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Evaluation Of The Service Quality And Satisfaction In The Turkish Higher Education In Terms Of International Students

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Abstract: *Purpose- The purpose of the study is to explore the service quality of Turkish higher education, the satisfaction level of international students and the critical SERVQUAL dimensions in terms of international students' satisfaction*
Research Methodology- A questionnaire was designed and applied by using SERVQUAL model to collect data from international students. The survey was conducted with 198 international students from different nationality, sexes and ages.
Findings- The results reveal that international students are poorly satisfied in general. They find the service quality of higher education poor. They are at most satisfied in tangible and reliable sense from their universities while the least satisfied area is assurance. The significant SERVQUAL dimensions for satisfaction were reliability, empathy and tangibility. Responsiveness and assurance were not significant.
Research limitations- Survey was implemented via internet. Face to face interview might be beter to make sure respondents understand the questions correctly.
Practical implications- The number of international mobile students was reached 5 million in 2016 and is estimated that will exceed 7 million by 2020. The expenditures of foreign students is around 30 thousand US dollars annually on average. Economically, 7 million international students will create a $210 billion total market in 2020. The quality of education is the first element considered by foreign students in determining the country and university to study. Therefore, the service quality of higher education and the resultant satisfaction levels of international students must be determined consistently to attract international students.
Originality/Value- This study is one of the few studies regarding the service quality and satisfaction especially in the context of international students in the Turkish higher education.

Key words: *Higher Education, Service Quality, International Students, Satisfaction, Turkey*
JEL Classification: I23, O14, I21, L8

1 Introduction

According to UNESCO Institute for Statistics, the number of international mobile students was 2.1 million in 2000, reached 3 million in 2005, 4.1 million in 2012 and 5 million in 2016. It is estimated that this number will exceed 7 million by 2020. Around one third of the international students in the world were studying in North America and one third in European countries. The first five countries that accept the most international students are USA, UK, France, Australia and Germany. Nearly half of international students are in English-speaking countries, including Canada and New Zealand (http://data.uis.unesco.org). Turkey is one of the major sources of countries that send students abroad.
In recent years Turkey has witnessed an enormous expansion in higher education. The capacities of universities have increased and consequently the enrollment rate in higher education has risen dramatically. Parallel to these important developments, the internationalization dimension of the Turkish universities could not be neglected. The number of international students in Turkey has increased recently. Students who come to study in a country provide economic and social benefits to that country. Foreign students spend on different items such as accommodation, health, nutrition, entertainment, and tuition fees. The expenditures can vary by countries and universities, but briefly the sum on average is around 30 thousand US dollars annually. Therefore, from an economic point of view, 7 million international students will create a total market of $210 billion in 2020.

According to the US Department of Commerce in 2000, the contribution of foreign students in higher education to the US economy increased to the fifth rank in the service sector (Stephenson, 2004).
Hosting international students makes significant contributions to a country not only economically but in many different ways. International students helps to improve the quality of education, increase international project partnerships, contributes to culture and art as well as the economy. After graduation when students return to their home country they create commercial partnerships and they become volunteer advertisers of host countries. The satisfaction of foreign students is important for these reasons. The quality of education is the first factor considered by foreign students in determining the country and university to study (Becker & Kolster, 2012). Therefore the service quality of higher education and the resultant satisfaction levels of international students must be determined consistently to attract international students. However, academic researches on service quality in the Turkish higher education and satisfaction are few. International students in those studies were ignored. Some of the researches in Turkish higher education are as follows:
Tayyar and Dilseker (2012), studied the effects of service quality and image on students satisfaction. Isık (2012) examined the relations between demographic features and students satisfaction. Cevher (2015) investigated the perception of quality considering the service quality factors. Rahim Uddin et al. (2017) investigate how students perceive the environment, quality, and services that they are offered at a Turkish university and how satisfied they are with them. Ozturk and Cankaya (2015) and Cevher (2016), determines the level of satisfaction of foreign students in a university. Kondakci (2011), examines the rationales of in-bounding student mobility in Turkey.
To improve the satisfaction level of international students their problems must be clearly determined and solved. Studies have shown that the most important problem experienced by foreign students is economical (Deressa and Beavers, 1988). But, all of the problems of international students are not economical. International students have experienced loneliness, psychological maladjustment, shyness, cultural shock and psychological problems (Biggs, 1999; Furnham, 1997). Yang (2006) in a qualitative study with 12 Chinese students in the UK, found out that socio-cultural adaptation was the most important problem of Chinese students. Mori (2000) and Sandhu (1995) found that cultural differences and being homesick are important sources of stress for foreign students. In addition, there are many studies in the literature showing that students' prejudices about foreign students complicate the situation and cultural cohesion (Yoon ve Portman, 2004; Winkelman, 1994).
Unlike the previous studies in the Turkish Higher Education this study focuses on international students. There are three aims of the present study: the first one is to determine the perceived service quality of the Turkish higher education of international students by using SERVQUAL model. The second one is to determine the satisfaction level of international students with the Turkish higher education and the third aim is to examine the critical dimensions of SERVQUAL model in terms of international students’ satisfaction in the Turkish Higher Education.

2 Service Quality

Quality has recently become one of the most important factors in global competition. Intensifying global competition and the demand for better quality products by customers have made more companies aware that they need to provide quality products and services to compete successfully in the marketplace. Quality concept is as old as the production activity of human beings. It has been developed and expanded in time according to technological advancement, increase of consciousness of the consumer and increase in competition conditions. The concept of quality control is initially assumed as sense of eligibility of design and producing product considering standards that determined during the design phase. The objective of quality control has been detecting the quality of final products and preventing defective products before customers. Nowadays, the concept of quality control focuses on control of production process instead of control of products. In process control, the process is monitored during the production for making corrections by necessary interventions to prevent producing defective products. Quality control techniques have been developed in order to achieve the goals and aims of quality. Statistical quality control techniques which are collecting, monitoring, evaluating and commenting data are very important in measurement and evaluation of the product quality. Statistical quality control techniques differentiate of manufacturing and service sectors.
Advances in information, technology and communication with globalization, the importance of service sector has increased in time. Proportionally, as the level of development of countries rise up, the share of service sector also increases in economy. Service is defined as a valuable action, deed, or effort performed to satisfy a need or to fulfill a demand. It is not measured numerically. In service sectors such as fields of health, education,

banking, insurance and etc., quality is assessed by perception of consumers. That’s why different techniques have been developed for measuring the perception of the service quality.
Service differentiates from products in terms of 4 basic features which are accepted most commonly (Fitzsimmons and Fitzsimmons, 2004):
Intangibility: service cannot be seen, tasted, or touched in the same manner as we can sense tangible goods.
Inseparability: service is produced and consumed at the same time
Heterogeneity: since services are performances, frequently produced by human beings, no two services are precisely the same.
Perishability: service cannot be saved, stored, resold or returned
Researches have shown that customers perceive the quality from many different perspectives such as performance, features, reliability, durability, conformance, service ability, aesthetics etc. (Kenyon, G., & Sen, K., 2012) . Therefore, quality cannot be completely assessed from one dimension. Service quality is an area that many researchers, particularly academicians and industry practitioners have worked and payed attention on forming service quality measurement models. Some of the main and mostly accepted and implemented service quality models in the field of service quality measurement are listed below.
Gronroos model, technical and functional model (Gronroos, 1984), Gap model (Parasuraman et al., 1985), Service quality - SERVQUAL (Parasuraman, et al., 1988), Servperf (Cronin and Taylor, 1992), Hierarchical model (Dabholkar et al., 1996), E-service quality model (Santos, 2003), HedPerf model (Firdaus, 2005-2006), E-S-QUAL model (Parasuraman, 2005)
Among these models, service quality model of Parasuraman (1988) has served as a framework for researchers in service industry for many years. The SERVQUAL model has been popular among researchers and used by numerous researches in measuring service quality due to easy application and detached simple theory. The model can be worked out by both quantitative and qualitative method. Parasuraman et al. (1988) has identified five basic key factors of service quality which were adopted and implemented for most of services. These dimensions of service quality and their perspective components are defined as follows:
Tangibles: Representing the service physically, are defined as the appearance of physical facilities, equipment, staff appearance, and communication materials that are used to provide the service.
Reliability: Ability to perform the service dependably and accurately. This means that organization delivers on its promises regarding delivery, service provision, and problem solution (i.e. a firm performs the service right the first time and honors its promises over a period of time).
Responsiveness: Willingness to help customers and provide prompt service. It is defined as willingness or readiness of employees to help customers and to provide prompt service. This dimension emphasizes attentiveness and promptness in dealing with customer requests, questions, complaints, and problems.
Assurance: Employees’ knowledge and courtesy and the ability of the firm and its employees to inspire trust and confidence.
Empathy: Treating customers as individuals is defined as caring, individualized attention that the firm provides to its customers. The customers need to feel understood by and important to, firms that provide service for them.

3 Foreign Students In Turkish Universities

In recent years, Turkey has witnessed an enormous expansion in higher education. The capacities of universities have been increased and consequently the rate of schooling in higher education has risen dramatically. In parallel with these important progresses, the internationalization dimension of the universities could not be neglected. According to the Turkish Higher Education Council (YOK), the number of foreign students in the Turkish universities was 7661 in 1990, 16 thousand in 2000, 43 thousand in 2012, 55 thousand in 2014 and reached 110 thousand in 2017 (https://istatistik.yok.gov.tr/). (https://istatistik.yok.gov.tr). However, Turkish universities which contain only 1,7 percent (by 2016, http://data.uis.unesco.org) of the international students that circulate all over the world, have not reached the desired level in terms of internationalization yet. But, Turkey's higher education has significant advantages in terms of internationalization to achieve the desired level. It has 206 higher educational institutions, over 163 thousand teaching staff serving 7,5 million university students. Turkey is the most attractive country in terms of the quality of education in the region. The major source countries sending their students to Turkish universities are Azerbaijan with around 15000 students, Syria with 15000, Turkmenistan with 10000, Iran with 6000, and Iraq with 5000. The potential that Turkey has in higher education can increase the number of international students in its universities.

4 The Methodology And Data Analysis

This study aims to determine the service quality and satisfaction level of international students in the Turkish universities and the critical factors of SERVQUAL dimension in the Turkish higher education in terms of international students' satisfaction. A questionnaire which was designed by using SERVQUAL dimensions by Oliveira (2009), was applied in this research to collect data from foreign students. In the survey, there are 25 questions (table 2) and they were exhibited via internet platform in two languages, English and Turkish to make foreign students to understand questions well.

The survey was conducted with 198 international students from different nationality, sexes and ages (table 1). 113 of the students were males, 85 were females. Survey includes 176 bachelor and 22 graduate students. 70 students in the survey were between 18 to 21 years old, 95 of them were 22-25 age group, 31 students were 26-30 range and 2 students were older than 31. The questionnaire was applied to the students via internet platform. A 5 point Likert scale is employed to measure students perceived quality on the service attributes, ranging from 1 (strongly disagree) to 5 (strongly agree).

Table 1: Demographic factors

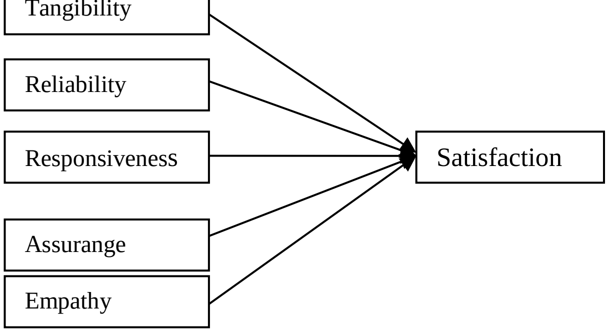
		Frequency	Percent
Sex	Male	113	57,1
	Female	85	42,9
Program	Bachelor	176	88,9
	Graduate	22	11,1
Age	18-21	70	35,4
	22-25	95	48,0
	26-30	31	15,7
	31+	2	1,0
	Total	198	100,0

5 The Results

The completed questionnaires were checked for accuracy before entering the data processing software. Based on the tests done on the five dimensions of SERVQUAL in many industries and countries indicate that they are reliable and valid (Brysland & Curry, 2001; Lee, Kim, & Ahn, 2011; Naik, Krishna, & Gantasala, 2010).

In the table 2 the applied SERVQUAL questionnaire to the students and the results can be found. The SERVQUAL scale uses 22 questions to measure the five dimensions of service quality: reliability, tangibility, assurance, empathy and responsibility and 3 questions to measure the satisfaction. Questions 1 to 4 refer to the tangibility dimension, which obtained an overall average of 3,46. The reliability dimension is analyzed in questions 5 to 9, which obtained an overall average of 3,46. Questions 10 to 13 of the questionnaire refer to the responsiveness dimension and its overall average was 3,40. Questions 14 to 17 in the adapted SERVQUAL scale refer to the assurance dimension, which obtained an overall average of 3,28. The next five questions, 18 to 22, refer to the empathy dimension, which obtained an overall average of 3,33. The final 3 questions refer to satisfaction and its overall average was 3,36. Tangibility and reliability dimensions have the highest scores on average while assurance has the lowest average score.

Figure 1: Theoretical model of study



According to the results of survey, foreign students are poorly satisfied with overall service quality of institutions. The mean scores of satisfaction and all SERVQUAL dimensions are under 4. While the area that foreign students are mostly satisfied with universities among others are that when something is promised by a certain time, it is always provided by staff, staff is well dressed and neat in appearance and the teaching staff respects lecture and exams schedules. International students are at least satisfied with the service of non academic faculty members such as faculty staff is friendly and polite, the behavior of faculty staff instills confidence in you and students are able to trust the faculty staff. Foreign students gave the lowest scores to the behavior of non academic staffs. Generally, they are mostly satisfied in tangible and reliable sense from their universities while the least satisfied area in their universities is behavior, trust sand friendship of staff.

Table 2: Descriptive statistics of SERVQUAL dimensions

		Mean	Std. Dev.
Tangibility	The faculty has modern and latest equipment	3,39	1,165
	The appearance of the physical facilities of the faculty is attractive	3,47	1,237
	Staff is well dressed and neat in appearance	3,53	1,116
	Library has the latest literature in your area of interest	3,43	1,215
Reliability	When something is promised by a certain time, it always is provided by staff	3,57	1,034
	When student have problem, staff is courteous, even if not able to help	3,41	1,099
	Courses are taught by highly knowledgeable professors	3,45	1,133
	The teaching staff respects lecture and exams schedules	3,52	1,102
	Faculty staff keeps accurate records	3,33	1,046
Responsiveness	Students are informed of schedules and changes in schedules in advance	3,46	1,125
	Service hours of learning facilities accommodate all students	3,48	1,06
	Faculty staff is always willing to help you	3,3	1,007
	Administrative staff are never too busy respond to student requests promptly	3,35	1,083
Assurance	The behavior of faculty staff instills confidence in you	3,21	1,091
	Students are able to trust the faculty staff	3,21	1,083
	Faculty staff is friendly and polite	3,21	1,141
	Teaching staff is dependable	3,49	1,098
Empathy	Faculty provided personal attention to every student	3,3	1,121
	Professors have convenient office-hours to advice student	3,43	1,043
	Staff member give students individual attention	3,25	1,026
	Faculty has students best interest as a major objective	3,38	1,078
	Faculty understands the special needs of students	3,31	1,104
Satisfaction	I am satisfied with my decision to attend this University	3,47	1,084
	If have a choice to do it all over again, I still will enroll in this University	3,35	1,12
	I am happy that I enrolled in this University	3,26	1,157

The next aim of the study is to determine the critical factors of SERVQUAL dimensions for students' satisfaction in Turkish higher education. For this reason the following linear model was run.

Satisfaction = $\beta 0 + \beta 1$ Tangibility + $\beta 2$ Reliability + $\beta 3$ Responsiveness + $\beta 4$ Assurance + $\beta 5$ Empathy + u

The results show that (table 3) the model fits as the f-value = 30,13 and p-value <0,001. Moreover the R-square is 0,44 which translates that 44% variance of the dependent variable (international students satisfaction) can be explained by the 5 SERVQUAL dimensions. Multi collinearity statistics results from table 3 show that there are no serious multi collinearity among SERVQUAL dimensions VIF of all variables are within the acceptable level, VIF<5

Table 3: Effects of SERVQUAL dimension on student satisfaction

	B	Std. Error	t	Sig.	VIF
(Constant)	,361	,252	1,434	,153	
Tangibility	,138	,079	1,745	,083	2,095
Reliability	,342	,104	3,296	,001	2,565
Responsiveness	,043	,109	,398	,691	3,081
Assurance	,114	,097	1,180	,240	2,755
Empaty	,246	,093	2,630	,009	2,154

Dependent variable: Satisfaction, R-square=0,44 F=30,13 Sig=0,000

The most important SERVQUAL dimensions are reliability and empathy which are significant at 1% level. One unit increase in their values increases international student's satisfaction by 0,342 and 0,246 units respectively. The third significant SERVQUAL dimension is tangibility and it is significant at 10% level. Responsiveness and assurance seem not statistically significant at an acceptable level. For high level of international student's satisfaction university administrations must consider the 3 important dimensions at most.

6 Conclusion

As a result of globalization, advances in information, technology and communication have resulted in a significant increase in service sector. The developments that have taken place in these areas have shown that the period we live in is called information age and in this age learning should be continuous and lifelong. One of the most important institutions in the information age is the educational institutions. From this point of view, the quality of the service that is provided by educational institutions becomes important. Therefore, studies have carried out on the measurement and development of the service quality in the educational sector has an important place in the service industry. As the result of this survey, the quality dimensions which are adopted from SERVQUAL, had taken medium scores from international students. Even the highest scores taken by reliability and tangibility of these institutions they are still low (3,46 both and under 4: agree or satisfied). International students gave the lowest scores to assurance dimension of service quality. International students satisfaction level is also low (overall average is 3,36 which is under 4: satisfied). The most important SERVQUAL dimensions which are affecting satisfaction are reliability, empathy and tangibility. Therefore university administrations should take care on these dimensions to improve satisfaction and attract foreign students. Responsiveness and assurance were not found significant for satisfaction at an acceptable level in this study.

International students spend on different items such as accommodation, health, nutrition, entertainment, and tuition fees. The expenditures can vary by countries and universities, but briefly the sum is around 30 thousand US dollars annually on average. Therefore, from an economic point of view, 7 million international students will create a total market of $210 billion in 2020. Turkey has 206 higher education institutions, 7,5 million university students and over 163 thousand teaching staff. Therefore, Turkey's higher education has significant advantages in terms of internationalization. However, it is seen that the Turkish universities, which contain only 1,7 percent (by 2016) of the international students circulating all over the world, have not reached the desired level in terms of internationalization yet and are the steps to be taken in this regard. Hosting international students has significant benefits for a country not only economically but in many different ways such as improvement the quality of education, increasing international project partnerships, contribution to culture, art, peace and commercial partnerships.

Since the quality of education is the key element that is considered by foreign students when determining the country and university to study (Becker & Kolster, 2012), the most important point that needs to be developed is to improve the quality of education and to increase the number of researches carried out in universities to increase the number of international students. Universities can increase their chances of competition in the globalized education area by obtaining quality certificates from international organizations. The number of undergraduate and graduate programs providing education in foreign languages for international students should also be increased. Education ministries and higher education councils should organize exchange programs with countries. Universities should provide sports, music, and talent scholarships as well as achievement grants for attracting qualified students. Dormitory facilities for international students should be increased. Foreign students should be provided expedite and ease with bureaucratic issues such as visas, residence permits and work permits. International student office websites should be well structured and kept up-to-date with all the information and documents required by the students in multi-language. Since foreign students usually face with nonacademic staffs in the universities such as student affairs to solve their problems, nonacademic staffs should also know foreign language. There must be psychological units in the universities for international students to support them in case of their psychological problems.

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Travel and Tourism in the New Member States of the European Union

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Abstract: *- Europe, in particular the European Union, brings together the most important tourism' destinations on the continent and is the most important travel and tourism market. The European continent consolidates its position as the most visited region in the world, as the 671 million tourists reported last year represents just over half of the total number of tourists worldwide. According to the latest report released by the World Tourism Organization, the total number of international tourists reached a record 1.322 billion in 2017, up 7% compared with 2016. In the given context, the present paper provides an assessment of travel and tourism sector in the eleven New Member States of the EU, located in the Central and Eastern Europe, in terms of well-established indicators of tourism industry, such as the competitiveness of the sector, the balance of payments in international tourism, or the impact of tourism in the economy. The research methods used will include empirical data analysis, testing correlations and cluster analysis. Thus, in the initial phase of the research process, a brief literature review will be conducted, followed by the latest statistical data collection, interpretation and aggregation for each of the eleven member countries. Then, in regards to the cluster analysis, this will be carried out through the STATISTICA software, using the k-means method, and starting from five main components: the tourism competitiveness index, the multiplier effect, the share of tourism exports, receipts from international tourism, direct impact of tourism in GDP.*

Keywords: *tourism competiveness, New Member States of the EU, balance of payments, multiplier effect of tourism, cluster analysis*
JEL Classification*: Z32, L83, C38*

Introduction

According to the latest Report of the UN World Tourism Organization (2018) tourism sector grew remarkably in Europe, an 8.5% increase being reported compared to the previous year, from 619 million to 671 million international tourists, of which EU-28 538.7 million international tourists. While in the Northern, Central and Eastern Europe the tourism sector rose by about 5%, Western Europe recorded a 7% boost, and the Southern Mediterranean region accrued a 13% upturn. Thus, the European continent consolidates its position as the most visited region in the world, the 671 million international tourists achieved last year, representing half of the total number of tourists worldwide (Bulin, 2018), and marking the eight year in a row of sustained growth in the tourism sector. As per the latest statistics, "five out of the top ten destinations in the world are located in the European Union: France, Spain, Italy, Germany, and the United Kingdom" (World Turism Organization, 2018). However, the global trend to explore non-traditional destinations, unique, exclusive places, where tourists can interact with locals, observe traditional and live meaningful experiences (Nicolescu&Ana, 2018), together with the EU accession, lower prices than in other destinations, low-cost airlines expansion, global increasing mobility, increased preference for travel or geographical proximity (Chindris-Văsioiu & Tocan, 2014) come in favour of the New Member States' tourism sector. Hence, Tourism is an important pillar for the New Member States' economy, "accounting for roughly 12% of their GDP, total contribution, while the direct contribution of travel and tourism to the NMS is approximately 5% […] in terms of tourist flows, 15% of the total number of incoming tourists reported at EU-28 level can be directly attributed to the NMS" (Ana, 2018, p. 826).

In the given context, our paper will encompass a quantitative approach of the tourism industry in the eleven New EU member states that joined after 2004 in three waves (2004 - Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia, 2007 – Romania and Bulgaria, 2013 - Croatia), all of them situated in Central and Eastern Europe in terms of some specific indicators

- Indicators of international tourist flows - receipts (exports), expenditures (imports), balance of payments in tourism;
- The share of exports of tourist services in total exports;
- Direct and total tourism contribution to gross domestic product;
- The Travel and Tourism Competitiveness Index (TTCI)
- Tourism multiplier (K)
- The revealed comparative advantage (RCA)

1. Research methodology

The research methodology incorporated two main points: (1) Empirical data analysis, and (2) testing correlations and cluster analysis

In the first stage, the latest statistical data were collected, interpreted and aggregated for each of the New Member States

- Tourism Competitiveness Index, calculated by the World Economic Forum, 2017 edition – this index "aims to measure the factors and policies that make it attractive to develop the Travel & Tourism sector in different countries" (Blanke & Chiesa, 2008), and it is composed of a number of pillars related to regulatory framework, business environment and infrastructure, as well as human, cultural, and natural resources related to tourism sector;
- Indicators of international tourist flows, provided by the World Tourism and Travel Council, 2017 data – receipts, expenditures;
- The share of tourism exports in total country exports, provided by the World Tourism and Travel Council, 2017 data;
- The share of tourism in GDP, direct and total, provided by the World Tourism and Travel Council, 2017 data

Aggregated data included (calculated by authors):

- Balance of Payments in 2017 (in billion dollars)

$$Balance\ of\ \ payments = \mathrm{Re}ceipts - Expenditures \qquad (1)$$

- Apparent comparative advantage index for tourism in 2017 – this index is used to calculate the relative advantage or disadvantage of a certain country in services or the industry for a certain good as evidenced by trade flows (Balassa, 1965), in the given paper of tourism sector as evidenced by tourism flows.

$$App\ comp\ adv\ index\ in\ EU = \frac{\dfrac{Tourism\ Exports_X}{Total\ Exports_X} \times 100}{\dfrac{Tourism\ Exports_{EU}}{Total\ Exports_{EU}} \times 100} \qquad (2)$$

- The multiplier effect for 2017 – put it simple, "the multiplier concept means that every unit of tourist expenditure goes through several rounds of income creation and expenditure before its effect is exhausted" (Leuterio, 2007, p. 94).

$$K = \frac{\%\ Total\ tourism\ contribution\ in\ GDP}{\%\ Total\ tourism\ direct\ contributions\ in\ GDP} \qquad (3)$$

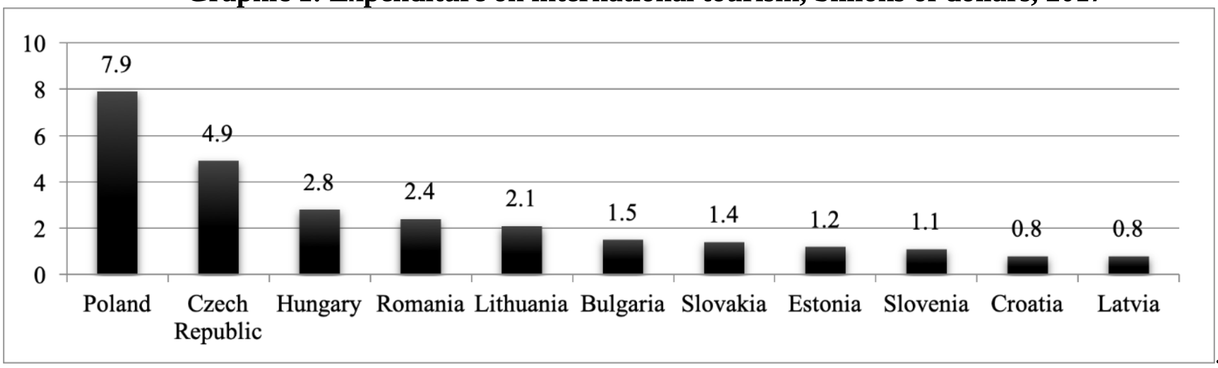
The second stage consisted of: a) testing correlations between tourism competitiveness index and some indicators (share of tourism exports, receipts, total and direct contribution in GDP); and b) a cluster analysis, carried out through the STATISTICA software, using the k-means technique (Ward method, Euclidian distances), based on five criteria - main components: the tourism competitiveness index, the multiplier effect, % of tourism exports, receipts from international tourism, direct impact of tourism in GDP.

2. Results and discussions

2.1. Analysis of international tourist flows and balance of payments in tourism

Regarding the tourist expenditure of the residents of the 11 New Member States, the major importers are Poland (7.9 billion dollars), Czech Republic (4.9 million dollars), followed by Hungary (2.8 billion dollars) and Romania (2.4 billion dollars). The latest member state, Croatia, and one of the smallest countries, Latvia (population in 2016, according World Bank census, 1.96 million), scored the lowest in terms of import of tourist services, both under 1 billion dollars. The results are presented in Graphic 1.

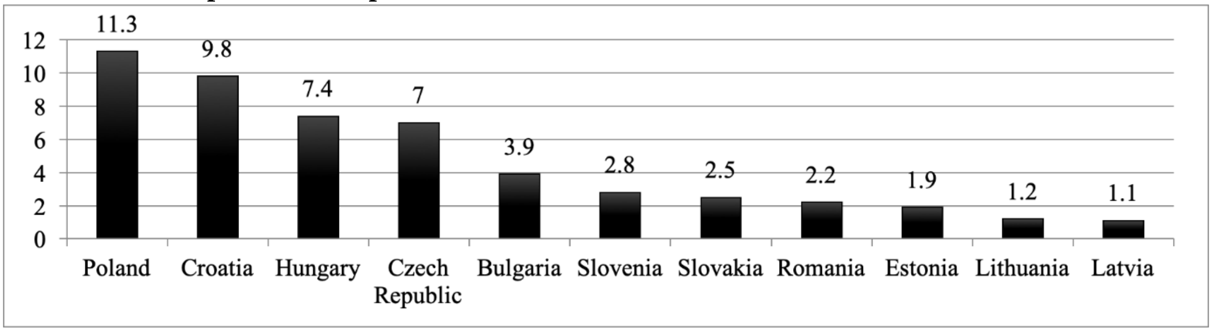
Graphic 1: Expenditure on international tourism, billions of dollars, 2017



Source: authors' work, based on statistical data provided by the World Tourism and Travel Council

On the other side of the tourist market, Poland confirms its international tourism leader position, with revenues of 11.3 billion dollars recorded in 2017. Other major tourism services exporting countries are Croatia (9.8 billion dollars), Hungary (7.4 billion dollars) and Czech Republic (7 billion dollars), the data being represented in Graphic 2.

Graphic 2: Receipts from international tourism, billions of dollars, 2017

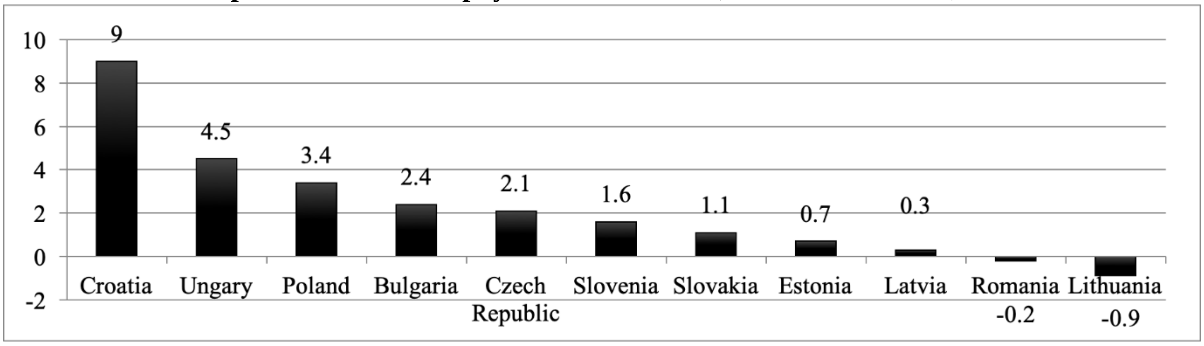


Source: authors' work, based on statistical data provided by the World Tourism and Travel Council

In terms of the balance of payments in tourism (See Graphic 3), the following points are worth mentioning

- 9 out of the 11 EU New Member States registered surplus;
- Lithuania and Romania are the only countries that registered deficit;
- Croatia's surplus of 9 billion dollars is way higher than the next ones in top 3, namely Hungary (4.5 billion dollars) and Poland (3.4 billion dollars).

Graphic 3: Balance of payments in tourism, billions of dollars, 2017



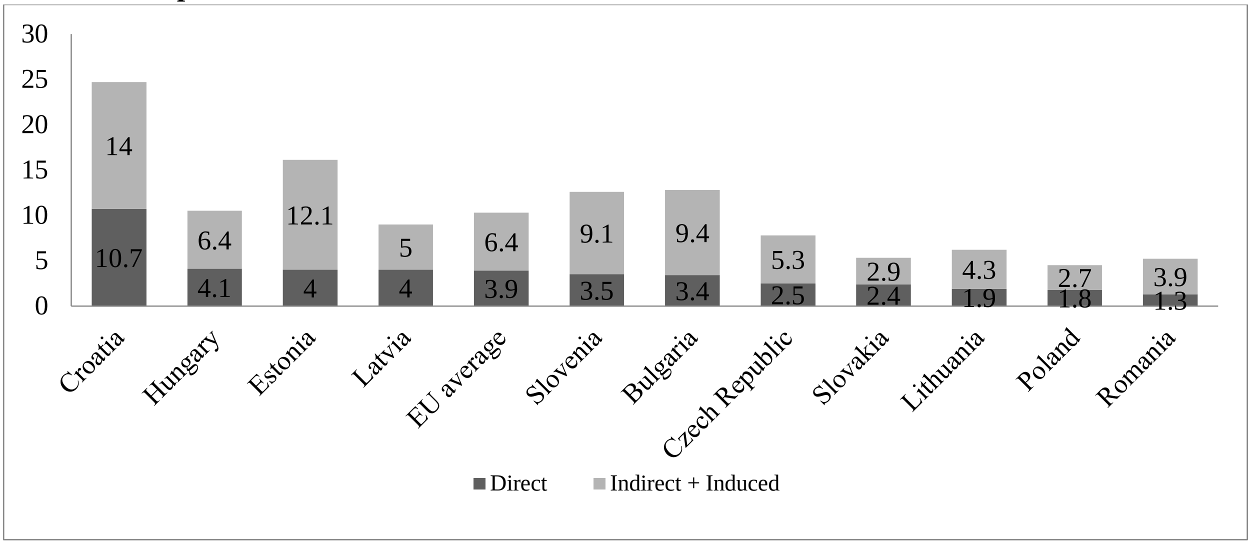
Source: authors' work, based on statistical data provided by the World Tourism and Travel Council

2.2. The impact of tourism in the economy

The total contribution of the tourism industry to the GDP of the New Member States is between 4.5% - Poland and 24.7% - Croatia, the second highest percentage registered at EU-level (after Malta). Low shares, below 7%, of tourism and complementary activities are recorded in Lithuania (6.2%), Slovakia (5.3%), and Romania (5.2%). On the other hand, Estonia (16.1%) and Bulgaria (12.8%), or Slovenia (12.6%) registered a significant share of the total tourism contribution to GDP.

The direct impact of tourism in the New Member States' economy ranges from a maximum of 10.7% achieved by Croatia, to a minimum of 1.3%, in Romania. Directly, the tourism sector generates over 3.9% of GDP, this also being the EU average, in Hungary, Estonia and Latvia. On the opposite side, weighs below 2% are also observed in Lithuania and Poland (1.8%). The data related to the total contribution of the tourism industry to the GDP and the he direct impact of tourism to GDP is represented in Graphic 4.

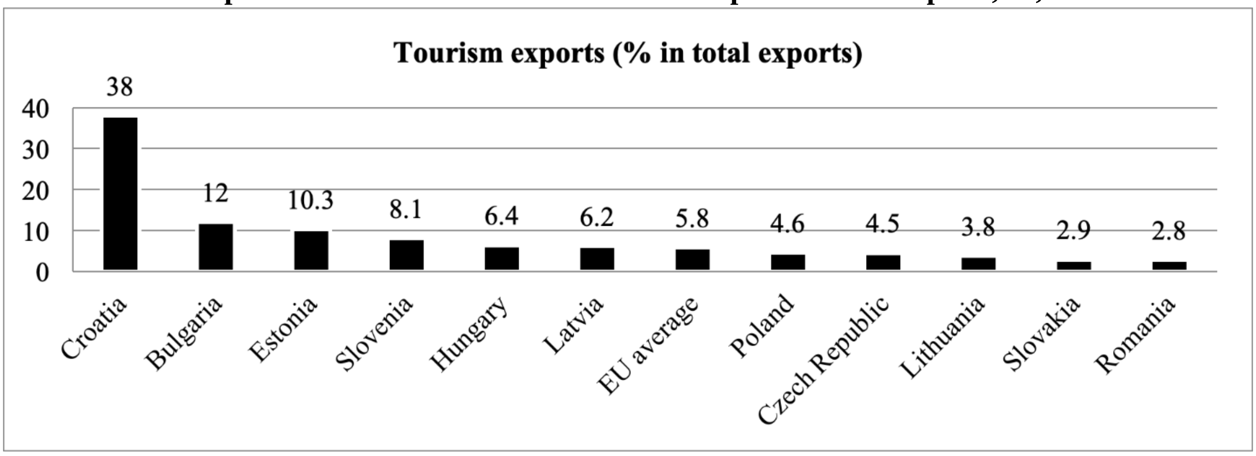
Graphic 4. Direct and Indirect + Induced contribution of tourism to GDP, %, 2017



Source: authors' work, based on statistical data provided by the World Tourism and Travel Council

An indicator showing the importance of tourism in the member countries' economy is the share of exports of this sector (tourism) in total exports. The highest share is recorded in Croatia (38%), followed by Bulgaria (12%) and Estonia (10.3%). The share of tourism services in total exports under the EU average – 5.8%, are recorded in Poland and Czech Republic, despite the absolute volume of receipts (see Graphic 5), Lithuania (3.8%), the lowest shares being recorded in Slovakia and Romania.

Graphic 5: The shares of tourism services exports in total exports, %, 2017



Source: authors' work, based on statistical data provided by the World Tourism and Travel Council

2.3. The comparative export advantage

In regards to the share of exports of tourism services to the entire EU, this turned out to be 5.8%, and, as per our calculations, 6 of the New Member States have a higher share – see Fig. 1 - "Revealed Comparative Advantage in tourism" for detailed data for all the New Member States.

Figure 1. Revealed comparative advantage in tourism

Comparative advantage in tourism	Comparative Disadvantage in tourism
• Croatia - 6.6 • Bulgaria - 2.2 • Estonia - 1.8 • Slovenia - 1.4 • Hungary - 1.1 • Latvia - 1.1	• Poland - 0.8 • Czech Republic - 0.8 • Lithuania - 0.7 • Slovakia - 0.5 • Romania - 0.5

Source: authors' work, based on statistical data provided by the World Tourism and Travel Council

2.4. The tourism competitiveness index

According to the World Economic Forum report on tourism competitiveness, the New Member States cover a wide range, from 4.42 - Croatia, to 3.78, registered by Romania. By grouping the 11 countries into three categories, on equal intervals of TTCI, we easily notice the following division

- Competitive destinations: 4.42-4.21: Croatia, Estonia and Czech Republic;
- The group of countries with medium-competitiveness –Slovenia, Bulgaria, Poland, Hungary;
- Low competitiveness – Latvia, Lithuania, Slovakia, Romania.

Figure 2. The tourism competitiveness of New Member States, TTCI, 2017

Competitive (4.21-4.42)	Medium-competitiveness (4-4.2)	Low competitiveness (3.78-3.99)
•Croatia - 4.42 •Estonia - 4.23 •Czech Republic - 4.22	•Slovenia - 4.18 •Bulgaria - 4.14 •Poland - 4.11 •Hungary - 4.06	•Latvia - 3.97 •Lithuania - 3.91 •Slovakia - 3.9 •Romania - 3.78

Source: authors' work, based on statistical data provided by World Economic Forum, 2017

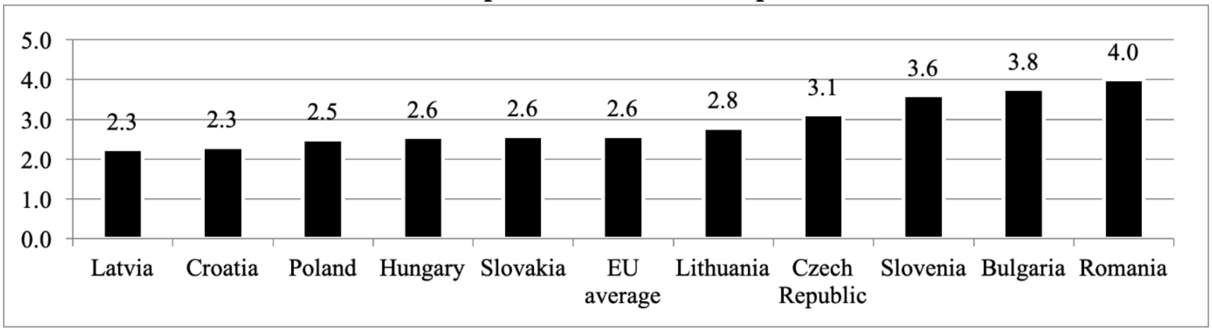
2.5. Multiplier Effect of tourism in the economy (GDP)

The reference value in the literature (K = 3) is exceeded or equaled by 4 of the 11 New EU Member States. Starting from the maximum level of the multiplier, recorded in Romania (4) and the minimum in Latvia (2.3) and taking into consideration the EU average (2,6), we can group the 11 New Member Countries as follows:

- Romania, Bulgaria and Slovenia - high value multiplier
- Czech Republic and Lithuania - medium multiplier
- Latvia, Croatia, Poland, Hungary, Slovakia – low multiplier

The results can be observed in Graphic 6.

Graphic 6. Tourism multiplier, 2017



Source: authors' work, based on statistical data provided by the World Tourism and Travel Council

2.6. Testing correlations

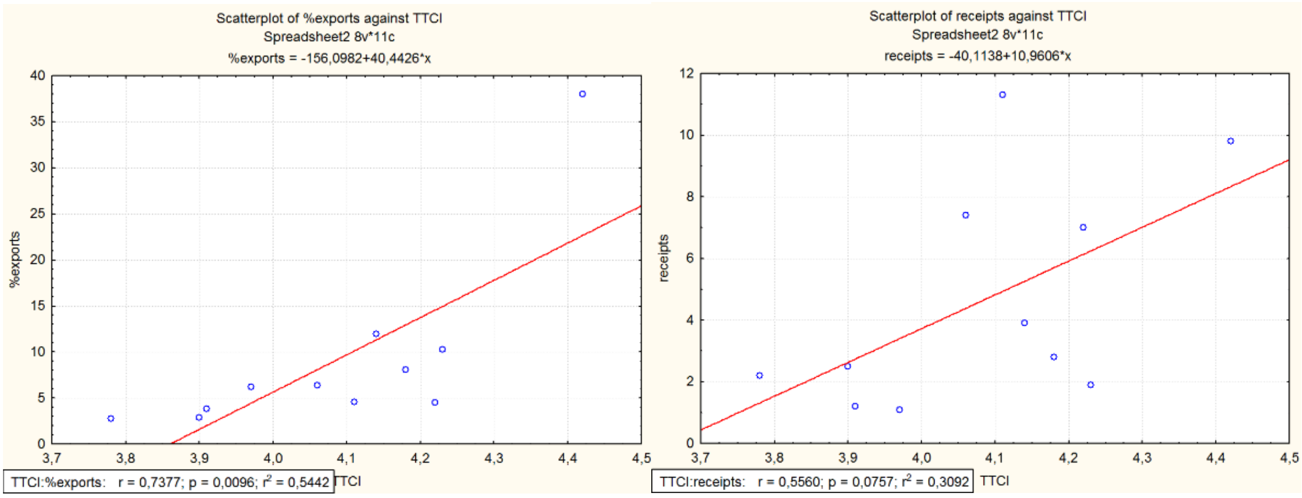
As stated in the methodology section, the next step in our research was to test some correlations between the variables used in the analysis.

In terms of testing the relationship between competitiveness (TTCI), on the one hand, and the share of tourism exports and the volume of international tourism receipts, on the other hand, the following results were obtained:

- r value for TTCI - % exports (0.7377) shows a direct and strong relation between tourism competitiveness and the role of tourism in the international trade of the countries analysed;
- r value for TTCI – receipts (0.5560) suggests a closer dependence between competitiveness and the share of exports in total exports than between the competitiveness and the absolute value of exports

Looking at Fig. 3, it can be stated that there is a concentration to the trend line in the first situation, confirming the calculated r values. In the first case, extreme positions are noticed for Romania (3.78 TTCI, 2.8 % exports) and Croatia (4.42 TTCI, 38% exports).

Figure 3.Correlation between TTCI - share of exports and TTCI – receipts, Scatterplot representation



Source: authors' work, according to the results of research; STATISTICA software representation

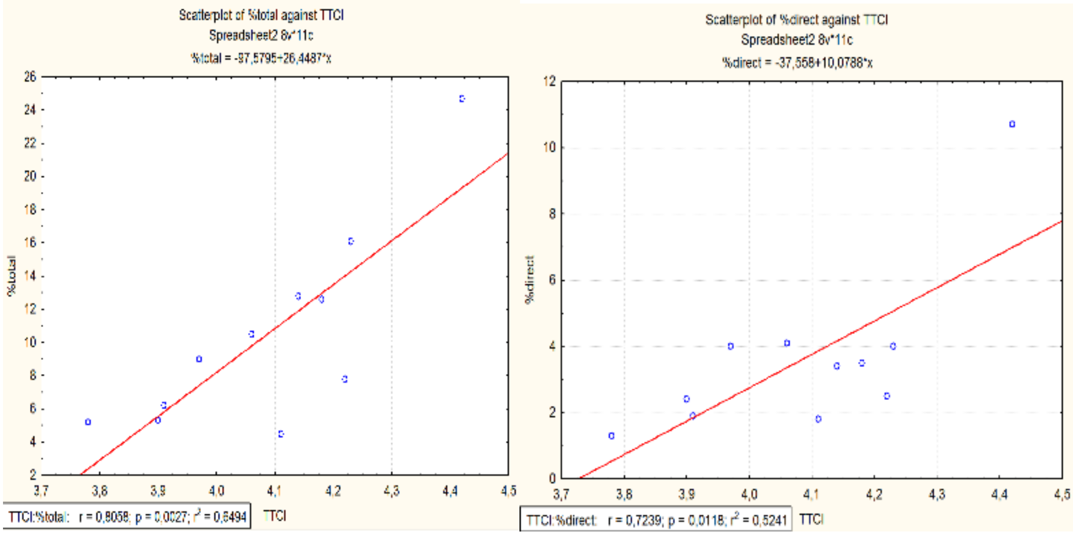
The next set of tests focused on the dependence between competitiveness (TTCI) and the impact of tourism in the economy, measured by direct and total contribution to GDP formation.

The results and graphical representations revealed the followings

- r value for TTCI – total contribution in GDP (0.8058) shows a direct and strong relationship between tourism competitiveness and the role of tourism in the economies of the countries analysed; moreover, the value of r for TTCI – total contribution in GDP is superior to the TTCI - % exports r value, suggesting an even stronger impact of tourism on GDP by its multiplier effect;
- r value for TTCI – direct contribution in GDP (0.7239) confirmed the strong relationship between competitiveness and the sector's contribution to GDP;

- Distribution on the scatterplot diagrams showed a higher concentration of cases for the TTCI-total contribution relation, except for Croatia (24.7%, 10.7%) in both situations

Figure 4: Correlation between TTCI – total contribution of tourism in GDP and TTCI – direct contribution of tourism in GDP, Scatterplot representation



Source: authors' work, according to the results of research; STATISTICA software representation

There is worth mentioning that the relationship between TTCI and the multiplier effect of tourism has also been tested, but the results did not show a significant correlation between the two indicators (see Appendix).

2.7. Cluster analysis

Starting from the literature and the results of testing the relation between the indicators, the 11 countries were grouped through a cluster analysis, as described in the section dedicated to the methodological specifications.

The results of the analysis, the cluster components and their characteristics are summarized in Table 1.

