Macedonia: export structure
(product groups with the highest % share of total exports, according to Standard International Trade Classification, average 2000-2016)

![Bar chart showing export structure]

Source: National Bank of the Republic of Macedonia and author’s calculations

Figure 3: Republic of Macedonia: % share of EU in total export and import of goods

![Bar chart showing EU share in total export and import of goods]

The Agreement sets forth the cooperation framework between the EU and Macedonia and permits a progressive harmonization of the relevant policies, legislation and institutions in the country with the values and standards of the EU. Being a part of the SAA, an Interim Agreement concerning trade and trade-related matters entered into force in 2001, which permits the country to benefit from asymmetric trade preferences of the EU. This Agreement provides for full trade liberalization between the EU and Macedonia, except for some beef and fisheries products and wine. On its behalf, the country accepted complete abolition of quantitative restrictions and gradual reduction of customs duties over a period of ten years.

Furthermore, the EU has supported an increase in regional trade through the Central European Free Trade Agreement (CEFTA), which is the other main trading partner of Macedonia. The latter has been created as a consequence of the EU recommendation to future members to prepare for membership by establishing free trade areas. In fact, CEFTA has served to be, and (in its current form) remains, a kind of preparatory framework for EU accession.

6. Conclusions

The Western Balkans must fully comply with the Copenhagen criteria in order to be able to join the European Union. While none of the countries yet meets these criteria today, significant progress has been made both on reforms and on overcoming the distressing legacy of conflicts and war; convincing and wide-ranging reforms are still required in critical areas, mainly the rule of law, competitiveness and regional cooperation and reconciliation. But, then again, Macedonia (unlike the others of the Western Balkans) has faced a severe additional problem on the road to EU membership. This very hurdle was not generated by the already difficult process of political and economic transition, nor by the value and standards of the EU, but by the 25-year-old row with Greece over the country’s name that has blocked its entry both to EU and NATO. Macedonia was an active partner in the Stability Pact and honest contributor within the Regional approach and steadily met all obligations of the EU Conditionality Strategy. The EU has therefore decided Macedonia to be the first country in the region to make a step forward in the stabilization and association process.

As an act of confirming its strategic orientation, the country has applied for an EU membership in 2004, but has been stuck for more than ten years after the Council decided in December 2005 to grant it the candidate status. Montenegro and Serbia have started accession talks in 2012 and 2014, respectively, and could become EU members as early as 2025, despite not having even been separate countries when Macedonia’s EU application was made. The Commission has issued several positive recommendations to begin entry negotiations, but this cycle of recommendations has been followed by the Council’s decision to postpone its approval until the necessary resolution of the

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name dispute has occurred ever since. And, finally, in June 2018 Macedonia reached a deal with Greece to change its name to the Republic of North Macedonia. The accord must be ratified by the respective parliaments and also put to a referendum in Macedonia. The referendum was held on 30 September 2018, but failed to reach the turnout threshold. Being non-binding, as well as including constitutional changes, its result will still have to be approved by two-thirds of the Parliament. The European Commissioner for Neighbourhood Policy and Enlargement Negotiations called the ‘yes’ vote to be significant providing a broad support for the Agreement and for the country’s Euro-Atlantic path, and urged political leaders to respect the decision and take it forward with utmost responsibility.

After a long debate, following the withdrawal of the Greek veto as a part of the agreement to change the country’s name, the European ministers have decided that Macedonia’s EU accession talks will start in June 2019, provided that certain conditions are met. While some Member States expressed concerns about corruption and the rule of law in Macedonia (and Albania), the others have pushed to bring the Western Balkans into the EU fold to strengthen the EU’s influence in the region. Germany, in particular, has decided to support the enlargement for geopolitical reasons and to counter Russian attempts to destabilize the region, as well as the rising Chinese interest in the Western Balkans. The geographical proximity, the cultural and social links, as well as the importance of trade relations, would all make Macedonia (and the Western Balkans in general) to remain firmly attached to the EU. However, the EU needs to behave more like a strategic and geopolitical actor, and less like a bureaucratic player, and must act quickly to make its financial instruments available to the Western Balkan countries so they can tackle their development problems.

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The European Union in International Investment Governance: a Hybrid Approach to Dispute Settlement

Beatriz Pérez de las Heras¹

Abstract: Investor-state dispute settlement and arbitration, in particular, stands at the centre of a process intended to reform the global regime of international investment treaties. The mechanism’s negative impact on public decision-making processes and its inherent shortcomings, such as an absence of transparency and a lack of arbitrator independence, have impelled moves to redesign the system. As a leading actor in the international investment landscape, the European Union (EU) has proposed replacing traditional arbitration with a specific court system for each bilateral agreement containing investment arrangements. However, the proposed system retains key aspects of classic arbitration whilst posing as yet unresolved issues in relation to the interaction with the EU Court of Justice and the current institutions of international arbitration. Nevertheless, the EU’s initiative is intended merely as a transitional remedy, ultimately leading to a multilateral judicial institution that would bring greater consistency to the resolution of investment disputes. Though important for the contribution it makes to the current debate, the EU’s proposal has faced criticism for some crucial deficits. Therefore, if the EU’s project is to prosper, it must first be discussed and agreed upon as part of a broader agenda of investment governance reform at a global level.

Keywords: investment treaties, investor-state dispute settlement, arbitration, court system, multilateral investment institution.

Introduction

Investment treaties have traditionally been negotiated between developed and developing countries. More recently, however, developing countries have begun signing investment treaties with one another. Among developed countries, investment treaties are still rare, but this situation too appears to be changing (UNCTAD, 2013).

Despite the proliferation of such treaties, there is no multilateral treaty governing international foreign investments. The rules and norms governing parties’ commitments are provided by the investment treaties themselves. Although there are significant differences between them, it is possible to identify certain core provisions in the different texts. For example, they all include a number of provisions establishing a suite of basic rights and guarantees for foreign investors, such as compensation for expropriation, fair and equitable treatment, non-discriminatory treatment and the fair transfer of income (Dolzer and Schreuer, 2008: 89-194).

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Investment treaties also provide procedures for settling disputes, either between the parties to the treaty or between the investors and the State. In the latter case, the investor-state dispute settlement (ISDS) mechanism enables investors alleging a violation of their rights under the treaty to refer the dispute to arbitration, normally at the International Centre for the Settlement of Investment Disputes (ICSID). The inclusion of these ISDS mechanisms marks a substantial departure from traditional rules of International Law, in that it places the investor on equal terms with the State. The possibility of avoiding domestic courts and submitting the dispute to an arbitration body as a more neutral, independent procedure is generally accepted. This guarantee to the investor is further backed by the host State’s anticipated consent to such arbitral settlement in most investment treaties. This private arbitration arrangement has sparked particular controversy due to a significant increase in disputes and the ability of foreign investors to lodge multimillion-dollar claims against a wide range of host State actions, such as the introduction of new environmental and public health measures and tax increases (Titi, 2014: 363-365). The strongest criticism levelled against investment treaties is therefore related to their impact on national governance, which is leading some States to change their legislation on foreign investment (Bonnitcha, 2017: 7-8).

Since the Treaty of Lisbon came into force on 1\textsuperscript{st} December 2009, the EU has had jurisdiction over foreign direct investment. Drawing on its new powers, the EU has been negotiating international investment agreements and investment chapters in large free trade agreements ever since. Both kinds of international instrument include protection and enforcement mechanisms to tackle potential disputes, including both state-state and investor-state arbitration (ISA). As yet, there have been no cases of ISA at EU level, but the European Commission initially advocated strongly in favour of this arrangement, for example in its negotiations with Canada on the Comprehensive Economic and Trade Agreement (CETA); with the United States (US) on the Transatlantic Trade and Investment Partnership (TTIP) and with Singapore on a large Free Trade Agreement (FTA). However, in response to growing public opposition to the investments provisions in the TTIP, and ISA in particular, in 2015 the European Commission changed its stance, proposing substitution of ISA by a permanent investment court for each EU agreement. Beyond this proposal, however, the European Commission’s ultimate goal is to create a multilateral investment institution under the umbrella of a broad global international agreement.

This paper analyses the EU’s proposals for an investment judicial system and assesses its contribution to current governance in international dispute settlement. After examining the real extent of EU power and policy on foreign investment and the current international framework of ISDS, the paper goes on to argue that the EU’s initiative for redefining the system is not actually so innovative, given that the proposed permanent investment court shares many aspects with ISA, while the project for a multilateral institution ignores substantive issues concerning investment protection. The paper concludes that despite the

\footnote{The ICSID is currently the leading institution of investor-state dispute settlement provided by most international investment treaties and in numerous investment laws and contracts. It was created by the Convention on the Settlement of Investment Disputes between States and Nationals of other States, in force since 14 October 1966. It now has 153 Contracting Parties. More information is available at \url{https://icsid.worldbank.org/en/Pages/about/default.aspx} (accessed 16 October 2018).}
important EU impulse, multilateral consensus will be required within a global forum on the priorities and actual extent of the system reform.

**EU Powers on Foreign Investment: a New Emerging Policy**

Under the Lisbon Treaty, Member States surrendered their power to conclude investment agreements to the EU. This new competence was framed within EU trade policy, an area in which it holds exclusive power under Article 3 of the Treaty on the Functioning of the European Union (TFEU). This extended the EU’s external trade powers to include ‘foreign direct investment’ as a relevant issue of the common commercial policy

However, since its introduction, the actual extent of the EU’s new power has been a cause for dispute, since Article 207.1 explicitly refers to ‘foreign direct investment’ (FDI), thus suggesting that the new power is limited to this kind of investment and does not extend to foreign portfolio investment. According to EU case law, FDI includes ‘investments in the form of participation in an undertaking through the holding of shares which confers the possibility of effectively participating in its management and control’, while portfolio investment involves ‘investment in the form of acquisition of shares on the capital market solely with the intention of making a financial investment without any intention to influence the management and control of the undertaking’. According to the interpretation of the EU Court of Justice (EUCJ), therefore, in an FDI an investor creates or acquires a company in another country. In portfolio investment, an investor buys equity in or debt of a foreign company, without having a long-term interest in the firm or any influence over its management.

Until mid-2017, the European Commission, as the EU’s main external trade actor, advocated for full power over investment, arguing that portfolio investments were implicitly covered by the EU’s internal power on capital and payments (Articles 63-66 TFEU) (European Commission, 2010: 8). Some Member States, however, held that the EU’s power was strictly limited to direct investment. In 2014, the European Commission itself finally referred the disputed dimension of EU power to the EUCJ, pursuant to Article 218.11 TFEU, during talks on the FTA with Singapore, the first comprehensive EU trade agreement including investment provisions to be negotiated following the Lisbon Treaty. In its Opinion of 16 May 2017, the EUCJ finally determined that ‘the power to regulate foreign investments depends on whether the investment qualifies as an FDI or a portfolio investment. The FDI belongs to the EU’s common commercial policy, which is within its exclusive legislative competence, so the EU has the right to conclude international agreements and adopt autonomous measures with regard to FDI’. The Opinion further

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3 Article 207.1 TFEU provides that ‘The common commercial policy shall be based on uniform principles, particularly with regard to changes in tariff rates, the conclusion of tariff and trade agreements related to trade in goods and services, the commercial aspects of intellectual property, foreign direct investments, the achievement of uniformity in measures of liberalisation, export policy and measures to protect trade such as those to be taken in the event of dumping or subsidies. The common commercial policy shall be conducted in the context of the principles and objectives of the Union’s external action.’

stated that ‘investments that do not qualify as FDI, i.e. non-direct or portfolio investment, constitute movements of capital on the internal market for the purpose of Article 63 TFEU and they therefore fall under the shared competence between the EU and the Member States’.

