

# Social security coordination in Europe with focus on self-employed persons: the quantitative approach

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## Abstract

*The article deals with international coordination of social security in the EU, aiming special focus on self-employed persons. The article outlines an overview of international social security coordination system with its legal sources and presents original research using cluster analysis method based on statistical data compiled by European Commission experts. The presented research is based on a conducted cluster analysis bringing together principal macroeconomic characteristics describing relative size and relative strength of economies, in particular total number of inhabitants, GDP per capita, in internationally comparable purchasing power parity version, and average wage, with quantitative expression of labour migration, represented by short term mobility covered by the European law posting provisions. The research question was formulated towards exploration whether there are some common features in short-term mobility inflows created by independent self-employed persons in the European internal market. The results showed prevailing lack of consistency leading to the fact that the clusters reported by the model were not comparable in size, when two of them embraced nearly all the examined European countries and the other two only few of them.*

*Keywords: social security coordination, migration of self-employed persons, cluster analysis, posting of workers*

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## 1. Introduction

In this paper, the economic and legal phenomenon of social security and its international and European coordination is viewed with focus on migrating self-employed persons. Regarding social policy research and governmental practice,

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there is prevailing emphasis on employees as private persons and recently also economically inactive persons (unemployed job seekers or relatives and family members of workers). In order to bring new insights and to contribute to a more complex picture, we decided to take a closer look to self-employed individuals and their social security claims connected to labour migration within the European internal market.

The structure of this paper is designed as follows: firstly, an introduction into the discussed topic will provide comprehensive overview of important information about international legal regulation and its sources. The second part contains references to recent literature and also judicial solutions focused on interpretation and application of related legal regulation, based on EU legislation and international treaties. In the third part, the used dataset is described and sources of analysed statistical information are indicated.

The research question was formulated according to the available data in this way: to examine whether there are some shared characteristic in self-employed short term movement inflows within the EU which could eventually enable national lawmakers to get inspiration from already existing foreign legal regulation. The practical significance of this research contribution is closely connected to the fact that social security coordination and particular social benefits claims that are solved internationally are indeed an issue that really brings European integration with its theoretical principles into real every day application on existent cases.

European economic integration is connected with coordination of economic policies directed by Member States' governments from the very beginning and now it is realized by the complex European Semester mechanism. Since the entry into force of the Lisbon Treaty in 2009, several very important competences, namely the common trade policy and foreign direct investment, belong exclusively to the EU as an independent subject of international community without any possibility for Member States' individual action. In case of social policy, the situation is somewhat different. The decisive competences rest with Member States and the European Unions' task is limited only to coordinate and support the Member States' effort (to mention the legal fundamentals, this belongs to the shared competences enshrined in Article 4 and Article 151 of the Treaty on the Functioning of the European Union, commonly referred to as TFEU).

We can understand the social policy coordination in several distinct meanings: in a broader sense, as coordination of economic policies relating to

social security and employment, or, alternatively, as coordination and mutual approaching of social security regulation on the level of Member States which led to the establishment of the so called “open method of coordination” and in a narrower sense as coordination of individual claims of migrating persons who exercise their right to free movement within the internal market and therefore cannot get into any worse situation in comparison to people residing and working in one Member State only (Reimann, 2009, p. 134).

Social security coordination in a narrower sense will be further elaborated in this contribution. The system is based on following fundamental principles: the principle of non-discrimination and equal treatment, only one applicable legislation (derived from rules for the determination of applicable legislation, prevailing *lex loci laboris* (i.e. The place of employment where the work is carried out) for economically active persons and habitual residence for inactive ones), aggregation of the insurance, residence or work periods (In other words, totalization of contribution periods. It usually functions in the following manner: an employee is supposed to work for 35 years to obtain retirement pension. Throughout his career, he worked 10 years in one-member state, then he moved for 20 years to another one and finally to a third one when he officially resides when reaching retirement age. He then files an application with social security national administration in the country of residence which is the only competent country to decide about his rights, while this state administration is legally obliged to take into account the periods of retirement pension insurance completed abroad as an equivalent of respective periods insured domestically.); and the provision of benefits in other states, in other words the export of benefits (i.e. the payment of social security benefits to entitled persons residing abroad without any reduction of the claimed amount of allowances.) (Jorens and Van Overmeiren, 2009, p. 48). Moreover, two newer principles can also be mentioned, assimilation of facts and good administration and cooperation. They resulted from aggregated practice and judicial interpretation.

In the European Union, social security cooperation between Member States is based on the method of coordination, which means that Member States are still allowed to conduct independent bilateral relations with third countries outside the EU. As was already mentioned above, there are also some exclusive EU competencies enshrined in Art. 3, Treaty on the Functioning of the EU, in case of which this is not possible and all the Member States’ political effort to influence common European outcomes must be brought only on the field of coordination of shared European external position and into negotiation inside

European organs and institutions (the European Council for the highest strategic priorities shaping and the Council of the European Union for legislation adoption and amendment).

Outside the European Union, bilateral international treaties are the prevailing instrument of social security coordination. As an example, we will take a closer look on the relations between the Czech Republic and Moldova. Both countries have many active migrant citizens heading towards foreign countries to gain professional experience or to develop own private business.

Social security coordination between the Czech Republic and Moldova as two independent states is regulated by bilateral treaty concluded in 2011 that entered into force in 2012. Previously, this sphere was regulated by an older treaty concluded between Czechoslovakia and the Soviet Union in 1959, which lacked the above mentioned modern principles and was terminated in 2009. In the meantime, before the new treaty entered into force, there was no binding international instrument, which was not acceptable in the long run due to the lack of legal protection for Moldovan and Czech migrant workers and certainty about their rights and duties. The most important issue from the long-term point of view are pensions for migrant workers that have spent a considerable part of their professional career abroad.

In connection to concluded bilateral international treaties, the national Moldovan social security laws were amended so as to ensure the possibility to export benefits to foreign countries which was originally not possible. The export of benefits clause brought a significant improvement of migrant workers' social security. They are therefore entitled to get their benefits paid right at the country where they work(ed) and paid respective contributions.

The form and content of the treaty corresponds to the current international standards, to Model provisions for a bilateral social security agreement elaborated by Council of Europe experts and to other new treaties being concluded by the Czech Republic with its partners. The treaty is based on modern methods of coordination system. It covers posting of workers in the manner comparable to EU standards, with maximum duration of posting set as 24 months period and this rule also applies analogically to self-employed persons.

According to its Article 3 which sets its personal scope of application, the treaty is relevant for all persons who are or have been subject to the legislation of one or both contracting states and also for all persons that derive their rights from the above mentioned persons. Consequently, the application of the treaty is independent from citizenship or nationality of the concerned people. This means

that the personal scope is considerably wider and presents stronger international protection for migrating workers, self-employed persons and other related individuals, without insisting on their citizenship as a necessary prerequisite that was used in the past.

According to the recent Czech practice, the treaty itself contains only material coordination regulation while practical procedures and methods of cooperation of responsible national institutions (*Česká správa sociálního zabezpečení* and *Casa Națională de Asigurări Sociale*) are covered by another treaty, called Administrative arrangement, which was negotiated and signed at the same time. At the end of 2012, the Moldovan Parliament adopted important amendments of national labour market legislation that comprised complete removal of quantitative restrictions for foreign economically active migrating persons and brought new trends and intentions of openness towards EU free movement standards (Guzun, 2013).

The European Unions' coordination system applies also to self-employed persons, since 1981 (see Regulation 1390/81 of 12 May 1981), although it originated with sole focus on employed workers. The personal scope of application, this means the spread of activities considerable as a self-employing economic activity, is understood rather broadly by the Court of Justice of the EU (Case C-300/84, *Van Roosmalen*, 1986).

It is proved that small and medium enterprises do not use posted workers from other member states so often as large companies that are better able to deal with administrative costs and to generate added value, savings and economies of scale (De Wispelaere and Pacolet, 2016, p. 460). Therefore, this article is supposed to explore the statistics of self-employed persons, independent entrepreneurs who work on their own – are they ready to expand their activities to other member states? Is it attractive for them to claim benefits from European social security coordination system? According to the collected statistical data, we will estimate whether the number of internationally movable self-employed persons is low or high and whether there are some recognizable trends in shifting the numbers towards the levels usual for employees of large companies. Although it is important to consider the difference between long term movement of workers (employed as well as self-employed) to other countries within and outside Europe on the one hand and their limited time posting on the EU internal market on the other hand, we think that the forthcoming analysis based on accessible data covering posting is still valuable and can contribute to broader insight into the pan-European labour market functioning.

We can conclude this introductory part with statement that social security coordination eliminating negative impacts of labour migration is an essential prerequisite for smooth functioning of internal market inside the European Union and free movement of persons within its frame. Concurrently, the same positive effects apply in the external relations of the EU towards neighbouring countries.

## **2. Literature review**

There is already a big orbit of literature covering international social security coordination. Nevertheless, not many authors are focused on self-employed migrating persons in particular. There is some research gap and that is why this interdisciplinary paper connecting international economic and legal analysis makes sense. In absolute terms, about only 7 per cent of all persons posted to another Member State are self-employed, while the vast majority are employees (De Wispelaere and Pacolet, 2018, p. 10). The biggest share of self-employed persons sent abroad was recorded in the Czech Republic, Slovakia, Italy, Lichtenstein and Iceland, while it was the highest in Switzerland, Sweden and Austria when it comes to receiving (De Wispelaere and Pacolet, 2018, p. 26).

In various research papers, we can find motivated support for the statement that labour migration is economically beneficial in the long term for both sending and receiving countries (Nedelescu, 2015, p. 11). The nature and true meaning of legislation covering legal standing of migrating workers and self-employed people and their rights to social security, represented by the will and intention of the lawmaker at the time of adoption, can be deducted firstly from the recent decisions of the Court of Justice of the European Union, based in Luxembourg. The judgments of this international court that is one of the principal EU bodies, are binding not only for the parties of the respective case, but to a certain extent also generally as they present an authoritative view on interpretation of European law that is to follow in the future when it comes to decide new and similar cases touching the same pieces legislation. The main task of the Court of Justice is to contribute to the uniform interpretation and application of the European norms valid in the same form in all the Member States and their internal legal systems.

In the Court of Justice of the EU's recent case law, we can clearly see a new direction towards a concerted action of the national and European authorities to tackle rising occurrence of fraud and errors in the functioning of the social security coordination systems. For example, concerning the A1 forms that will be discussed later in this contribution, they are issued by an institution of one

Member State that is sending workers to another State. The forms are considered binding and valid unless they are recalled by the issuing institution. This general view was emphasised e.g. in the case called *A-Rosa Flussschiff*, decided in April 2017.

Only a year later, in February 2018, the Court of Justice expressed a slightly modified position in the *Altun e.a.* case. According to its Grand Chamber, there actually is a possibility for the authorities of the receiving state to actively dismiss or limit the scope of application of such a form in case it had been issued by fraud or error. In the latter case, the employees were sent to work to Belgium from Bulgaria and should therefore carry the status of workers insured in Bulgaria. However, the employer as a company did not carry any significant business activity in Bulgaria and the choice of its seat in this country was clearly influenced by fraudulent motives to attain lower financial costs of social security contributions for workers sent to Belgium. The Court of Justice confirmed in this case that the institution that issued the internationally recognizable A1 form is obliged to conduct a re-examination of the situation so that its rightfulness and justiciability could be confirmed. The receiving country should have a competence to bring the issue before its national court that can pronounce the A1 form null and void when it becomes clear that it was based on some fraudulent motivation and concurrently the sending and issuing country did not take required steps of investigation in a reasonable timeframe after being asked for such an action.

There is a lot of papers discussing the interconnectedness between social security coordination norms enshrined in directly applicable regulations and the concept of posted workers that is based on the respective directive - directive 96/71/EC of the European Parliament and of the Council of 16 December 1996 concerning the posting of workers in the framework of the provision of services. This directive was recently revised in 2018. It is important to note that directive is qualitatively different source of law in comparison with regulation (e.g. Fillon, 2016). However, the above-mentioned directive is not applicable to self-employed persons; it deals with employed persons only, so we are not going to deal with the relation to this directive further in this contribution.

### **3. Data and Methodology**

The presented contribution brings a cluster analysis based on statistical data describing macroeconomic characteristic of European countries and short-term professional migration inflows with emphasis on self-employed persons. The

migration was captured by the total numbers of issued A1 forms in 2016 by sending Member States according to numbers collected by the European Commission.

The so-called A1 portable document is issued by a competent authority in a Member State (an office responsible for social security affairs) for purposes of migrating person, in most cases on request of a migrating employed or self-employed person in his or her home country, the country of residence or the country that sends the worker abroad, i. e. the so-called sending state more generally. This document is then brought to the receiving state and its purpose is to confirm the fact that this person has been affiliated to the social security legislation of the sending state and – which is also very important – that the above mentioned person does not have any obligations to pay for social security obligations in another country.

The authors of the statistical report themselves point out that the presented quantitative data can provide only an indicative picture and may not fully reflect the multi-layered reality. Above all, it is not a mandatory legal requirement to apply for A1 form before posting. It means it is allowed to migrate even without this document. However, it is definitely recommendable to take A1 form because of streamlining of all the connected administrative processes (De Wispelaere and Pacolet, 2018, p. 9 and 12).

The procedure of A1 forms being issued in one country and subsequently deposited in another one enables the smooth functioning of posting of employees and self-employed persons enshrined in Art. 12 of the Regulation (EC) No. 883/2004 of the European Parliament and of the Council of 29 April 2004 on the coordination of social security systems. The system of posting brings an advantage for persons migrating for a short period of time – it is set up to 24 months. They can still stay affiliated to the previous social security system in their (mostly) home country, which eliminates additional administrative burden for both employers and employees and prevents people from frequent changes in legal regimes which would mean possible variations in the accessible level of social protection. Originally, the period was limited to 12 months only with one equivalent renewal possible, now it is easier – just 24 months without any renewal. This corresponds to bilateral treaties where the timeframe is similar, up to 2 years, it can be also longer in case the treaty is concluded between two geographically very distant states, e. g. the Czech Republic and Australia, then the posting can last for 5 years.

As the overall macroeconomic situation of a country is concerned, we used internationally comparable aggregates. To measure the size of an economy, it is usual to consider the gross domestic product, expressing the strength and the production capacity, together with the country's population, representing the extent of purchasing power (World Bank, p. 13 and following). The indicator is calculated as the ratio of real GDP to the average population in a specific year. GDP measures the value of total final output of goods and services produced by an economy within a certain period of time. It includes goods and services that have markets (or which could have markets) and products which are produced by general government and non-profit institutions. We therefore included real GDP per capita. In other words, it is a measure of economic activity and is also used as a proxy for the development in a country's material living standards. However, it is a limited measure of economic welfare. For example, neither does GDP include most unpaid household work nor does GDP take account of negative effects of economic activity, like environmental degradation. Finally, we concentrated on GDP values measured through purchasing power parity exchange rates due to their greater potential to take into account the living standards in respective countries and to perform internationally comparable results. (Deaton and Aten, 2015, p.5).

The other statistical numbers regarding the total population of the respective countries and average wage were taken from official EUROSTAT database. While the size of population describes the extent of the labour market in a country, the average wage is important for estimation of the ability of this country to be an attractive target country from a labour migration point of view. In general, countries with high level of remuneration, such as Belgium, Luxembourg, Switzerland, Austria or Germany, attract foreign workers to come, while countries where the wages are relatively low, e.g. Poland, Romania and Bulgaria, send a considerable share of productive workforce abroad. We suppose that this general statement is valid also for short-term posting and also for self-employed persons, migrating for purposes of their independent business.

Unfortunately, we had to leave apart some Member States due to lacking data in the study, such as Denmark, Poland or Norway (member of EEA included into European system of coordination) which leads to some extent to missing complexity of the model and its findings, but nevertheless we hope that the gap is only partial and does not deprive us of the possibility to gain an overall capture of the examined field of posting. We still work with 28 States, adding Iceland and Switzerland to the rest of EU Member States.

In some MS there are many persons active in more than one state, while in others it is not the case. Obviously, we can find many frontier workers in Benelux countries and also in France in areas neighbouring Switzerland. The Czech Republic and the United Kingdom reported relatively high share of self-employed persons in this group (De Wispelaere and Pacolet, 2018, p. 36). As these multi-state active people are concerned, according to the coordination legislation, they are subject to laws of the country of their residence if concurrently they conduct a reasonable part of their activity there, if not, the law of the country where their employer has his official seat. These rules were developed in the Court of Justice of the EU's case-law, in particular case concerning trade representative named *Hackenberg*, decided in 1973. Now, we can read the above described rules in Art. 13 of the Regulation (EC) No. 883/2004 of the European Parliament and of the Council of 29 April 2004 on the coordination of social security systems.

The highest number of A1 forms was issued in the following countries: Poland, Germany, Slovenia, Spain and France, while Poland as only 1 of 28 countries represents a share of 22 per cent of all A1s. (De Wispelaere and Pacolet, 2018, p. 9). We can see that Polish workers were very active abroad even before Polish EU accession in 2004, e.g. in Germany, under the German-Polish bilateral social security coordination treaty concluded in 1975 (Reimann, 2009, p. 135). Poland is also sending many frontier workers to Europe, together with Slovakia, Romania, Estonia, Hungary and also Germany and France, while Luxembourg, Austria and Switzerland receive the largest numbers of incoming frontier workers. Belgium is also strongly involved with sending and receiving slightly less than 100 000 people every year (De Wispelaere and Pacolet, 2016, p. 450).

A significant rise of the absolute numbers of issued A1 form can be confirmed on the base of data reported in recent years. There is increase about 64 per cent between 2010 and 2015, while the number of people economically active in multiple states more than doubled (204 per cent). The group of posted workers according to Art. 12 of the Regulation No. 883/2004 represents about 0,4 per cent of all the employed population. (De Wispelaere and Pacolet, 2016, p. 459). This growing trend can be unanimously confirmed. While 14 examined states constitute net senders (more A1 forms were issued than received), the other 18 countries are net recipients, which we can consider as a balanced distribution. (De Wispelaere and Pacolet, 2018, p. 22).

**Table 1. The dataset**

Member State	Number of inhabitants	GDP	Number of issued A1 forms in 2016	A1 forms in 2016 to self-employed pers.	Self-empl. pers. in 2 MS	Average wage
BE	11351727	35000	69836	3203	5126	26 953,59
BG	7101859	6300	15656	108	125	4 333,93
CZ	10578820	17200	11145	2231	10365	8 940,56
DK	5748769	47100	6508	missing	missing	34 878,05
DE	82521653	35500	231766	16320	2257	28 268,14
EE	1315635	14600	6327	14	51	10 638,42
IE	4784383	56400	3303	251	427	27 905,66
EL	10768193	17400	3941	68	577	15 233,90
ES	46527039	24500	100469	5780	2686	20 844,88
FR	66989083	32500	132012	3	6	26 775,26
HR	4154213	11500	36142	104	107	8 841,63
IT	60589445	26400	106395	15655	656	21 113,61
CY	854802	22700	169	0	40	10464,72
LV	1950116	11600	2446	85	130	6 814,57
LT	2847904	12700	25371	97	7	6 651,85
LU	590667	80300	55364	344	281	38 630,79
HU	9797561	11800	61365	570	156	6 702,39
MT	460297	20800	110	13	9	16 924,35
NL	17081507	40700	28394	1733	7134	34 825,82
AT	8772865	37200	62526	4826	1249	28 524,14
PL	37972964	11800	254926	20772	missing	8 967,20
PT	10309573	17500	62005	273	80	12 400,46
RO	19644350	8300	48710	98	113	5 119,04
SI	2065895	19400	150922	5652	348	12 062,45
SK	5435343	15000	89649	33362	1130	8 200,88
FI	5503297	35900	3707	246	59	29 980,90
SE	9995153	42800	3651	189	232	33 919,60
UK	65808573	32200	33647	5131	3823	37 995,26
IS	338349	38500	126	52	8	36 065,51
LI	37810	missing	65	12	missing	
NO	5258317	69100	missing	missing	missing	44 161,07
CH	8419550	58500	11727	943	671	69 870,20

*Source: elaborated by the author mostly on the base of De Wispelaere, F. and Pacolet, J. (2018) and other sources referred to in the text.*

The method of this paper is based on a cluster analysis. Cluster analysis is a modern method of applying statistical software to multivariate data processing that enables us to discover similarities among multiple explored units. In this paper, we used non-hierarchical, K-clustering which divides the complete set of objects into a certain number of clusters. (Řezanková, 2014, p. 78). To say it simply, the outcome of the cluster analysis is represented by clusters – groups of objects that share close and similar characteristic with concurrent significant differences from other clusters. In other words, the differences inside one cluster are quantitatively closer than the differences between objects being sorted to different clusters. Cluster analysis has notable potential for economic analysis of taxation, tax systems and their international comparison (Rybová, 2015, p. 66). This is the reason why we can use it also for social security matters, which are closely interrelated with income taxation.

#### **4. The Model and Findings**

We assume that higher numbers of A1 issued forms belong to prevailing sending Member States, this means lower wage and less attractive labour market. On the other hand, when the foreign worker or self-employed person leaves host country and returns home or continues to another foreign country for reasons of further career development, he or she is also equipped with an A1 form. Therefore, we must generally assume that both sending and receiving states perform high number of A1 issued forms.

We conducted cluster analysis with suitable statistical software. The task was to range all the elaborated States in clusters that encompass countries with shared characteristic showed by close values of the examined quantitative data. This helped us to answer the aforementioned research question whether European countries do have some degree of economic convergence and whether harmonization of certain legal regulation has contributed to the similarities in working and entrepreneurship conditions. An affirmative answer would be signified by clusters with comparably similar size and quantitative values for respective countries.

The outcome of our model is explained in the following text, table and figure: The numbers of Member States that were ranged to particular clusters greatly vary. While in the first and third cluster, there are 13 and 10 countries, which represent an overwhelming majority, there are only 2 and 3 countries out of 28 in the remaining two groups. Although in general, we could suppose the

strongest inflow of workers and self-employed persons from low-wage countries to high-wage ones, this in fact represents only about one third of overall posting.

**Table 2. The outcomes of the cluster analysis**

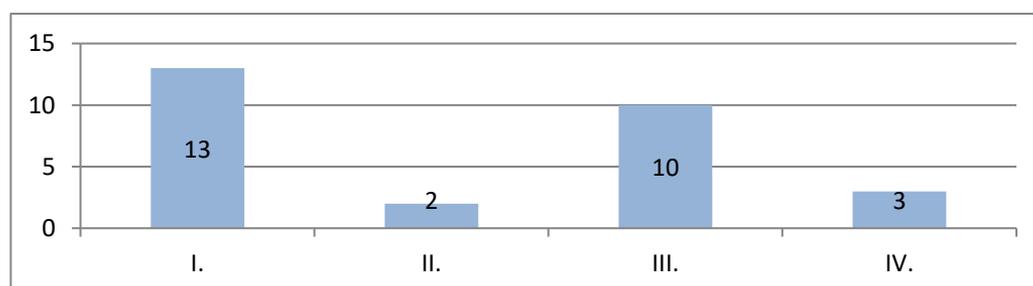
Variables	Cluster			
	I.	II.	III.	IV.
Average wage	16 731,69	20 978,50	24 248,80	31 012,67
Self-employed persons active in 2 states	209,38	1 671	2 570,30	2 028,67
A1 forms in 2016 to self-employed persons	3 102,15	10 717,50	1 413,40	7 151,33
Number of issued A1 forms in 2016	29 945,54	103 432	36 330	132 475
GDP	26 592,31	25 450	28 640	33 400
Number of inhabitants	2 877 135,38	53 558 242	11 671 929,90	71 773 103
Number of countries	<b>13</b>	<b>2</b>	<b>10</b>	<b>3</b>

Source: elaborated by the author mostly on the base of De Wispelaere, F. and Pacolet, J. (2018) and other sources referred to in the text.

The movement of workers and also self-employed professionals is also very intensive between high income rich economies only (with 38% share). Nevertheless, the vast majority of all posted persons (85%) were received by high income counties, members of the former EU-15.

In our model, we identified great regional disparities inside the EU and the European Economic Area. We can conclude that there is a significant lack of overall economic convergence, at least as is it traceable from the single labour market internal migration and self-employment posting point of view. In the Table 2, we can see the exact values of cluster centres that were identified by our model.

**Figure 1. The distribution of the clusters**



Source: elaborated by the author mostly on the base of De Wispelaere, F. and Pacolet, J. (2018) and other sources referred to in the text.

## 5. Conclusions

The analysis showed apparent disproportions in the explored characteristic among European states. While some EU Member States recorded high number of the respective variables, the others showed low values. Moreover, the disproportion is showed strongly by this simple conducted model because two of the clusters embraced the majority of reported Member States and the other two counted some two or three countries only. The results proved lack of economic convergence among EU Member States as it is shown through social security coordination of posted workers and self-employed persons.

On the basis of the aforementioned analysis, we can formulate the following conclusion: the model showed that it is really difficult to set a comprehensive and comparable set of economic characteristic touching the social security coordination that would be capable of being shared across Europe. If we try to do so such as in the above presented research the outcome is rather partial and discrepant. Further work seems to be in front of us in order to get a holistic view of European labour market and the migration of self-employed independent persons. More research is definitely needed in order to apprehend complexly the effects of migration of both employed and self-employed active professionals.