Table 1: Clusters components and characteristics

Cluster	**Components**	**Average values**					**Characteristics**
		TTCI	**% exports**	**% direct**	**K**	**Receipts**	
1	Bulgaria Estonia Slovenia	4.183	10.1	3.63	3.8	2.867	Medium-high TTCI High share of tourism exports Average contribution of tourism to the economy High multiplier effect Low receipts
2	Croatia	**4.42**	**38**	**10.7**	2.3	**9.8**	High TTCI Extremely high share of tourism exports High contribution of tourism to the economy Low multiplier effect High receipts from international tourism
3	Romania	3.78	2.8	1.3	**4**	2.2	Very Low TTCI Low share of tourism exports Low contribution of tourism to the economy High multiplier effect Low receipts from international

Cluster	Components	Average values					Characteristics
		TTCI	% exports	% direct	K	Receipts	
							tourism
4	Latvia Lithuania Slovakia	3.927	4.3	2.767	2.5	1.6	Low TTCI Medium - low share of tourism exports Low contribution of tourism to the economy multiplier effect <3 Low receipts from international tourism
5	Czech Republic Hungary Poland	4.13	5.2	2.8	2.7	8.567	Medium TTCI Low contribution of tourism to the economy multiplier effect <3 High receipts from international tourism

Source: authors' work, according to the results of research;

Depending on which cluster each country belongs to, they are characterized by the following:

- Cluster 1 – Bulgaria, Estonia, Slovenia - characterized by an extremely medium-high level of tourist competitiveness, high level of multiplier effect, despite the medium contribution of tourism in GDP, and also high share of tourism in exports;
- Cluster 2 – Croatia – "one-country cluster", extremely different from the group of 11 new member states – high tourism competitiveness (extremely high if we look on the other 10 countries index), extremely high tourism exports shares and contribution in country GDP and also an important position in international tourism, as the receipts shows. On the other hand, the multiplier effect is the lowest of entire CEE EU countries;
- Cluster 3 – Romania – the second "one-country cluster" revealed by analysis, characterized by very low competitiveness, tourism services share in exports, low contribution of tourism in GDP and an unfavourable position in the international tourist market;
- Clusters 4 – Latvia, Lithuania, Slovakia - brings together low competitive destinations, where the tourism industry is low represented in GDP formation, weak position in the international tourist flows, and low tourism multiplier effect;
- Clusters 5 - Czech Republic, Hungary, Poland – grouping important tourist destinations, with high receipts from international tourism, as a result of a medium competitiveness, but still with a low development of industry (tourism exports shares, impact of tourism in economy).

3. Conclusions

European tourism industry is on an ascending path and the new waves of European accession are increasingly contributing to the travel and tourism market on the continent. The main conclusions drawn based on the analyses conducted reflect the following:

a) As an overall trend, the New Member States register positive upturns, 9 out of the 11 EU New Member States having a surplus in terms of the balance of payments, except for Lithuania and Romania - Prague was actually the 5th most visited city in Europe in 2017, and the 18th in the world, followed by Budapest, which ranked 55th, Warsaw 74th, and Krakow 75th. In regards to the European countries with the largest number of international tourist arrivals in 2017, Poland is the leader among the New Member States, ranking the 9th in Europe, and the 8th in the European Union (Russia is 8th in Europe, the others being Old Member States of EU), followed by Hungary on the 10th place in the EU, Croatia the 11th, and Bulgaria the 14th. These positive evolutions reflect that the New Member States are catching up on the initial gap between them and the mature tourism markets in the Old Member States, benefiting of the EU support policies, opening of new markets, and also the individual and unique tourism products they can provide;

b) The development of the tourism industry is not equal within the group of the New Member States the ones that performed best from the tourism sector perspective last year were Croatia, Czech Republic, Poland, Hungary, Bulgaria, and Estonia. Almost 25% of Croatia's GDP is attributed to tourism, so this country is highly dependent on the services sector, most specifically on travel and tourism. Thus, they should pay attention and try their best to avoid seasonality issues that might occur. On the other end lies Romania, where the direct impact of tourism to GDP is extremely low, only 1.3%. Furthermore, the share of exports in the total exports of the countries is highest in Croatia (38%), followed by Bulgaria (12%) and Estonia (10.3%), while Slovakia and Romania reported the lowest volume – 2.9% and 2.8% respectively;

c) Relative to the world average of 6%, the share of exports of tourism services in Croatia gives it a strong competitive advantage, particularly in the CEE region. The tourism industry in Croatia, but also in Bulgaria or Estonia, can benefit from the opportunity cost to produce and offer tourist services in the region, these countries have specialization premises in this plan. On the other hand, the low value of exports in Slovakia or Romania causes them an unfavourable position in international trade with tourist services.

d) In relation to how competitive the New Member States are in the Travel & Tourism sector, we obtained the following results: most competitive destinations among the New Member States are Croatia, Estonia and Czech Republic, while the least competitive are Latvia, Lithuania, Slovakia, and Romania. However, in what concerns the multiplier effect of tourism, Romania has the highest one, proving that there is huge potential of this sector for the country's economy, and the propensity to spend extra money income on domestic tourism rather than save is high, so there should be taken appropriate measures in order to help this industry grow, as tourism might not only create new jobs in the tertiary sector, but apparently it could also encourage growth in the primary and secondary sectors of Romania's economy;

e) Additionally, in regards to the competitiveness (TTCI) and the impact of tourism in the economy, measured by direct and total contribution to GDP formation, we found out that there is a direct and strong relation between tourism competitiveness and the role of tourism in the international trade of the countries analysed, but also a closer dependence between competitiveness and the share of exports in total exports than between the competitiveness and the absolute value of exports. Plus, we can also state that there is a direct and strong relationship between tourism competitiveness and the role of tourism in the economies of the countries analysed, total contribution in GDP is superior to the TTCI, meaning that there is an even stronger impact of tourism on GDP by its multiplier effect; Yet, the relationship between TTCI and the multiplier effect of tourism has also been tested, but no significant correlation between the two indicators was identified;

f) With reference to the clusters analysis, we have identified five clusters, Croatia and Romania being the extreme cases - Croatia can be characterized by very high tourism competitiveness, extremely high tourism exports shares and contribution in country GDP, representative position in international tourism, but the multiplier effect is the lowest among the New Member States, and on the other hand there is Romania, characterized by very low tourism competitiveness, tourism services share in exports, low contribution of tourism to GDP and an unfavourable position in the international tourist market;

To conclude, it can be stated that explicit tourism growth can be connected with European Union accession in the New Member States. However, as predicted, citizens of the richest countries among the New Member States (Poland and Czech Republic) travel abroad the most, they also being the countries that attract the most tourists, together with Croatia, that also offers seaside and sunshine. The most important factors influencing the evolution of tourism industry in the New Member States can be considered the EU integration, the diversification of tourism preferences worldwide, as well as the free movement of people, the increasing standard of living in the New Member States, or higher budgets allocated to travelling, supported by the low-cost airlines expansion and deregulations in air transport. The growing number of business activities between the New Member States and other countries also accounts for an important part of tourism in the region**.**

***Acknowledgement**

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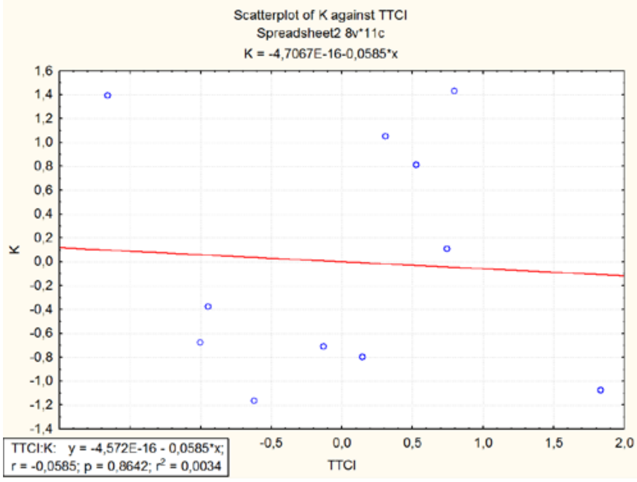
Appendix 1: Scatterplot – K and TTCI correlation



Source: STATISTICA software output

Appendix 2: Member of Clusters and Distance from respective Cluster Center

Members of Cluster Number 1 (Spreadsheet2 and Distances from Respective Cluster Cent Cluster contains 3 cases	Distance
Bulgaria	0,191195
Estonia	0,231806
Slovenia	0,159234

Members of Cluster Number 2 (Spreadsheet2) and Distances from Respective Cluster Center Cluster contains 1 cases	Distance
Croatia	0,00

urce: S

Members of Cluster Number 3 (Spreadsheet2 and Distances from Respective Cluster Cent Cluster contains 1 cases	Distance
Romania	0,00

Members of Cluster Number 4 (Spreadsheet and Distances from Respective Cluster Cent Cluster contains 3 cases	Distance
Latvia	0,324046
Lithuania	0,232439
Slovakia	0,159463

Members of Cluster Number 5 (Spre and Distances from Respective Clus Cluster contains 3 cases	Distance
Czech Republic	0,394187
Hungary	0,341657
Poland	0,412570

Appendix 3: Distances between Clusters

Cluster Number	Euclidean Distances between Clusters (Spreadsheet2 Distances below diagonal Squared distances above diagonal				
	No. 1	No. 2	No. 3	No. 4	No. 5
No. 1	0,000000	5,087827	1,267026	1,179951	1,073068
No. 2	2,255621	0,000000	9,714657	6,686683	4,652270
No. 3	1,125623	3,116834	0,000000	1,112308	2,122195
No. 4	1,086255	2,585862	1,054660	0,000000	1,006275
No. 5	1,035890	2,156912	1,456775	1,003133	0,000000

Source: STATISTICA software output

Trade relations of the Republic of Moldova with the Russian Federation: from dependence to export reorientation

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Abstract: This article analyses the evolution of bilateral trade relations, registered over the last 20 years, between the Republic of Moldova and the Russian Federation, revealing the existing impediments to their optimal development. Trade relations between these two countries entered the uncertainty zone in the last decade. They are significantly affected by the political tensions between the Republic of Moldova and the Russian Federation, which generated the application by the Russian Federation of embargoes, prohibitions and import taxes on Moldovan products. The high share of Moldovan exports oriented to a single market destination **-** *the Russian Federation, revealed the Moldova's commercial dependence on it until 2014, when exports have been reoriented to the EU following the signing of the Association Agreement. However, taking into account the dependence of the Moldovan economy on the Russian Federation's mineral resources and the Russian market size, which cannot be neglected, Moldova must strive to normalize economic relations with this country.*

Key-Words: trade relations, Republic of Moldova, Russian Federation, economic crisis, embargo, Association Agreement with the EU
JEL codes: F18, F21, F51

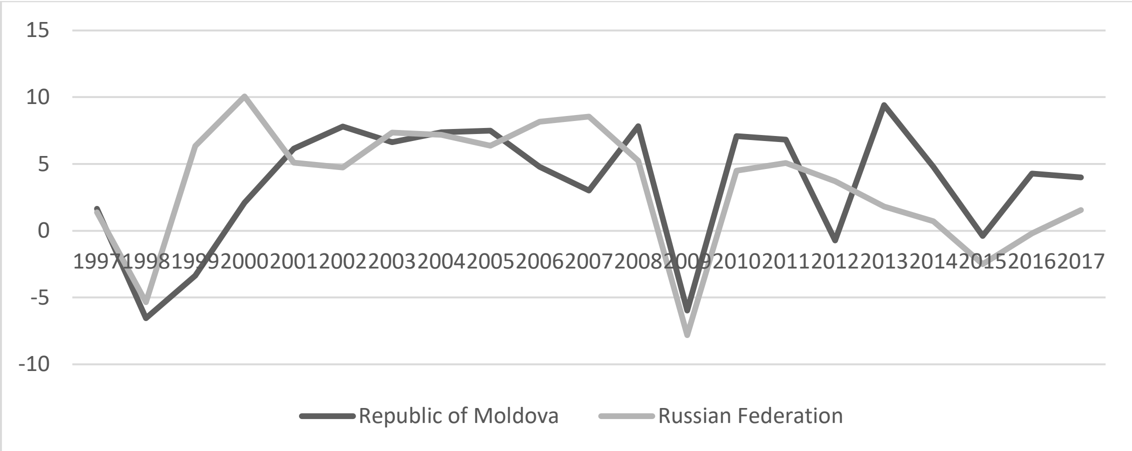
1 Introduction

The economic cooperation between the Republic of Moldova and the Russian Federation, as independent states, after the dissolution of the USSR, has been initiated when the Protocol on the extension of the Commonwealth of Independent States (CIS) has been signed, on December 21, 1991. Subsequently, several agreements that established economic and trade relations between the two countries, such as the Intergovernmental Agreement on commercial and economic cooperation of 1993, the Agreement on avoidance of double taxation and prevention of tax evasion of 1996, the 1998 Industrial Cooperation Agreement and the 1998 Mutual Investment Promotion and Protection Agreement were signed. In 2008 the governments of both states have developed the Economic Cooperation Program between the Republic of Moldova and the Russian Federation for the period 2009-2020, which established the directions for the development of mutually beneficial economic relations and bilateral trade of goods. In 2011, the Agreement on Participation of the Republic of Moldova in the Free Trade Area of the CIS (Free Trade Area) was signed, replacing the existing bilateral and multilateral free trade agreements between the signatory countries of this agreement and eliminating tariff barriers to foreign trade. In 2014, the Republic of Moldova made the decision to sign the Association Agreement and the Deep and Comprehensive Free Trade Area (DCFTA) with the EU, which does not contradict its participation in the CIS Free Trade Area.

Although almost three decades have passed since the collapse of the USSR and the adoption of the Declaration of Independence of the Republic of Moldova, the common historical past of the Republic of

Moldova and the Russian Federation continues to influence the development of bilateral trade relations. The historical belonging of the Republic of Moldova to a centralized economic system managed by Moscow determined the country's commercial orientation especially to the Russian Federation. Over a period of almost two decades, the volume of Moldovan exports was driven by exports to the Russian market, being determined by the geographical proximity and the significant size of the Russian Federation's market. In these circumstances, any negative evolution of the economic situation of the Russian Federation has affected the economic situation of the Republic of Moldova. The Republic of Moldova's GDP growth rate has evolved almost similar to that of the Russian Federation (Figure 1).

Figure 1: Evolution of GDP growth rate in the Republic of Moldova and the Russian Federation for the period 1997-2017

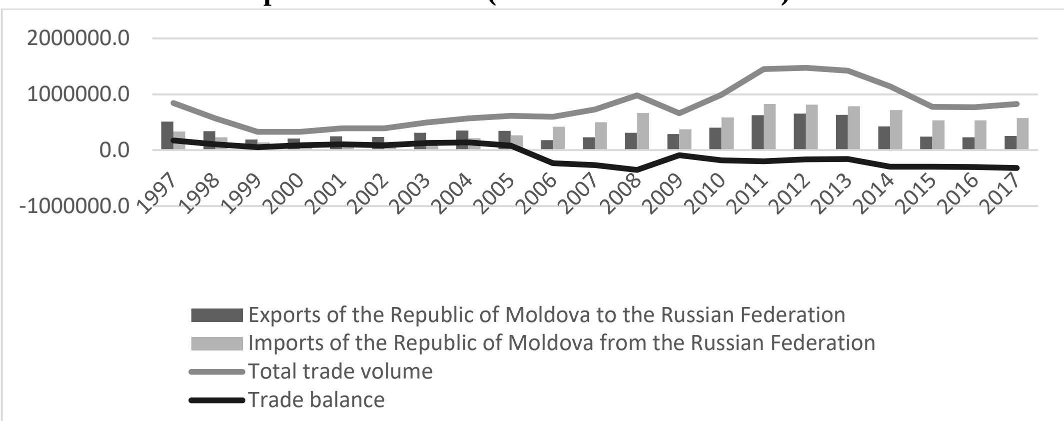


Source: Representation of the authors based on data from the International Monetary Fund (IMF, 2018).

The evolution of trade between the Republic of Moldova and the Russian Federation has experienced significant fluctuations over the past 20 years, from a minimum value of 30 million dollars in 1999 to a maximum of 1472 million dollars in 2012. Between 1998-1999, as a result of the financial crisis from Russia, which significantly undermined consumption, bilateral trade fell by 32% and 42% in 1998 and 1999 respectively. In 2009 the bilateral trade contracted again (by 33%), when the economy of the Russian Federation slipped into another recession (Figure 2).

In the period 2014-2016, the Russian economy faced a new economic crisis caused, on the one hand, by the imposition of economic sanctions by international community as a result of the annexation of the Crimea, while, on another hand, by the collapse of the world crude oil price in the second half of 2014. These events caused a decline in economic growth, depreciation of the Russian ruble, destabilization of the financial system, and a severe disinvestment process in the Russian Federation in 2014 (IMF, 2015). In this case, the bilateral trade with the Republic of Moldova was also affected, decreasing for the three consecutive years (Figure 2).

Figure 2: Evolution of the bilateral trade between the Republic of Moldova and the Russian Federation in the period 1997-2017 (in thousands of dollars)



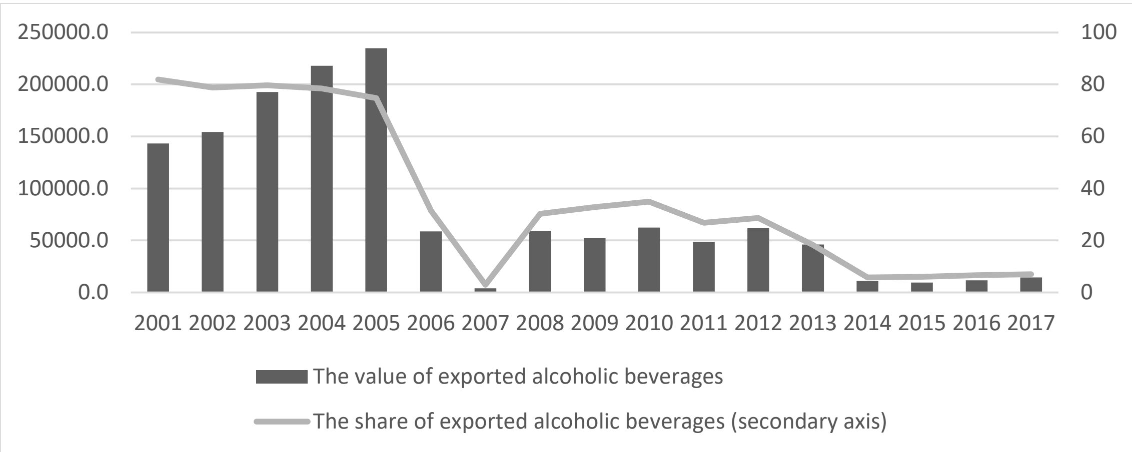
Note: [1]The data of the National Bureau of Statistics of the Republic of Moldova do not include information about the Transnistrian region.
Source: Representation based on the authors' calculations and data of the National Bureau of Statistics of the Republic of Moldova (2018)

2 Impact of trade embargos on Moldovan exports

Bilateral trade between the Republic of Moldova and the Russian Federation has been affected in the past two decades not only by the crises that the economy of the Russian Federation has suffered, but also by the embargoes imposed by Russian authorities on Moldovan imports and by the application of some opaque game rules in the conduct of commercial relations.

The most significant embargo, which triggered a nearly 50% contraction of Moldova's total exports to the Russian Federation, causing a negative trade balance, was the one applied in 2006 to imports of Moldovan wines, due to the Federal Service for Consumer and Welfare Protection "Rospotrebnadzor" motivation that these would be of poor quality and harmful for consumption. However, according to some experts, the embargo was a response to the delay in signing by the Moldovan government of the bilateral agreement with the Russian Federation, necessary to the Russian Federation to join the World Trade Organization[1]**.** This embargo has caused a sharp decline in the value of Moldovan alcoholic beverages exports to the Russian Federation, with the role of the Russian market shrinking from 74% in 2005 to just 2.9% as total weight in 2007 (Figure 3). Subsequently, after the lifting of the embargo, exports of alcoholic beverages targeted to the Russian Federation no longer reached the values similar to the 2001-2005 period, mainly due to the reorientation of these exports to other markets.

Figure 3: Evolution of exports of alcoholic beverages[1] to the Russian Federation in the period 2001-2017 (in thousands of dollars and in % of the total value of alcoholic beverages exported by the Republic of Moldova)



Note: [1]According to the Nomenclature for the classification of goods of the Republic of Moldova, alcoholic beverages do not exist as a separate group. Therefore, the data presented in the Figure refers to the value of exports for the group of goods "Alcoholic, non-alcoholic and vinegar beverages".
Source: Representation based on the authors' calculations and data of the National Bureau of Statistics of the Republic of Moldova (2018)

In September 2013, another embargo on imports of all Moldovan wine products was introduced, and the low quality of these products was again raised. The embargo has triggered a contraction in Moldovan exports to the Russian Federation for three consecutive years, by 33%, 43% and 3% in 2014, 2015 and 2016 respectively. The consequences of these two embargoes were felt at the level of the whole viticulture sector of the Republic of Moldova. More than 80 wineries in the country have been bankrupted, the area of vineyards has decreased by almost 40%, seriously affecting the production chain (AllMoldova, 2017). The wine industry is

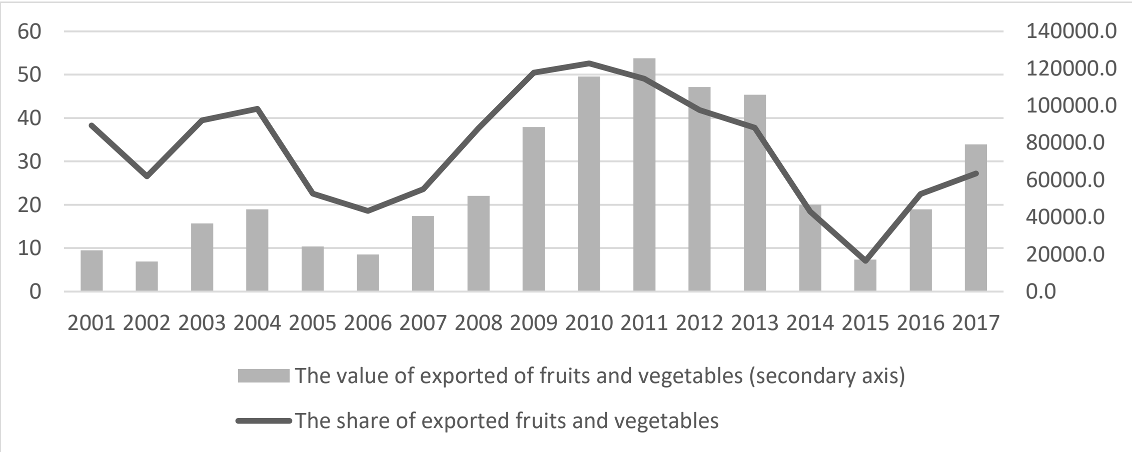
[1] Source: https://echo.msk.ru/programs/beseda/47486/

very important for the Republic of Moldova, the revenues generated by it providing about 10-15% of the national annual budget, and the incomes from the export of wine products represent up to 20% of the export revenues in favourable years (Ministry of Agriculture and Food Industry of the Republic of Moldova, 2013).

These embargoes have diminished the role of the Russian Federation as the main destination for the Republic of Moldova's wine exports, the share of exports of alcoholic beverages to this country in total exports of this group declining from 81% in 2001 to only 6,9% in 2017 (Figure 3). Exporters of wine products have shifted to other markets such as the EU, but also to countries such as China, Belarus and Ukraine.

In 2014, the Russian Federal Agency for Veterinary and Phytosanitary Surveillance "Rosselhoznadzor" imposed a new embargo on the Republic of Moldova, this time on the import of processed meat, fruits and canned fruits and vegetables, invoking the violation of the phytosanitary requirements. Moreover, in the same year, the Russian Federation approved the imposition of import duties on 19 categories of the most exported Moldovan products, including wine, meat, vegetables, fruits and cereals (Government of the Russian Federation, 2014). This measure has been applied despite the fact that since 2011 the Republic of Moldova has signed the Agreement on Participation in the Free Trade Area of the CIS, according to which the Moldovan products exported to the Russian Federation were exempted from customs duties. The amount of import duties applied to Moldovan products was similar to that for countries not participating in this free trade area. As a consequence, the share of exports of fruits and vegetables oriented to the Russian Federation decreased from 37% in 2013 to 7% in 2015 (Figure 4).

Figure 4: Evolution of fruit and vegetables exports[1] in the Russian Federation in the period 2001-2017 (in thousands of dollars and in % of the total value of fruits and vegetables exported by the Republic of Moldova)



Note: The data presented in the Figure refer to the value of exports for the following groups in the Nomenclature for the classification of goods: "Vegetables, fruits or other parts of plants" and "Edible fruits and nuts; citrus peaches and melons".

Source: Representation based on authors' calculations and data of the National Bureau of Statistics of the Republic of Moldova (2018).

According to the National Bank of Moldova (2014), sanctions were imposed by the Russian authorities to protect the Russian market from European products that could reach Moldova through the Association Agreement signing with the EU. The issue of wine exports to the Russian Federation would have rather a political than a technical reason, the imposition of embargoes being used as a tool for promoting the political interests of the Russian Federation in the Republic of Moldova (Expert-Grup, 2010). The political character of the embargoes imposed by the Russian Federation was also confirmed by the Russian Deputy Prime Minister D. Rogozin in 2014 on the eve of signing the Association Agreement with the EU, arguing that Moldova's pro-European orientation decision was taken illegitimately without a referendum, and that the embargoes imposed are a reaction of the Russian Federation to such decisions (Kommersant, 2014). In addition, the awards won by Moldovan wines at international renowned exhibitions such as Decanter, Mondus Vini and International Wine

Challenge prove the opposite of the statements regarding the low quality of Moldovan winemaking (Acsa, 2017).

The rescue solution for the wine sector of the Republic of Moldova was represented by the entry into force of the Generalized System of Preferences (GSP) granted by the EU in 2006, immediately after the establishment of the Russian embargo, preference for doubling the quotas for the export of wine on the European market. In 2007, this system expanded (GSP plus), followed by the application of the Autonomous Trade Preferences in 2008. There were also several projects supported by international organizations, through which it was possible to increase the competitiveness of Moldovan products and to reorient their exports to other markets. Thus, in order to solve the structural vulnerabilities of the Moldovan wine industry and to increase the exports of wine products to other markets, in 2010, the Government of the Republic of Moldova and the European Investment Bank (EIB) restructured the Viticulture Sector Restructuring Program[2]. In 2013, the National Vine and Wine Office was created through the public-private partnership with the support of USAID Moldova. Moreover, the Government of the Republic of Moldova ordered the establishment of the Vine and Wine Fund to financially support the development measures of the wine sector, formed by co-financing by the state and the private sector. With the help of this institution and the support of the Swedish Government and USAID, the unique brand Wines of Moldova was created and promoted. In addition, the European Union has taken the decision to double the export quotas for Moldovan fruits and has proposed the provisional application of the Free Trade Agreement with the EU. In the same year, the EU decided to fully open the Moldovan wine market, thus boosting wine exports from the Republic of Moldova, and thus ending the cycle of dependence of the wine industry on the East.

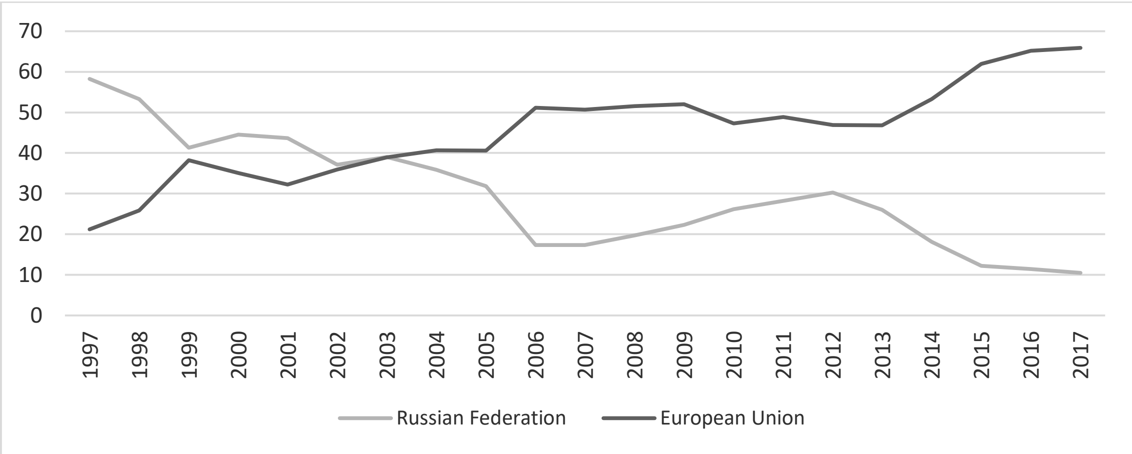
In order to increase the competitiveness of the agricultural sector and to diversify the markets, a series of projects were launched in 2014 with the support of external donors: The Livada Moldova Project, financed by a credit to the Government of the Republic of Moldova by the EIB; The Rural Inclusive Economic and Climate Resilience Program, funded by the International Fund for Agricultural Development, the Global Environment Fund and the International Development Agency of Denmark; The Competitive Agriculture Project, funded by the World Bank and the Global Environment Facility.

3 Diminishing the Republic of Moldova's commercial dependence on the Russian Federation

Considering the Russian embargoes and the actions of the Republic of Moldova to shift exports to European markets, the role of the Russian Federation as the main destination for Moldova's exports has gradually diminished. As a consequence of repeatedly imposed restrictions by the Russian Federation on the import of Moldovan products and the signing of the Association Agreement with the EU, the Moldovan exporters have gradually shifted to EU countries, the share of exports to this market increasing twice compared to 1997, from 21% to 65% in 2017. The share of exports the Russian Federation in total exports fell from almost 60% in 1997 to only 10% (Figure 5). The place of the Russian Federation was taken over in 2014 by Romania, which is currently the main trading partner of the Republic of Moldova.

[2] Under the Financing Agreement signed on November 23, 2010, the EIB grants the Republic of Moldova a loan of 75 million EUR to implement the Program. The objectives of the Program are: restructuring of the wine sector and related industries (production of packaging, labels, plugs, etc.); improving the quality and consistency of wine produced in Moldova from vineyard quality to final packaging and delivery of products; the diversification of the country's markets by ensuring the authenticity of the produced wine production. (Source: Ministry of Agriculture, Regional Development and Environment of the Republic of Moldova, 2018, http://www.madrm.gov.md/en/content/rapoarte)

Figure 5: Evolution of exports of the Republic of Moldova to the Russian Federation and the EU in the period 1997-2017 (in % of total exports of the Republic of Moldova)



Source: Authors' representation based on data from the National Bureau of Statistics of the Republic of Moldova (2018)

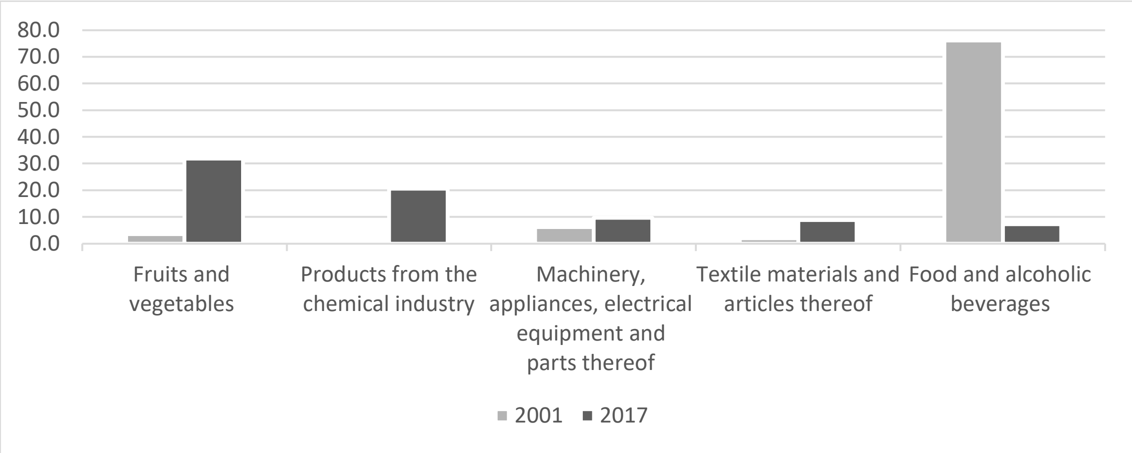
A comprehensive picture of the diminishing role of the Russian Federation as a market for the Republic of Moldova and of the decreasing economic dependence on the exports oriented towards this country is revealed by the share of Moldovan exports oriented to the Russian Federation in Moldovan GDP. Data show a decrease in this share from 17% in 2001 to just 2.6% of GDP in 2017 (Figure 6).

Figure 6: The share of Moldovan exports to the Russian Federation in 2001-2017 (in % of GDP)

Source: Authors' calculation based on data from the National Bureau of Statistics of the Republic of Moldova (2018)

The export structure of Moldovan products oriented to the Russian market has also changed, revealing that the basic exported products are now: fruits and vegetables (31%), products from the chemical industry (20%), machinery, appliances, electrical equipment and parts thereof (9%), textile materials and articles thereof (8.7%) and food and alcoholic beverages (7.3%) (Figure 7).

Figure 7: Products exported by the Republic of Moldova to the Russian Federation in 2001 and 2017 (in % of the total value of Moldovan exports)

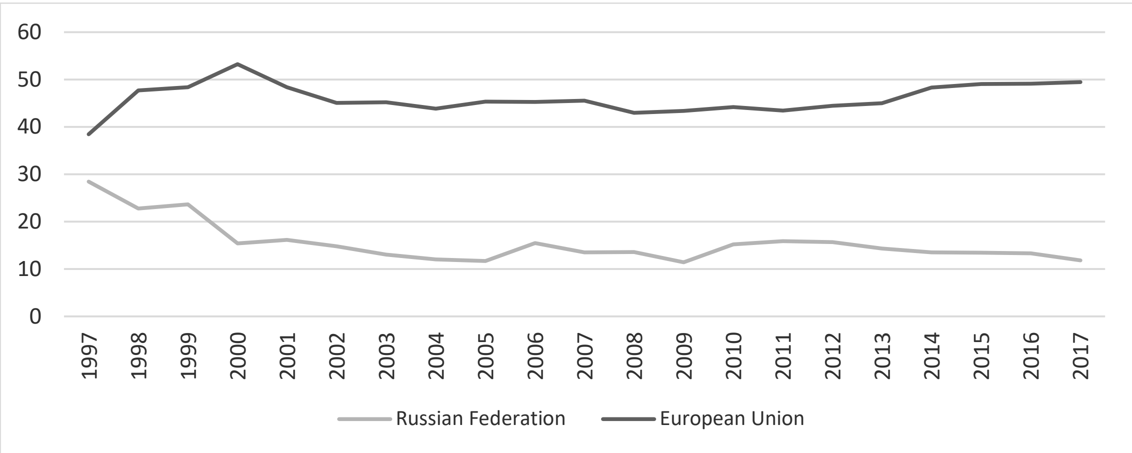


Source: Authors' calculation based on data from the National Bureau of Statistics of the Republic of Moldova (2018)

It can be noticed that the share of exports of food and alcoholic beverages in the total value of exports dropped significantly compared to 2001, thus, from the group with the largest share of 79%, it reached the fifth place, with a weight of only 7.3%. This decrease was largely determined by the embargoes imposed by the Russian Federation to Moldova since 2006 and by the reorientation of exports of this product category to the EU following the signing of the Association Agreement.

The share of imports from the Russian Federation into total imports of the Republic of Moldova decreased from 28% in 1997 to 12% in 2017, imports from the EU exceeding those from the Russian Federation over the entire period (Figure 8).

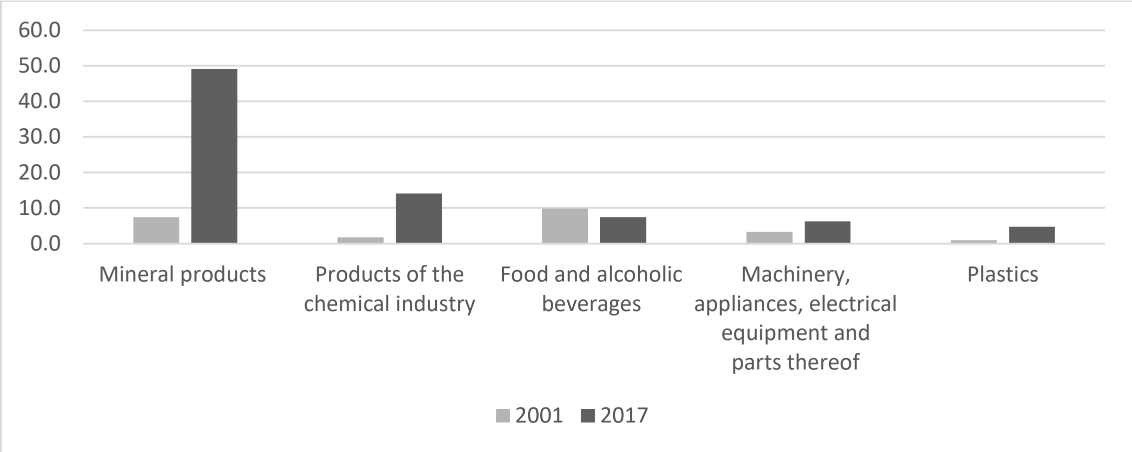
Figure 8: Evolution of Moldovan imports from the Russian Federation and the EU in the period 1997-2017 (in % of total exports of the Republic of Moldova)



Source: Authors' representation based on data from the National Bureau of Statistics of the Republic of Moldova (2018)

The structure of the products imported from the Russian Federation shows a high degree of dependence on mineral products (49%) (Figure 9). This dependence is suggested by the increasing path of minerals compared to 2001 values.

Figure 9: Products imported by the Republic of Moldova from the Russian Federation in 2001 and 2017 (in % of the total value of imports from the Russian Federation)



Source: Authors' calculation based on data from the National Bureau of Statistics of the Republic of Moldova (2018)

For the Russian Federation, the Republic of Moldova is not a vital economic and trade partner, but rather has a political role. The role of the Republic of Moldova as a market for exporters of the Russian Federation is insignificant, amounting to 0.18% of the total value of Russian exports, placing 49th in the list of countries of destination of the exports of the Russian Federation (Ru-Stat, 2018). Russian imports are almost similar in value, accounting for only 0.12% of the total value of Russian imports from the Republic of Moldova, ranked 63th in the list of partners exporting to the Russian Federation.

4 Conclusion

The analysis revealed that the trade relations between the Republic of Moldova and the Russian Federation entered the uncertainty zone in the last decade, being significantly affected by two factors: episodes of worsening of the economic situation of the Russian Federation which caused the contraction of the external demand but also political tensions between the Republic of Moldova and the Russian Federation, which generated the application by the Russian Federation of prohibitions and taxes on the import of a series of Moldovan products. The situation worsened even more especially following the signing by the Republic of Moldova of the Association Agreement and the creation of DCFTA with the EU, with bilateral trade entering on a downward slope since 2014.

The embargoes imposed by the Russian Federation since 2006, especially on Moldovan wines and subsequently on other agri-food products in 2013 and 2014, followed by the application of customs duties to imports of 19 categories of products, severely undermined the volume of trade between these two states. The biggest impact on Moldovan exports targeted to the Russian Federation was imposed by the embargo from 2006, when the trade balance of the Republic of Moldova with this country has entered a negative level. Although the embargo was lifted, exports of alcohol-based beverages to the Russian Federation have not yet reached values similar to the period from 2001-2005. These embargoes have led to a shift in the main destination for Moldova's wine products exports, while exporters of these products have oriented to other markets such as the EU. Moreover, the role of the Russian Federation as the main destination for Moldova's exports has gradually diminished, from 60% in 1997 to only 10% in 2016.

The rescue collar for Moldovan exports constituted the granting of EU Autonomous Trade Preferences immediately after the establishment of the Russian embargo in 2006, the signing of the Association Agreement and the creation of the DCFTA with the EU and the efforts made by the Moldovan authorities with the support of external donors, diversification of the markets and increasing the competitiveness of Moldovan products.

However, considering the size of the Russian market the value of which cannot be neglected (with a population of 146.8 million inhabitants) and the existence of a domestic market with limited absorption capacity in the Republic of Moldova, the Moldovan authorities have to make efforts for the normalization of trade relations through the dialogue with the Moscow authorities. The trade relations of the Republic of Moldova with the Euro-Asian Customs Union in this context must be a priority, aiming at preventing the possible impediments that could arise from Moldovan exports by the Russian Federation or the other members.

Also, a solution related to the normalization of bilateral trade relations would be to increase the constant quality of Moldovan products exported to the Russian market in order to avoid factors that could constitute reasons for other restrictions imposed on imports by the Russian Federation. These actions are especially welcome in the context of the transition of the Republic of Moldova from an inertial growth model based on the consumption to an economic model based on the rapid growth of exports and on their structural diversification as the most appropriate option which the Republic of Moldova must follow.

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The Role Of The Diaspora In Promoting Tourism For The Valorisation Of Cultural Heritage. Case Study Romania

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Abstract: The consumption of cultural heritage tourism products and services is supported both by the residents in that country, but also by the non-residents, such as members of the diaspora, as well as foreign tourists who have no blood or affectionate connection with Romania. In this article there is analyzed the cultural tourism consumer consumption model of the diaspora members, with an emphasis on Millennial generation representatives. The technological progress has a significant impact on the promotion of tangible and intangible assets specific to the area, and the valorisation of cultural heritage helps to increase the knowledge of the patrimony elements and the economic and social development of the area concerned. The research is based on information on the cultural heritage of Bucovina and South Transilvania. The results highlight the fact that diaspora plays an important role in the process of consumption and promotion of cultural heritage.

Key words: diaspora, migration, millennial generation, cultural tourism, cultural heritage

1 Introduction

Diaspora represents an ethnic group situated outside the borders of the country of origin. This group may include people who are in the second or third generation of migrants who have a connection with Romania. Diaspora tourists are consumers interested in cultural tourism products and services in their country of origin, and can influence other people's choices through various reviews in the “adoption” countries of traditional places, specific traditional dishes, national port, traditions and local customs, all of which result in the capitalization of Romania's cultural heritage. Also, cultural tourism supports the development of the respective area on a large range of human resources, cultural, tourist and so on.

The cultural tourism has a number of features, conferred on the one hand, by its complex nature, by the fact that it involves both the consumption of a package of ordinary services (accommodation, food, transport) and cultural goods and services.

Another characteristic refers to the fact that cultural tourism essentially addresses to a well-informed audience with a high level of education and culture. This does not exclude, however, the promotion of simple forms of initiation, of knowledge of this type of tourism, thus ensuring greater addressability. As such, another feature relates to the defining features of potential visitors and those who are loyal to this form of tourism.

The exceptional tourist potential of Romania is marked by two essential components: the natural component, represented by spectacular landscapes, the varied configuration of the relief and the anthropic component, represented by the vestiges of the civilizations that have succeeded on the territory of Romania, monuments and objectives of secular art or religious, museums, the ethnographic and folklore elements of great beauty and originality, the present achievements of prestige. These constitute the elements of great attraction of the Romanian tourist offer, presenting a wide range of forms of tourism.

Among the most representative tourist areas of Romania there can be distinguished some with special characteristics: Northern Moldova, Bucovina or "Upper Moldavia" - it is renowned internationally through its monasteries and churches - Voroneţ, Moldovita, Sucevita, Humor, Arbore , Dragomirna, Putna, etc. and the Transilvania region - under this name it is known since the Roman conquest, the geographic region of Romania contained within the Carpathian arch. The conservation and development of historical sites can be particularly attractive to the tourists from the diaspora, but will also attract international tourists.

The paper is structured as follows: the next section analyzes the specialty literature on cultural consumption, in the second section there are discussed the models of promotion of cultural tourism used by the members of the diaspora, and in the last part there are presented the conclusions and recommendations of the article.

2 Analysis of the specialty literature regarding the cultural consumption

The role of diaspora in the promotion of cultural tourism is extensively discussed in the specialty literature, cultural tourism being defined as a form of "visiting the persons outside the host community, wholly or partially motivated by the interest of history, art, science or lifestyle, met in a community, area or region of a country, this representing the country's cultural heritage offer. The aspect of migration is the phenomenon that is analyzed more and more in literature and can contribute to opening the markets for tourist destinations and goods produced and associated with the culture of their country of origin.

In the case of Romania, the members of the Diaspora are important consumers on the tourism market, influencing further, through the opinions transmitted oral or on social media, the consumption in the areas of cultural interest.

These aspects concern the use of tangible goods such as the accommodation services in historic areas, the exposure of traditional meals to specific areas and others, but also intangible, such as the connections between various activities for the benefit of cultural tourism consumers.

The cultural tourism differentiates itself from other forms of tourism through a specific demand for goods and services, determined mainly by the characteristics of cultural life and the particularities of the segment of tourists to whom it is addressed.

The complexity of cultural tourism is also given by the diversity of customer motivations, generated mainly by increasing the level of training, tourist experience, quality of life and especially the improvement of tourist facilities.

2.1. The perspectives of cultural tourism

Romania is the owner of a huge treasure of archaeological vestiges, historical monuments, of architecture or art, as well as an invaluable patrimony that attests the evolution and continuity on these lands, the development of culture and art of the Romanian people.

The areas analyzed in this chapter are Southern Transilvania and Bucovina.Diaspora tourists can be attracted to these destinations through various forms and methods. A first method is achieved through the creation of public-private partnerships in rural areas, where an alternative development strategy has been adopted in the face of the changes brought by the technological advance. The strategy may be to encourage the “bottom-up” development, which will enhance the visibility of local customs and traditions.

The members of the Millennial generation or the young members of the diaspora, up to 25 years, use mobile technologies to improve their experience, and social networks. Thus, technology facilitates the information process on less known areas. These tourists connect virtually to the tourist services provided by various electronic platforms and thus discover the uniqueness of the destination. Such virtual cultural tourism methods take into account the current technological advances and satisfy the Millennial generation’s connectivity for connectivity.

2.2. The advantages and disadvantages of tourism and cultural consumption.

The advantages of cultural tourism consumption are mainly the wide-ranging knowledge of the beauty of our country. Romania has many UNESCO heritage assets, both tangible and intangible, to be discovered. The consumption of cultural products and services can support the local development and social cohesion.

The disadvantages of cultural tourism refer to the preservation and management of heritage assets. Without a proper management, the heritage activities in heritage assets can lead to a lack of understanding and appreciation of local culture and heritage within the community, for example as a result of inappropriate presentation. These tourism activities can affect the degree of protection of the monuments and their preservation. The challenges are related to the involvement of the political factor, by the need for additional

investments for heritage preservation, but also by the development of the infrastructure necessary to facilitate the consumption of cultural tourism.
Thus, the general public interest inducing the responsibility of the state guaranteed by the Constitution must prevail, preserving the cultural heritage in the face of individual interests in decisions that might interfere with the ownership of items that are legally protected.
After analyzing the specialty literature, it is noticed that the ideas of the authors converge towards the identification of sustainable tourism development methods, these representing an important sector for the economies of the countries and becoming an industry that stimulates the economic growth. The tourist destinations can adopt various techniques to attract tourists interested in traveling and discovering the cultural heritage of these areas.

3 Methods of promoting cultural tourism by members of the Diaspora

The promotion of cultural tourism can be done in several ways:
• Through "mouth-to-mouth" promotion; this method can attract potential tourists from the circle of friends, relatives, etc. of actual tourists.
• Through posts on social media platforms; this method is specific to the Millennial generation, its members being described as influencers for younger generations.
By purchasing souvenirs by tourists who refer to that area, for example the purchase of national port objects, clothing components or traditional design elements, decorative carpets, etc.
The areas of Bucovina and South Transilvania hold a cultural-historical and ethnofolcloric heritage of high value and tourist attractiveness. In Bucovina we meet: the History Museum in Suceava with the “Throne Hall”, a unique achievement in Romania, the Museum of the Bucovina Village in Suceava, the Museum of Natural Sciences in Suceava, the Ethnographic Museum in Suceava, the Museum of Folk Habits in Gura Humorului and many other museums that show the high level of cultural heritage of this area.
The rural areas are preserving the customs, traditions, crafts and ancient customs, where talent and attraction towards beauty materialize in true works of art - ceramics, hand-woven rugs, coats, fabrics, folk instruments, masks, etc. Bucovina is renowned for its ethnographic museums, well-drawn and thematic, as well as for the important creative centers or individual workshops of the popular craftsmen known for their crafts. The artistic manifestations and traditional folk celebrations throughout the year bring to the attention of the general public the authentic, authentic spirit of the Bucovina lands, through the folk port, songs and dances, ancient customs - festivals of art, folklore, customs and customs. Southern Transylvania combines the picturesque with the fascination for culture and art, with a true cultural treasure left in the possession of famous personalities from all walks of life. In this area we find the Memorial House of the poet and philosopher Lucian Blaga from Alba County, cathedrals, fortified churches, castles, castles, but also craftsmanship, traditional harbor and many other cultural heritage elements.