With the border clearly demarcated between FDI —which falls under common trade policy as an exclusive power of the EU— and non-direct foreign investments as a shared power, another competence issue that arises is to determine whether the EU’s exclusive competence to regulate FDI include the right to bind Member States to subject such investments to screening mechanisms for national public security reasons. FDI screening procedures are quite common in many developed countries, and are provided for by some international organizations, such as the World Trade Organization (WTO) and the Organization for Economic Cooperation and Development (OECD) (Wehrlé and Pohl, 2016). Screening involves a review by the State authorities, which may restrict or impede foreign investments, usually on grounds of national security. Many EU Member States perform such screenings, albeit the extent and the procedures vary considerably (Grieger, 2017: 7). However, there is as yet no EU-wide FDI screening system. What is clear, however, is that an EU mechanism of this kind would only be applicable to FDI and not to portfolio investments, to judge by the EUCJ’s Opinion of May 2017. Making use of the EU’s competence on FDI, in September 2017 the European Commission proposed a Regulation on this matter. The chief aim of the Regulation is to introduce a common approach to FDI screening by improving cooperation and coordination between Member States when reviewing transactions affecting security or public order. It would still be up to the individual Member States to assess what comprises a national security concern, but this appraisal would be subject to a form of cooperation. The proposal also enables the European Commission to issue opinions and screen direct investments to businesses receiving support from the EU funding (European Commission, 2017).

It therefore seems unlikely that the proposed EU screening mechanism for FDI would shift any existing power from Member States to the EU, although this will be confirmed in subsequent developments of the proposal.

Another area of controversy relates to investment protection. There has been wide debate as to whether EU powers extend to this area —i.e. certain standards of protection in the post-investment phase such as fair and equitable treatment, protection from unlawful expropriation— or whether it is limited to investment liberalization (e.g. pre-established market access and national treatment). Bilateral investment treaties concluded by Member States include provisions guaranteeing protection in the post-investment phase. The Commission has always held that the EU’s new power on FDI extends to both investment liberalization and investment protection, enabling the EU to conclude bilateral investment treaties and trade agreements that include investment arrangements. Some Member States, however, have argued that EU competence is limited solely to investment liberalization, while power over investment protection remains in the hands of Member

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5 EUCJ Opinion 2/15 of 16 May 2017, paragraphs 80, 84 and 227, ECLI:EU:C:2017:376. As a result of the Court’s Opinion, the European Commission presented an amendment of the initial agreement with Singapore in April 2018. Concretely, it drafted two separate instruments: a free trade agreement and an investment protection agreement. Only the last instrument will require ratification by Member States (European Commission, 2018).
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States. Most legal experts agree with the European Commission's view, based on the rationale that the Union's competence over the trade of goods and services is not confined to market access issues (e.g. tariff or import quotas) but also extends to post-importation aspects, such as the granting of national treatment and most-favoured nation status in respect of taxes and other internal laws and regulations. Therefore, limiting EU power to investment liberalization would impair the effective development of EU policy on FDI (Waibel, 2013:16). In its Opinion of 16 May 2017, the EUCJ has also brought clarity to this aspect, confirming that the EU’s exclusive competence includes ‘market access in the area of investment and investment protection as far as it concerns foreign direct investment’ (paragraphs 77 and 109). Indeed, the Court's Opinion identifies only two investment-related issues as shared competences, to wit, portfolio investment and investor-state dispute settlement (paragraph 305).

The EUCJ therefore appears to have definitively clarified the allocation of competences between the EU and Member States in trade policy, particularly with regard to investment. However, the fact is that there is as yet no EU bilateral investment treaty in force. The EU is currently negotiating treaties of this kind with China and Myanmar, but these will probably take some time to be concluded. Until such time as EU bilateral investment treaties come into force, the around 1,400 bilateral investment treaties concluded by individual Member States remain in force, providing protection to EU investors abroad and to investors in the EU. Until they are replaced by EU treaties, Regulation EU 1219/2912 provides transitional rules for all such treaties6. The Regulation, which came into force in January 2013, requires Member States to notify the European Commission of any bilateral investment treaties signed prior to 1 December 2009, when the Treaty of Lisbon came into force. Articles 5 and 6 empower the European Commission to evaluate the treaties and demand that the Member States remove any ‘obstacle’ identified. Under Article 9, the European Commission can also review bilateral investment treaties signed by Member States after 1 December 2009, as well as negotiations on future treaties.

However, the EU has also been exercising its new power over investments by including specific chapters on this issue in the major trade agreements it has been negotiating with third countries in recent years. Treaties with Canada, India, Egypt, Japan, Jordan, Libya, Malaysia, Morocco, Tunisia, Thailand, Vietnam and the US include investment protection clauses on fair and equitable treatment, full protection and security, national treatment and most-favoured nation, as well as guarantees against uncompensated expropriation7. As for the procedure used for addressing investor-state dispute settlement, an aspect that EUCJ Opinion 2/2015 considers to be of shared competence8, the EU’s preferred mechanism appears to be ISA.

Although there is as yet no experience of ISA, given that most of these agreements have yet to come into force, the exception being the CETA signed with Canada, which has been

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8 Instead, state-to-state dispute settlement falls within the EU’s exclusive power. See paragraphs 285-305 of Opinion 2/15.
provisionally in force since September 2017 (European Commission, 2017a), the reality is that there is nothing new about ISA in the EU. As a contracting party to the Energy Charter Treaty\(^9\), the EU accepted ISA as a tool for settling investment disputes, albeit to date no case has been brought against the EU. On the other hand, some Member States, such as Italy, Spain or the Czech Republic have been involved in cases relating to cutbacks on solar energy subsidy programs (Reinisch, 2016). Notwithstanding, the ISA clauses of the Energy Charter Treaty have provided useful experience and inspired EU legislation on the allocation of financial burdens arising from ISA awards, especially in situations where both the EU and its Member States’ actions may be challenged\(^10\).

The European Parliament and the Council, as institutions actively involved in the process of negotiating and concluding international agreements, have also initially shown themselves to be positive towards ISA, thus supporting the European Commission’s stance. The European Parliament, in particular, was endowed by the Lisbon Treaty with new powers in the field of EU international agreements, including the right to give consent in five specific categories of agreements. These include ‘agreements covering fields to which either the ordinary legislative procedure applies, or the special legislative procedure where consent by the Parliament is required’ (Article 218.6 (a) TFEU). This means that investment arrangements included in trade or investment agreements are also currently subject to stronger public scrutiny at EU level. The European Parliament has had no hesitation in using its new power, as it did in 2012 when it vetoed the conclusion of the Anti-Counterfeiting Trade Agreement (Duncan, 2012).

Whether such a rejection had an impact on the European Commission remains uncertain, but the fact is that in 2014, following the institutional changes after the European elections, Cecilia Malmström, the new Commissioner for Trade, announced a different approach to ISA. In a speech to the European Parliament in March 2015, she stated that ISA was ‘not fit for purpose in the 21\(^{st}\) Century’, and that she wanted ‘the rule of law, not the rule of lawyers’ (Malmström, 2015). At the time she made her statement, the EU was negotiating the TTIP with the US, an agreement which included ISA as the main settlement mechanism for investor-state disputes. This marked a turning point in the EU’s position on ISA, lining up with other opponents who feel that the system primarily protects the rights of investors over the public interests of the host country. The controversy at EU level was merely a reflection of a broader international debate on how investment protection should operate.

**The International Framework for Investor-State Dispute Settlement: Redefining the Current System**

The concept of ISDS has grown in importance in recent decades as a result of the promotion and protection of investments in the international trade and global economy.

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Of the settlement arrangements available, arbitration is the most widely used in both bilateral and multilateral investment treaties, but its practice has allowed investors to challenge sovereign government acts. This state of affairs is now changing, with many States and some regions taking action to redefine the role and rules of ISDS.

The Arbitration System: Investment over Public Interest

In essence, the arbitration mechanism provided for in investment treaties entitles private investors to initiate legal proceedings against the host State of their investment if they consider that their rights have been violated through expropriation or other measures that prevent them from benefiting from their investment.

One of the key ideas behind arbitration settlement is to guarantee investors’ rights in developing countries, which generally have a poor democratic culture and high levels of corruption. Investors’ claims are not heard before domestic courts, which are seen as being biased in principle, nor can they be brought before an international court, since private actors do not have access to such jurisdiction. Instead, proceedings are brought before an arbitration panel, intended as a neutral forum, comprising international business lawyers chosen by common accord between the parties to the dispute and in accordance with the provisions of the investment treaty (Alvárez et al., 2016:28).

Increasingly, however, arbitration-based ISDS has been considered to be more favourable to private investors to the detriment of States’ interests. One of the criticisms made concerns the privileged path the system affords private investors, a path that is not available to nationals of the host State and which has the potential to discourage the host States from exercising their right to regulate (Aisbett and Mc Ausland, 2013). Indeed, the prospect of foreign investors’ challenging government decisions on the grounds that they are harmful to their economic interests might deter national authorities from adopting laws or defining rules on matters of public interest, such as public health, environmental protection, labour laws and consumer-protection regulations. This self-censorship by the competent authorities could potentially reduce the government’s policy space. While there has been little research to date into the extent to which investment treaties reduce government policy space, it is certainly true that developing countries are more exposed to such impacts than developed countries, since they are net capital importers and have less legal capacity to assess the implications of investment treaties and respond to the threat of arbitration provisions established by foreign investors (Bonnitcha, 2017: 10-11).

Another major criticism levelled against arbitration settlement is the alleged lack of independence and impartiality of the arbitrators, given that as the principal claimants, the investors are directly involved in appointing the members of the arbitration panel that will hear their dispute. The result is that investors tend to pick arbitrators who are most likely to decide in their favour (Investment Treaty Group, 2016: 53-54). Another related criticism involves the so-called ‘double hat’ — the situation whereby an individual acts as a counsel in one international investment case and then as an arbitrator in another related to a similar issue. It is obvious that the arbitrator might sway the settlement of the dispute towards a decision that will later be favourable when they act as counsel in another case dealing with a similar issue (UNTACD, 2014: 27-28).
The net result of all these controversial aspects is a regime controlled primarily by investors, their lawyers and their arbitrators, making States increasingly vulnerable to allowing corporate interests to override public interests and democratic processes (Bernasconi-Osterwalder and Rosert, 2014). The number of ISDS cases has increased steadily since the late 1990s peaking up to around 817 in 2017, with more than one hundred States having faced claims from investors. The potential and impact of ISDS have stirred up a storm in some EU Member States —particularly Germany, France and Austria— even if to date EU companies have in practice been the chief users of arbitration settlement\textsuperscript{11}.

Given its conspicuous flaws, the ISDS system is currently subject to redefinition at a global level.

\textit{Towards Enhanced Processes and New Mechanisms}

Many States and some regions are currently mobilizing to improve the existing ISDS regime. The new approaches can already be seen in some national and regional investment treaties (UNCTAD, 2018).

Different degrees of reform can be observed. Some countries have chosen to retain the current arbitration system, introducing only minor improvements. The US and Canada, for example, have implemented transparency rules, since investment arbitration tends to be a very secretive procedure. The US has also included provisions on a potential appellate mechanism for ISDS in some treaties. Along the same lines, some regional organizations, such as the Southern African Development Community (SADC), have made it a requirement for an arbitrator not to act simultaneously as a counsel on another international investment case. Another procedural improvement introduced by SADC is the requirement for investors to exhaust all local remedies before instituting claims against States. This condition has also been incorporated by India in its bilateral investment treaties (Bernasconi-Osterwalder, 2015: 2-3).

Other reforms entail returning to other existing conflict resolution alternatives, such as state-state dispute settlement. This mechanism may rely on arbitration or on existing judicial remedies, such as the International Court of Justice or the regional courts. Australia, the US and Brazil are among the States that have incorporated state-state dispute settlement in their recent bilateral investment treaties. Other alternatives currently being promoted at national and multilateral level include conciliation and mediation\textsuperscript{12}. Morocco, Egypt and Thailand already include mediation among the means of dispute settlement available in their model treaties. The EU has also introduced mediation provisions in the CETA with Canada and the FTA with Singapore (Fernández Masiá, 2015: 38-39).

However, some discussions at multilateral level go beyond applying patches to the

\textsuperscript{11} For example, German firms initiated 57 proceedings, while the country was a defendant in only three cases in 2017. In France, 41 cases were brought by private enterprises in the same year and only one against the State. In Austria, the ratio was 17 to 1 (UNCTACD, 2017).

\textsuperscript{12} Conciliation is a formal procedure whereby a third party monitors the proceedings and issues a recommendation to the parties to the dispute. Mediation is a more informal procedure, in which a third person helps the parties to find a feasible solution by meeting them and facilitating dialogue (UNCTAD, 2010: 55-60).
current regime, recommending instead a more in-depth reform. Some of the more important initiatives include proposals for an Investment Dispute Resolution Facility and an International Dispute Settlement Agency for Transboundary and other Investments (Berbasconi-Osterwalder, 2015:5; IISD, 2016: 3–4). Both proposals agree that the new, alternative mechanism for resolving disputes should not be restricted to one particular form of negotiation and one particular way of resolving disputes. Rather, it should include and address relationships between a wider set of stakeholders (investors, governments, individuals and local communities), providing opportunities to resolve disputes by various means.