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# Rebuilding Fortress Europe, Building Fortress USA: From Discursive to Physical Boundaries against Refugees on a Global Level

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## Abstract

*It is difficult to properly emphasize the increase in xenophobia on a global level, from discourse to appropriate policies. Though Donald Trump's "wall" has become a world-known feature, fences have been built in numerous places within Europe as well. Xenophobic discourses are increasingly used as a means for gaining electoral support, after which "adequate" policies are being introduced. From the "immigrant" or "guest worker" to the "refugee" or "asylum seeker", these people have been shunned on an institutional and media level, invisible in their plight for decades, oftentimes painted as criminals. With the resurgence of xenophobia, their visibility increased only to be put in a negative spotlight, as scapegoats instead of victims. This article deals with the discursive construction of the Enemy from the refugee in the Middle East from the methodological standpoint of Critical Discourse Analysis, as well as how this exclusionary, discriminative discourse in turn creates xenophobic policies on a global scale.*

*Key words: xenophobia, borders, walls, refugees, discourse, policy, media*

## 1. Introduction

On 17 April 2015, Katie Hopkins wrote the following, in an article in *the Sun*: "No, I don't care. Show me pictures of coffins, show me bodies floating in water, play violins and show me skinny people looking sad. I still don't care. Because in the next minute you'll show me pictures of aggressive young men at Calais, spreading like norovirus on a cruise ship" (Hopkins, 2015). The article's very title, furthermore, was *Rescue boats? I'd use gunships to stop migrants*, and it is safe to say that it represents an avid example of extreme xenophobic discourse that has been growing in intensity and frequency since the outbreak of

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the refugee arrivals from the Middle East, one in which the “solution” to a solipsistic problem was inciting of violence and coaxing into murder. The article was removed after a public outcry, but the damage has been done. It was official that incitement of violence and murder of refugees could enter public discourse via the media. Yet, discourse itself is not promulgated without a reason. When Viktor Orban spoke repeatedly about an “illiberal nation state” (Shekovtsov, 2015) by playing to xenophobic sentiments, it was with a clear goal to *create an illiberal nation state*, which Hungary nowadays is. When it comes to Hopkins, “tellingly, she summed up her call for European governments to take a more violent approach to refugees” (Iltis, 2015, p. 16), which is, in essence, what happened on a *policy level* both in Europe and the United States. As Kern wrote already in 2015, “faced with an avalanche of migrants, a growing number of EU member states have moved decisively to put their own national interests above notions of EU solidarity” (Kern, 2015). *Discourse can be defined, at the level of politics, as an introductory instance in the creation of public policy*. Politicians, as well as those who support them, from journalists to public figures, promulgate specific discourses in order to promote the policies and practices they tend to enact. In the words of Wodak and Reisigl, “through discourse, discriminatory exclusionary practices are prepared, promulgated and legitimated” (Wodak & Reisigl, 1999, pp. 175-176).

The rise of xenophobia in Europe – both in discourse and following policy – is nowadays directly related to the arrival of refugees from the Middle East and the ongoing conflict. However, we have to emphasize that this is not entirely novel, as scholars have noted even three decades ago, that “one of the most serious social problems in Western Europe is the growing racism or ethnicism against immigrants from Mediterranean countries and former colonies” (T A van Dijk, 1989, p. 199). With xenophobic sentiments already having taken root, the refugee crisis served only to exacerbate them, so that nowadays we are witnesses to what Thomas called the “institutionalization of xenophobia in Europe” (Thomas, 2009, p. 1), as from discourse, xenophobia has been “upgraded” to policy, much in the vein of Schmidt’s Discursive Institutionalism (Schmidt, 2008). With the election of Donald Trump as the 45<sup>th</sup> president of the United States of America, the same could be said about the States. The “increased border control” at international airports in the USA has resulted in numerous discriminatory measures, from people being kept at the airport for undefined amounts of time (even citizens) and mistreated, resulting in severe emotional

distress (in “lighter” cases), to even people not being allowed to come to the country in order to perform medical procedures or unite with their families.

The issue at hand has oft been called “Fortress Europe”, even within scholarly production (Bendel, 2005; Geddes, 2003; Geddes & Taylor, 2015; Lutz, 1997; Mandel, 1994; Van Avermaet, 2009), as *entering* Europe has proven to get increasingly difficult over the decades, especially asylum seekers and refugees, due to the ever-increasing discriminatory policies and practices, promulgated by their propagators via xenophobic discourse. In other words, allegations of establishing a fortress Europe to the disadvantage of the third and developing world, refugees, asylum seekers, the poor and finally with detrimental effects for the very basic values of open and democratic societies based on the rule of law and respect for human rights, have been voiced since the eighties when the first signs of a common European Union immigration policy became visible (Albrecht, 2002, p. 1).

With the infamous “wall” that is supposed to be built on the border between the USA and Mexico, as well as the “Muslim ban” and increased “security measures” on border controls within the USA, we might as well talk about “Fortress USA” nowadays, as entering the country is becoming increasingly difficult, even for its citizens. *Boundaries and borders* have become a grim reality, as the “expanding immigrant numbers have gone hand in hand, both with a restriction on immigrants’ rights and with a growing divergence between demography and democracy” (Waldinger, 2008, p. 308).

When it comes to the study of borders, “borders are now pre-dominantly critically investigated as differentiators of socially constructed mindscapes and meaning” (Van Houtum, 2005, p. 673), following the pioneering work of Julian Minghi, who elaborated how “the study of international boundaries in political geography, however, must also take the view that boundaries, as political dividers, separate peoples of different nationalities and, therefore, presumably of different iconographic makeup” (Minghi, 1963, p. 428). Having in mind the emphasis on one’s nationality, i.e. the *passport* that is used in the crossing of borders, this phenomenon has also been dubbed “passportism”, defined as the “speech, policy or act of a discriminative nature, in which an individual or a group of individuals are discriminated against on the basis of their citizenship, i.e. passport” (Jovanović, 2015). Having in mind the *physical* boundaries that have been set via xenophobic discourses and policies, though, we shall concentrate here on the physical boundaries and prohibition that have been set as policies in Europe and the USA, via deconstructing the discourse that has led to their

formation, having in mind that Houtum's "socially constructed mindscapes and meaning" have *led* to the construction of *physical* boundaries. Never have Minghi's words rung truer: boundaries "are perhaps the most palpable political geographic phenomena" (Minghi, 1963, p. 407) nowadays. They are increasingly being promoted by media discourse, which is what we shall tackle through the prism of Critical Discourse Analysis, which is, according to Wodak and Meyer, "not interested in investigating a linguistic unit per se but in studying social phenomena" (Wodak & Meyer, 2009, p. 2).

## 2. Methodology and data

Before border/boundary policies were established, a steadfast xenophobic discourse *promoting* it was set in motion via the media, as "such discourses affect both the level of society and the institutional level" (Rubio-Carbonero & Zapata-Barrero, 2017, p. 204). In a recent article by Carta and Wodak, the connection of discourse and politics was further stressed, noting that "Discourse analysis can be of great use in illuminating the way in which social discursive practices convey meaning to foreign policy discourses, through both contestation and communicative action" (Carta & Wodak, 2015, p. 3). This is why a critical approach to discourse per se is needed to gauge the levels of xenophobia that has introduced the building of walls and fences, as it puts an "emphasis on the role of language in mediating and constructing social reality" (Checkel, 2007, p. 58). Having in mind that xenophobia has been used in order to strengthen political positions of those who partake in it, to establish dominance and introduce discriminative practices, a discourse analytical perspective imposes itself, as

CDA might thus be defined as being fundamentally interested in analyzing opaque as well as transparent structural relationships of dominance, discrimination, power and control when these are manifested in language. In other words, CDA aims to investigate critically social inequality as it is expressed, constituted, legitimized, and so on, by language use (or in discourse) (Wodak, 2006a, p. 4).

This is all often achieved by manipulation that often takes form of media articles, also defined as "illegitimate domination confirming social inequality ... Discursively, manipulation generally involves the usual forms and formats of ideological discourse, such as emphasizing Our good things, and emphasizing Their bad things" (T. A. van Dijk, 2006). Manipulation, hegemony, promotion of social inequality, relations of (desired) dominance and power are all an integral part of today's xenophobic discourses. The select corpus of xenophobic text used

for analysis in this article is global; the texts were selected from media sources that have been known to contribute to the discursive promotion and spread of xenophobia within Europe and the USA, such as the *Daily Mail* (UK) and *Breitbart* (USA) on a more global level, to local newspapers and portals, such as *Avpixlat* (Sweden), *Uued Uudised* (Estonia), *Kurir* (Serbia), *Parlamentny Listy* (Czech Republic), *The Hill* (USA), *Hlavne spravy* (Slovakia), *Topky.sk* (Slovakia), *Nasz Dziennik* (Poland), *Wiadomosci* (Poland). The corpus was selected based on its content, to be more precise, based on whether the following four topics were present:

(1) [O] otherizing (meaning whether the article presents refugees/immigrants as an outgroup, in an Us vs Them dichotomy),

(2) [C] criminality (if the discourse recipients are presented as proven or potential criminals),

(3) [PEB] political elite blaming (in cases where the rhetoric pegs the blame for immigration onto the political elite),

(4) [AI] anti-islamism (in cases in which Islam is presented in a negative light) and

(5) [NFP] the rhetoric of a need of protection against refugees.

The sources were looked for based on a Google engine search with keywords in adequate languages such as “(im)migrants”, “(im)migration”, and “refugees”, coupled with search queries containing known xenophobic sources within the contemporary media landscape, ending up in 22 representative articles from 9 countries, as “the corpus size is more manageable and the sub-corpora more comparable when focusing on a topic and partly on essentiality” (Hansen, 2016, p. 118). (Table 1)

As seen in the table 1, alleged *criminality*, together with a proposed need for protection figure as the most typical trope by which xenophobic discourse is propagated. In a significantly large portion of the representative corpus, refugees and immigrants are presented as criminal – accused of rape, violence, bureaucratic fraud and murder, as well as a *homo sacer*-like instance, being illegal (thus, criminal) themselves. Being discursively framed as criminal, it is of small wonder that the same rhetoric stresses a ‘need of protection’ against such “criminals” that embodies itself in corresponding policies.

Within the corpus of text, we then looked at how the immigrants and refugees were conceptualized and framed within representative articles, taking a more detailed discursive look into the most prominent methods of propagating a xenophobic sentiment within select articles.

**Table 1. Sources and topics present**

Nr	Source	Country	Title	S/C	O	C	PEB	AI	NFP
1	The Daily Mail	UK	Rescue boats? I'd use gunships to stop migrants	NA/NA	Y	Y	N	N	Y
2	The Daily Mail	UK	TWENTY MILLION African migrants heading for Europe: European parliament president warns that a huge number will arrive in the 'next few years' unless action is taken	11,000/150	N	Y	Y	N	N
3	Breitbart	USA	Marine Le Pen: Islamism Has Declared War On Our Nation, On Reason, On Civilisation	53/2636	Y	Y	Y	Y	Y
4	Breitbart	USA	Guardian Sob Story on Deportation of Illegal Alien Ignores Law	0/67	N	Y	N	N	N
5	Breitbart	USA	EU president predicts 30 million more migrants will come Europe	3/265					
6	Kurir	Serbia	EKSKLUZIVNO! ISPOVEST MAJKE IZ OBRENOVCA: Migranti hteli da mi otmu dete koje sam čekala 10 godina!	NA/44	N	Y	N	N	Y
7	Uued Udised	Estonia	<i>Orban: EL hävitab Euroopa veel enne Ungari referendumit kohustusliku põgenikevootide üle</i>	0/NA	Y	N	Y	Y	Y
8	Uued Udised	Estonia	<i>Sinine Äratus õnnitleb britte iseseisvuspäeva puhul</i>	NA/	N	N	Y	N	Y
9	The Hill	USA	The truth about crime, illegal immigrants and sanctuary cities	405/184	Y	Y	Y	N	Y
10	Avpixlat	Sweden	Flyttade hem till Irak – fortsatte fuska till sig bidrag från svenska skattebetalare	NA/512	N	Y	N	N	N
11	Avpixlat	Sweden	Många migranter registrerar olika personuppgifter hos olika myndigheter	NA/414	Y	Y	N	N	N
12	Parlamentny listy	Czech Republic	Rozvorat (SPD): Němci utíkají před arabskými a africkými islámskými imigranty z vlastní země	NA/NA	N	Y	Y	N	Y
13	Parlamentny listy	Czech Republic	Děti a dívky jsou muslimskými přistěhovalci napadány i znásilňovány a policie to tají.	2,100	Y	Y	Y	Y	Y

		ubli c	Není tu bezpečno a nedá se zde žít. Lidé emigrují. Čech žijící ve Švédsku podává otřesné svědectví	Lik es					
14	Topky.sk	Slo vaki a	Kriminalita migrantov rastie!	Na/ 43	N	Y	N	N	Y
15	Hlavné správy	Slo vaki a	Realita o Švédsku: Krajina prestáva zvládať migráciu, narastá kriminalita aj strach miestnych obyvateľov	140 Lik es	N	Y	Y	N	Y
16	Nasz Dziennik	Pol and	Imigracja czy inwazja?	NA/ NA	Y	N	N	Y	N
17	Wiadom osci	Pol and	"Nasz Dziennik": mieszkańcy Bawarii obawiają się kolejnej fali uchodźców	NA/ 152	N	Y	Y	N	Y
18	Obris.org	Cro atia	Hoće li Zapad biti preplavljen migrantima?	NA/ NA	Y	Y	N	N	Y
19	Dnevno. hr	Cro atia	PROBLEMI U RAJU - STRAVIČNO: Što su imigranti napravili od Švedske? Za 30 godina etnički Švedani postaju manjina!	NA/ NA	Y	Y	N	Y	Y
20	Trend.sk	Slo vaki a	Číslo sú neúprosné: S počtom migrantov narastá aj kriminalita	NA/ 32	N	Y	N	Y	Y
21	Parlame ntny Listy	Cze ch Rep ubli c	Takový bordel. Katastrofa. Médneříkají pravdu, říká český krajai Bavorsku, kam odešel v roce 19	NA	Y	Y	Y	N	N
22	Svět kolem nas	Cze ch Rep ubli c	A sakra! Tak už jsou i v Praze. Tofotky dokazují, že nám Sobotka a nejspíš lžou	1.30 0 Lik es	Y	Y	N	N	Y
Legend	EN-example number S/C-shares and comments O-otherizing 9 C-criminality 15 PEB-political elite blaming 9 AI-anti-Islamism 5 NFP-need for protection 13 Examples listed within the analysis based on the table numbering as E1, E2...E21.								

We have concentrated on xenophobic textual production within the media; it would be wise to stress at this point that xenophobic rhetoric are promulgated via politicians and political players as well in speeches and public addressing (more often than not *via* the media that lean towards or fully support xenophobic

rhetoric), yet due to the constraints of a standardized research article, we have concentrated on a corpus of *media* texts, as “mass media and the apparatus of reaching out to collective minds gain a central role in proliferating, topicalizing, de-topicalizing and creating *knowings* and/or beliefs” (Khosravini, 2009, p. 478). In other words, the media possess a “nearly exclusive control over the symbolic resources needed to manufacture popular consent, especially in the domain of ethnic relations” (Teun A Van Dijk, 1991, pp. 42-43). We have thus concentrated our analysis on those media texts that promote xenophobia themselves, setting party programs and discursive presentations of policies aside as source material, as they appear more often than not precisely *within* the media that support them.

### 3. Select case-to-case analysis

The mass media are “capable of providing frames of reference or perspective within which people become able to make sense of events and of their experience” (Hartmann & Husband, 1974, p. 16). It is thus important to see in what manner are these frames created, positioned and promulgated via media discourse. The current discursive production within the mediasphere has been increasing drastically, especially during the last several years, and thus, having in mind that “political discourse is constructed interactively, over time and across interlocutors” (Ana, 1999, p. 195), it has reached levels of high salience. We have selected several case-in-point examples from the abovelisted corpus of text for more detailed analysis.

A telling example of not only xenophobic discourse, but their memetic spread as well, comes from the news production that ensued after Antonio Tajani, a former associate of Silvio Berlusconi, “warned” about “millions” of asylum seekers that might be arriving from Africa (ANSA, 2017). These “millions” (a probable exaggeration in itself) became “20 million” (E2) in the version carried over by the Daily Mail (Hargeaves, 2017), increasing to “thirty million” in the Breitbart news piece (E5) that followed suite (Tomlinson, 2017). Exaggeration has been tackled by scholarship (Colston & Keller, 1998; Thurlow, 2006), as it is a common constitutive instance of daily discourse (Kreuz, Kassler, & Coppenrath, 1998), let alone xenophobic. The hyperbole is thus used often in xenophobic rhetoric, for it can “create contrasts between expected and ensuing events” (Colston & O'Brien, 2000, p. 179), as it “present[s] a contrast between the semantic or ‘utterance meaning’ ... and the referent situation that is not presented by the literal comments” (Colston & O'Brien, 2000, p. 180). Having in

mind the counterfactual nature of the xenophobic hyperbole (i.e. 30 million people will *not* be arriving), this contrast is necessary in order to create an alternate reality in which immigration is an issue to be “worried” about, nowadays increasingly referred to as “alternative facts”, after Kellyanne Conway’s now iconic interview. There is yet another issue in the discursive development of the story, as Tajani initially spoke about “asylum seekers”, which got changed in the Daily Mail and Breitbart rhetoric to “immigrants”. The switch between lexical choices was important, as it diminishes the necessity of help that should be provided to asylum seekers, as contrasted to migrants, a designation used for a person who migrate on their own free will. Thus, such a discursive turn accomplishes moral distancing from those who are in need of assistance.

Another example comes from Serbia. In February 2017, an article was published by the tabloid *Kurir* (E6), claiming that a group of “migrants” assaulted a mother, trying to kidnap her child that she has “been expecting for ten years”. The snippet was widely shared and sparked a state-wide xenophobic panic. The headline was half-written in capital letters, saying “EXCLUSIVE! CONFESSION OF A MOTHER FROM OBRENOVAC: Migrants wanted to kidnap my child that I have been expecting for 10 years!” (Rafailović, 2017), as “it is headlines that bear the brunt of sensationalizing the news” (Molek-Kozakowska, 2013, p. 175), where further stress is accomplished by the use of capital letters and the exclamation mark. On the same day, nevertheless, the actual story was published, as it turned out that the woman in question was walking with a stroller and several of her male friends, who attacked a group of refugees (TELEGRAF, 2017). In other words, the victims were initially presented as attackers, and vice versa.

This is where one of the key issues in xenophobic discourse needs to be tackled – the so-called “fake news” phenomenon, an extremely salient issue that on the day of the writing of this article has 154 million hits on Google. Surprisingly seldom tackled in scholarship, the fake news phenomenon is almost exclusively dealt with in the sense of satirical, parody-news in the vein of the Onion News, the Daily Show or the Daily Mash (Balmas, 2014; Holt, 2009; Marchi, 2012). Yet in public and media discourse, the denotation of the “fake news” phrase has long since expanded, as strictly speaking, fake news is completely made up and designed to deceive readers to maximize traffic and profit. But the definition is often expanded to include websites that circulate distorted, decontextualized or dubious information through – for example – click

baiting headlines that don't reflect the facts of the story, or undeclared bias (Hunt, 2016).

We thus need to expand the definition of fake news to include *non-parodical, deceptive, counter-factual information pieces based on lack of context and corroboration, commonly declarative and biased in nature, often with a strict aim of misinforming, manipulating and misleading the reader*, or the “three Ms of fake news”. This type of “news” is used excessively in xenophobic discursive production. *Manipulation*, a key feature of such discourse, is defined as a “crucial notion in discourse analysis” (T. A. van Dijk, 2006, p. 359), of which “a well-known example is governmental and/or media discourse about immigration and immigrants, so that ordinary citizens blame the bad state of the economy, such as unemployment, on immigrants and not on government policies” (T. A. van Dijk, 2006, p. 361). Thus, xenophobic fake news will concentrate on manipulating the recipient by either falsely representing RASIM (Refugees, Asylum seekers and Immigrants) groups (such as the claim that “thirty million” will be arriving, or that they kidnap children), or simply engaging in complete counterfactual discourse by, for lack of other words, inventing narratives in order to deceive. The communicative strategy of *deception* is key to understanding this phenomenon, as it is “a type of manipulation” (Galasinski, 2000, p. 21), drawing on Puzyinina's definition of deception as an action of influencing the recipient in such a manner as to attain the goals of the manipulator, somewhat in line with Ng's and Bradac's definition that concentrates on the deceiver/manipulator providing inaccurate information (Ng & Bradac, 1993). The fake news phenomenon needs to be tackled in much more detail, but due to the constricting limit of standardized research articles, we shall have to omit a more detailed analysis at this point.

This *modus operandi* is successful due to the fact that “people make strategic inferences from these kinds of discourse, build mental models of ethnic situations and generalize these to general negative attitude schemata or prejudices that embody the basic opinions about relevant minority groups” (T A van Dijk, 1989, p. 203), as every new news snippet serves to strengthen the abovementioned negative attitude.

Another common discursive feature is the attempt to represent immigrants as perpetrators of crimes and contributors to an increasing crime rate. An article written by Ron Martinelli for *the Hill* (E9) claimed that “illegal immigrants clearly commit a level of violent and drug related crimes disproportionate to their population” (Martinelli, 2017), stating as well that “a population of just over 3.5

percent residing in the U.S. unlawfully committed 22 percent to 37 percent of all murders in the nation”, even though the sources used cannot be corroborated. Martinelli also wrote how “the pro-illegal immigrant lobby consistently misrepresents the criminal involvement of illegal ... saying that illegal immigrants commit less crimes than their counterparts. This assertion is false in most cases”. However, statistics and research claim otherwise, as immigrants are less likely to commit serious crimes or be behind bars than the native-born, and high rates of immigration are associated with lower rates of violent crime and property crime. This holds true for both legal immigrants and the unauthorized, regardless of their country of origin or level of education ... For this reason, harsh immigration policies are not effective in fighting crime (Ewing, Martínez, & Rumbaut, 2015, p. 1).

The (mis)use of statistics is yet another instance tackled by discourse analysts, as “numbers can conjure any meaning out of scant evidence” (Poovey, 1993), so they are often used by xenophobes in their rhetoric (Khosravinik, 2010). Martinelli’s article is loaded with numbers; from paragraph to paragraph, “statistics” are given to overwhelm the reader, who will seldom verify the accuracy of the given data. In this sense, “the news media do not passively describe or record news events in the world, but actively (re-)construct them, mostly on the basis of many types of source discourses. Corporate interests, news values, institutional routines, professional ideologies and news schema formats play an important role in this transformation” (T A van Dijk, 1989, p. 203). This reconstruction can be perpetrated not only by hate-filled text, but by numbers and statistics as well.

Yet more relevant sources come from the Czech Republic, in which, even though “Muslims are a tiny, fragmented minority ... between just 10,000 and 20,000 in this country of more than 10 million”, they have been “forced into the media spotlight, getting an unprecedented amount of attention as the subject of viral, fake stories” (Colborne, 2017), putting “fake stories”, i.e. fake news in the spotlight again. The leading xenophobic portal in the Czech Republic is *Parlamentny Listy*, where stories about “Germans running away from their native lands” (E12) due to refugees are often published. An article by Radek Rozvoral thus praises Viktor Orban for ignoring Brussels’ dictate and goes around with his own protective politics based on rigid surveillance of Hungarian state borders. He does it well, since it is the only way in which one can put a halt to the invasion and sacking of the country by illegal Muslim immigrants (Parlamentnylisty, 2017b).

Refugees are dubbed “migrants” or “immigrants” within the article, and presented as “invading”. Another article from the same site presents “immigrants” in Sweden as “attacking, beating and raping women” (E13), which is “forcing Swedes to emigrate” (Parlamentnylisty, 2017a). A running theme is the depiction of immigrants *outside* of the Czech Republic, since, as it was already shown, there is a negligible amount of either Muslims or immigrants (that are rhetorically equated within the discourse) in the country. What van Dijk wrote about xenophobia from over half a century ago is rather appropriate to the abovementioned situation as well, as these negative attitudes, however, were not simply spontaneous reactions of the White population at large, nor merely caused by the economic recession of the 1970s. After all, most people never had any direct contacts with minority group members, nor were they threatened by them in employment, housing, or other social domains. (T A van Dijk, 1989, p. 200).

Due to the lack of scapegoats, in other words, they needed to be introduced externally and discursively. Additionally, as mentioned in the paragraphs above, the rhetorical equation of Muslims with immigrants – the discursive “Other” – is a running topos for the Czech case (as well as many others). This type of semantic equation mentioned above was already noticed by Wodak, who wrote about an ‘interesting semantic process to be observed nowadays: the conflation of two distinct concepts, namely “(im)migrant” and “asylum-seeker”. In debates across the European Union, these two concepts are mixed up‘ (Wodak, 2006b, p. 186). In the meantime, the semantic conjoining has expanded to include migrants (immigrants), refugees, asylum-seekers as well as Muslims in some spoken and textual production, an example of which is given in the lines above. All of these should be feared; the portal *Svět kolem nas* (E22) wrote that people in the Czech Republic should

arm themselves, it is a clear gesture of courage and determination to defend yourselves! Get a weapon permit and an adequate weapon. I want to appeal first of all to our ladies. Look at what is happening in Germany, Sweden, and other places. You and your child will be the first victims of immigrant violence and terror ... a gun or a pistol seems to me as an adequate weapon ... a shotgun should be enough for home (Svět kolem nas, 2016).