4 Conclusions

Diaspora has an important role in the process of consumption and promotion of cultural heritage. The methods of promoting cultural tourism are diverse and can satisfy all target groups of tourists and potential tourists. The evolution of society at global level shows that tourism has started to have its own history and to represent an irreversible process with ascending continuity in time and space.
Carefully organized cultural tourism can also be seen as a form of ecotourism. As arguments are the efforts to protect cultural heritage, interference with tourism in protected areas, which is an area that is gaining increasing importance. Also, considering that according to the status and structure of UNESCO World Cultural Heritage, protected areas, as wild spaces, very little modified by anthropic activities, are included in the cultural sphere, it is easy to argue the inclusion of cultural tourism in the wide sphere forms of sustainable development.
Also, the rapid progress of technology has influenced the tourism industry and led to the support of new experiences, as well as a change in consumer behavior and preferences on the new tourism market, with reference to the Millennial generation.

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An Unknown Treasure – How Do Companies Determine The Value Of Their Data?

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Abstract: The collection, analysis and exploitation of data are key drivers of the digital economy. But the importance of data for economic success is also increasing in industries that are not primarily associated with the digital economy. The basis of efficient data management is the evaluation of the data processed by the company. This study provides details of the data evaluation methods currently used by German companies. For an empirical analysis, a total of 1,235 firms from different sectors of manufacturing industry and industry-related services were surveyed using the IW-Zukunftspanel 2018. The study asks whether, and for what purposes, companies of different sizes and with different degrees of internationalization and digital orientation determine the value of their data. It also examines the characteristics which lead a company to prefer one data evaluation method over the others. Thus, an overview of the status quo in German corporate data evaluation is built up. The empirical analysis shows that data evaluation is still a side issue for German business. Most companies neither analyse their data now nor intend to do so in the future. Of the companies in this sample, it is mainly those that offer digital products that evaluate their data. Companies are currently unable to capture the potential of the data they possess and hence are unable to exploit the economic potential of digitalization.

Keywords: Digitalization, Data Governance, Big Data, Data Management, Data Economy

1. Introduction

The key drivers of digital transformation are the analysis and processing of data. In the digital economy, data is a central production factor. Even in sectors not primarily attributable to the digital economy, data collection, evaluation and analysis are becoming increasingly important (Yin/Kaynak, 2015). In addition to increasing efficiency and improving production, data management can enable new types of business models. Furthermore, data trading is becoming increasingly important (IDC, 2017). Different companies offer a huge amount of data, including address, market, consumer and spatial data (Dewenter/Lüth, 2018, 20). Data platforms from Industry 4.0, where machine-generated, non-personal data are very important, are less strongly represented so far. One reason for this is that many companies in these industries do not yet manage their data efficiently.

The basis for efficient data management is the ability of the company to evaluate its own data. It needs to be clearly determined what a data set contains and which value it holds for different stakeholders. If a company wants to use data as a production factor, it needs to be able to price its data in order to include it in the production as a cost or profit factor. An evaluation of the data is also indispensable for transferring data to other entities, for example in the context of data trade. Knowing how to determine the value of the data being used by the company contributes to the data sovereignty of the company, and thus to the ability to control data and to use it skillfully and effectively.

This study analyses the extent to which German companies from manufacturing industry and industry-related services sectors determine the value of the data generated or processed in their companies. Through logistic regression analyses, the factors that contribute to the ability and willingness of a company to measure the value of its data are determined. It is also analyzed which methods of data evaluation the companies use and which purposes they pursue through attaching a value to their data.

To the knowledge of the author, this is the first study that empiricially demonstrates the status quo of data evaluation – and hence the potential for data analyses and digital transformation itself. The sample that this analysis is based on – small and medium-sized companies belonging to the manufacturing sector and related sectors – underlines the contribution of this paper, since these companies do not directly belong to the digital economy but have a high digitalization potential within the framework of Industry 4.0. The “data treasure” these companies can take hold of includes data generated by sensors, machine running times and downtimes, and data on product characteristics. This data is used, for example, to make processes more efficient and effective. It can also foster new business models. The analysis and evaluation of these large data sets is becoming a critical success factor.

2. Data

The following analysis is based on an enterprise survey. The sample used is based on the IW-Zukunftspanel conducted in spring 2018. The IW-Zukunftspanel is a regularly conducted representative survey of managing directors of industrial and industry-related service companies in Germany.[1]The survey includes general data on revenue, industry, age and management structure of the company as well as questions on internationalisation, research and development and innovation activity. In spring 2018, the companies were additionally survey on their data stocks and evaluation.

For the empirical analysis, a total of 1,235 firms from different branches of manufacturing industry and industry-related services were considered. The sample is not representative. Large companies are deliberately overrepresented in order to be able to make comprehensive and broadly-based statements about this subgroup as well. However, this distortion does not play a role in the regression analyses, because they are controlled regarding to the industry and size.

The range of sectors in which the companies surveyed operate is broad. A quarter of the companies surveyed belongs to the metal and electrical industry (excluding mechanical engineering). Almost one fifth belongs to business-related services such as information services, management consulting, auditing, research and development and marketing. As industry-related sectors, logistics and wholesale trade (14 percent) as well as media, iinformation and communication technology (6 percent) are included.

More than two-thirds of the companies have less than 50 employees and one of three even has less than ten employees. One tenth has at least 250 employees. Most of the companies (88 percent) surveyed generated an annual revenue of less than 50 million euros. 27 percent had an annual revenue of up to 1 million euros. With a correlation coefficient of 0.73 there is a clear and statistically significant correlation between the number of employees and the revenue.

The sample also differentiates between digital and non-digital companies. It is assumed that there are different affinities for data evaluation depending on the degree of digital orientation, since data and data sovereignty are particularly important in the digital economy.[2] The survey included an evaluation of the company's own digital maturity as well as the extent to which digital products are part of the company’s service offer. Both can, but do not have to be related. Particularly in Industry 4.0, companies focus on digital value-added processes, but often produce non-digital end products or end products with only a few digital components.

The digital maturity of companies was measured by the strength of digitalization of the processes and products (goods or services). 1,177 of the companies surveyed provided information on whether they have virtualised their products, processes or tools in full, in part or not and whether they work with digital models, or whether their business models are based on data models, data analyses or algorithms. 984, or 84 percent, of these 1,177 companies are not rated as digitalized, but as computerized. They therefore tend to use digitalization only partially and in a supportive way (they are rather digitized than digitalized). A clear minority of 16 percent or 193 companies is digitalized. In order to determine the degree of digitalization regarding the company’s product offer, the share of total revenue that can be attributed to either entirely digital goods and services (e.g. software, data models, web design), to products with digital components, or to on non-digital products is examined. Non-digital companies are those whose revenue is 100 percent attributable to non-digital products. More than one third of the companies surveyed belong to this group. Only 4 percent of the companies have a revenue that is almost entirely attributable to digital products. 11 percent have a “digital” revenue of more than 50 percent. Overall, the companies surveyed provide digital goods and services only to a moderate level.

There is no strong correlation between digital orientation and the degree of product digitalization in this sample. The correlation coefficient between the two variables is 0.31 and the relationship is statistically significant. Among digital companies, only 15 percent offer only non-digital products; among non-digital companies, the share amounts to 39 percent. All in all, the companies surveyed in Germany are classified as

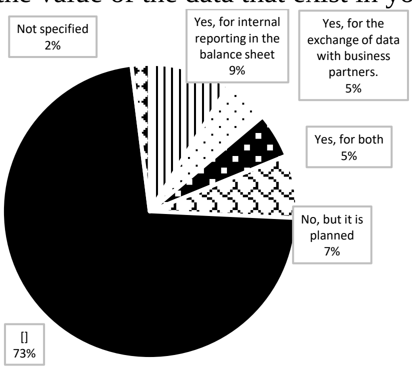
[1] Lichtblau/Neligan, 2009.
[2] BVDW, 2017 and IDC, 2017.

having a low to moderate digital degree. This also renders them very relevant for an analysis of the significance of data evaluation because particularly companies that are still at the beginning of their digitalization possess large data stocks generated in the production process that are neither analysed nor put into efficient use.

3. Data Evaluation Among Companies

A very broad understanding of data has been used in order to determine the extent to which companies determine the value of their data. In this analysis, “evaluation” means defining an economic value, i.e. a monetary value, based on various factors such as quality and currency. Data are per se very heterogeneous. Depending on the source, generator, storage type, analysis method or purpose, numerous classifications can be made:[3] Data can be classified according to their structure (unstructured, structured or semi-structured), their format (e.g. text, image or video file), their reference (person-related, potentially person-related or not person-related) or its generator (machine-generated or not machine-generated). There is also a physical, semantic or syntactic understanding of data. In the present survey, it was left to the respondents' judgement how they view the question they were asked, "Do you determine the value of the data that exist in your company?". It remains unclear how raw or processed the data is that the respondents had in mind. A detailed query of the considered data sets would be desirable because the relevance of the data evaluation probably varies significantly depending on the data characteristics. However, this goes far beyond the scope of this analysis. The empirical analysis shows that the evaluation of data is anything but prevalent among the surveyed companies (Figure 1): Almost 80 percent of the companies do not determine the value of their data, and almost three quarters do not have any plans for a future evaluation either. The fifth of all companies that evaluates data has different evaluation purposes: 9 percent of these companies evaluate their data for internal accounting and reporting purposes, 5 percent for the exchange of data with business partners and 5 percent for both.

Figure 1: Data evaluation in companies: Share of companies that evaluates data or not (question.” Do you determine the value of the data that exist in your company?”); n=1,235



Logistic regression analysis is used to examine which company characteristics influence the probability that a company determines the value of its data (Table 1). The aim is to identify which companies are more likely to be pioneers in this area. The dependent variable is the binary variable "Evaluation of data yes/no". Three models are estimated:

- **Model I - General** contains the general evaluation as the dependent variable. The enterprise evaluates the data for internal reporting, for the exchange of data with business partners, or for both purposes;
- **Model II - Internal** contains the internal evaluation as the dependent variable. The company evaluates the data only for internal reporting;
- **Model III - External** contains the external evaluation as a dependent variable. The enterprise evaluates the data only for the exchange with business partners.

The control variables are the number of employees (different size categories), the revenue (different size categories), the sector, whether companies are engaged in research and development, whether they are innovators, whether they operate internationally, are digitally mature (see above), and what proportion of their

[3] Dewenter/ Lüth, 2018, 5.

revenue is attributable to digital products (see above; different size categories). The category not listed in each case is the basic category to which the resulting estimates refer. This means, for example, that for the control variable "number of employees 10 to 49" the estimated value is compared to those referring to the number of employees in the not specifically listed basic category "less than 10 employees". The numerous control variables reduce the number of companies included in the estimation to 960, as some did not answer the relevant questions. A multicollinearity test showed no alarming multicollinearities that could distort the estimation results. Robustness tests with regressions in which only revenu or number of employees were controlled, but not both at the same time, also lead to reliable results. In order to interpret the results not only qualitatively but also quantitatively, odds ratios were established.

Table 1: Logistic regression result (odds ratios[4]).
***/**/* Significance at the 1-/5-/10 percent level; Standard error in brackets. Number of companies: 960.

	General (I)	**Internal (II)**	**External (III)**
Number of employees (basis: less than 10 employees)			
10 – 49	0,858	1,029	0,659
	(0,245)	(0,331)	(0,242)
50 – 249	0,566*	0,834	0,443*
	(0,188)	(0,309)	(0,189)
250 and more	1,655	2,432*	1,132
	(0,732)	(1,211)	(0,615)
Revenue (basis: small - up to 1 million Euro)			
Medium-sized (1 to 50 million euros)	2,051**	1,452	1,926*
	(0,621)	(0,487)	(0,743)
Large (50 million euros and more)	1,291	0,528	2,270
	(0,600)	(0,288)	(1,272)
Sector (basis: chemistry/pharmaceuticals)			
Metal/Electrical Industry	0,762	0,785	0,824
	(0,298)	(0,332)	(0,492)
Other industry (excl. mining)	1,660	1,509	2,232
	(0,714)	(0,705)	(1,401)
Construction	0,361**	0,392*	0,498
	(0,185)	(0,218)	(0,370)
Logistics/Wholesale	1,148	1,230	1,841
	(0,487)	(0,566)	(1,128)
Media/ICT	0,331*	0,398	0,389
	(0,188)	(0,252)	(0,311)
Industry-related services	0,726	0,526	1,110
	(0,310)	(0,252)	(0,689)
Mechanical engineering	0,796	0,800	0,930
	(0,374)	(0,407)	(0,649)
Research[5]	1,042	1,066	0,958
	(0,245)	(0,279)	(0,301)
Development	0,927	1,114	0,702
	(0,213)	(0,287)	(0,211)
Innovator[6]	0,842	0,828	1,090
	(0,168)	(0,185)	(0,285)
Internationalisation[7]	1,050	0,889	1,323

[4] Odds ratio is a measure of association in which two odds are compared with each other. Odds are quotients of the probability that an event will occur and the probability that it will not occur. Odds ratio for the evaluation of data shows by how much greater the probability is that a company will evaluate its data if that company meets a particular property (e.g. being digitally mature) compared to the group without that property.
[5]Companies with continuous research or development had corresponding expenditures in the years 2015 to 2017. Where such expenditure was not identified every year, research/development was described as occasional.
[6] Innovators are companies that have introduced new or significantly improved products, services or processes since 2015.

	(0,220)	(0,209)	(0,364)
Digital maturity	1,176	1,042	1,182
	(0,132)	(0,137)	(0,165)
Product digitalization[8] (basis: non-digital)			
Digital > 95%	4,067**	3,015*	4,803**
	(2,234)	(1,923)	(3,510)
Digital 50 to 95%	6,390***	4,064***	10,590***
	(2,346)	(1,684)	(4,860)
Digital/digital components > 50 %	3,595***	2,774***	4,695***
	(0,964)	(0,821)	(1,716)
Digital/ digital components 10 to	2,303***	2,061**	2,354**
	(0,606)	(0,592)	(0,887)
Digital/ digital components < 10%	1,525	1,396	1,902
	(0,534)	(0,534)	(0,929)

Table 1 shows which factors significantly increase the probability that a company determines the value of its data. A value of 1 means that the probability is equal to the reference group. This analysis allows the following conclusions:

- The probability that a company evaluates its data increases significantly if the company offers a relatively large number of **digital goods and services (product digitalization)**. However, the strongest effect is not seen among companies with only digital products, but among those that generate more than 50 but less than 95 percent of their sales with digital products. The probability that a company generally evaluates its data increases by a factor of 4.1 if a company generates 95 percent or more of its sales with digital products, and by a factor of 6.4 if the revenue share of digital products is between 50 and 95 percent. This is in comparison to companies with 100 percent non-digital products. However, the small number of cases and the high number of standard errors must be taken into consideration. The probability that a company evaluates its data increases by a factor of 3.6 (2.3) when a company generates 50 percent or more (between 10 and 50 percent) of its revenue with digital and partially digital products. In addition, in the models that analyse internal or external data evaluation, these effects are statistically significant and strongly positive. The highest effects are achieved in Model III (external evaluation). The probability even increases 10-fold if a company owes 50 to 95 percent of its revenue to digital products.
- The **revenue** has a strong significant effect on the evaluation probability. Again, the highest category value does not produce the strongest effect (except for the internal evaluation). Companies with particularly high sales show no significant effects. On the other hand, the effect for medium-sized companies is significant compared to small companies. The probability that a company evaluates its data increases by a factor of 2.1 if the company has an average revenue (compared to a company with a low revenue of up to EUR 1 million). A similar effect results for the external evaluation.
- Also for the **number of employees**, there is no estimated effect that constantly increases with the category values. A mid-level category has the only significant value. Revenue and the number of employees therefore influence the probability that companies evaluate their data. However, this does not apply to all size categories. The probability that a company evaluates its data in general changes by a factor of 0.6 if the company has 50 to 249 employees; this means eventually a decrease in probability. The probability of the external evaluation (Model III) changes by a factor of 0.4, i.e. it also decreases relative to the reference group. The estimated value of the internal evaluation (Model II) is not significant. However, in Model II the probability of internal evaluation increases 2.4-fold if the company has 250 employees or more (with a high standard error).
- There are some significant differences depending on the **sector**, but these are much smaller than those for product digitalization and revenue. It is remarkable that companies from the media and ICT sectors, which are most likely to belong to the data-based digital economy, evaluate their data significantly less ofent than companies from the reference group chemistry/pharmaceuticals. The probability that a company evaluates its data only increases by a factor of 0.4 or 0.3 compared to the reference group if the company belongs to the construction sector or the media/ICT sector. For the construction industry, the probability of internal evaluation changes by only 0.4. Compared to the reference group the probability decreases.

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[7] Non-international companies are those with no foreign activity. Weakly internationalised companies are those with an export volume of less than 25 percent of turnover. Strongly international companies have an export volume of more than 25 percent of revenue and they have production or research and development partly abroad.

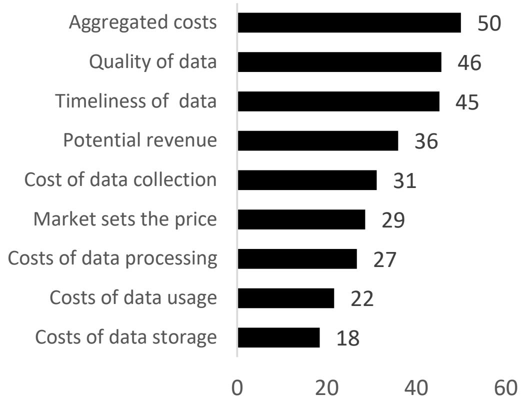
[8] Product digitalization categories are formed according to the percentage of revenues generated by digital products.

- Research and development, internationalization, being an innovator an being digital mature have no significant impact on the probability that a company evaluates data. The key driver of data evaluation is the degree of **product digitalization**. This is particularly relevant when focusing on the evaluation of data for the exchange with business partners (external evaluation). The fact that product digitalization has a considerable influence on the probability of data evaluation is logical: Digital products often include or require the analysis and evaluation of data. This applies either to the product itself (in the context of its use) or to the further development and optimisation of the product. If, in an alternative model, the revenue is omitted, for example in order to obtain a higher number of cases, a significant effect of **digital maturity** is obtained. The probability that a company will generally evaluate its data increases by 1.3 when it is digitally mature, compared to only computerized companies. This also applies to the external evaluation. The internal evaluation does not show a significant coefficient. The quality of the reduced model is lower than that of the initial model. Therefore, the more comprehensive model with the lower number of cases is used.

5. Methods of Data Evaluation

The companies that determine the value of their data were also asked which factors and methods they use to do this. These include cost-based assessments (by cost of collection, storage, processing, use), market-based assessments (potential turnover, market pricing) and property-based assessments (quality and timeliness of data). For simplification, the terms method, factor and aspect are used synonymously in the following. Overall, only a selection of methods is considered in this paper. A full analysis would exceed the scope of this analysis. Figure 2 shows the results based on the IW-Zukunftspanel.
Most companies (50 percent) evaluate their data according to the costs of collection, preparation, use and/or storage. It is reasonable to combine the different types of costs to aggregated costs, as it is difficult to clearly differentiate the costs. 46 percent of the surveyed companies evaluate their data according to quality, followed by timeliness (45 percent). In total, 50 percent of the companies evaluate according to the two related criteria of quality and timeliness. Revenue-oriented evaluation methods follow. Among the cost-oriented methods, the evaluation according to the costs of data collection is particularly relevant; more than 30 percent of companies evaluate data using this aspect. The costs of data storage are almost irrelevant for the companies surveyed.

Figure 2: Methods of Data Evaluation. Share of companies according to data evaluation method, in percent. Multiple answers possible. Number of companies: 218.



On average, the companies consider three factors or aspects when determining the value of their data. Only one fifth uses merely one evaluation method. 12 percent of the companies evaluate their data, but do not consider any of the above aspects. These results show that several aspects play a significant role in data evaluation. There are numerous data evaluation methods that this study could not take into consideration.
There is no difference in the choice of the evaluation method depending on whether the evaluation is made for internal or external purposes. Both the companies that evaluate their data for internal purposes and those that evaluate them for external purposes prefer an evaluation according to costs, followed by quality and the timeliness of the data. Also, among those who evaluate data both for internal and external purposes, these preferences prevail.

Table 2. Methods of evaluation according to company characteristics. Results of chi-squared tests on the equality of means of different subsamples (depending on whether company falls into the respective category or not).
***/**/* Significance at the 1-/5-/10 percent level.

	Costs	**Data**		**Poten-tial revenue**	**Market sets price**
		Quality	**Time-lines**		
Digital maturity	0,151*	**0,122**	0,127	0,197**	– 0,027
Product digital-ization	**0,036**	– 0,113	– 0,111	– 0,049	– 0,138
Research	0,159**	**0,204*** **	0,185**	0,155**	– 0,128*
Develop-ment	**0,144** **	0,059	0,052	0,068	– 0,108
Innovator	0,180***	0,105	**0,174** **	0,126*	– 0,129*
Interna-tional	**0,130***	0,020	– 0,074	– 0,104	0,011
Many emp-loyees	– 0,025	0,128	**0,168** **	0,095	– 0,048
High revenue	0,054	**0,112**	0,174**	0,089	0,018

Table 2 contains the results of chi-squared tests on the equality of means of the response values of different subsamples of the surveyed companies. These tests can reveal differences between companies according to their characteristics. For this purpose, the surveyed company characteristics (apart from the sector) were defined as two categories per variable. A division of the variables into more than two categories would have led to very small subsamples in the mean value tests, as only a maximum of 218 enterprises commented on the methods of data evaluation. Therefore, regressions based on a small number of cases would not lead to reliable results and are hence dispensed at this point. Instead of distinguishing between four different employee categories, the companies were divided into those with up to 49 and those with at least 50 employees (“many employees”). This limit was also chosen in order to achieve a sufficiently large number of companies in the different categories. A distinction was also made between companies with either small revenue and companies with medium or large revenue (“high revenue”). Companies with digital products are those that generate at least 10 percent of their revenue with digital products. For example, row 1 of Table 2 shows to which extent a statistically significant difference exists when a company determines its data according to costs, data quality or timeliness, potential revenue or market price or not, depending on whether the company is digitally mature or not.

- **Digitally mature** companies evaluate their data significantly more often according to potential revenue than companies that are not digitally mature. They evaluate them mostly according to quality. This is not shown in Table 2, but in descriptive statistics that are not listed for the sake of space. The same applies to the preferred methods/criteria in the following sections.
- The fact that a company generates less or more than 10 percent of its revenue from **digital products** has no statistically significant effect on the popularity of the chosen data evaluation method. Companies with digital products most often evaluate their data according to the general costs.
- Companies with **research** activities evaluate their data less according to the price set by the market than companies that are not active in research. Research companies evaluate more according to the quality of the data, the actuality of the data, the costs in general, the potential revenue and the costs of the collection than non-research companies. For research companies, the quality of the data is most likely to determine the evaluation and not the market price.
- Whether a company is engaged in **development** or not contributes to small differences in data evaluation. There is only a significant difference in the costs, which developing companies choose significantly more frequently than non-developing companies. Developers most often evaluate according to the general costs.
- When a company is regarded as an **innovator**, it evaluates its data more in terms of general costs, timeliness of data, potential revenue and cost of use than a non-innovative company. Innovators evaluate most often according to the timeliness of the data.
- **Internationally** operating companies evaluate their data significantly more often according to the costs than nationally operating companies. They are most likely to evaluate their data based on general costs.
- Companies with a particularly large number of **employees** rate the timeliness of the data significantly more often than companies with few employees. It is their preferred method of data evaluation.
- The same applies to companies with **high revenues** compared to companies with lower revenues, except that companies with high revenues primarily evaluate the quality of the data.

Overall, there is no clear preference among companies for an evaluation method. This indicates how complex the evaluation of data sets is in practice. It is remarkable that innovative, researching and digitally mature companies evaluate the quality and timeliness of the data. In addition to the quality and timeliness of the data, the costs also matter. Cost evaluation is a more rational, conservative evaluation method, which is not necessarily effective for data trading, where the potential benefits of both the supplier and the customer, and thus the potential revenue, must be considered. However, the companies surveyed tend not to use market-related evaluation methods. Only digitally mature companies are pioneers in this area and evaluate their data significantly more often according to the potential revenue the data could generate.

6. Conclusion

This empirical analysis concludes that the evaluation of data among German industrial companies and companies from industry-related services sectors is still a marginal issue. Most companies do not evaluate their data and do not intend it either. Among the companies in this sample, it is mainly those that offer digital products that evaluate their data. Data that is collected along the value chain is still a black box for most companies in industry and industry-related sectors. Companies are currently unable to capture the potential of the data they possess. Only a few companies obviously know what their data or data sets are worth.[9]

If German industrial companies and companies from industry-related sectors evaluate their data, they usually use more than one method for data evaluation. A preference for a specific method is not evident from the analysis. This underlines the complexity of data evaluation in practice. Most of the times, companies evaluate their data either according to costs in general, or according to the quality and timeliness of the data. It is advisable to provide companies with standardized assessment tools in order to better assess the quality and timeliness of the data. Standards in data evaluation could also lead to more consistent evaluations and better comparability of data sets, which could simplify their trading and handling inside and outside the company. Organized data infrastructures that offer a clear technological and legal framework could, in addition to further research in this area, lead more companies to use the opportunities offered by data management and consequently better exploit the potential of digitalization.

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Foreign Universities in Qatar: A Critical Review of Policy and Sustainability Issues

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Abstract: Qatar is transitioning toward a knowledge society and aims to become a hub for international education. Qatar's Permanent Constitution and Nation Vision 2030 explicitly refer to the role of government in promoting sound education and making it the prime driver of human, social, and economic development. The government has invested 3.5% of its GDP in education. Since 1998, Qatar has succeeded in contracting with 11 international foreign universities to open International Branch Campuses (IBCs) in Qatar, including Texas A&M University, Weill Cornell Medicine, Georgetown University, University College London, and the University of Calgary. These IBCs offer a range of specializations and degree programmes, such as medicine, engineering, foreign affairs, journalism, and tourism. Hence, this study attempts to examine Qatar's policy on IBCs and investigate its sustainability. The paper focuses on discussing critical policy issues, including English as a language of instruction, mixed-gender education, and IBC 'glocalization', and addresses sustainability issues related to the IBCs such as political will, economic diversification, and the contribution of the IBCs to Qatari society. This library-based, theoretical, and critical study provides a basis for extended scholarly investigations and debates on Qatar's unique model of hosting foreign universities' campuses.

Key-Words: Qatar, International Education, IBCs, Policy, Sustainability, Model

1 Introduction

1.1 Education in Qatar

Qatar has emerged as a country renowned for its remarkable achievements in education, human development, and media. A few decades ago it was a traditional Gulf society, but since the ratification of the Permanent Constitution in 2004 and the approval of the Vision 2030 in 2008, a huge transition has occurred. These two documents explicitly refer to the role of government in promoting sound education and making it the prime driver of development. Since 1998 the government has massively increased its investment in education, including inviting prominent global foreign higher education institutions to open branches in Qatar. There are 11 International Branch Campuses (IBCs) currently operating in Qatar, offering a range of specializations and degree programmes. A cursory review of the literature would suggest that there is lack of material on studying the status quo and future of these IBCs in Qatar. Thus, this article examines Qatar's pressing policy and sustainability issues regarding IBCs by critically analysing three major policy issues and three sustainability issues. The policy issues include English as language of instruction, mixed-gender education, and the 'glocalization' of the IBCs. The three sustainability topics include the political will, the diversification of the economy, and the contribution of the IBCs to the well-being of Qatar's present and future generations.

This library-based study is both descriptive and analytical and applies some normative perspectives incorporating the author's insights derived from five years of working experience with the Qatar Foundation, which hosts most of the IBCs, as well as his engagement in several events organized by the IBCs themselves. The study is significant because it is relatively comprehensive in terms of the scale of topics covered; up-to-date in terms of data; and original in terms of referring to primary sources and references. This study will have achieved the author's purpose if it is useful for other scholars, and provokes more scholarly debates on Qatar's unique model of hosting foreign universities' campuses.

1.2 Country Profile

Qatar is located on the coast of the Arabian Gulf with a total area of approximately 11,627 km^2. It shares a land border with the Kingdom of Saudi Arabia to the South and a maritime border with Bahrain, the United Arab Emirates and Iran (Hukoomi, n.d.; Taha, 2012, p. 119). The earliest evidence of human habitation indicates that this part of the Arabian Peninsula has been inhabited since at least 4000 BC, and in classical antiquity its inhabitants were called "Catharrei" by Pliny the Elder (1st century AD), and the permanent settlement was called "Catara" or "Cadaei" and "Kadara Polis", as depicted on a map by Ptolemy (2nd century AD). In more recent history the Ottomans ruled Qatar for four consecutive centuries until 1915, and it became a British Protectorate from November 3, 1916, until it gained independence on September 3, 1971. The Al-Thani family has ruled the country since 1868 AD (Al-Sharqawi, 2013, pp. 196-198; Fromherz, 2012, pp. 41-43; Hamdan, 2012, pp. 111-113; Taha, 2012, pp. 101-103, 140-142)

Qatar was populated by Arab, Indian, and Persian merchant communities, and served as a nexus connecting the Bedouin desert hinterland and terrestrial trading routes with the Indian Ocean maritime trade. Aside from domestic and international trade, local industries included pearl diving, fishing, farming, hunting, and camel breeding. Since the late 1990s there has been a massive influx of foreign workers, such that the net population of Qatar is now almost 2.8 million, of whom only 12% are Qatari nationals. Islam is the official religion, and Arabic is the official language, while English is frequently used as the second language. In terms of GDP per capita, Qatar is second only to Lichtenstein, with $124,500 in 2018 (CIA, 2019; Ministry of Development Planning and Statistics [MDPS], 2019; Worldometers, 2019). In line with the Qatar National Vision 2030, the government has invested heavily in general infrastructural development and mega projects, such as $45 billion for Lusail City, and $25 billion for Doha Rail. Additionally, the Qatar Sovereign Wealth Fund (SWF) stands at $335 billion (IMF, 2019; MDPS, 2019; Qatar Central Bank, 2017; Weber, 2014, p. 64).

2 Qatar's Education System

2.1 Historical Development

Before the 1950s, education in Qatar was traditionally based on schools that offered casual classes, basically in Qur'an reading and reciting, and Arabic language, which were conducted at mosques or at home by traditionally trained teachers. However, some families sent their children to Egypt and Lebanon for further education. The modern education system in Qatar was formalized in 1951 with the establishment of the Ministry of Ma'arif (education). Since then, the government started building modern public schools as well as related infrastructures. The tertiary education system began with the establishment of the College of Education in 1973. The Supreme Education Council (SEC), which is the highest educational authority responsible for education policy, planning, development, and enforcement, was founded in 2002. It is worth mentioning that the government provides free education in public schools, and pays for textbooks, stationary, health services, and utilities (e.g. electricity and water) (Al-Sharqawi, 2013, pp. 203-206; Hamdan, 2012, pp. 199-207; Powell, 2014, pp. 258-259).

2.2 Qatar University (QU)

Qatar University was established in 1977 as the preeminent national institution of higher education in Qatar. It currently offers 86 academic programmes, including 20 PhD and 27 Master's programmes, and is the home of 17 research centres. QU has over 20,000 enrolled students and over 45,000 alumni, and it employs over 2000 faculty members. The University has launched its five-year strategy (2018-2022) 'From Reform to Transformation' that seeks to promote excellence in four key areas; education, research, institution, and engagement. *Times Higher Education* (THE, 2019) ranked Qatar University 52 in Asia University Rankings, and 401-500 in the World University Rankings, with an impressive score of 99.8 of international outlook.

2.3 The Qatar Foundation for Education, Science and Community Development (QF)

The Qatar Foundation (QF) was established by His Highness Sheikh Hamad Bin Khalifa Al-Thani and his wife Her Highness Sheikha Moza bint Nasser in August 1995. The Foundation is the largest non-profit organization in Qatar. It consists of about 50 entities, including Hamad Bin Khalifa University (HBKU), eight IBCs (including Texas A&M and Weill Cornell Medicine), and several research establishments and world platforms for creative thinking, such as Qatar Science and Technology Park (QSTP), and the World Innovation Summit for Education (WISE). The Foundation promotes a culture of excellence and furthers its role in supporting an innovative and open society that aspires to nurture the future leaders of Qatar, developing sustainable human capacity, and social and economic prosperity for a knowledge-based society (Al-Sharqawi, 2013, pp. 216-217; Hamdan, 2012, p. 207; Powell, 2014, p. 269; Qatar Foundation, 2019).

2.4 International Education

The Qatari government began investing substantially in higher education more than 40 years ago, and adopted a unique policy consisting of two programmes: (a) to sponsor Qatari students to study abroad, and (b) to contract prominent foreign universities to open branches in Qatar. In the 1970s the government designed a scholarship scheme and provided generous scholarships for Qataris interested in studying in four geographical regions: Qatar; Arab region and Australia; United Kingdom and Europe; and United States and Canada. To administer this scholarship programme, the government established the Higher Education Institute (HEI) under the SEC in March 2005. The prime goal of this programme is to broaden the intellectual and cultural horizon of students and help them make educational and career choices based on their interests, abilities, and the labour requirements of the current and future Qatari economy. Ultimately, the students acquire an international standard of knowledge and skills, which they then invest into Qatari industry, education, and society (HEI, 2019; Stasz et al., 2007, pp. 71-75).

While all GCC states have long sponsored nationals to study abroad, Qatar has been particularly proactive in its substantial investment in attracting the best foreign higher education institutions to open branches in Doha, to provide Qatari students with equal premium higher education options within the country. Qatar consequently attracted different institutions from around the world to provide education for particular specialties in which they have particular strengths, with awards accredited by the same bodies as the home universities. Thus, from 1998 to 2012, Qatar recruited 11 of the best foreign higher educational institutions, particularly from the USA, Canada, UK, France, and the Netherlands. Each IBC was selected for its ability to educate and train students in fields targeted to help Qatar grow and diversify its economy, as well to prepare students for employment and global citizenship (Table 1).

Admission standards into the IBCs are high. English is the language of instruction, and offices and classrooms are equipped with cutting-edge facilities, with QF covering all expenses. For instance, the Foundation spends more than $400 million to fund the operations of the six American institutions hosted in Education City, excluding construction expenses. In return, the IBCs pledged to provide educational programmes that are equal in quality to those in their mother campuses. They also agreed not to establish similar programmes elsewhere in the Middle East and consult the Foundation about the choice of each branch's dean and vice deans. The IBCs share the same mission, which essentially endeavours to achieve Qatar's National Vision 2030, helping develop Qatar's knowledge society, and producing global citizens (Bollag, 2016; Hamdan, 2012, p. 123; Havergal, 2016; Ministry of Education and Higher Education, 2019; Powell, 2014, pp. 259-270).

3 Policy Issues

3.1 English as Medium of Instruction (EMI)

Using a foreign language as a medium of instruction is a culturally sensitive and politically contentious issue in the Arab world. The Arabic language is a particularly important aspect of Arab-Islamic ethnic identity and cultural expression, which was formerly used as the main medium of instruction in both traditional and modern educational systems throughout the Arab world except where foreign languages were specifically prioritised under colonial and neo-colonial ideologies (e.g. the widespread use of French in North Africa). In 2001 the Qatari government initiated a bold reform of the education system, including "the introduction of English as the medium of instruction (EMI) in K-12 mathematics and science classes" (Eslami, Seawright, & Ribeirto, 2016, p. 132).

The launch of this new policy could be attributed to the need for positive response to the globalization of English as the core language of science, technology, engineering, and mathematics (STEM) professions, as well as international diplomacy and business. The education system in general was overhauled to address the low scores of Qatari students in international assessment tests, such as PIRLS, TIMSS, and PISA, and the small percentage (8-20%) of students who mastered the set of learning outcomes in Mathematics, Science, English and Arabic subjects. Furthermore, Qatari employers expressed concerns about the poor English and communication skills of Qatari graduates.

Despite the convincing rationale for the policy, it instigated some tension, controversies, and frustration among Qataris. For instance, some students, parents and members of the community showed their dissatisfaction and viewed it as a threat to their Arab-Islamic identity, cultural values, and heritage. Meanwhile, others had positive attitudes toward English as they were already using it in and outside campus, and considered it extremely important to their future careers (Mustafawi & Shaaban, 2018; Weber, 2014, pp. 71-72). Nevertheless, in January 2012 SEC changed the policy and reverted to use Arabic as the language of instruction in both government schools and Qatar University. Apparently, the two main reasons that prompted this decision were the poor English language preparation of Qataris taught in Arabic government schools, and the fear that young Qataris would lose competence in Arabic language writing and speaking, and lose their cultural heritage.

However, it seems the general perception of Arabic and English as medium of instruction is gradually changing and there is a growing sense of understanding fact that they are both essential languages for Qataris, thus English should not be viewed as a threat to Arabic or students' national identity (Eslami, Seawright, & Ribeirto, 2016, pp. 132-145; Powell, 2014, p. 268; Stasz et al., 2007, p. 29; Weber, 2014, p. 72). The settling of government policy on a bilingual basis, with clear expansion of English in higher education, supports the IBCs current smooth running and future endurance, because they use English as medium of instruction, research, and communication.

3.2 Mixed-Gender Education

Gender is a controversial issue, which involves complex questions of social, cultural, religious, economic and political nature. Arab societies are often stereotyped as being patriarchal and gender-biased due to the traditional mores and beliefs of many cultures and communities in the past and modern times. The rapid change in culture and education in the West has been followed more slowly in developing countries, often meeting with resistance and accusations of cultural imperialism. Western critics of the GCC for instance berate gender segregation in local educational systems as a symptom of backwardness. Apologists opine that critics ignore the massive state spending on extensive and universal education for all citizens, including parallel schools and universities for males and females, full scholarships and bursaries for women to study abroad through to the PhD level, a luxury unimaginable for British or American women.

Indeed, as the Pew Research Centre (2016) notes, over a third of Gulf women born during the period 1976-1985 have higher education, an increase of over 30% compared to those born during 1936-1955, and have more post-secondary degrees than their male peers in Bahrain, Kuwait, Qatar, and Saudi Arabia. Gender segregation in education has enabled this development for women by enabling them to access academic opportunities, but it is increasingly unacceptable ideologically in the international pedagogical contexts, manifesting Western cultural hegemony in globalized education.

Indigenous Qatari society is conservative, and it cherishes the great value of the family institution and considers it as the nexus of the society. In the socialization process, men and women are taught to complete each other' roles with respect. The Permanent Constitution as well as Qatar National Vision 2030 do not make distinction between men and women as they all enjoy fundamental rights to various services and are equally held accountable for their actions before the law. Although gender segregation is widely observed in Qatar, it seems that residents and visitors have adapted to this social reality. Besides, mix-gender environment in some educational institutions, workplaces, and services are increasingly available. Within this context, the IBCs provide education services in a mixed-gender environment, enabling female students "to have an international education without travelling abroad" (Stolarick & Kouchaji, 2013, p. 241). However, many Qataris believe that it is essential to preserve the single-gender study environment option because "some women do not want to study in a mixed-gender environment" (Stasz et al., 2007, p. 76).

The option of studying at local universities in single-gender environments accounts for the fact that a large majority of students at Qatar University are female, which is attributed to their preferring educational options close to their homes (Powell, 2014, p. 269). It should be noted that female students have more options and flexibility to further up their post-secondary studies in Qatar, whether in IBCs or local universities, and that they have the opportunity to become better educated over time and earn respected university degrees.

3.3 Glocalization of the IBCs

There are some concerns regarding the potential of marginalizing the national education system as the government fully supports the IBCs. Moreover, some people think that the IBCs could disturb the traditional Arab-Islamic values in Qatari society, because they provide wholly Western models of education, which bring high standards in academic programmes packaged in Western values and culture (Bollag, 2016; Powell, 2014, pp. 269-270). Qatar's leaders and policy makers are aware of the importance of both the global character as well as the national educational and societal value systems of the IBCs. Therefore, they endeavour to maintain both the global character and standards of the IBCs, and the local social and cultural atmosphere; this adaptive strategy to absorb globalization in local contexts is known as 'glocalization'. Stasz et al. (2007) highlighted some of the gaps in the glocalization process, and emphasized the need for coordination and cooperation in all aspects and phases. Qatar government and policy makers have seriously attended to these gaps and endeavoured to integrate the IBCs in the tertiary education system. This is done by supporting all types of planning, coordination and cooperation among the IBCs and across multiple organization including SEC, QF, and QU, in addition to considering employers' feedback about the labour market demand for educational services.

There are a lot of coordination among foreign universities, and between themselves and local institutions in Qatar. One of the striking examples of coordination and collaboration mechanisms is the cross registering and cross crediting of courses between IBCs between the six American universities in QF Education City. Some IBCs went a step further in collaboration and improving the integration process by offering joint courses and programmes. For instance, VCU, TAMU and WCM in Qatar have co-designed a new course "happy society" launched in January 2018, and made open to any education city students in their junior year (Bothwell, 2017; TAMU-Q, 2018; VCU-Q, 2019; WCM-Q, 2018). In addition, GU and NU in Qatar allow students to study a major subject at one institution and a minor at another (Bothwell, 2017; GU-Q, 2018). In the academic year 2018/2019, CMU is offering registration of joint programmes, training and workshops in between Education City universities and it has built partnership with more than 30 organizations, including the Ministry of Foreign Affairs Diplomatic Institute, Ministry of Interior Police Training Institute, Qatar Central Bank, and Qatar Airways (Abdurahman, 2018; CMU-Q, 2019). Furthermore, NU is considering Master's programme in health communication in collaboration with HBKU (Abdurahman, 2018). WCM expanded its collaborative efforts beyond the IBCs, and entered into partnership with Qatar University in medical education, health care, and research in Qatar (Ziegler & Associates, 2018).

4 Sustainability Issues

The huge financial and human resources invested in contracting the 11 IBCs and facilitating their smooth running in Doha obviously face the challenge of sustainability, particularly in view of the concerns raised by some observers that "these investments have been oriented mainly to Western models without sustained reflection on and tackling all of the contextual conditions needed to implement and sustain them" (Powell, 2014, p. 266). Besides, there is an emphasis on the need for balanced policy approach, which integrates local and foreign universities and supports their development. Therefore, the following paragraphs highlight three important factors that would ensure the stability and endurance of the IBCs in Qatar.

4.1 Political Will

The political leaders and the government of the State of Qatar have a clear vision and abundant resources to achieve their strategic goals. They have always been highly committed to promoting education, science, research, and innovation. For instance, HH Sheikh Hamad bin Khalifa Al-Thani is considered a pioneer in establishing Qatar's knowledge society by making education the prime drive of all aspects of reform and development. During his rule (1995-2013), the Permanent Constitution was ratified and the National Vision 2030 was launched.

The Permanent Constitution includes numerous articles that explicitly refer to the right to education and emphasizes the role of the state in promoting sound education, fostering and encouraging scientific research, and helping disseminate knowledge, in addition to making general education compulsory and free of charge. For instance, Article 25 states "Education is one of the basic pillars of social progress. The State shall ensure foster and promote education" (The Permanent Constitution, 2004). Qatar National Vision 2030 explicitly emphasized education and knowledge production activities (Qatar National Vision, 2008). Her Highness Sheikha Moza bint Nasser initiated the World Innovation Summit for Education (WISE) in 2009. WISE is an international, multi-sectorial platform for creative thinking, debate, and purposeful action. Its community is a network of education stakeholders, from students to decision-makers, coming from about 200 countries. WISE has become a global reference for innovative approaches to modern education (Hamdan, 2012, pp. 199-206; WISE, 2018).

4.2 Economic Diversification

Qatar began exporting oil in 1949 and the country's oil and gas reserves are expected to last for the next 57 and 100 years, respectively (Stolarick & Kouchaji, 2013, p. 226). However, the government is acutely aware of the fact that oil and gas resources are finite and their prices are fluctuating, while their populations and state expenditure are increasing over the long term. The sharp decline of oil and gas prices in recent years has inflicted heavy losses of revenues and consequently affected government capabilities in funding projects and creating uncertainties for national planning, since hydrocarbon wealth is the essential fuel of the national economy. The traditional patronage system of GCC economies with lavish social welfare spending and subsidies and a moribund local workforce depending on cheap foreign labour is increasingly untenable.

Consequently, the government has made considerable efforts to plan for diversification of the economy, in order to reduce dependency on hydrocarbon resources and the dominance of the oil and gas sectors. In 2005, the government founded the Qatar Investment Authority (QIA) to strengthen the country's economy with long-term strategic investments in non-hydrocarbon sectors, including manufacturing, financial services, and construction. For example, the Qatar Sovereign Wealth Fund (SWF) was valued at $335 billion as of 2016 (Qatar Central Bank, 2016; World Economic Forum, 2016). Moreover, the government is applying an action plan to develop the infrastructure of the existing oil and gas fields, create new sources of renewable energy, and encourage recycling projects, and it has introduced other industries such as ammonia, fertilizer, petrochemicals, steel reinforcing, aluminium production, and plastics. Consequently, the share of hydrocarbon in real GDP marginally declined to 48.2% in 2017 from 53.2% in 2014, while the share of non-hydrocarbon in real GDP increased from 46.8% in 2014 to 51.8% in 2017 (IMF, 2018; MDPS, 2019; Qatar Central Bank, 2016, 2017; Weber, 2014, pp. 62-69).

Another aspect of economic diversification is reducing the dominance of the public sector on the economy and engaging the private sector and Small and Medium Enterprises (SMEs) to enable them to play a more active role in the economy (MDPS, 2019; Secretariat for Development Planning, 2008; Weber, 2014, pp. 68-69). The gradual reduction of dependence on the hydrocarbon sector and the implementation of the long-term reforms are leading toward a sustainable development system to ensure and preserve the rights of present and future generations to benefit from their wealth resources and finance existing and strategic projects, particularly in education, such as the IBCs.

4.3 Contribution of IBCs to Qatar's Present and Future Wellbeing

The IBCs' contributions to Qatar's society and economy are extremely important for their survival and sustainability, as they must demonstrate tangible reforms in order to justify the massive state expenditure and political facilitation lavished upon them. To explain the quantitative and qualitative contributions, this analysis only gives an overview of the most significant aspects and illustrative examples of the IBCs' contributions to the Qatari economy and society. The huge financial and human resources investments in contracting and supporting the 11 IBCs are strategically meant to feed the local as well as the international job market with highly qualified graduates.

Qatar has been hosting the IBCs for almost two decades, and the most striking examples of their positive impact during these years is the large number of graduates, most of whom are presumably employed in various sectors of Qatar's economy, such as government services, engineering, and business. For example, more than

4500 graduates from the College of the North Atlantic entered the workforce locally (CNA-Q, 2019), over 760 students graduated from Carnegie Mellon University with various degrees in computer science (CMU-Q, 2019), and Texas A&M in Qatar has awarded nearly 1000 engineering degrees (TAMU-Q, 2019). Besides, about 640 students were awarded degrees in design from Virginia Commonwealth University (VCU-Q, 2019), around 600 students graduated from Stenden University, many of them hold key positions in government departments and NGOs in Qatar (SU-Q, 2019), and over 300 graduates earned their degrees from Georgetown University and Northwestern University, with many of them going on to successful careers in Qatar (GU-Q, 2019; NU-Q, 2019). Also, more than 600 students graduated with different degrees in nursing and health sciences from the University of Calgary and became fully integrated leaders in Qatar's health care sector (UC-Q, 2019), and a total of 384 doctors have now graduated from Weill Cornell Medicine Qatar. A good number of them are working at Hamad Medical Corporation and other leading private hospitals (WCM-Q, 2019).