On its side, the EU has also contributed to the debate on new mechanisms for dealing with investment-related disputes; in 2015 it proposed the creation of an investment court system. The purpose of this new remedy is to discontinue the tradition of using arbitral tribunals to solve investor-state disputes. In practice, however, the proposed system has proved not to be so innovative or definitive either, since it turns out to be part of a transition towards a more permanent, multilateral solution.

The EU’s Proposal for a Multilateral Investment Court

In September 2015, during talks on the TTIP with the US, the European Commission put forward a detailed proposal on creating an investment court system to handle future investment disputes. The proposal was not intended to be limited to the TTIP, but to apply to all future EU trade agreements including investment chapters. Despite the name ‘court system’, the mechanism actually shares a number of features with arbitration, making it a hybrid settlement procedure. In any event, the investment court system is intended as a transitional regime whose long-term goal is to promote the establishment of a truly multilateral investment court.

The Investment Court System: a Bilateral Hybrid Mechanism

Specifically, the design of the investment court system is set out in Section 3 of the draft text of the TTIP (European Commission, 2015). The proposal is intended as a response by the EU to growing criticism of the ISDS in bilateral investment treaties and investment chapters of free trade and economic agreements. It also responds to the European Parliament’s resolution on TTIP of July 2015, which contained a mandate to replace ISDS by a new system that was more ‘court-like’, composed of ‘independent professional judges’ and equipped with an appellate mechanism13. Besides the TTIP, the new settlement regime is also mentioned in the CETA with Canada14, in the FTA with Vietnam15, as well as in the

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new investment protection agreement with Singapore\textsuperscript{16}.

However, the design and features of the proposed investment court are not entirely novel. Although some aspects are indeed new, it shares several elements with the current ISDS system. The most innovative feature of the European Commission’s proposal is the creation of a tribunal of first instance and an appeal tribunal to hear investment claims under the TTIP and other future EU agreements. Both instances will be made up of ‘judges’, serving for terms of between six and nine years, renewable once. The permanent nature of this court system, contrasting as it does with the ‘ad hoc’ appointment in the arbitral system, brings it closer in line with the functioning of judicial organs. However, these bodies will make ‘awards’ which will be enforceable under the rules of the arbitration norms of United Nations Commission on International Trade Law (UNCITRAL)\textsuperscript{17} or any other rules agreed by the disputing parties. This reliance on international conventions to enforce arbitration awards therefore appears to indicate that the proposed system is still essentially arbitral. Likewise, the usual remedies of ISDS, such as monetary compensation and restitution are also maintained (Lévesque, 2016:3).

Nevertheless, a key difference between the new regime and the ISDS is the absence of the parties’ autonomy in selecting the adjudicators. Both the TTIP proposal and the agreements with Canada, Vietnam and Singapore provide that the treaty parties should make appointments by way of ‘a committee’. This procedure is entirely at odds with the principle of the autonomy of the parties and is intended to ensure the tribunal’s impartiality. Another significant new feature intended to reinforce the Court’s impartiality is the Code of Conduct which will be binding upon judges. Its ethical guidelines contain the usual requirements provided in ISDS, but in the EU court system, they become binding, going beyond the traditional soft-law nature of ISDS standards of conduct (Deli and Marceddu, 2015: 4-5).

Article 11.1 of the TTIP likewise provides that appointed judges ‘shall refrain from acting as counsel in any pending or new investment protection dispute under this or any other agreement or domestic law’. This provision clearly aims to prevent new court members’ from wearing two hats, i.e. serving as adjudicators and also as advisers in other cases (Kalicki and Joubin-Bret, 2015:411). Nevertheless, apart from this ban on acting as counsels, members of the court will not be prevented from holding any other positions. To ensure their availability, they would all be paid retainers equivalent to one third of the amount paid to WTO Appellate Body members, as provided by Article 9.12 of TTIP. Finally, if the number of cases should so require, the tribunal could be made into a permanent court. In this event, the judges would be barred from having any other occupation, and would receive a regular salary to be set by the appointment Committee (Article 9.15 of TTIP). How the costs deriving from the court system will be met over time has yet to be fully clarified, but experience with the WTO Appellate Body and other international courts shows that States are generally reluctant to provide sufficient financial

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resources (Tiedje, 2015).

As regard to qualifications for appointment, they resemble those of other international courts and tribunals. Article 9.4 of TTIP provides that 'Judges shall possess the qualifications required in their respective countries for appointment to judicial office or be jurists of recognized competence.' The provision also requires that they have specific knowledge and expertise in the field, particularly in international investment law, international trade law and the resolution of disputes within international investment or international trade agreements.

One of the key aspects of the new investment court system is the possibility of appeal. Under Article 29.1 of TTIP, each disputing party will have 90 days to appeal a provisional award to the Appeal Tribunal. The mechanism combines elements of the current ISDS with new aspects, such as the possibility of reviewing not only errors in the interpretation of applicable law, but also errors in assessment of the facts, including assessment of relevant domestic law.

Unlike the ICSID annulment procedure, the Appeal Tribunal in the new system will also have the final say in deciding the dispute and may modify the award in part or in its entirety (Reinisch, 2016: 26).

In principle, the Appeal Tribunal is intended to correct errors of law and ensure a consistency of decisions within the specific agreement for which it is created. However, it is easy to see that an Appeal Tribunal for each agreement to be concluded by the EU might undermine the consistency of international investment law in general (European Federation for Investment Law and Arbitration, 2016: 38-40).

Many issues also arise with regard to interactions with other international regimes, given that under the EU mixed agreement, the ICSID Convention and other international instruments could still be called upon by EU Member States and other parties (Lévesque, 2016: 12-17). Potential interactions also include the EUCJ. It is still uncertain whether it will accept an international investment tribunal as a competing judicial remedy within an EU agreement, which is EU law. To this respect, in September 2017, Belgium requested the EUCJ’s opinion on the compatibility of CETA’s investment court system with EU law and, in particular, with the exclusive competence of the EUCJ to provide definitive interpretations of EU law.18

Probably in awareness of these flaws and with the aim of leading reform of the traditional ISDS at a global level, the EU is currently proposing the creation of a multilateral dispute settlement mechanism. This would also consist of a multilateral investment tribunal and a multilateral appellate body, but under the umbrella of a multilateral international agreement. Upon its entry into force, this multilateral judicial institution would replace any other dispute settlement mechanisms included in investment treaties of EU Member States or in investment treaties between third countries (Schill, 2016: 20).

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Towards a Multilateral Permanent Body on Investment Disputes

In contrast to the bilateral nature of the investment court system, in which each court only applies to the parties to a specific agreement, the multilateral court proposed by the EU would comprise one single international institution. It would hear investment-related disputes between any investors and States that had previously accepted its jurisdiction over their bilateral agreements. In practice, the multilateral investment court is intended to be to investment dispute settlement what the WTO is to trade dispute settlement, thus adding to a multilateral rules-based system (European Commission, 2017b:2).

In reality, the EU’s project for multilateral investment dispute settlement is not new. It emerged during public consultation on investment protection held by the European Commission in 2014. As a more effective means, some stakeholders suggested reforming the ISDS at a global level rather than through bilateral reforms. Subsequently, in its Concept Paper of 5 May 2015 on ‘Investment in TTIP and beyond — the Path for Reform’, the Commission announced that in parallel to the reform process undertaken in bilateral EU negotiations, work would commence on setting up a multilateral system to address international investment disputes (European Commission, 2015a:4). In its Communication ‘Trade for All’, the European Commission envisages the establishment of a permanent multilateral investment court as an objective for working with partners to build consensus for a unified and coherent policy on investment dispute resolution (European Commission, 2015b: 21-22).

The proposal for a permanent multilateral institution is largely based on the investment court system provided in the agreements with Canada, Vietnam and the US, which also make reference to it. Similar references are also being incorporated by the EU in its ongoing negotiations involving investment. As key features, the multilateral investment court would also have a tribunal of first instance and an appeal tribunal. The exact number of judges will depend on the number of participating countries and cases the court will have to hear. In all events, both bodies will have tenured, highly qualified judges, bound by the strictest ethical standards. As in the investment court system, the disputing parties will not be able to choose which judges will hear their case. The multilateral court is thus aimed to be a permanent body, ruling on disputes arising under future and existing investment treaties and providing for effective implementation of its decisions (European Commission, 2017b: 1-2).

With this proposal, the EU is clearly seeking to take the lead in the reform of the international system of investment dispute resolution. It is also intended to address the criticisms raised against the ISDS and, more recently, against the investment court system. However, despite the EU’s best efforts, the new project has not been free from controversy. In particular, the proposal for a multilateral judicial institution has been criticized for failing to overcome the existing shortcomings of the ISDS, though the European Commission’s stated intent is to address the ‘perceived limitations’ of investment arbitration in terms of legitimacy, legal correctness and other concerns. However, the Commission’s proposal does not address the substantive provisions in international trade and investment agreements. Instead, it clearly states that protection standards ‘will not be affected by the negotiations on the multilateral investment court’ (European Commission, 2016: 6). One may therefore conclude that the rights granted to investors — such as fair and equitable treatment — and
the lack of any enforceable obligations—such as compliance with human labour rights and environmental laws—remain unaddressed in the EU’s proposal. In addition to its failure to protect the regulatory power of national government on behalf of the public interest, the multilateral institution project has also been criticized for ignoring the fact that foreign investment operations now involve a wide range of policies on trade, labour, land rights, health and the environment, national security, taxation and many others. This oversight is most evident when the European Commission establishes that the multilateral court members should be ‘highly qualified and experienced individuals in public international law and international investment law.’ This narrow approach is considered to prioritise only the protection of investors’ economic interests, as arbitral tribunals do. The proposal has also been criticized for reinforcing the arbitration system in favour of international investors when failing to enable local governments, domestic investors, trade unions, individual citizens and other groups from civil society to bring a claim or become a party to an investment-related dispute (CIEL, 2017: 2-4).

In its next step, in September 2017, the European Commission requested authorization from the EU Council to open negotiations on a convention creating a multilateral court for the settlement of investment disputes (European Commission, 2017c). On 20 March 2018, the Council granted its authorization by adopting negotiating directives. Drawing on these directives, the Commission is currently discussing on the proposal within the framework of the UNCITRAL. For the moment, this international body has identified the EU’s proposal as just one ‘possible solution’ for ISDS reform (UNCITRAL, 2018: 8). Similarly, the UNCTAD argues that dispute settlement reform cannot be carried out in isolation, but must address a broad spectrum of concerns, including the unforeseen legal and financial risks faced by host States. Specifically with respect to dispute settlement, a multilateral process should consider how public interest considerations could be better addressed, for example, by refusing jurisdiction over investors who have violated domestic or international laws relevant to the investment, or precluding claims against measures intended to contribute to public interest objectives (UNCTAD, 2017b: 3, 8-9).

None of these aspects appears to be addressed in the EU’s proposal so far. It therefore seems unlikely that it will succeed in its current terms, which are considered to continue prioritizing investors’ rights over public interest, like traditional ISDS. Therefore, although the EU’s proposal reflects a major drive for review of ISDS, multilateral consensus will be required on the priorities for reform. Global efforts in this regard should address sustainable development as a primary focus, in keeping with the international community’s commitment to the ‘2030 Agenda on Sustainable Development’ (UNCTAD, 2017b: 13-14). For the EU, in particular, sustainable development, as well as human rights, is a horizontal legal requirement to be addressed in all its policies, including trade and investment, as provided by Article 11 of TFEU and Article 2 of TEU, respectively. Therefore, any EU initiative to improve multilateral investment governance should first address these requirements.
Conclusions

The ISDS and, in particular, the ISA, has attracted growing criticism and public concern over the last two decades. It is broadly recognized that the current investment-dispute system has evident flaws on public decision-making processes and effects on policy space. Moreover, the mechanism has inherent shortcomings in terms of absence of transparency, lack of arbitrator independence and the precedence given to the final awards over their legal correctness.