Van Dijk wrote in 1989 how “discursive discrimination, at least in the more respected media, has shown a tendency of becoming more subtle and indirect, displaying coherence with the more general liberal ideologies of the cultural elite in society” (T A van Dijk, 1989); this is no longer true, as the example (E22) above shows. Though it is true that some discursive formations do have an

indirect, connotative approach, post-ISIS xenophobic production is more vehement and direct in its discourse. The example above builds on other articles in which it had already been established that outside of the Czech Republic, immigrants have already resorted to violence, they are already criminals. It is taken for granted that immigrants will be, as a simple matter of time, committing acts of violence. Continuing, essentially, on the rhetoric of Katie Hopkins, violence is promoted as a “defense” from alleged violence, in a “reversal of the perpetrator-victim dichotomy”, as “victimhood is claimed by the original provocateur” (Wodak, 2015a, pp. 374, 379), an instance we have also seen in the *Kurir* example. In order to “defend”, a set of policies is being introduced by diminishing of human rights, “increasing security” and restricting movement by building physical and bureaucratic walls, to which we shall now turn our attention.

#### **4. Discourse becomes policy: physical borders since 2015**

Stressing, in essence, the connection between discourse and policy, Pujolar wrote that when immigrants settle in a given place in (what are perceived to be) significant numbers, different social actors and institutions begin to comment and pose questions as to how the incomers should be “managed,” and by doing so they refer implicitly or explicitly to ideas of what constitutes a community and how language is connected with community belonging (Pujolar, 2015, p. 303)

This is in line with Schmidt’s *Discursive Institutionalism* (Schmidt, 2008), that “focuses on ideational factors which ultimately preside over the making of common policies and strategies through the lens of discourse” (Carta & Wodak, 2015, p. 5). The public scare that has become public policy, dubbed also the “politics of fear” (Wodak, 2015b), introduced by xenophobic media and politicians that was exemplified above thus led to a series of boundary-establishing policies in the United States and Europe. If there are “thirty million” refugees arriving, and if they are “kidnapping children”, positioning barriers – be they physical walls and fences, or bureaucratic ones, such as an increasingly restrictive visa or border policy – is presented and seen as a logical step in the “defense” of everyday life. However, “immigration policy is frequently shaped more by fear and stereotype than by empirical evidence” (Ewing et al., 2015, p. 3), and fear is being introduced in a discursive manner. As Ewing *et al* wrote, despite the abundance of evidence that immigration is not linked to higher crime rates, and that immigrants are less likely to be criminals than the native-born, many U.S. policymakers succumb to their fears and prejudices about what they

imagine immigrants to be. As a result, far too many immigration policies are drafted on the basis of stereotypes rather than substance (Ewing et al., 2015, p. 10).

These stereotypes are promulgated via specific discursive strategies elaborated on above. As Albrecht noted, “immigration has become a high ranked European concern over the last two decades” (Albrecht, 2002, p. 1), becoming known in public discourse as “Europe’s great migration crisis” (Kern, 2015), even though it is questionable whether this designation should be used; dubbing it an “immigration” crisis will tend to discursively peg the blame onto immigrants, even though “refugees” is a more appropriate term. We would offer the term “xenophobic crisis”, seeing that it is promulgated and perpetuated by xenophobic media and politicians. Due to this rise in xenophobia, borders have been increasing in number throughout Europe. We can broadly categorize them into two types:

(1) one would be a physical border, a wall or fence (such as the border Hungary had built on its southern border with Serbia),

(2) the other would be what is commonly dubbed an “increase in security” (Rosenblum & Hipsman, 2016), embodied in increased border controls between a number of countries and the increase of difficulty for obtaining entry documentation. The same euphemistic phrases (“border security”, “increase in security”) is also used to designate similar restrictionary measures in the USA (Fonseca & Rosen, 2017; Slack, Martínez, Whiteford, & Peiffer, 2015).

By the end of the 20<sup>th</sup> century, the world was already marked by a significant increase in border control and security, and a corresponding lowering of global mobility (Sassen, 1999), as “contemporary societies are increasingly bastions with borders and control, walls and gates” (Fassin, 2011, p. 214). Since the advent of the refugee crisis, especially from 2015 onward, these boundaries have been increasing in number. A Greece-Turkey land border was created, followed by a fence in Ceuta and Mellila. Bulgaria followed, raising a razor-wire fence on its border with Turkey. In September 2015, Germany introduced border controls on its border with Austria, negating the Schengen agreement; Austria followed soon after with an increased control on its borders with Hungary and Slovenia. The same month saw the raising of a fence between Hungary and Serbia, on the behest of the extremely xenophobic Prime Minister Viktor Orban, whose anti-refugee discourse has in the meantime become widely known. Slovakia imposed border controls next, while Hungary elongated its fence across the border with Croatia as well. After the terrorist attacks in France, this country

imposed stricter border controls, even though the attacks had no connection to refugees. Slovenia was next, building a razor-wire fence on its border with Croatia; Norway introduced border controls with Sweden due to the influx of immigrants. Macedonia followed, raising up a razor-wire fence on its border with Greece, while in January 2016, Sweden reintroduced its border control with Denmark at the Oresund passageway. Germany strengthened its border control with Switzerland on August 2016. Donald Trump additionally set in motion the building of a wall on the border with Mexico. Enumerating all walls, borders, boundaries and policies would probably entail a monograph unto itself; these are just a few representative examples.

While physical borders were being introduced, bureaucratic policies followed soon thereafter. On March 2016, the questionable EU-Turkey deal came into existence. As Elizabeth Collet, director of the Migration Policy Institute wrote, the 28 EU heads of state forged the March 18 deal with Turkey with their backs seemingly against the wall, and in an atmosphere of palpable panic. At its core, the agreement aims to address the overwhelming flow of smuggled migrants and asylum seekers traveling across the Aegean from Turkey to the Greek islands by allowing Greece to return to Turkey “all new irregular migrants” (Collett, 2016).

The “EU-Turkey refugee deal” soon turned out to be an utter failure, for as Amnesty International reported, “the premise on which the deal was constructed – namely that Turkey is a safe place for refugees – was flawed” (Gogou, 2017). Nevertheless, “over the last year European leaders have sought to portray the EU-Turkey deal as a success, with some even touting it as a model to be replicated elsewhere. To these leaders, the only thing that matters is that the number of irregular arrivals to Europe has fallen significantly” (Gogou, 2017). According to the Asylum Access Global Policy Director, Jessica Therkelsen, the deal was “inhumane” and “failed to protect basic human rights” (Therkelsten, 2017). What is striking is that the policies set in motion were promoted by Right Wing orientated xenophobic media on a global level even in places where the Right Wing is not in power.

## **5. Conclusion**

What Waldinger wrote about USA politics regarding immigration in 2008 can be read and understood on a global level but a decade later: Immigration is roiling American politics, with controversy continuing and no clear solution in sight. As all parties concur, the system is broken, frustrating the new, would-be,

and established Americans, while yielding substantial social costs and tensions ... Beyond this point of agreement, however, dissonance is all that can be heard. Many voices are shouting; no one knows where to go (Waldinger, 2008, p. 306).

A significant part of those “shouting voices” are xenophobic in nature, and we have presented the discursive features that they “shout”, including a brusque overview of the policies that followed. Xenophobic discourses, presenting RASIM members as criminals, dangerous, different, have had their production grow in intensity during the last several years significantly. The rhetoric is either based on twisting data and misrepresenting issues, or by blatant fake news instances. Due to the consistent representing of RASIM as criminals, murderers, rapists and thieves, it is of small wonder that walls and borders, be they physical or bureaucratic, are being built. During the last 16 years, “more than 46,000 people have died globally attempting to cross a border ... These deaths are a direct consequence of the international community’s collective failure to implement a credible plan of humanitarian aid to refugees” (Mallardo, 2017), having in mind that xenophobic policy is replacing humanitarian aid. The lack of care for the plight of the dispossessed is seen, thus, not only in the vehement xenophobic rhetoric that exists within the press on a global level, but in policy as well, even when those policies are presented as beneficial, such as the failed Turkey-EU deal. As Sager noticed, what was “repeatedly demonstrated” in such cases is that “the response to human suffering is sometimes not compassion, but fear, hate, and opportunism” (Sager, 2016).

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# Atlantic Lessons: Cross-border cooperation between Galicia and the Region of North Portugal

Celso Cancela OUTEDA<sup>2</sup>

## Abstract

*In Europe, cross-border cooperation between sub-national organizations offers many experiences, driven by organizations such as the European Union. Today, these experiences present different profiles derived from antiquity, the participating agents (local, regional, national), the level of institutionalization, the economic product or socio-economic reality, the type of interstate relations (friendly and hostile), etc. Basically, this contribution contains a case study that refers to the experience developed by Galicia and the Region of North of Portugal. The main objective is to present its historical evolution, its current institutions and the actors involved. In this way, lessons for other places and areas can be obtained.*

*Keywords: cross-border, Galicia, Portugal, border region, cross border, Euroregion, eurocities*

## 1. Introduction

This contribution is oriented to offer one concrete experience in which participates as key partners two regional entities of the two Iberian states. Local authorities, universities and private groups (companies, trade unions and so on) take part too. Methodologically, this work is a case study that tries to present in detail a concrete cross-border cooperation experience. In this way, we hope to offer to Moldova's public a source of inspiration both in relation to the organization and structures as well as to the projects and initiatives adopted.

As we know, in the European continent, cross-border cooperation among subnational bodies (local and/or regional) has traveled a long journey (Domínguez, 2011). The cross-border cooperation, fostered by organizations such as the Council of Europe and the European Union, presents heterogeneous

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profiles (Trillo and Lois, 2011). There are a lot of cases and experiences, as well as a vast heterogeneity derived from the seniority of the experience, the participating agents (local, regional, national), the level of institutionalization, the economic output or the socioeconomic reality... (Durá, *et alii*, 2018)

Among these European cooperative experiences is the case of Galicia (Spain) and the North Region of Portugal (G-RNP, in Spanish). The interrelations between these border regions have been an historic constant (informal nature). Besides its geographic proximity and a generally uniform relief, the cultural affinity and the linguistic proximity of the G-RNP is tangible, which contributed to the creation of numerous contacts and relations between both territories. Nevertheless, approximately three decades ago (80s), common needs and opportunities arose and promoted the formal cross-border cooperation.

Situated in the North-western region of the Iberian Peninsula, Galicia and the Region of North Portugal enjoy a common historical and cultural-linguistic heritage. They are neighbouring border territories, divided by the River Minho along stretches of their common frontier, belonging to the Spanish and Portuguese states respectively. Therefore, their relationships were framed in a classic international style pattern up until the decade of the Eighties in the twentieth century. As a result, in their territories (border zones) the negative impact of being border regions was still notorious (scarce communications routes, for example) at the beginning of the Nineties. The first institutional contacts between the Galician and Portuguese authorities were a result of so-called cross-border cooperation, which was seen as a tool of correcting these negative effects. In other words, they saw the cross-border cooperation as an opportunity.

The Galicia-North of Portugal Working Community (first formal instrument) is in operation since 1991. Later other agreements and entities arose (the Eixo Atlántico, *Atlantic Axis*, the European Grouping for Territorial Cooperation Galicia-North of Portugal, etc.), promoted by different agents (regional and local) and with the immediate, shared initiative of European programmes (Cancela, 2010).

Despite their relative youthfulness and beyond the specific, tangible operations (building of bridges, improvement of roads, educational and cultural exchange...), there is an outstanding intangible heritage associated with this initiative: the creation of a mainly political and institutional context which encourages cooperation amongst the diverse political-administrative and socioeconomic agents, thus surpassing what could be considered to be purely

cross-border, in the strictest sense of the term, and acquiring a euroregional (or interregional) dimension. This evolution involves the need to make the most of opportunities (and face challenges) for socio-economic development, improving the competitiveness created by European integration (the EU single market) and economic globalisation. In short, an attempt to create a socially and economically attractive territory, thus reducing its peripheral character and promoting social cohesion (both on a European and Iberian scale).

The development of cross-border cooperation involved the erosion of political, social and cultural dynamics established over time and marked by misunderstandings, distrust and mutual suspicion. The decade of the Eighties in the Twentieth Century brought about a modification in the historical pattern of neighbours' relations. What was this change down to? Several different factors played a part in the initiation and consolidation of cross-border cooperation along the banks of the River Minho and its subsequent extension into fully-fledged interregionality.

## **2. The cooperation's origin: key factors**

Political and legal factors related to the democratisation of the two Iberian states were present at the beginning. Indeed, this brought about a reorientation of their respective foreign policies towards a common space: Europe, and especially towards European Communities striving for democratic consolidation and looking to take full advantage of opportunities for socio-economic development (Palmeira, 2004). In relation to the foregoing, the bilateral relationships between both states entered a new stage in 1977 with the signing of the Spanish-Portuguese Treaty for Amity and Cooperation. Generally speaking, this treaty established the foundations for greater inter-state cooperation, including cross-border initiatives in several sectors (use of natural resources, improved communication routes, etc.). Since 1986 Iberian Summits have been held between the two states, with the participation of the respective heads of government and other ministerial representatives (with the Presidents of the border region Spanish Autonomous Communities also normally attending the summits). In keeping with this vein of cooperation, in 1988 and 1990 respectively, Portugal and Spain ratified the European Outline Convention on Transfrontier Co-operation between Territorial Communities or Authorities (1980) which manifested a different political approach in this area. Nevertheless, until the year 2002 Spain and Portugal did not sign the so-called bilateral Treaty on cross-border cooperation between territorial entities and authorities (which

entered into force in 2004) which helped clarify the legal framework and reaffirmed political commitment to transfrontier cooperation between regional and local authorities.

Another key political-administrative factor for the commencement of transfrontier cooperation was, on the one hand, the political decentralisation of the Spanish state (establishment of the Autonomous Communities) and, on the other hand, the local and regional administrative restructuring undertaken in Portugal (the effective strengthening of these administrative levels). As a consequence of the above, new political-institutional players came to the fore, who, despite the asymmetry of their relative authorities, were capable of forging coordinated initiatives and strategies. More specifically, in the case of Galicia, political leaders arose (the President of the Galician Government and the President of the Coordination Commission for the Northern Region of Portugal) who backed and actively encouraged cooperation initiatives. The influence of other players involved in cooperation was also notable (Central Government in Madrid and Lisbon, and local entities in both regions (although, in this case, local authorities were not the leaders in the cooperation field).

Lastly, as in the case of other European experiences of transfrontier cooperation, the process of European integration has directly and indirectly had both a negative (elimination of state borders) and positive (European Commission initiatives, notably INTERREG, establishing the single market) influence on the commencement and evolution of cooperation between Galicia and the Region of North Portugal.

### **3. Approaching a euroregional reality**

Nowadays, this political-institutional cooperation is not limited to cross-border questions, but has acquired an interregional dimension, a wider ranging aspect that is developing within the framework of the so-called Galicia-North of Portugal Euroregion, with this region seen not as a legal entity but rather as a space for socio-economic interrelation. Let us take a brief look at this space, examining it from a series of different standpoints.

From a European perspective, the Galicia-North of Portugal Euroregion is a peripheral territory located along the southwest of the continental Atlantic seaboard. It includes the region of Galicia (NUTS 2) (A Coruña, Lugo, Ourense and Pontevedra, NUTS 3) and the region of North Portugal (NUTS 2) (Minho-Lima, Cávado, Alto-Trás-os-Montes, Grande Porto, Ave, Tâmega, Douro, Entre Douro e Vouga, NUTS 3). The region covers a total surface area of 50,700 km<sup>2</sup>.

**Figure 1. Euroregion Galicia-Norte de Portugal Map**

**Source:** <http://clustermadeira.com>

The Euroregion has 6.2 million inhabitants (6.292.914 inhabitants, 2017), with 2.7 million of these corresponding to Galicia (2.701.743 inhabitants, 2018) and 3.6 to the North of Portugal (3.584.575 inhabitants, 2017). Galicia has an aging population whilst the North of Portugal has a younger population. In addition, the dynamics of the respective population pyramids are contrasting in nature (see more data in *Observatorio transfronteirizo/Observatório transfronteiriço Galicia-Norte de Portugal*).

The average population density is 125 people per km<sup>2</sup>. As for its spatial distribution, we can observe a marked trend for coastal concentration in clear detriment to inland areas. A factor common to both regions is population dispersion (the number of population centres is high in number), which makes it difficult and costly to provide certain public services (health, social or educational) or to provide infrastructures, especially in the border area. It is worth noting that in comparison to the rest of the Spanish-Portuguese border (practically uninhabited), the population density between Galicia and the North of Portugal is very high.

Related to the above there is a point of singular interest: the high daily cross-border traffic of individuals (this section of the border accounts for 49% of all heavy-goods and car traffic along the entire Spanish-Portuguese frontier). This is due to factors such as geographical proximity, easily navigated terrain (the absence of significant landforms hindering communications), plus the existing cultural affinity and linguistic proximity. These interchanges cause problems of different types (health, occupational, crime, etc.) which have brought about the

need for coordinated operations with the involvement of public (at different administrative levels) and private players.

Despite the diverging historical-political trajectories of the North of Portugal and Galicia, there are a series of socio-cultural affinities that continue to endure: religiousness; the organisation of fundamentally agricultural land; the division of land into small-holdings; subsistence and self-consumption economy; dispersion of the population; the parish as the basic relational centre; high population density; and emigration (Domínguez, 2004; Trillo-Lois, 2011). From a historical perspective these affinities find their roots in the pre-Roman period. The later occurrence of Romanization signified, amongst other things, the construction of an urban network (Braga, Lugo, and Astorga) and road communications, plus the introduction of the Latin language, Christianity, and political-administrative divisions (convents). During the Low Roman Empire the northwest of the Iberian peninsula was converted into an administrative entity called *Gallaecia* with internal subdivisions (convents) called *bracarense*, *lucense* and *asturiense* (the first two of these approximately coincide with what is currently Galicia and the region of North Portugal).

In the Fifth Century, invasions by the barbarian tribes destroyed the Romanic organisation. The Swabians settled in the northwest of the Iberian Peninsula, establishing a kingdom whose political-administrative, religious and intellectual centre was the current Portuguese city of Braga. In the year 585, this Kingdom was overrun by the Visigoths. Nevertheless, the former *Gallaecia* maintained a certain degree of political autonomy and complete cultural and linguistic unity throughout the Middle Ages.

From a territorial and political standpoint, this unity was fractured at the end of the Eleventh Century with the creation of the county of Portugal to the south of the River Minho, effectively breaking with the territory to the north (the current Galicia). From the Twelfth and Thirteenth Centuries onwards, the political border began to take form, coinciding with the transfer of political and cultural life to Lisbon as a result of the “Reconquest”. Both territories were progressively separated due to their insertion into independent political entities with separate and rival political trajectories (Leon and Castile versus Portugal). More especially, this distancing occurred as a result of the process for the construction of the Castilian and Portuguese monarchies (rivals), with their respective overseas empires and, ultimately, the nation-states. Thus, if we had to identify a date that definitively marked this distancing process, it would be 1640: Portugal restored its own monarchy and recovered its independence.

Historiography identifies the creation of a negative image of Portugal in Galicia as a result of ignorance, distrust and mutual suspicion (Rojo, 2007). Later, Portuguese nationalism, characterised by a fierce anti-Spanish sentiment (Spain had attempted to annex Portugal on numerous occasions) and the Portuguese international alliances with England or the Spanish alliances with France further reinforced the existing physical, political and mental frontiers (with the reciprocal manufacture of negative stereotypes).

In 1864 the Spanish-Portuguese frontier was definitively delimited by the signing of the Treaty of Lisbon. It is an old, pacific (with no recent military conflicts having occurred) and consolidated border (it is Portugal's only border). It is also worth noting the absence of irredentist political movements in Portugal, despite a common past and the linguistic and cultural links that exist with Galicia. With the exception of small political groups, Galicia has also failed to see any demands for re-inclusion in the Portuguese state (which is not the case in linguistic circles, as there have been, and continue to be, many advocates of bringing the Galician language closer into line with Portuguese, known as reintegrationism). Nevertheless, pro-Iberian positions (Iberianism) have been voiced, with varying degrees of associated prestige, postulating some form of Iberian union, but with zero practical import.

From a European perspective it is a region that is far from the main continental financial axes. In terms of economics both are objective 1 regions (currently, convergence objective with a per capita GDP less than 75% of the EU-25 average) and, as such, are recipients of European funds. They have a low level of economic development. This can be seen, amongst other aspects, in the existence of structural-style debts which have conditioned cross-border cooperation, orientating it towards infrastructures, at least during the initial years.

Their respective economic structures are, generally speaking, complementary in nature. In addition to this we should add the high regional interdependence caused by an increase in commercial exchanges (40% of trade traffic between Spain and Portugal is concentrated along the northern border, more specifically, between the towns of Tui and Valença); an increased degree of economic integration (reciprocal investment: from 2004 to 2008 Galicia was ranked the second Autonomous Community in terms of the amount of Portuguese investment it attracted); and an increase in journeys and social relations. The above provided sufficient justification for euroregional bodies (the Working Community and the *Eixo Atlántico*) to defend certain strategic euroregional initiatives before their respective state governments and the European

Commission, such as, for example, the building of a high-speed rail link between the cities of Vigo and Oporto. The agents have adopted a cooperative, non-competitive dynamic.

If we continue to look at the defining characteristics of this Euroregion we need to consider its political-organisational diversity, as this has a bearing on cross-border and euroregional cooperation. Since 1981 Galicia has been an Autonomous Community with political powers defined by its Statute of Autonomy. It has its own political institutions: Galician Parliament (legislative powers), the Galician Regional Government and President (executive power) and public authorities. Its territory is divided internally into provinces (A Coruña, Lugo, Ourense and Pontevedra; with the latter two provinces bordering Portugal) with their governing bodies (provincial councils); and lastly, at a local level we have the municipal councils (315) with their elected governing bodies. In the realm of transfrontier cooperation the players involved are, besides the state authorities (ministries), regional government, provincial councils and the municipal councils.

The North of Portugal Region is one of the five administrative regions into which the territory of mainland Portugal is divided. As an administrative region, since 1979 it has had a Commission for Regional Coordination and Development –North (CCDR-N) with powers pertaining to questions of regional macroeconomic coordination and planning, the management of EU funds, plus supervision and technical advice for local authorities. Nevertheless, it is a decentralised body and is not a legal entity per se, lacking, above all, its own decision-making capacity. At an infra-regional level, in first place, we have the districts (8 in the Region of North Portugal), the metropolitan areas, and associations of different councils. Next, we have 86 municipalities that have two elected bodies. In this case the political-administrative players involved are central government, regional government, and supra-municipal and municipal authorities. The Portuguese municipalities are, in general, larger than the Galician councils. From the above we may conclude that there exists an institutional and organisational asymmetry between both regions which, at times, hinders and obstructs cooperation.

#### **4. Institutions for the cooperation**

The initial formal contacts between the Galician and Portuguese authorities date back to the first years of the decade of the Eighties in the Twentieth Century, after the series of transformations already mentioned above. At first, the meetings

and encounters generated jointly-drafted documents and preparatory studies for specific cross-border initiatives that were presented to the respective governments of Madrid and Lisbon.

Later on it was decided that these initiatives would have to be institutionalised in order to provide them with continuity and coherence and to increase the number of initiatives required to face the upcoming challenges presented by the Internal European Market. In 1991, the President of the Galician Regional Government and Chairman of the CCDR-N signed an agreement to set up the Galicia-North of Portugal Working Community (thus overcoming resistance from the governments of Madrid and Lisbon who favoured the creation of a single working community for the entire Portuguese-Spanish border). Unlike other or similar working communities, the creation initiative came from two regional entities (NUTS 2), and not from local entities. On the one hand, this facilitated its functioning, with decisions taken by two members alone (decisions taken by consensus) and, on the other hand, it added political weight (with regard to higher level players such as central authorities), whilst also allowing strategies to be designed and interregional level projects to be undertaken.

In this case the Working Community is a forum and not a legal entity, with its own staff and budget (it receives funding in equal measure from both partners). It was created in order to help with the development of both regions in the framework of growing interregional interdependence and solidarity and to help improve the situation of both border populations. What does it do? It deals with matters of common interest, promotes information exchange, coordinates initiatives and addresses problems by means of agreed solutions. In which actual areas does the community act? In sectors such as economic development, transport and communications, agriculture, the environment, natural resources and land planning, fishing, health and social affairs, local development, regional and local administration, education, training and employment, scientific research and universities, culture, and heritage and tourism.