The IBCs not only feed the local workforce with thousands of qualified employees, and enter into partnerships with local institutions, but also play an active role in building capacities and contributing to the efforts toward establishing a modern knowledge society. For instance, Weber (2014) highlighted the significant role of Northwestern University – Qatar (NU-Q) in the growth of the media industry in Qatar by offering a journalism and communications programme. The demand for the graduates from NU-Q is very high, as many employers such as Al-Jazeera Media Network, Qatar News Agency, the Ministry of Foreign Affairs, and communication departments (especially in universities) compete to recruit them.

The University of Calgary is also playing a leading role in delivering world class health care in Qatar. It is assisting the Qatari government in its efforts to redefine health care in Qatar and the Gulf region, VCU-Q is deeply involved with emerging design companies in Qatar (Ziegler & Associates, 2018). GU-Q conducts many public lectures and panel discussions addressing current issues in local, regional and world politics (ibid.; Redden, 2017).

HEC Paris management offers programmes designed to meet the specific needs of professionals and executives already in senior management positions in Qatar. For example, since the launch of the Executive Masters of Business Administration (EMBA) programme in 2011, 500 students graduated, 75 per cent of whom are Qatari. Moreover, in April 15, 2018 HEC held a Public Masterclass entitled 'Understanding Accounts and Financial Strategy in 60 Minutes', tailored to advance the financial strategic skills of the attendees (HEC-Q, 2018; Qatar Tribune, 2018; Redden, 2017).

The cultural influence of the IBCs has also been noticed in society. In addition to bringing their educational systems and world-class academic standards, the IBCs also brought their culture and values. All IBCs provide the same Western-style education as at their home campuses, particularly co-educational classes and academic freedom. All IBCs students and alumni communicate in English in campus and beyond. This is perhaps what prompted one researcher to say: "the American culture and educational methods exert a strong cultural impact on the country as Education City graduates enter the work force" (Weber, 2014, p. 63).

5 Conclusion

Qatar has rapidly changed from a traditional tribal community with small merchant enclaves to a dynamic and important contemporary state in world affairs and development. Qatar's leaders recognize the strategic importance of education and its strong correlation with comprehensive development. The government spends generously on education and provides scholarships for tertiary studies in Qatar and abroad. Its efforts have brought 11 world-class education institutions to Qatar's doorsteps. Qatar has developed a unique model in dealing with the IBCs, because almost all these branches belong to the top-ranked universities in the world, use English as medium of instruction, and conduct their classes in a mixed-gender environment. This model faced serious challenges and controversies, particularly in relation to certain policies, and raised some concerns about the sustainability of this project for Qatar's present and future generations. This study addressed three important policy issues: English as medium of instruction, mixed-gender education, and the glocalization of the IBCs.

It has been stressed that the issue of the medium of instruction is controversial, as Arabic is the official national language used in government educational institutions, thus the use of English in some elite institutions could induce a two-tier system, with poorer quality for some nationals. There were ad hoc debates on the rationale behind using English as a medium of instruction, and prosaically speaking it was obviously greatly to the advantage of foreign universities not to have to adapt their content delivery for Arabic clients. The matter is quite sensitive as English was viewed as threat to the identity of the young Qataris and the future of Arabic language, but the general trend is now going toward considering English and Arabic as necessary and complementary.

Similarly, the issue of mixed-gender education is sensitive, as many female students still want to study in a single-gender environment. However, in the current Qatari context both single-gender and mixed-gender educational options are provided, and the government could not do more to facilitate women's access to education without forcing them to attend institutions.

Maintaining the global nature of the IBCs programmes and academic standards and integrating them in the local tertiary education system has proven to be a challenging policy issue. The government in general and Qatar Foundation in particular endeavoured to sustain the process of IBC glocalization by favourable policies like the language and mixed-gender education policy, and by encouraging cooperation and coordination mechanisms and activities, such as courses cross-registering and joint programmes. However, it is important to highlight that the collaboration and coordination mechanisms and efforts have only gained momentum very recently. Besides, it is vital to provide financial as well as performance incentives for the national tertiary education institutions to uplift their level to an adequate international standard. This balanced policy approach will ensure the sustainability of the glocalization process.

The question of whether or not the educational strategy using IBCs is sustainable is legitimate, essentially in view of the substantial financial and human resources invested in it, the instability of hydrocarbon revenues, and the feasibility of the positive impact on the job market as well as on wellbeing of the present and future generations. The political will of the Qatari leaders, government, and policy makers was favourable to host the IBCs and support them to operate and endure in Qatar. Therefore, the government decision to diversify the economy is a significant step to avoid any potential risks that might affect the availability of adequate funds for the IBCs to continue operating and grow.

Furthermore, the IBCs have proven their significance by their enormous contribution to the Qatari economy and society, quantitatively and qualitatively. Nevertheless, the IBCs' impact on the Qatari economy and society needs further investigation, particularly by conducting empirical studies using quantitative research techniques to measure the scale of their contributions.

Table1. Foreign Universities' Branches in Qatar

Institution	**Home Campus**	**Field**	**Established**
University College London (UCL-Q)	UK	Museum Studies	2012
HEC Paris (HEC-Q)	France	Business	2012
Northwestern University (NU-Q)	USA	Journalism	2008
University of Calgary (UC-Q)	Canada	Nursing	2007
Georgetown University School of Foreign Service (GU-Q)	USA	Foreign Affairs	2005
Carnegie Mellon University (CMU-Q)	USA	Computer Science	2004
Texas A&M University (TAMU-Q)	USA	Engineering	2003
Weill Cornell Medicine (WCM-Q)	USA	Medicine	2001
College of the North Atlantic (CNA-Q)	Canada	Applied Sciences	2001
Stenden University (SU-Q)	The Netherlands	Tourism and Hospitality	2000
Virginia Commonwealth University (VCU-Q)	USA	Design	1998

Source: (Ministry of Education and Higher Education, 2019; Powell, 2014, p. 256).

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Could Romania become a trade hub on the TEN-T and the Belt and Road initiative?

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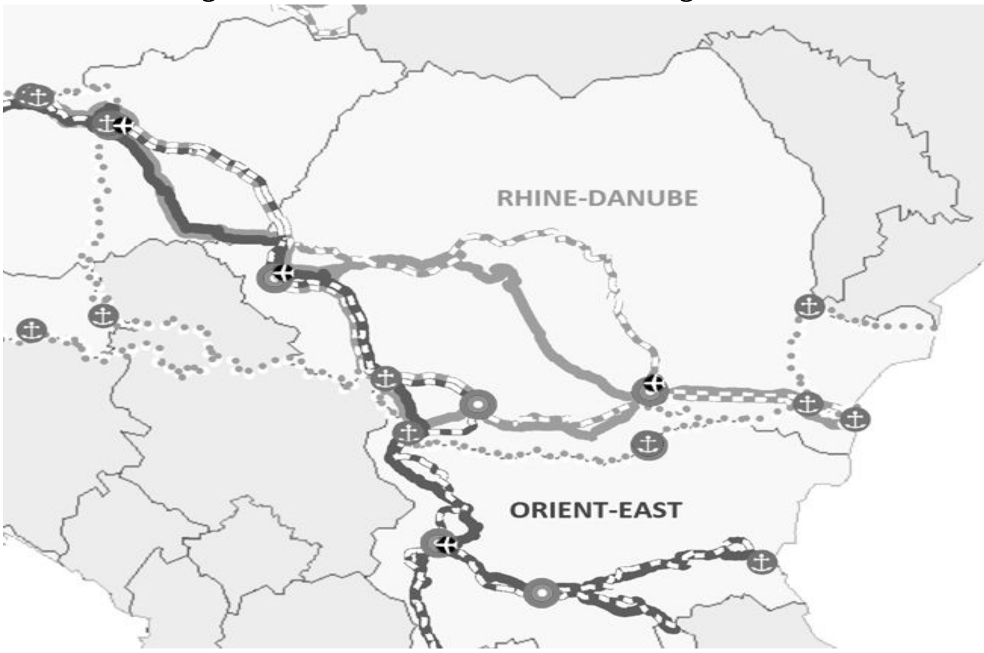
Abstract: In the context of the current trade wars, the major players are aiming at identifying new opportunities to keep the multilateral trade engine running. With the Belt and Road, a modern version of the ancient Silk Road, China launched an initiative that could encompass many stakeholders from various continents aiming to place herself at the core of the new world order.
This research focuses on the main transportation corridors of the Belt and Road initiative, analysing them through the lenses of several relevant indicators, to identify their attractiveness degree for the EU and China and thus answering the question in the title.
The analysis is based mainly on data provided by the World Bank, Eurostat, the National Bureau of Statistics of China.

Key-Words: logistics, trade, Silk Road, corridors, EU, China
JEL Classification: B27, F4, H54, P23

1. Introduction

The Silk Road has been one of the major trade routes of the world since antiquity, enabling trade and cultural exchanges between the peoples of Asia, Africa and Europe. According to a Chinese scholar, the beginning of the Silk Road dates back in the third century BC, as the trade between agricultural China and nomad tribes started developing (Liu, 2010).
Then, along the centuries its routes expanded so that during the Roman Empire, it became the longest road on earth, linking East Asia to Byzantium (Istanbul today), and from there in the Western Roman Empire and the adjacent territories.
The Road maintained its importance even during the Middle Ages. Before the conquest of Constantinople (Byzantium), the flow of goods from East Asia continued the ancient terrestrial corridors that reached or circumvented the Black Sea. In that context, Moldovia, Wallachia and Transylvania, and their trade centres, namely Brăila, Cetatea Albă, Chilia, Rucăr, Târgoviște, Tîrgușor, and so forth were important hubs on the way to Poland, Hungary and other countries in northern and central Europe (Pach, 1980).
The Chinese initiative known under the name Belt and Road, launched in 2013 by the Chinese president Xi Jinping aims at revitalising the old routes of the Silk Road, from a modern and original perspective.
According to published maps, the Chinese BRI will use several terrestrial routes of which at least two include Romania linking to Orient-East or Rhine-Danube TEN-T corridors (See figure 1). The Orient East corridor will connect central Europe with the ports of the North, the Baltic, the Black and the Mediterranean seas. It will also improve the multimodal connections of Central Europe to the coastlines, using rivers such as the Elbe and the Danube.

Figure 1. EU TEN-T Corridors Including Romania



Source: Author based on the map provided by The European Commission, 2019

Rhine-Danube provides the link between east and west for the continental European countries, connecting France, Germany, Austria, Slovakia, Hungary, Romania, and Bulgaria all along the Rhine, Main and Danube rivers to the Black Sea by improving rail and inland waterway interconnections.
The Belt and Road initiative aims at reaching the EU single market through a series of terrestrial, maritime, air and mixed corridors (marine and terrestrial).

2. Analysis of the corridors

The research focuses on the terrestrial routes that start in China and end up in Western Europe and aims at differentiating them through qualitative and quantitative analyses based on indicators such as the Logistics Performance Index, compiled by the World Bank, the trade of China and the EU with the countries along the corridors, demography, GDP per capita and length.
In the new geopolitical context characterised by increasing trade restrictions, it is vital for the EU, but also her trading partners, supporters of the multilateral trading system to have a clear image of the opportunities at hand.
Most of the scholars and infrastructure specialists know about four main trade routes envisaged by the Chinese initiative (See Table 1).

Table 1: Belt and Road Corridors

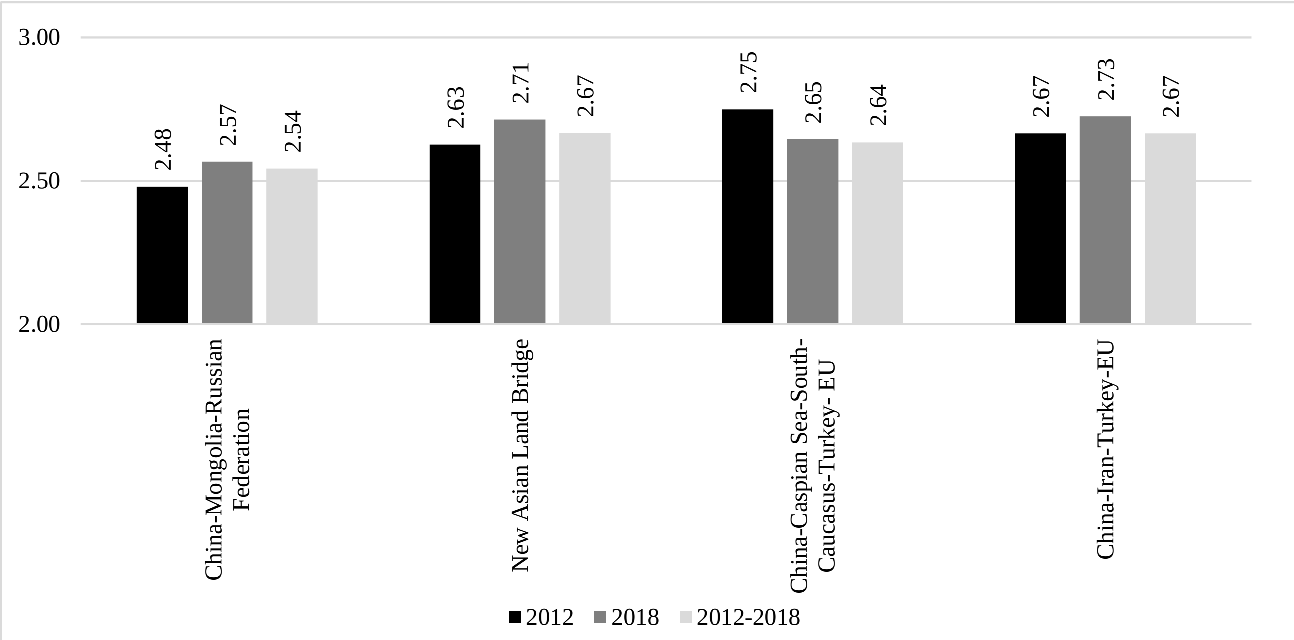
Sector	**China-Mongolia-Russian Federation-Belarus-EU**	**New Asian Land Bridge**	**China-Caspian Sea-South Caucasus-Turkey-EU**	**China-Central Asia-Iran-Turkey-EU**
European	Russian Federation, Belarus, EU countries	Russian Federation, Belarus EU countries	The EU countries (Bulgaria and Romania) Turkey	The EU countries (Bulgaria and Romania) Turkey
Middle	Russian Federation	Russian Federation	Georgia Azerbaijan Armenia Turkey	Iran
Central Asian	Mongolia, China	Kazakhstan, China	Turkmenistan	Kazakhstan

Sector	China-Mongolia-Russian Federation-Belarus-EU	New Asian Land Bridge	China-Caspian Sea-South Caucasus-Turkey-EU	China-Central Asia-Iran-Turkey-EU
			Kazakhstan China	Turkmenistan Kyrgyzstan Uzbekistan China

Source: Author, 2018

The first step of the analysis consists in calculating the average LPI[1] for each corridor, using the value of the index for each country along the assessed corridor, without taking into consideration China and the EU countries (See Chart 1). According to the World Bank (2019), the aggregated LPI (2012-2018) combines the four most recent LPI editions (2012, 2014, 2016 and 2018) to generate a "big picture" to indicate countries' logistics performance better.

Chart 1: Overall LPI Score of One Belt One Road Corridors in 2012, 2018 and aggregated between 2012-2018



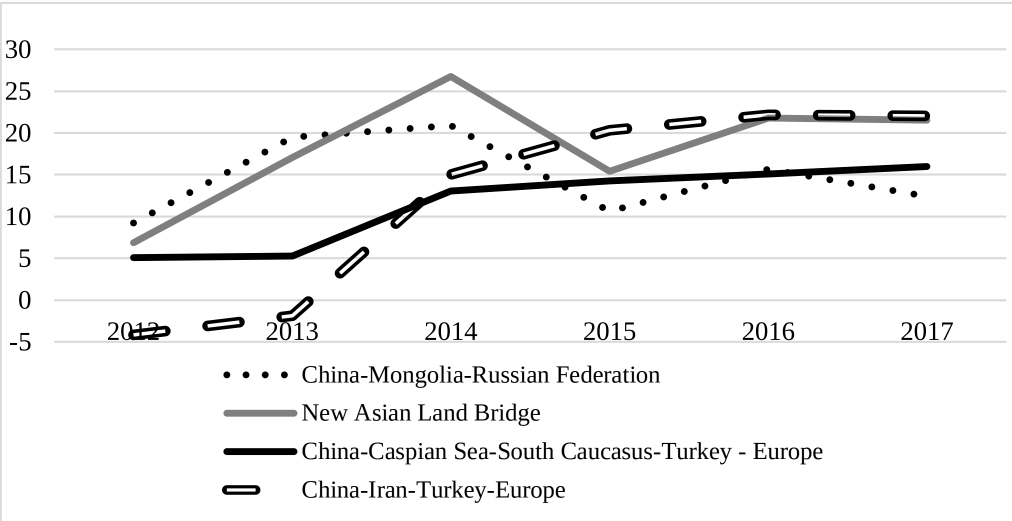
Source: Author`s calculations based on the data provided by the World Bank (2019).

Regarding the aggregated LPI (2012-2018), two corridors, namely China-Iran-Turkey-EU and the New Asian Land Bridge registered the same score (2.67), but the first ranks better in the last year of the analysed timeframe (2.73 as compared to 2.71 the New Asian Land Bridge).
According to the calculations, the third corridor regarding LPI in 2018 and 2012-2018 is China-Caspian Sea-Caucasus-Turkey-the EU, and the fourth is China-Mongolia-Russian Federation-EU.
It is worth mentioning that Romania and Bulgaria could be entry points in the EU for the routes including the Caucasus and Iran.
Between 2012-2018 Turkey has the highest LPI among the countries along the evaluated corridors (3.29), followed by Kazakhstan (2.77), Iran (2.71), Russian Federation (2.69) and Belarus (2.54). Turkmenistan (2.34),

[1] The Logistics Performance Index is an interactive benchmarking tool created to help countries identify the challenges and opportunities they face in their performance on trade logistics and what they can do to improve their performance. It analyses customs, infrastructure, international shipments, logistic competence, tracking & tracing, timeliness.

Kyrgyz Republic (2.38), Mongolia (2.40), Georgia (2.45) and Uzbekistan (2.50) registered the lowest aggregated LPI between 2012-2018.
As a preliminary conclusion, for the EU and China, the New Asian Land Bridge and China-Iran-Turkey-EU corridors rank the best regarding the aggregated LPI. From this standpoint, Romania and Bulgaria could become important trade hubs for the southern corridor (China-Iran-Turkey-EU) as entry points in the EU.
Regarding the trade, China`s balance of trade with the countries along the assessed corridors (See Chart 2)

Chart 2: China`s trade balance with the countries along OBOR`s Corridors, $ billions

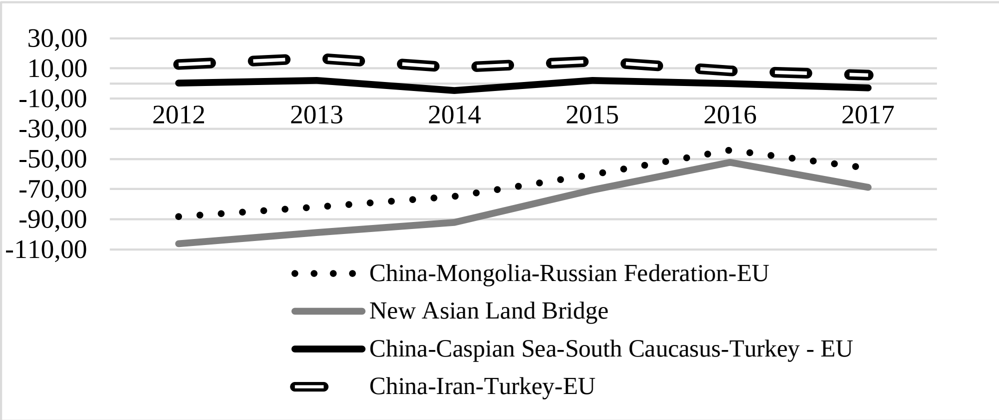


Source: Author`s calculations based on data provided by the National Bureau of Statistics of China (2019).

According to the data published by the National Bureau of Statistics, since 2014, China recorded trade surpluses with the groups of countries along the four corridors. In 2017, China-Iran-Turkey-EU was the most profitable route for Beijing, registering a trade surplus of $22.3 billion, followed by the New Asian Land Bridge ($21.56 billion) and China-Caspian Sea-Caucasus-Turkey-Europe ($15.97 billion).
Among the analysed countries of the corridors, China recorded trade surpluses with Poland ($14.5 billion), Turkey ($14.3 billion) and Kazakhstan ($5.1 billion).
China registered the highest trade deficit in relations with Turkmenistan ($6.2 billion), Mongolia ($3.9 billion) and Azerbaijan ($0.2 billion).
Eurostat (See Chart 3) reveals a grimmer picture regarding the trade balance of the EU with the grouping of the countries on the corridors. Thus, for the EU, the most favourable route was China-Iran-Turkey-EU, with a trade surplus of €5.4 billion in 2017, the only path with surpluses in the analysed stretch.
The EU registered trade deficits with the grouping of countries along the New Asian Land Bridge (€68 billion in 2017) and China-Mongolia-Russian Federation-EU (€56 billion in 2017) in the analysed timeframe, while the trade balance the countries along the route including the Caspian Sea swung above and below zero (€-2.89 billion in 2017).
In 2017, among the countries on BRI corridors, the EU recorded the highest trade surplus with Turkey (€15 billion). Belarus came the second with a trade surplus of €2.6 billion, followed by Uzbekistan (€1.5 billion) and Georgia (€1.4 billion).
The EU recorded the highest trade deficit with the Russian Federation (€59 billion), Kazakhstan (€12.5 billion) and Azerbaijan (€7.7 billion).

Overall, China-Iran-Turkey-EU is also the most profitable for the EU regarding trade, followed by China-Caspian Sea-South Caucasus-Turkey-EU. With the other two, the EU registers trade deficits along the analysed stretch.

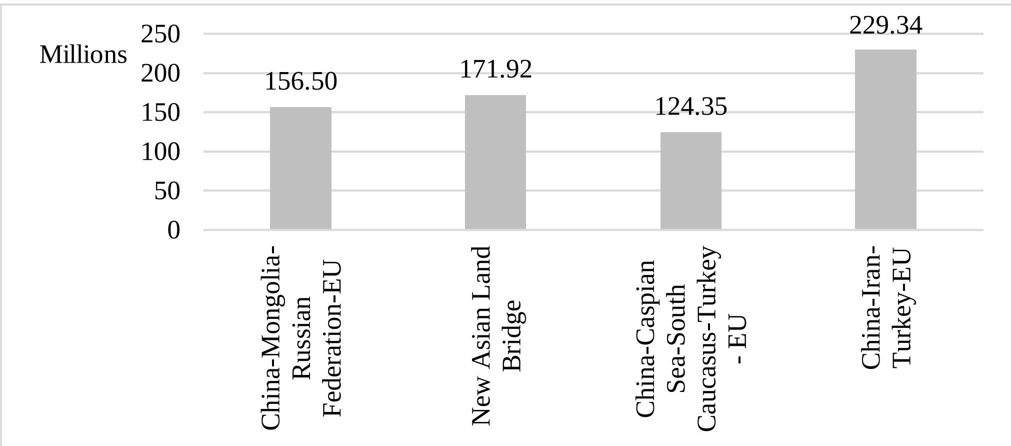
Chart 3: EU`s trade balance with the countries along OBOR`s Corridors, € billions



Source: Author`s calculations based on data provided by Eurostat, 2019

Regarding the market size of the countries along the corridors (See Chart 4) the countries along the China-Iran-Turkey-EU corridor have the highest population out of all four analysed corridors (229.34 million inhabitants), followed by the New Asian Land Bridge with 171.92 million inhabitants and China-Mongolia-Russian Federation-EU (156.50 million inhabitants).

Chart 4: Population of the countries along the corridors, in 2019, million inhabitants

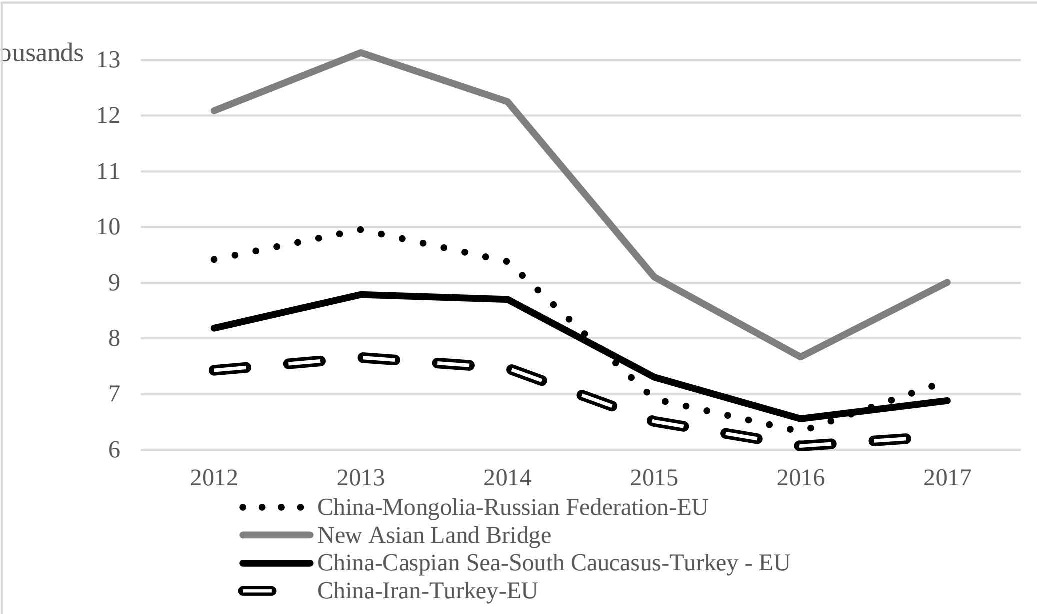


Source: Author`s calculations based on data provided www.worldometers.info, 2019

The most populous country in the assessed corridors is the Russian Federation (143.89 million inhabitants), followed by Turkey (82.96 million inhabitants) and Iran (82.82 million inhabitants).
The least populated countries are Mongolia (3.16 million inhabitants), Georgia (3.9 million inhabitants) and Armenia (2.93 million inhabitants). This indicator also favours the southern corridor through Iran, but also Romania and Bulgaria, points of entry to the EU.

Per capita GDP serves as an informal measure of a nation's prosperity. Regarding this indicator, in 2017, the New Asian Land Bridge has the best performance with an average GDP per capita of $8,504, followed by China-Mongolia-Russian Federation-EU ($6,733) and China-Caspian Sea-South Caucasus-Turkey-EU ($6,380). The corridor including Iran ranks the last in the analysis. Despite that, both China and the EU have favourable trade balances with it as compared to the New Asian Land Bridge, where the EU has a negative trade balance. China exports the most to the New Asian Land Bridge ($73.20 billion), followed by the corridor including Mongolia ($62.87 billion), while to the China-Iran-Turkey-EU corridor just ($61.67 billion) and to the "Caspian" one $36.44 billion (National Bureau of Statistics of China, 2019).

Chart 5: Average GDP per capita for the countries along the corridors excluding China and EU countries, $ thousands

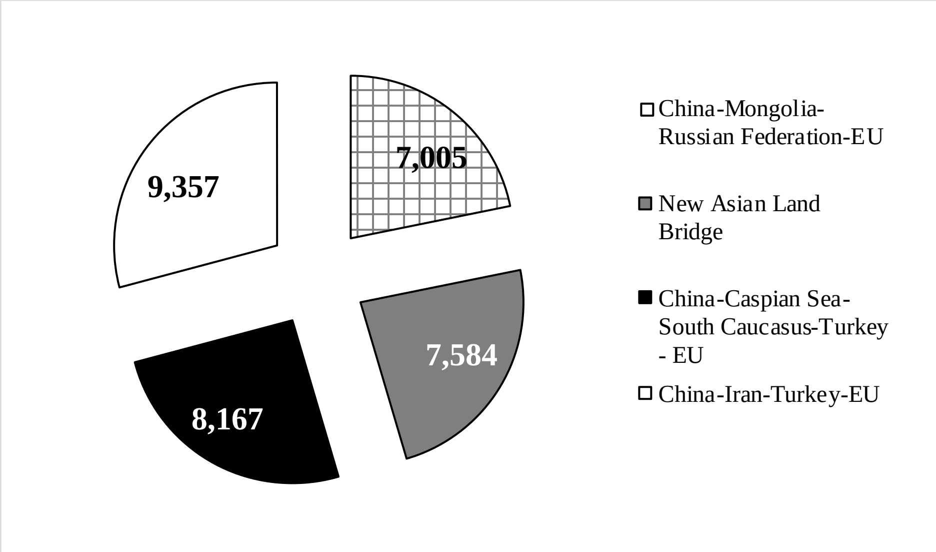


Source: The World Bank, 2019

On the other hand, the EU exported most to the southern corridor, including Iran (€103.59 billion), while to the New Asian Land Bridge €97.15 billion. For the EU, the "Caspian" corridor ranks the third with €95.23 billion, while to the "Mongolian" one around €92,44 billion (Eurostat, 2019).

Regarding the flying distances between the capitals of the countries along the corridors, an indicator that reflects the length of each corridor in a straight line, the longest one is China-Iran-Turkey-EU with about 9,357 kilometres, followed by the "Caspian" one (8,167 kilometres) and the New Asian Land Bridge (7,584 kilometres). The shortest corridor by air is China-Mongolia-Russian Federation-EU (7,005 kilometres).

Chart 6: Total flying distance between the capital of the countries on the corridors, km



Source: www.distancecalculator.net, 2019

The grid analysis applied to the results of the research helps to establish a hierarchy of the analysed corridors (See Table 2).
The corridor China-Central Asia-Iran-Turkey-EU ranks first regarding four indicators (LPI, EU`s trade balance, China`s trade balance and population. That translates in better logistics, better trade attractiveness for both the EU and China and higher market.
The New Asian Land Bridge ranks first regarding the GDP per capita, and second regarding LPI, China`s trade balance, population and the length of the corridor.
China-Mongolia-Russian-Federation-Belarus-EU is the shortest air corridor, ranking second regarding the GDP/capita.
The grid analysis applied to the results displayed in Table 2 established the hierarchy based on the used indicators. The best ranking of the analysed indicators is rated 4, the last 1. The relative value of each indicator is also between 1 and 4, one being the least important and four being the most important.

Table 2: Grid Analysis

Options	**LPI**	**Trade EU**	**Trade China**	**Population**	**GDP/capita**	**Length**
Weights	**4**	**5**	**5**	**4**	**2**	**1**
China-Mongolia-Russian-Federation-Belarus-EU	1	2	1	2	3	4
New Asian Land Bridge	3	1	3	3	4	3
China-Caspian-Sea-South Caucasus-Turkey-EU	2	3	2	1	2	2
China-Central Asia-Iran-Turkey-EU	4	4	4	4	1	1

Table 3: Grid Analysis - Weighted scores

Corridors\Rankings	**LPI**	**Trade EU**	**Trade China**	**Population**	**GDP/capita**	**Length**
Weights	**4**	**5**	**5**	**4**	**2**	**1**
China-Mongolia-Russian-Federation-Belarus-EU	4x1=4	5x2=10	5x1=5	4x2=8	2x3=6	1x4=4
New Asian Land Bridge	4x3=12	5x1=5	5x3=15	4x3=12	2x4=8	1x3=3
China-Caspian-Sea-South Caucasus-	4x2=8	5x3=15	5x2=10	4x1=4	2x2=4	1x2=2

Turkey-EU						
China-Central Asia-Iran-Turkey-EU	4x4=16	5x4=20	5x4=20	4x4=16	2x1=2	1x1=1

Table 4: Grid Analysis - Ranking

Corridors\Rankings	**LPI**	**Trade EU**	**Trade China**	**Population**	**GDP/capita**	**Length**	**Total**
Weights	**4**	**5**	**5**	**4**	**2**	**1**	
China-Mongolia-Russian-Federation-Belarus-EU	4	10	5	8	6	4	37
New Asian Land Bridge	12	5	15	12	8	3	55
China-Caspian-Sea-South Caucasus-Turkey-EU	8	15	10	4	4	2	43
China-Central Asia-Iran-Turkey-EU	16	20	20	16	2	1	75

According to the grid analysis, the option with the highest score is the most attractive given the deciding factors, which in this case are the chosen indicators. Thus, the hierarchy is as follows:

1. China-Central Asia-Iran-Turkey-EU
2. New Asian Land Bridge
3. China-Caspian-Sea-South Caucasus-Turkey-EU
4. China-Mongolia-Russian-Federation-Belarus-EU.

6. Conclusions

The Silk Road played an essential role in the history of humanity, by connecting people with different cultures and beliefs from the Far East to Western Europe. The empires rose and fell, but its trade routes endured.
The Belt and Road initiative comes with a new approach of an old tradition trying to promote trade and cultural exchanges along an even more full area.
Romania, through its geographical location, could be a valuable trade hub, in the new geopolitical environment, in which the major commercial players are trying to redraw the trade routes and flows.
The paper emphasised that Romania through its kingdoms (Moldova, Wallachia and Transylvania) has been on the Silk Road since the antiquity since some of the routes to western Europe had to reach its shores via the trade routes around the Black Sea directly or coming from Byzantium.
Romania is the entry point to the EU on the TEN-T Rhine-Danube Corridor, but also to Orient-East Corridor, thus being an important trade hub towards the western EU. Both mentioned corridors connect to the trade routes coming from Turkey or South Caucasus countries.
In this context, the results of the research place Romania on the route of the corridor that ranked first, namely China-Iran-Turkey-EU and on the corridor China-Caspian-Sea-South Caucasus-Turkey-EU that ranked third
To answer the question in the title of this research, Romania indeed could become a trade hub of the Belt and Road and TEN-T corridors.

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Challenges for the Global Financial System

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Abstract: *According to the governor of the Bank of England, Mark Carney, the global financial system is currently lagging behind the evolution of the global economy, facing asymmetric concentrations of financial assets in advanced economies relative to economic activity. As the world re-orders, this disconnect between the real and financial is likely to reduce, and in the process other reserve currencies may emerge. By 2030, seven of the world's top 10 economies will be current emerging markets, according to the latest report by London-based multinational banking and financial service company Standard Chartered.*

On the other hand, global tensions caused by economic sanctions and trade conflicts triggered by Washington have forced targeted countries to take a fresh look at alternative payment systems currently dominated by the US dollar. The global importance of the Chinese yuan seems destined to rise, according to strategists and economists who say flows in the currency will grow over the long term if Beijing continues to gradually open its financial system. The yuan will be increasingly driven by capital account flows, and not just trade-related flows.

Looking for a proper anchor of value for the international monetary system is becoming also an issue of a paramount importance. Gold is seen by an increasing number of players as a natural anchor of value and some are already preparing themselves to that by increasing their gold reserves. Holding physical gold is definitely the best hedge against a crash of any paper currency but nevertheless, we need a trustful worldwide monetary and financial system.

Key words: *global financial system, reserve currencies, fiat currencies, gold, dollar, yuan.*

1 Introduction

The world re-orders and the worldwide monetary and financial system needs to be adjusted accordingly. Two issues have to be addressed in this respect:

1. The rebalancing of the global financial system in accordance with the evolution of the global economy and
2. The trust issue in respect to the USA dollar which is, for a long time, a fiat currency and is lately aggressively used as a sanctioning tool towards other states.

2 The rebalancing of the global financial system in accordance with the evolution of the global economy

According to the governor of the Bank of England, Mark Carney, the global financial system is currently lagging behind of the evolution of the global economy, facing asymmetric concentrations of financial assets in advanced economies relative to economic activity. As the world re-orders, this disconnect between the real and financial is likely to reduce, and in the process other reserve currencies may emerge.

Let us have a look at the present status and the forecasted evolution of the global economy.

Global merchandise trade reached a total of US$17.7 trillion in 2017**.** US$6.3 trillion were exchanged between developed economies (North-North trade), whereas trade among developing and transition economies (South-South trade) accounted for US$4.9 trillion. The remaining US$6.3 trillion were comprised of exports

from developed to developing economies and in the opposite direction (North-South, and South-North trade). Thus, for developed economies, trade with developing economies was as important as trade with developed.
In 2017, developing economies shipped most of their exports to the United States of America (US$1.3 trillion), and then to China (US$1.0 trillion) and other Asian economies. They also sourced most of the imports from the same economies.
Despite efforts by the Trump administration to pressure Beijing into reducing the US-China trade deficit, the trade surplus with the US still reached $323.32 billion in 2018 – the highest level since 2006. The trade surplus grew 17 percent from around $275 billion in 2017. Exports to the US surged 11.3 percent year-on-year in 2018 to $478.4 billion, while imports from the US to China rose a scanty 0.7 percent over the same period.
The total value of **global e-commerce** transactions, both domestic and cross border, was also impressive, with US$ 16 trillion in 2013 (UNCTAD), US$ 25 trillion in 2015 (UNCTAD) and US$ 27.7 trillion in 2016 (The US International Trade Commission), with public traded companies like Alibaba, Alphabet, Amazon, Facebook, Microsoft, Netflix, Spotify leading the market.
Global services trade reached US$5.4 trillion in 2017, one third of the value of merchandise exports. Services exports mainly come from developed economies. These supply over two thirds of services traded internationally. However, several Asian developing economies have established themselves as important exporters. The world's top services exporter in 2017 was the United States of America, with US$781 billion worth of services sold internationally, representing 15 per cent of global exports. They were followed, at some distance, by three European Union member states (UK, Germany, France) that jointly captured 17 per cent of the world market.
The top five developing economies were Asian, comprising China, India, Singapore, Hong Kong SAR and the Republic of Korea. These five held a world market share of almost 15 per cent, the same as all other developing economies combined (UNCTAD Handbook of Statistics 2018, annex 6.4).
The rise of digital technologies promises to further transform international trade. We are entering a new era, in which a series of innovations that leverage the internet could have a major impact on trade costs and international trade. The Internet of Things, artificial intelligence, 3D printing and blockchain have the potential to profoundly transform the way we trade, who trades and what is traded.
The nature of competition in digital markets is materially different from competition in traditional markets as it tends to be based on innovation rather than on pricing. Questions have been raised about how much the adoption of digital technologies has raised economic productivity. Measures of productivity in the United States, for instance, suggest a significant slowdown since 2005.
Beyond facilitating trade in traditional services, digital technologies are enabling new services to replace trade in goods, ensuring the continued importance of services in the composition of trade. Another factor that could become more important for trade patterns in the digital age is market size. Digital technologies benefit from access to large amounts of information, which may be advantageous to large developing economies.
In 2017, **world foreign direct investment** (FDI) inflows decreased by 23 per cent to US$1.43 trillion. Thus, having reached a peak of US$1.92 trillion in 2015, investment fell back to 2013 levels. In developing economies, FDI inflows amounted to US$671 billion, almost double the value of FDI outflows (US$381 billion). Developing economies in Asia and Oceania accounted for more than two thirds of all developing economy inflows and more than 90 per cent of their outflows. Developed economies, by contrast, generate more FDI than they receive. In 2017, they recorded inflows of US$712 billion and outflows of US$1 trillion.
In 2017, developed economies' share of global outward FDI remained unchanged at 71 per cent. Over the last two years, developed economies in America accounted for an increasing proportion. Their share rose from 20 per cent in 2015 to 29 per cent in 2017, thus reaching the same share as Europe. On the recipient side, Asia and Oceania strengthened their position as the main host region of FDI in the developing world, accounting for one third of world FDI.
In the light of the above mentioned realities, we already perceive an asymmetric concentration of financial assets in advanced economies relative to economic activity. China is the leading exporter of the world, surpassing for the third consecutive year the USA. For the developing world it presents already the same importance as USA in terms of exports and imports. For developed economies, trade with developing

economies is as important as trade with developed ones. As to the trade in services, five Asian countries held in 2017 the same market share in exports as USA did.
Regarding the FDI flows, developed economies still generate more FDI than they receive, but the share and value of FDI outflows from developing economies is on the rise. In addition we have to take into account some impressive holdings of USA debt by these countries, with China's bond holdings in excess of one trillion.
Even on the gold market, despite the fact that the largest transactions (considering the physical and non-physical ones) are still done on the London financial market, we see a shift of interest to the Asian market which is leading in terms of demand for physical gold and demands a more appropriate price formation based on transactions carried out there.
By 2030, seven of the world's top 10 economies will be current emerging markets, according to the latest report by London-based multinational banking and financial service company Standard Chartered. The long-term projection shows that India is likely to become larger than the US, while neighboring China will reportedly steal the crown of world's most powerful economy (currently held by the US) as soon as 2020. At the same time, Indonesia may break into the top five economies.
The question is how the structure of currencies in use for international payments and in the capacity of reserve currency reflects all these realities. As the world re-orders, this disconnect between the real and financial is likely to reduce, and in the process other currencies, with Chinese yuan to be first considered, will have to win their share.
The global importance of the Chinese yuan seems destined to rise, according to strategists and economists who say flows in the currency will grow over the long term if Beijing continues to gradually open its financial system. The yuan will be increasingly driven by capital account flows, and not just trade-related flows.
Already, in respect of the World Currency Composition of Official Foreign Exchange Reserves, the international financial statistics of the IMF show that the shares of U.S. dollars in the allocated reserves of the states has decreased from 66.00% at the beginning of 2015 to 61.94% in the 3rd quarter of 2018. Shares of Chinese renminbi rose from 1.07% in 2016Q4 to 1.80% in 2018Q3.

3 The trust issue in respect to the USA dollar

The past year was full of events that inevitably split the global geopolitical space into two camps: those who still support using US currency as a universal financial tool, and those who are turning their back on the greenback. Global tensions caused by economic sanctions and trade conflicts triggered by Washington have forced targeted countries to take a fresh look at alternative payment systems and safe assets, currently dominated by the US dollar. Before looking into that, we have to address the wider issue of fiat currencies because dollar is in that position for a long time and some are asking for how long the agreement on this status quo is wise to prolong in the context of the dollar misuse.

3.1) Fiat currencies

Currency that a government has declared to be legal tender, despite the fact that it has no intrinsic value and is not backed by reserves is a succinct definition of fiat currency. Historically, most currencies were based on physical commodities such as gold or silver, but fiat money is based solely on faith.
What Marco Polo had come across in China in the 13th century was the paper money issued by the Yuan Dynasty under the rule of the legendary Kublai Khan. His people had been making use of paper money for several hundred years, dating back to the Song Dynasty in the 8th century. They had to take the value of the printed papers at faith, since they had no intrinsic value on their own.
In Europe the first real fiat currency didn't appear until 1661 in Sweden and then only to a limited effect. Some were tied to gold and silver; some were not. At times, both existed in some countries, with the paper money trading at a discount to the "hard money." In colonial America, individual states issues "bills of credit" and various types of currency over the years. Once again, some were backed by silver or gold, but some were not.
By the turn of the 20th century, most nations had made themselves the sole issuer of bank notes and legal tender. The economic havoc and immense cost of World War I led to the end of conversion of currencies for specie across the board, leading to an infamous example of a pitfall of fiat currencies. Between wars, currencies

were extremely volatile. Hyperinflation led to severe deflation and depression. World War II brought another period of intense government intervention in economic activity, price controls, and monetary policy. As the world reemerged from the cataclysmic wars, there was broad consensus amongst the major powers that something had to be done to stabilize currencies, exchange rates, and economies, and to rebuild faith in government control of all of the above.

What emerged was the Bretton Woods System (1944), in which all of the nations tied their currencies to the U.S. dollar through fixed exchange rates. The U.S. dollar was still convertible to gold, but only for central banks. On August 15, 1971, President Nixon unilaterally ended it. It was now a pure fiat currency. The dollar plunged by a third during the stagflation of the 1970s, and currencies destabilized worldwide. What emerged has been called Bretton Woods II, although it wasn't coordinated at all. An international system of interdependency between states with generally high savings in Asia and Western states with generally high spending emerged. This paradigm lasted until about five to ten years ago.

With the global recession and currency wars raging to this day, there are renewed calls for worldwide standards for currencies and banks. Banking regulations in the U.S. and in Europe have been used to address the credit crisis during the recession, resulting in unorthodox monetary easing policies from central banks, but there are still no binding international standards for currencies.

Inflation, hyperinflation, and deflation are all still on the table as individual currencies are completely independent. Fiat currencies only work when inflation is low or moderate. Responsible management by central banks can keep the possibility of high inflation and deflation in check through interest rates and monetary supply. With the Fed's unprecedented expansion of the monetary base, and with interest rates at virtually zero percent, it has no ability to further stimulate the economy without dumping more dollars into circulation. We haven't seen the inflation and depreciation of the U.S. dollar that would be expected so far. But many worry about a delayed effect of the Fed's actions. When a currency is weak, or a central bank is using risky policies that create a loss of faith and an ailing economy, it is better to shift your money into traditional stores of wealth like gold or silver. Without a commodity or good used as a peg for value, there is a point of no return in the collapse of a government, national economy, or both that marks a point of no return for its currency.

“A truth of financial reality is that any prosperity built on paper money has usually been fun for a while, but has always ended in catastrophe” (from Jim Dines’s 1975 book, The Invisible Crash). Jim Dines predicted that gold would enter into a historic bull market, rising from government-fixed levels of $35 to over $400. Not only that, but on January 14, 2005, Dines explicitly warned of the coming real estate crash of 2008, saying it would teach a lesson in illiquidity and shake the mortgage markets to its roots.

And right now, Dines is issuing another urgent warning. Americans have been unrelentingly assured by the Washington economic establishment that the economy is still recovering from the 2008 Great Recession. But he has never accepted that there's been a recovery. All that’s happened since, including the “rebound” in stock prices, has simply been the result of printing breathtakingly large amounts of money and debt. Now, America is saddled with $22 trillion in debt and that figure doesn’t even take into account the “unfunded liabilities” like Medicare, Medicaid, Social Security and student loans. The debt is huge and there’s no possible way to pay it down. Before long, payments on the debt will become the third-largest item in the federal budget and something is going to break.

Jim Dines has long warned that cutting the dollar’s link to gold wouldn’t just lead to chaos, it would be the dollar’s death knell. Currencies not backed by anything tangible, like gold or silver, have always left debt and destruction in their wakes. There isn’t a paper currency on Earth worth trusting as much as gold and silver. As Dines likes to point out, all countries print money with almost no connection to real wealth. Many countries back their currencies not with gold, but the paper money of other nations. He compares the world’s currencies to a bunch of staggering drunks trying to hold each other up. When a key one falls, the whole group will go down. Currency crises will keep happening with increasing frequency until gold is restored as the primary monetary asset.