Nevertheless, this state of affairs is currently changing and movements for reform are emerging at national, regional and multilateral level.

Among the ongoing discussions on redefining the current system, the EU is a regional actor that is making concrete proposals for reform, although its position has gradually evolved in recent years. Indeed, the EU’s stance has shifted from endorsing ISA first as the main investment protection mechanism to reforming then the system by replacing it with a permanent investment court in EU agreements, which will in any event be a transitional remedy towards the establishment of a multilateral institution. The EU’s changing stance reflects the criticism voiced against ISA, especially evident during the TTIP negotiations, as well as constant conflicting demands from Member States, different stakeholders and European investors, the latter having been the most frequent users of the arbitration regime.

The draft text of the TTIP, together with negotiations on the CETA with Canada and the FTA with Vietnam, provided the specific framework within which the EU proposed, in 2015 and 2016, a new system of courts to replace the old ISA. As discussed, the proposed system is not actually that new, apart from the form of appointment, tenure and Code of Conduct of the Court members, and the introduction of a tribunal of appeal. It retains elements of the arbitration system, raising doubts as to its compatibility with current international arbitration institutions and the EUCJ’s exclusive competence on interpreting EU law. The EU’s proposal also fails to address substantive issues concerning investors’ rights and obligations, a shortcoming which has been criticized for serving the interests of European investors.

Largely building on the permanent investment court system, the EU’s latest proposal suggests the future establishment of a multilateral judicial institution to replace any other dispute resolution mechanisms provided not only in EU agreements and its Member States’ agreements with third countries, but in trade and investment treaties concluded between any non-EU countries previously accepting its jurisdiction. With this proposal, the EU seeks to lead the ongoing process of redefining international investment dispute settlement, while at the same time increasing its consistency and legitimacy.

It is not yet clear how or when this new alternative mechanism would be implemented at a global level, and whether the EU leadership will manage to overcome criticism of its proposal and the reforms already implemented in other countries. What is clear, however, is that the debate on a multilateral system must be broadened and brought to existing multilateral forums dealing with these issues, such as UNCITRAL and UNTACD. These two organizations have already proposed that any new alternative form of investment
dispute resolution should involve the whole spectrum of stakeholders usually affected by investments, including individuals, domestic investors and local communities. In the same vein, with the aim of achieving complete and comprehensive reform, they advocate redefining not only the dispute settlement procedures, but also the substantive rights and obligations in treaties as well. In this regard, substantive provisions on parties’ rights and duties should be aligned with the international community’s commitments to sustainable development and human rights.

The EU’s proposal does not address any of these dimensions currently being debated at a global level. It is therefore likely that the EU will have to amend its project in coming months if it wants to contribute actually to a multilateral consensus on more efficient international investment governance.

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Negotiating the Transatlantic Deal: the Case of Domestic Constraints

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Abstract: Progress towards a final agreement between the European Union and the US for the Transatlantic Trade and Investment Partnership (TTIP) stalled indefinitely in 2016. The negotiation process has been influenced by a wide and complex set of factors stemming from interdependent factors (mainly geopolitical), dependent factors that originate in global economic integration, and independent factors coming from domestic socio-economic, political and institutional constraints. Assuming the influential role of internal pressures and domestic political events, we single out in this paper the question of domestic politics whose specific contribution to the outcome of trade negotiations have been emphasized to a great extent by various studies. The paper pursues a three-pronged approach in order to: (1) identify the set of domestic constraints on both parties, (2) assess their influence on each side strategic position, and (3) suggest both available and desirable future courses of action to improve the negotiation outcome.

Keywords: TTIP, negotiations, domestic factors, strategic behaviour

JEL: F13, F51, F53

Introduction

Traditionally, the rationale behind trade agreements begins with the assumption of gains associated with voluntary exchanges within an economic space free of barriers to trade and movement of factors. Scholars from adjacent disciplines, such as political science and international relations, complemented economists’ argument with findings emphasizing the role of strategy, power and hegemony in shaping the outcomes of international
negotiations. The strategic motive has made further ground within the game theoretical framework, which, especially from the 1980s (e.g. Leap and Gringsby, 1986; Conybeare, 1987; Jervis, 1990; Allan and Schmidt, 1994), has brought forth a more complex class of determinants. These determinants explain the benefits a country may reasonably expect to derive from trade negotiations on a three-level context of interaction – dependence, independence, and interdependence – with the help of strategic capabilities originating in overall power, institutional stability; and bargaining power, respectively.

The interaction between the international and domestic levels of trade negotiations has been described through a mix of inter-state and domestic politics (e.g. Putnam, 1991; Evans et al, 1993). Here is the typical approach: ”International trade relations are not determined by a sole national executive, acting autonomously and isolated from the pressures of domestic political interests when choosing tariff levels, health and safety rules and regulations, or other elements of trade policy. Instead, trade policy is determined by the interplay of domestic economic interests, domestic political institutions, and the information that is available to all involved players.” (Aklin et al., 2015, p.1) Lovec (2017) states that “difficult domestic conditions … increase the power of the negotiating agency vis-à-vis its negotiating opponent by ‘tying its hands,’ thus affecting the distribution of the gains of an agreement”. For one thing, domestic groups (e.g. companies, workers, trade unions, political parties, the media, think tanks, companies, NGOs, public opinion etc.) try to pressure governments into supporting favourable policies; for another, the governments must satisfy their domestic constituents’ concerns and ensure that negotiations lead to the desired result and do not adversely affect their power bases.

Taking the assumption that internal pressures and domestic political events have highly influenced the Transatlantic Trade and Investment Partnership (TTIP) deal, we isolate in this paper the question of domestic politics whose specific contribution to the outcome of trade negotiations have been emphasized by various studies (e.g. O.Halloran 1994; Verdier 1994; Downs & Rocke 1995; Peterson, 1996; Milner 1997). In the case of TTIP, the role of domestic politics has already been stressed by several papers that have concluded that “both the US and the EU took advantage of the domestic institutional constraints (EU) and geopolitics (USA) in order to strengthen their bargaining stance, thus reducing the scope of concessions made to the opponent and pressuring the opponent into an asymmetric agreement” (Lovec, 2017, p.2).

The research suggests that the solution to reconcile the objectives of domestic constituents with those of trade liberalization lies in rule harmonization (Koenig-Archibugi, 2010, p. 416), a process that relies significantly on the preferences of the involved key actors; firms (importers and exporters), workers and consumers. While in the case of import-competing firms the preference for protection is well documented, in the case of export-oriented firms, traditionally supporters of liberalization, the perspective depends on which party's rule is likely to be eventually adopted. Businesses would obviously gain from dealing with a single rule, but regulatory coordination may impose adjustment costs if the rule adopted is that of the other party. Consequently, exporters’ support may be more conditional than expected in a plain liberalization game (Drezner 2007, pp. 45-47). Secondly, the politics of regulatory cooperation is also influenced by the preferences of
citizens. In traditional trade politics’ optic the focus lies on individuals’ preferences reflected in their interests as employees (Mansfield and Mutz, 2009, p. 427). As for the consumer’s perspective, while liberalization seemingly tends to bring about overall benefits (lower prices and/or a wider variety of choices), regulatory coordination potentially brings costs that can be translated into less safe, healthy or more environmentally harmful products. That is why rule harmonization negotiations imply greater engagement of consumer groups (Young and Peterson, 2014). In the case of TTIP, given the low tariff rates and the differences in regulatory approaches, the central issue of negotiations remains regulatory coordination through the adoption of common rules by both parties.

The paper therefore pursues a three-pronged approach in order to: (1) identify through a multi-level analysis the set of domestic constraints on both parties, (2) assess their influence on each party’s strategic position, and (3) suggest both currently available and desirable future courses of action to improve the negotiation outcome.

I. The context of negotiations

Negotiations surrounding TTIP were initiated in July 2013 with an initial statement made by David Cameron at the G8 summit that put a great emphasis on the high political stakes of the agreement: “It’s a testament to the leadership and the political will of everyone here that we’ve reached this point. We must maintain that political will in the months ahead. This is a once-in-a-generation prize, and we are determined to seize it” (G8 Summit press conference, 17 June 2013). Former EU Trade Commissioner de Gucht has also acknowledged that “politics, not macroeconomic data or models will determine the fate of TTIP” and that negotiations would be a great challenge for both parts, especially since “trade has become much more political. You can only do this [TTIP] deal if there’s enough political steering and enough political will to do it” (Spiegel, 2014). President’s Obama also stressed the importance of the deal by stating that “the Transatlantic Trade and Investment Partnership is going to be a priority of mine and my administration” (G8 Summit, June 17, 2013).

An agreement between two of the world’s biggest economies, that together accounted for about 46% of the global output, 40% of world GDP, almost 32% of global trade, and around 20% of global foreign direct investments in 2013 when negotiations were initiated (Babarinde & Wright, 2015, p. 2), would create the largest and most comprehensive bilateral preferential trade agreement to date. Since tariffs placed on Transatlantic trade transactions are already below 3% on average, the economic benefits for both parties are expected to derive particularly from reducing red tape, harmonizing standards and implementing more favourable investment regulations. Consequently, TTIP talks have focused on deeper integration, non-tariff barriers to trade and harmonizing regulations.

The negotiation Agenda, as seen from the perspective of the European Commission, was focused on three broad areas: Market access, Regulatory Cooperation, and Trade Rules. Negotiations have been in-depth and specialized, as breakout sessions have concentrated on 24 thematic issues. The market access area addresses the removal of nearly all customs duties on goods and restrictions on services, enables better access to public sector procurement to allow companies on both sides of the Atlantic to bid for public tenders,
and aims for a more favourable FDI environment. The second negotiating area deals with harmonizing the regulatory framework by eliminating red tape, bureaucratic duplications and redundancies in both markets, and by improving transparency. Although EU and USA regulations are in many cases quite similar, the means to be fulfilled are sometimes different. Consequently, the agreement aims to help EU and US regulators better collaborate when setting new regulations, and recognise each other’s regulations when they provide equivalent protection from both a horizontal and a sectoral view with rules governing specific industries. The Trade Rules section focuses on both sensitive and controversial aspects of the Agenda such as the sustainable development goals, non-discriminatory and free access to natural resources, regulating investments and competition aspects, intellectual property rights & geographical indications.

In the EU, the context of negotiations was mostly defined by two salient evolutions. These were Britain’s referendum to leave the EU and the rise of nationalist parties in many Western European countries, accompanied by euro-scepticism threatening the European values and the very existence of the EU. This was to become a defining feature of the series of forthcoming elections across European countries. As nowadays trade agreements cover not only liberalization, but also standard harmonization, rule setting and geopolitical aspects, negotiations transformed into a highly sensitive economic, political and societal matter. In the US case, political influence has been also emerging inevitably from the context under which negotiations were initiated: the upcoming presidential campaign, followed by a change of Administration and a shift in perspective over free trade and trade agreements. One main argument evoked at the time was that no matter the successor in administration, a delay in reaching an agreement was naturally expected. During election periods, politicians try to capitalize on sensitive woes attributed in most cases to globalization and free trade and promise to solve them if elected. This feeds the anti-trade sentiment, exacerbates voters’ opposition to trade and also explains the shift in rhetoric over the TTIP.

With the estimation that negotiations will be concluded within two years, and although both Washington and Brussels were committed to sealing the deal before President Obama left office in January 2016, the deal could not be concluded by the time of the presidential elections. After 15 rounds that were being carried out until October 2016, “negotiations with the United States have de facto failed, even though nobody is really admitting it” (Sigmar Gabriel, German Vice-Chancellor, August 2016). In March 2017, the European Commission released an update on the state of the negotiations noting that good progress had been made in all areas of negotiation but still no formal engagement on TTIP was reached with the new US Administration, and the negotiations have been in fact put on hold.

Apart from divergent EU-US positions on aspects of sensitive negotiation, a topic which falls beyond the scope of this paper, talks have been postponed mostly due to a mix of internal socio-political factors that have made it impossible to take further steps towards a final agreement. By analysing the social, political and economic context and by looking at the actors that have voiced their opinion towards the agreement at the EU and USA level, we have identified a set of key domestic factors that explain the evolution of the negotiation process.
II. **Controlling factors within the EU**

The EU member-states’ varying political and economic objectives have translated into a negotiation process with different speeds and multiple breakdowns. Positions adopted have been either highly supportive for concluding the deal and emphasising its positive impact (e.g. Germany, UK, Italy, Poland, Portugal, Czech Republic, Croatia, Denmark), or focusing on the drawbacks of the agreement and its supposedly risky concessions (e.g. France, Austria, Spain, Greece). Several countries have asserted a nuanced attitude expressed, with few amendments but in support nevertheless of the deal (e.g. Slovenia, Hungary, Belgium, and the Netherlands).