The Working Community combines both political and technocratic dimensions. Its organic structure is based on a Chairmanship (held for alternating two-year periods), vice-chairman, the Board (an equal plenary body), the Coordination Committee (consisting of two general coordinators) and the Secretariat. There are also four sector committees (Sustainable Development and Planning, Economic Development and Tourism, Innovation and Energy Efficiency, and Civil Responsibility), a specific committee for the *Eixo Atlántico* (including cities from the Euroregion) and Territorial Cooperation Communities

(with a local base and which allow local and provincial authorities to be involved in the management of initiatives and programmes). Lastly, there is also a Cross-border Observatory and a Strategic Analysis and Reflection Group.

The Working Community is a milestone in recent history because, for the first time in centuries, both banks of the River Minho have a common forum for debating shared business and promoting a certain degree of coordination, allowing common problems to be addressed, with the use of resources and the creation of combined strategies over the short, medium and long term.

Besides the above listed initiatives, the Working Community has performed a driving role in the relationships between the Galician and Portuguese authorities, designed to promote cooperation that was initially cross-border, but which is now euroregional in nature. In practice, it has established itself as a territorial based lobby which acts before the authorities of Madrid, Lisbon and Brussels.

In 2008, in Santiago de Compostela, the European Territorial Cooperation Agreement was signed between the Galician Government and CCDR-N which resulted in the establishment of the GNP-AECT (its articles of association were also passed). Its objective is to facilitate and encourage territorial cooperation (transfrontier, transnational or interregional) amongst members with the exclusive purpose of strengthening economic and social cohesion. It is a legal entity and has the legal power to act in the respective states. It has its own staff, a joint management team (with the chairperson originally being Portuguese and the Secretary-assistant director being Galician). It also has its own budget provided in equal shares by the Galician Government and CCDR-N.

The AECT-GNP allows us to overcome difficulties which have dogged transfrontier cooperation (the lack of a legally established entity which can intervene in relationships with other players, clarification of the legal framework) and it also provides a joint, flexible, agile vision of daily management. In the past all common projects had to be validated by the respective central governments of each country and were carried out and managed in each territory in an independent manner. Now the programmes can be defined, presented to Brussels, and directly managed by the GNP-AECT, as it is a legal entity with administrative authority, with the power to tender, contract and perform public works, to expropriate land, and to jointly manage facilities and run services of general interest. From the time of its creation its tasks have been orientated towards the execution of the 2007-2013 Galicia-North of Portugal Cooperation Plan (see also Dura, *et al.* 2018).

The creation of the GNP-AECT cooperative instrument marks a before and after in the history of the relationship between Galicia and the North of Portugal Region, who now have a common institution. Two entities coexist in the area of cross-border cooperation since the creation of GNP-AECT. On the one hand the Working Community, which acts as a political body, and on the other hand, the GNP-AECT which functions as the effective executor of the cooperative projects financed with its own funds or funds awarded in funding calls (the taking of decisions and the composition of the bodies has to observe the principles of consensus and equity in the case of bodies formed by multiple members).

The main drawback that affects cross-border cooperation is political-institutional asymmetry. The lack of a true regional political power to the south of the River Minho constitutes one of the most notable obstacles. The CCDR-N is a decentralised body of the central government, which slows down and hinders the initiatives because consultations and decisions from Lisbon are unavoidable. Despite this political asymmetry with respect to the autonomous Galician institutions, the CCDR-N has an excellent understanding of the regional reality and the ability to act as a mobiliser of local and supra-local players in its territory. We can also observe this institutional asymmetry at the local level where Portuguese local authorities are stronger than Galician ones in terms of population, human and financial resources and administrative competences. Even so, the local powers are very active and dynamic in the cooperation's field.

### **5. Local authorities as dynamic actors. Special reference to the eurocities**

An example of the local intervention (NUTS3) is offered by the North-western Peninsular Atlantic Axis (*Eixo Atlántico*). It began in 1992 as a private-law association started by an initiative by a dozen cities in Galicia and the region of North Portugal. At present two political-institutional players are operating with a euroregional vocation: Working Community/AECT-GNP and the *Eixo Atlántico*. This entity has progressively increased its members: the 12 founding cities have now become 34, which means that the number of initial members has almost tripled.

The *Eixo Atlántico* maintains its own operations in a series of priority areas: infrastructures, transport, urban development, the environment, tourism, sport and culture. Its main objective consists in organising a common territory that allows advances to be made in terms of internal cohesion, favouring interregional and cross border cooperation at a local level and, more generally, contributing to the development of the European urban element and European integration. In

practice, it acts as a transfrontier lobby in relation to public (European, state, regional, etc.) and private agents and as a promoter of diverse projects and initiatives. Its presence provides makes the cooperation more than merely cross-border in nature, favouring an interregional or euroregional approach, whilst also involving urban public players in a more intense manner, making them more dynamic and closer to citizens' needs. And all without forgetting its importance in demographical, political and economic terms.

Nonetheless, recently it has been created some entities acting in a strictly cross-border scope in this same territorial scenario. They are cooperative instruments in narrower and more specific territorial areas. First, the European Grouping of Territorial Cooperation of the River Miño (*EGTC-Río Miño*) was established on 24 February 2018. Its partners are the Provincial Council of Pontevedra (Galicia) and the Intermunicipal Community of Alto Minho (Portugal). It aims to develop initiatives and projects on both sides of the Miño River (called Galicia-Portugal "wet border") in areas such as the promotion of transboundary resources (cultural, natural...), the boost of services and shared facilities between municipalities (16 Galician and 10 Portuguese) included in their territorial scope.

Secondly, we must mention four eurocities (*eurocidades*): the *Eurocidade Chaves-Verín*, the *Eurocidade Tui-Valença*, the *Eurocidade Monçao-Salvaterra* and the *Eurocidade Cerveira-Tomiño*. Furthermore, from experience and political-institutional support, these initiatives of cooperation have their origin in the institutional imitation and the interterritorial competition (capture of resources, strategic positioning...). Unlike other cases, the latter show a genuine cross-border character because they are developed in territorial delimited, contiguous and border areas, involving local authorities in direct management (municipalities). They are oriented to share services and to carry out common projects in various fields (tourism, education, transport, environment, health or culture), more specifically. They intend to provide common resources, through the joint management of the services and facilities in both municipalities, avoiding unnecessary and costly duplications. They present affinities such as the presence of local authorities and disparities such as the level of institutionalization and development. They are experiences of cooperation of "second generation" or "proximity cooperation", which aims to improve the conditions of their citizen's daily life. This surpasses the mere functionally oriented institutional cooperation ("first generation"), that is, the one destined to the solution of problems caused by the dysfunctions caused by the border

(Oliveras, Dura, Perkmann, 2010:24). It was oriented to the overcoming of the impediments derived from the border situation, to reduce or eliminate the physical or real barriers (construction of physical infrastructures like bridges or roads) or to the cooperation in matters of tourism promotion, education etc.

"Second generation" cooperation goes beyond that. It involves the joint management of shared services that are oriented towards the socioeconomic development and the improvement of the living conditions of the citizens. The question consists in equipping the frontier territories with endogenous growth mechanisms, to turn the frontier fact into an opportunity, into an advantage. The goal is to take advantage of the endogenous potentials offered by frontier territories in various fields. Socio-economic development (increased competitiveness) and quality and standard of living are pursued in the territories involved. Shortly, let's expose these cases.

### **5.1 *Eurocidade* Chaves (P)-Verín (S)**

The narration of the origin of this *Eurocidade* (Eurocity) should begin with the incorporation of Verín (a municipality) to the *Eixo Atlántico* in July 2007 (the Portuguese partner, Chaves, belonged to this association of cities since its constitution in 1992). In this way, it can be appreciated the leadership and commitment and the support given, particularly by the *Eixo Atlántico*. Immediately, in September 2007, an institutional working group was constituted (although it lacked legal personality), composed of representatives of the aforementioned institutions and the municipalities of Chaves and Verín. In January 2008, the tasks for the preparation of a Strategic Agenda of the *Eurocidade* began with the aim of defining its profile. In order to achieve this, a methodology of work was adopted based on a bottom-up approach, taking into account the opinion of the social and economic agents, as well as of the citizens and the political and social leaders (development guidelines were set up to satisfy the expectations of the "eurocitizens").

In 2010, the two municipalities began the task for the Constitution of the EGTC *Eurocidade* Chaves-Verín. Later, on 15 of June, the Plenum of Verín approved the participation in the EGTC. At the end of July, the project obtained the approval of the Municipal Assembly of Chaves. This was the way to start the procedure before the respective central authorities located in Madrid and Lisbon. Almost three years later, the respective authorisations were obtained. In July 2013, the *Eurocidade* Chaves-Verín EGTC Convention was signed, by the president of the municipality of Chaves and by the mayor of Verín.

On the one hand, it is noteworthy that this is the first initiative of these characteristics set in motion at the borders of the Iberian Peninsula. On the other hand, it can be said that it is the fruit of Community programming 2007-2013 and the promotion and advice of the *Eixo Atlántico*, which originates institutional synergies and reinforces representation at different levels of government.

**Table 1: Territory and population**

	Area (Km <sup>2</sup> )	Population	Population Density (people per km <sup>2</sup> )
<b>Chaves</b>	591,2	41.243 (2011)	68,8
<b>Verín</b>	94,1	14.652 (2015)	155,7
<b>Eurocidade</b>	685,3	55.710 (2011)	81,3

Data source: INE, Portugal and IGE, Galicia. Prepared by the author.

As for the organisational dimension, the *Eurocidade* Chaves-Verín has government bodies: General Assembly and Director. The General Assembly is its deliberative body and is constituted by the members of the EGTC, represented by the respective presidents and by a delegation of six personalities, designated by the aforementioned presidents. As for the Director, it is a singular executive body that, alternatively, is the president of the municipal chamber of Chaves and the mayor of Verín. His term of office lasts two years and is aided by a deputy director, appointed by the president of the entity that is not acting as director. There is also a secretary (hired staff) for the management of the administrative services and the exercise of the purely executive functions attributed by the director or by the deputy director.

In April 2016, the general Assembly of the EGTC agreed to expand its members to integrate the intermunicipal Community of Alto Tamega (6 municipalities), the Provincial Council of Ourense and the community of municipalities of Monterrei (8 municipalities). The most striking is the increase in the population of the EGTC that exceeds 120,000 inhabitants, which favours economies of scale and allows conceiving projects of greater magnitude. We are probably attending the birth of the first Iberian Eurodistrict, which could indicate the line to be followed by other experiences. Perhaps we are witnessing a momentous change in cross-border Iberian cooperation. Only time will tell.

The *Eurocidade* Chaves-Verín has a Strategic Agenda (2011) in which a series of actions have been programmed from three strategic axes: forging Eurocitizenship, a sustainable territory and economic dynamization. These

strategic axes are mentioned in the preamble to the Convention establishing this EGTC in dealing with the objectives of promoting cross-border territorial cooperation, “in the fields of agriculture, trade, tourism, heritage, land management, environment and natural resources, joint use and protection of the river Tâmega, transport and telecommunications, logistics, culture, sport, education, entertainment, health care, civil protection, among others”. The central and general objective aims to “reinforce economic and social cohesion within the respective territorial constituencies”.

It can be seen that it is inspired by the cross-border cooperation of “second generation” affecting the provision of services and common policies on both sides of the border and the promotion of growth and employment from the endogenous resources of a territory. It also seeks the elimination of intangible, administratively subsistence obstacles that have a negative impact on citizen quality of life, while affecting economic and business activity. The abolition of these barriers would mean the creation of a “social free zone”.

In general terms, this *Eurocidade* has been relatively active since 2010. Since then, it has developed numerous and varied activities: photography competitions, sports tournaments, thermal fairs, exhibitions, courses, commemorative days, etc. At this point it is necessary to mention, first of all, the implementation of the "Eurocitizen Card". Secondly, since 2009, the Week of Education and Road Safety of the *Eurociudade* Chaves-Verín was held (in 2013 the fifth edition took place). In January 2015, the *Eurocidade* Chaves-Verín was presented at the International Tourism Fair (FITUR) in Madrid (within the Galician stand) as the first cross-border tourist destination of the Iberian Peninsula: Chaves-Verín, the “Eurocity of Water” (Dura *et al.*, 2018). In 2015, this Eurocity won the RegioStars 2015 Awards in the category Citystar granted by the European Commission.

## **5.2 *Eurocidade* Tui (S)-Valença do Minho (P)**

This is also an experience of cross-border cooperation in a strict sense, as both cities are bordered and contiguous. They are separated by the river Miño, which was historically crossed through the only international bridge. It is an initiative after the *Eurocidade* Chaves-Verín since it dates from February 2012. On this date, the president of the Municipal Chamber of Valença do Minho, the mayor of Tui and the president of the Working Community Galicia-North Portugal, signed the *Cooperation agreement for the creation of the Eurocidade Tui-Valença*. It refers to the desire of strengthening the existing links in order to

develop and articulate cooperation between the two cities to provide a greater quality of life for their populations. It also mentions the development of cooperation projects in areas of common interest. In these areas, they have the intention to work together to develop investment promotion and opportunity actions commercial, productive and tourism, reinforce social cohesion, promote the appreciation of human resources, revitalize sports activities through common infrastructures, plan in a coordinated way new equipment and future actions to be carried out, promoting the joint cultural activity... These projects respond to the logic of "second generation" cooperation.

The cooperation between Tui and Valença do Minho presents a strategic character for both partners, as it must allow to enhance the values and capacities as a cross-border enclave, as well as the shared use of public services (firefighters, local police...). For example, the Portuguese Way to Santiago de Compostela (is the second in number of pilgrims to the Galician capital behind the French Way) runs through the *Eurocidade*, which provides an unbeatable resource for tourism promotion.

The geographical location of the *Eurocidade* Tui Valença is strategic because it is located in the main and most important route of communication of the border. The proximity between the two towns is another favourable point (there is a distance of approximately one kilometre between them). This is an almost continuous urban area, in contrast to Chaves-Verín. But, unlike this one that has about 55,000 inhabitants, Tui-Valença do Minho presents more modest numbers staying in the 31,000 inhabitants. Comparatively with this one, it is located in a lower stage development, being able to qualify itself of emergent micro-cooperation. Indeed, the EGTC has not yet been created, although, in the attention to the declarations, there is a willingness to do so.

**Table 2-Territory and population**

	Area (Km <sup>2</sup> )	Population	Population Density (people per km <sup>2</sup> )
<b>Valença</b>	117,1	14 129 (2011)	117,9 )
<b>Tui</b>	68,3	16.884 (2014)	247,2
<b>Eurocidade</b>	185,4	31.013 (2011)	169,14

Data source: INE, Portugal; IGE Galicia. Prepared by the author

The economic geography of this frontier territory is, in this case, a highly urbanized area, with high rates of concentration of people, collective equipment

and economic activities and with a population, speaking in general and in relative terms, less aged, high levels of institutional and entrepreneurial density.

The current remarkable achievements are the following: Commemoration of the 125 anniversary of the inauguration of the international bridge over the river Miño and, at the same time, a twinning Protocol was signed between Valença and Tui (March 2011); Planting of trees (on both banks of the river Miño and with native species) in which a hundred schoolchildren from Valença do Minho and Tui took part (November 2011); Celebration of the joint program of Healthy Routes (which passed through Valença and Tui, 2012); "Circuito de Andainas da Eurocidade Tui-Valença" (2013); Elaboration of a *Guía da Eurocidade Tui-Valença* (2013); "June Active" Promotion Unit of Exercício da Eurocidade Tui-Valença "(2013); Organization of the international Cavalcade of Kings in the Eurocidade (2015); Organization of the I and II Rally Eurocidade Tui-Valença (the second was suspended) and the IV BTT Eurocidade Tui-Valença (2015). It is also remarkable the participation of civil entities and associations.

In addition, the maximum political representatives of Valença and Tui demonstrated against the closure of the railway line Porto and Vigo and demanded their modernization to increase the cohesion and mobility of the population (there have been declarations in favour of a commuter railway service between Viana do Castelo and Vilagarcía de Arousa). They have also referred to the implementation of tolls on the highway or the problem of mobile telephony and television.

### **5.3 Eurocidade Salvaterra de Miño (S)-Monção (P)**

It took his first steps in December 2014 with the signing of a protocol of collaboration between both municipalities and the EGTC Galicia-North of Portugal. This document represents the first stone in the construction of the *Eurocidade* Monção-Salvaterra de Miño collects the main areas of common interest (nowadays the *Eurocidade* is a label or denomination). A few months later, in March 2015, the mayors of the two towns signed a twinning protocol that, in addition to its symbolic value, shows the transformation operated in the field of ideas. This initiative is, for the moment, an example of emergent micro-cooperation. These areas include: The dynamization of the river Miño (taking advantage of the geographical situation in the Ribera), the joint empowerment of oenology and local gastronomy, the promotion and development of tourism through the dissemination of natural heritage and historical (natural and thermal

resources, visits to “pazos” (small palaces), museums, fortresses, churches, convents and “castros”) and the valuation of tourist routes and pedestrian paths. It is also mentioned the cross-border venture, the sport, cultural interchange (handicraft activities, festivals and concerts) and education, the sharing of collective equipment (swimming pool, museums, a library to increase the offer of services and to achieve optimum utilization of these equipment, in order to obtain economies of scale, as well as the submission of candidatures to European cross-border programmes.

Among the strengths of this *Eurocidade* we can find (in addition to the historical ties) the geographical proximity, as they are separated by the river Miño and connected, since 1995, by an international bridge that, in fact, act as an avenue of a single urban centre. The inspiring logic is the one of the second generation cooperation, which means that it aims to take advantage of the complementarities, the endogenous resources and the legacy of the historical coexistence to establish a strategic cooperation (sustained in time, overcoming the immediate need) for the management and increase the value of the territory (attracting and fixing population, creating employment, capturing investments).

**Table 3-Territory and population**

	Area (Km <sup>2</sup> )	Population	Population Density (people per km <sup>2</sup> )
<b>Monção</b>	211,31	18. 836 (2013)	88,1 (2014)
<b>Salvaterra de Miño</b>	62,5	9.619 (2015)	159,9 (2015)
<b>Eurocidade</b>	273,81	28.455	124

Data source: INE, Portugal; IGE Galicia. Prepared by the author

In this favourable climate for the cross-border cooperation, Salvaterra de Miño and Monção count from July 2015 with a tourist train. It intends to disseminate the natural, wine and gastronomic patrimony of the *Eurocidade* (visits to wineries, museums, spas, walls and parks are made). An agreement was also signed between the associations of businessmen and traders of Salvaterra and Monção, in May 2015, for the revitalization of local commerce. In particular, a Christmas campaign was carried out to promote a flow of buyers on both sides of the international bridge through a "joint purchase Passport" (this allows customers on either side of the river to participate in a large prize draw).

#### **5.4 Eurocidade Vilanova de Cerveira (P)-Tomiño (E)**

Both municipalities have had twinning relationships for years. However, in June 2014, coinciding with the commemoration of the 10th anniversary of the construction of the bridge that connects them, a document called "Carta da Amizade" (Charter of Friendship) was signed. It expressed the willingness to cooperate to share services and initiatives in areas such as sport, culture, tourism or social inclusion. In 2017, the Strategic Agenda for Cooperation Amizade Cerveira-Tomiño was published. It includes a set of cultural and sporting activities financed by the call Interreg V-A with almost 500,000 euros. From this document, the "Orçamento Participativo Transfronteirizo" (Cross-border Participatory Budget) was formulated, involving the neighbours of both municipalities (through associations) in the selection of activities to be implemented in the following year. One of them was a shared management program for local services. In particular, it was the so-called "Gotas de Água por Notas de Música" (Water Droplets by Music Notes) which provides, as a first experience, the offer of two public services and facilities: The municipal swimming pool of Vila Nova de Cerveira and the school of music of Tomiño.

**Table 4. Territory and population**

	Area (Km <sup>2</sup> )	Population	Population density (people per km <sup>2</sup> )
<b>Vilanova de Cerveira</b>	108,47	9 138 (2018)	83,3
<b>Tomiño</b>	106,6	13.464 (2018)	127,55
<b>Eurocidade</b>	215,07	22602	105,42

Data source: INE, Portugal; IGE Galicia. Prepared by author

In October 2018, the formal constitution of the *Eurocidade* Cerveira-Tomiño was made. Besides the cooperation and the shared management of public services, it also envisages the creation of an Europarque (cross-border Park) by the construction of a bridge (both for pedestrians and cyclists) to connect two spaces of leisure (Park of O Casteliño and the Fortress of Goián) that are separated by the river Miño.

## 6. Conclusions

Cross-border cooperation is a competitive advantage to frontier territories, while it has become a key tool for its socio-economic development. Competitive strategies have been partially displaced by an optical perspective of complementarity (Varela, Cancela, Cordal, 2015:91; Cancela, 2016). In general,

we can consider the Galician-Portuguese border as an active and dynamic area. As a result of the relatively broad historical trajectory of cross-border cooperation, in recent years we have witnessed the birth of new cross-border cooperation initiatives that exceed the initial objectives. The cooperation between Galicia and the North of Portugal began at regional level and has advanced towards the local (a bilateral approach of the issues predominates) originating case of micro-cooperation (Eurocities cases. Chaves-Verín, Tui-Valença, Monçao-Salvaterra, Cerveira-Tomiño).

The *eurocidades* are "true laboratories for the construction of shared citizenship, of living shared among equals" (Cancela, 2016). Their experiences and practices deserve the attention of politicians, bureaucrats and scholars. As Lois writes, "cross-border regionalization projects within the framework of the European Union are an experimental field, linked to a change in the significance of the border. Of peripheral zone for the states, they become receptor nodes and transmitters of investment patterns of historical and socially constructed meanings, in spatial terms. The Eurocity has been configured as a spatial socialization agent daily in the municipalities of Chaves and Verín, although with unequal incidence"(Lois, 2013, 317). It can also be pointed out that they approximate the administration to the citizen and give visibility to the cross-border cooperation (in particular those that present form of EGTC that are supramunicipal cross-border structures). These presuppose a political impulse and permanent and constant administrative coordination, as well as a certain standardization of criteria for working and managing jointly.

The *Eurocidades* are inspired by the logic of the proximity cooperation or "second generation" (provision of services, recognition of rights and strategic positioning of the respective territories). The improvement of the services of proximity (public health centres, firefighters, sports facilities...) that the entities lend to the citizens translates into the accumulation of legitimacy of outcomes ('output legitimacy'). As a matter of economic development and cohesion projects, some suspicions existing in this area of cooperation are avoided. At the same time, it also increases the involvement and presence of citizens in the initiatives, preventing stopping its progression.

In connection with the latter, the elaboration of an agenda or joint document in the *Eurocidades* evidences a proactive, creative and propositive attitude, which presupposes the will and the ability to think and represent the future jointly and strategically. It is also necessary to consider the relative capacity of the

*eurociudades* and to mark or condition other agendas (European, interstate, state or regional).

In short, this cooperation of proximity or "second generation" derives from the transformation of the prevailing cognitive framework (ideas and values) and which, to a large extent, is the EU's work on territorial cooperation (cooperation as an opportunity). Perhaps, therefore, they are the subject of emulation by other entities outside the *Eurociudades*. It responds to a learning by political and socioeconomic actors about the benefits of cooperation that reinforces its appeal. Finally, it should be emphasized that these experiences of micro-cooperation, integrated or emergent, will affect the significance of the border (Lois, 2013).

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# Chinese FDI to Ukraine in the context of road and belt initiative

Liliya UKRAYINETS\*

## Abstract

*China is the leader of economic development among the countries of the Asian region and given its strong economic expansion it is the key economic center of the Asian and Eurasian mega-regions. The empirical study shows that Chinese investors receive additional incentives to invest in Ukraine if there is a prior positive investment experience, increasing market potential, and openness and economic freedom. As Ukraine is generally perceived as a path to European markets, the signing of the Association Agreement with the EU is a positive factor. However, the readiness of investors from China to support corruption schemes in the Ukrainian economy arouses concern. Therefore, in order to enhance and improve the structure of investment flows from China to Ukraine, it is necessary to take a number of measures to overcome corruption. One of the main priorities of modern Ukrainian foreign policy is joining Belt and Path Initiative*

*Keywords: China, foreign trade, foreign economic relations, FDI, Ukraine*

*JEL Code: F130, F210*

## 1. Introduction

Until recently the official key priority of Chinese economic policy was the attraction of inward foreign direct investments (FDI), but gradually there was a shift to the outward foreign direct investment from China. In the early 2000's, the country's government proclaimed the launch of a strategy of "going global" that encouraged Chinese enterprises to invest abroad. Since the mid-2000s, China's

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FDI has increased significantly, and now the volume of investment abroad exceeds the amount of direct investment received.

China is the leader of economic development among the countries of the Asian region and given its strong economic expansion it is the key economic center of the Asian and Eurasian mega-regions. It should be noted that the economic interests of China have long gone beyond the Asian-Pacific Region. Beijing defends its economic interests in Central Asia and Western Europe, in the Baltic and Balkan regions, there is boosting Chinese economic expansion in Africa, Southeast Asia and Latin America, and China is interested in exploring and developing the Arctic. Europe is one of the priority directions of foreign economic cooperation of China.

China is interested in enhanced cooperation with the countries of Central and Eastern Europe (CEE), as well as with the countries of the Eastern Partnership (Georgia can be a bright example, which has become an important transit point for China's foreign trade operations). The "16 + 1" format, which combines China with the sixteen CEE states, the Baltic States and the Balkans, is also of interest (Gerasimchuk & Poita, 2017). In the context of the launch of Belt and Road Initiative, Ukraine's European integration aspirations are an important factor that increases the attractiveness of the state for the Chinese partners.