3.2) Sanctions

We can see that, based on the need of rebalancing the new configuration of economic power with the global financial system and triggered by global tensions caused by Washington, a trend has emerged across the world toward reducing the dollar's role in trade and finance.
The US uses sanctions against other nations as part of its strategy to protect the current global financial system, in which the US dollar plays a dominating role but at the same time it have forced targeted countries to take a fresh look at alternative payment systems and safe assets. Some steps are pointing to that:
a) Challenging the status of a fiat currency
b) Challenging the reserve role of the dollar
c) Challenging the petro-dollar
d) Challenging the dollar as a means of payment or as a third currency in bilateral non-oil transactions

a) Challenging the status of a fiat currency

The global debt has soared to $247.2 trillion in March 2018 (as for the Washington-based Institute of International Finance statistics of August 2018). Central banks have been printing trillions of dollars out of thin air. By the beginning of 2020, global debt could be as high as $300 trillion. According to the IMF, in 2016, the countries with the largest debts, both public and corporate, were the United States with over $48.1 trillion, China with over $25.5 trillion and Japan with over $18.2 trillion. In 2016, the global debt was already at $164 trillion, which was equivalent to 225 percent of global GDP. The global debt-to GDP ratio currently exceeds 318 percent.
"The entire planet is swimming in debt, yet no one seems to criticize the system itself as being fundamentally flawed… our current financial system enslaving the entire world is not sustainable and headed for one hell of a spectacularly ugly crash" Darius Shahtahmasebi, a New Zealand-based legal and political analyst said.
Over-indebted countries are at risk of getting into serious financial trouble.
"The last geopolitical shift that started with WWI and ended with WWII put the US in this dominant position, because they owned and stored 70 percent of the gold reserves of the free world. This was also the main reason, why the USD became the world currency reserve. Central banks moved their gold because they felt threatened by the USSR and saw the USA as their natural ally. The fact that central banks are repatriating their gold shows that this has changed. It also implies that they don't see Russia as a bigger threat than the USA any longer. Europe stands in the center of this geopolitical power shift and some countries obviously believe it's wise to store the gold in their home countries" Claudio Grass, an independent precious metals advisor said.
"Nonetheless, it is obvious that the systematic problems are not solved, on the contrary, the risks became bigger and more fragile than a decade ago," said Grass. "As you know more than 65 percent of all monetary reserves in the central banking system are held in the world currency reserve, which still is the USD. Therefore, holding physical gold is definitely the best hedge against a crash of any paper currency, and "therefore also against a crash of the USD".
Also Kim Dotcom, an American analyst and businessman is telling us straightforward: dump 'worthless' dollar in favor of gold and crypto as US debt spirals out of control.
The amount of gold bought by global central banks in 2018 reached the second highest annual total on record, according to the World Gold Council (WGC). The industry research firm said that central banks bought the most gold by volume since 1967. It was the largest amount since former US President Richard Nixon's decision to end the dollar's peg to bullion in 1971.
According to the WGC, central bank net purchases reached 651.5 metric tons in 2018, 74 percent higher than in the previous year when 375 tons were bought. It has estimated that they now hold nearly 34,000 tons of gold.
"Heightened geopolitical and economic uncertainty throughout the year increasingly drove central banks to diversify their reserves and re-focus their attention on the principal objective of investing in safe and liquid assets," said the report.
It noted that Russia was leading the way as it looks to reduce reliance on dollar reserves. The Russian central bank bought 274.3 tons of gold in 2018. Other big central bank buyers were Turkey, Kazakhstan, India, Iraq, Poland and Hungary.
Russia became the world's fifth largest holder behind the US, Germany, France and Italy.

It also said that Russia has cut the share of the US dollar in the country's foreign reserves to a historic low, transferring nearly $100 billion into the euro, the Japanese yen and the Chinese yuan. The step came as a part of a broader state policy on eliminating reliance on the greenback.
China has joined the global gold rush, increasing its gold reserves to US$79.319 billion (by more than $3 billion compared to the end of 2017) trying "to diversify its reserves" away from the greenback.
Russia, China and Turkey are leading the gold-buying spree. "They are forcing revision and re-introduction of the gold standard," agrees Max Keiser, adding that all those three countries have to do is "introduce gold-backed currency."
The latest trend among European countries of bringing home their gold reserves has been raising concerns in Brussels. According to Claudio Grass of Precious Metal Advisory Switzerland, the process means disintegration, which usually comes with instability, unrest, more government intervention and control. Analysts have pointed out that EU countries see gold as insurance in case they end up returning to their national currencies.

b) Challenging the reserve role of the dollar
In 2016, the Chinese yuan was included in the Special Drawing Right (SDR) basket alongside the US dollar, the Japanese yen, the euro, and the British pound. The move granted the yuan the status of a reserve currency.
The Chinese yuan has strengthened its position among global reserve currencies, rising to 1.84 percent in the second quarter of 2018, according to the International Monetary Fund.
Central banks held $193.4 billion worth of yuan.
The 1.84-percent share is still modest compared to other global currencies like the US dollar, euro and Japanese yen. The share of US dollar reserves decreased to 62.25 percent in the second quarter of 2018 to its lowest level since 2013.
Global financial transfer system SWIFT said in its recent monthly report on the yuan that it was the sixth most used currency in domestic and international payments value in October, just behind the Canadian dollar.
"The yuan will be increasingly driven by capital account flows, and not just trade-related flows," said HSBC. It pointed out that China's financial opening accelerated this year, with portfolio investments by foreigners reaching an all-time high. The bank expects a significant shift coming as China opens the door further: "We believe this is only the beginning of a multi-year trend for portfolio investment rebalancing, globally."
Yuan-denominated Chinese bonds were included recently (on the 1st of April 2019) in the Bloomberg Barclays Global Aggregate index. The move is expected to attract trillions in foreign inflows into China and the reshaping of global capital markets. Over the next 20 months, the index will add 364 bonds issued by the Chinese government. Analysts estimate the full inclusion will attract around US$150 billion of foreign inflows into China's bond market, which is the third-largest in the world after the US and Japan. Meanwhile, several other key index providers (including the JPMorgan Government Bond Index-Emerging Markets and the FTSE World Government Bond Index) are also considering whether to add Chinese bonds in their benchmarks. It is estimated that China would receive as much as $275 billion in foreign inflows as a result of its bonds being added to indexes by Bloomberg, JPMorgan, and FTSE. That would help increase the Chinese yuan's share in foreign currency reserves held by central banks globally. For now, despite the Chinese bond market's large size, the bonds are under-owned by global investors. Foreign holding of Chinese debt stands at only two percent of the $13 trillion in total value. Chinese central government bonds have already a foreign ownership at close to 8 percent, but that is still very low compared to 35 percent for US Treasuries and 28 percent for British government debt.
The People's Bank of China has been also regularly reducing the country's share of US Treasuries. Still the number-one foreign holder of the US sovereign debt, China has cut its share to the lowest level since May 2017.
The Central Bank of Russia has moved further away from reliance on the US dollar and has axed its share in the country's foreign reserves to a historic low, transferring about $100 billion into euro, Japanese yen and Chinese yuan.
The share of the US currency in Russia's international reserves portfolio has dramatically decreased in just three months between March and June 2018, from 43.7 percent to a new low of 21.9 percent, according to the

Central Bank's latest quarterly report, which is issued with a six-month lag. The money pulled from the dollar reserves was redistributed to increase the share of the euro to 32 percent and the share of Chinese yuan to 14.7 percent. Another 14.7 percent of the portfolio was invested in other currencies, including the British pound (6.3 percent), Japanese yen (4.5 percent), as well as Canadian (2.3 percent) and Australian (1 percent) dollars.

"It is more of a game changer for the US. As soon as other nations have a real credible alternative to the US dollar, they can dump dollars and switch to the yuan which can spark a dollar crisis. If that happens, not only will there be inflation from the tariffs, but also from the flood of dollars," said Ann Lee, Adjunct Professor of Economics and Finance at New York University and author of the book 'What the US Can Learn From China'.

c) Challenging the petro-dollar

The highly anticipated yuan-backed crude oil futures have been launched in Shanghai International Energy Exchange in 2018. China is the world's biggest oil and in 2017 it outpaced the US as the world's number one importer of oil. Thus, the contracts may not only help to win some control over pricing from the major international benchmarks, but also promote the use of Chinese currency in global trade and diminish the role of the greenback in global financial markets. The futures contract will allow participants to pay with gold or to convert yuan into gold without the necessity to keep money in Chinese assets or turn it into US dollars.

"In the short-term, we believe price fluctuations will reflect domestic crude oil supply and demand. In the long run, yuan crude price will mirror the moves of Brent," said Chen Tong, Shanghai-based senior crude analyst at First Futures. Meanwhile, the high costs of oil storage for delivery into the Shanghai Futures Exchange may scare potential investors away from the new contracts.

Stanislav Werner, head of the analytical department of Dominion, notes that the oil market is worth $14 trillion at the moment, and is bigger than the Chinese economy.

With crude oil becoming also a great chunk of international commerce (with 2 trillion worth of trade in 2017), the potential impact of the new product on oil market dynamics and on global monetary and financial systems could be correspondingly great. That is why "the US has a serious reason to get nervous, because in many ways the hegemony of the US dollar came from oil trading in dollars" Werner said.

As China is the world's biggest crude buyer, the new contract may allow exporters to avoid US sanctions by trading oil in yuan. Such countries as Russia, Iran, Pakistan, Vietnam, China and many other Asian countries are interested in that. Iran will accept renminbi from China now. China and Russia have currently swaps in rubles and renminbis. Caracas has ordered oil traders to convert crude oil contracts into euro and not to pay or be paid in US dollars anymore.

"When US dollar replaced the pound sterling, there was no one really going around trying to do it quickly. But now you have major economies like Russia, China, Iran and others that want this to happen. So, it will happen faster," Jim Rogers added.

"Ideas related to oil trade in currencies other than the dollar arose more than once. Some of them were severely suppressed by the United States, one example is Muammar Gaddafi, who proposed the introduction of a regional currency gold dinar and trading oil in the Middle East in this currency… China has a chance to finish what he started" Aleksandr Egorov, foreign exchange strategist at TeleTrade, told.

"Along with the Chinese role in the global economy and the growing interest in the renminbi, China is also protected by a nuclear shield. It can afford to try to shatter the monopoly in oil trade. This will give even more weight to the Chinese yuan. In addition, China's economy is the world's largest consumer of oil, and consequently, all world producers of raw materials will have to reckon with the strategy of the Chinese authorities," Egorov said.

d) Challenging the dollar as a means of payment or as a third currency in bilateral non-oil transactions

China is trying to internationalize its own currency. Beijing has recently made several steps towards strengthening the yuan, including accumulating gold reserves, launching yuan-priced crude futures, and using the currency in trade with international partners. The Hong Kong Exchanges and Clearing also launched yuan-denominated gold futures in 2017. A metals futures contract denominated in Chinese currency was expected to be launched at the London Metal Exchange in 2018, while the use of the Chinese currency as collateral was already in place.

As part of its ambitious Belt and Road Initiative, China is planning to introduce swap facilities in participating countries to promote the use of the yuan. Moreover, the country is actively pushing for a free-trade agreement called the Regional Comprehensive Economic Partnership (RCEP), which will include the countries of Southeast Asia. The trade pact could easily replace the Trans-Pacific Partnership (TPP), the multi-national trade deal which was torn up by Donald Trump shortly after he took office. RCEP includes 16 country signatories and the potential pact is expected to form a union of nearly 3.4 billion people based on a combined $49.5 trillion economy, which accounts for nearly 40 percent of the world's GDP.

A bilateral currency swap agreement worth $28.81 billion has been clinched between China and Indonesia (November 2018). China’s central bank signed the similar deal with the Bank of Japan (October 2018). Moscow and Beijing are working on an inter-governmental agreement to boost the use of the ruble and yuan in mutual trade settlements (in 2017 nine percent of payments for supplies from Russia to China were made in rubles while Russian companies paid 15 percent of Chinese imports in yuan).

India is one of the biggest merchandise importers and is significantly impacted by sanctions applied to its trading partners. Delhi switched to ruble payments on supplies of Russian S-400 air-defense systems as a result of US economic penalties introduced against Moscow. The country also had to switch to the rupee in purchases of Iranian crude after Washington reinstituted sanctions against Tehran. In December, India and the United Arab Emirates sealed a currency-swap agreement to boost trade and investment without the involvement of a third currency.

Ankara is preparing to conduct trade through national currencies with China, Russia, Ukraine. **Turkey** also discussed a possible replacement of the US dollar with national currencies in trade transactions with Iran. In August 2018, Qatar and Turkey inked a currency swap agreement to boost liquidity and provide financial stability due to hostile US rhetoric towards Ankara, and the economic blockade Doha faced from its Gulf neighbors led by Saudi Arabia. The Turkish economy sank after Washington introduced economic sanctions over the arrest of US evangelical pastor Andrew Brunson on terrorism charges. The lira has lost nearly half of its value against the greenback over the past year.

Sanctions have forced **Iran** to look for alternatives to the US dollar as payment for its oil exports. The latest round of penalties that went into effect on November targets Iran’s energy, finance and shipping sectors. Washington also threatened to introduce secondary sanctions against countries and corporations that continue to do business with Tehran. Earlier, the White House sanctioned Iran’s auto industry, carpets, metals trading and access to US dollars. Monetary transactions have become difficult for Iran after the country was cut off from the SWIFT payment system. Without access to SWIFT's interbank payment system, Iran cannot get paid for exports and pay for imports. Iran clinched a deal for oil settlements with India using the Indian rupee. It also negotiated a barter deal with neighboring Iraq. **Iraq** wants to barter food for desperately needed Iranian gas supplies.

Russia is among the countries pushing for “de-dollarization” (exclusion of the dollar in domestic and international financial interactions). Part of it is its record accumulation of gold reserves. Russia has developed a national payment system as an alternative to Visa and Mastercard and has managed to develop a national system for money transfers that could protect its banking from the possible cut off from SWIFT transfer services in case of tougher US penalties. Moscow has managed to partially phase out the greenback from its exports, signing currency-swap agreements with a number of countries including China, India and Iran. Russia has recently proposed using the euro instead of the US dollar in trade with the European Union.

Russia’s largest energy companies preparing to substitute petrodollar in favor of the euro and other currencies in international settlements. Gazprom Neft, Russia’s third-biggest oil company by output, said its contracts already have a clause to trade without the US dollar. The largest Russian oil company Rosneft is also interested in diversifying. The firm has opened banking accounts in Hong Kong dollars and Chinese yuan. Surgutneftegas is also reported to be working to reduce dependence on the dollar.

“The new US sanctions are clearly aimed at providing the US with economic advantages, including at the expense of European companies,” said the chairman of the German-Russian Chamber of Commerce Matthias Schepp in December 2018. “It's time for Russia and Europe to start looking together for a way out of the sanctions regime,” said Schepp.

Two-thirds of German companies doing business in Russia back the idea of setting up a dollar-free alternative payment system.
The **BRICS** countries consider switching to local currencies for mutual settlements with the Chinese yuan as the lead currency. The New Development Bank (NDB) is expected to be a substantial player in the process. The five banks of the BRICS Interbank Cooperation Mechanism have agreed to establish local currency credit lines. BRICS countries are also considering own cryptocurrency as settlement mechanism.
Russia suggests creating single virtual currency for BRICS and **Eurasian Economic Union** (EEU). Also more than 40 countries and international organizations, including China, Indonesia, and Israel, as well as some South American countries, have expressed interest in a free-trade deal with the EEU. The trade bloc is also holding negotiations with South Korea, Egypt, and India. It is expected that at least a part of trading will take place in other than dollar currencies.
Even **Europe** is working on a payment system alternative to SWIFT & IMF in order to attain financial independence from US.

4 Conclusions

Two trends are to be already seen these days:

- switching to other currencies and payment systems. In the case of China this is a part of its rebalancing strategy aimed at narrowing the gap between its economic power and the role of yuan in the worldwide monetary and financial system. For other countries this emerges from the need of hedging against the sanctioning policy of the USA.
- looking for a proper anchor of value, which could be once again gold, since the main reserve currencies are fiat currencies and the huge debts and growth issues are threatening their prospects.

So, while the mainstream financial press is all sunshine about the economic and financial prospects of the USA, there is a core group of financial gurus who do not agree with it.
Ron Paul, the Libertarian-minded congressman from Texas has never been shy about his distrust of the American monetary system or about his fondness for gold, as indicated by the titles of his best-selling books: “End the Fed” and “The Case for Gold”.
While some have written Ron Paul off as paranoid, he has predicted almost every geopolitical event of the last 10 years, from the Arab Spring to the financial crisis, from exploding deficits to the expansion of the Fed, and from record gold prices to the current Iranian oil skirmish (all of them in a single speech from 2002).
At the same time, Paul is no typical congressman. While a typical Congressional portfolio has an average of 10% in cash, 10% in bonds or bond funds, 20% in real estate, and 60% in stocks or stock funds, he has about 20% of his holdings in real estate, 14% in cash and 64% in gold- and silver-mining stocks.
Peter Schiff is also warning against dollar: “It’s important to know what types of investments to avoid. Treasuries, or in fact any dollar denominated debt, needs to be avoided because again, either you are not going to be paid back or you are going to be paid back in money that doesn’t buy much. So, either way you are losing. So you have to protect yourself; gold/silver, commodities in general, stocks are a way to go although I like foreign stocks better than most domestic stocks, and emerging markets.”
Can we see euro as a solid alternative currency? It is hard to believe that unless some serious changes are made. The decision to create a single currency without the institutions which would make it work was “fatal” for the Eurozone, said Nobel-Prize winning economist Joseph Stiglitz, adding that the “Eurozone must ditch it now to survive”.
In his book ‘The Euro: How a Common Currency Threatens the Future of Europe, the economist writes the Eurozone was flawed at birth and is destined to collapse unless huge changes are made to its common currency. The structure of the Eurozone, its rules and regulations, was not designed to promote growth, employment and stability. The economist suggested the best way forward for the euro area is a ‘flexible euro,’ where each member country adopts its own version of the currency. A flexible euro could help southern European countries export more and import less, helping to achieve a trade balance and full employment.
The Eurozone’s single currency, the euro, has been a serious drag on the economic growth of almost every member of the bloc, according to a study by German think tank, the Centre for European Politics (CEP) published in February 2019.

Germany and the Netherlands, however, have benefited enormously from the euro over the 20 years since its launch, the study showed. The currency triggered credit and investment booms by extending the benefits of Germany's low interest-rate environment across the bloc's periphery. However, those debts became hard to sustain after the 2008 financial crisis, with Greece, Ireland, Spain, Portugal and Cyprus forced to seek financial aid as growth slowed and financing became scarce.

According to CEP, over the entire period since 1999, Germans were on average estimated to be cumulatively richer by €23,000 than they would otherwise have been, while the Dutch were €21,000 wealthier. To compare, Italians and French were each €74,000 and €56,000 poorer, respectively.

Study authors Alessandro Gasparotti and Matthias Kullas said most Eurozone members had enjoyed periods during which the currency union had been net positive, but these were far outweighed by the periods when it dragged on growth. The study concluded that since the loser countries could no longer restore their competitiveness by devaluing their currencies, they had to double down on structural reforms.

In Europe we also witnessed unorthodox monetary easing policies from the European Central Bank, fortunately not to their extent in USA. The prediction of Nouriel Roubini that the Eurozone will begin breaking up could be just not out of this world. However, with no binding international standards for currencies, euro is certainly a fiat currency too. According to Claudio Grass of Precious Metal Advisory Switzerland "Our system is based on 7 percent paper notes and 93 percent digital units backed up by nothing other than central bank promises to pay back the debt in the future through inflation and taxation. It is just a matter of time before the Euro, the most artificial currency ever, is going to collapse" .

China has also to overcome a crises situation potentially endangering its national currency. Jim Dines has repeatedly predicted that "Its bear market would begin in real estate and banking." Especially considering the scope of its "shadow banking," or banking outside traditional institutions, where there is less oversight. Experts estimate that these transactions have at times been worth an astounding 87% of China's GDP.

China is also quietly desperate to stop its growing housing bubble. House prices in large Chinese cities in 2018 were among the highest in the world in terms of price-to-income ratios, with speculative demand from Chinese investors who see few other good places to park their savings. The result is a staggering 50 million empty homes. China has levied a new housing tax to try and slow the spreading of the bubble. But even if the new tax manages to temper housing prices, it's certain to suck more cash from the already debt-laden population.

London is experiencing some trouble with its pound for some time now, due to the unsolved Brexit, while other trends are also detrimental to it in a longer perspective. The role of a gold depositor is put into question as some countries, whose gold is kept in London coffers, are making the arrangements of bringing it home (see Germany, Hungary, Romania). Others, like Venezuela, are on no legal terms, refused in this respect. The physical gold transactions in London are losing ground to those in Asia where the greatest consumption is located. The derivatives transactions will follow this move. An increasing share of gold futures in London will be denominated in the Chinese yuan instead of British pounds. The Brent benchmark will lose ground to the Shanghai crude oil benchmark. More and more financial institutions are leaving London. The pound will have to mirror those changes.

We can see that, based on the need of rebalancing the new configuration of economic power with the global financial system and triggered by global tensions caused by Washington, a trend has emerged across the world toward reducing the dollar's role in trade and finance.

According to the governor of the Bank of England, Mark Carney, the transition from the dollar to another currency that could become prevailing wouldn't be quick. The greenback has been dominating over the last hundred years after it replaced the British sterling as the key reserve currency. "History suggests these transitions will not happen overnight. The US economy overtook Britain's in the second half of the 19th century, but it took until the 1920s before it became a dominant currency in international trade," Carney said.

It will take some time for the Chinese yuan to gain its fair share in international trade and finance, but the process has started and will be far quicker than the replacement of the British sterling with the dollar.

Looking for a proper anchor of value for the international monetary system is becoming an issue of a paramount importance since the trust in the main currencies is sloping down by the day. Gold is seen by an increasing number of players as a natural anchor of value and some are already preparing themselves to that by increasing their gold reserves. Holding physical gold is definitely the best hedge against a crash of any paper currency. Nevertheless, we need a trustful worldwide monetary and financial system. Paper money should be backed by gold through a comprehensive agreement signed in Bretton Woods or Shanghai. As this scenario of common sense will be strongly opposed by the "dollar establishment", we could see first a "gravitational scenario" when one or more countries will come up with gold-backed currencies, making them trustful means of value storage for those in search of minimizing the risks.

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European Union Economic Integration And Development

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Abstract: At European level, the economic integration aims to achieve economic solidarity by forming a complex network of interdependent links between the economic agents of the participant countries.
The viability of European economic integration depends primarily on the sharing of European democratic and cultural values by a state, and then on its economic capacity and performance. To contribute to the European Union development, the economic integration contributes by developing mutual exchanges and interdependences of national economies.

Key words: integration, development, policies, economics

1 INTRODUCTION

Brief history the economic integration concept

The "integration" concept was used, from its first graphic attestation, in 1620, and the beginning of our century, exclusively in the exact sciences. It was subsequently taken over and used extensively in the last half century to denote phenomena, processes, actions or states that were taking place in the sphere of politics, philosophy, culture, and, as "the economy lives in society, cultural, political and social, and these are very difficult to be dissociated from each other, as long as the real is a globality, meaning what we consider to be "the assemblies assembly ", of economy, too. In an economic sense, the term" integration "was initially used to describe the combination of sectors of production and sales units by concluding agreements between competing firms.

2. WHAT IS ECONOMIC INTEGRATION? DEFINITION AND IMPORTANCE.

Economic integration is defined as the main factor in eliminating economic boundaries between two or more economies. An economic boundary in this case is defined as a demarcation over which the actual or potential mobility of goods, services and production factors, as well as of communication flows, is relatively low. On both sides of an economic border, we find that the establishment of prices and quality of goods, services and factors is only marginally influenced by the flows across the border.

Economic integration involves the elimination of economic barriers between two or more states, barriers which can be defined as any obstacles that prevent or distort the mobility of the production factors. In an ideal world, where there are no nation-states or governments, economic integration could remain a mere integration of the markets without suffering any political influence. In the real world, however, economic integration is influenced by political factors, and in the case of the European integration process this aspect is quite obvious.

By economic integration, we also understand the complex process characteristic of the contemporary stage of society's development, which consists essentially in the intensification of inter-dependencies between different states, process conditioned by a cumulus of factors, of which an important role belongs to the technical-scientific revolution.

The fundamental importance of economic integration is represented by the growth of actual or potential competition. Economic integration can be regarded in different ways, depending on the context in which it is used, and can demonstrate various degrees of economic cooperation in a number of fields, such as: labor mobility and capital, payments, fiscal and monetary policies, etc.

At the same time, integration involves the action of embedding, incorporating or harmonizing into one. We understand the concept of economic integration as the need to build more and more economic spaces for the maximum use of production capacities. Economic integration aims to reduce costs for both consumers and producers and to increase trade between the countries involved in the agreement. The viability of European economic integration depends first and foremost on the sharing of European democratic and cultural rights by a state, and then on its economic capacity and performance.

The basic principles of economic integration are:

- Formation of a common economic space;
- Free movement of capital, goods, services and people,

- Legislation harmonization in the economic, monetary, financial and social field;
- Creating common institutions to which the participating countries transfer some economic competencies.

As economies become integrated, there is a lessening of trade barriers and economic and political coordination between countries increases

It can be said that in time, through integration, it is obtained the best structure of the international economy by removing the artificial obstacles, in order to optimize its operation, but also through the introduction of all stages and desirable elements of coordination and unification.

Stages of economic integration after B. Balassa

The complexity of economic integration and its depth radically different have led to the identification of several stages of the economic integration process. The stages approach was, in the first phase, outlined by B. Balassa, and its use is very wide.

The five stages and their characteristics, as identified by B. Balassa, are presented in Table 1. Of course that the initial Balassa stages need to be modified in different ways, but the approach is indispensable for understanding the studies and key aspects of the policy making.

Firstly, in the current world economy there are a number of preferential trade regimes whose objectives fail to reach even the first step in the table.

Secondly, the definitions of FEZ (FEZ = Free Exchange Zone/ZLS = Zona de Liber Schimb) and CU (CU = Customs Union/UV= Uniune Vamala) capture the essence of the GATT definitions, being widely used, but are not applied due to the absence of positive integration. In the case of customs unions, the absence of positive integration is deceptive, and it is possible to conceive a customs union only as a tariff union.

Thirdly, Balassa's PC suffers from a lack of positive integration, and if we interpret it, we notice that PC does not involve either the amortization of national economic regulations, nor any transfer of regulatory powers to the Union or or the harmonization of direct or indirect taxation.

Nr.crt	Stage	Definition	Characteristics/comments
1.	Free trade area (FTA)	*tariffs and quotas abolished for imports from area members *area members retain national tariffs (and quotas) against third countries	Essence of GATT definition; no positive integration
2.	Customs union (CU)	*supressing discrimination for CU members in product markets *equalisation of tariffs (and no or common quotas) in trade with non-members	Essence of GATT definition; no positive integration
3.	Common market (CM)	* a CU which also abolishes restrictions on factor movements	Is “beyond” GATT; definition should also include services; no positive integration
4.	Economic union	*a CM with’some degree of harmonization of national economic policies in order to remove discrimination…due to disparities in these policies	Positive integration introduces; extremely vague
5.	Total economic integration	*unification of monetary, fiscal, social and counter cyclical policies *setting up of a supranational authority where decisions are binding for the Member States	Centralist; vision of unitary state; Supranationality only introduced here

Source: B. Balassa, *The Theory of Economic Integration*, Irwin, Homewood, Illinois, 1961

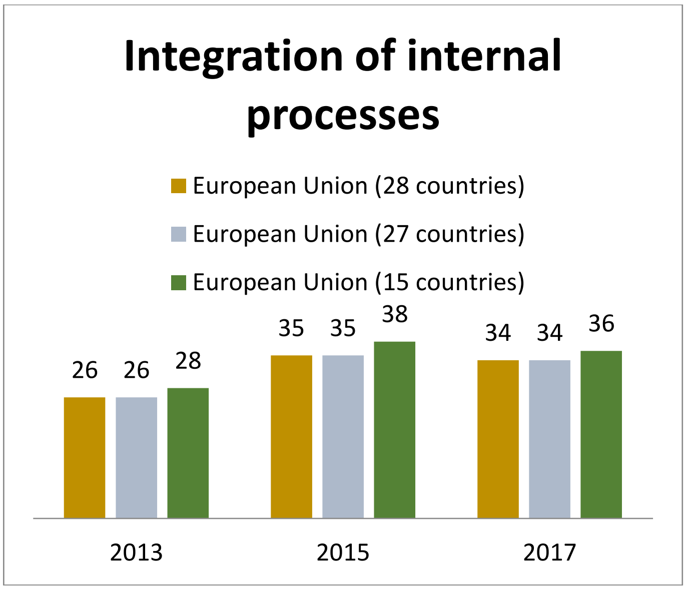
Fourthly, there is a conceptual problem related to how to differentiate Balassa's common market (CM) from the economic union. In Balassa's acception, the economic union approaches the adapted definition of a CM, combining positive and negative integration.

Fifthly, there is no guarantee that the final stage is a total economic integration. The reference framework seems to be that of a unitary state, which is inappropriate for economic and political reasons. It is possible to

imagine more partial unions beyond the economic union, for example, fiscal union, monetary and political union.Due to alternative political assumptions about willingness to share sovereignty, problems can be analyzed using the economic theory of federalism.
Sixthly, the introduction of supra nationality only in the final stage can not be justified by economic or empirical reasons.
Advantages and costs of economic integration at European level
The process of European construction - from an institutional, economic or social point of view, but especially from a philosophical point of view, is a unique process in the history of mankind, this process being able to offer to it on one hand, a difficult and contradictory feature, and on the other hand, providing it with an extremely wide range of innovation at all levels.
The expression "economic integration" can have different meanings depending on the context in which it is used, and can at the same time demonstrate different degrees of economic cooperation in areas such as commerce, labor mobility, social security, or the coordination of investment plans.
The process of economic integration was not born and developed on the basis of theoretical constructions, but emerged and developed from a historical necessity, in a well-defined economically and politically bounded framework, developing simultaneously with the development of this economic plan.
In the last decades, the world economy has been deeply marked by the phenomenon of internationalization, the deepening of the world labor division and the growing economic interdependence of countries, that having both advantages and disadvantages.
By following the route, we note that the European Union wishes to promote humanistic and progressive values and to ensure that man is the master and, not the victim of the change in the world. Although the European Union was created to achieve a pacifist objective, the economic aspect was the one that managed to dynamise this European construction.
In order to establish broadly the process of economic integration at European level, in the context in which the main objectives of the European Union are to ensure peace, freedom, equality, respect for human rights, etc., we note that integration involves a permanent dialogue between the participating states regarding the procedures on harmonizing interests, obtaining consensus, developing and applying new forms of economic conduct.
Among the advantages of economic integration, we could remember that this usually leads to a reduction in the trade cost, the availability improvement and a wider selection of goods and services, and the increase in efficiency leading to greater purchasing power, trade liberalization leads to market expansion, technology sharing and cross-border investment flows, and employment opportunities can be favored, and political cooperation between countries can be improved due to stronger economic ties that can contribute to peaceful resolution of conflicts and greater stability.
The question is: "What do the EU Member States gain if they integrate economically?" where the simplest and tangible answers refer to: raising real incomes, increasing national welfare, and immigration leading to poverty eradication.
Regarding to the costs of economic integration, the trade deviation and the national sovereignty erosion could influence the smooth running of the whole process, and goods and services can be harmful to host states, a phenomenon explained by the fact that each state has its own route through which it organizes and carries out its activities. At the same time, as a cost of economic integration at European level would be also considered the conflict of interests between different states.

3 Approaches to economic integration at EU level

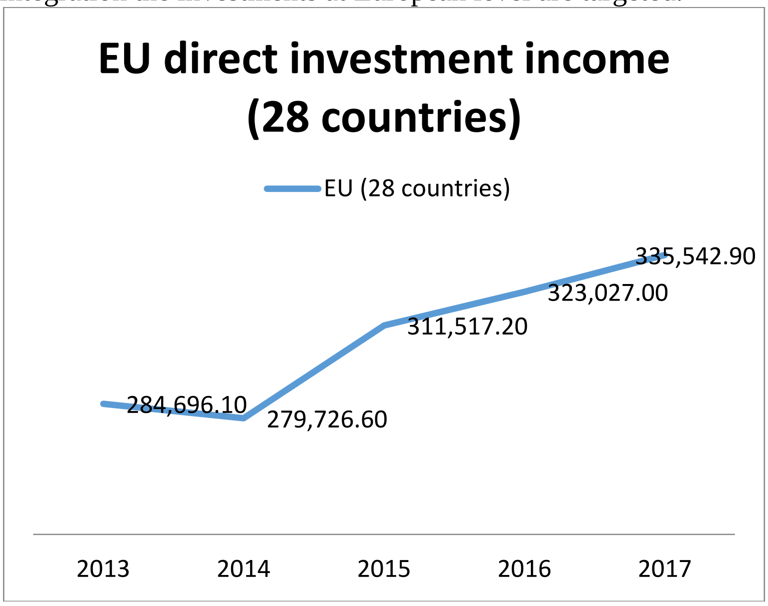
As regards the integration approach, we have identified the level of integration of internal processes at European level over a three-year period (2013, 2015, 2017), and we found that in the European Union consisting of 15 countries, which reflected the number of member countries in European Union before the accession of 10 candidate countries on the 1st of May 2004, the countries being: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden and United Kingdom, integration of internal processes was higher than the European Union consisting of 27 countries or the European Union consisting of 28 countries, with a significant increase in 2015 compared to 2013 and a slight decrease in 2017.



Source: Eurostat

During the 3 years we notice that we have equality in the internal integration process between the European Union consisting of 27 countries and the European Union consisting of 28 countries, the difference being made only by the European Union consisting of 15 countries.

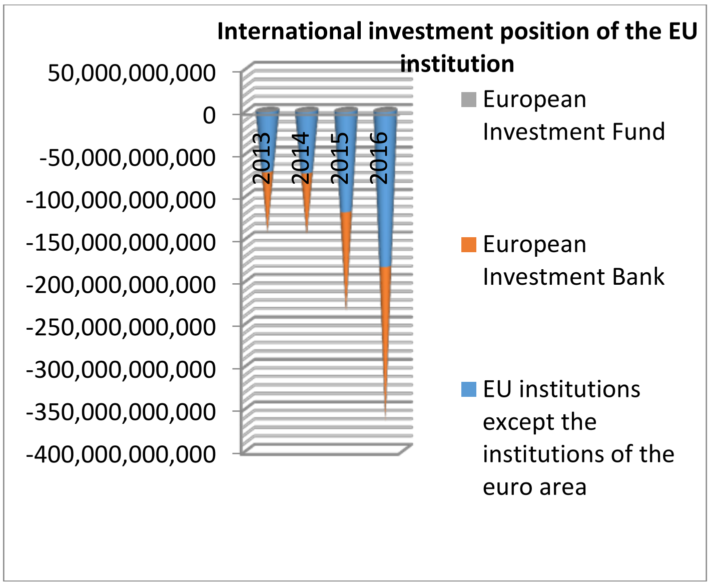
As for the development and the welfare of both the European Union and its citizens, in the process of economic integration the investments at European level are targeted.



Source: Eurostat

Following the analysis, we found that in the European Union direct investment revenue had a year-on-year growth trend. A slight decrease was recorded in 2014 as compared to 2013, but in the following years the growth was stimulated by a much higher value. If we were to explain in figures, we identify 2013, the year with 286,692.10 million and 2017 with a value of 335,542.90 million, which means that in just 4 years there was an increase of 48,850.8 million euros.

As regards the international investment position of the EU institutions, we have carried out a 4-year analysis and we have identified that the European Investment Fund has shown a year-on-year increase. If in 2013 it has a value of 1,119,370,665 euros, in 2016 it has reached the value of 1,672,777,975 euros.



Souce: Eurostat

However, following the European Investment Bank's track, we note that it has recorded the biggest losses. We have a loss in 2013 of -72,969,398,534 euros, an even higher debt in 2014, amounting to -74,831,917,604 and in 2016 it already reaches the amount of -184,726,027,800.

4 Conclusion

The European Union is the most advanced form of integration, it has an interstate and open nature, and it is favored by the existence of a relatively similar lifestyle due to the fact that it has the same type of civilization in most countries, to the existence of a strong political will to achieve integration and to the experience and confirmation of the possibility of advanced integration offered by other integrationist organizations for the creation of common markets in Europe.

The theory of economic integration followed the thread of the pragmatic development of the integrative process, analyzing the quantitative and qualitative transformations, the causes that determine it, the effects it is generates, the factors that favor it, but also the aims towards which it aims. The theory of economic integration is a reflection on the theoretical plan of accumulations where integration, in its various forms, has become an undeniable reality of our day.

Europe presents a unique combination of a high and rising degree of economic integration and the most volatile labor market. Adopting a single currency will remove the possibility of devaluing the exchange rate to boost competitiveness and create jobs at the risk of closing a door that might be convenient for the political system.

We talk about economic integration, and we note that precisely those countries that have not joined the Eurozone understand that they can not benefit from freely using the exchange rate to boost competitiveness.

Labor market institutions are designed to protect employees at the cost of economic efficiency, and directly, the most visible effects are poor employment, and perhaps growth reduction. Economic integration challenges these institutions by sharpening the conflict between social protection needs and economic efficiency. Analyzing things so, we find that, on one hand, each country can find that the general economic environment is more volatile, because there is also a reduced macroeconomic stabilization capacity. On the other hand, economic integration means more competition in Europe and favors countries with flexible labor markets.

We also see economic integration as a process involving a set of common policies in all sectors of the economy, free trade and free movement of people, services and capital, harmonization of legislation in the involved countries or areas, as well as the joint institutions on which the participating countries transfer some competencies of economic nature.

In order to achieve economic integration, it must be seen the fact that it also depends on certain factors such as: excluding discrimination, effective distribution of some competences, focusing on legitimate aspirations or collaborating in decision-making processes.

By economic integration, both the EU economy and the Member States' economies taken separately acquire increased dimensions, internally efficiency and robustness. Economic integration is achieved concurrently, progressively and gradually in all areas. As a result, there are more opportunities to ensure economic stability, accelerate economic growth and create more jobs, all of which bring improvements and direct benefits to EU citizens.

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Romania 2040 - A Perspective

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Abstract: - This paper aims to present an image of the main economic and social indicators of Romania in the perspective of 2040. Its purpose is to set possible targets according to the real potential of the Romanian economy in order to create a viable long-term development strategy. Our analysis starts from the current situation of Romania - the insufficiently structured economy, burdened by the existing development gaps compared to other EU member states, while aiming to expose a series of hypotheses regarding Romania's future European path. The paper will also highlight other important topic for the future development of Romania: the evolution of population, overcoming divergences between the state and markets, the impact of adopting the euro, the impact of shifting power balances between the main developed economies, as well as the possible consequences of EU's future enlargements. From a methodological perspective, the forecasts were based on previous evolutions of indicators, using the extrapolation method. The last part of the paper contains a series of recommendations for policy-makers.

Keywords: macroeconomic indicators, targets 2040, convergence, Romania, development

JEL Classification: E60, E61, E65

1. Introduction

While 2040 is not so far we have doubts whether certain targets for Romania's macroeconomic indicators that we propose at academic level are achievable. There are contemporary elements, most likely characterized as "stubbornness", which might demonstrate, as in any forecast, that between expectations and possibilities, we shall be facing discrepancies. Those almost three decades of evolution in terms of the new economic and politic system in Romania justifies such an appreciation, especially when we try to draw tendencies with a certain finality.

What has been done well in a few steps is a *suis generis* economic growth that has not materialized itself within long term development, as the public policies failed to be continuously improved g in terms of quality and efficiency in order to produce sustainable economic growth.. It is our strong opinion that only sustainable approach of the policy mix t may produce a structured development wich can provide preventive and resilient tools in order to face challenges whether internal or external, in a globalized world. According to many analysis from the post-crisis period, to limit ourselves exclusively to economic growth, means to expose us to vulnerabilities, the years 2017 and 2018 confirming them piling up, with a certain risk outcomes in a near future.

Romania has a dynamic economy from the point of view of long term tendency, a fact well demonstrated by the evolution of the absolute GDP value or of the GDP per capita with regards to purchasing power parity (PPP) within past 28 years. What we may conclude taking into consideration many macroeconomic development models is the fact that those particular indicators derive from one economy still insufficiently structured, in regards to its potential resources or to the internal demand. In fact this is what explains the regional disparities and precarious mobilization when it comes to potential resources necessary to the overtaking of the avatars belonging to the economic cycle of *"ups and downs"*, sometimes of significant amplitude. Also, the poor structuring of the economy towards opportunities and incentives explains internal and external deficits, as other countries in the region have registered surpluses. If we are talking about the potential of the Romanian economic model for the next three decades, we have several serious problems right now: the evolution of the population - the source of the economically active labor force -, the gross capital formation and the rate of investment.

Based upon these considerations, we aimed to reach to a certain picture comprising the targets of the main economic and social indicators of 2040, starting from the recent strategy of the Romanian Academy targeting 2020 and using not very sophisticated calculations, doubled by our own qualitative analysis. We have obviously started from some hypotheses that we have considered as sine-qua-non conditions. Regarding the assumptions, we underline that their choice was based on the following imperatives: (1) the need for realistically approaching the perspective based on anchors that we must either propose to ourselves, or to make real use of what we are offered, for example as an EU Member State; (2) achieving the normality in the conduct of public policies; (3) and last but not least the need to fairly understand how the market economy works, especially in view of the shared responsibilities between the public and the private sector. We are basically talking about Romania's entry into a period of normal responsibility towards its own European destiny.

We preferred that the targets should not be ambitious and fit for propaganda purposes, but rather aiming for the adjustments necessary for emerging assumptions taking into consideration the need to be cautious, realistic in relation to the history of economic growth and to tend towards sustainable long-term developments in an environment without creating tensions born out of ambitions that are hard to honor.

In view of the above mentioned hypotheses we may state the following axiomatic assertions:

a) **Romania shall continue its European path** with impact on the efficiency of public policies, by striving for a beneficial economic culture; we also take into consideration the probability that Romania will evolve within a **successfully reformed Union (including with Romania's contribution) while working together with the other MS** for the prevention and resilience of any new economic shocks, as a guarantee of deepening the integration process and increasing its security;

b) **the non-encouraging demographic trend is a reality**, preventing the labor force to become a generator of the creative value-added; it is worth mentioning that the drastic decrease of the birth rate phenomenon doubled having as effect the limited transition in terms of expanding labor force;

c) **overcoming the misunderstanding of the relationship between the role of the state and that of the markets forces** in a liberal economy;

d) **government's communication on Romania's adoption of the euro by 2024**, a decision with a special and immediate impact on the accuracy of the future public policies, with minimal risks to macroeconomic balances;

e) **the shifting balance between the global powers - USA, China, EU, India, Russia** – has already impacting the global economy's trend having various effects on most countries; in this context, Romania's membership of the EU and NATO will imply new political commitments doubled by some financial ones;

f) **potential new members of the EU** will not change significantly the economic capacity of the European integration.

2. The evolution of the main macroeconomic and social indicators of Romania in the perspective of 2040

Based upon our approach - method and hypothesis - Romania of 2040 could look like, in terms of macroeconomic targets, as follows:

Table 1. The main macroeconomic and social indicators in 2017-2018 and 2040

Indicator/Year	2017	2018 (estimates)	2040 (targets)
Population (millions)	**19.6**	**19.4**	**17.1 – 17.5**
Economically active population (% from total population)	**44**	**46**	**43**
Employment target (% from active population)	**68**	**69**	**75 - 80**
Nominal GDP (billion EUR)	187.5	195.0	400-450
Real GDP (%. y/y)	7.0	4.0	3.1 - 3.5
GDP per capita (PPP; % from EU average)	62	64	85 - 90
Private consumption (% GDP)	62.3	61.7	62-65
Governement consumption (% GDP)	15.7	16.6	15-16
Productive investment (% GDP)	22	21	25-27
Exports (% GDP)	33	34	41-45
Imports (% GDP)	40	41	44-49
Inflation (%. HICP. annual average)	1.1	4.1	2
Unemployment rate (%. annual average)	4.9	4.2	3-3.5
Reference interest rate (%)	1.8	2.5	-
Long-term interest rate (%)	3.9	4.7	-
Government deficit (% GDP)	-2.7	-3.0	-3.0
Government debt (% GDP)	35.2	35	62
Current-account balance (% GDP)	-3.2	-4.8	2.5 – 3.0

Sursa: Eurostat, Institutul Național de Statistică, authors.

We also assume that given our economic outlook and the need to overcome the existing political tensions the targets presented are subject to comments as follows:

1. **Romania's population** is consistent with UN forecasts and studies done by Vasile Gheţău (NIER - Romanian Academy, 2018), the difference between extremes of 17.1 - 17.5 million being a hypotheses of the net migration value, a phenomenon that will keep going. The decrease of Romania's population at this level reflects a significant deterioration of the demographic situation in terms of factors that determine it (birth, deaths, life expectancy) in the last decade, with an impact on changes in age structure. As a result, the share of the **economically active population** may be reduced from the actual 46% of the total population, to 43% in 2040. Absolute values reveal a significant decrease in human capital, even if the overall economic performance implies a more efficient health system, an education system that responds better to the demands of the labor market and a labor remuneration to ensure a GDP per capita expressed in PPP, increasing to 85% and above the estimated EU average of 2040.

2. **The target value of GDP** and the indicators based on it envisaged a potentially cautious GDP of 4 - 4.5%, consolidated with a flexible and convergent economic structure, even if it could exceed 5%, function the structural policies actually put into action. It is advisable for the GDP *gap* to remain negative or at most equal to the potential preventive one, in order to maintain **sustainable economic growth with price stability and financial stability**. In view of the possible economic cycles, a potential GDP reserve is needed to overcome them with the smallest shocks and to protect the economy of inflationary shocks (due toverheating) and excessive budget and current account deficits.

The starting-up of the GDP target also comes from some existing vulnerabilities as well as the premise of a possible global crisis, placed after various analysis, less this year and safer in 2020, with some lasting effects. The monetary policy of the FED, China's economic downturn (forced by the already visible impact of the trade war with the US, regardless of the understanding between the two powers at which it is finally possible), the effects of Brexit, the manifestation of a fatigue in the growth economic impact of the EU, all have a medium and long-term impact on the growth rate of the global economy and trade, affecting Romania's economic and trade presence niche. Their dynamics has always been downgraded by international financial organizations and development (IMF, WB, OECD) after the overcoming the last crisis.

3.Concerning GDP contributors real convergence studies show that Romania is able (probably due to structural funds, the involvement of large foreign companies, preparing for joining the euro area) to significantly reduce the structural divergence towards the euro area in terms of the Krugman index, its value for Romania being 27.8 percentage points in 2017, compared with 34.4 points in 2000. This indicator shows Romania may continuously synchronize itself with Hungary, Poland and the Czech Republic tendencies.

However, by major branches, Romania has a structural divergence from the euro area to the industrial sector, with a weight of 26.7% compared to 20%, for the Eurozone today. This divergence could be an advantage if gross added value (GAV) created by industry would be significantly higher through production chains with a higher value. **It is important to note that the recent crisis has shown that recovery has been easier for intensive economies in industry**.

Significant reduction of the structural divergence towards the euro area was achieved by the agriculture sector, with a share of total gross added value (GAV) of 4.8% in 2017 compared to 12% in 2000, but with the observation that this reduction reflects the still high level (but not factual) employment and relatively low productivity. At the opposite side, Romania has to recover in terms of real convergence in the areas of financial and public services.

It is preferable that the structural and real convergence similarities be guided by policies that do not erode neither the comparative advantages when we talk about the potential in some natural resources or the competitive advantages achieved through the restructuring of the productive chains and the increase of the labor productivity through a better qualification and assimilation of new technologies.

4. **Increased attention should be paid to the formation of gross capital as a percentage of GDP, in order to guide investments** towards areas that may increase expenditures, with a productive impact on domestic and export supply, as well as on the development of the tax base.

We believe that Romania should pass from economic growth to a structured development on branches and territory. Development needs financial resources, and fear of frowing debt surpassing 60% of GDP, as long as it has multiplier effects and easy reimbursement of public debt, must be overcome. The dynamics of public debt could be diminished by better use of European structural funds - large value drawdowns and spending orientation on projects with impact on development. We could benefit in this period by another 85-90 billion euros, with firmer projects which can attract these funds to their higher limits..