Reflecting the considerable scope of national divergences, the opinion has not been straightforward even among supporters. The UK has been a keen advocate of the agreement, but in the shadow of the referendum for the UK to leave the EU, and the fact that signing TTIP was used as an argument to support Brexiteers, instead of “reinvigorating the controversial deal” it has “weakened the EU’s clout and made the Americans even less amenable to meeting European concerns and has removed one of the US’s closest allies in the talks” (The Economist, 2016). Brexit’s impact on TTIP is certain, yet its weight needs proper assessment. Some observers argue that it contributes to a highly uncertain climate, given the UK’s position towards supporting trade liberalization especially in areas such as agriculture, services and investment (Guida and Beshudi, 2016). Others consider that, on the contrary, Brexit may ease negotiations of certain topics of British concern but opposed by the Americans (e.g. financial services regulatory, public procurement) (Guida and Beshudi, 2016).

Political support in Germany has been strongly in favour of continuing the talks. German Chancellor Angela Merkel advocated the deal saying it was not in Europe’s interest “to fall behind other regions” such as Asia which had inked similar deals with the United States: “I believe that such an agreement would mean job opportunities for us and we urgently need jobs in Europe” (Euractiv, Sept 2016). Still, the public opinion was not that supportive and on September 17th, 2016, between 100,000 and 250,000 Germans took to the streets in cities across the country to protest against TTIP (The Economist, September 16th, 2016).

As for the outright complainers, Austria and France have expressed concern about the lack of transparency, the treatment of multinationals, the defence of agricultural production and access to American public markets. The two have also demanded that the negotiation mandate should include climate objectives. France insisted that decisions should be made by unanimity, in order to give it a veto over cultural production which was not included in the Agenda. “Political support in France for these negotiations no longer exists,” said Matthias Fekl, the French commerce secretary (Telegraph, 2016). President Hollande also said he would “never accept the deal because of the rules it enforces on France and the rest of Europe” (Independent, 28th August, 2016). This statement was particularly in relation to farming and culture – claiming that they are too friendly to US businesses. The decision to leave the negotiating table has been broadly welcomed by politicians across France. In Greece, politicians have added their voice to calls to halt negotiations unless it ensures increased protection for key agricultural geographical indicators, such as feta cheese. Spain
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has expressed concerns during a round-table in Barcelona of 40 mayors and councillors, which concluded with the adoption of the Barcelona Declaration on TTIP: “We demand that current negotiations on TTIP to be suspended until the concerns of local and regional governments have fully taken into account in the ratification in any of these treaties and a new mandate renegotiated taking into account the demands of those who have not been consulted” (Free Trade Zone, 2016).

The EU’s institutional specificity of negotiating trade agreements has had its significant contribution to the difficulties of the process. Trade policy is an exclusive power of the EU, and thus trade negotiations do not take place within an intergovernmental conference that would bring together all EU Member States and the negotiating partner. EU countries are represented by the European Commission which is primarily represented by the negotiating team coming from DG TRADE. This arrangement transforms Member States into bystanders rather than key players, given the more fragmented EU’s political union. However, all 28 EU member-states will have to ratify the agreement before it comes into force and the final decision must be ratified by both the EU Council and Parliament (Novotná, 2015). TTIP has benefited from the support of majority groups in the European Parliament: “the centre-right European People’s Party, the Progressive Alliance of Liberals and Democrats for Europe, and the European Conservatives and Reformists. However, groups that focus on highly sensitive environmental or social issues such as the Greens and the United Left have respectively distanced themselves from the process or outwardly rejected it” (Garrido et al, 2015, p 64).

Although 58% of Europeans supported TTIP according to a 2014 Eurobarometer survey (European Commission. 2014), the proposed Agenda has faced a strong and extremely negative reaction from the civil society (CSO), particularly from NGOs, consumer groups, labour unions and environmental organisations. These actors have mounted opposition for various reasons, starting from the lack of transparency of negotiations, to standards for health and safety, environmental issues, consumer protection and litigation, in particular The Investor-State Dispute Settlements (ISDS). The regulation, which is part of the agreement, has driven much of the public attention to the idea that more compatibility between EU and US regulations may lead to lower standards for health and safety, environment, consumer protection or financial services and that TTIP will actually lead to deregulation because of the laxer American market. Public services were in the firing line as a consequence of the TTIP provisions supposed to open up Europe’s public health, education and water services to private American companies (Independent, October 6, 2015).

Over three million citizens have signed a petition against TTIP and have handed it over to the President of the European Parliament, urging him to call a Parliament hearing on the matter. A self-organised European Citizens’ Initiative (ECI) against TTIP, Stop TTIP, has collected in just one year around 3,284,289 signatures, more than any other ECI has previously succeeded (Euractiv, Nov 9, 2015). Simultaneously, 33 NGOs signed a joint declaration affirming their “deep concern and firm opposition” (Euractiv, October 1st, 2014) to such cooperation on rules, arguing that it will drive down standards in areas such as chemicals, food standards and financial services. Around 400 activist groups marched
across Europe in Hamburg, Berlin, Madrid, Ljubljana, Helsinki, London, Vienna and Paris. According to a member of the Attac network, “this is the first massive initiative in Europe against free trade agreements. We’ve never seen such a consciousness anchored at the local level” (Euractiv, Oct. 13th, 2014).

At the same time, there is an increasingly prevalent perception among the EU’s citizens that Brussels makes difficult and sometimes erroneous policy decisions (e.g. The Anti-Counterfeiting Trade Agreement in 2012), while member states bear the burden of their execution (Euractiv, Nov 9, 2015). Consequently, some feel that important issues should fall under national jurisdiction rather than being decided by unelected bureaucrats that might not be working in the public interest. Hence, stakeholders’ expectations regarding transparency have been high and the initial degree of confidentiality invoked by the European Commission added to the sources of the anti-TTIP sentiment.

Industry representatives and professional associations all over Europe have been analysing the impact of TTIP both before and during negotiations, and tried to lobby according to their interests. An analysis of the Corporate Europe Observatory and Lobby Facts points out the business-biased lobby during the setting of the Agenda and the preparation of the mandate for the negotiations. The European Commission’s trade department (DG Trade) was lobbied by 298 stakeholders, of which 269 were from the private sector. Out of the 560 lobby meetings that the Commission had, 520 (92%) were with business lobbyists, while only 26 (4%) were with public interest groups, and the rest (4%) were with other actors such as individuals, academic institutions and public administrations (Corporate Europe Observatory, July 2014).

The main lobby groups that most encountered DG Trade were: Business Europe (the European employers’ federation), The European Services Forum (a lobby gathering together large services companies), ACEA (the European car lobby), CEFIC (the European Chemical Industry Council), Freshfel (producers and traders of fruits and vegetables), Eucolait (the dairy traders’ lobby), Food and Drink Europe (the biggest EU food industry lobby group), Digital Europe (members include all the big IT companies), The European Generic Medicines Association, The Confederation of British Industry and The Federation of German Industries (Corporate Europe Observatory, 2014). Reflecting on their strong support for TTIP negotiations, the joint statement asserted: “Businesses of all sizes, above all small companies, as well as workers, consumers, and citizens in both the EU and the US could benefit. TTIP also provides a timely opportunity for the EU and US to set the rules for trade and investment that could serve as a benchmark for the world. This once-in-a-generation opportunity must not be missed” (ACEA, 5 Sept 2016).

Irrespective of the economic weight of industrial sectors, the agenda-setting has been driven nonetheless largely by the agribusiness sector represented by 113 representatives (20%), more than lobbyists from the pharmaceutical, chemical, financial and automobile industry together. The data highlights that mainly businesses originating in the US, Germany and the UK, and industry lobby groups organised on the EU level have actively participated in the process. Companies from most Eastern European countries were absent from the corporate lobby action, suggesting either that there is little gain for these companies, or that they cannot have access and influence on the deal (Corporate Europe Observatory, July 2014).
Within the Single Market, agriculture has been traditionally considered a sensitive topic and consequently highly defended through the EU agricultural policy. The sector is concerned with a range of issues that might affect its competitiveness or even worse might drastically harm European farmers. First, if in 2016 the EU registered a trade surplus in agricultural products and foodstuff with the US, according to a study released by UnternehmensGrün (the German Association of Green Business), this could change if and when TTIP is finally concluded and duties and non-tariff barriers are removed, allowing US companies near-unlimited access to the European market (UnternehmensGrün, 2015).

Secondly, the agreement seems to benefit large companies that are already able to export, it endangers regional supply chains and ignores the needs of small and medium-sized businesses and of regional markets local producers strive for. Thirdly, Genetically Modified substances allowed in the US, the widespread use of hormones and less restrictions on pesticide use in the US are perceived as unfair competition translated into lower prices the sector might face from the American agri-food sector. Forth, there is a high concern regarding the protection of regional products and geographical indications that is supposed to be negotiated. Currently, under the EU law there are three different labels for goods to protect and support traditional and regional food production: the Protected Designation of Origin (PDO) seal for 629 EU products (e.g. Pane Toscano, Gorgonzola, Roquefort, Prosciutto di Parma); the Protected Geographical Indication (PGI) seal (e.g. Jamón Serrano, Oktoberfestbier, Miel de Provence, Salam de Sibiu, Carne de Salamanca, Black Forest Smoked Ham, Nuremberg Rostbratwurst); and Traditional Specialty Guaranteed (TSG) (e.g. Pizza Napoletana, Mozzarella). Over 300 Italian products are on the EU’s protected status list of 1,447 foods, followed by France with 264 products on the list, Spain has 216, and Portugal 141. The industry fears that production of treasured regional specialties could either see a shift to the United States when trade barriers are lifted, or that products can be reproduced and sold under these ‘brands’ since Geographical Indications may be removed. However, the German Farmers’ Association (DBV) representing more than 90% of German farmers sees TTIP as a great opportunity that “gives European producers the
opportunity to access the US market (…) Everything that is associated with so-called “Old Europe”, French cheese, German sausages, Italian pasta etc., has value on the Trans-Atlantic market” (Euractiv, Jan 11, 2016).

III. Domestic constraints in the US

In 2015 President Obama signed a bill known as the Trade Promotion Authority (TPA) to allow a fast-track ratification of any free trade agreement (including TTIP) that would still allow Congress to vote on a final deal but prevent any amendments. The Senate failed to pass the bill that faced fierce opposition, including from Democrats on the grounds of the November 2014 midterm elections. Indeed, although over time Republicans have been pushing for a strong traditional pro-trade agenda, during election times there was a synergy between Democrats and Republicans in their opposition to “fast track” international trade agreements such as TTIP. According to Gutteridge et al. (2015), this can be explained by the fact that “Democratic representatives naturally tend to shy away from political commitments on trade issues that could erode their electoral base of support. Although Republicans may support free trade at a philosophical level they could be reluctant to support any agreement that would hand a political victory to President Obama” (Gutteridge et al., 2015, p. 62).

So, the outset of negotiations was beset with the common understanding that the new President and his administration would adopt a reluctant attitude in term of advocating free trade. The U.S. ambassador to Germany, John Emerson, clearly depicted the context: “if you really want this, it needs to be completed during this (U.S.) presidency, because whoever wins America’s election in November will want to put their impact on the TTIP talks” (Der Burchard, 2016). Indeed, a look at the position and statements on trade of the candidates running for the presidential race shows an opposition regarding the benefits of free trade and trade agreements.