International trade as part of foreign economic relations of Ukraine with the China is reflected in the research of Halperina & Shapoval (2003), Levkivsky (2013), Makogin (2011), Mokiy et al. (2006), Wang Peng (2005), Cheng Hongji (2015).

Foreign economic relations in the context of strategic development of cooperation between Ukraine and China are considered in the works of Kurnishova (2010) and Matusova (2011). Some aspects of economic cooperation including foreign trade and investment are highlighted in the researches by Velychko (1999), Holod (2014), Pogorelova (2010). The current state and prospects of the development of trade in services with China were considered by Vysotka (2013) and Ermachenko (2015). However, the current state of bilateral cooperation between Ukraine and China, the problems of further transformation of foreign economic relations, its impact on the country's economic development is not sufficiently highlighted.

## **2.China in the system of foreign economic relations of Ukraine**

China's interest in cooperating with Ukraine is also linked to the Chinese leadership's decision to create "foreign food bases." In particular, it includes the use of agricultural capabilities of Ukraine in conjunction with investment and technological capabilities of China. China's growing political and economic interests in the EU and New Eastern Europe (Belarus, Ukraine, Moldova, Latvia, Lithuania and Estonia) are strongly influencing the current Ukrainian-Chinese relations. China plans to implement its global strategy to increase exports and investments in potential markets located between Russia and the EU. Ukraine can become an important place for promotion of Chinese products and brands, access to new markets and the acquisition of strategic assets.

Thus, for Ukraine China acts as an important partner not only in the field of foreign trade, but also for the implementation of the strategic vector of Ukraine's economic development and its integration into the modern world economy. Accordingly, the expansion of cooperation with China means the emergence of new prospects for foreign economic cooperation with both Asian countries and the EU.

During the years of Ukraine's independence, these relations generally followed the upward trend and reached a peak in December 2013, when the Treaty on Friendship and Cooperation between Ukraine and the People's Republic of China and the Joint Declaration of Ukraine and the People's Republic of China on the further deepening of the strategic partnership relations were signed.

In 2018 the deficit was observed in Ukrainian trade with China (\$5.44 billion, an increase of 47.8% compared to the previous year), Russia (\$4.43 billion, growth by 36.3%), Germany (\$3.75 billion, an increase of 2.0%) and Belarus (\$2.48 billion, an increase of 20.6%). The positive trade balance of Ukraine was observed in the foreign trade operations with India and Egypt, with a surplus of \$1.56 billion. (see Table 1)

If we look at the data dynamic from 2001, we can conclude that Chinese share in the structure of Ukrainian foreign trade amounted to an average of 5.37% - 3.37% for exports and 7.08% for imports (see Table 2). For reference the share of Ukraine in Chinese foreign trade for the same period amounted to an average of 0.19% (the share in imports was 0.13%, the share in exports was 0.23%).

**Table 1. Trade balance of Ukraine with individual countries, 2018 (USD million)**

Country	2018	2017	To the previous year, %
<b>Total balance</b>	<b>-9.448</b>	<b>-6.165</b>	<b>53.3</b>
<b>The main sources of the deficit</b>			
China	-5,395	-3,650	47.8
Russia	-4,431	-3,252	36.3
Germany	-3,752	-3,678	2.0
Belarus	-2,481	-2,058	20.6
USA	-1,850	-1,693	9.3
Switzerland	-1,416	-1,413	0.2
France	-940	-1,145	-17.9
Lithuania	-535	-309	73.2
Japan	-505	-505	0.0
Sweden	-395	-356	11.0
<b>The main sources of surplus</b>			
India	1,562	1,645	-5.0
Egypt	1,461	1,754	-16.7
Netherland	822	1,037	-20.7
Spain	742	681	9.0
Moldova	672	605	11.0

*Source:* Based on the data of the State Statistics Service of Ukraine

Another indicator of the development of foreign trade relations between Ukraine and China is the export-import coverage ratio (see Table 3). During the period under study the predominance of import over exports grew steadily. After 2005 this figure never exceeded 1, and in 2018 it approached to the historical minimum and was only 0.29.

The analysis of the main indicators of the foreign trade relations between Ukraine and China proves the instability of terms of trade, a strong increase in Ukrainian imports, and at the same time, falling of Ukrainian export attractiveness for buyers from China.

### **3.Chinese foreign direct investment in Ukraine**

The inflow of foreign direct investment is an important indicator of the attractiveness of the national economy and ensuring its competitiveness in world markets.

**Table 2. Foreign trade in goods between Ukraine and China, 2001-2018**

	Total trade with China, bln USD	China's share in total trade of Ukraine, %	Ukraine's share in China's total trade, %	Export of Ukraine to China, billion USD.	China's share in Ukrainian exports, %	Ukraine's share in Chinese exports, %	Ukrainian import from China, billion dollars.	China's share in Ukrainian imports, %	Ukraine's share in Chinese imports, %
2001	0,68	2,12	0,13	0,48	2,95	0,07	0,2	1,26	0,19
2002	0,93	2,66	0,14	0,67	3,73	0,07	0,26	1,53	0,22
2003	1,52	3,29	0,17	1	4,33	0,11	0,52	2,25	0,24
2004	1,56	2,52	0,13	0,82	2,50	0,12	0,74	2,55	0,14
2005	2,52	3,57	0,17	0,71	2,07	0,23	1,81	5,01	0,10
2006	2,85	3,41	0,16	0,54	1,40	0,23	2,31	5,12	0,06
2007	3,74	3,40	0,17	0,43	0,87	0,27	3,31	5,45	0,04
2008	6,15	4,03	0,23	0,55	0,82	0,39	5,6	6,54	0,04
2009	4,16	4,88	0,18	1,43	3,60	0,22	2,73	6,01	0,14
2010	6,02	5,36	0,20	1,32	2,56	0,29	4,7	7,73	0,09
2011	8,45	5,59	0,23	2,18	3,18	0,33	6,27	7,59	0,12
2012	9,68	6,31	0,25	1,78	2,59	0,38	7,9	9,33	0,09
2013	10,63	7,58	0,25	2,73	4,31	0,35	7,903	10,26	0,14
2014*	8,08	7,46	0,18	2,67	4,95	0,23	5,41	9,94	0,13
2015*	6,17	8,15	0,15	2,4	6,29	0,16	3,77	10,05	0,14
2016*	6,49	8,59	0,17	1,8	4,94	0,22	4,69	11,97	0,11
2017*	7,74	8,34	0,18	2,1	4,84	0,24	5,64	11,40	0,11
2018*	9,8	9,40	0,21	2,2	4,64	0,30	7,6	13,37	0,10

\* - 2014-2018 excluding the Autonomous Republic of Crimea and the city of Sevastopol.

Source: Calculated on data of Trade Map: International trade statistic

As of December 31, 2018, the economy of Ukraine attracted \$32.3 billion of FDI (State Statistics Service of Ukraine, 2019), although according to the calculations of the Ukrainian Ministry of Economy, the total investment need for structural adjustment of the economy ranges from \$140 to 200 billion (Kirichenko, 2010, p. 65).

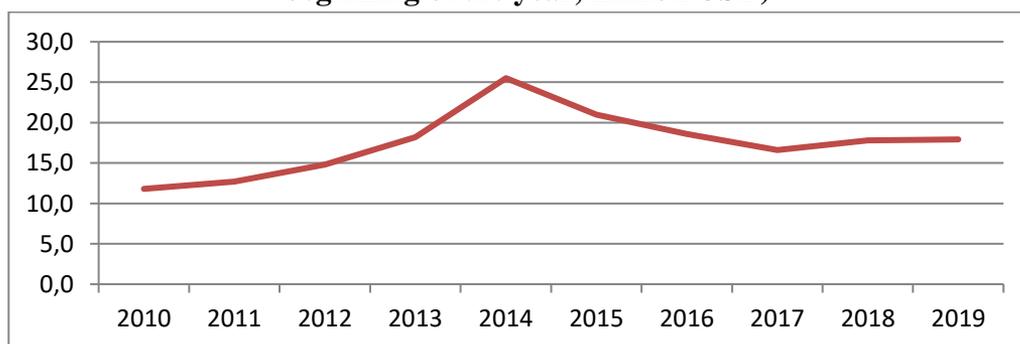
The number of countries that invested in the economy of Ukraine at the beginning of 2019 amounted to 125. The largest volumes of direct investment came from 10 countries: Cyprus, Germany, the Netherlands, the Russian Federation, Austria, Great Britain, France, the USA, the British Virgin Islands, and Sweden, which owns more than 81% of the total direct investment in Ukrainian economy. The number of enterprises involved in foreign investments is almost 19 thousand as of January 1, 2019.

**Table 3. Export-import coverage ratio in trade between Ukraine and China, 2001-2018**

Year	Export of Ukraine to China, billion USD.	Import of Ukraine from China, billion dollars.	Export-import coverage ratio
2001	0.48	0.2	2.4
2002	0.67	0.26	2.58
2003	1	0.52	1.92
2004	0.82	0.74	1.11
2005	0.71	1.81	0.39
2006	0.54	2.31	0.23
2007	0.43	3.31	0.13
2008	0.55	5.6	0.11
2009	1.43	2.73	0.52
2010	1.32	4.7	0.28
2011	2.18	6.27	0.35
2012	1.78	7.9	0.23
2013	2.73	7.903	0.35
2014	2.67	5.41	0.49
2015	2.4	3.77	0.64
2016	1.8	4.69	0.38
2017	2.1	5.64	0.37
2018	2.2	7.6	0.29

Source: Calculated on data of Trade Map: International trade statistic

Unfortunately, China is not among the listed countries, which form the basis of investments in the Ukrainian economy, although the country is considered to be the largest creditor of the world.

**Figure 1. Direct foreign investment in Ukraine from China (at the beginning of the year, million USD)**

Source: Elaborated by author based on State Statistics Service of Ukraine, 2019

Over last 30 years despite the positive dynamics of investment from China (Fig. 1), their volume remains at a rather low level, indicating that Chinese companies are not aware of the potential investment proposals of the Ukrainian business community.

At the beginning of 2019 Chinese investments in the Ukrainian economy amounted to \$17.9 million, which is 0.05% of the total volume of attracted investments. Given China's potential such numbers are not comforting. At the moment the priority areas for Chinese outward FDI is the extraction of natural resources, since China's own raw material base is gradually being exhausted; the financial sector considered by the Chinese business community as an opportunity for quick earnings and a separate brand (Mikheeva, 2005, p.24). In Ukraine Chinese capital is directed to agriculture and wholesale trade (Table 4)

Agriculture accounted for the largest share of investments - 39.6%. In the second place is the manufacturing, which accounts for 19.4% of all investments from China that is \$3.53 million. Among them \$1.9 million (56.5%) goes to processing industry, while \$702 thousand (1.99%) – to the mining industry.

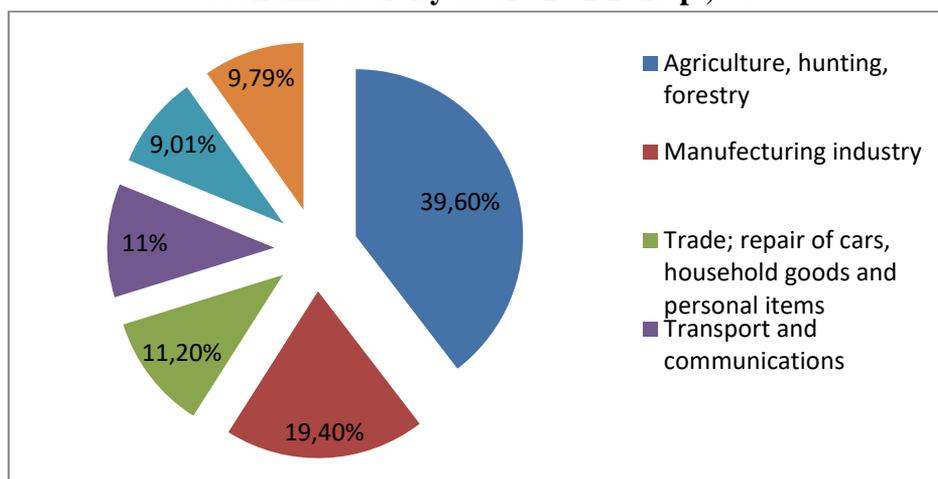
**Table 4. Direct foreign investment from China into the economy of Ukraine by types of economic activity (mln. USD)**

Areas of engagement	01.01.2018	01.01.2019
Total	16.6	18.2
Agriculture, hunting, forestry	6.57	7.36
Manufacturing industry	3.22	3.53
Trade; repair of cars, household goods and personal items	1.86	2.03
Transport and communications	1.82	2.00
Real estate operations, leasing, engineering and business services	1.56	1.64

*Source: Embassy of Ukraine to the People's Republic of China*

The dynamics of the opening of enterprises with Chinese capital testifies the interest of businessmen in promising investment projects, which, first of all, are oriented to agricultural and industrial regions. From 2014 the situation has changed radically: virtually every region (except Odesa region) feels a decrease in FDI inflows, due to the military conflict in the eastern part of the country and mistrust of Chinese businessmen to the Ukrainian legal framework.

**Figure 2. Chinese FDI into the Ukrainian economy by types of economic activity as of 01.01.2019 p., %**



Source: Embassy of Ukraine to the People's Republic of China □

The most attractive for Chinese investments was Dnipropetrovsk region, somewhat fewer investments were attracted in the Kharkiv region.

In the midst of globalization imbalances China's credit and investment policy is aimed at increasing the volumes of outward FDI in Asia and Europe through the creation of joint ventures and the active promotion of their companies to the priority markets. At the end of 2018 more than 10 thousand Chinese companies owned more than 14 thousand foreign enterprises located in 170 countries and regions of the world. In Ukraine, one can find such companies as China Road & Bridge Corporation; CITIC Construction Co.Ltd, a subsidiary of CITIC GROUP; Beijing Construction Engineering Group Co.Ltd, China Gezhouba Group International Engineering Co.Ltd., Chinese Development Bank, Chinese Construction Bank. However, despite the policy of the Chinese government to encourage Chinese entrepreneurs to place capital in such areas of the Ukrainian economy as energy, mining, forestry and agriculture, machinery, household appliances, communication, textile industry and transport, businessmen from China are in no hurry to invest in risky projects, giving priority to preferential lending under government guarantees.

At the political level China has demonstrated its willingness to invest in Ukraine under the Belt and Road Initiative. The agrarian and energy sectors, infrastructure projects, export-oriented processing enterprises and enterprises of power engineering are of great interest to the Chinese companies(Gerasimchuk&

Poita, 2017). Successful projects have emerged in cooperation with *Energoatom*, *Ukravtodor*, the deepening of the ports of *Pivdenny* and *Chornomorsk*.

#### 4. The Model and Findings

Now we try to explain how different factors can influence the investment decisions of Chinese enterprises in relation to Ukraine. Variables that will reflect the relevant factors will be related to macroeconomic indicators, indicators of political stability and a number of dummies. The model for analysis of investment flows from China to Ukraine is as follows:

$$FDI_t = a + \beta_1 FDI_{t-1} + \beta_2 MS_t + \beta_3 IL_t + \beta_4 TO_t + \beta_5 CT_t + \beta_6 HC_t + \beta_7 I_t + \beta_8 Crpt_t + \beta_9 EF_t + \beta_{10} EU_t + \beta_{11} ER_t + \beta_{12} Recession_t \quad (1)$$

$FDI_t$  – is the investment flows from China to Ukraine in time  $t$ . This is our dependent variable. Data were obtained from the State Statistics Service of Ukraine and the Ministry of Commerce of China for 2002-2017.

Independent variables in the model are as follows:

$FDI_{t-1}$  – lagged investment flows from China to Ukraine. A number of studies (i.e. (Quazi and View, 2007)) prove that the previous FDI implementation in the country directly influences further inflow of investments.

$MS_t$  –size of the Ukrainian market in the year  $t$ . Calculated as GDP at purchasing power parity. China in recent years have been proven to pay more attention to access to markets, respectively, the bigger the market is, the more attractive it looks for Chinese investors. Data were obtained from the statistical base of the IMF and the State Statistics Service of Ukraine

$IL_t$  – the income level in Ukraine for the year  $t$ . To measure this indicator we use GDP per capita. The level of income is not only related to effective demand, it also correlates with labor productivity, and research suggests that for Chinese investors in recent years it is also an important factor. Data were obtained from the statistical base of the IMF and the State Statistics Service of Ukraine

$TO_t$  – this is the country's trade openness in the year  $t$ . This variable is obtained as the import quota. Before Ukraine's accession to the World Trade Organization (WTO), there were more obstacles to the flow of imports, which could have been the reason for Chinese enterprises to invest in Ukraine instead of importing their products there. These data were calculated based on World Bank statistics.

$CT_t$  - the level of corporate tax in Ukraine in the year  $t$ . The level of tax burden can be a significant factor for the company when it decides to invest in the country. Relevant data was obtained from World Bank databases.

$HC_t$  -- the variable of human capital in the year  $t$ . Studies show that Chinese enterprises value low-cost, but well- educated labor force. As the result of migration processes this indicator in Ukraine has deteriorated for the most part, it can be a significant determinant of Chinese investments. As a measure for human capital, we used R & D expenditures as a percentage of GDP - another indicator that is often used for such researches, namely, the literacy rate of the population, is not indicative for Ukraine. Relevant data was obtained from World Bank databases.

$I_t$  - is an indicator of infrastructure quality in year  $t$ . Infrastructure itself is a major factor in making foreign investment decisions, but for China, with its specialization in major infrastructure projects, it can be one of the key determinants. We have received the relevant indicator from World Bank statistics.

$Crpt_t$  - the index of corruption in the country for year  $t$ . As shown by the example of African countries (Ukrainets, 2013), corruption has a great impact on Chinese investors, compared with investors from developed countries. The high level of corruption is less frustrating for the Chinese firms, as it provides some protection against competition from developed countries that are not accustomed to acting in such an environment. The data is obtained from Transparency International.

$EF_t$  - the variable reflecting the level of economic freedom for the period  $t$ . This index is determined by Heritage Institute and includes many other indicators. This is a good measure of the business environment in the country, which can also affect investment from China.

$EU_t$  - a dummy reflecting the signing of an agreement on a free trade area with the EU. The Free Trade Area provides for the free access of a number of goods produced in Ukraine to European markets that are in the interests of China. This variable equals 1 since 2014, when the provisional application of the Association Agreement between Ukraine and the EU begins to be implemented.

$ER_t$  - a variable reflecting fluctuations in the exchange rate of hryvnia against the dollar per year  $t$

$Recession_t$  - dummy variable that reflects two major recession, from 2008 to 2010 due Global crisis and in 2014-2016 due to the annexation of the Crimea and the military operation in the east of the country.

We analyzed time series models using the least squares method - the most commonly used method for such models. Table 5 shows the results of model calculation.

In the first column, the calculations are based on the basic equation (1), taking into account all independent variables.

As can be seen from Table 5, the investment experience (FDI indicator), market potential (GDP), and income level (GDP per capita) are statistically significant at 10%. Positive and significant impact of these indicators was predicted by the hypothesis of the study.

**Tables 5. Results of model analysis for identification of factors influencing FDI from China to Ukraine.**

Variables	Basic equation	Corrected equation
Lagged flows of FDI	0.101 *	0,341 ***
GDP	0.019 *	0.008 **
GDP per capita	0.003 *	-0,001
Foreign trade openness	0.154 ***	0,177 ***
Corporate tax rate	-0.015 *	-0,010 ***
R & D to GDP	0.007	0.002
Infrastructure	0.025	0.020 **
Corruption	-0.011 **	0.012
Economic freedom	-0.019	-0,033 **
Association Agreement with the EU	0.032 *	
Exchange rate	-0.014	
Recession	-0.017 *	
Constant	0,142 **	0,077 **
Adjusted R <sup>2</sup>	0.577	0,767
Average square error	0.020	0.032

Note: Significance at level \*\*\* < 1%, \*\* < 5%, \* < 10%.

Source: *Elaborated by author*

The absence of obstacles in Ukraine's foreign trade is very significant and positive. The more open the foreign trade policy was pursued by the country, the more investments came from China. This means that the motive for China in the case of Ukraine is not penetration into the domestic "fenced" market of the country, but the use of Ukraine as a platform for access to other, larger and more affluent markets of neighboring countries.

The growth of corporate taxes has negatively impacted on investments from China, which also corresponds to the hypothesis identified at the beginning of the study. As can be seen from the example of the Baltic countries, low taxes contribute to the improvement of the investment climate and the attraction of foreign investment. This result would probably be even more statistically significant if, instead of the corporate tax indicator, we used an effective tax rate (De Mooij & Ederveen, 2006), but our capabilities were limited by the lack of necessary statistical data.

High corruption, as in the case of African countries (Ukrainets, 2013) can be a stimulus to increase investment from China. Not least this is due to China's desire to reduce its production processes and to avoid harsh environmental and labor protection requirements, which forces the Chinese firms to pay attention to countries with high levels of corruption, including Ukraine. In addition, operating in a corrupt environment, the Chinese firms avoid direct competitive collision with western companies that choose to escape such markets. Of course, this factor cannot be considered favorable from the point of view of the strategic prospects for the development of the national economy: the Chinese investments attracted by high levels of corruption cannot be an engine of economic revival and are aimed mainly at the pumping of resources.

Dummies - the recession and the Association Agreement - also showed some significance for the inflow of foreign investment from China with a sign that coincides with the hypothesis.

In the next column of Table 5, an analysis of the corrected equation (1) was performed: the exchange rate indicator and dummies were dropped out. These variables were removed because they did not show statistical significance when analyzing the model's basic equation. The major difference compared to the basic equation is that the indicators of economic freedom (with a negative sign) and infrastructure (with a positive one) were statistically significant at the level of 5%.

Consequently, from our research it can be concluded that Chinese investors receive additional incentives to invest if there is a prior positive investment experience, increasing market potential increases, and openness and economic freedom. As Ukraine is generally perceived as a path to European markets, the signing of the Association Agreement with the EU is a positive factor as well. However the readiness of investors from China to support corruption schemes in the Ukrainian economy arouses concern. Therefore, in order to

improve and improve the structure of investment flows from China to Ukraine, it is necessary to take a number of measures to overcome corruption.

Also, Ukraine should, practically and not nominally, join the Chinese Belt and Path Initiative, which prioritizes Ukraine as an important partner for China. To this end Ukraine should explore the possibility of joining Asian Bank Infrastructure Investments (ABII), which, along with the Silk Road Fund, is the main financial tool within the Belt and Path Initiative. At the Third International Forum of the Belt and Path Initiative, which took place in October 2018, four key objectives were formulated in the formation of the Belt and Path:

1) the creation of a multi-level mechanism for cooperation between people, the construction of new platforms for cooperation and the opening of new channels of cooperation.

2) promoting cooperation in the field of education, expanding the scope of mutual exchange of students and improving the level of cooperation between universities.

3) strengthening the role of "think tanks" and creating alliances and a network of cooperation between them.

4) creation of a new model of cooperation and promotion of specific projects.

With the activation of participation in this initiative, Ukraine will have to focus first of all on the following tasks. They come into sharp focus when taking into account the estimates of Chinese experts who claim that within the framework of the initiative in the near future China can invest 45-50 billion dollars in Ukraine. China, by offering its own concept, not only seeks to create roads and railways, it thinks about the routes for the transportation of goods. It seeks to create an area of economic interaction and development for the countries participating in this project. China is trying to use the globalization and modern interdependence of the countries of the world in order to find a balance of interests for each participant in the project, make it universal. This is a new interpretation of globalization, China's attempt to lead and determine the course of the process, which is already called "globalization 2.0."

## **5. Conclusions**

The empirical study shows that Chinese investors receive additional incentives to invest if there is a prior positive investment experience, increasing market potential increases, and openness and economic freedom. As Ukraine is generally perceived as a path to European markets, the signing of the Association

Agreement with the EU is a positive factor. However the readiness of investors from China to support corruption schemes in the Ukrainian economy arouses concern. Therefore, in order to improve and improve the structure of investment flows from China to Ukraine, it is necessary to take a number of measures to overcome corruption.

In the context of rational prospects for the development of bilateral trade relations with China, development of a strategy of diversification of export-import operations with the partners, aimed at counteracting foreign trade dependence on the EU and the Russian Federation, and the improvement of trade balance through the deepening of trade relations with the countries of APEC, in particular with China, is necessary. The European Union is also interested in conceptualizing and modernizing the strategy of cooperation with China, as this country is a regional leader in Asia and the second EU partner in international trade. Formation and development of the institutional framework for cooperation with the China will improve the competitive position of the Ukrainian economy, provide additional tools for influence during the negotiation process on the European integration process. China should be considered not only as an important partner and participant in integration groups, with some of which Ukraine has economic and political relations, but also as a separate geographic vector of foreign economic activity at the level of the Eurasian Customs Union (EACU) and EU countries. Ukraine can avoid some of the negative effects of Eurasian integration and accelerate its accession to the EU through cooperation with China.