It is also supposed an increase of the investors interest in Romania with the provision of a friendly business environment and a real and functional expansion of public-private partnership (PPP), which would have an impact on the budget revenues and trade balance. Romania, through the nominal convergence imposed by the adoption euro and its stable use as a mean of payements and the real convergence achieved through productive investments and in modern infrastructure (physical, education, health, public services) may tend towards a relatively balanced and even with surplus foreign trade, with a share of exports in GDP over 45%. In this context, an important role is played by the increase in unit value of exports, as a result of investments in advanced technologies and strengthening internal factors for improving competitiveness.

Exports should no longer be seen as a currency resource but as a factor in capitalizing competitive advantages on foreign markets, with goods and services reflecting a changing economic structure. Obviously, the pressure generated by imports from companies to produce more and more diverse goods in the country will also cover domestic consumption and, implicitly, will improve the current account deficit.

5. **GDP per capita and GDP per capita at the PPP, become indicators directly expressed in euro**; they will see a dynamic under the influence of factors such as: (a) the evolution of the population in general and of the economically active population in particular, taking into account the Lisbon Strategy on the employment target; (b) the average level of salaries in the economy correlated with a dynamic labor productivity impacting both purchasing power and the competitiveness of goods and services. The potential erosion of the purchasing power and competitiveness is countered by an annual inflation controlled by the effect of joining the euro area (no more than 2%) and an optimal structure of economic activity domains that create GDP: agriculture, industry, construction and commerce; (c) the reduction in the number of people exposed to poverty and social exclusion.

We mention that in 2017, the calculation basis for establishing the poverty line in Romania, compared to the other EU Member States, was 1800 euro/year, which requires an adjustment to approx. 4000 euro/year in 2040. An important path for achieving the target is that Romania should follow the principles of the European Social Rights Pillar, respectively to ensure a minimum wage adequate to decent living for workers and their families.

Convergence in GDP per capita in PPP could reach over 80% of the EU average, compared with 61% in 2018, a dynamic that assumes that the EU average will also progress through the impact of institutional reforms, but amended by real growth rates of around 3%. At the same time, Romania has to recover also the regional disparities in the incomes, respectively their flattening towards a higher and uniform national average, by stimulating the influence and the expansion of the poles of economic growth, the inclusion of new geographic spaces in the performing economy (stimulation of the local entrepreneurship, private and public investment, development of physical infrastructure, attracting skilled labor etc.).

6. **Inflation** will enroll in the quantitative definition of price stability, Romania having this obligation by being in the euro area and following the ECB's monetary policy. Macroeconomic equilibrium could be ensured only through the fiscal policy as stated by TFEU and **the Stability and Growth Pact (SGP)** rules in terms of macroeconomic discipline constraints. The advantages of national economic policies that support the euro will be translated into the real benefits for the population and the business, , being already overcome and passed the shocks of the euro adoption. Moreover, it is assumed that in 2040 the euro area will be similar to the geographical area of the EU, which also means a more suitable balance in risks and benefits sharing between member states.

7. The projected **unemployment** target of 3.0% - 3.5%, takes into account the economically active population and its employment target, benefiting from a competitive and flexible labor market, the overall and individual economic conditions providing better internal mobility. This level of unemployment must also be related to a declining economically active population, as we have established in section 1, of the conditionalities underpinning the targets.

8. **One of the conditions for achieving the targets is the orientation of public policies, supported by a fiscal policy geared to sustainable, robust and durable economic growth**. Entry into the Eurozone in 2024 would ensure this necessary adjustment over the next 16 years, which means another approach to the fiscal code, budgetary and current account deficits and, in particular, the external (public and private) debt. We can talk about any economic model, but we can't deny to it the generally valid macroeconomic balances ensuring the dynamic of an sustenable economic.

We should accept an increase in public debt to reduce the development gap between Romania and the best performing states of the EU. This means that debt should be contracted exclusively for public investment with multiplier effect, which makes it easier to reimburse it. . It is worthmentioning that being in the euro area, Romania will benefit from reduced long-term interest rates. What counts accordindg to the latest analysis of economists is the economic and social results rather than the cost of debt.

9. The chance to create well-paid jobs with attractive retirement schemes by stimulating productive public investment and the expansion of the private sector has an effect on internal labor force mobility, its retention in the country and the attraction of another from outside. The stability of the private sector's contribution to GDP formation, as a result of a predictable and more stable business environment, can be sustained through **a coherent and especially fair fiscal policy**, in terms of pressure on taxpayers of all kinds.

The development of the tax base should reduce the gap in the share of public revenues in GDP compared to the EU average. Citizens' expectations and state capabilities to serve them can only be brought to a common denominator only with a share of public revenue in GDP rising from 28% today to over 36% in 2040. We need to pursue a continuing budget consolidation (reducing deficits in parallel with some taxes increase) and control of external deficits. All these involves structural reforms to increase labor productivity calling for a fully reformed and competence-based education system and a robust financial system in order to avoid possible austerity programs with adverse effects to long term economic growth.

This constraint must be perfectly understood and assumed in the idea of spending the public money for more for development and less for consumtion ensuring, by a fair pay of the work, a level of civilized life standards for most of the citizens of this country.

10. It is expected that the differences in the functioning of the market mechanisms in different sectors of the Romanian economy towards the requirements of the single market have been substantially exceeded, which implies **a correct relationship between the role of the state (as regulator and not as administrator) and that of the markets**. It si necessary that national hybrid legislation to be reviewed and to become more approximated with Community law. Among other things, the first priority should be a compaction and simplyfing legislation and protect it towards almost endless and surprising changes, creating confusion and uncertainty, especially for the private sector becoming dominant in its role and contribution to development of the country.

3. Conclusion

The objectives presented may be criticized, but an optimistic or pessimistic change in their levels always implies the same: **the political factor has to assume the quality of national policies in the fiscal, budgetary, macroprudential and labor market fields**. The discipline of public policies in these areas must become the exclusive prerogative of national government, just so that **normal development** does not collide with the requirements of European institutions or other international financial organizations.

We mentioned a hypotheses and a reason, namely the transition to the euro and a possible confrontation of Romania with a crisis. Both comments invite the government, with insistence and speed, towards a normality in terms of public policy conduct. We know what this means from the many controversies and conditionalities in our negotiations with the IMF, for example. As ever, the return to economic growth since the last crisis has always been announced with rising risks, its firmness hardly reached and having the deficiency due to the lack of sustainability (see IMF, World Bank, EU Commission).

The statistical indicators at the end of 2018 reveal a slowdown in growth for many representative countries. For many European countries the question arises as to how much their economic recover is due, with the amplification of some vulnerabilities, to the imposed and/or applied austerity programs. On this issue, there is a serious debate about the finality of austerity in results, most of its costs being seen in loss of production with social effects: income cuts and more unemployment. Concretely, some austerity programs have been successful, but the figures across the global economy are saying something else. Rescue operations of systemic financial institutions with public money (bail-out) have consumed 3% of global GDP. Between 2007 and 2014, the period of the implementation of austerity programs, global public debt increased by 34%. The living standard of the population has decreased by 10% and the difference seems to have become perpetual.

For the future, we must bear in mind what economic theory and good practice tell us about the nature of the last crisis and the unfortunate assessment of the austerity programs, which were too harsh, too late, with the loss of confidence in politicians and drifting towards populist, radical parties, illiberal, nationalist and protectionist tendencies. The economic growth recovery has been fragile, long-lasting, with falls and sustained by the unorthodox instruments used by central banks (quantitative easing - QE), as governments lacked intervention resources, i.e. sufficient fiscal space.

Knowing the definition of austerity in peacetime and in the absence of disasters (the action to reduce large government deficits, some accumulated in the context of economic growth and financial stabilization), it can be avoided by an adequate fiscal policy, practiced on the economic ascent slopes. This means offsetting periods of reduced tax revenues in times of recession with increased public spending accumulated in times of economic growth. This has to be understood and assumed seriously to show that a "certain austerity" governments should impose first to themselves by reducing their expences. Many times such an assumption led to economic expansion.

The recommendation is that, in times of economic growth, the government must look to opimise its expenditure while providing money for investements and controlling deficits at the level of existing taxes. Such a situation can be welcomed by the private sector, respectively can lead to the efficiency of public policies by lowering their costs. The private sector welcomes such type of austerity versus a public policy that raises taxes.. However we should bear in mind that raising first taxes triggers a reduction in overall output for society with social effects and a narrowing the tax base. In this context of a low and uncompetitive supply, an increase in household consumption through increased revenue through purely administrative channels creates pressure on imports while affecting external balances (current account deficit and public debt). Being passed through such an experience, we believe that it is necessary to avoid it for the future.

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Motivation And Performance In Organization

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Abstract: *The aim of the research is to structure and highlight both existing and novelty concepts of motivation, to analyze their impact on employee performance within the organization. The motivation has been extensively analyzed over time and a set of theories and models have been formulated to find answers to the question: "Are people born self-motivated or motivation has to be induced?" Performance at individual, organizational and macroeconomic level have direct implications on the competitiveness of a firm and a country. The organization can only cope with the required competitiveness changes by focusing managers efforts on what the customer wants or the market; in daily work between subordinate managers, employee motivation/satisfaction will or may not favor the firm's effort on the market. In order to succeed in daily work with subordinates, managers / decision-makers need to know, understand as fully as possible the motivation process within the organizational framework. There are several theoretical developments that emphasize the organizational factors in trying to explain the motivation of the employee at work, namely the factors that predominantly belong to the company or organization (the salary system, the management team, the control-supervision system, the communication among the members teams, feedback, how to promote positions, admitting employee initiatives, participation in decision-making).*

Keywords: *motivational phenomenon, performance, environmental factors, motivating factors, motivation systems, non-financial motivation.*

1. Motivation in the organization

In global management theory, there are several attempts to explain the motivation within the organizational framework, to explain what motivates the employee to be performing in the work he has done. These theories are especially offered by psychologists, sociologists and other specialists, and are based on various hypotheses or social contexts presumed.

None of the approaches, including motivation theories, can be considered as the most correct; each contributes to the understanding of human behavior in an organization and has its limits; on the whole, they suggest what the manager needs to do to motivate his subordinates.

Scientific papers and themes that address the subject of motivation in organizations are numerous. Motivation is a much-researched research theme both in the past and present, supported by the fact that it is a basic element for the disciplines that study the organizational environment - human resource management, organizational psychology and organizational behavior (Latham, 2007) but also by the central position of motivation and work satisfaction.

In more recent approaches about employee motivation and the impact of human potential in the modern economy, we are discussing about identifying the special talents of each employee. Coffman and Molina are of the opinion that the individual's emotions are given by mechanisms that hierarchies the objectives of the human brain; the two authors propose the concept of emotional economy of a complex mechanism of motivation / empowerment of employees.

The research titled "Theoretical Elements of Motivation in Organizations" has as a subject of study the analysis of the issue of the motivation of employees in a double perspective, on the one hand it addresses the motivation through the individual's perspective and its psychology, and on the other hand the motivational practices used organizations.

From a theoretical point of view, the study aims to bring more insight into the definition and analysis of the concept of motivation. It is necessary to understand what motivates/demotes an employee in his work. People are the most important asset category that an organization can use, respectively employee’s process information to value other assets; in fact, no organization can exist without the human resources that make up it. Paradoxically, however, people are the only asset that can act against the organization's goals; Simply put, if they are not motivated and interested in the objectives proposed by the company, various groups/teams in the organization will end up dismantling their efforts, generating major conflicts, acting against others and/or against the interests of the organization.

Behavior is a result of the interaction of the personality of the individual with the organizational and working environment, and man, as a social and organizational being, is under the pressure of material, physiological, aesthetic, moral, ideological needs, etc., and under the pressure of some motivational factors which managers direct and direct the behavior of the individual towards the achievement of organizational goals.

Thus, only through a collaborative effort, through appropriate mechanisms to attract employees towards the objectives proposed by the firm, through mechanisms to motivate / influence them through the construction of efficient management teams can create an organizational climate that favors consumption energy and latent creativity of employees.

2. Methodology for defining organizations

In the perspectives of the contemporary authors "Organizations are human creations. They are entities in which individuals interact and interdependently work in a structure to achieve common goals. They are presented in many forms, and their purposes are varied and cannot always be implicitly/explicitly shared among all members of the organization "(Furnham, 1997, p. 6).

At the same time, Furnham release the opinion that "Organizations are complex systems that have inputs and outputs of many different types and paths to turn them into the last ones" (ibidem). The two French researchers Petit and Dubois use the organization cannot be summed up by the sum of individuals, groups, workshops, offices or services - these elements are in a state of necessary interdependence in order to achieve an official objective "Interdependence is the foundation of the unity of the organization, being not only operative, but also of a social nature, enrolling in the psychology of individuals and groups as well as in the relationships of these" (Petit and Dubois, 1998, p. 10).

In our opinion, the extensive definitions become enumerating-descriptive without surprising the defining elements of the organizations, and the restrictive ones seem to be elliptical, with many other explanations and additional information. As such, we will present the definition of organizations combining the historical criterion with the problematic one:

- stage 60s - organizations were defined in terms of goals, formal structures and in integrative terms;
- the 1970s and 1980s define organizations in terms of human activities;
- the third stage in the late 1980s and the current period in which we define organizations in terms of controlled performance.

Among the many definitions are in terms of purpose and structure. Defining organizations in terms of goals is based on a general idea present in sociology that sociologists tend to associate and assign goals to any form of social organization, and how organizations are such extremely important forms; it was considered the fulfillment of the goals for which they were created is their defining element:

- "organizations are social units (or human groups) built and rebuilt intentionally to pursue specific objectives" (Etzioni, 1961, p. 207);
- "organizations are structured to achieve a particular type of objective" (Parsons, 1964, p. 118);
- "organizations have explicit, limited and formal objectives" (Udy, 1965, p. 51).

It can be concluded that there are at least two essential characteristics of the organizations: the first - the presence of the purpose as defining notes, and the second characteristic the presence of collective, specific, explicit, limited, official goals, etc.

The major advantage of defining organizations in terms of purpose is that we are provided with information about the specifics of the organization, the purpose of which is to specify the nature of the organization. Then, depending on the degree of achievement of the goal, we can know the level of efficiency or development of the organization. An organization that achieves its intended purpose at a maximum level can be considered as mature, efficient, while another that achieves its goal at a minimal level or even at all will certainly be a troubled organization. Organizational success or failure is therefore directly proportional to the degree of goal completion.

3. Theories about motivation

The human resource is one of the most important resources of the organization (Burlea-Şchiopoiu, 2008). Therefore, one of the factors influencing the quality of human resources is motivation.

From the definition of the motivation concept to the elaboration of human resources motivation strategies in organizations, a series of stages have been carried out and more motives have been developed. Ancient Greece was the cradle of hedonism, through which philosophers explained what motivated human behavior: in pursuit of pleasure, with the least effort, individuals headed for things that would produce comfort and satisfaction (Cherrington, 1989, p. 167-168). The complex issues of the field of motivation generated the formulation of a large number of theories, whose competition and limitation, together with controversies regarding the concept of motivation, are also transferred to the attempts to classify or systematize them.

By chronologically approaching the concept of motivation, it can be seen that, even with Frederick W. Taylor, all authors have attempted to explain the factors that motivate people, but have shown less concern about the causes and ways in which it occurs and sustains motivation in time. Thus, Nicolescu and Verboncu (1999, p. 474) present three categories of theories, delimited by the Spanish professor Juan Pérez Lopez, depending on the hypotheses regarding the nature of the motivation of the staff:

- mechanistic theories, which presuppose that employees are motivated only by extrinsic motivations, human behavior being conceived as a mechanistic system in which a person receives from the outside any stimulus - salary, prize, social status - in exchange for the action he made;

- psychosocial theories, in which human behavior is conceived as a biological system, which considers that employees are motivated by both extrinsic and intrinsic motivations, the latter through the development of abilities, the enrichment of knowledge, the pleasure to perform a certain work generating the satisfaction of needs or desires the person concerned;

- anthropological theories, which also take into account the transcendent motivations besides the extrinsic and intrinsic ones. Transcendent motivations mean those consequences that a person's action generates over others or others, positive consequences that are related to the assumption of satisfaction of needs.

Mathis et al. (1997, p. 40) propose the classification of the main motivational theories into three main groups: content theories, process theories and cognitive theories, whose presentation is in Table no. 1.

Categorii	Caracteristici	Teorii	Exemple
Content Theories	refers to factors that incite or initiate motivated behavior	Need hierarchy (Maslow) X - Y (McGregor) Bifactorial (Herzberg) ERD (Alderfer) Acquisition of successes (McClelland)	motivation through money, social status and achievements
Process theories	addresses the factors that direct the behavior	Expectation (Vroom) Equity (Adams) Goals (E.A. Locke)	motivation by the inner start of the individual for work, performance and recognition
Theories of strengthening	addresses the factors that lead to the repetition of a behavior	Strengthening (Skinner)	motivation by rewarding behavior

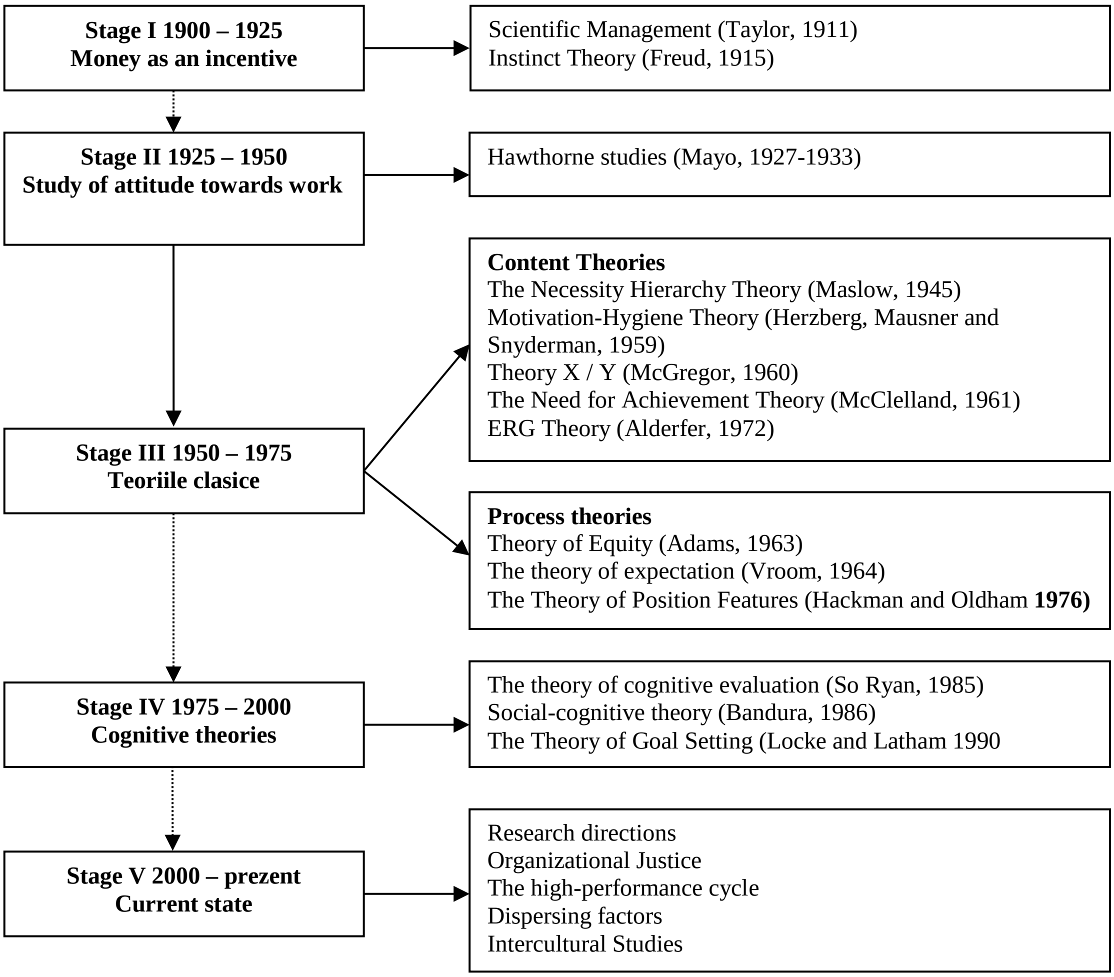
Source: Adaptation and Processing by Mathis R.L., Nica P.C., Rusu C. (1997), Human Resources Management, Economic Publishing House, Bucharest, p.40.

Table no. 1. Classification of motivational theories

Motivation is an essential element of success combined with competence; it allows individuals to accomplish what they have proposed. Motivation means working smart, not just working hard. In essence, motivation is the engine, the energy that starts the action. It is also often said that a motivated man is a happy man. However, we must not confuse motivation with satisfaction. Even though the two notions can often be associated, it also happens that dissatisfaction may give rise, due to the state of dissatisfaction it creates, to a great motivation to achieve the set goals. There may also be a link between frustrated degree and motivated degree; as the actual situation of the individual is difficult to bear, even producing frustrations, the more the desire to achieve the goals that allow him to achieve satisfaction is great.

Another interesting proposal found in the literature is Buzea (2010, p. 26) and is based on the combination of two criteria - the chronological evolution in the field of motivation proposed by P. Latham

(2007) and the evolution of the organization management theory of the human resource - based on them, resulting in the diagram of the development stages of the work motivation research presented in Figure 1.



Source: Buzea (2010), Motivation. Theories and Practices, European Institute, Iasi, p. 26.

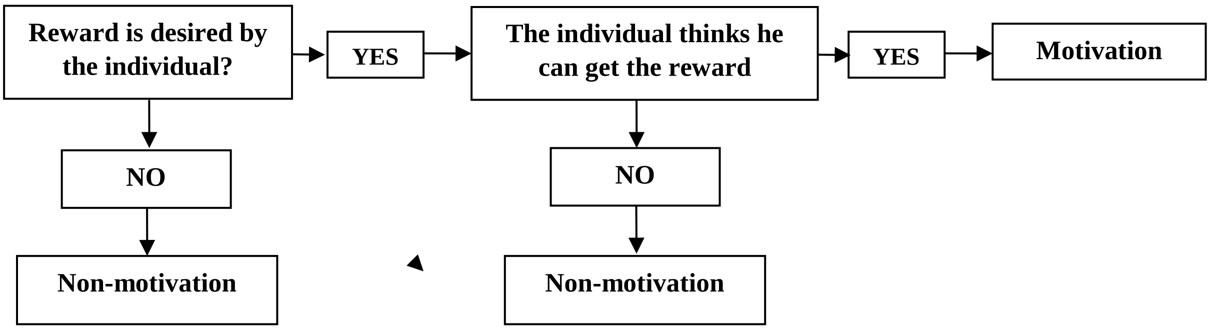
Figure no. 1. Systematization of motivation theories (after Le Saget)

However, the most significant theories can be grouped into two categories, based on the thematic criterion and agreed by many researchers (proposed in 1970 by Campbell, Dunnett, Lawler and Weick), depending on the focus on either the causes of motivation, or on the actual behavior:

- motivation content theories that address the issue of motivation in a traditional manner, addressing the factors that motivate people, direct, support, and stop behaviors;
- theories of the motivation process that promote the approach from a dynamic perspective of work motivation, the way in which behavior is committed, directed, sustained and stopped, and targets the motivational mechanisms that drive human behavior.

As far as we are concerned, we consider it appropriate to analyze the motivational theories according to this final criterion, the thematic one, here being the most influential and presented the theories in the field studied, with implications and applicability in the organizational environment, together with the representative approaches of at the beginning of the last century (scientific management and the school of human relations), which illustrates the issue of motivation.

The theory of expectation or expectation theory was developed and presented by Victor H. Vroom in his work called "Work and Motivation" (1964), being the most well-known process theory and a model developed in the rational choice paradigm. Vroom argues that employee motivation is the result of three key variables, expectation, instrumentality and valence, and has as its starting point expectation or hope - as energizing forces of motivational behavior. In this theory it is stated that motivation depends on the extent to which people want something specific and the degree to which they think they can get it.



Source: Burciu, A. Introduction to Management, Economic Publishing House, Bucharest, 2008, p.394

Figure no. 2. The theory of expectation

Waiting is an action-outcome association; it has a subjective dimension, as it is the result of a cognitive process of assessing the relationship between behavior and outcome, and expresses the employee's belief that engaging in an action will lead to a certain outcome. Waiting can take different forms of intensity, taking the maximum intensity (value 1 - the action is followed by a result) when the employee is convinced that a certain level of effort will lead to a certain result and the minimum intensity (value 0 - the action is not followed of a result) when the employee is not perceived as capable of successfully pursuing an activity (either due to his / her deficiencies in certain qualifications or abilities required by the activity or due to organizational deficiencies linked to the lack of technical endowment, lack of information or appropriate equipment, etc.), or if the employee expects to be rewarded even if he has successfully completed his work.

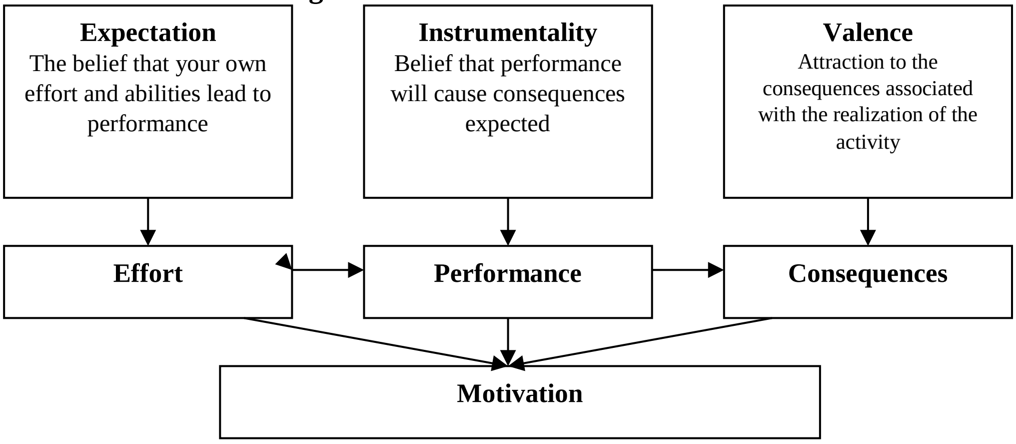
Instrumentality is a result-result association and expresses the employee's belief in the likelihood of obtaining rewards commensurate with his performance or contribution to work.

Valence represents a person's preference (desire, attraction) to certain results and is reportable to his or her own work valorization system. Thus, the individual associates work, specific attributes depending on context, from positive to negative, which enhances his attraction, indifference or rejection of engagement in a given work action. Valencia can be: positive when the person prefers to get the expected result of his engagement; null, if the person is indifferent to whether or not he obtains the result; negative, when the person does not want to get the expected result.

Vroom approached his problem theory and the problem of work satisfaction, considered as a dimension of motivation, which he considered to be the conceptual equivalent of labor valence. Thus, he considers that the employee's desire to achieve a positive outcome (positive valence) or to avoid it (negative valence) is not based on the intrinsic value of the outcome, but on the anticipated satisfaction or dissatisfaction associated with the achievement of the results.

Thus, the model proposed by Vroom is shown in Figure no. 3. taking into account that motivation is a resultant combination of the three variables.

Figure no. 3. Motivation model as a result of three variables.



Source: Burciu, A., Introduction to Management, Economic Publishing House, Bucharest, 2008

The theory of expectation is a complex theory because it takes into account the fact that each action (behavior) of an individual is the result of an individual decision-making process, based on subjective perceptions about the relationship between behavior and outcome. The theory implies that employees have the choice of possible actions that can lead to more results different from each other, some that the individual wants, and others he does not want, those that have the most intense positive force. In this respect, the fundamental question of motivation at work, "why do people work?", Vroom's theory states that "a person will choose to work when the valency of the results he expects as a result of work has a value more intense than the valency of the expected results in the situation when it does not work "(Vroom, 1964/1995, p. 35).

Also, some elements of motivation are treated and felt differently by each individual: thus, for one person, promotion can be primordial, wage growth and gaining experience - very important - and the sacrifice of family and social life can be of negligible importance; for another person, family and social life may be the most important, wage increases may be of medium importance, and promotion may be undesirable because it involves overtime or some additional responsibilities and tasks. In the first case, the individual may be motivated to work a lot and work long hours over the program, while in the second case, the individual may not be motivated to do so.

In essence, motivation is determined by the whole set of outputs, as well as the importance that each individual attaches to each exit, and the force or intensity of motivation according to Vroom's opinion results from the product of differentiated values of valence and expectation:

Force (motivation) = Valence * Waiting

The theory of expectation suggests that managers need to be aware of the fact that employees work for several reasons, that these expected reasons or rewards may change over time, so employees need to be clearly shown how they can get the rewards they have I want. It should also be borne in mind that performance depends on abilities and motivation (Performance = Ability * Motivation), and when one of them has low values, then the performance at work will be low. Thus, the theory suggests to managers that they should set up an effective reward system to consider linking rewards to performance levels and personalizing rewards. At the same time, this theory explains motivation as a complex process, in which individuals analyze their chances of obtaining certain results in their work and appreciates the extent to which these results are appealing and useful to them.

4 Conclusions

The organization surveyed needs to reassess the structure of the motivational system as research has shown that employees believe that the organization should have a competitive reward system in comparison with other companies and provide a competitive package of benefits and benefits. It is advisable to maintain non-monetary rewards as an optimal way to keep the motivated workforce, but also to include monetary rewards that should be directly related to individual, team and organizational performance.

Due to the complexity of motivation and the fact that there is no single answer to the question "what motivates people to work", we analyzed in the second part of the paper the different theories formulated by a number of researchers. We have emphasized that there are many reasons that influence people's behavior and performance. All of these theories provide us with a framework within which we will focus our attention on how we can motivate employees to work efficiently. It is essential for the manager to understand the basics of motivation, given that a highly motivated employee has a greater chance of reaching a higher quality product or service than an employee who is lacking motivation.

In an organization, the success of the the qualitative side of the human factor and his motivation towards the work performed are ensured to the greatest extent. Satisfaction with work is associated with performance up to a point, from which performance influences satisfaction. The direct link between performance and work satisfaction is mainly provided by the feedback and reward system.

Motivation has an essential role in preparing the action we are going to take; is the basis for the choices we make; is the sentiment generated by viewing the purpose of our action.

We found that the majority of theoreticians who developed the motivational theories, approached the motivation from different points of view, generated by the diversity and evolution of socio-cultural conditions, the theories and motivation models of the employees cannot be applied by the managers, they are correlated and combined into a reward system that will have a positive impact on employees' morale and satisfaction, increasing their motivation and involvement in the work done and implicitly in achieving the organization's goals. Only through collaboration effort, through appropriate mechanisms to attract employees to the objectives proposed by the firm, through mechanisms to motivate / influence them through the construction of efficient management teams can lead to increased performance.

From our point of view, a sufficient / appropriate, pre-neuronal or non-precursor motivation of the company's human resources, accompanied by a well-thought-out marketing policy along with appropriate management strategies at the top of the organizational chart, can ensure the success of the business in perspective. In the company's management, the real meaning of an employee's action or behavior, the attitude adopted by him in a given context cannot be perceived without understanding the reasons that have generated them. Thus, behind the action of the individual there are usually some reasons; knowledge of the reasons supports the attempt to predict human behavior, supports the attempt to unify the efforts of an organization aimed at achieving clearly defined objectives.

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European Political Strategy Centre: A vision about EU Industrial Policy after Siemens – Alstom Deal

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Abstract: Due to Industry 4.0 and mainly to rapid innovative technologies and developments like Internet of Things, Artificial Intelligence, robotics, Big Data and platforms, connected and autonomous systems, 5G, 3D printing, ICT security and block chain, it emerged the need for developing a comprehensive and long-term EU industrial strategy in line with the current technological developments. In March 2019 European Political Strategy Centre from European Commission published a paper entitled EU Industrial Policy after Siemens-Alstom, Finding a new balance between openness and protection. This strategic framework presented by EPSC has an introduction, called The Bigger Picture and two parts: Levelling the Global Playing Field and Industrial Leadership Starts At Home. In the introduction the focus is put on digitalization, electric cars. AI, robotics, 3D printing, completing the Single Market, China's progress and competition. In the first part of strategy the analysis is focused on the role of EU trade policy while in the second part on four major initiatives: Single Market Renaissance, Innovation & funding: fast-tracking investments into the sectors of the future, Regulation & standards: building up 'Brand Europe' , Partnerships for the future.

Key-words: industrial policy, strategic framework, trade policy, innovation, competitiveness

JEL Classification: F13, H 57, L 52, O 31, O 38

1. Introduction

On 21-22 March 2019, at the spring summit, European Council called for a long-term vision on industrial policy while EU leaders stating the fact that a strong economic base is of key importance for Europe's prosperity and competitiveness. European leaders stated that this objective should be achieved including through an EU industrial policy, which should focus inter alia on artificial intelligence. In order to build a sustainable and competitive industrial base, the European Council invited the European Commission to present, by the end of 2019, a long-term vision with concrete steps.

It was the European Political Strategy Centre within European Commission that several days before published a paper entitled ***EU Industrial Policy after Siemens-Alstom, Finding a new balance between openness and protection***. In December 2018, eighteen EU Member States, among them Romania, issued a joint call for a more ambitious and strategic EU industrial policy, highlighting industry as 'a key driver for growth'. The debate on EU industrial policy has intensified after European Commission's decision (DG Competition) of 6 February 2019 to prohibit Siemens' proposed acquisition of Alstom.

Let's remind that based on EU Council Conclusions from May (Doc. 9760/17) and November 2017 (Doc. 15223/17), as well as on the European Council Conclusions from June 2017 (Doc. EUCO 8/17) it emerged the need for developing a comprehensive and long-term EU industrial strategy, due to the importance of strengthening the industrial base as a key component of Europe's future, the requirement for a fully functioning internal market in the digital age, the need for a common approach building on the competitive advantages of European economy and businesses, the call for a rapid digitalization of industry with the help of

Digital Innovation Hubs and other initiatives supporting SMEs and also for industry-led standards providing interoperability and competitiveness of European industries on global markets. But any industrial strategy must focus on the necessity for a rapid innovative development and take-up of key forward looking trends including the Internet of Things, Artificial Intelligence, robotics, Big Data and platforms, connected and autonomous systems, 5G, 3D printing, standardization, ICT security and block chain; the importance for accomplishing significant and more effective investments and the right framework for research, development and innovation while achieving a better knowledge transfer and uptake of advanced and key enabling technologies in the industrial base; the further development of the European cluster policy, with the aim of linking-up and scaling-up regional clusters into cross-European world-class clusters, based on smart specialization principles, in order to support the emergence of new value chains across Europe; support for European innovative projects and large scale innovation initiatives, including those based on public-private partnerships; better state aid criteria for supporting Important Projects of Common European Interest aiming at facilitating large-scale innovative projects of transnational character; the importance of public procurement for promoting innovation and improving the competitiveness of the EU industry and initiatives for using procurement as a strategic tool to foster a transition to a more innovative, environment-friendly and socially inclusive economy.

Competition and competitiveness at the global level should be supported within EU by investments and favorable conditions for private investment funds, by financing and targeting support measures for SMEs and start-ups as the backbone of the EU economy, by dedicated policies towards scale-ups and mid-caps, by an increased support for innovation with high technological risk and a long-term investment horizon, by the right mix of investment and funding tools applied by the EU, Member States, regions and the private sector. EU industrial growth is badly affected by the insufficient level of digital skills in Europe's labour force and shortages of ICT professionals as well as science, technology, engineering and mathematics graduates; besides the identification of sector-specific skills needs, one needs increased business-education partnerships as well as dedicated investments in the skills of young people and lifelong learning. EU industry strongly depends on the global value chains and trade, that is why EU should pursue a robust trade policy upholding an open and rules-based multilateral trading system, with a central role of the WTO, but it must also take into account the industrial strategies of third countries, facilitating the integration of European companies in global value chains, also in a long-term competitiveness perspective.

For fighting climate changes and ensuring sustainability, supporting the low-carbon transition in industrial sectors through innovation, new business and manufacturing models, for attaining long term ambitious environmental targets, it is necessary the contribution of private sector and the cooperation of European institutions, Member States and all industrial sectors and to elaborate and implement a comprehensive and long-term EU industrial strategy. This new strategy or policy should focus on the transition towards safe and sustainable technologies, low-carbon and circular economy and is in balance with coherent European climate and energy policies, aiming at creating a strong, resource-efficient and competitive European industrial base. It should take into account the sustainable supply of raw materials and the external dimension of the EU climate policy, while paying special attention to addressing the issue of high energy costs and preventing significant disadvantages in international competition, in particular for energy-intensive industries.

Industrial competitiveness concerns all EU policy areas, supporting it at the global level involves cumulative cost assessments and the reduction of unnecessary regulatory burdens, applying technical and ecological standards, providing coordination and synergies between EU and Member States' policies, initiatives to stimulate new and emerging sectors with high growth potential, and support for sectors facing economic change.

A comprehensive EU industrial policy needs appropriate strategic objectives to be achieved by 2030 and beyond, and also to synchronize the efforts made under the EU's industrial, energy and environment (including climate change) policies. An important contribution may be brought by High Level Industrial Roundtable "Industry 2030" established in 2017. Also appropriate indicators can be used for highlighting trends in the development of the EU industry, they need to be measurable, time sensitive and should, where feasible, allow for comparison at a global level. A long-term EU industrial strategy which should be in place at the beginning of the next EU institutional cycle was the task of European Commission which should build on existing governance structure and focus on the preparation of all the elements that will form the future strategy, including an action plan, should involve the Member States and also the Competitiveness Council for providing political guidance and momentum.

2. The Strategy presented by European Political Strategy Centre

The strategy designed by EPSC has two parts:

A. Levelling the Global Playing Field

1. Making the World Trade Organization fit for purpose
2. Growing the EU's arsenal of defensive tools
3. Shifting into offensive gear: beefing up reciprocal market access and building up leverage
   » Putting policy into practice: the International Procurement Instrument (IPI)

B. Industrial Leadership Starts At Home

1. A Single Market Renaissance
2. Innovation & funding: fast-tracking investments into the sectors of the future
3. Regulation & standards: building up 'Brand Europe'
4. Partnerships for the future

» Putting policy into practice: Important Projects of Common European Interest (IPCEI)

EU has recently passed, at least after 1990, through a deindustrialization process, mirrored by the decrease of manufacturing industry share in the total GDP and now this industry is facing great risks which impose urgent actions, as foreign competitors are not playing by the same rules applied within the single market and trade openness is used against EU own strategic interests. EU is not adequately prepared for the increased digitalization and competition, particularly from Asian countries. The paper presented by EPSC has in view a new balance in trade policy between openness and protection, between playing defense and offence, examines the Siemens-Alstom case and the international context in which Europe's industrial firms operate, handed in some policy options for a better playing field, invokes the urgency of actions and the need for a fact-based reflection, asks for a number of coordinated and transformative actions that are visible and tangible, both in Europe and across the world, for defending Europe's industrial excellence.

Blocking Siemens-Alstom rail merger raised many questions on EU competition policy, although the decision was based on a solid economic analysis and motivated by merger's negative impact. Chinese damaging competition is not a serious threat for European companies, at least on short and medium term, but any competition tightening may favor foreign competitors. Anyhow EU is facing important challenges in the industrial field that is why markets must be fair and competitive while competition policy should focus on promoting efficient and innovative industries and a robust competition in European markets. In 2009-2019 period, the European Commission has approved over 3,000 mergers and blocked only nine, some merger transactions helped to build strong 'European champions'. It is obvious that one cannot relax the rules of merger control, antitrust or state aid in order to support domestic industries affected by structural weaknesses and competitiveness challenges. Competition litigations should remain only on Commission's shoulders and without any EU Council intervention, otherwise that may create the economic risk of larger MS imposing their will and interest to the prejudice of smaller states efficiency.

3. The Bigger Picture

3.1. Technological disruption transforming industry

Digitalization is considered to be a technological revolution due to its impact on any business by increasing labor productivity and improving internal processes, and also changing operational models, value chains and customer relationships. Business-related services play an important role in attracting customers, in generating value added, and the essential contribution of new economic actors, like technology intensive data-driven firms, to the dynamics of industrial markets and industrial value chains should be mentioned.

3.2.Can Europe stay on top as the automotive industry undergoes a revolution?

The statistical data delivered by European Automobile Manufacturers Association and Eurostat show that automotive sector plays a major role within European industry as it supports 13.3 million jobs and 6.1% of total EU employment and recorded a net trade surplus of 90 billion euro for cars and light commercial vehicles in 2017. But new car markets are increasingly dominated by non-European companies, the leader of self driving cars is the US' Waymo – a subsidiary of Alphabet, electric car market is dominated by China, which accounted for 56% of global sales in 2018, the best-performing batteries for electric cars are made mainly in China.

The greatest opportunities are open to the companies that have a more 'systemic' presence across sectors such as energy provision, modern transport and mobility, or food production. The world's largest companies today – Apple, Amazon, Alphabet, Tencent, Alibaba- are delivering not only data or information but also are producing high-tech gadgets and services that range from e-books, smartphones and semiconductors, to electric or self-driving cars, drones and they moved into the retail and health sectors.

Comparing to USA and Asia EU has been slow to adapt to the digital revolution, both in terms of integrating digital into existing industrial processes, and in understanding the transformative nature of digital technologies. At the end of 2017, in EU only 24% of enterprises adopted big data analytics, 16% of them integrated robotics and automated machinery, and only 5% were working with Artifical Intelligence or 3D printing. In these areas there is a general shortage of highly-skilled tech professionals and within EU 43% of the population had an insufficient (less than basic) level of digital skills in 2017. With such a low level of skills EU cannot become a global leader in Artificial Intelligence and other high tech fields. In USA genetically engineered products accounted for about 2% of GDP in 2017, with the contribution of three industries: industrial biotechnology 147 billion $, pharmaceuticals 137 billion $, crops 104 billion $ (The Economist, 2019).

3.3. Scale-Europe's Biggest Challenge?

Beside the automotive industry, aeronautics and pharmaceuticals where Europe is on the top, many medium-sized, very innovative, family-owned companies are operating in niche high-tech areas like health tech, advanced logistics, clean tech and biotech, Internet of Things, but it is very difficult for them to access fast-growing overseas markets or compete in large-scale international projects, especially with Chinese firms supported by their government. For solving scale problem it is necessary to complete the Single Market and bring it into the digital age. 'Scale without mass' is a new phenomenon and it means that the market value of a company depends not only on the size of its workforce or its physical assets, but especially on its intangible assets. For successful start-ups access to sufficient scale-up funding and to liquid and integrated capital markets is vital.

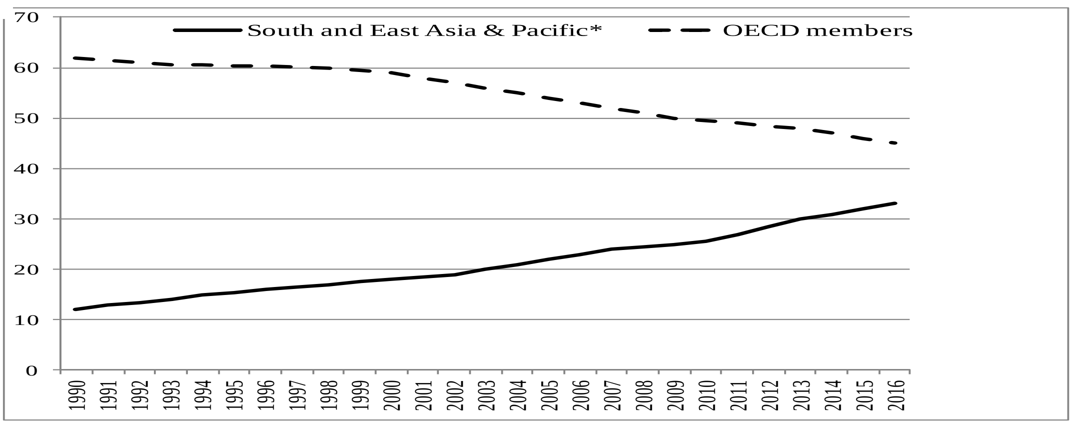
3.4. The rapid rise of the East

China increased very fast its GDP from 1.8 trillion euro in 2005 to 11.4 trillion euro in 2018 while EU 28 only from 11.6 billion euro to 15.9 billion euro. The rapid expansion of China and India' s economies means new market opportunities but also a fierce competition in the sectors as clean tech, renewable energy, Artificial Intelligence. China has an impressive market of 1.4 billion inhabitants with rapidly rising purchasing power, while EU has only 512 million inhabitants and a Single Market still fragmented along national lines, particularly in capital markets, digital and energy (see figure 1).

3.5. China playing outside the rules

The success of Chinese companies is based not only on innovation and new technology but also on state subsidies, preferential access to capital, significant market protection and some blamed practices. Much of the Chinese market remains largely closed for foreign industrial firms. The state plays a strong role in supporting Chinese companies at home and abroad which gives them an unfair competitive advantage. Chinese companies can underbid in public tenders, the subsidization of state-owned and state-linked enterprises has led to the build-up of significant overcapacities in China, for foreign firms acquired by Chinese companies the supply chain changes considerably in favor of other Chinese firms. China has already obtained high stakes in Europe's electricity grids, transportation infrastructure and communication networks.

Figure 1: The global economy's centre of gravity is shifting East Asia



Notes: Share (%) of developing Asia in total world GDP (constant 2011 international € PPP);
**Excluding high income countries like Japan, Korea, Singapore, Australia and New Zealand*
Source: EPSC- EU Industrial Policy after Siemens-Alstom (2019), World Bank (2017)

4. Levelling The Global Playing Field

EU is one of the world's most open markets to trade and foreign direct investment, number one trader of goods and services and the largest destination for foreign investments. But European industry is exposed to foreign pressure by partners who do not play by the rules. Openness of markets must be applied everywhere.

4.1. Making the World Trade Organization fit for purpose

EU was and remains the promoter of multilateral trade framework, represented by GATT and WTO, and benefited immensely of trade liberalization in terms of growth rate, jobs, and competitiveness. Rules are needed for digital trade and e-commerce, for market-distorting subsidies due to the proliferation of indirect industrial subsidies, e.g. in the form of tax cuts and cheap sovereign loans to state-owned enterprises, also compliance with obligations on subsidy notification. China benefits from preferential treatment as a 'developing economy' and can impose market access barriers, although is a member of WTO and is reforming its economy. WTO should update its rules to the new global context, increase the transparency of their application, and collect evidence and insights into ongoing cases and trends. The EU supports such a reform of multilateral rules-based order, difficult to take place in a short time, and uses also the bilateral agreements for promoting its trade objectives.

4.2. Growing the EU'S Arsenal of Defensive Tools. Trade defense instruments: strengths and limitations

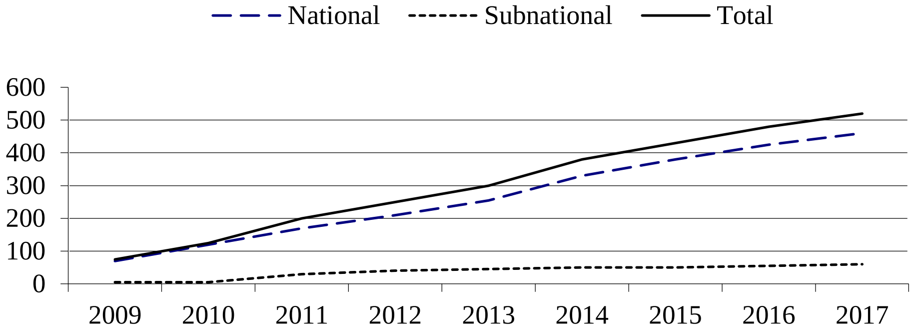
In December 2017 and May 2018, the EU imposed a set of trade defence instruments to further strengthen the protection of European companies against injurious imports and these tools and measures are protecting 320,000 direct industrial jobs. Trade defense instruments may address the effects of unfairly priced imports in the EU market and other instruments are needed to counter unfair competition to which EU companies are facing in non-EU countries and they address goods only, not unfair trade in services.