The Democrat Hillary Clinton, a strong supporter of trade agreements as Secretary of State, shifted her position after deciding to run for president, while the other Democrat candidate, Bernie Sanders, stated that in general “trade agreements were not beneficial to the US as most of them were written for corporate interests” (Ballotpedia, 2016). Throughout his presidential campaign, Donald Trump expressed his reservations about the trade agreements the US has negotiated. He made statements supporting protectionist trade policies and ‘America First’ as his main campaign slogan, arguing that international trade deals suppressed US wages, hurt US workers and companies and the overall national competitiveness. His protectionist stance on trade translated into a set of assumed measures: applying countervailing tariffs on cheap Chinese imports of up to 45%, renegotiating the North American Free Trade Area (NAFTA) and withdrawing USA from The Trans Pacific Partnership (TPP). Trump claimed that US trade negotiators made bad deals, costing the country jobs, growth and competitiveness and that is why he intended to appoint “tough and smart trade negotiators to fight on behalf of American workers” (The Telegraph, Nov 2016). Although Donald Trump has not explicitly mentioned TTIP during the presidential campaign, there have been several statements suggesting a negative stance
towards the EU as a trade partner: questioning the merits of the EU, describing Brexit as a ‘great thing’, announcing his intention to initiate a speedy bilateral trade talks with the UK, blaming Germany for “trade imbalances within the EU through manipulating Euro to make its exports cheaper and hence rejecting TTIP as a ‘a multilateral deal in bilateral dress’” (Financial Times, 31 January 2017).

The political attitude towards free trade, whether as a cautious approach or direct opposition, is partially the expression of the growing antitrade sentiment of the American civil society and this explains why opposition to trade deals seemed to appeal to voters in both parties. According to a Pew Research Centre survey held in May 2015, over 60% of the Americans said trade is good for the country, but few thought free trade deals boost the economy (see Figure 2): almost half (46%) considered that trade agreements lead to job losses and lower wages, and 34% that free trade agreements slow the growth of the national economy.

Attitudes towards TTIP were mostly positive in 2014 with 53% of the respondents perceiving the deal as positive (Pew Research Centre survey, 2015), but the support for the agreement has fallen sharply to 18% in 2016 according to a survey conducted by YouGov for the Bertelsmann Foundation. It is worth mentioning that the share of the respondents that claimed not to know enough about the agreement as to voice an opinion increased from 17% to 50% in 2016. The arguments evoked by those who claim TTIP will be a bad thing (21%) refer mainly to the perception that the deal would lead to job losses and lower wages (50%), give foreign companies unfair advantages (22%), and lower food, auto and environmental safety standards (12%) (Pew Research Centre survey, 2015).
The specificity of USA regulations on public procurement was also a potential deal-breaker. Opening up US public procurement markets is one of the EU’s priorities in the TTIP negotiations. European companies currently face high obstacles in bidding and winning public contracts across the Atlantic as a consequence of the “Buy American” policy that prevents foreign firms from bidding for many federal and state auctions. Both the EU and the US are parties to the WTO Agreement on Government Procurement (GPA), but the EU argues that the US has not done enough to liberalize state-level public procurement and that American companies and goods are still privileged at the state level. The EU’s chief negotiator reiterated that the current US offer in the area of public procurement was well below the EU’s expectations, and that improvement was needed in order to reach an end deal (European Commission, 2016). Even if the U.S. federal government were to open its procurement market, this would not include contracts issued by the 50 states that count for about 65% of procurement contracts.

American industry representatives have been analysing the impact of TTIP both before and during negotiations and tried to lobby in accordance with their interests. Agriculture was expected to be a main sensitive area particularly since the goal is not just to eliminate tariffs, but also to harmonize the two different regulatory systems. The powerful US farm industry lobbied for a reconsideration of a series of bans, restrictions, and slow approvals on imports of US agricultural products. Steve Censky, chief executive of the American Soybean Association, depicted the position of the industry: “What we’re telling US negotiators and the US Congress is that unless the EU is truly willing to negotiate, no deal is better than a half-baked deal that doesn’t achieve market access” (Financial Times, 2014). American corn and soybean producers questioned the EU’s mandatory labelling of GMO products arguing that “it is nothing less than a scare label for consumers” (Financial Times, 2014), and complained about the long period for the EU to approve imports of certain genetically modified crops (more than 4 years). Chains such as Kentucky Fried Chicken and Pizza Hut asked for the elimination of all customs duties on frozen poultry parts (Sharma, 2014, p. 2). The National Milk Producers Federation and U.S Dairy Export Council would like to see all European variable duties on dairy removed.

The fact that TTIP negotiations took place in parallel to other major trade negotiations (e.g. Trans-Pacific Partnership, EU-Canada Comprehensive Economic and Trade Agreement, The EU-Japan Economic Partnership Agreement, EU-India FTA), has created both learning constraints and opportunities for both sides. Negotiating several agreements simultaneously may constrain the resources available but can also be an opportunity, because it facilitates the flow of ideas from one agreement to the other (Meunier and Morin, 2015, p.205). There have been opinions raised questioning the US’s commitment to the transatlantic relationship arguing that that US participation in the TPP negotiations signifies a “pivot away” from Europe and contending that US policymakers’ focus on TTIP may lessen at least temporarily (Brookings Institution, 2012).

IV. The evidence-based part of the negotiations

A range of impact studies, opinions expressed by top economists or by individual think-tanks assessing the overall effects of the agreement (e.g. Ecorys 2017, Bertelsmann 2016,
Centre for Economic and Policy Research 2015, Cesifo Institute 2013, Centre d’Études Prospectives et d’Informations Internationales 2013, Centre for Economic Policy Research 2013), the manner in which industries will be affected (e.g. IMCO Committee 2015, United States Department of Agriculture 2015, CEPS 2014, Rademaekers et al. 2014), the impact on the agricultural sector (Arita and Beckman, 2015), and what a transatlantic free trade agreement will mean for USA states (The Atlantic Council of the United States, the Bertelsmann Foundation, and the British Embassy in Washington, 2013), and for EU’s members (e.g. The World Trade Institute 2016; Copenhagen Economics 2015, Századvég Institute 2014), have added a further level of engagement to the debate and have also helped to conduct negotiations on an evidence-based path.

A study carried out for the European Commission estimated that TTIP could bring benefits to the US of about €95 billion a year and that total exports would increase 6% in the EU and 8% in the US (Francois, 2013, p. 7). A more recent in-depth quantitative analysis forecasts that it would boost the increase of national income within the EU by 0.3%, and wages by 0.5% for both high and lower-skilled workers. EU exports to the US are expected to increase by 27% and US exports to the EU by 35.7% (Ecorys 2017, p.17). Member state's income levels are expected to increase in all EU countries, with the exception of Malta (-0.3 %). The highest gains accrue to Lithuania (+1.6 %), Ireland (+1.3 %), Belgium (+1.1 %), and Austria (+0.9 %). TTIP is expected to lead to export increases to the US for all EU Member states ranging from +5% in the case of Cyprus to +116% for Slovakia. EU wages for both low-skilled workers (+0.51 %) and high-skilled workers (+0.5%) are expected to increase between 0.03% in Czech Republic and 1.4 % in Ireland. Low-skilled wages in Romania, the Czech Republic and Estonia are expected to decrease marginally (World Trade Institute Report, 2016, p. 11). Aside from tariff reductions, the economic gains are driven by the estimates of Technical Barriers to Trade (TBT) costs for market access and their expected reductions due to TTIP. According to the CEPR study, 25 percent of the TBT costs removed will increase EU GDP by nearly 0.5 percent per year and US GDP by 0.4 percent. Bilateral EU exports to the US would go up by 28 percent and overall EU exports would increase almost by 6 percent.

So far, the large majority of the studies that have analysed the potential effects of TTIP on agriculture highlight potential future losses for European farmers. A study carried out on behalf of the European Parliament came to the conclusion that agricultural value in the EU would fall by 0.5% as a result of TTIP, and would increase by 0.4% across the Atlantic (AgroParisTech & CEPII, 2014). An analysis released by the Hungarian government concluded that “poultry, cattle and pork products are threatened, as well as corn farmers and wine producers” (Századvég Institute, 2014). Studies also estimate that export opportunities created through TTIP would not necessarily translate into higher incomes but that prices paid to EU farmers in every food category will fall (Beckman, et al., 2015).

Well-known supporters of free-trade have spoken out against the two large agreements, TPP and TTIP, adding more confusion to the public perception of the actual effects and stake of the deals. For instance, Jeff Sachs of Columbia University wrote in an article titled “The truth about trade”: “I am a believer in expanded international trade, but I am an opponent of TPP and TTIP. This isn’t a contradiction, but a reflection of two important
realities. First, the proposed treaties are more than trade agreements. They would also establish many important rules of the economy beyond trade, and in fact would give far too much power to large multinational companies, the corporations whose lobbyists have helped to draft the agreements. Second, trade policy should not be crafted in isolation from related budget measures that would ensure the fairness of economic outcomes. Open trade is broadly beneficial only when combined with smart and fair budget policies. Alas, the United States does not yet have in place the fiscal policies that are needed to make new trade agreements broadly beneficial across the society” (Boston Globe, October 17, 2016).

Similarly, the Nobel Prize winning economist Joe Stiglitz stated: “In my recent book Rewriting the Rules of the American Economy, the rules of the game need to be changed again – and this must include measures to tame globalisation. The Trans-Pacific Partnership between the US and 11 Pacific Rim countries, and the Transatlantic Trade and Investment Partnership between the EU and the US – are moves in the wrong direction” (Project Syndicate, Aug 5, 2016). Paul Krugman of Princeton University wrote in his column in The New York Times: “So the elite case for ever-freer trade is largely a scam, which voters probably sense even if they don’t know exactly what form it’s taking. It is fair to say that the case for more trade agreements - including TPP, which hasn’t happened yet - is very, very weak.” (The New York Times, March, 2016).

A 2010 European Centre for International Economic Policy (ECIPE) study suggested that eliminating tariffs would benefit the United States slightly more than the EU, because the EU tariffs assessed on US goods are somewhat higher than those assessed on EU goods in the US market. According to the study, the increased welfare gains from a tariff-only agreement could be of around $3 billion for the EU, and of $4.5 billion for the United States. The study also estimated that the “dynamic” welfare gains from eliminating tariffs would be substantial, taking into account the administrative costs of tariffs that accrue from intra-firm trade, increased productivity, and efficiency due to competition between firms, among other factors (Erixon and Bauer, ECIPE 2010).

In 2013, the Atlantic Council, the Bertelsmann Foundation and the British Embassy in Washington announced findings on the potential benefits of the deal to each of the 50 US states. Based on an ambitious TTIP implementation scenario that assumes a 100% reduction in transatlantic tariffs, a 25% reduction in the costs resulting from nontariff regulatory barriers, and a 50% reduction in procurement barriers, the study estimates that “TTIP could create more than 740,000 jobs across the United States; all states would gain jobs and increase their exports to the EU, with an average increase of 37% per state; all sectors would benefit from increased exports”.

Concluding remarks

TTIP negotiations have raised more than simple, traditional trade liberalization questions and have evolved into a strong political issue with domestic impact and international strategic ramifications. The context under which the agreement was initiated and negotiated was highly unfavourable for both the proposed agenda and its expected
outcome: a rising adversity towards free trade and trade agreements, the negative perceived impact of previous negotiated agreements, and a political approach in line with the civil society expectations. The vociferous opposition in Europe has clearly complicated the faith in TTIP, primarily because economic players have proved to be particularly pro-active in defending their interests and thus raising the stakes for making concessions for American demands. The opposition, however, has come not from the traditionally active trade actors, but mainly from consumer and environmental organizations having concerns about the ambitious behind-the-border measures. Unlike other previous negotiations which have been of greater concern to producers, in the case of the TTIP significantly greater attention came from consumers. One of the reasons might be that Europe's citizens and consumers have proved to have a high level of precaution towards areas of health, data protection and environment and the less strict regulation on the American market. Seen from the American perspective, the negotiations have been hindered heavily by the context of the economic and social consequences of the latest financial crisis, the job loss in the manufacturing sector, as well as the increasing negative societal attitude towards trade and liberalization.

To address these new and sensitive issues of trade negotiations, transparency and consultation of all stakeholders seem to be the right answer. The biggest problem TTIP has faced lies in the negotiators’ and officials’ failure in providing a convincing case for TTIP. An open and evidence-based dialogue, and a greater emphasis on the geostrategic nature of the partnership might rescue TTIP and restore confidence in the deal. Arguments supporting the free trade agreement are beyond the economic benefits both parties expect to register. Strong geopolitical factors bind the two parts to share common goals and approaches. First, given the size of the two parties, an agreement on key trade and investment issues could set the rules at global level; second, considering the failure of the latest Doha Round and the snail pace progress registered in multilateral trade liberalization under the WTO, TTIP can offer the covenanters an alternative to boost economic growth through ‘extended regionalism’; third, a successful deal could limit the rising geopolitical influence of emerging economies such as China, India, and Brazil and of other regional blocks (e.g. ASEAN).