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# Protection and Promotion of Agricultural and Food Products at European Union level through European Quality Schemes

Laura Cătălina ȚIMIRAȘ<sup>3</sup>

## Abstract

*This paper aims to highlight the use of European quality schemes at Community level to protect agri-food products, including alcoholic beverages. After highlighting the advantages granted to products by using these schemes to protect and, implicitly, promote those products having unique characteristics linked to their geographical origin or, as the case may be, the traditional production / processing system, the paper presents the situation at Community level from the point of view of the quantity of products protected through different quality schemes, by country and category of protected products. Among the quality schemes used at EU level for agri-food products, including alcoholic beverages in the present paper we referred to: "geographical indication" and "traditional specialty guaranteed". The paper is based on the information of European Commission in which protected products are registered through different quality schemes, through and the information contained in various scientific papers, normative acts and statistical databases.*

*Keywords: European quality schemes, geographical indications, traditional speciality guaranteed, European Union*

*JEL Code: L15, M31, Q13, Q18*

## 1. Introduction

Distinctive quality signs (geographical indications, traditional specialties guaranteed, etc.) have, besides the role of protection, an important role in promoting agri-food products, enabling it to guarantee its quality, product individualization and differentiation, consumer information. In this context, the

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benefits of product differentiation, when targeting important attributes for the consumer, attract numerous qualitative and quantitative benefits: a higher perceived value of the product and, implicitly, the improvement of its image, increased satisfaction and loyalty of the current consumers, the attraction of new customers, the possibility to practice higher prices in accordance with the higher value of the product and, implicitly, higher revenues resulting from the sale of the product etc. Also, the use of quality distinctive signs allows rural areas to be helped by promoting products that have characteristics related to a particular geographical area, thus having real advantages for both producers and consumers.

According to the information on the European Commission website (accessed on 20.01.2019), the quality schemes used on the EU territory are: "geographical indication", "traditional specialty guaranteed", "mountain product", "product of EU's outermost regions". It is specified that EU policy on the quality of agri-food products aims to protect the names of specific products in order to promote their unique characteristics linked to geographical origin and traditional know-how (protection through "geographical indication" and "traditional specialties guaranteed"), plus the protection of products in areas with difficult geographic / meteorological conditions, such as mountains or islands ("product of EU's outermost regions"). It should be noted that, in addition to the EU quality schemes indicated, a large number of private schemes are used at Community level and there are also schemes that are applicable at national level.

From the schemes presented, in this paper we have focused on highlighting the extent to which geographical indications and traditional specialties guaranteed are used at Community level.

Geographical indications include several quality schemes, namely: protected designation of origin (PDO), protected geographical indication (PGI) and geographical indication (GI). PDO and PGI are applicable to food, agricultural products and wines and GI for spirit drinks and aromatised wines.

***Designation of origin*** is a name which identifies a product: originating in a specific place, region or, in exceptional cases, a country; whose quality or characteristics are essentially or exclusively due to a particular geographical environment with its inherent natural and human factors; and the production steps of which all take place in the defined geographical area. (Regulation (EU) No 1151/2012)

***Geographical indication*** is a name which identifies a product: originating in a specific place, region or country; whose given quality, reputation or other

characteristic is essentially attributable to its geographical origin; and at least one of the production steps of which take place in the defined geographical area. (Regulation (EU) No 1151/2012)

Protection of the traditional production / processing system for food and agricultural products can be ensured through traditional specialty guaranteed.

A name shall be eligible for registration as a *traditional speciality guaranteed* where it describes a specific product or foodstuff that: results from a mode of production, processing or composition corresponding to traditional practice for that product or foodstuff; or is produced from raw materials or ingredients that are those traditionally used (Regulation EU No 1151/2012).

Agri-food products, including alcoholic beverages protected by quality signs at Community level, are recorded in the following databases: E-Bacchus database - for wines, DOOR database - for food and agricultural products, E-spirit-drinks database for spirits and Aromatised wines database - aromatized drinks based on wine products.

## 2. Literature review

Distinctive quality marks are part of the legal protection of products. Generally, industrial property experts believe that legal product protection ensures a sustainable product differentiation (Nacka, Georgiev and Dabovic - Anastasovska, 2013).

Referring to the geographical indications Addor and Grazioli (2002) stated that they are distinctive signs that allow product identification on the market and which, if properly used and protected, become real marketing tools of great economic value.

Product protection through distinctive signs offers increased chances to enter new markets. Thus, according to Bramley, Biénabe and Kirsten (2009) geographic indications offer the opportunity for agri-food producers whose added value has a strong geographic connection to penetrate more profitable niche markets. On the other hand, Agostino and Trivieri (2014), relying on the results of a research on the wine market, state that, as a result of institutionalization of quality, European producers can get higher quotas on international markets and expand exports to new destinations. For example, in 2010 out of total extra - EU exports of agri - food products and beverages, 15% were products with geographical indications, and in the same year, of the total sales of such products only 60.1% were made on the national markets, the rest of 39.9% being achieved

at external markets, respectively 20.4% intra-EU market and 19.9% extra EU-market (European Commission, 2013).

The financial benefits are not exclusively generated by an extensive market expansion (as we have already mentioned), but also as a result of higher sales prices for protected products. Thus, according to a study by AND International for the European Commission, in 2012 average prices of products with geographical indication were 2.23 times higher than similar products but without geographical indication. The biggest differences between the prices of products with and without geographical indication were registered for wines (prices higher than 2.75 times, on average), followed by spirits (2.57 times) and finally agricultural and food products with higher prices 1.55 times (Chever, Renault, Renault and Romieu, 2012).

In line with the above-mentioned ideas, Agostino and Trivieri (2014) stated that geographical indications are both a means of protecting producers against unfair competition and of guaranteeing certain characteristics of the products to consumers by making them more willing to pay higher prices which makes producers less affected by price competition and allowing them to achieve higher profits for better quality and differentiation.

The use of distinctive quality signs undoubtedly also has a decisive role in protecting European culinary heritage. Bonadonna, Macar, Peira and Giachino (2017) stated that European quality systems played an important role in regaining a large and varied amount of traditional agricultural and food products and in preventing their disappearance due to economic and social development; in the absence of European quality policy, many of the products protected at European level would have been lost or at least not marketed outside their regional and national borders.

There is a real interdependence between the value of products with geographical indications and the value of resources of a country / region. Thus, on the one hand, according to Addor and Grazioli (2002), the geographical indications highlight the cultural identity of a specific country, region or area, increasing the value of a country's natural wealth and the skills of its population and giving local products a distinctive identity. On the other hand, when the place of origin is used as an attribute, resources in the region (landscape, cultural and historical and "local savoir faire") become an integral part of the product with geographical indication, the territorial attributes being thus synthesized in the product and used to increase the value of the product (Bramley, Biénabe and Kirsten, 2009).

The market benefits of using distinctive quality signs are related to changes in consumer requirements, which are increasingly interested in the quality of the products consumed. In this context, distinctive quality marks provide additional information in the purchasing decision process in order to guarantee the quality of the product being evaluated, thus being an important criterion for choice. For example, a survey conducted in 2006 in Romania (a country belonging to the old communist bloc, whose market is undoubtedly characterized by a level of consumer exigencies below those recorded in developed countries), revealed that out of 950 respondents, 20.9% considers that the quality mark applied on the packaging (PGI, PDO, other signs representing a guarantee of quality, excluding the brand) is very important in the decision to purchase agro-food products, and 30.6% of the respondents said they are important (Țimiraș, 2007, p.312). The same study also highlighted the importance of "traditional", of the total respondents 31.2% considered important and very important in the purchase decision that the products should have tradition on the Romanian market (Țimiraș, 2007, p.305).

The benefits of geographical indications are also highlighted in a European Commission document (2010), which states that after the creation of the legislative framework in 1992 for the use of geographical indications, they were considered to be successful, registering until this moment the production of 900 names of agricultural and food products (with a market value of 21 billion euros - 2008 consumer prices), plus 1800 wine names and more than 300 names of protected spirits. Later, another document of European Commission (2013) highlighted the evolution of sales of products with geographical indications over a 5-year period (2005-2015), those rising from € 48446 millions to € 54346 millions (+ 12.2%).

### **3. Data and Methodology**

Highlighting the existing situation at EU level as regards the number of the names protected by PGI, PDO; TSG, GI is based on the information contained in the European Commission's databases: E-Bacchus database, DOOR database E-spirit-drinks database, Aromatised wines database. The information in these databases has undergone a centralization process, and is then presented through absolute and relative frequencies by product category, by country and by total EU.

## 4. Results

### 4.1. The number of agri-food products and alcoholic beverages protected by quality signs at EU level

At the beginning of 2019, 3458 agricultural and food products, including alcoholic beverages, most of which were represented by wines (51.1%) and food and agricultural products (approx. 41.6%), were protected at European Union level by geographical indications and traditional specialty guaranteed. (Table 1 and Figure 1)

**Table 1. Number of EU-wide protected agri-food products and alcoholic beverages by quality scheme and product categories at the beginning of 2019**

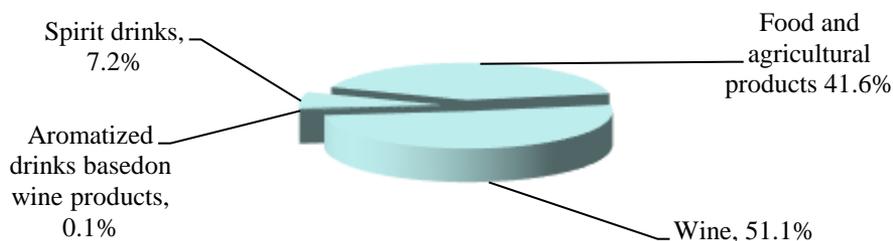
Product category	Number of products
Wine (PGI, PDO)	1766
- PDO	1306
- PGI	460
Food and agricultural products (PGI, PDO, TSG)	1439
- PDO	635
- PGI	745
- TGS	59
Spirit drinks (GI)	248
Aromatized drinks based on wine products (GI)	5
<b>Total</b>	<b>3458</b>

Source: Elaborated by author based on European Commission, E-Bacchus database, DOOR database, E-spirit-drinks database, [Aromatised wines](#) database (accessed on 08.01.2019)

On categories of quality schemes, for wines, most of them are protected by PDO (74% of the total), and for agri-food products PGI (51.8%) predominates, spirits and aromatic drinks being protected exclusively by GI.

Of the EU-protected products through quality signs, a part belongs to non-EU states (2 spirits and 26 agri-food products, according to the information valid on 08.01.2019). (European Commission, E-Bacchus database, DOOR database, 2019).

**Figure 1. Structure of products protected by geographical indications or traditional specialty guaranteed, by product category**

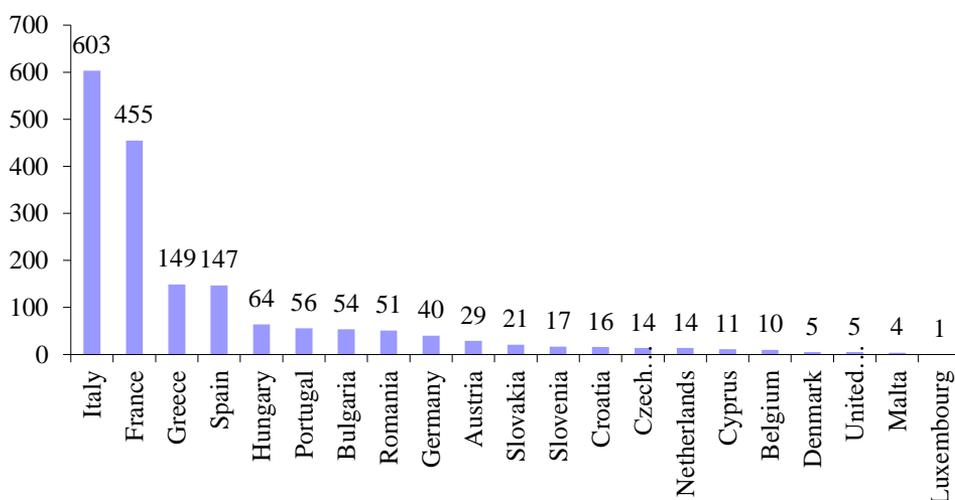


Source: Elaborated by author based on European Commission, E-Bacchus database, DOOR database, E-spirit-drinks database, [Aromatised wines](#) database (accessed on 08.01.2019)

#### 4.2. The number of protected wines through quality signs in EU

According to information in the E-Bacchus database, at the beginning of 2019, at the EU level, 1766 PDO or PGI wines were protected. Over the course of time, another 176 wines have received protection but at this time they no longer have protection. The country distribution of the PDO or PGI wine number is shown in Figure no. 2.

**Figure 2. Number of protected wines (PDO, PGI) at EU, by country**



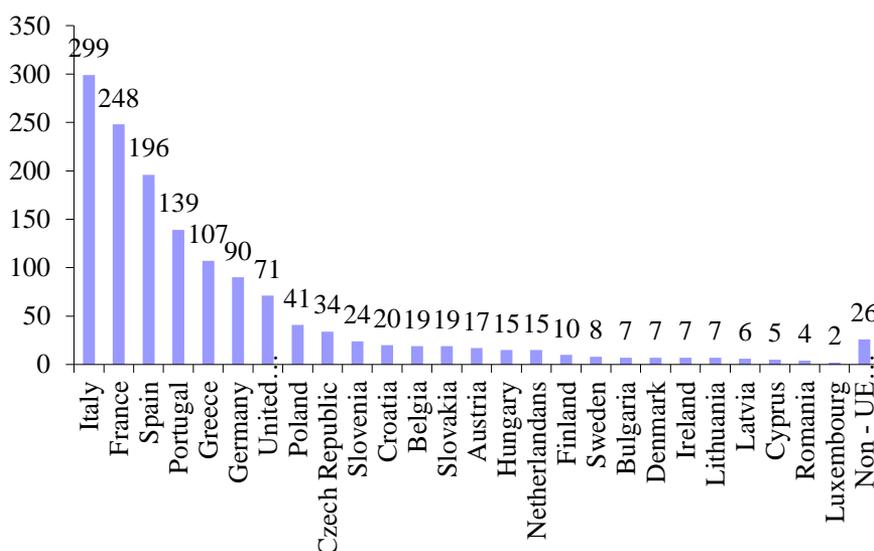
Source: Elaborated by author based on European Commission, E-Bacchus database (accessed on 08.01.2019)

There is a high concentration per countries of the number of protected wine names, over 75% of the total EU-protected names being registered in Italy (34.1% of the total), France (25.8%), Greece (8.4%) and Spain (8.3%).

#### 4.3. Number of food and agricultural products protected by geographical indications and traditional specialties guaranteed at EU level by country

According to the DOOR database, 1439 products were protected at the community level in early 2019, with country distribution shown in Figure 3.

**Figure 3. Number of food and agricultural protected products by geographical indications (PDO, PGI) and traditional specialty guaranteed (GTS) at EU level, by country**



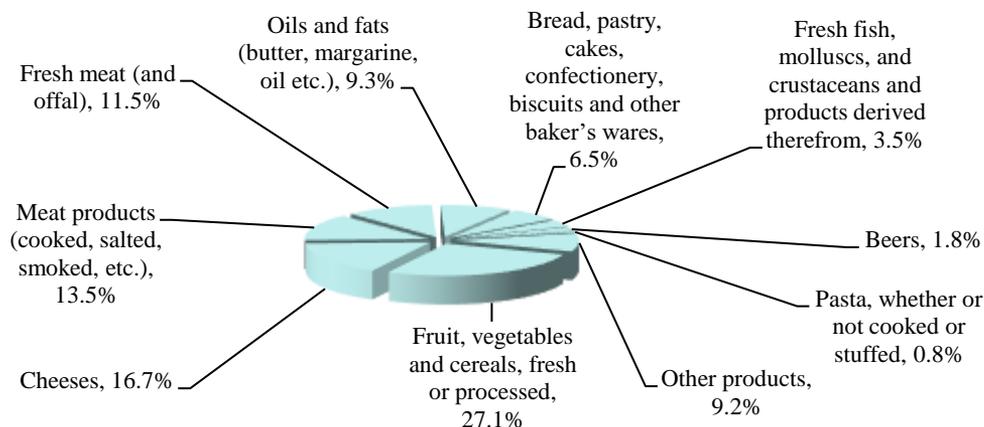
Note: For a number of 4 products, the application for registration was filed by two states (Czech Republic and Slovakia) and therefore is reported in both states.

Source: Elaborated by author based on European Commission, DOOR database (accessed on 08.01.2019)

Of the total protected names, most belong to: Italy (20.8%), France (17.2%), Spain (13.6%) and Portugal (9.7%), together accounting for 61.3% of the total number of registered names.

By categories of products, the largest share is: fruits, vegetables and cereals, as well as cheese and meat and meat products (Figure 4).

**Figure 4. Structure of EU-protected food and agricultural products through PDO, PGI, STG, by product category**



*Source: Elaborated by author based on European Commission, DOOR database (accessed on 08.01.2019)*

The distribution by country and product class of the names of protected food and agricultural products is presented in Table 2.

Referring to the category "Fruit, vegetables and cereals, fresh or processed" at Community level, Italy holds the highest share in total protected names (28.7%), followed by Spain (15.9%), France (14.4%) and Greece (11.5%).

France and Italy ranked first in the "Cheeses" category with 22.4% and 22% respectively, followed by Spain with 11.6%.

For "Meat products (cooked, salted, smoked, etc.)", Italy and Portugal outnumbered the other states with 22.2% and 21.1%, respectively.

The Fresh meat (and offal) category is represented to a significant extent by France (46.4%), followed by Portugal and Spain (by 18.7% and 12% respectively).

In the case of "Oils and Fats (butter, margarine, oil etc.)", Italy, Spain, and Greece are the countries with the largest share of Community-registered names (34.3%, 23.1% and 22.4%).

**Table 2. Number of EU-protected food and agricultural products through PDOs, PGIs and GHGs by country and product class**

Country	Fruit, vegetables and cereals, fresh or processed	Cheeses	Meat products (cooked, salted, smoked, etc.)	Fresh meat (and offal)	Oils and fats (butter, margarine, oil etc.)	Bread, pastry, cakes, confectionery, biscuits and other baker's wares	Fresh fish, molluscs, and crustaceans and products derived therefrom	Beers	Pasta, whether or not cooked or stuffed	Other products
Austria	6	6	2	-	1	-	-	-	-	2
Belgium	4	1	3	-	1	2	-	5	-	3
Bulgaria	-	-	6	-	-	-	-	-	-	1
Czech Republic	3	3	5*	-	-	9	2	9	-	3
Cyprus	1	-	1	-	-	3	-	-	-	0
Croatia	4	-	7	3	4	1	-	-	-	1
Denmark	2	3	-	2	-	-	-	-	-	0
Finland	1	-	2	1	-	3	2	1	-	0
France	56	54	19	77	10	3	5	-	2	22
Germany	23	9	18	5	1	9	7	9	2	7
Greece	45	21	-	2	30	2	1	-	-	6
Hungary	5	-	4	1	-	1	-	-	-	4
Ireland	-	1	1	1	-	1	1	-	-	2
Italy	112	53	43	6	46	15	5	-	5	14
Latvia	2	1	-	-	-	2	1	-	-	0
Lithuania	-	2	1	-	-	1	-	-	-	3
Luxembourg	-	-	-	-	1	-	-	-	-	1
Malta	-	-	-	-	-	-	-	-	-	0
Netherlands	4	8	-	-	-	2	1	-	-	0
Poland	10	5	8	1	1	7	1	-	-	8
Portugal	28	12	41	31	6	7	1	-	-	13
Romania	1	1	1	-	-	-	1	-	-	0
Slovakia	1	10	4*	-	-	2	-	-	-	2
Slovenia	1	4	8	-	2	2	-	-	1	6
Spain	62	28	17	20	31	17	5	-	-	16
Sweden	1	2	1	1	-	2	1	-	-	0
UK	8	17	5	14	-	1	14	2	-	10
Non - UE	10	-	1	1	-	1	3	-	1	9
<b>Total</b>	<b>390</b>	<b>241</b>	<b>194</b>	<b>166</b>	<b>134</b>	<b>93</b>	<b>51</b>	<b>26</b>	<b>11</b>	<b>133</b>

\* for 4 products, the application for registration was filed by two states (Czech Republic and Slovakia) and is therefore reported in both states.

Source: Elaborated by author based on European Commission, DOOR database (accessed on 08.01.2019)

In the category of “Bread, pastry, cakes, confectionery, biscuits and other baker's wares”, Spain and Italy also hold the highest shares (18.3% and 16.1%).

As regards “Fresh fish, molluscs and crustaceans and products derived therefrom”, the United Kingdom (27.5%) and Germany (13.7%) are the countries with the most protected names.

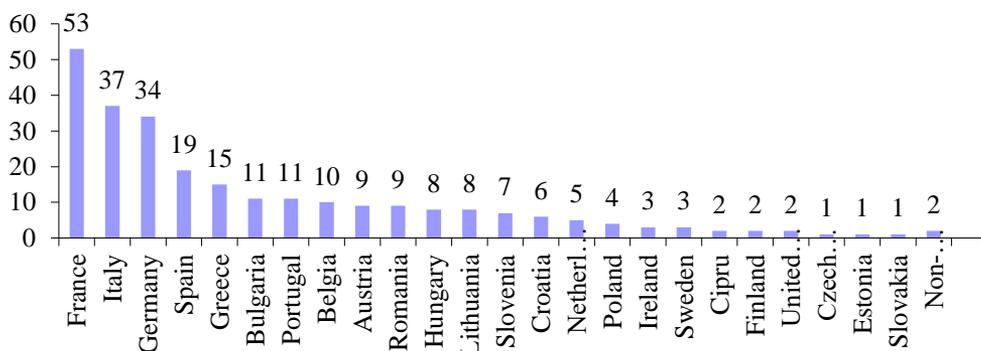
“Beers” are mainly protected by Czech Republic and Germany (both with 34.6% of total protected names), followed by Belgium (19.2%).

The category “Pasta, whether or not cooked or stuffed” is represented by Italy (45.5%), followed by France and Germany (both with 18.2% in total protected names).

#### 4.4. The number of spirit drinks with geographical indications (GI) registered at EU level, by country

In the category of spirits, protected at EU level through GI are 248 products, the countries with the most protected names being: France, Italy and Germany. (Figure 5)

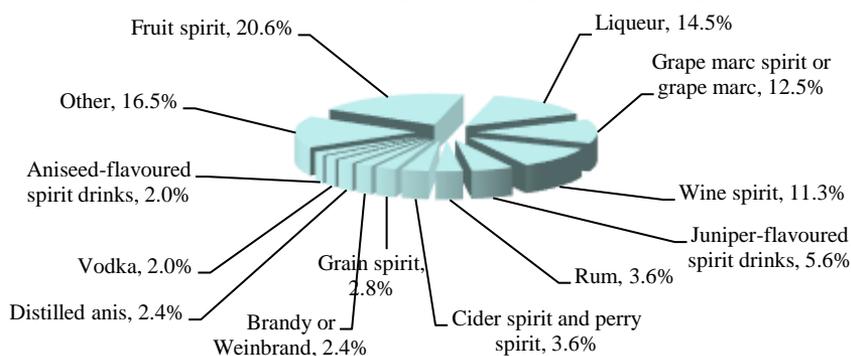
**Figure 5. The number of GI EU-protected spirituous beverages, by country**



Note: For a number of 9 products, the application for registration has been filed by two or more states, being reported to all the states concerned.

Source: *Elaborated by author based on European Commission, Aromatised wines database (accessed on 08.01.2019)*

By product categories, most of the protected products fall into: fruit spirit, liquor, grape marc spirit, grape marc, wine spirit. (Figure 6)

**Figure 6. Structure of EU-registered spirits through GIs by category**

*Source: Elaborated by author based on European Commission, Aromatised wines database (accessed on 08.01.2019)*

#### **4.5. Evolution of EU-protected number of wines, food and agricultural products by country**

Over time, the number of agricultural and food products, including alcoholic beverages, protected by quality signs at EU level, increased on the one hand due to the enlargement of the Community area (the time of accession of the different new Member States was also the beginning of the European protection approach for different agri-food products), but also as a result of the increase in the number of protected names belonging to the old members, on the other hand. Thus, an established approach of some of the old member states: Italy, France, Spain, Portugal and Greece, is being observed in time, which stands out from the perspective of most protected names at Community level, to protect new and new products. Referring to the enlargement of the EU, we mention that the right to register quality signs at EU level is not conditional on membership of the EU, but it is clear that entry into the EU and, together with it, the right to free movement of goods has increased much of the interest of manufacturers in the new member states to protect their own products and implicitly for specific quality signs, thus increasing the chance for products to be accepted by European consumers. For example, after Romania and Bulgaria joined the EU on 1 January 2007, 52 new Romanian wine names were registered in the same year (one of which was later removed from the Register of Protected Designations of Origin and Protected Geographical Indications in the EU) and 53 Bulgarians, according to the European Commission, E-Bacchus database (2019), representing 76% of the total of the wines registered in that year at Community level.

The evolution of the number of wines, food and of agricultural products protected at Community level by PDO, PGI, STG, categories with a total of 92.7% of protected designations at Community level is shown in Table 3.