EU imposed rules to improve scrutinity of FDI on the grounds of security and public order based on cooperation between MS and EC while decisions are in the hands of national governments. Chinese foreign direct investments can be covered by this new screening mechanism. The strategic implications at European, national and regional level must be taken into account due to the complexity and interconnection of value chains. Foreign investment players may get access to sensitive European technologies and business secrets, or gaining influence over critical infrastructure, and supply chains may be exposed to harmful disruptions. Among counter-measures one may include a review of EU public procurement market rules in order to examine the role of foreign bidders in critical markets.

4.3. Shifting into offensive gear: beefing up reciprocal market access and building up leverage

Defensive trade policy will not help European companies to get access to new, job-creating markets, many located in Asia and applying protectionist measures by EU is costly and has short term effects. The EU must focus on removing remaining barriers to overseas markets, many of which are strongly protected today, and since 2014 123 barriers have been removed, generating 6 billion euro in additional EU exports each year. In the field of public procurement it has increased the number of discriminatory measures at the global level (see figure 2). The European Commission should identify other areas creating further leverage in levelling the playing field.

Figure 2: Discriminatory public procurement measures increased worldwide (by level of implementation)



Notes: Total reflects the number of measures currently applied at national and subnational level.
The EU Member States most affected include Germany (402 active measures), France (387) and Italy (387).
Source: EPSC- EU Industrial Policy after Siemens-Alstom WTO (2019), Global Trade Alert database (2017).

5. Industrial leadership starts at home

The Barroso Commission and Juncker Commission placed industry at the top of their strategic priorities. In September 2017, Juncker Commission took a first step towards updating the EU's Industrial Policy Strategy – with a comprehensive package. (EC, 2017) This included a number of new initiatives around the free flow of non-personal data, cybersecurity, the circular economy, sustainable finance and the deployment of 5G. A lot of efforts were made in the last 10 years to strengthen Europe’s industrial base and innovation potential, but the results in Member States have been disappointing, having in mind the pace of rapid changes brought by Industry 4.0. Synergy effects must be generated through unity of action, but Member States were not able to launch joint initiatives. Within EU industrial markets are fragmented, research funds and budget allocations are not sufficient, knowledge transfer into businesses and the wider economy is weak the situation cannot be radically changed by a single industrial policy.

Could be 5G a testing ground for EU industrial policy? Two European digital champions, Nokia (with 17% in Q3 2018) and Ericsson (13.4%) are in the global top of three 5G equipment vendors, after Huawei (29%) and they both will be involved in the progress of 5G in EU and may get a large share of European market and this could offer a good testing ground for a genuine European industrial policy, based on more coordination at EU level.

Four major initiatives are envisaged as MS to come together around a coherent set of actions.

5.1. Single Market Renaissance

Europe’s Single Market is important in the global context but it must be brought in the digital age. Progress was made in roaming, free flow of non-personal data, e-commerce, but the Digital Single Market cannot compare with digital markets in the United States or China, because there are 27 different consumer markets, 27 different regulatory regimes and some countries are lagging behind on digitalization. All MS must support the initiatives for more connectivity, accelerating the adoption and diffusion of digital technologies among Europe's traditional industries, and creating the necessary scale for Europe’s digital economy.

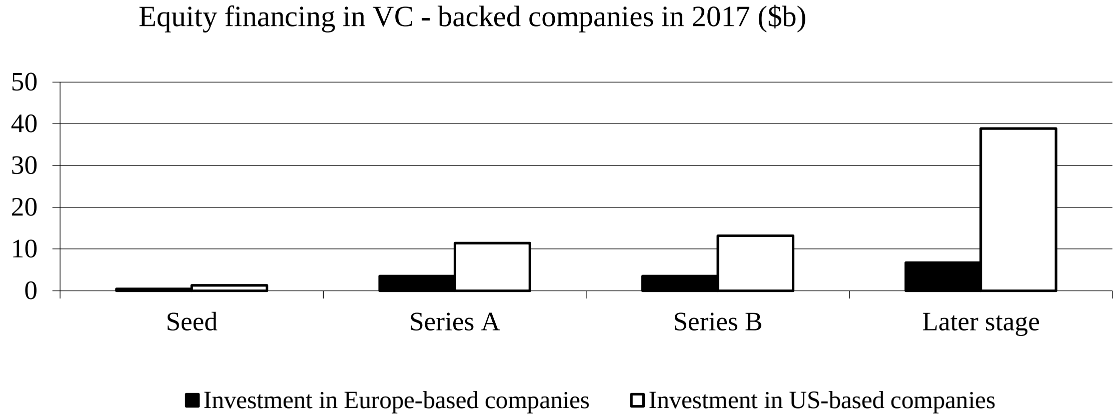
5.2. Innovation & funding: fast-tracking investments into the sectors of the future

Public and private investments in key strategic areas for R&D of European industry need to be increased based on strategic industrial partnerships and on companies own contribution. In 2015, overall expenditure on R&D in the EU amounted to 2/3 that of the US, was 49% higher than in China, and more than double than in Japan, but only 55.3% originated from business, compared to 78% in Japan, 74.7% in China, 64.2% in the US. It is not normal to rely too heavily on public sector R&D unlikely to yield the desired results because of its distance to manufacturing processes and market conditions. The EU innovation policy did not support disruptive or breakthrough innovation, aimed at creating new markets. The European Innovation Council is in the pilot phase and has a budget of 2.2 billion euro for 2019-2020, including combined grant and equity investments for financing fast-growing, technology-based companies, and for targeting support to new technologies like digital twins, human-centric AI, etc. The European Commission proposed an increase up to 10 billion euro under the next budgetary cycle, with a focus on breakthrough innovation.

The rapid diffusion of innovation throughout the economy is essential due to the pace of technological development, and due to the existing gap between front-runners and laggard firms. The linkages between science and industry must be improved, by providing a better technical assistance and training, and stronger mobility of talent. Although EU has the largest publicly funded research programme in the world (Horizon 2020), only 1% of this funding is dedicated to knowledge and tech transfer. Even R&D funding produces successful innovations, they may not be applied in Europe (see figure 3).

Figure 3: Funding gap between the US and Europe is widening in later stages. Investments in Europe and US by stage focus in 2017, in billion US dollars

US - as a multiple of European investments	2.9x <	3.2x <	3.8x <	5.8



Source: : EPSC- EU Industrial Policy after Siemens-Alstom, Dow Jones VentureSource

Doing business in Europe: an international reality check. The business environment must be a healthy one for the fast growing or development of successful companies, which do not need direct state support or protection. According to the World Bank's Ease of Doing Business ranking, the EU is steadily losing its competitiveness related to the lack of a dynamic firm environment. Only two of 28 Member States recorded improvements in their ranking in the 2019 report, three MS retained their positions, while 23 recorded a decline, compared to 2018 report. Many Member States maintain public administration and judiciary hurdles for firms.

Business obstacles persist related to law, taxation, administrative practices and capacities, like construction permits, registering property, enforcing contracts, access to credit, insolvency laws preventing a rapid exit, bankruptcy laws quite punitive, tax rate and tax administration, high corporate tax burdens, inhibiting investment and job creation, a complex business environment, especially for start-ups and SMEs. Firms operating in the EU face a higher tax compliance burden than companies operating in the US, Japan, Australia or Canada, which affects their competitiveness in global markets.

The modest scale of the EU budget means it cannot support innovation too much, so large institutional funds (pension funds, insurance companies, sovereign wealth funds) should be attracted in venture capital, also trusted foreign investors. In 2017, growth capital still represented less than 7.5% of overall funding in Europe – at 6.7 billion euro, against 92 billion euro of total private equity raised. That is why Europe's most successful companies often end up in the hands of third country firms or investment funds. European Fund for Strategic Investments was a successful instrument which must continue under the next Multiannual Financial Framework with the InvestEU Fund based on a proposed contribution from the EU budget of 15.2 billion euro and by gathering 650 billion euro of additional investment across Europe. The Capital Markets Union is still a project that may increase the liquidities and funds needed for turning European start-ups into global scale-ups.

5.3. Regulation & standards: building up 'Brand Europe'

Shaping global rules and standards according to the EU's core values in trade, investment, climate, labor, human rights, development cooperation and raising the level of quality and fairness of these international rules, represents an important contribution to levelling the playing field for business and consumers and provides a strong model of economic and societal development .

Following China’s example that systematically used sovereign wealth funds (SWFs) – state-owned or supported investment vehicles –for getting competitive advantages and strategic inroads abroad, EU may establish such a fund which could provide an optimal and future-oriented way of developing strategic sectors with a strong focus on innovation. A European SWF would require a properly designed governance and accountability framework, full transparency regarding its structure, investment strategy and returns, mobilization of large and adequate financial resources.

EU must defend its strategic autonomy and its values by shaping rules and standards governing emerging technologies impacting on industrial leadership and profitability. Ambitious consumer and data protection regulations implemented in EU may influence other markets and jurisdictions. European companies have not yet managed to capture sufficiently large market shares in the Internet economy, also in some high tech fields, like 5G, while Internet of Things and Artificial Intelligence are requiring new regulations and standards to remain human-centric, safe and ethical.

5.4. Partnerships for the future

'European champions' may involve several companies and not a single one, into a temporary collaboration, or a consortium of companies that complement each other’s services. Companies may come together to undertake joint technology development, for instance in the context of a Joint Undertaking or an ‘Important Project of Common European Interest’. EU is supporting interdisciplinary collaboration for helping its companies to have a systemic presence, to deliver a more complete set of products and services, and to increase research and development impact. It is an approach targeting future-oriented and globally competitive value chains, based on pooling all available resources – EU, national, regional, local, public and private – together. Particular attention must be paid for areas where European companies have or develop a competitive advantage and are vital for Europe’s strategic autonomy, and also for prioritizing and investing public resources, given their importance in addressing societal challenges.

In 2014, the European Commission launched ‘Important Projects of Common European Interest’ (IPCEI) – a tool enshrined in the Treaty on the Functioning of the European Union (Article 107(3) (b)), but hardly applied to date. New guidelines were developed for the application of this instrument, with the aim to encourage Member States to channel their public funds to large, highly-innovative, transnational research and innovation projects with an important contribution to growth, jobs and competitiveness in Europe and where the risks of transnational cooperation discouraged the private initiatives. After 4 years in December 2018 the first project – covering microelectronics – which was finally launched, it covers semiconductors, sensors, optical equipment and compound semiconductor materials –which are important to the future development of Artificial Intelligence and edge computing. France, Germany, Italy and the UK will provide a total of 1.75 billion euro in funding, with an additional 6 billion euro in investment from the private sector. From January 2018 up to June 2019 other strategic value chains are going to be selected, like batteries and automated vehicles. Strategic areas have already been identified in the EU's 2017 Industrial Policy Strategy, and they include automotive (also batteries), energy systems, the Internet of Things, robotics, Artificial Intelligence, defense, space and the bio economy and actions must be defined and implemented very fast. Key enabling technologies such as 5G or quantum technologies are essential to insuring Europe’s future cybersecurity.

One of the ideas is to implement the same economic diplomacy as China does in the context of its *Belt and Road Initiative*, in order to gain more access to some foreign markets, in particular in developing countries. But more EU presence in these markets may involve all EU policies – trade and investment, development, environmental and energy-related – and instruments – including the European Development Fund, the External Investment Fund and financial capacity from the European Investment Bank and the European Bank for Reconstruction and Development (EBRD) and may require more trade and investment promotion conducted by EU Member State, with coordination and complementary support provided by the European Commission. EC should expand joint business missions, support industry in missions, and create new European business associations through European Union Chambers of Commerce in third markets.

6. Conclusions. Two sides of the same coin: reducing exposure to protectionism while restoring industrial leadership at home

Open markets or protectionism? EU should remain a champion of free trade and investment in the world, but taking care of its interests on internal market and on external markets. After strategic industrial priorities are established, the EU needs to counteract unfair practices on the side of third countries and fight against protectionism. What kind of support must be given to European industry?. Governments or European institutions cannot replace the market, but market forces and economic cycle may impede on a sustainable and strong development due to the market failures, the costs of externalities such as climate change, and the widening gap between 'winners' and 'losers' of globalization and technological change. Due to economic and financial crisis European firms have not always pursued the most suitable business strategies over the past decade, and many failed to acknowledge the transformative impact of digital technologies.

What kind of incentives can be given to stimulate innovation and the development of high tech sectors? They must be based on knowledge about evolving trends and societal objectives and direct the markets to optimize value creation. For creating a business and innovation environment and fostering a smart regulatory ecosystem the best tools may be knowledge and skills on the one hand, and broad development and diffusion of technologies on the other. The two pillars of EU industrial strategy – external and internal, defensive and offensive – must work hand-in-hand. Firstly the political level has to make strategic choices about support for broad technologies or industries, secondly market distortions created by Europe's main competitors must be detected and thwarted (also the state of foreign protectionism affecting European industry), thirdly a continuous and correct assessment of the EU industries competitiveness vis-à-vis Europe's main competitors has to be made with the necessary conclusions. More strategic vision in planning technological and industrial future is needed, and also more awareness regarding unfair competion from other countries, while a proper industrial policy should support industry at large, rather than individual technologies.

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The Role of Big Rating Agencies in Intensifying the Economic Crises

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Abstract: Fitch, Standard & Poor's (S&P) and Moody's are the three big rating agencies on the planet, representing some of the strongest protagonists in the world of financing. Concretely, these three big rating agencies evaluate the creditworthiness of both companies and the countries requesting this, with the aim of giving the investors and idea concerning the investments to be made in the safest way. AAA is the highest rating granted by these agencies. Then follows the AA1 and the scale goes down to C. Any rating at/or below BBB is known as "junk" (trash). The more diminished the evolution perspectives granted by the rating agencies, the more a firm or a country gets closer to the state of payment incapacity of its debts. Thus there are indirectly intensified the economic crises. Creditors that keep on lending the respective country or firm are less optimistic with regard to the perspectives of getting their money back- and thus they shall levy higher interest rates. The higher the interest rates, the more difficult the reimbursing of debts or of the firm, or the government is to be made and it is more likely that this falls within payment incapacity.

Key words: Rating agencies'oligopoly, economic crises, payment incapacity, European rating agencies, governmental debts

JEL Classification: G24, G32, G41, E44, E05, F02, F12

1 Introduction. The history of functioning of the rating agencies

The Euro Zone member states have different regulations for the activity of the rating agencies operating on their territory, which contradicts the fact that the currency of the respective states is common. Thus, the different regulations of the member states applied within the common monetary space produce tensions due to the different behavior of the rating agencies, further to the different rating marks granted to the same product and as a result of the different crediting costs in various countries of the Eurozone.

At the beginning of the 2008–2014 crisis, the question whether the rating agencies do or do not play according to the US rules was posed. After that, the Economic and Monetary Union member countries have adopted concrete measures of counteracting the negative effects resulted from the unitary regulations in the rating sector. Thus the European Commission Regulations of September 16-th 2009 on the rating agencies entered into force.

Although at world level there are over 70 rating agencies, only three of them -Standard & Poor's, Moody's and Fitch Ratings - truly count, in the sense that they are followed by governments, banks and investors in order to evaluate the credibility of governments and financial products. The rating agencies need a stricter supervising since their activities have a strong impact upon financing costs and can affect the financial stability. In September 2010, The International Regulations Bank, with its head office in Basel (Switzerland), took the decision by which the banks are required to put aside higher reserves. The Basel III regulations mark a significant step towards diminishing excessive risks that have taken the banking system on the verge of collapse in 2008.

In the previous years, the rating agencies started being criticized for conflict of interests, since they are often paid for ratings by the firms they, themselves analyze. In September 2010, the IMF underlined the fact that the decision-making bodies should continue their efforts of reducing the dependency on the rating agencies, and when possible, to remove or to replace the references to the ratings in legislation and regulations.

According to the IMF, the regulation bodies should supervise more strictly the evaluation agencies, especially in order to ensure that their methods are transparent and that there is no conflict of interests. The IMF recommendations are comprised in the Report on the Global Financial Stability of 2010 (GFSR), worked out by the IMF and made public at the end of September 2010, at Washington.

The same Report also mentions the incapacity of a large number of financial institutions of obtaining new short term financing, fact considered to be one of the characteristics of the global crisis mankind is currently undergoing. Being concerned particularly with aspects related to the liquidities risk in the financial system, the Report shows that the banks and non-banking financial institutions, especially those in the developed states, have more heavily relied on the short term financing from the markets, which has exposed them to significant risks, once these markets were wasted. As such, the repo type operations increased, without being known that the providers of guaranteed loans got to be rather the mutual funds, instead of banks. At the same time, during the crisis, there were underestimated the risks incurring from the use of insecure guarantees.

The IMF also considers necessary that the supervising bodies should encourage the operators on the financial markets to evaluate the guarantees all through a crediting cycle, in order to avoid the excessive financing at the times when the value of guarantees is high. The central entities attend to the repo markets must be subject to minimal regulations, whereas the central banks can provide liquidities in case of emergency, in periods of systemic shortages of liquidities, only to central entities proving a sound management. The IMF report determines that the liquidities demands submitted by the Basel Committee for Banking Supervision in 2010 represent an important step in the direction of reducing the risk of the liquidities crisis.

Although the agencies have been sued at court several times 2008-2014 crisis, the greatest part of these trials were closed or rejected. In 2012, an Australian court determined (stated) that S&P has misguided the investors by granting a triple A rating to certaing shares the value of which subsequently collapsed (dropped). At the beginning of the year 2013, S&P paid 1.4 billion Euro in order to get away with the accusations (charges) expressed distinctly mainly by the American Justice Department, according to which the agency has granted triple A ratings to certain structured financial products, based upon American mortgage credits, despite the increased risks on the residential market.

2 The oligopoly of the rating agencies

The three big Anglo-Saxon rating agencies- Fitch, Standard and Poor's and Moody's – have been criticized for the role played by them at the beginning of the financial crisis in 2008 and, as well, in 2010, for attacks on the bonds of certain states from the Euro zone, such as Greece or Spain .

In the last few years, several European officials have attacked the three big rating agencies. Moreover, the ex-European commissioner for financial services, Michel Barnier, has re-launched, at the beginning of May 2010, the idea of creating a European rating agency, which should evaluate especially the debts of states. Jean-Claude Juncker, the president in office of the European Commission declared himself to be in favor of such an idea, the same as officials in Germany and France. The German Finance Minister Wolfgang Schŕuble, has declared that Germany works in close cooperation with France in order to break the oligopoly of the three big rating agencies.

On July 13-th, 2010, the ex-president of the European Central Bank (ECB), Jean-Claude Trichet, has criticised the monopoly on the rating market of the three big Anglo-Saxon rating agencies, at a moment when discussions were under way with regard to the creation of a European agency of financial evaluation: « In general, the rating agencies have the tendency of amplifying the upward or downward trends registered on the financial markets. This contravenes the financial stability. It is probably the time to stop continuing to have a world oligopoly of the three agencies. But the basic problem, nevertheless, is to alleviate and even annul this effect of pro-cyclic amplifying, to which the rating agencies also contribute to”.

ESMA – a new institution and the ESDCRM – a new European mechanism

ESMA – (the European Securities and Markets Authority) started its activity on July 1-st 2011, and for the European Sovereign Debt Crisis Resolution (ESDCRM) only the concept is finalized (Everling, Mureșan, 2011). ESMA has its headquarters in Paris. The first ESMA president is the Dutchman Steven Maijoor who came to office on April 1-st 2011.

After 4 years since the triggering of the stock market crisis in the US in 2007, followed by the monetary and financial crisis, with its widespread into the real economy of the Euro-Atlantic zone, after as many years of intense work in search of proper solutions by the experts and public servants of the developed states governments in order not to be put down by the free markets and by the financial brokers, two new institutionalized and operational instruments for the supervising of the financial markets of the Euro zone: ESMA and ESDCRM were proposed as a response to the crisis.

The crisis that started between 2007–2009 and the crisis in Greece of 2010–2011 have clearly shown that Procedure of Excessive Deficit and the Pact for Stability and Growth , that was part of the EU institutional reform of 1996, with its monetary and financial convergence criteria at the ground of the Euro, are not sufficient any longer for the Euro to continue to exist in a world that has become, since its adopting in 1999, a lot more changed and globalized, without being added new dimensions and mechanisms to the Monetary Union.

The answer to the crisis of 2007–2009 was made immediately by enhancing the discipline and by the more prompt applying of punishments (penalties) in the Procedure and the Pact. But these did not suffice, so that there was further on a need for fiscal and economic stabilizing, obtained, unfortunately by pumping new financial funds by states, brought into the financial-banking system based on contracting new public debts. As we know, apart from the approximately 3 thousand billion dollars pumped into the US economy and administration, other hundreds of billion Euros was pumped into the Euro currency in order to save a series of banks and to avoid the collapse of the banking system, as well as for stimulating the demand in the real economy..

But this proved to be not enough, either. Thus, on the average term, the creation of ESMA was necessary, as a new EU agency, whereas on the average- long term it is necessary the adopting of new monetary and fiscal policy instruments in the Euro zone and even for the entire EU.

Initially, the European Council of March 13-14-th, 2008 has adopted a series of conclusions in order to respond to the main deficiencies identified within the financial-banking system further to the crisis triggered in 2007. One of the objectives was improving the better working (functioning) of the single market in the Euro zone, inclusively of the role of the rating agencies. During the crisis of 2007–2009 the rating agencies did not manage to reflect sufficiently the financial and monetary state of the countries they evaluated, in the top ratings of which there being reflected *post factum* the worsening of the market conditions.

The most adequate way of correcting these conflict generating insufficiencies, consists in adopting measures with regard to the conflicts of interests, the quality of ratings, transparency and internal governance of the rating agencies, as well as to the supervising of their activities. It was therefore necessary the creation of ESMA.

ESMA has as its main attributions the supervising of and ensuring a minimal relevance to the rating system in the Euro zone. In what concerns the mechanism of granting the rating, the EU Regulations No.1095 on ESMA stipulates that a credit rating agency from a third country must fulfil these criteria, which constitute general conditions existing in advance for the integrity of the credit rating activities exercised by an agency. The purpose of fulfilling the criteria is preventing the necessity of intervention by the competent authorities and of other public authorities from the respective third countries within the ratings of the EU resident countries.

By these would-be interventions, ESMA imposes an adequate policy regarding the management of the conflicts of interests, rotation of rating analysts and the existence of a procedure of periodical and permanent disclosing of information. Moreover, the ESMA regulations stipulates as well, that the rating users are urged to educate themselves and other users and to diminishing their credulousness concerning the rating grades granted by the agencies. Therefore, in other words, the ratings users must not rely blindfoldedly, without a mature reflection, on the ratings issued by agencies.

The adverse effects of the decisions made by the rating agencies

S&P were accused by many that they have acted against the US, at the most improper (ill-time) moment, at the beginning of August 2011, when the US rating should not have been downgraded from triple A. In spite of all these, those from Standard&Poor's are not the only ones who have lowered the US qualificative, the same thing being made also by Dagong Global Credit Rating, the Chinese rating agency.

After this move made by the rating agencies, the more pronounced fluctuations of the markets started, fact which makes the economists to be much more pessimistic, many of these awaiting and preparing themselves for a new crisis, one hitting on two fronts, named « the twin crises », that of the US and that of Europe, destroying the economies. Fragile in front of such news, the stock exchanges reacted accordingly: they have bent strongly, so that the damages registered as a reaction to the human pessimism amounted to 4 thousand billion dollars, in only a few days of August 2011.

In 1998, Moody wrote to a German insurance giant, Hannover Re. Although Hannover was not a client of Moody's, the agency declared that it decided to evaluate it free of charge. Moody's started to evaluate the state of Hannover Re's debt, but the insurance company had already resorted to the services of S&P and AM Best (a smaller agency). After 5 years, in 2003, Moody's lowered (brought down) the debt of the company Hannover Re to the state of junk and due to the respect for Moody's evaluations, the shareholders got panic-stricken, sold their shares, and Hannover Re lost 175 million dollars in a single afternoon. Moody's refused to make comments as to what trap was set ahead.

The German insurance company, Hannover Re was an example that has outlined the power of "The Three Big" rating agencies which evaluate approximately 95% of the firms on the world market. It is difficult, if not impossible, to do something against them… Some specialists hold that the agencies worsen the evolutions, because of the "cooling" effect the downgrading have upon investments. "The rating agencies have fueled (nourished) the beginning of the financial, monetary and later on, economic crisis of 2008 - Christian Noyer, the governor of the Bank of France stated. Noyer's opinion outlines the paradoxical position in which the rating agencies got to be. Now it is said that they are too rapid (fast) in downgrading the governmental bonds. 7 years before, they were too slow in lowering the position of the toxic debts that have triggered the financial crisis. "During the sub-prime mortgage credits crisis – Larry Eliot asserted economic editorialist at The Guardian – the rating agencies were very, very lax".

In 2009, Moody's has worked out a report entitled "The fears of the investors with regard to the bad placement of the Greek government liquidities". After 6 months, Greece was in search for a salvation plan. In the meantime, it was said that S&P has wrongfully calculated the US current debt of approximately 2.000 billion dollars, when the USA credit rating downgraded. The Press called then the head of the team who drew up the accusatory report as – "the strongest man in the world never heard of ". But what if the S&P team and its boss were right? In the case of Greece it was seen that S&P was right. Whereas in the case of the USA the US cumulated debt was not incriminated, of around 16,000 billion dollars – almost as much as the USA GDP, but only the current debt, from the respective year. "S&P has shown an amazing lack of knowledge about the basic fiscal mathematics of the USA", the ex- American finance minister, Timothy Geithner declared, after S&P downgraded the credit rating AAA of the USA in the month of August 2011. "I am not a fan of the conspiracy theories"', Rainer Bruederle declared, ex-German minister of economy, after S&P, then threatened that it would reduce the rating of 15 EU member states in December 2011: "But sometimes it is hard to reject the feeling that some American rating agencies and fund managers act against the EuroZone", he stated .

European evaluations

The Prosecutor's Office in Trani (Italy) had opened at the end of 2010 an investigation regarding the manipulation of the market, further to a complaint worded (expressed) by local consumers' associations against a report of Moody's; the report made public in May 2010 yielded a negative effect upon the Italian shares. Moody's warned in that report particularly upon the risks the repercussions of a possible downgrading of certain European countries such as Italy would presuppose (imply) upon the banking system of the respective countries, the way it happened in Greece.

The investigation made by the Prosecutor's Office was further on extended upon the S&P agency, too, after the publishing of communiques concerning Italy, in the spring and summer of 2011, The Prosecutor's Office estimating that these contained ill-founded judgments with regard to this country, judgments which have had a negative effect upon the market. In May 2011, the S&P agency published a first communique announcing that it intends to decrease Italy's grade, and in July of the same year it published another communique in which it outlined the risks the objectives of reducing the deficit are confronted with, in spite of presenting a new austerity plan. In September 2011, S&P reduced Italy’s rating from A+ to A, to further on reducing it on January 20-th 2012, to BBB+.

Only a day before, on January 19-th 2012, the Italian police has searched into the head office of the S&P Agency in Milan, within the investigation for manipulating the market launched in 2010 against its rival Moody's, investigation that was subsequently extended, as already mentioned, upon S&P as well. Both agencies declared themselves to be surprised by and amazed at these investigations with regard to the independence of the evaluations made by them, being of opinion that such charges are entirely ungrounded. The agencies stated that they shall strongly defend their activities and reputation, inclusively that of their analysis.

At the beginning of the month of October 2015, the prosecutors from Italy were ready to reopen the wounds made (caused) by the debt crisis from the Euro Zone attacking a decision of downgrading Italy's sovereign (top) rating, made during the crisis, decision which placed the creditworthiness of this highly industrialized country at the same level with that of Kazahstan (Apostoiu, 2015). Five employees of the rating agency Standard&Poor’s and one of Fitch's are accused that they have caused unjustified damages to Italy by the role played in the rating decisions taken in 2011 and 2012. The case is a key one in a series of trials initiated at world level against the biggest credit rating agencies in the world for the role played by it in the financial crisis. What is unusual related to the trial that might be launched in Trani, south of Italy, is the fact that individual employees of agencies are accused, apart from agencies; having in mind the time elapsed since the S&P decision of downgrading Italy's rating, some of them having already left S&P and Fitch.

The Italians view the prosecutors' endeavor with skepticism. Italy's state auditor was recently scoffed at after having suggested that he might require the payment of damages of over 200 billion Euro since S&P did not take into account Italy's history, art and landscape at the moment of downgrading the country. Since 2012, Italy's rating has been continuously decreasing, to a stage over the junk statute, following the fragile economic growth and of one of the highest debt level in the world. At the end of September 2015, the judges from Trani have rejected the request for transferring the trial to Rome or Milan submitted by the defense. S&P and Fitch have rejected the accusations.

3 The concerted attack of the three American rating agencies

The three big rating agencies - have been strongly criticized at global level not only for having anticipated the credit crisis of 2008-2009, but also for having had a major contribution to the triggering of it by lack of involvement. The United States have reacted with indignation in August 2011 to this, when S&P left the world's biggest economy without the maximum “AAA” rating, however, they did not go as far as to bring an action against the agencies (Oncu, 2012). At the end of 2011, Fitch placed under surveillance, with negative implications, the qualificatives of Belgium, Cyprus, Ireland, Italy, Slovenia and Spain.

By mid-January 2012, Fitch had announced that it did not intend to lower the triple A qualificative granted to France provided that the situation in the Euro Zone would not worsen. Then, together with Fitch, Standard&Poor's announced on January 19-th 2012 that it downgraded the rating of ten countries in the Euro Zone – a step/grade or two and had maintained that of other 7, the decision being justified by the fact that the

European leaders had taken insufficient political measures for the recovery of the financial system. Thus, the qualificatives granted to Austria, France, Malta, Slovakia and Slovenia were downgraded a step lower, while the qualificatives for Italy, Cyprus, Portugal and Spain lost two steps/grades. Germany, Holland, Belgium, Estonia, Finland, Ireland and Luxemburg maintained their ratings.

After losing the excellence grade AAA by downgrading Austria on January 19-th 2012 by the rating agency Standard & Poor's, the representatives of the Austrian lands have expressed their opinions with regard to the applying of rectifying measures put forward. At the same time, the lands themselves have rejected repeatedly the proposals of the federal government, considered to be to the detriment of the local administrations and of the competences devolving from these. In an interview made with each and every regional governor individually, the Austrian daily paper Der Standard has outlined the attitude of the lands to the savings measures. The answers got have indicated the fact that the majority of the lands wanted concrete plans and targets for savings, and some of them had already started to apply those measures.

One day before the fatidic decision of the American rating agencies - on January 18-th 2012 – as if to justify their zeal because he was fully aware of their opinions, Jean-Claude Juncher, at that time president of the Eurogroup, currently president of the European Commission was declaring at a press conference at Luxembourg, that “the EuroZone is on the verge of an economic recession”, thus requiring to be found ways of sustaining the economic growth. “The budgetary Consolidation is an approach that has no alternatives. We must consolidate the public finances, but we must draw attention upon the need to endow Europe with a real growth policy, too”, Juncher also declared, who was then also prime-minister of Luxembourg. Like other European politicians, he minimized the decreasing of the rating of 9 states of the Euro Zone and of the European Fund for Financial Stability (EFFS) by Standard&Poor's: “The EFFS does not face problems in attracting funds from the markets in order to further lend the states in need”, the president of the Eurogroup declared, specifying that this means that the “shareholder” governments of the mechanism would not have to supplement their guarantees for the EFFS to regain the best qualificative, that of triple A. Anyway, Germany, which is the main contributor to the EFFS, would not accept such an addition.

“The same as others, I think that we must not pay a too great importance, nor a too great attention to the opinions issued by the rating agencies. I take them seriously and I want them to take me seriously, too”, Juncher also added, thus expressing his regret that these agencies did not take into account the efforts made by the states in the Euro Zone.

Then, Fitch Ratings has downgraded, on May 30-th 2012, the ratings of eight regions in Spain, among which that of Madrid, with one to three steps/grades, alleging structural budgetary deficits affecting the country, in full financial crisis. Apart from Madrid, the rating of which was reduced with a step/grade to the A-level, the other regions with downgraded qualificatives were Catalonia (with two grades/steps, to BBB), Astoria (with two grades/steps to BBB+), Andaluzia (with three grades/steps to BBB), The Basque Country (with two grades/steps to A+), Murcia (three steps/grades to BBB), The Canary Islands (with three grades/steps to BBB) and Cantabria (two steps/grades to BBB+). The decision was taken at a time when Spain was confronted with extreme tensions on the financial markets. The revising on the decrease of the ratings of the regions has reflected the difficult economic environment from Spain, marked by low budgetary incomes, as well as the structural budgetary deficits of the administrations, that have required considerable supplementary efforts to reduce them. Fitch has then evoked the difficulties in accessing the long term financing by the regions, some of them strongly indebted, given the conditions in which the interests rose sharply; Fitch stated that it appreciated the plan for budgetary stability of the government in Madrid, as well as the numerous austerity measures taken for the reducing of the budgetary deficit, but it added that there were applied but limited structural measures for ensuring the functioning of basic services, such as education and health.

It was then when at the beginning of June 2012, the other American agency of financial evaluation Moody's, has lowered the extreme limit rating of Greece, at the minimum level of “CAA 2”, highly speculatively, because of the risk existent at that time that the country would exit the Euro Zone. Moody's noted, still, that the Hellenic state's exiting the Euro Zone“ is not what the agency considers as the most likely scenario”. Greece's exiting the Euro Zone would have led to important losses for investors, further to the re-denomination of the state debt and of the bonds issued by private entities following the Greek laws and would have caused severe turbulences and perturbations in the country's banking system, as well as dislocations in the real economy. The economic impact would have yielded supplementary losses for the bond owners, irrespective whether they were issued under the aegis of the Hellenic state or of another country.

It was also at the beginning of June 2012, when in a foreseen (pre-established) scenario, the third American rating agency, Standard and Poor's estimated that the chances are “at least one in three” that Greece would get out of the Euro Zone, whereas in the report made public it also added that this fact should not have automatically negative consequences upon the peripheral countries (Mârza, 2012).

4 Suggestions (Proposals) for the European Rating Agency

Having in mind and focusing on all the transformations generated by the rating agencies, the reactions were there to come at once. The German Institute for Economic Research (DIW) from Berlin proposed, in January 2012, for the Bundesbank, the central German bank, to assume the functions of a rating agency. According to DIW, Bundesbank is the only public body having the necessary staff to counteract the power of the three big rating agencies. “Within the Bundesbank there is widespread knowledge about the financial markets, that I do not think are used sufficiently in the current crisis”, the economist Mechtild Schroeten from DIW said. The situation might change “if there existed the courage and wisdom of setting up the first public agency of risk evaluation within the Bundesbank”, the economist Mechtild Schroeten added, who also said that on short term she does not see (envisage) the possibility for the countries in the Euro Zone to create a rating agency in order to face the crisis, which actually happened.

The President of the European Support Fund for the Euro Zone (EFFS), Klaus Regling stated that the Euro shall resist the sovereign countries' debt crisis and will not collapse, adding that the investors' concerns with regard to a possible disappearance of the single currency are ill-founded. From here to the assertion that “No country shall be constrained to leave the Euro Zone”, was but a step. The erroneous logic series f actions of the EFFS president continued, among others, “the downgrading, on January 16-th (2012 – n.n.), with one step/grade to AA+, a EFFS rating by the Standard and Poor's agency has had little repercussions, since the other two big evaluating agencies, Moody's and Fitch, have chosen to confirm the AAA grade granted to the EFFS. In Regling's opinion, “it doesn't serve anything to be made such a fuss about all this, as long as it is only about a single evaluating agency. The EFFS grade actually depends directly on those of the states from the Euro Zone which guarantee it and illustrates the best evaluation of their debt”.

The first European Rating Agency (ERA) was meant to compete with the three big international agencies Standard & Poor's, Moody's Investors Services and Fitch Ratings. The same as the three big agencies, ERA would have covered all ratings, both for countries and for mportant companies throughout the world. The ERA founders had in mind a system of remuneration based on investitors and not on issuing bonds, the ex-system being considered the source of the conflicts of interests. The critics have accused Standard&Poor's, Moody's and Fitch that they have contributed to the triggering of the financial and economic crisis, granting very good qualifications to doubtful financial instruments.

The project of the first European Rating Agency (ERA) started to take shape at the beginning of May 2012, when 13 juridical persons came together, willing to finance this agency, and the first ratings has to be published in 2013. The initiators of the project managed to collect commitments amounting to 130 million Euro, out of a required total of around 300 million Euro, Markus Krall stated, ERA director-to-be, at a hearing in the French Senate.

Markus Krall has worked since 2010 – for almost two years since the outburst of the financial, monetary and economic crisis- to the project of the first European rating agency, after having resigned from the position of partner of the German consultancy group Roland Berger, in order to avoid a conflict of interests: “Our objective is to collect 300 million Euro, but we shall proceed in several stages. In a first stage, we aim at obtaining half the sum... Further on, we hope to be able to start perfecting the infrastructure, so that within approximately one year to be able to start attributing ratings”, Krall said.

Referring to the promises made, Markus Krall disclosed that 13 banks, insurance companies and financial markets have promised to participate each with 10 million Euro. “We are looking for the majority of investors outside Germany”, Markus Krall also declared, adding that the 13 investors already found are not in their majority German. “We are open to investors outside Europe and we have been approached by American and Asian investors”, Krall also said.

At the end of April 2012, the financial evaluating Agency Standard and Poor's has revised the rating of 16 Spanish banks with two stages and on the decrease, from A to BBB plus, the sovereign (top) credit rating of Spain, warning that the country might be compelled to make more loans in order to support the banking sector. The main banks vised by S&P were Santander – the first Spanish bank, Banco Bilbao Vizcaya

Argentaria – the second big bank in Spain, Banco de Sabadell, Ibercaja Banco, Kutxabank, Banca Civica, Bankinter, CaixaBank and Bankia.

The rating perspective of Spain was being negative then, which meant that a new downgrading could follow. The revising on the decrease of the sovereign (top) credit rating of Spain has lead to the increase of the borrowing costs of the country, since the investors have requested higher interest rates in order to compensate for the increased risk caused by the downgrading. S&P has appreciated that the downgrading of Spain's sovereign (top) rating has had negative implications upon banks, taking into account the Madrid Government's support granted to the banking sector.

A report made by the International Monetary Fund (IMF), published also at the end of April 2012 underlined the fact that the biggest banks in Spain were sufficiently capitalized and profitable in order to cope with a decline in the economic conditions, although the group of the ten state-supported banks was considered as vulnerable. The stress tests made by the IMF for approximately 90% of the Spanish banks have shown that most of them would be capable to face the worsening of the economic situation. Still, the IMF has held that a careful and thorough strategy for the “rapid and adequate clearing” of the banks with problems was essential for the solid banks not to be affected by the diminishing of trust of the markets in the banking sector.

The IMF has also warned upon the fact that, although the authorities in Madrid are focusing on solving the problems in the financial sector, some banks could have difficulties in accepting the new regulations concerning the capital. The perception (view) of the markets on enhanced risks on the sovereign (top) rating and the banking sector could add new pressure upon banks, particularly in the case of those with high demands of financing.

5 Conclusions

The rating agencies are financed by the companies and/or countries they evaluate. If a company or a country wants to be evaluated, it must pay a rating agency a considerable amount of money, according to the size of the company or the respective country. Theoretically, this thing creates a conflict of interests, the company or country pays the rating agency that evaluates it in order to grant it, according to its own ”subjective” method, the rating expected... A specialist in analyses of the kind, Alexandra Ouroussoff has spent 6 years interviewing persons involved in the rating agencies. The conclusion of her studies was clear: the agencies are as efficient as far as their clients are sincere (honest).

In the first part of the crisis of 2008-2014, France, followed by Italy have been on top of the European countries that have understood the game of the American credit agencies … The Agreement which some countries, inclusively France, would have wanted to be stricter, should have changed the way in which the three main rating agencies work - Fitch, Moody's and Standard&Poor's, not accidentally from the USA, but paid, in the great majority of cases by Europeans themselves. According to the proposals of 2012, the ratings of the countries were to be revised at a six months interval and not at a year, as it used to be until then. Has anyone heard of ratings granted to the European countries by the three big American rating agencies ever since?

One of the strongest reform bills vised the juridical responsibility of the agencies for their decisions, although it was not clear how this could have been put into practice: “The possibility of asking for the payment of damages for the breach of EU regulations should be at hand for anyone. It is proper for the rating agencies to be exposed to a potential unlimited juridical responsibility when the regulations are breached intentionally or with great negligence”, it was stated in the draft European Directive worked out at that time. Has anyone heard of this directive project (bill)?

Always accused that they are making the games of several strong investments funds in the world, the rating agencies have had a new regime after the crisis of 2008-2014. The EU member states have theoretically agreed upon consolidating the controls on the rating agencies, by a legislative proposal that quantifies the power of these bodies, which in their turn, evaluated the European states' sustainability of national debts, thus downgraded in the context of the economic crisis (Dumitrescu, 2012). The new regulations proposals had to become EU legislation after the end of their being discussed in the European Parliament and to facilitate the suing at court the rating agencies should it be considered that these make errors in evaluating and noting the sustainability of the national debts. The representatives of the EU member states have given their approval, by the half of May for supporting a draft European directive project, which should make more severe the European rules of functioning of these agencies, criticized that they have offered the maximum grade - triple A - to some countries, the debt levels of which proved to be unsustainable in the context of the financial crisis: ”The proposals aim at changing the legislation on the rating agencies in order to reduce the over trust of investors in the external credit ratings, to alleviate the risk of conflicts of interest to occur within activities of evaluating the credit rating and to enhance the transparency and competition in this sector”, it was shown at that time in a communique issued by the European Council. Has anyone heard of these directive proposals (draft)?

The American rating agencies mentioned have a more than direct link with the triggering and evaluation of the effects and consequences of a particular behavior followed by a firm or a country. For 2, 3 or 4 years of the 7 years that have elapsed since the latest and greatest economic and financial crises – the crisis of 2008-2014, that has negatively influenced the USA and the European Union - the three big American rating agencies afore-mentioned ”have set the rules of the game”. As usual, the European Union, was in this field too”at the back of the USA”, although it had tried to figure out and to make up its own rating agency. Nothing happened, the field has remained without any regulations and we, the consumers, naive citizens, are worriedly awaiting the next great crisis.

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Competitiveness Enhancement in A National Medical Institute

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Abstract: *The interest of the specialized literature for the competitiveness of the organization has derived, on the one hand, from the studies on countries and regions competitiveness and, on the other hand, from the concern of both managers and researchers about identifying effective ways of meeting customers needs and of dominating competitors. Basically, the competitive advantage could aim at either reaching a low cost of products or services or differentiating them in one or several ways against the competitor products. The competitiveness of an organization derives from the price / performance attributes of the existing products. An organization attains sustainable competitiveness if they succeed creating and maintaining several core competencies that would generate effects through replication and innovation. This approach may be adopted and applied as a specific definition of healthcare organizations competitiveness, as practice shows us that core competences become the fundamentals of the strategy and even competitive advantages and sources of key success factors. This paper aims at reviewing a healthcare unit having a single specialty providing high-performance and very high difficulty medical services. The original idea was to obtain a competitive advantage by introducing an entirely new, innovative treatment method to the clinic, which is also complementary to the medical services traditionally offered.*

Keywords: Competitiveness, competitive advantaje, endovasculartreatment, resources

Introduction

The Organization for Economic Cooperation and Development (OECD) defines competitiveness as “the capacity of competing organizations, branches, regions, and states of sustainably ensuring a high yield from the use of production factors, as well as a high income resulting from the efficient use of the labour force”.[1,2]While competitiveness at national level is most often seen as a means used to improve public services for enhancing quality of life based on a rational use of the country’s resources, competitiveness at organization level focuses on the capacity of companies of understanding the competition environment and of adjusting to the market needs.

As a matter of fact, Michael Porter shows that productivity is an essential factor in determining long-term quality of life, as this is the basis of the national income, while national competitiveness is expressed by national productivity[3](Porter, 2008). This approach could bring in the idea that countries enter competition to ensure a quality of life as good as possible for their citizens, while naturally searching for increasingly high productivity. In today's age of Globalization, the performance of a state is increasingly linked to the contribution companies bring to the national budget. Krugman considers that, in fact, “companies rather than states are the ones competing against each other”[4] (Krugman, 1994). His reasoning is related to the competitiveness outcome: if a non-competitive company cannot pay their employees, suppliers also become bankrupt; not the same applies for a state. Therefore, public policies become extremely important in shaping the companies’ competitiveness drivers by means of competition policy, tax system, subsidy award, etc. On the

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same page, we can also consider the opinion of the Competitiveness Advisory Group[5] (a group of 13 experts appointed by the European Commission in 1995 whose purpose is to study the European Union competitiveness) according to which the competitiveness concept involves productivity, efficiency, and profitability and it's a means of achieving social wellbeing without increasing inflation. Michael Porter[3] provides a clear delimitation: productivity is mainly the prerogative of national competitiveness, while efficiency, profitability, and achievement of market targets are related *par excellence* to the companies competitiveness[6] (Snowdon, Stonehouse, 2006).

The current competition context shows a clear distinction between static and dynamic competitiveness. Static, conventional competitiveness focuses on competition by price, as companies rely on the low cost of the labour force and of the resources, which enables them to maintain good competitiveness by keeping or reducing production costs[7] (Berinde, 2006). Dynamic competitiveness is associated with the fluctuating nature of the competition environment that not only focuses on the relationship between costs and prices, but also on the capacity of companies to think strategically, to learn, to rapidly adapt to the market conditions, and to innovate. Considering this, competitiveness is defined as the capacity of companies to permanently upgrade their technological facilities in order to manufacture competitive products (Berinde, 2006). Considering the economic reality in most fields, we are entitled to state the dynamic competitiveness approach is much more appropriate nowadays. An organization attains sustainable competitiveness if they succeed creating and maintaining several core competencies that would generate effects through replication and innovation. The factors that could contribute to the correct identification of dynamic competitiveness of an organization include: the leadership, the competences, and the resources of the organization, the strategic options and actions of the organizations and of their competitors, the current competitiveness level, the opportunities, and the threats within the competition environment[8] (Radu-Gherase, 2009).

The success of the organization mostly depends of the competitive advantages of the organization in relation to their competitors. The need of permanently assessing the competitive position of the company is essential for two reasons: (a) to assess their own capacity of entering and staying on the market (b) to achieve competitive positioning against their competitors, thus achieving competitive advantage.

Peter Drucker[9] has identified eight performance areas with a determinant role for the long-term success of an organization: positioning on the market, innovation, productivity, physical and financial resources, return, managers performance, employees performance and attitude, public responsibility. The achievement and/or maintenance of competitive advantages are considered core priorities for the management of the company. All managers should ask themselves questions regarding the advantages that have enabled their success previously, the advantages currently supporting their business in order to determine the competitive advantages that will ensure their further success.

According to Porter et al.[10], the competitive advantage of a company basically relies on ensuring a low cost of a product or service whose features differentiate it from similar products supplied by the other competitors. Innovation is the main source for effectively achieving competitive advantage. Schumpeter[11] defines innovation as one of the following:
- the emergence of a new product
- the emergence of a new market;
- the introduction of a new manufacturing method;
- the procurement of a new supply source
- the generation of a new form of organization of the specific industry.

The competitive advantage could essentially focus on the following two aspects:

A. the cost advantage is to achieve production costs below those of competitors by exploiting economies of scale, gaining experience or any other source of unit cost reduction, maintaining a certain parity or proximity in terms of quality. If cost reduction has a negative impact on quality, this competitive advantage becomes both inoperative and harmful. If buyers don't notice a big difference between the quality of the competitor products and the company's products, the company's profit will exceed the average because:

- low costs will enable the company to apply prices equivalent to those on the market;

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- the price reduction the company will agree upon will remain lower than the cost reduction.