Currently, there seems to be no sensible alternative to this partnership that would translate into similar effects: reducing costs, opening markets, creating jobs and generally increasing trade across the Atlantic. The new US President has not ruled out TTIP, but for a deal to be concluded some issues will have to be dropped, if not excluded, as part of a revised Agenda, as for example the EU’s demand to drop the ‘Buy America’ provisions or reducing tariffs on US agricultural goods.

In July 2018, proclaiming a “new phase” in transatlantic relations, the EU and USA initiated talks on what might seem as a revival of the key points already tackled during TTIP talks. To avoid an escalation of a transatlantic trade war, discussions were open over the timeframe to reduce tariffs and other trade barriers related to industrial goods (other than cars) and to collaborate to support the WTO reform. Despite the fact that the context nowadays differs dramatically from the one under which talks for TTIP were held in a manner that favours more both sides, the former US ambassador to the EU during the Obama administration considers that a transatlantic deal even on industrial goods is likely to be complicated. He states that “eliminating non-tariff barriers was a “fantasy” given the
US had many politically sensitive ones of its own” (Financial Times, July 2018).

From an institutional perspective, the desirable scenario is to build upon the progress that has been achieved so far in all the three negotiating Areas: in the Market Access Area, positions on access for non-agricultural products and rules of origin issues have been settled, positive discussions were achieved also on sectors’ Common Regulations, while in the Rules area some chapters seem close to be concluded (e.g. Small and Medium Enterprises). Still, the available course of action depends on how and if three main obstacles will be overcome: (1) the new Washington Administration’s approach to the matter; (2) the negative ‘brand’ the deal has ‘achieved’ in the EU, and (3) sensitive tariff lines yet to be discussed and significant differences remaining on agricultural market access, governmental procurement and geographical indications. Also, no common ground has been found on the investment area and important topics such as sustainable development, energy and raw materials.

Even though currently talks over the Transatlantic agreement are in the wait-and-see status, the initiation of a comprehensive agreement between the EU and the US might be considered a turning point in the way future liberalization is to be shaped. The short-run trade and economic impact of the collapse of TTIP will not be large, mainly because of its focus on rule-setting rather than tariff-scrapping. Still, it would mean giving up an opportunity that will boost growth and investment, increase competitiveness, and enhance consumer choice that might not soon come back or might lose its impact in time. For both the EU and the US this will mean a retreat from their leadership role in global trade liberalisation.

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Book Review by Laurian Lungu¹

Abstract: The impact of the global financial crisis on the European Union and the New Member States has been the subject of a large body of literature. This review assesses arguments made in Dăianu’s ‘Emerging Europe and the Great Recession’, a book exploring failures leading to the Global Recession. It summarises key themes evoked in the book, namely causes of the global financial crisis and its implications for industry’s entrenched models, democracy and monetary policy; it also considers whether it is possible to redesign the international financial architecture as to minimize the disruptive effects of future crises. Moving on, the review highlights Dăianu’s thinking as being rooted also in his experience as a member of the European Parliament and other official duties; the depth that this provides to his arguments, especially as the book moves towards practical policy considerations. The review draws to a close by focusing on the effects of the crisis on Romania, such as the effects of Romania’s capital account liberalization, before raising the question as to under what terms New Member States should join the Eurozone.

Keywords: Great Recession, Financial Crisis, European Union, USA, Protectionism, Romania

The Great Recession has been the subject of much interest within both the economic profession and the policymaking community. The crisis severely tested some well-established notions, namely that price stability would guarantee macroeconomic stability, or that financial markets can self-equilibrate at a price that society, as a whole, can afford. Moreover, it showed that prudent frameworks focused on individual institutions as stand-alone entities failed dramatically. In his new book “Emerging Europe and the Great Recession”, Daniel Dăianu captures these themes and explores their multi-facet implications in the economy, ranging from economic and social to financial and security.

The book deals with the impact of the financial crisis on the European Union and the New Member States, with a particular emphasis on Romania. It is not a memoir of the financial crisis. Rather, Dăianu gives us a remarkable account of the economic drivers behind it. What makes these interpretations unique is the fact that they are seen, simultaneously, through the lens of a policy-maker, a legislator and an academic. Dăianu’s rich professional

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experience in all these fields helps shape the ideas and arguments presented in the book.

The volume “Emerging Europe and the Great Recession” is a collection of texts, some updated, written in a comprehensively articulated manner, over the last decade. It consists of three sections. The first part, “Society and the Great Recession” comprises six chapters and examines the role of finance in the global economy and its implications for policies, trade and society.

The book opens with a chapter that puts into perspective the limits of openness. A completely open global economy risks facing “recurring major crises” leading, in the end, to “an eventual breakdown and proliferating fragmentation effects”. Preserving the openness while avoiding this undesirable outcome could be achieved either through an increased role of the state in the economy or through the consolidation of common currency trade blocks. Both trends are clearly visible enough nowadays. But, can the international financial architecture be re-designed in such a way as to minimize the disruptive effects of future crises? Dăianu is sceptical of such outcome as own interests of the world’s major players would hamper coordination efforts.

The next three chapters look at the implications that the financial crisis has had on industry’s entrenched models, democracy and monetary policy. Here, the word models should be understood more loosely as describing patterns of behaviour. The examples presented cover a large spectrum, from specific business models employed in the assessment of market risk, such as Value at Risk, to the oversized banking growth model of Cyprus and the necessity to revise the rules of the international financial architecture.

It is widely accepted by now that finance has risen to such a prominence that, prior to the crisis, it dominated the economy, particularly in the US. It did so not just directly, via its growth of often unproductive activities, but also indirectly, via its impact on corporate management and politicians. The outcomes of this are reflected in a reinforced moral hazard, due to repetitive bailout operations of financial entities, soaring inequality, along with various ethical issues. The will of the financial institutions to effectively carry out their respective mandates in consistency with societal expectations is fundamentally questioned by Dăianu. Moreover, as he astutely notes, the “too big to fail syndrome’, unless properly tackled, would maintain a captivity status towards [the giant] financial groups”. These ideas are not new in their own right but, when considered in relation to the broader failures in the financial system, they present new explanations and highlight potentially adverse consequences.

The volume retains the advantage of talking about issues in an accessible way, which translates across disciplines. This is demonstrated in the chapter on resilience and robustness, which is engaging and intellectually stimulating. Dăianu’s remark that “even though we have ever more information and scientific and technological advance never stops, societies do not automatically have superior cognitive capacities and capabilities to respond to shocks and challenges” posits a paradox. But there are potential responses to this. Recursive learning a la Evans and Honkapohja, for instance, is one of them. Dăianu does not specifically make a reference to this concept, but indirectly hints to it by stressing the role of technological advances and by avoiding past policy mistakes.
The first section of the book concludes by introducing the concept of “new protectionism”. The chapter highlights the shortcomings of protectionist policies, which have been resurrected by national policies, not only in the US but also in Europe, in countries such as the UK or France.

Dăianu’s hands-on experience as a member of the European Parliament emerges forcefully throughout the five chapters that form the second part of the book. There is a more tangible unity across the topics addressing the impact of the Great Recession on Europe. The analysis starts with an assessment of the causes that contributed to the emergence of the financial crisis. Eventually, these are funneled down to a common denominator: “a ‘drifted’ financial cycle [which] has, arguably, been at work in the global economy during the past two decades”. There is a brief description of the usual suspects, inter-alia the deregulation of financial markets or loose monetary policies, which have been identified by a plethora of existing research. Later on however, the analysis dwells on aspects that relate to the economic policy dimension. Practical questions are asked, and subsequently answered, referring to the policy coordination for the benefit of common goals or the collective stance of Eurozone members when it came to establishing the banking union.

A recurrent question across various chapters of “Emerging Europe and the Great Recession” is that of how to bring back into balance the financial system. The search for answers of how to regain financial global stability is a central theme of the book. Dăianu advocates “a return to the initial logic of the Bretton Woods”. It is only by controlling capital flows that free trade could support durable economic growth. The need for a revised Bretton Woods system, as a response to the effects of the crisis, has been advocated by many as a viable policy option in drawing up a new world financial and monetary architecture. Without a doubt, there is a need for a new approach to monetary policy and a greater degree of cooperation between currency blocks. While such a task is undoubtedly a complex one, Dăianu attempts to address, at least in part, the issue by putting forward specific principles for a reformed regulatory and supervisory international framework. It is consequently no surprise that the Glass-Steagall legislation takes a centre stage among the advanced proposals.

Dăianu’s deep understanding of the intricate workings of the European Monetary Union is reflected in the chapter that deals with the Euro area crisis. It focuses on the roots of the crisis in the Euro zone and on the subsequent policy options. Reading the chapter gives the feeling of being an “insider” in the complex process of Euro zone policy debates. The key to figure out the multi-level strains prevailing in the European Monetary Union is “structure”. This structure “should be understood in terms of rules, networks, institutional arrangements, and common policies”. With prerogatives on fiscal policy in national hands and rigid labour markets, the existing flaws in institutional and policy arrangements have exacerbated the effects of the crisis. After highlighting the causes of the Euro crisis, Dăianu spells out the EU policy response, from crisis management to measures aimed at increasing competitiveness, spurring up employment and overhauling the regulatory and supervisory structures of the financial system.
The final section of the book consists of three chapters which deal with the effects of the crisis on the new member states with a particular focus on Romania. This section is a blend of past and future and offers a comprehensive view on the policy challenges new member states had been facing during the crisis. The abrupt correction in both external and internal balances has been a salient feature of these economies. Drawing from his vast experience at the National Bank of Romania, Dăianu goes through the list of dilemmas central bankers and policymakers had during the crisis. Some of the policies are now evaluated in retrospect, such as the effects of Romania’s capital account liberalization, prior to the European Union accession, or the challenges brought about by the adoption of inflation targeting. This approach offers useful insights in regards to the timing and the efficacy of those policies.

As it is with all new member states, the assessment of the ‘catching-up’ process takes centre stage. The last chapter of the book looks to the future and raises the question of under what terms new member states should join the Eurozone. Rushing into adopting the euro in the absence of a critical mass of both nominal and real convergence would entail further risks down the road.

Overall, “Emerging Europe and the Great Recession” is a book full of valuable detail and insight. It does an important job of establishing the contours of the discussion on the Great Recession both in Europe and beyond.

About the author of the book:

Daniel Dăianu is Professor of Economics at the National School of Political and Administrative Studies (SNSPA) in Bucharest and a Member of the Romanian Academy. He is a Member of the Board of the National Bank of Romania and was a Member of the EU High Level Group on Own Resources. He is the co-editor of The Crisis of the Eurozone and the Future of Europe (2014) and author of Which Way Goes Capitalism? (2009). His publications also include The Macroeconomics of EU Integration: The Case of Romania (2008); Balkan Reconstruction (2001); Transformation as A Real Process (1998); and Economic Vitality and Viability: A Dual Challenge for European Security (1996), among others. He previously served as First Deputy President of the Financial Supervision Authority (2013-2014), Member of the European Parliament (2007-2009), Finance Minister of Romania (1997-1998), Chief Economist of the National Bank of Romania (1992-1997), and Deputy Minister of Finance (1992).

Book Review by Georgiana Udrea¹

Abstract: The current volume promotes a critical yet constructive approach to European integration by placing current communication practices (including the visibility and media coverage of European issues, public discourse, elites and ordinary citizens’ perceptions of the EU, civic participation, etc.) at the heart of this process. Blending theoretical discussions with empirical research on the hottest EU-topics at the moment, the book draws attention to the constituent role of communication in bridging the widening gap between the EU and its citizens. Although EU communication practices might seem of minor importance at a time when the European project is confronted with what many people call an existential crisis, the editors of this book convincingly argue that there is no other viable way towards a legitimized, functional European project that enjoys the support of its people. In the absence of a European communication arena, the EU’s efforts to institutionalize collective policy solutions, procedures or commitments will remain without echo.