Generally, the country-by-country distribution of protected names for the different product categories is directly related to the existence of factors dependent on the production of certain agricultural products: climatic factors that make it possible to obtain products with special properties, in which countries such as France, Spain, Italy, Greece or Portugal enjoy real benefits, but also the size of agricultural areas for crop production or livestock production which condition the production (for example referring to wines 3 of the top 4 Community countries with the most protected names - Italy, France, Spain own more than 3/4 of the EU wine grape area, and over 80% of total wine grape production, calculated on the basis of data for 2016 provided by Eurostat, 2019), to which add permanent interest and support for manufacturers to protect the products when they meet the conditions required for obtaining different quality signs.

On the other hand, for certain categories of products, the distribution of protected names is also in line with the culinary preferences of the population in different areas. Thus, countries recognized for the preference of the population towards certain products have significant weightings in these categories in all EU-protected names.

For example, for wines, France and Italy, the countries with the largest number of protected names at EU level, are also the countries with the highest wine consumption per person worldwide (45.1 litres for France and respectively 45 litres for Italy, according to data for 2018). (Statista, 2019)

Also, of the 11 names protected in the EU in the “pasta, whether or not cooked or stuffed” category, 45.5% belong to Italy, the Italians being known for their preference for pasta. According to a report by the International Pasta Organization (2014), Italians are the world's largest pasta consumers with average consumption per person of 25.3 kg in 2013.

44.4% of all cheeses are protected by France and Italy, which are renowned for their increased preference for this category of food. According to a report by the International Dairy Federation (2010), in 2009 the French consumed 26.1 kilograms of cheese per person on average, while the Italians consumed 20.9 kilograms / person. Values well above the EU-27 average (16.6 kilograms cheese / person).

**Table 3. Evolution of EU-protected number of wines, food and agricultural products by PDO, PGI, STG, by country**

Country	Period									
	Before 2000		2000 - 2004		2005 - 2009		2010 - 2014		2015 - January 2019	
	Wine	Food and agricultural products	Wine	Food and agricultural products						
Austria	20	11	6	1	2	1	1	1	-	3
Belgium	-	8	2	1	7	3	-	3	1	4
Bulgaria	-	-	-	-	54	-	-	5	-	2
Czech Rep.	-	-	-	3	10	19	4	11*	-	1
Cyprus	-	-	-	-	11	1	-	1	-	3
Croatia	-	-	-	-	-	-	16	-	-	20
Denmark	-	2	-	1	-	-	4	3	1	1
France	390	99	27	34	7	34	27	52	4	29
Finland	-	1	-	3	-	2	-	4	-	-
Germany	31	24	-	8	8	9	-	38	1	11
Greece	28	75	66	9	40	2	15	15	-	6
Hungary	-	-	-	-	62	4	-	10	2	1
Italy	372	97	84	47	50	50	97	75	-	30
Latvia	-	-	-	-	-	-	-	2	-	4
Lithuania	-	-	-	-	-	-	-	6	-	1
Ireland	-	2	-	1	-	1	-	1	-	2
Luxembourg	1	-	-	2	-	-	-	-	-	-
Malta	-	-	-	-	3	-	1	-	-	-
Netherlands	-	4	9	2	3	1	-	3	2	5
Poland	-	-	-	-	-	15	-	21	-	5
Portugal	44	74	3	16	8	26	1	9	-	14
Romania	-	-	-	-	51	-	-	1	-	3
Slovakia	-	-	-	-	16	4	4	11*	1	4
Slovenia	-	-	-	-	17	1	-	20	-	3
Sweden	-	1	-	3	-	-	-	3	-	1
Spain	66	43	35	41	36	44	9	51	1	17
UK	-	23	-	6	-	6	4	22	1	14
Non-UE	-	-	-	-	-	1	-	16	-	9
<b>Total</b>	<b>952</b>	<b>464</b>	<b>232</b>	<b>178</b>	<b>385</b>	<b>224</b>	<b>183</b>	<b>380*</b>	<b>14</b>	<b>193</b>

\* for 4 products, the application for registration was filed by two states (Czech Republic and Slovakia) and is therefore reported in both states.

Source: Elaborated by author based on European Commission, E-Bacchus database and DOOR database (accessed on 08.01.2019)

69.2% of all beer-protected names belong to Germany and the Czech Republic, countries that are the world's top in terms of consumption. Thus, according to Statista (2018), in 2017, Czech Republic ranks first in the world in beer consumption (137.38 litres / capita), and Germany ranked third in the world (95.95 litres / capita).

## 5. Conclusions

Distinctive quality signs are real tools available to operators at Community level to protect their own products with unique characteristics linked to their geographical origin or, as the case may be, to the traditional production / processing system and to promote their own rural areas. The advantages of using these signs are: product differentiation and individualization, the ability to penetrate niche markets or external markets, improve the image of products through quality assurance, association with home country resources, higher pricing, consumer information, European culinary heritage preservation of etc., which are equally enjoyed by producers and consumers.

In the context of the benefits presented at the European level, the number of protected names through quality signs (PDO, PGI, STG, GI) increased annually to 3458 at the beginning of 2019, of which 51.1% represented wines, 41.6% food and agriculture products and 7.2% spirit drinks. Among the member countries, it is particularly noteworthy Italy and France with the most protected names, both in terms of wines, food and agricultural products or spirits; followed by countries such as Spain, Greece and Portugal, a fact justified in particular by the climatic favourable conditions to agricultural production and / or by the areas reserved for agriculture activities. Apart from the conditions necessary for the realization of the various agricultural productions, for certain categories of products (wines, beers, cheeses, pasta) we can find a distribution by country of the protected names linked to the culinary preferences of the population; countries with a significant number of registered names also remarked from the perspective of the high consumption of the population in these product categories.

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# Knowledge-based society - a condition to ensure sustainable development

Viorelia LUNGU<sup>4</sup>

## Abstract

*A knowledge-based society generates profound transformations fostering social and economic development to the point where this factor becomes the key element in producing added value, but also the overall prosperity of both internal and national economies. In this regard, higher education institutions have key functions in the process of transmitting, producing and transferring knowledge within a knowledge-based economy, whilst companies need to base their innovations and performance programs on generating knowledge, thus ensuring sustainable development. The success in the new economy depends on a knowledge-based society which imposes a new inter-relational system, different from the current, built on openness, flexibility, permanent education and specialized entrepreneurial motivation.*

*Key words:* knowledge, sustainable development, information society etc.

*JEL Code:* I21; I22; I23; I24; I25; I26

## 1. Introduction

The theme of research has risen from the question: has the society until now been based on knowledge in order to develop or ...?

The evolution of mankind has demonstrated us that, at a certain stage, we pass through different stages represented by historical development stages: stone, iron, agriculture, industry, technology and information that are subdivided into three successive phases: the information society, the knowledge society and the society of consciousness that is expected in the future.

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The advancement towards a knowledge-based information society is considered worldwide as a necessary development to ensure Sustainable Development, argues P.Rumleanski (2006, pp. 31-43), in the context of the "new economy", mainly based on products and intellectual-intensive activities as well as for the realization of an advanced social civilization. In this regard, we determine, through theoretical research, the difference between the information society and knowledge, we argue the importance of knowledge for a sustainable development and we provide examples of educational organizations and institutions that have an immense impact on economy and society, by focusing on knowledge i.e. a sustainable development factor.

Mihai Drăgănescu (2001) confirms that the knowledge-based society is clearly superior and embraces the information society and the knowledge society. And M. Călinescu (2013) supports the existence of two types of knowledge: explicit and tacit. As a consequence, large companies have grounded their long-term programs of innovation and economic performance on generating knowledge.

## **2. Literature review**

It is mentioned that sustainable development has been highlighted by the EU Member States having met at the European Council in Lisbon in 2000 to create the "most competitive and

dynamic knowledge-based economy in the world".

In 2005, the European Commission launched a process of revising the Strategy by publishing a critical assessment of the post-2001 progress, highlighting some of the directions for action in the future.

In 2006, the Renewed Sustainable Development Strategy for an enlarged Europe proposed the overall goal of action to enable the EU to carry out activities to perpetuate the quality of life for future and present generations through the creation of sustainable communities, to use and manage resources effectively and to harness the ecological and social innovation potential of the economy in order to ensure prosperity, environmental protection and social cohesion.

In this respect, the Republic of Moldova has set, via its Education Strategy for the years 2014-2020 "Education-2020" (2014), mid-term objectives and tasks with the aim to develop education and defines the priority directions and areas of education system development in the Republic of Moldova. The provisions of the Strategy were correlated with the relevant policy documents, with the reforms

initiated in the educational system, with other reforms that represent an operational continuity of the actions projected in the National Development Strategy "Moldova -2020".

The company producing and consuming information is called an information society.

Within this society, the use of data and information processing with the help of computing technique led to a refinement of the concept that materialized in the knowledge society.

The knowledge society is not characterized by its large amount of information, but by the constant need to be more knowledgeable within it, and that capacity appeals to the subject of knowledge i.e. to the human being.

Knowledge, instead, is an internal development, an advance made by ourselves, an enrichment of our practical existence, a potency of our operative capacity. Information is valuable only to the one who knows what to do with it: where to look for it, how to choose it, to appreciate the information collected and ultimately, how to use it.

Following the scale of evolution, the data were the first to appear, followed by the information, whilst knowledge is on a higher level than the previous ones.

According to Collins Concise Dictionary (seen on November 15, 2018):

- Data is "a series of observations, measurements or facts."
- Information is defined as "the act of information or the condition of being informed."

Although the information implies an understanding of the relationships between data, it generally does not provide a basis for what is given, and no indication how it can change over time. Information tends to be relatively static in time and linear in nature; it represents a connection between data and is largely self-contained, its significance largely depending on the context and with little implication for the future.

• Knowledge is "facts or experiences known to a person or group of people; knowledge or understanding accumulated through experience or learning." Knowledge is represented by data and information, however it only becomes knowledge only when someone is able to produce, understand and apply it.

Possession of information is often confused with the storage of data or bibliographic resources. In fact, information is only an element of knowledge and not a synonym for true knowledge. Information becomes knowledge only when it is used in a creative process, it is applied in practice.

The knowledge society cannot exist outside the information society which it supports and represents by expanding and deepening it, producing technological knowledge through innovation.

The information society and knowledge has several dimensions. It is actively manifested through several components:

- Economic - application and development of new paradigms of the digital economy and the knowledge economy (e-Commerce, e-Banking, e-Learning, e-Money, e-Trading, Internet payments, Internet etc.).

- Social - aims at health care and social protection, (telemedicine, teleactivity, telework, tele-callers, tele-insurance etc.).

The knowledge-based society is more than the information society, actually embracing it, being a superior stage of it. Knowledge is conceived as meaningful and acting information. Therefore, the knowledge society can only be grafted onto the information society and there is an indissoluble connection with it.

The entry into the current stage of the market economy, of profound transformations, with multidimensional implications and resonances, represents the conscious acceptance phase of the new economic and social form, which also requires an adequate social and institutional organization.

The most important problem is that at this stage, everything must be rethought, redefined and, above all, assumed consciously and responsibly, starting from the role of each of us in life and society and continuing with the role of all economic agents (the state being one of them).

The general analysis of today's global society and economy refers to certain aspects of the new phase that we are currently going through in relation to the informational part.

Advancement to the knowledge-based information society is considered worldwide as a necessary development to ensure Sustainable Development [8, p. 31-43] in the context of the "new economy", based mainly on intellectual-intensive products and activities and for the realization of an advanced social civilization.

At the same time, in the knowledge-based society there are people who still work the earth with feudal tools, while others became slaves of IT tools, being addicted to computers, telephones, Wi-Fi networks and smart transport. The current information navigation has reached 4G, it is going beyond the current space and time and has favored the shift of economies into these new dimensions that we are being increasingly accepted.

Many successful businesses have been based on the accumulation of knowledge, which is the information capital, but the new configuration of information, going through the awareness and assumption process, has changed the economy as a whole, being the only one that can bring prosperity. It follows that the new type of prosperity derives directly from innovation rather than from optimization. The more agile and flexible we are, the easier we can access the world's networks to exploit the advantages of the future by internalizing the unknown and leaving the partially known but offer-less certainties. As part of the innumerable networks that cross or intersect us, we are part of a real universe as perception, potential and possible, as future achievements.

Relationships have become an important and sometimes profitable part of a world economy where education, discovery or destruction is only a few microns away. Only the fundamental law of mankind "to obtain profit or value added" has not changed: because the true value intake is the only way that can lead to progress, regardless of the nature of social classes located at lead.

Today, the value is systemically, dynamically and complexly understood, rather than just felt, perceived or desired. It can be everybody's, provided that they are accountable and aware of it.

Knowledge is the power to understand and surprise the essence of deeds, the use of certainties and information, obtained in the form of experiences or lessons (Drucker, 1992, p.95).

Knowledge is the one that guarantees social and democratic progress that does not erode over time and is based on the 3 "I" (Drucker, 1992, p.95):

- Innovation - Creating new knowledge
- Instruction /Learning - assimilation of new knowledge
- Interactivity Partnership - Sharing Knowledge.

In order to become acquainted, a certain volume of information needs to have the following characteristics: to convey informative content, to be actual, neutral and replicable.

Classification of knowledge can be done according to two benchmarks (Calinescu, 2013, p.4):

1. According to the *observation* we differentiate:

*Factual knowledge* - realized by direct observation, which can still be affected by observable errors, interpretations, uncertainties or even optical or immanent illusions;

*Inherent knowledge* - made by studying other prior knowledge or

rationalizing facts, the most eloquent example being theories that cannot always be verified;

2. According to the perception mode. To explain this, we must take into account the following axioms:

- people have knowledge but do not distribute it all among their environment;

- there is often a waste of positive experiences;

- we do not know what we know,

- we do not know who does what;

In this case, M. Călinescu (2013, p.4) sustains that we have:

2.1. Explicit (articulate) or formalized knowledge that can be comprised in documents and is communicable, accounting for 20% of the knowledge of an organization. Explicit knowledge is the one which can be expressed in words or numbers and can be distributed in the form of data, scientific formulas, product specifications, textbooks, universal principles, etc.

This type of knowledge can be transmitted between individuals in a formal and repetitive manner. It is the dominant type of knowledge in the West. The Japanese, however, regard this form of knowledge as merely the tip of the iceberg. They see knowledge as mainly silent, something that is not easily visible and expressible.

2.2. Tactical knowledge (subtle, implicit) or codified, consisting of perceptions, opinions, intuitive knowledge, deposited at the level of members of an organization, deeply personalized, diffuse presented in an organizational context and accounting for 80% of its knowledge;

Tactical knowledge still has an important cognitive dimension. Tacit knowledge is personal and difficult to formalize, making it difficult to communicate to others. It consists of its own point of view, the perception, the ideals, the values, the emotions and the mental models rooted in us are taken as "good". Its clear vision, intuition and intelligence, fall into this category of knowledge. This dimension outlines the way we perceive the world around us and is deeply rooted in the individual's actions and experience as well as in the ideals and values that the person embraces.

The tacit knowledge comprises two dimensions:

2.2.1. Technical dimension which includes the type of informal abilities and skills covered by the term "know-how", exemplified by the realization of expertise based on many years of experience without being able to explain, communicate the technical or scientific principles underpinning this knowledge.

This category includes reasoning, intuition, inspiration, personal subjective thoughts resulting from personal experience;

2.2.2. Cognitive dimension which includes perceptions, ideals, emotions, values, own points of view, mental models born of one's own knowledge and shaping the personal way of perceiving the surrounding world.

The accelerated pace of change has produced profound transformations of how knowledge appears, how it is created, collected, integrated, combined, manipulated, enhanced, and directed. It supports the growth of the efficiency of knowledge units for social and economic development to the point where this factor becomes the essential element in producing added value but also in the overall prosperity of the world economy.

Every society has always been a "knowledge society", because the progress of civilizations was due to the competition between technological knowledge, cultures of different forms and degrees of knowledge that have made a decisive contribution to placing these societies on a certain stage of sustainable development from the social and economic perspective.

We accept the idea that none of the societies through which mankind has passed until today was "perfect," but we are about to build the "right" one. Although it is called a digital economy or a knowledge-based society, it is also understood as an information economy, due to its major role in the virtual generation of wealth, with a much higher rate of multiplication and propagation than in the case of material resources or capital.

Communication and socialization have gained new connotations: networking, channeling, connecting to the world, these are just a few of the "trendy" forms of social exposure to the phenomenon that has touched the whole world, metamorphosing it for the better or worse.

The complex and rapid development of our societies illustrates that not only the technological, but also the social or economic changes depend to the highest degree on the quality of the information we have; moreover, they depend on our ability to manage it. It is therefore no coincidence that, especially in recent years, knowledge management techniques, the creation and transfer of good practice have come to be among the most important topics on the agenda of international conferences, being equally appreciated by both the private and the public sector (1996, p. 7).

Practically, "knowledge" is considered to be a true basic instrument and its essential role has been recognized rather than understood and further ignored in

economic analysis. "Knowledge" is simultaneously considered to be a product of economic processes.

In this case, it is worth noting the difference between Western and Japanese culture. If Westerners emphasize explicit knowledge by accurately assessing knowledge, the Japanese place more emphasis on built-in tacit knowledge from direct experience (Calinescu, 2013, p.3).

Large Japanese companies (Canon, Sharp) and some Western companies have grounded their long-term program of innovation and gaining economic performance on generating knowledge. They excel in the production innovation process, focus on exploiting the "silent" knowledge inside the firm (internal knowledge that has accumulated through the company's experience and are difficult to convey as information), motivated and stimulated the generation of new knowledge by accepting courageous visions of products and economic strategy, coupled with a mentality of the organization that promotes transparency, dissemination of knowledge and its active use.

In the functioning of such organizations, according to P. Drucker (1992), determinants are processes generically designated by the phrase "3 Is": innovation, instruction/learning and interactivity.

We note that information as well as knowledge is worthless if it is not applied in the decision-making on the necessary actions in the context of the economic activity of the organization, the state. Many companies have worked to store information on available knowledge, but have not paid enough attention to tracking how it is applied, used in current business, as well as to generate new ideas for the sustainable development of the business.

Sustainable development promotes the concept of reconciling economic and social progress without putting in danger the natural balance of the planet.

The definition of sustainable development is best known by the World Environment and Development Commission (WCED) in the "Our Common Future" report, also known as the Brundtland Report (1996, p.8): "Sustainable development is the pursuit of development meeting the needs of the present, without compromising the ability of future generations to meet their own needs".

The concept of sustainable development means all forms and methods of socio-economic development that focus on ensuring a balance between social, economic and environmental aspects and elements of natural capital.

Sustainable development aims to identify a stable theoretical framework for decision-making in any situation where a human / environmental report is found, be it environmental, economic or social.

Sustainable development involves capitalizing on the resources of a society at all levels, it is to highlight the personality of mankind, affirmation of spiritual, cultural identity, etc., ultimately, the development has to provide satisfaction and well-being, as well also quality services i.e. components with a growing importance in all the elements defining the quality of life.

Through sustainable development, it is proposed to demonstrate that profit is not everything, that it requires the valorisation of the resources of a society from all perspectives, that it is itself to emphasize the personality of mankind, the affirmation of their spiritual, cultural identity, etc., ultimately, development has to provide satisfaction and well-being, but that it also means something other than the consumption of goods and services of a quality and indestructible quantity. Clean air, drinking water, access to education, culture as well as spiritual development have become key elements that define the quality of life.

As a matter of principle, sustainable development needs to be applied in all areas in order to meet basic material needs to provide resources to optimize quality of life in health and education. In particular, economic development, like any other type of development, requires measures to make human resources more efficient, but also other kinds of resources in general. "One of the major challenges of sustainable development is to find ways to encourage environment-friendly economic activities and discourage activities that cause environmental damage (air, water, soil and subsoil pollution)" (Zaman Gh., Zenovic Gh ., 2006 p.137).

The current stage is seen as a productivity provider due to the high degree of implementation of the results of creativity and innovation and the understanding of phenomena that have already happened but have not been accepted in the past. Finding a solution to current fundamental issues requires a level of understanding superior to the one in which they were generated. Correct quantification of the new economy requires an appropriate system of indicators (economic, social, societal and institutional) to reflect the capitalized value and where to find the individual and societal net contribution on a scale of levels to show where it is consumed and where something is diminishing.

Success in the new economy imposes a new inter-relational system, different from the current one, built on openness, flexibility, permanent education, specialized entrepreneurial motivation, based on responsibility, ethics, tolerance and diligence. Focusing on values such as efficiency, quality, which will also contain appreciation, admiration, respect, etc. In turn, they will generate

other value systems with a high share of future generations: tradition, culture, hope, love, peace.

Quantifying only those indicators of relevance in the field of information, export orientation of production; indicators that measure the degree of economic dynamism or competition; foreign direct investment rate; the pace of technological innovation; the number of patents in circulation; the number of research centers must be completely rethought and reconfigured, taking into account the importance of mankind and their contribution.

The assessment of the economy and the future development program must be based on a complex, time-correct measurement of current and projected economic performance, using the most modern standardized computing and comparison tools to truly understand the GDP gap, in time and space. The design of governance strategies in the future must start from the truth, from the reality, so as to avoid the emergence of contradictory information about the economic situation, which is increasingly negative. This would avoid embarrassing optimistic situations, such as the statistical data on economic growth that is today, and tomorrow disappears altogether, leaving the place of the recession. With illusions in mind and false paper projections, recovery bills will bypass the percentages of GDP that will not be covered, ignore additional charges, and leave a greater and closest deficit to the truth. The real money will be transferred outward, whilst in the country there will be traces of stimulus measures unable to cover the entire deficit when the multiplier effect is expected to become visible and active through infrastructure and industry funding only when they exist.

The transition to the knowledge society must be focused both the development of new technologies and the adequate training and preparation of human resources.

The following are *factors that determine the success of some companies*:

- *Human capital* - the most important part of knowledge that calls for massive investment in assimilation. In countries where knowledge is not rooted through stable systems of school and university education, knowledge can only be imported through knowledgeable foreign masters possessing this capital.

- *Physical capital* - technology is knowledge, top equipment and knowledge are usually complementary, and if this type of equipment is not cost-efficient for a society, it is very difficult to ground knowledge acquisition.

- *Poor policies* - the way institutions operate affects the economy and mood of nations, becoming due to its power an obstacle to knowledge. Governments need to invest permanently in the knowledge infrastructure (libraries,

communication networks, public policy centers), providing the necessary conditions to transfer and generate knowledge.

- *Knowledge and competence* - in addition to human capital (built through education), the competence required for applying a technique is essential for a knowledge-based society and technology transfers. Competence allows for specialization in knowledge. There is obviously the issue of access costs (from an individual's perspective) to knowledge.

Other factors include the existence of a liberal political regime where the existence of individual freedoms is not restricted, and the government is responsible and open to communication with international society and community.

Putting emphasis on human development, ensuring the conditions for its realization in the sustainable development strategy is highly necessary in the Republic of Moldova.

Education is a national priority and the primary factor of the sustainable development of a knowledge-based society which is stipulated in Article 4 (1) of the Education Code (2014).

The role of the education sector is to provide the educational services necessary for the development of human capital.

The concept of sustainable development must be implemented across society, whilst the role of higher education is crucial. First of all, universities must become sustainable in order to provide students with a living experience in a sustainable environment, be the catalyst for the necessary changes in society as a whole, and as a tool for transforming them into a sustainable society.

There is an expectation that universities will play an important role in facilitating education that allows current and future generations to redesign their personal and professional activities to create a sustainable future.

Sustainable development at the level of university education refers to the fundamental objective of increasing the quality of the services offered, materialized in well-trained graduates in all fields, both theoretically and practically, in order to meet the real needs expressed on the labour market, needs that are in continuous change due to the technical and technological progress that occur in all areas.

In the context of sustainable development, the role of higher education is limited to:

- educating students - acquiring knowledge about the world they live in and about the complex interaction between economic, social and environmental factors;

- identifying the technical and social solutions to the challenges presented in the process of sustainable development;

- assuming the position of catalyst for learning about sustainable development through partnership, communication, research and knowledge sharing with local communities, businesses, government and other authorities.

Higher education partnerships initially foster mutual support in achieving strategic goals of universities through positive engagement on sustainable development principles.

An important step in development is to achieve and improve educational standards designed for the next generation. They can be complemented with a unitary curriculum in terms of completeness, consistency, coherence and quality, with the guidance needed for their implementation. The program of a higher education institution promotes the development of those who grow intellectually, personally, socially and physically. In order to optimize the approach, it is necessary to start from the evaluations of the educational system made by specialized international fora.

Students make changes in the environment and society if they have environmental, social and economic knowledge about sustainability and have a new system of values, motivation and other skills to produce change. In this sense, they have many of the attributes necessary for the role of agent of change and must be trained as active citizens that will impulse and sustain the global economy. To be actively involved in the economy they must be trained in the spirit of human development and in the spirit of actions that ensure social cohesion.

The training of teachers to implement the knowledge, new standards, norms and techniques recommended by the project to restructure the educational system will depend on the achievement, success or failure of the restructuring process and the ultimate goal - sustainable development.

Human development is an intrinsic component of the sustainable development, a component that defines the goal and its ultimate outcome.

It is obvious that more and more employers are looking for graduates who have sustainable education and have skills in line with the job post.

Not only does knowledge dictate a country's ultimate belonging to a group of prosperous or poor countries, but also how this knowledge is used, sustains A.

Roşca (2012, p.30). Formal education is no longer sufficient, although its value is by all means beyond any discussion. The fact that an impact on economic growth is evident especially in affluent countries with a high level of general education testifies that the implementation of advanced technology is intrinsically linked to the level of training of the labour force. However, the level of literacy / illiteracy rate in a country, although it has the benefit of quantification, it states nothing about the potential of using knowledge. In this respect, the famous biographies of contemporary technology - Bill Gates, Steve Jobs, Michael Dell - are required. On the contrary, according to A. Roşca (2012, p.30), if investing heavily in formal education, developing countries may not exceed their current economic status.

In many developed countries, higher education institutions are working to develop outcomes associated with the global outlook in the curriculum and to implement institutional ethos policies and practices that reflect a commitment to global responsibility.

By incorporating the dimensions: knowledge assessment and human capital management into a modern concept of sustainable development, many European companies have become, in a very short time, world leaders in measuring knowledge, information economy and increasing performance.

We agree with A. Rosca's idea that "for a post-industrial society, especially if we insist on the applicability of the term" knowledge-based society", the lifelong learning framework - continuous training is crucial. It assumes that learning takes place throughout the individual's life. The essential features of continuous training are: the individual's centrality and the priority of subjects of direct interest; emphasis on personal motivation and awareness of learning; the multiplicity of educational objectives and the recognition that study objectives can change over the life of the individual. In the situation where the production of goods and services increasingly requires knowledge, companies are tempted to learn more in the knowledge, skills and continuous training of their employees than in the physical capital "(Rosca, 2012, p.30).

Differences between overdeveloped countries and the "third world" are usually explained by the existence of capacities to convert knowledge into economic productivity. Although knowledge has long been a constant factor of economic growth, ways are sought to directly incorporate knowledge and technology into new theories and models, with a view to rapidly increasing labour productivity and growth rates.

### 3. Conclusions

The XXI century competition needs another kind of knowledge, qualitatively different in terms of resources and organizational process, which requires another type of managerial intervention. The vision that the concept of a "knowledge-based society" is based on the role of the individual as an active social subject, fulfilling different roles simultaneously: actor, participant, interlocutor, mediator and decision-maker. Knowledge based systems need to support these roles by optimizing human capacity with existing technical facilities. The development of such a society rediscovers the individual, but also the principle of subsidiarity at the level of human communities, transferring knowledge, science and technologies closer to people, enhancing the quality and adequacy of existing resources, strengthening local capacities for capturing and interpreting new forms of knowledge in a specific national context.

The knowledge-based organization links the two phenomena defining human nature: knowledge and organization into a social construction that is based on: intelligent action - collective competence - sustainable performance.

The existence of institutions in which tacit and explicit knowledge is stored (academies, universities and research centers) can determine the level of development of a society and its evolution.

Educational institutions are essentially organizations that transform data and information into skills and competencies, and can not go beyond this paradigm, suffering a continuous transformation from an organization based on control and authority to a knowledge-based organization.

Higher education institutions have key functions in the process of transmitting, producing and transferring knowledge, in a knowledge-based economy, having a key role as promoters of research and education at a high level. However, in the reform process, it is necessary to balance the role of producing new knowledge with the role of working with the labour market both for the transfer of knowledge and technology and for extension of the innovation side.

Many poor countries have excellent public education institutions, but their graduates have to emigrate due to the fact that state policies are not flexible enough to integrate them into the national economy. That is why the government has an essential role in establishing policies of crystallizing national knowledge because, simultaneously with investment in real estate, knowledge can not be based solely on market economy rules, governments must invest heavily in the infrastructure of disseminating new knowledge and creating the necessary

conditions for their creation and transfer, ensuring a satisfactory reproduction of the knowledge infrastructure.

In this respect, investment in research and development, education and training and knowledge management are essential.

Knowledge Management aims to:

- optimize the process of making decisions;
- re-integrate organizational experiences;
- develop innovations;
- transform information into knowledge;
- acquire new knowledge.

An anticipated institutional change in the scientific sphere is required by producing the "human capital" required by the global process of generating knowledge.

Connecting the university environment to the economic environment and developing research remain two weak points that could be eliminated through a substantive restructuring.

A distinctive feature of knowledge-based societies is the importance we attach to the management of change.

Planning change is a process that identifies the degree of risk associated with a change and provides the elements needed for it to succeed. The level of planning is, as a rule, directly proportional to the level of risk associated with change.

Among the most important knowledge management practices we will mention:

- Active management of the knowledge process - collecting, classifying, storing and disseminating knowledge;
- Creating databases;
- Profiling of knowledge - structuring and organizing information according to a certain logic / information tree, or specialized databases;
- Training of new knowledge gathering teams: information managers / librarians, IT specialists, intranet specialists and other knowledge tools (document management, cataloging of information), human resources specialists, human capital specialists, facilitators;
- Developing "knowledge centers" - resource centers for the dissemination and dissemination of positive practices needed to increase the efficiency of their knowledge;

- Knowledge management-based networks, expert networks, associated organizations to extend the functional and geographic knowledge horizons;
- Install collaborative technologies: intranet or groupware to increase access to information quickly.

To conclude, based on the assumption that the future is not a place to go to but is one we create, we need to reconsider the role of the 21st century knowledge over the challenges of the rapidness of social, cultural, and educational changes, in promoting values which the society would only benefit from – a sustainable development.

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# “Managing Risks” versus “Taking Risks”: Revisiting an Underestimated Distinction between Managers and Entrepreneurs

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## Abstract

*The catallactic functions within a firm are the same, irrespective of production scale or organization typology. That being said, an “entrepreneurial perspective” projected on inter-/multi-/transnational corporations is just as legitimate, although usually the entrepreneurial element is associated with the “small business” managed by the owner himself. The entrepreneur, having an unmistakable role in the structure of production (still marred by ambiguities in some parts of the business literature), has the same identification data, from “self-employed” (for tax purposes) to “joint stock” companies. Every enterprise has at its core the idea of human action based on resource ownership (the property function), carried out in time (the capitalist function) and subject to uncertainty (the entrepreneurial function). These functions are related to specific business projects that are managed in a monetarily calculated manner in order to acquire profits. This article revisits the basic framework of the enterprise / corporation, placing there the entrepreneurial compound, inextricably linked to risk-taking, to which managerial activity, including risk management, is a complement, not a substitute.*

*Keywords: entrepreneur, manager, enterprise, corporation, profit, loss, uncertainty, risk.*

## 1. Introduction

Reality has repeatedly proved us that any human activity unfolds in conditions of absolutely unavoidable *uncertainty* and yet relatively manageable *risk*, if using the Knight-ian dialectic. These risks are more or less serious, more

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or less known, easier or harder to avoid. Insufficient knowledge and bounded rationality regarding risks, their imprecise or merely improper assessment, as well as the lack of adequate protection against them will directly affect the final outcome of activity. Risks are regarded as phenomena that arise from the circumstances for which the decision-maker is able to identify possible evolutions / events, and even the likelihood of their production / materialization, however without being able to accurately state which of these events will actually occur.

Assessing and addressing risks proved to be an important emerging driver for a successful business and almost all interest groups connected to modern organizations abundantly refer to it. The more and more complex package of risks with which an organization is confronted became a strategic concern, modelling the most important decisions to be adopted by every undertaking. The enterprise-wide approach forces businesses to take into consideration the potential impact of all types of risks upon all processes, activities, stakeholders, products and services as well. The implementation of a comprehensive approach may result not only in the organizational fears (the “downside of risk”), but also in taking advantage of what is referred as the “upside of risk”.

The present article investigates risk from a perspective that is not enough emphasized in the mainstream business literature: that risk-taking is the decisive feature of market *entrepreneurship* (besides other adjacent aspects such as coordination, innovation, arbitrage) and that un-confusingly understanding the decisive role of entrepreneurship (de-homogenized from other economic/catalactic features/functions) in economic life is the crux in clarifying the true versus false drivers of modern capitalism, especially in the aftermath of a crisis and the spectre of a threatening relapse.

Distinguishing the “ultimate risk-takers” in the economic landscape – the *entrepreneurs* –, via the variety of organizational formats they develop, expand, reduce and eventually foreclose – the *enterprises/firms/companies* –, while adopting economically-informed and monetarily-calculated decisions is of utmost importance in both principled and practical sense. We are living in an epoch where economic freedom is under assail due to invocations of “market failures” and “corrective measures” by governments that finally only exacerbate risk and expropriatedly distort prosperity creation.

The article is organized in four main parts:

- The first part is dedicated to a succinct literature review of risk approaches, identifying, among numerous definitions, the key-features of this

phenomenon: a danger which has a measurable probability of occurrence and, if surpassed, may generate solid gains.

- The second part focuses on what represents entrepreneur, in his unique quality of “creator of firms/enterprises”: in the division of labour approach, he is the one receiving the profit, in the managerial approach – the one coordinating the factors of production, in the Schumpeter vision – the one that innovates, while in the praxeological line of thought, he is the one that finally bears the risks within the entrepreneurial project (enterprise) whose originator he is.

- In the third part, it is stressed out that the entrepreneur can delegate competences to the manager(s), for instance in terms of risk administration – managers who only perform technical operations (such as risk avoidance, acceptance, mitigation or transfer operations) –, while the burden of risk remains to be carried by the entrepreneur, who stands to lose his already made investment (own resources), not only future income (such as wage, rent, interest).

- In the fourth and last part, it is underlined that the entrepreneurial process is sometimes altered (with the consequence that the risks are poorly managed) by regulations: legislation that limits the powers of entrepreneurs in favour of managers, restrictions on share-holding, criminalization of insider-trading, antitrust legislation, constraints on mergers and acquisition, labour laws, subsidies, bail-outs, credit facilities, monopoly privileges, etc. – all these interventions in the “free order of markets” end up in generating social welfare decreases.

## **2. Risk theorizing: a condensed literature review**

In the extremely vast economic literature devoted to this topic, various definitions of *risk* can be encountered, thus testifying for the complexity of this term (Markowitz, 1952; Allais, 1953; Kolmogorov, 1956; Tobin, 1958; Savage, 1961; Kahneman and Tversky, 1979; Kaplan and Garrick, 1981; Tversky and Wakker, 1995; Bernstein, 1996; Bewley, 2002; Holton, 2004; Hay-Gibson, 2008; Hurt, 2014; Green, 2016). For instance, the concept of risk is associated with two major streams: (a) a threat that can sometimes be accompanied by some opportunities; (b) an event whose achievement is marked by uncertainty. Still, there is some enduring controversy over the actions to be taken in order to limit the exposure to risk, the “practical philosophy”, the principles and doctrines regarding right “risk management”. Tightening the perspective, *economically speaking*, risk can be seen as companies’ inability to efficiently adapt to the changing circumstances (of time and place).

Bernstein's study, *Against the Gods: The Remarkable Story of Risk* (1996), provides an impressive historical perspective on the evolutions of risk and risk management throughout history, as well as a plethora of definitions. For the limited purpose of the present study, the common sense of risk is much more important than erudite inventories of definitions. Still, much more important than the *specific differences* in definitional nuances is the fact that the *proximate gender* of risk points to a critical entrepreneurial feature. Risk speaks of (a) a danger, (b) accompanied by a probability of occurrence, (c) one that, once overcome, may entail substantial gains. So, risk does not always come along exclusively negative connotations, but, on the contrary, "taking" it might prove quite rewarding for the entrepreneurs who, as argued further on, are "specialized" within the broader societal "division of labour" in surmounting uncertainty and mastering (pure and speculative) risks.

A risk element is any element that has a measurable probability to deviate from the plan. This of course implies the existence of a project. Firm strategies, plans, and programs are elements that allow prefiguration of reality and then confront actual achievements with expected results. In order to achieve the objectives of the company it is necessary to carry out some sets of activities.

Also, the decisions meant to fulfil an envisaged plan are documented by a stock of information, of knowledge. In the spirit of the notorious delimitation proposed by Knight (1921) between the concepts of *risk* and *uncertainty*, the following classification of the (economic) decisions in relation to the degree of knowledge (regarding consumer tastes and production techniques) unfolds:

- *decisions under sure/certain conditions*, where available knowledge allows the decision-maker to determine the exact result of each action;

- *risk decisions* ("first degree uncertainty"), where the available information allows the decision maker to estimate the results for each decision due to the associated probabilities;

- *decisions under the conditions of uncertainty* ("second degree uncertainty"), in which the decision-maker is able, based on available knowledge, to establish, for each decisional alternative, possible outcomes, although no related probabilities;

- *decisions in conditions of ignorance* ("third degree uncertainty"), where the decision-maker has not sufficient knowledge to determine all possible outcomes of decisional variants.

An extremely important aspect for the follow-up of these brief considerations on risk is the fact that the (associated) *odds / probabilities* of the

undesired events to happen can be divided into two distinct categories (Mises, 1949): the *class probability* (or frequency) and the *case probability* (linked to the specific understanding from acting persons). The field of application of the former is that of *natural sciences* (governed by *deterministic* causality) and the field of application of the latter is that of the *human action / social sciences* (governed by the “ends-means” *teleological* dialectics).

All that goes beyond the mathematically-expressed class probability and remains in the spectre of probability (in terms of “casuistry”) refers to the specific way of reasoning involved in the analysis of historical uniqueness or individuality. It is related, on the one hand, to that kind of understanding employed in *historical sciences*, and it is employed, on the other hand, in facing the *future* configurations of events (i.e., in markets) where non-mechanical understanding is the only appropriate way to address the pervasive uncertainty, which is the very domain of the *entrepreneur*.

### 3. Risk taking: entrepreneurs as creators of firms

There have been, in the history of economic thought, a variety of attempts to *identify* and *isolate* the role and place of the *entrepreneur* within the social nexus. More or less intuitively, theoreticians and practitioners alike understood that the entrepreneur and the enterprise (and the resources they transform) represent the engine (and the fuel) of the *market economy*.

One route of pointing to the entrepreneurial domain was that of decomposing of human action within the market (and within the division of labour) into a series of specific contributions (economic or catallactic functions), one of the ways of determining / materializing / circumscribing them being the type of income they receive: thus the *worker* bears the “disutility of work”, being rewarded with the *wage*; the *capitalist* contributes with its “patience”, being rewarded with *interest*; any *owner* of “lendable” goods is rewarded with *rent*; while the *entrepreneur* remains with the *profit*. In reality, the *pure functions* of the entrepreneur, owner and capitalist overlap. These blurred lines, contrasted to clear-cut work explain socialist hate to “parasitic” proletariat-exploiting, profit-making “capitalists”.

Other economists argued in favour of the idea that the entrepreneur’s task is to *coordinate* all the factors of production in the enterprise – “managerial vision” of enterprises and entrepreneurship, traced back to J.B. Say or J.B. Clark. Others pointed to *innovation* – emphasizing the resourceful role of technologies or ideas, here J. Schumpeter being the leading figure.

However, the most coherent and consistent route to search for the entrepreneurial function could be the one that adopted the *risk-taking* line. The reasons for this are plentiful and the contributions of the *praxeological* line of thought developed by the Austrian School are illuminating (Topan, 2013; Jora, 2013). Although the entrepreneur's contribution looks somehow "residual", it is actually the essence of the whole economic process. Without someone's willingness to bear the uncertainty / take the risks of an entrepreneurial project, the other factors of production remain idle. These are factors of production *for* the entrepreneur who fights the variation in prices between the moment of hiring the factors and the one of the proceeds from the sale of the final goods or services.

The specific offshoot of the entrepreneurial work is the *enterprise*, the *firm*. The fact is that the enterprise portrayed in mainstream economics textbooks is an extremely impersonal representation, an abstraction that removes the investigator from the intuitive reality of the firm – see the excellent collection of fundamental contribution to the theory of the firm edited by Langlois, Fu-Lai Yu and Robertson (2003). The enterprise from these textbooks is either a residue of the *neoclassical* representations (where firms are seen as production functions, each identical and each transforming homogeneous inputs into homogeneous outputs, depending on a certain technical "pattern" known to all), or a product of *neo-institutionalist* re-evaluations (where firms are the result of balancing transaction costs resulting from, on the one hand, outsourced operations in markets and, on the other hand, internalized ones into organizations).

Revisited in the logic of entrepreneurial action, the firm is basically the *project* of a capitalist as entrepreneur, a project where material resources owned by him as well as entrusted by simple capitalists/creditors (third-party relative to the project) are configured and combined calculatedly with services (employees' work) and used, under conditions of uncertainty/risk, for the attainment of ends whose common denominator is *profit*.

#### **4. Risk tackling: the core managerial instruments**

In the specialized literature, one can find many definitions for *risk management* (this being a star-concept within the contemporary *business economics*), to be grouped in some broad categories: (a) some definitions associate this process with the preparations undertaken by organizations with respect to responses available in relation to future events affecting the activity (Damodaran, 2010); (b) other ones focus on essential risk management operations, identifying the threat and/or opportunity, the evaluation of the effects

and the adoption of the proper methods to reduce the potential losses and fructify the chances (Bannister and Bawcutt, 1981; Rejda, 2001; Taylor, 2007); (c) other definitions emphasize the minimization of the risk-related costs from potential losses as well as the suitable methods for certain instances (Williamson, 2007; Zhang, 2009; Dionne, 2013); (d) finally, ISO Guide 73 links risks to the stated objectives exhibited by (business) organizations.

It is widely agreed that every managerial team needs to answer some essential questions such as: Which is the most appropriate method to differentiate between business risk and financial risk? Which is the most performing manner to reduce business risks? How to manage a business risk? How to perform the most relevant business risk assessment? Answering these questions is not a very simple task. One of the most sensitive challenges the manager needs to cope with is the typology of risks. Often, in practice, when faced with risks, managers do not simply blame and complain of the potential losses, but try to estimate probabilities of events and magnitudes of hardships, adopting an active position, pointing to the feasible solutions for their problems and choosing, hopefully, the optimal one from the perspective of the organization's objectives and resources. They can't afford to say that "risk management is rather magic than science"; they scientifically confront it (Attar, 2011).

However, in the proposed logic of the present article the focus is not on risk management, but on identifying the level where risk is ultimately assessed and addressed, detail with non-negligible consequences. The fact is that the expression "risk management" induces the idea that the phenomenology of risk belongs primarily to the managerial domain. But this is not quite true. *Teleologically* seen, the *entrepreneur* – the owner of resources and longer-time-preference investor-capitalist – is the ultimate stakeholder – being the true artisan of a business project, a business firm – and *bears* "strategically" the burden of risk (based on his risk appetite, tolerance, responsiveness). And he is only *technically delegating* – to the *managerial* class – the "tactical" or "operational" risk management (involving risk avoidance, acceptance, mitigation or transfer operations), the manager, as his "agent", administering, besides his own personal risks, the patrimonial risks of his "principal".

Therefore, prior to making the apology of "risk management", one should carefully understand the division of labour (for instance, in terms of dealing with risk) between the entrepreneur/capitalist and his mandated manager (Jora et al., 2015). Naturally, the entrepreneur cannot be omnipresent in his company's current activity if this exceeds a certain dimension and complexity. Thus, it

becomes necessary to delegate competences: by virtue of the principle of division of labour, he can improve the ratio between his invested effort and his acquired results, exchanging, in the logic of the comparative advantages, his own monetary resources obtained from the activities where he possesses the best skills for labour services third parties – i.e., the employees, amongst whom there are the (risk) managers. Thus, he can devote himself to “great tasks”, without caring about the myriad of small operations. He ends up *bearing* the risks of his business, while *buying* pieces of risk protection.

### **5. Risk incorporation: division of labour and risk**

The architecture of risk-taking and risk-tackling remains unchanged even in the perimeter of the *modern business corporation*, the most adapted business organization to the world-wide markets. Even at this level, affected by legal complications the simple dichotomy between the risking entrepreneur-capitalist and the manager-employee stays visible and has subtle societal consequences.

- The *corporate entrepreneurs* are the *shareholders*. They are the ultimate “owners” of the corporation (although in the legal person logic the corporate assets are owned by the incorporated entity itself); they are also “capitalists” because they have accepted to “wait” from the moment they bring in the capital to the one in which they collect dividends; they are the ones who bear the risk of losses (uncollected dividends or dropping value of shares) caused by the unfortunate twists of the markets. The shareholders are the only ones (or at least the first ones) to lose up to the entire capital invested, when the corporation goes bankrupt, not only losing “future gain opportunities” (like managers or the rest of employees that risk being laid-off).

By extending the “risk of loss test”, we can see that the holders of privileged shares de-compact from the shareholders (they are not entrepreneurs, but only capitalists, standing closer to creditors), while the holders of non-voting shares are entrepreneurs (even if they are excluded from daily decision-making, they still bear the risks of losing invested capital).

- The *managers* remain the *corporate labour elite*, supplying leadership services (the directors) as well as various functional tasks (i.e., managing risks). Only to the extent they are being granted shares (as participatory incentive driver), they have the quality of entrepreneurs alongside with that of managers (but only in the quantum of their share-holding).

Also applying the “risk of loss test”, even if managers are rewarded beyond fixed pay with quotas from earned profit, since losses do not have the same effect

on them in terms of capital exposure, they are not “entrepreneurs”. Conversely, creditors that did not require collaterals to their lending act like entrepreneurs for the borrowing corporation.

The proper identification of the genuine risk-takers in the economic life, generally speaking, and in the organizational eco-systemic design is important for understanding the economic process. Those assuming risks facilitate, in their quality of producers of goods and services (complicated processes, affected by innumerable hardships), the living conditions of their fellow customers. Artificial add-ons to the “natural” range of risks (made of both anthropic and non-anthropoc elements), for instance by means of erratic and unpredictable public policies or arbitrarily and discretionarily redistribution of risk-safeguards, distort and degenerate the link between the productive entrepreneurs and their suppliers and clients, hence leading to less prosperity in society.

Applied to the corporation, the negative consequences of the minimisation and marginalization of the crucial role of the *entrepreneurial-capitalistic risk-taking and prosperity-inducing* behaviours can be observed by scrutinizing both the intra- corporate and inter- and extra- corporations relationships (Jora and Iacob, 2012a; Jora and Iacob, 2012b).

- *Intra-corporation phenomena*. Given the “*property - control*” separation – that is installed by default in corporation between *shareholders* and *directors/managers/employees* –, when legislations are so set and enforced so as they limit the powers of the first category (as ultimate owners of the corporation’s assets) to oversee and overrule the decisions of the second (as delegated operators of the corporate assets), an obvious bias insinuates into the organization: a relatively greater amount of relatively poorly managed risks tends to be taken by the second group at the expense of the first one. Finally, all this happens to the detriment of the social wealth, in a world where resources are scarce and need to be harnessed to the benefit of the consumers and not lost in careless undertakings. Imbalances in the relation between responsible risk-takers (shareholders) and their over-empowered delegates (managers), fuelling *moral hazard* behaviours in the corporate governance, are “legalized”. Restrictions on share-holding, criminalization of insider-trading, antitrust legislation, constraints on mergers and acquisition, labour laws, etc. do end up in reckless rather than responsible risk-taking.

- *Extra-corporation phenomena*. As in the case of intra-corporation distortions, the interventions in the free competitive economic game through various legislative/policy drives create artificial “carrots” and “sticks” that end

up in misbehaviours also translatable in deviations in the risk assessment and, finally, risk management. Both the “infringements” against certain corporations (i.e., via regulations that establish standards, which, despite the fact that are nominally the same for all, are, in reality, asymmetrically costly) and the “inducements” for others (i.e., via subsidies, bail-outs, credit facilities, monopoly privileges) lead to misinterpretation of risks, to moral hazard, conducive to malinvestments that tend to become recurrent and to continuously erode the social stock of wealth.

## 6. Conclusions

In a free market economy, any individual can become an *entrepreneur* if he relies on his own ability to reasonably and informedly anticipate future market configurations better than his fellow citizens and if his attempts to act at his own risk and on his own responsibility are approved by consumers. The entrepreneurs are the *driving force* of the economy. By trying to maximize their own profit, the entrepreneurs try to anticipate the consumers’ most urgent needs and strive to satisfy them.

In order to deliver their social mission, the entrepreneurs create firms or participate in the functioning of great corporations by adding their unique skill of *overcoming uncertainty* and *transforming risks into profits*. And in doing this, they take the ultimate residual risks, while hiring trained specialists in mastering the manageable dimension of risk. The dedicated managers instruct entrepreneurs how to use hedging, insurance and/or diversification as basic routes of risk management.

*Misshaped interventions* in the functioning of the market economy, by means of regulations that generate asymmetries among different categories of stakeholders, and induce moral hazard (reckless use of resources when costs are forcefully distributed to third parties while benefits are coercively appropriated by some), create a *perverted propensity*. On the one hand, there is the exaggerate risk-taking at the expense of others; on the other, exacerbated aversion of those “others”.

Understanding the dynamic of risk in the market economy starts with recognizing the true character that confronts it – the *capitalist-entrepreneur* –, transforming threats into opportunities *for the benefit of the society as a whole*. The debates about risk management are secondary in documenting the phenomenology of risk, but nonetheless useful in an international economy

where globalization facilitates both prudent exposure to hazards as well as contagion of escalated liabilities.

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