Keywords: EU communication, crisis, media frames and narratives, European integration

Over the course of a decade, the EU has been faced with an entire set of economic, political and social crises that have occasioned deep questions regarding the future directions and, to some extent, the very existence of the European project. Being still far from a satisfactory resolution, all these dramatic events, from the euro and the Greek debt crisis, until the most recent refugee crisis and Brexit, overlap and fuel each other, exerting an overwhelming pressure over an increasingly weakened Union. They create a persistent feeling of uncertainty and powerlessness in as far as both European leaders and common citizens are concerned, while constantly feeding the negative discourse that frames the EU as suffering from a chronic incapacity to deal with its everlasting dramas and their challenging consequences. In a very short amount of time, instead of paving its way towards “an ever closer union”, the EU seems to have rather stepped in “an ever bigger crisis”, a situation that many perceive as a make-or-break issue for the European structure.

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The idea that the European Union is subject to a survival test has also started to emerge in some of the most prominent European leaders’ public statements (Angela Merkel and Jean-Claude Junker make no exception). Their once optimistic or, at least, more cautious EU-related discourse began to reflect current preoccupations regarding “the critical point” the Union has reached and “the existential crisis” it is confronted with nowadays. Indeed, the disintegrating tendencies, the populism and the anti-European views on the rise in several states in Europe or the Euroscepticism (an increasingly familiar story which is often invoked in the defence of the national interest) cannot be disregarded or superficially treated anymore, as they have the ability to seriously hamper the functioning of the Union and its future standing.

In this turbulent and unstable context, the collective volume *Why Europe? Narratives and counter-narratives of European integration*, coordinated by Alina Bârgăoanu, Raluca Buturoiu and Loredana Radu, and published last year by the prestigious Peter Lang Publishing House adds a valuable contribution to a fervent debate on the most recent EU-related topics. The title of the book, timely and suggestively chosen, indicates in the current debate a slight shift from the old question “What kind of Europe/ European Union are we dealing with?” to a new dilemma – “Why Europe?” that, although rarely uttered loudly, sounds even more alarming than the previous one. If the answer to the first question was often outlined in different and circumstantial overtones depending on the crisis at stake (*real* Europe pointing either to the *Eurozone* during the Greek and Euro crisis or to the *Schengen* area during the refugee crisis; and, more recently, to the *export-oriented European countries* led by Germany in the context of the export crisis), the second question almost automatically sends to another neuralgic point: “What unites us as Europeans?”, “What do we (still) have in common after all?”.

In order to reiterate some already acknowledged answers to the latter query, we could, first and foremost, refer to the peace period that has been established seven decades ago as the most valuable asset that all the Europeans share in. But it has become quite obvious that this peace is increasingly threatened by both the internal rifts and the external challenges that the European Union is confronted with on a daily basis. We can also talk about the economic prosperity, and the various political and social benefits resulting from the EU’s membership as important elements in fostering a common European sense of belonging. Still, these advantages have always been unevenly distributed and they continue to create both “winners” and “losers” in integration and Europeanisation processes. Equally, the security (not least economic security) umbrella provided by the EU for a continent-wide trading block is, for sure, essential when it comes to what keeps the Europeans united. However, in times of Brexit and recent migratory waves, is the new Europe that is being shaped by all these sensitive events able to feel at shelter anymore?

Therefore, under these difficult circumstances, another pertinent question to ask is related to the very foundation that helps the Europeans build memories and common representations of what is bridging the gap between Europe and themselves. Put differently, what precisely brings the Europeans together despite all the problems that seem to divide and tear them apart? A possible answer lies, as the editors suggest from the beginning, in the role that communication and the European public sphere could play as viable
solutions for reducing the cleavages between institutions and citizens, for legitimizing and strengthening the Union, and for promoting its policies in order to gain popular support. And, although the issue of EU communication and its shortcomings might appear of a minor importance given the growing feelings of injustice and inequality in the intra-European context, this book offers reliable evidence for the contrary. Hence, one of the broad objectives set forth is the exploration of new theoretical and empirical frameworks that could explain how current communication practices, including the visibility and media coverage of European issues, public discourse, citizens’ perception of the EU and civic participation impact upon the development of a European communication arena. In this respect, using interdisciplinary perspectives and angles, the present volume brings together several contributions from leading professionals and researchers (from both Romania and abroad) with high expertise in the field of political science, sociology, communication and European integration. Its general aim is to promote a critical yet constructive approach to European integration by placing communication at the heart of this process.

The book brings together three main sections. The first one, titled “Media Coverage of the European Union in Turmoil Contexts. Prevailing frames and competing narratives” investigates the media coverage of the current EU-related topics. The chapters in this section are built around the main trends used by the media system to cover the complex European issues, focusing on media frames and narratives associated with the Europeanisation process, media representations of Europe in times of crisis, EU communication practices, and the communication deficit at the EU level, a concept that has long been debated in the dedicated literature.

The second section of the volume, titled “Perceptions of Europe. Are We Blaming the „Victim”?” focuses on people’s understandings and attitudes towards the European Union. The contributions in this section aim at providing a comprehensive perspective on both ordinary citizens and elites’ stances regarding the EU and its future in the context of the severe and multi-layered crises it has been shaken by in the recent past. European identity, public perceptions of the EU and the European integration process, the refugee crisis with its long-term consequences, and the future directions of Europe and the EU are just some of the topics that are thoroughly discussed along the six chapters underpinning this section.

The last part of the present book, suggestively titled “Counter-narratives of European Integration: Populism, Extremism and Euro-denial” brings to the centre of attention new perspectives on populism, a concept that seems to have found its utmost expression in Euroscepticism. The opposing views towards the EU seem to have become more and more rapidly the “space” of expression preferred by extremist actors, a space that expands and enlarges its surface once with every failure of the European institutions in terms of public communication and action. The authors that sign the chapters in this final section raise signals on the traps associated with extremism and populism in the political discourse. Among them, the fact that in order to respond to the increasingly Eurosceptic public opinion many political leaders artificially oppose the national interest to the EU interests might be the most dangerous move.
Overall, the contributions in this volume provide a realistic and well-grounded perspective on the dynamics of EU communication and European integration processes and practices. Beyond the specific research results, the book invites us to reflect on the most suitable strategies for bridging the widening gap between the European Union and its citizens in the current times of tension and vulnerabilities, when the Brexit vote and the immigration crisis are only the most recent challenges that the European community is faced with.

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**Book Review by Tamás Szigetvári**

**Abstract:** This review is about Dóra Győrffy’s book, ‘Trust and crisis management in the European Union’. The book takes an institutional approach to analyse the success and failure of crisis management in eight EU member countries that needed an external financial support to solve their financial difficulties. The book shows us how much trust mattered in these processes, both by the conditionalities implied and the exigencies during the implementation phase. While Ireland is a positive example, where trust in the institutions has accelerated the crisis management process, the case of Greece proves how the lack of trust leads to an austerity spiral. The book compares the experiences of the three Mediterranean (Cyprus, Spain, Portugal) and the three Eastern (Hungary, Romania, Latvia) EU member countries to the Irish and Greek examples, presenting the similarities and differences, and revealing the importance of institutional trust in these crisis management processes.

**Keywords:** European Union, financial crisis, institutional trust

As the previous monographies from Dóra Győrffy (Democracy and Deficits, Akadémiai Kiadó, 2007; Institutional Trust and Economic Policy, CEU Press, 2013), this book also deals with the analyses of financial and monetary processes in the European Union, based on an institutional approach. The major goal of the present volume – published by the prestigious Palgrave Macmillan – is to investigate why crisis management was successful in some of the EU member countries, and what were the reasons of failure in others.

The global financial crisis hit the European Union and its member countries quite seriously, and the management of the crisis needed immense efforts both from the European institutions and the member countries. Eight of the member states had to ask for international financial support: Ireland, Greece, Spain, Portugal, Hungary, Latvia,  

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and Romania. The volume focuses mainly on the experiences of these countries.

In the institutional approach of economics, institutions are ‘rules of the game’ that have an important role in reducing uncertainty in the society. A trust in institutions leads to cooperation which is a necessity on various levels of crisis management. Creditors and borrowers have to agree on the conditionalities of a support program, in the implementation phase governments have to convince both the public on the necessary sacrifices, and also the markets, to be able to come back to normal financing. As Győrffy shows it, lack of trust may lead to austerity spiral: when negotiating a stabilization program, governments with low credibility are likely to face more severe conditions, which will increase public resistance against the policies and thus lower market confidence as well.

The most visible proof on the importance of trust during crisis management comes from the comparison of the case of Greece and Ireland. While the reasons behind the crisis in the two countries are of different nature, neither was immune from a financial crisis, and neither could avoid the pains of adjustment. Trust created a huge difference in the crisis management process, however. Greece has not only suffered from severe structural problems and from an excessive state intervention: it had a negative record of falsifying statistics for years. On the negotiations with the Troika (IMF, EC, ECB) this pre-history has created a deep distrust towards the Greek government, which lead to more strict conditions. In the implementation phase, delays, the lack of confidence towards the ruling parties, protests against the cut of expenditures ended up in consecutive failures to manage the crisis, an austerity spiral, and at the end, to the rise and coming to power of populist movements (who actually have no alternative than to implement the agreements). Ireland, on the other hand, due to its good reputation and strong pre-crisis record, its commitment to market-friendly policies, and its efforts to take decisive steps from the beginning of the crisis to address the emerging problems, could enjoy a more constructive negotiation on support, almost setting the conditions for the program by itself. And trust mattered in the implementation phase as well. In the Irish society and along party lines there was no division about the necessity of austerity measures, which was crucial in the successful implementation of the austerity program and the fast recovery of the country.

The crisis management of the three Mediterranean countries, Cyprus, Portugal, and Spain, can be well compared to the Greek case, due to the similarities in their economic structure and problems. As Euro zone members, with high original indebtedness, and low productivity all of them can be characterized as low trust countries. In a sharp contrast to Greece, however, they were able to avoid austerity spirals and were successful in returning to the financial markets with the help of the support programs. The difference laid not so much by the conditionality of the programs: while Spain got much more lenient conditions due to its constructive approach, Cyprus had to face a similar treatment than Greece, with rather punitive conditionality. On the other hand, there was a strong elite commitment in all of these countries towards the implementation of financial support programs, and major parties were able to survive
the collapse of public trust. As a lesson from these countries, the book underlines, that the crisis and the following management period can be used as an opportunity for implementing reforms, but building public trust and strengthening government capacity is an unavoidable necessity. On the other hand, Euro zone membership had also its obvious drawbacks during crisis management.

Weak institutions and low trust are common characteristics not just of the three Mediterranean countries, but also of the three Eastern European EU members, Hungary, Latvia and Romania. Being outside the Euro zone, these countries had to face the impact of the financial crisis in 2008 already. Low trust and its consequences created similar problems to the aforementioned countries. As Győrffy points on it, the case of Latvia was rather similar to Ireland: in the shared commitment between the elite and the public to neoliberal ideas of the state (as a rejection of Soviet past), Latvia experienced a fast recovery after serious adjustment. Romania’s experiences are rather close to the Mediterranean examples, where capacity constraints were obstacles to a complex reform. Hungary, on the other hand, was a specific case, with similarities to the Irish and Latvian case, but with a fundamental change in political approach and in the functioning of institutions.

Based on the eight country cases, the book also analyses the connections between austerity and growing populism. As it argues – and shows empirical evidences on it – the idea of limited government is a key for both economic success and the avoidance of populist threat, while lacking such commitment by the political elites leads to economic failures and the rise of populists.

Overall, the book gives an excellent analysis of the management of the financial crisis in the EU. By focusing on the importance of trust in economic and political processes, it offers a well-chosen theoretical tool to point at the similarities and differences of each crisis management story. One of the strengths of the book is that it is able to put convincing empirical evidence behind the theoretical approach it follows. The quantitative data both on economic and on political trends, visualized also by well-edited graphs, gives us a comparative overview of the crisis and of its management in these countries, and the detailed analysis also reveals the background of some post-crisis trends in these countries.

About the author of the book:

Dóra Győrffy is Professor of international political economy at the Péter Pázmány Catholic University and the Corvinus University of Budapest, Hungary. She holds a BA in Government from Harvard University, a MA and PhD in International Relations from Central European University and a Doctor of Science degree in Economics from the Hungarian Academy of Sciences. Győrffy’s publications address fiscal consolidation and reforms, European monetary integration and financial crises.
Rien ne se crée sans les hommes. Rien ne dure sans les institutions.

Jean Monnet