The main factors contributing to cost reduction are:

a) economies of scale in various basic activities;
b) the degree of use of production capacities;
c) the degree of integration whose impact on the cost level varies depending on the industry;
d) the “experience” and knowledge transfer effects that organization had been able to benefit from in each activity;
e) low production costs due to a more stringent control of the resources used in the production processes;
f) privileged access to certain resources at very good prices
g) relationships with institutional partners (government, trade unions, public power, etc.) that are not accessible to all other competitors. Privileged contacts with certain institutions could enable important savings: financial exemptions, the absence of social conflicts, good prices, etc.

B. differentiation generates an above the average rentability of competitors if it enables the company to achieve a bonus in relation to the market price. The organization aiming at differentiating should have to carefully select the product attributes they wish to upgrade in order to pass the “originality test”. Additional profit will only be obtained if differentiation does not involve an increase of the manufacturing costs that exceeds the potential price increase.

Nowadays, the reviews on the competitive advantage are less dogmatic, as the idea that this results from a multitude of factors (without emphasizing the special importance of one or another) is accepted. M. Porter[3] has suggested the “value chain” model that has already been adopted by many specialists, despite a few disadvantages it shows.

The value chain consists of breaking the activity of the companies into strategically relevant activities for the purpose of understanding the behavior of costs and of identifying the potential differentiation sources. It consists of two categories of activities:

- primary activities, i.e. the ones directly related to the manufacture of the product / service and its selling, including the post-sale services;
- support activities that ensure material, technological, and work force entries necessary to perform primary activities.

The two major opportunities to win the competitive battle are: cost strategies and differentiation strategies. Technical progress and, in particular, technology have a determining role in developing and implementing both types of strategy.

Technical progress and cost-based advantage

As already known, obtaining a cost advantage involves obtaining products at a lower cost than competition, which either allows for price reductions or increases the profit margin.

The influence of technical progress is seen as a bidirectional influence:

1. **The positive influence in terms of cost reduction** - manifests itself through the effect of experience, which is based on several factors that can be grouped into 3 categories:

- factors of the learning effect;
- factors of the scale effect and tracking;
- innovative factors.

2. **Negative influence in the sense of diminishing the experience effect** is found when technical progress involves the assimilation of new products, which in practice involve the restart of the experience effect from a higher level, even a previous level. Also, the assimilation of new technologies also entails an increase in fixed costs and, based on this, an increase in future costs if an increase in production is not achieved under efficiency conditions.

The possibility of increasing competitiveness within a National Medical Institute (INNBNV) whose main activity is specialized healthcare in the field of neurology, neurosurgery and neurovascular emergencies, developed within an integrated program with higher medical education and high-level scientific research, by setting up a department of endovascular interventions, is further analyzed. The goal is to treat, as a matter of urgency, all patients with a pathology whose impact on the population is very high in terms of mortality and morbidity. Studies conducted in European countries that already have neurovascular emergency diagnosis and treatment units show that the economic loss caused by severe debilitation or death resulting from these neurovascular emergency cases not treated in a timely manner amounts to hundreds of thousands euros[12,13].

[12]Dan Molyneux AJ, Kerr RS, Yu LM, Clarke M, Sneade M, Yarnold JA, Sandercock P. International Subarachnoid Aneurysm Trial (ISAT) Collaborative Group. International subarahnoid aneurysm trial (ISAT) of neurosurgical clipping versus endovascular coiling in

The social and economic impact of neurological up to the most severe disabilities affecting an active population is very high. The establishment of an emergency service that can also provide quick endovascular treatment in addition to microsurgical treatment aims at significantly reducing major neurological sequelae.
In terms of the analysis of the Institute performance indicators, this was carried according to the data provided by the medical statistics service of the institute.

Indicators of human resources management

Table 1 - Indicators of human resources management

Indicators of human resources management	%
The proportion of doctors of the total personnel employed by the hospital	12.21
The proportion of medical personnel of the total personnel employed by the hospital	85.64
The proportion of higher education medical personnel of the total medical personnel	16.16

Economic and financial indicators

Table 2 - Economic and financial indicators

Economic and financial indicators	Value
Budget execution	100.47%
Percent of own income of the total income	92.66%
Percent of personnel-related expenses of the total hospital expenses	39.70%
Percent of medicinal products-related expenses of the total hospital expenses	14.41%
Percent of capital expenses of the total hospital expenses	6.30%

Table 3 - Structure of expenses per type of services

Structure of expenses per type of medical services	%
Ongoing hospitalization services	87.48%
National healthcare programs	0.00%
Applied research	0.00%

Based on the review of the **strengths** (clinical base, well-trained medical personnel, hospital circuit appropriately equipped with information systems, relatively good material endowment, relatively good accommodation conditions) and **weaknesses** (high consumption of resources, relatively high maintenance costs, insufficient and inadequate personnel structure; lack of donations and sponsorships, lack of health and research programs, lack of a radiology interventional department) as well as **opportunities** (the possibility of attracting additional funds through research and national programs, the possibility of concluding contracts with the private healthcare funds; the diversification of the medical services offer the patient would benefit from) and **threats** (legislative amendments that require the restructuring of the departments or the reduction of the number of beds inconsistent with the pathology and the specifics of the activity, the lack of adequate funding from the Health Insurance House; legislative limitation of salary incentives; the reduction of the selection and recruitment base of medical personnel), the critical problems within the institute were identified:

- the lack of healthcare programs and research activity, although research is the priority goal of a national institute;
- inappropriate personnel structure: the shortage of qualified secondary and higher education personnel caused by restrictions of employment and the migration of nurses to the EU countries;

2143 patients with ruptured intracranial aneurysms: a randomized comparison of effects on survival, dependency, seizures, rebleeding, subgroups, and aneurysm occlusion. Lancet, 2005 Sep. 3-9, 366: 809-817aila L, Stefanescu F. Anevrismele cerebrale. Ed. Academiei Romane. Bucuresti, 2007

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- increased financial risk determined by the procedure of concluding contracts by hospitals, based on an estimate of the number of hospitalized cases and of the average rates per case;
- the random increase in the number of patients being discharged without knowing the incremental cost;
- the absence of a Department of endovascular interventions.

As regards the SWOT analysis of the project, the internal environment factors, the external environment factors as well as the threats to the project for the development of an intervention department within the above-mentioned institute have been analyzed.

Overall, **the internal environment** has more strengths than weaknesses. This is due to the fact that the unit is recognized throughout the country for the outstanding results obtained in the microsurgical treatment of cerebral aneurysms. This provides a very rich and varied case database that can be treated by endovascular treatment with very good results.

The external environment comprises many more variables, both as opportunities and as threats. This causes most threats, and these are more difficult to control and anticipate because they are external. These are usually related to the economic environment, mentalities, and unfortunately, even to the political environment in our country.

The external factors that positively impact the project are:

1. The evolution of the healthcare system in the EU countries, and not only the ones in the developed West European countries, but also the neighboring countries have such emergency units for neurovascular pathology. For example, Hungary has two such units (Budapest and Szeged) with outstanding results.
2. The medical technology permanently and spectacularly progressing. While new developments in microsurgical treatment do not occur so quickly, materials used in endovascular treatment are developing much quicker.
3. The adjustment of services to the population requirements. Patients are increasingly informed, as mass media and the internet are now available to anyone. Everyone wants to benefit from the most modern techniques, within the shortest time, and as minimally invasive as possible.
4. Many Romanian patients with a very good financial status go the other European Union countries for treatment. Some of these patients pay the treatment themselves, others use the forms of the National Health Insurance House that reimburses the cost of the treatment, justifying that the specific therapeutic intervention cannot be performed in our country. It is easy to understand that the NHIH would prefer to reimburse the costs of these medical interventions carried in Romania, where prices are lower and thus, they would be interested in investing in the establishment of these neurovascular emergency care units.
5. Mass media support that usually promote the establishment of units aligned to the European standards and which are expected to provide positive outcome.
6. Access to European funding has become increasingly easy from a technological point of view; a consistent, well-documented, with predictable and well-grounded results would have high chances of receiving financial support from European funds.

However, there are several external factors that negatively impact the project:

1. The lack of financial resources - the main obstacle in starting any healthcare project. 2. The National Health Insurance House does not reimburse endovascular interventional procedures for the treatment of cerebral aneurysms. This hinders the quick implementation of this procedure within the neurovascular emergency unit. The only money provided by the system for this specialty are obtained through a national program run by the Ministry of Health.

3. Reluctance to new things in the current healthcare system. There is an inertia in the implementation and application of new structures, even if they have been existing for a long time within the healthcare system of civilized countries. The implementation of healthcare policies on an long- and medium-term is difficult.

Key factors that could impact project execution

DECISION MAKERS	INTERESTS	IMPACT ON THE PROJECT	POWER (1-5)
1. The Ministry of Public Health	❖ achieving the result ❖ the control of funds and activities ❖ avoiding responsibility in the event of a failure or even negative feedback	+ - - +	5

	❖ obtaining political or electoral support		
2. The National Health Insurance House	❖ decreasing the hospitalization time and the related costs ❖ solving cased that would require the same treatment in another country with much higher costs ❖ co-financing the funds paid by the MPH (Ministry of Public Health)	+ + -	4
3. The local authorities (the city hall)	❖ improvement of public image ❖ winning electoral support	+ +	3
4. The hospital	❖ improvement of treatment quality, resulting in a lower mortality and morbidity index ❖ cost reduction ❖ improvement of MCI (mixed complexity index for the treated case) ❖ improving the prestige of the institution by creating a high-performance unit	+ + + +	2
5. The Ministry of Labour	❖ decreasing the number of persons with severe disabilities (grade I), thus reducing the costs of their premium ❖ reducing temporary work incapacity	+ +	2
6. Healthcare materials and medicinal products companies	❖ increasing the sales and profit ❖ image leverage	+ +	2
7. The Association of Romanian patients	❖ high-performance treatment, i.e. improvement of the quality of life and the patients satisfaction ❖ saving money necessary for healthcare materials that is now supplied by the MPH	+ +	2
8. Non-governmental organizations	❖ reducing the number of disabled people within the population	+	1

The department to be created has well-established organizational strategies regarding the healthcare services provided and the personnel-related aspects, and these must be entirely complied with.

Organizational and behavioral strategies, skills and competences of employees

1. Innovation - overspecialization and expertise acquired in similar services abroad
2. Quality - ongoing training of medical staff
    - thoroughness and dedication for the work carried
    - teamwork
    - communication skills
3. Decrease of hospitalization time
    - emergency treatment
    - high qualification of the personnel
    - teamwork
4. Cost reduction
    - avoiding wastage
    - multiple qualification
    - strictness and thoroughness
5. Personnel training
    - mastering the use of information technology
    - foreign language proficiency

Stakeholders involved in the operation of this unit have been identified, their interests and power regarding the application of such a project are established in order to draw up a strategy where these factors can be stimulated.

Stakeholders analysis

Internal stakeholders

1. Doctors - high interest, low power
2. Healthcare personnel - decreased interest, decreased power
3. Auxiliary and maintenance personnel - decreased interest, decreased power
4. Hospital managers - increased interest, increased power
5. Heads of departments - increased interest, low power
6. The Ministry of Health

External stakeholders

1. Patients - high interest, decreased power
2. 2. The neurology society – decreased interest, low power
3. Companies supplying medical equipment and healthcare materials - high interest, low power
4. The society of neurosurgery and neuroradiology - high interest, low power
5. Press and mass media - low interest, high power
6. MPH, NHIH, local authorities - low interest, high power

After identifying the stakeholders involved in the project and the potential reluctance reasons of each of them, a settlement plan can be developed for conflicts that can arise due to changes, new situations, fatigue, unpredicted expenses, etc. Stakeholders are, on the one hand, part of the hospital staff and, on the other hand, the governmental institutions managing the activity and that can assign important financing sources.

STAKEHOLDER	**REASON OF CHALLENGING**	**PLAN FOR CONFLICT SETTLEMENT**
Doctors	Intrapersonal – high amount of work, stress Interpersonal and intra-group – treatment failure in emergency cases Inter-group – the introduction of a new therapy concept (endovascular embolization) will result in adversity and resilience from neurosurgeons	Accurate scheduling of the monthly working time The establishment of a behavior code within the group and enhancing trust between the members of the group The development of unitary practice protocol, upon the agreement of both groups Attracting the groups in the program extension
Healthcare personnel and auxiliary personnel	Intrapersonal – the increase of the amount of work, high and sustained qualification requirements Interpersonal – controversies related to the manner the tasks are fulfilled Intra-group – disagreements in relation to responsibilities and duties	Obtaining salary bonuses and organizing EMC (ongoing medical education) courses Strict assignment of tasks and work schedules
MPH, NHIH, local authorities	Increased costs Unsatisfactory results create an unfavorable public image The existence of other priorities within the healthcare policy	Explaining the advantages related to the establishment of such a service through the decrease of morbidity and mortality rate that in the end result in cost reduction Promoting the good results obtained and highlighting the support received from local and central authorities Lobby for prioritizing the program

A GANT chart was also created for the specific project

Activities	L 1	L 2	L 3	L 4	L 5	L 6	L 7	L 8	L 9	L 10	L 11	L 12
1. Determining the project team, responsibilities assignment, setting up the existing location												
2. Staff recruitment												
3. Purchasing healthcare materials necessary for interventional procedures												
4. Training sessions for members of the unit – Romanian expert (18 sessions)												
5. Conducting 2-3 training sessions for members of the unit – foreign expert												
6. Training in similar units within the EU – 10 persons												
7. Starting permanent emergency care activity												
8. Information of ambulance dispatches, SMURD, hospital emergency rooms about the opening of our unit												
9. Promotion in mass media, magazines, medical congresses, posters and boards, and press conference												
10. Review and assessment												

The establishment of this department could be financed by:

- The Ministry of Health through the National Program of Cerebrovascular Disease and through programs intended for healthcare emergency units
- The Ministry of Labour and Social Protection through European programs aiming at decreasing the number of people unable to work and who require special social conditions
- European structural funds
- Multinational manufacturers of instruments and equipment used for the diagnosis and treatment of neuro cerebrovascular disease.
- Foundations and non-profit organizations whose activity covers the submitted program.

If such a department would be established, the expected results refer to:

- Improving the performance of the hospital by increasing the efficiency, effectiveness and quality of medical services;
- Wide coverage, as this would be an unique department specialized in the simultaneous surgical and endovascular treatment of cerebrovascular diseases;
- Increase of the institute's own income through payments per service;
- Decreasing the average time of hospitalization, the patients being discharged after a few days;
- Selection and differentiated approach towards neurovascular emergencies that will be quickly admitted, examined and treated;
- Intervention in the acute phase, that is within the first few hours after a stroke, that could save many lives.

Conclusions

The establishment of units for the diagnosis and treatment of neurovascular emergencies is extremely important for our country given that we are discussing a pathology that results in high mortality and morbidity rates, with significant social and financial costs, if not treated in a timely manner. We are among the last countries in the EU not having this type of units within the healthcare system.

It is true that the establishment of such units involves costs, and these could be too high for a system where investment in healthcare is always scarce. But benefits throughout time are extremely important. In addition to being a major cause of mortality, the neurovascular pathology that is not appropriately treated results in the most severe disabilities. And this means a substantial financial burden for the government, considering that it affects a relatively young population, thus with a high life expectancy. If treated in a timely manner and by experienced doctors, the neurovascular pathology could lead to spectacular results.

Nowadays, a modern diagnostic and treatment unit clearly involves an endovascular embolization service rather than just a micro-neurosurgical service. Ideally, this project should be a pilot for further development of such emergency care units across the country, covering evenly the Romanian territory and meeting 24/7 requirements when it comes to neurovascular pathology. But the project has to adapt to the economic realities, and aims at showing the easiest way in terms of financing, viability and speed to put into practice for a neurosurgical service in Romania.

Considering the specificities of the mentioned institute, the endovascular embolization department complements the treatment of this pathology specifically in cases where neurosurgery cannot offer the best treatment solutions.

The learning curve and the development of authentic specialists are not easy to achieve and they require time, but benefits are outstanding. This trend is irreversible and in the shortest time we will surely become an European state in terms of emergency treatment of neurovascular pathology.

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The Impact Of Public Procurement Law To The System Of Public Finance

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Abstract: *Public procurement law lays out the processes and procedures that public agencies, authorities, or departments should follow when procuring work or service using public funds. The law stipulates the threshold at which public entities should use public procurement instead of private procurement. Effectively, public agencies spend a considerable amount of government revenue on public services. However, controversy exists on the relationship between government spending and private sector investment. It also remains unclear as to whether public procurement law improves financial management. Thus, the purpose of this study is to determine the relationship between public procurement law and the crowding-out effect, taxes, and finance. The study relies on quantitative research design where data was collected from a sample of 130 participants who comprised of public procurement officials, private investors, and the public. Using a questionnaire, the findings showed that public procurement law increases government spending that in turn crowds out the private sector instead of crowding-in. The need to fund projects often compels government to increase taxes and in turn incur budget deficits due to lack of adequate finances. However, public procurement laws enhance financial planning and control.*
Keywords: *Public procurement law, crowding-out effect, financial management, taxation*

1. Introduction

Public procurement entails the acquisition of good, works, and services by a public authority or a procuring entity with the aid of public funds. With the need to ensure a level playing field in the procurement process, countries have enacted public procurement laws to regulate the purchase of public services. The authorities are mandated to follow the established procedure in awarding the contract. The law requires the procuring entities to put in place mechanisms for public procurement for services exceeding a specified threshold (European Commission, 2011).

The regulations govern the management and expenditure of public resources and effectively help in ensuring prudent financial management. However, the rise in public spending is considered to affect investment in the private sector in what is popularly known as crowding-out and crowding-in effect (Basar, Polat, & Oltulular, 2011; Devarajan Swaroop & Zou, 1996). Similarly, public procurement plays a critical role in financial management. It requires the concerned entities to follow the best practices and observe the principles of transparency, accountability, and efficiency in the procurement process. However, it remains unclear whether the public procurement regulation has a positive impact on financial management. Thus, this paper aims to address the relation between public procurement and the crowding-out effect, public finance, and taxes. So finally the main objectives of the paper are: to determine the relation between public procurement and the crowding-out effect; to examine the relation between public procurement law and taxes and to investigate the relation between public procurement law and public finance.

2. Theoretical Principles of public procurement law

Public procurement is a powerful exercise. It demonstrates policy choices and represents the processes involved in the delivery of public services. It provides economic freedom and depicts trade relations among economic players. Essentially, public procurement is a significant non-tariff barrier and it works as an obstacle to the functioning of a competitive internal market (Koninck & Ronse, 2008). Regulation of the procurement process encourages competitiveness and contributes to significant cost savings in the public sector. The EU law provides a platform for all businesses operating in the region. It sets out the minimum public procurement rules that guide procurement process. These public procurement rules are transposed into member states' laws and apply to tenders whose value exceeds certain threshold amounts (Baldan & Pirvu, 2013). If public tenders do not reach a certain threshold value (or below it), national rules of member states' budgetary laws will apply. Although the EU aims to ensure that its economic policy obeys the principles of an open market economy and free competition, public procurement requires authorities to develop a positive regulatory approach. That is why public procurement has now become an essential element of the EU in ensuring a competitive economy. The purpose of this research paper is to examine the EU public procurement law and recommends ways to improve enforcement and the procurement process in the region.

2.1. Directives

The primary legislation that regulates public procurements within the EU is in the public procurement directives. They include Directive 2004/17/EC that coordinates procurement procedures in the energy, transport, postage, and water services (McCrudden, 2007). A recent 2014/25/EU supersedes that 2004/17/EC Directive. Directive 2004/18/EC coordinates procedures involved in the award of public works, service, and supply contracts (OJEC, 2017). Similarly, a recent 2014/24/EU one supersedes the 2004/18/EC directive. Directives 2004/18EC and 2004/17 EC are now Old Directives. The New Directives replaced them following a consultative process coupled with a series of legislative proposals. These rules regulate the purchase of goods and services by the member states and their various bodies. The new rules simply contain procedures of public procurement and make them flexible to the advantage of businesses. They pave the way for electronic procurement that is expected to increase the effectiveness of the procurement process. For example, only winning firms submit the papers to show that they qualify. As a result, the new directives will reduce the documentation required (Thai et al., 2016).

Besides, the procurement law includes several specific rules for different sectors. Defense Procurement Directive (Directive 2009/81/EC) focuses on defense and security. Regulation EC1370/2007 focuses on public transport sector by road and rail. Directive 2007/66/EC amended Directive 92/13/89/665/EEC to increase the protection of tenderers against breaches of the law by contracting authorities when they award public contracts (McCrudden, 2007). It sets out the requirements concerning the remedies necessary for the violation of public procurement procedures (OJEC, 2017). European institutions establish directives as the legal instruments to achieve flexibility. The directives provide discretion to the member states regarding the method and form of implementing public procurement rules. They have the ability to harmonize public markets while considering the existing divergences in the legal systems of different states. The directives ensure that legal systems conform to the objectives of the European Community. However, it must be acknowledged that the divergences will remain. Essentially, this attributes to the fact that the EU does not have the power to override existing national legal regimes and impose a different one (Kapteyn & Verloren, 1989).

Although the New Directives address some of the inherent weaknesses in the Old Directives, issues of transparency still arise (Andrecka, 2016). For instance, Directive 2014/24/EU has not yet clarified the uncertainties that involve in the operation of single and multi-supplier frameworks (Andrecka, 2015). Although one can affirm that some level of transparency exists, it is only present at the pre-award stage. Currently, there are inadequate provisions to guarantee transparency, especially during the award stage of the contract. One of the key issues that arise is the lowest price offer that contracting authorities should accept. A transparent or competitive pattern does not guarantee and provides safeguards against underpriced patterns. However, it automatically disqualifies abnormally low offers as in the case of SA Transporoute ET. Travaux v. Minister of Public Works [1982]. Even so, the New Directives allow for the achievement of societal goals, including environmental protection, as well as stimulation of innovation. They improve efficiency in public spending largely by simplifying existing rules as well as introducing flexibility in the procurement process.

2.2. Governing Principles

The contracting authorities in the public sector are subject to the EU General Principles even when the procurement itself is outside the scope of the New Directives (Ebrecht & Werner, 2017). These principles encompass equal treatment, non-discrimination, proportionality, mutual recognition, and transparency. Others include free movement of products and freedom to provide services. For public sector procurements that are outside the scope of the New Directives, the overriding principles are competition, transparency, and equal treatment. These principles require potential bidders to access the suitable information regarding the intention to award certain procurement. Therefore, it means that they should advertise to ensure that the contract is available to all parties to allow fair competition. The European courts have reinforced these principles in different case laws. In Commission vs. Ireland, the Court of Justice of the European Union (CJEU) concluded that the modification of the contract award criteria after reviewing the bids violated the principles of transparency and equal treatment.

2.3. Importance of Public Procurement

Public procurement in the EU is a matter of immense economic value. According to BDI (2017), awarding public contracts to businesses is critical in meeting the public needs and ensuring a cost-effective use of public resources. It also serves as an important factor that allows companies or organizations from different parts of the world to compete fairly. In the EU, member states award public contracts that exceed 2.2 trillion EUR annually (Ebrecht & Werner, 2017). This figure accounts for approximately 12-19% of the GDP. Indeed, these figures show a macroeconomic value of public procurement. Thus, from an economic perspective, public procurement legislation aims to bring competitiveness, increase the penetration of imports, enhance trading of different public contracts, and bring about price convergence (Baldan & Pirvu, 2013). From a legal perspective, public procurement law is essential as it supports the free movement of people, goods, and services, and prohibits discrimination based on the nationality of an individual (Bovis, 2002). Thus, its liberalization reflects the desire of European institutions to end discrimination and preferential purchasing patterns in the public sector. It also shows the wish to create seamless interstate trade links involving both the private and public sector. Due to the importance and value of public procurement, European institutions have developed several rules at a national, regional, and international level. The goal is to create a predictable legislative framework that guides public procurement.

Table 1 Public Procurement Tresholds of the years 2016/2017

PUBLIC	Supply, Services and Design contracts	Works contracts	Social and other specific services
Central Government	135,000 EUR	5,225,000 EUR	750,000 EUR
Other contracting authorities	209,000 EUR	5,225,000 EUR	750,000 EUR
Small lots	84,000 EUR	1,000,000 EUR	n/a

UTILITY	**Supply, Services and Design contracts**	**Works contracts**	**Social and other specific services**
Utility authorities	418,000 EUR	5,225,000 EUR	1,000,000 EUR
DEFENCE AND SECURITY	**Supply, Services and Design contracts**	**Works contracts**	**Social and other specific services**
Defence and Security authorities	418,000 EUR	5,225,000 EUR	1,000,000 EUR

Source: European Commission.

3. Literature Review

3.1. Public Procurement Law

According to the World Bank Group (2018), most countries have enacted public procurement laws which outline the rules and processes that must be followed in public procurement. Most international financial organizations require countries to establish transparent and competitive bidding process in order to receive funding for infrastructural projects. The procurement law requires governments or the procuring authority to publish tenders publicly when the procurement is of a certain threshold (Europa, 2018). According to the European Union (2018) over 250,000 public entities in the EU spend nearly 14% of the GDP on public services. In efforts to establish a level-playing field, the EU law lays out the harmonized procurement rules that stipulate the way public authorities purchase goods and service. According to Fairgrieve and Lichere (2011), public procurement represents over 15% of the EU GDP.

3.2. Public Procurement Law and Crowding-Out Effect and Taxes

Crowding-out arises from expansionary fiscal actions (Sundararajan & Thakur, 1980). Increase in government spending through taxes or debt issuance may curtail investment in the private sector leading to a situation, where the sector feels crowded out (Carlson & Spencer, 1975). Further, Atukeren (2005) indicates that increased government expenditure arising from public procurement laws that requires government to publicly procure goods often leads to excessive borrowing in the capital markets. In turn, the interest rates increase due to the competition for the limited financial resources. As a result, the cost of obtaining capital increases for the private sector, which in turn slows down private investment (Erden & Holcombe, 2005). As Atukeren (2005) indicates, excessive government borrowing to finance public projects often makes the private sector unprofitable. The authors indicate that investment in public infrastructure results to a positive impact on investment in the private sector in the short term. However, some other types of public investment often result in crowding-out (Dash, 2016).

Basar et al. (2011) indicated that the relation between public procurement and private investment is a highly debatable issue. Thus, they investigated the impact of government spending on investments in the private sector within the context of crowding-in and crowding-out hypotheses. Using data from Turkey that had been collected between 1987-2007 combined with Johansen-Juselius cointegration analysis, they observed that total public spending and interest payments by the government resulted in a positive impact on private investments (Basar et al., 2011). Thus, their findings validated the crowding-in effect hypothesis and rejected the crowding-out effect. Based on their findings, they argued policies that increase public expenditure should be adopted to stimulate investments in the public sector. Similarly, Ahmed and Miller (1999) explored the impact of government expenditure on private investment. The researchers observed that public expenditure on the infrastructural projects increased private sector investment while public sector spending on social security and welfare resulted in a crowding-out effect.

Simcoe and Toffel (2011) examined the connection between public procurement policies and private sector investment in green buildings. The study was guided by the need to determine whether a preference for public procurement stimulates the private sector to develop innovative products. They observed that public procurement policies motivate professionals to invest in their respective sectors and also fuels the demand for green buildings in the private sector. Thus, government procurement policies serve as a means for increasing investment in the public sector. Similarly, both Bazaumana (2004) and Miguel (1994) observed that public investment leads to a crowding –in effect as opposed to crowding-out effect on investment in the private sector. The latter obtained data using Johansen co-integration analysis while the former gathered findings in Mexico. Similarly, Cruz and Teixeira (1999) examined the effect of government spending on private sector in Brazil. Using data from 1947-1990, they observed a crowding-out effect in the short term, but in the long –term a crowding-in effect occurred.

3.3. Public Procurement Law and Finances

Public procurement law and financial management are correlated. As Sarfo and Baah-Mintah (2003) indicate, financial management is comprised of all activities involved in obtaining and utilizing finances effectively. These activities include financial planning, financial control, and financial decision making. Public financial management lays emphasis on efficiency, effectiveness, and economy. Public procurement is critical towards achieving sound financial management by ensuring that there is value for money spent on public projects. Maithya (2014) conducted a study to determine the impact of public procurement laws on financial management among Kenyan public hospitals. The authors indicated that due to the high volumes of government expenditure on procurement, efforts had to be made to enact a law that would govern public procurement within the public sector. This aimed at ensuring effective management of public finances. Consequently, the Kenyan government created the public procurement & disposal Act of 2006. The regulations aimed to bring fairness and an a just system for effective financial management. Using a sample of 45 employees drawn from the procurement & the finance unit of the respective public hospitals, coupled with an additional 20 percent of the suppliers, the authors issued them with a questionnaire (Maithya, 2014). The researcher observed that public procurement law had improved financial control and planning. However, the regulations had not enhanced financial debt management. According to Abebe (2013), public procurement regulations demand high standards of accountability, transparency, and efficiency to ensure efficient delivery of public services. The law calls on the respective parties to adopt the best practices in the management of public expenditure based on the three principles. Efficiency is critical as it ensures that the public obtains value for money. Transparency is also critical as it encourages fair competition among the suppliers. Both transparency and accountability help in promoting integrity that, in turn, prevents corruption in the procurement process (Lynch & Kobo, 2013). Thus, these principles contribute towards efficient management of public resources and finances.

3.4. Summary and Gaps in the Studies

A close analysis of the literature shows the inconsistencies in the findings. While some studies argue that public procurement and by extension government spending creates the right conditions for private sector investment, other studies affirm the contrary. At the same time, some of the studies argue that public procurement squeezes funds from the public and compels governments to increase taxes in order to meet the costs of public procured services. It is also not clear as whether public procurement laws, improves the overall financial management in terms of planning, controlling, and debt management.

4. Methodology

4.1. Introduction

This section outlines the research method used to answer the study objectives. It describes the research design, the sample, data collection, and instruments for data collection. The chapter also describes the data analysis, validity and reliability of the methodology, and the ethical considerations made.

4.2. Research Design

The paper adopted a quantitative research design. This approach was considered as the most valid one based on the purpose of the study. It would allow the researcher to collect data from a large sample size and make it possible to make generalizations. The quantitative approach was easy to operationalize and analyze the data due to the standardized data collection method (Mugenda & Mugenda, 1999). Over and above, the method was considered as the most appropriate based on the fact that the study aimed to establish relationships between the independent variable of public procurement law and dependent variables of crowding-out effect, taxes, and public finance.

4.3. Sampling

The sample population included public procurement officials, economic experts, the public, and investors in the private sector. The diversity of the sample allowed the researcher to obtain more objective data by drawing responses from across the board. The selection of sample size was guided by Mugenda and Mugenda (2003) who indicates that a sample of between 10-30% of the targeted population is adequate for generalization. A total of 150 participants were recruited where some were from the Ministry of Health and others were investors in the private sector. With the need to ensure diversity in the sample, purposive sampling was used to access information from the right people.

4.4. Data Collection

The respondents were conducted via e-mail or telephone and informed about the purpose of the study. They were contacted to arrange for the convenient time to conduct the survey. They were then issued with the surveys through their respective email where they were required to fill them out and return completed survey forms via e-mail. The researcher used closed ended questions to standardize the respondent's responses and reduce the time they would take to complete the questionnaires.

4.5. Validity and Reliability

Validity entails the degree to which the results reflect the issue or subject under study. It can also be defined as the extent to which a data collection instrument measures what it intends to measure (Ngechu, 2004). In this case, the validity of the findings was guaranteed by the use of the right survey instruments with questions that were tailored to answer the research questions. The reliability describes the degree to which the findings can be replicated by another study at a different point on the same population (Neuman, 2000). Reliability was guaranteed by the choice of a large sample size.

4.6. Data Analysis

In analyzing the data, the researcher checked the questionnaire for completeness to make ensure that the data was consistent. Descriptive and inferential statistics were used where the analyzed data was presented in tables.

5. Results

5.1. Demographic Information

A total of 150 participants were recruited and issued with the questionnaires. Out of this number only 130 of them completed and returned the surveys representing 87% response rate. This percentage implied that the data was significant for data analysis considering that Mugenda and Mugenda (2003) indicate that a 50% response rate and above is valid. Out of the 13 participants, 100 (77%) were men while the rest were women 30 (23%). Nearly 38% of the participants were aged 26-35 followed by 30% above 46 years, 18-25 and 36-45 both at 15% each. A large portion of the respondents were officials in public procurement and finance departments in the Ministry of Health at 46%, followed by those in the private sector at 38%. The remaining were the public at 15.4%. Nearly 70% of the participants had a university education and above with the remaining having a college education and high school certificate in equal percentages. Over and above, 84% of those surveyed were German nationals and the remaining 16% expatriates. Indeed, this demographic information shows the diversity of the participants that collectively helped to improve the accuracy and generalizability of the findings.

Table 2 Showing Demographic Information

Variable		Number	Percentage
Gender	Male	100	77
	Female	30	23
Age	18-25	20	15
	26-35	50	38
	36-45	20	15
	46+	40	30
Occupation/ Designation	Public procurement officials in procurement and finance departments	60	46
	Private sector investors	50	38
	Public	20	15
Highest Education	University and above	90	69
	College	20	15
	High School	20	15
Nationality	German	110	84
	Expatriate	20	15

Source: own processing

5.2. Relationship between Public Procurement Law and Crowding-out Effect

Participants' responses to these questions were examined and summarized in table 3 below.

Table 3 Participant's responses on public procurement law and crowding-out effect

Question	Responses Yes		Responses No	
	Number	Percentage	Number	Percentage
Public procurement law has streamlined the procurement process and enhanced the delivery of public services	110	84	20	15
Public procurement law has helped to develop key infrastructural facilities	80	62	50	38
Public procurement law has milked the financial resources that would be available to private investors	80	62	50	38
Public procurement law has reduced private investment	70	54	60	46

5.3. Relationship between Public Procurement Law and Taxes

Table 4 Participant's responses on the connection between public procurement law and taxes

Question	Responses Yes		Responses No	
	Number	Percentage	Number	Percentage
Public procurement law has increased taxation on the citizens	100	77	30	23
Public procurement law has led to a hike in the price of basic commodities to fund government spending on the projects	80	62	50	38

Source: own processing

5.4. Relationship between Public Procurement Law and Public Finance

Table 5 Participant's responses on the impact of public procurement law on public finance

Question	Responses Yes		Responses No	
	Number	Percentage	Number	Percentage
Public procurement law has increased interest rates	80	62	50	38
Public procurement law has reduced the amount of money for the private sector	100	77	30	23
Public procurement law has increased budget deficits (poor financial debt management)	90	69	40	31
Public procurement law has improved financial planning	100	77	30	23
Public procurement law has improved financial control	90	69	40	31

Source: own processing

6. Discussion

6.1. Public Procurement Law and Taxes

The public procurement law stipulates that government projects above a specified threshold should be awarded to contractors through the laid down processes and procedures. While procurement in the private sector is mainly funded by shareholders and the founders or owners, the funds utilized in public procurement originate from loans and grants as well as taxation (Lynch & Kobo, 2013). When asked whether the amount of taxes on the citizens have increased due to the public procurement law that requires government agencies, departments, and organizations to publicly procure goods and services, an overwhelming 77% of the respondents affirmed with a yes. This confirms that even the public procurement officials were aware of the deleterious impact of increased government spending on projects. In fact, one of the respondents indicated that the government cannot run without taxes from the citizens.

6.2. Public Procurement Law and Crowding-out Effect

When asked whether the public procurement law has resulted in crowding-out effect, 62% of the participants indicated that it has reduced the amount of financial resources available to the private sector, while another 54% stated that it has reduced investment in the private sector. The responses confirm the crowding effect that is brought about by increased government spending. The responses correspond with Carlson and Spencer (1975) who found out that increased government spending through taxes or debt issuance, often impedes investment in the private sector by making it feel crowded-out. For instance, massive government spending in the health sector would effectively kick out private investors due to the lack of demand for their service. If the citizens can receive adequate health services at a lower cost, then it would not make any economic sense for a private investor to consider establishing a hospital to provide similar services. Thus, the feeling of being crowded-out arises as the investors perceive the government to have invaded in the sectors that should have been left for private investment. The responses from the participants conflict with those reported by Basar et al. (2011), Simcoe and Toffel (2011), Bazaumana (2004) and Miguel (1994) who observed that government spending increases investment in the private sector through a crowding-in effect.

6.3. Public Procurement Law and Public Finance

Regarding the relationship between the public procurement law and public finance, 69% of the respondents indicated that it had an increased budget deficit. The law has made it mandatory for government agencies, departments, entities, and organizations to publicly procure goods. As a result, there is increased demand for money. When the government cannot secure financing from the taxes, it resorts to loans from international financial organizations and foreign countries. This phenomenon is quite evident in developing countries where governments have resorted to massive borrowing to finance public infrastructural projects. As a result, these countries have huge budget deficits. Similarly, when asked whether the public procurement law has reduced the financial resources available for the private sector, 77% of the respondents agreed. The competition for money increases when the government increases spending on infrastructure. As a result, the lenders prefer lending money to the government as opposed to private entities which in turn means that the private sector has a few resources to fuel investments. Similarly, the cost of capital increases, which is a disincentive to the private sector. When asked about the efficiency that public procurement law brings in the management of finances, an overwhelming majority indicated that it improves financial planning and control. The responses correspond with Maithya (2014) who found out that public procurement law, enhanced financial planning and control in public organizations. However, the present study established that public procurement regulations did not improve financial debt management. The fact that public procurement laws require the respective parties to follow the best practices and embrace the principle of accountability, transparency, fairness, and efficiency explains why the regulations enhance financial planning and control.

7. Conclusion

Public procurement law sets a level playing field for procuring public goods and works. The law requires public entities to embrace the best practices by observing the principles of fairness, accountability, and fairness, and efficiency.

It is for this reason that it is considered as the cornerstone of efficient financial management in the public sector. However, it has unanticipated negative impacts on the private sector and taxation. The provision in the law that requires government entities, departments, or organizations to publicly procure services when they are of a certain threshold often leads to a crowding-out effect.

As observed in this paper, massive government spending must be funded by higher taxes or loans which implies that it increases taxation on the citizens and elevates the budget deficits. Similarly, by publicly procuring key services, governments edge out the private sector as they reduce the opportunities for the investor. Although critics argue that government spending provides a foundation through infrastructural projects that in turn increase the incentives for private investment, the present study found contrary results. Public procurement laws increase government spending where government borrow excessively from the capital market that in turn increases the interest rates that, in turn, increase the overall cost of capital for investors, which eventually lowers private invest.

Over and above, public procurement law improves financial planning and control, but it does not enhance financial debt management in public institutions and entities.

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Appendix

Questionnaire

The questionnaire contains three sections. You are required to tick “Yes” or “No” to the respective questions in each section.

Gender: □ Male □ Female

Age: □ 18-25 □ 26-35 □ 36-45 □ 46+

Occupation/ Designation: □ Public procurement official in procurement / finance department
□ Private sector investors
□ Public

Highest Education: □ University and above
□ College
□ High School

Nationality: □ German
□ Expatriate

Section A: Relationship between Public Procurement Law and Crowding-out Effect

1	Public procurement law has streamlined the procurement process and enhanced the delivery of public services	Yes	No
2	Public procurement law has helped to develop key infrastructural facilities		
3	Public procurement law has milked the financial resources that would be available to private investors		
4	Public procurement law has reduced private investment		

Section B: Relationship between Public Procurement Law and Taxes

5	Public procurement law has increased taxation on the citizens	Yes	No
6	Public procurement law has led to a hike in the price of basic commodities to fund government spending on the projects		

Section C: Relationship between Public Procurement Law and Public Finance

7	Public procurement law has increased interest rates	Yes	No
8	Public procurement law has reduced the amount of money for the private sector		
9	Public procurement law has increased budget deficits (poor financial debt management)		
10	Public procurement law has improved financial planning		
11	Public procurement law has improved financial control		

Explaining Power Over the Investee - the Rights that Give the Possibility to Directs the Investee`s Relevant Activities

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Abstract: - The links created on all levels between the parent company and its subsidiaries have generated along time debates regarding the regulations applicable in the audit activity in order to protect the above mentioned entities. Throughout this paper we will progressively describe the pylons that represent the foundation of the regulations subject to the audit activity in this organizational environment.

Key-Words: - financial statements, subsidiaries, audit activity, regulations, interests

1 Introduction

Power arises from rights. Sometimes assessing power is straightforward, such as when power over an investee is obtained directly and solely from the voting rights granted by equity instruments such as shares, and can be assessed by considering the voting rights from those shareholdings. In other cases, the assessment will be more complex and require more than one factor to be considered, for example when power results from one or more contractual arrangements

In the consolidation process, one of the most significant steps is the determination of the power the investor has over the investee.

A thorough analysis must be performed on all aspects of the control and weather the investor has or doesn't the power to direct the investee's relevant activities. An investor with the current ability to direct the relevant activities has power even if its rights to direct have yet to be exercised.

Evidence that the investor has been directing relevant activities can help determine whether the investor has power, but such evidence is not, in itself, conclusive in determining whether the investor has power over an investee.

2 Attention over „the possibility to direct" and not to effectively apply the power

The power resides in rights. To have power over the investee, an investor needs, to have rights that provide the possibility to direct the relevant activities of the investee.

Therefore, establishment of the power is made on the investor's possibility to direct the relevant activities of the investee. The International Financial Standard Consolidated Financial Statements - IFRS 10 does not require the investor to use its power. An investor that has the possibility to direct the relevant activities of another company has power over it even though this power is not exercised.

Moreover, the evidence that states an investor has directed the relevant of an investee can aid in determining the investor has or hasn't' power, but this proof alone is not the determining factor in assessing that the investor has the power.

An investor can have the power over an investee even if other entities have rights that provide them the ability to direct the relevant activities (e.g. another entity has a significant influence).

3 Rights that give an investor power over an investee

The rights that can give an investor power can differ between investees[1]. Different types of rights that, either individually or in combination, can give an investor power over an investee include, but are not limited to:

 Rights in the form of voting rights (or potential voting rights);

 Right to appoint, reappoint or remove key members of the investee’s management personnel who have the rights to direct the relevant activities;

 Right to appoint, reappoint or remove another entity that directs the relevant activities;

 Rights to constrain the investee to intro or veto in matters that can benefit the investor;

 Other rights (such as rights written in management agreements) that gives the owner the possibility to direct relevant activities.

4 Evidence to be taken into consideration when the assessing is difficult in matters of determine whether the rights of an investor are enough or not in order to provide power

When there is difficult to assess whether an investor’s rights are sufficient to provide power, the investor should consider evidence regarding whether it has the practical ability to unilaterally direct the relevant activities. Also, considerations must be given to whether:

- The investor can, without having the contractual right to do so, appoint or approve the investee's key management personnel who have the ability to direct the relevant activities;
- The investor can, without having the contractual right to do so, direct the investee to enter into, or can veto any changes to, significant transactions for the benefit of the investor;
- The investee's key management personnel are related parties of the investor (e.g. the chief executive officer of the investee and the chief executive officer of the investor are the same person); and/or
- The majority of the members of the investee's governing body are related parties of the investor.

In some cases there can be indications that the investor has a special relationship with the investee, suggesting that the investor has more than a passive interest in the investee.

The existence of any individual indicator or a particular combination of indicators does not necessarily mean that the power criteria are met. However, having more than a passive interest in the investee indicates that the investor has other related rights enough to give it power or provide evidence of existing power over the investee. In combinations with other rights, the following may indicate that the investor has power over the investee[2] :

 The investee's key management personnel who have the ability to direct the relevant activities are current or previous employees of the investor;

 The investee's operations are dependent on the investor, such as in the following situations:

- other investee depends on the investor to fund a significant portion of its operations;
- other investor guarantees a significant portion of the investee's obligations;
- other investee depends on the investor for critical services, technology, supplies or raw materials;
- other investor controls assets such as licenses or trademarks that are critical to the investee's operations; and/or other investee depends on the investor for key management personnel, such as when the investor's personnel have specialized knowledge of the investee's operations;

 A significant portion of the investee's activities either involve or are conducted on behalf of the investor; and/or;

 The investor's exposure or rights in terms of returns from its involvement with the investee is disproportionately greater than its voting or other similar rights. For example, there may be a situation in which an investor is entitled or exposed to more than half of the returns of the investee but holds less than half of the voting rights of the investee.

[1] The International Financial Standard Consolidated Financial Statements - IFRS 10:B14.

[2] The International Financial Standard Consolidated Financial Statements - IFRS 10:B19

The higher the exposure, or right, to the variation of profits by involving within an investee, the higher the stimulant for the investor in obtaining enough rights that provide power. Therefore, having a high exposure to profits uncertainty represents an indicator of power for the investor.

However, taking into consideration the investor's exposure is not enough for assessing whether the investor has od doesn't have power over the investee.

5 Substantive rights

In assessing whether an investor has it has the power or not, an investor is taking into consideration only the substantive rights in relationship with the investee. Substantive rights that are to be taken into consideration are the one held by the investor and other third parties. For an right to be substantive, its owner must have the practical ability to use that right.

Determining whether the rights are substantive on not, judgment must be applied by taking into account all factors and circumstances. The international standard IFRS 10 states a non-exhaustive list of factors to be taken in consideration:

-Whether there are barriers (economical or other) or not that can prevent the owner/owners or not in using their rights.

-When the use of rights implies an agreement between more individuals or when the rights are owned by more than one individual, whether there is or not a mechanism that supplies for the parties the practical possibility to collectively use the rights if they choose to;

-Whether one or more parties that owns rights would benefit or not from using the rights.

Moreover, for the rights to be substantive it must be used in the moment in which the decisions regarding the relevant activities must be taken.

Examples for the identification of substantive rights:

1. The investee holds the annual shareholders meeting in order to take decisions that will direct the relevant activities of the company. The next shareholders meeting will be in 8 months from now.

However, the shareholders that individually or collectively hold at least 5% of the voting rights can request an extraordinary meeting that can modify the actual policies regarding the relevant activities, but also have the obligation to inform the rest of the shareholders with the extraordinary meeting with at least 30 days in advance. The policies that alter the relevant activities can be modified only within an extraordinary or normal shareholders meeting. Those policies may include the approval for the sale of the company's significant assets and also purchase or disposal of significant investments.

2. An investor holds the majority of the voting rights over an investee. The investor's rights are substantive due to the fact that the investor can take decision that can direct the relevant activities of the company at the time it is needed. The fact that these actions must be announced within 30 days ahead does not prevent the investor in using the voting rights that he holds in order to direct the relevant activities from the moment he obtained the shares.

3. An investor that holds an option for purchasing the majority of shares from an investee due in 25 days. This option grants the investor substantive rights and the possibility to direct the relevant activities of the company even though he hasn't used its option.

4. An investor holds a forward contract for the purchase of majority of investees' shares with no other rights. The maturity term of the option is 6 months. Opposing to other examples presented above, the investor does not hold the possibility to direct the investee's relevant activities. Present owners have the possibility to direct the relevant activities due to the fact that they can alter the policies regarding the relevant activities before the forward agreement reaches maturity.

Substantive rights that can be used by other parties can prevent an investor to control the investee. These rights do not require that the owner has the possibility to take decisions. As long as the rights are not protective, substantive rights held by a third party can prevent an investor to control the investee even though the rights provide to their owner only the possibility to approve or deny decisions in relationship with the relevant activities.

6 Protective rights

In determining whether certain rights provide the investor with power over the investee or not, an investor must determine if its rights or the rights of other are protective or not.

Protective rights are determined as rights designed to protect the interests of a party which owns these rights without giving the respective party power over the investee.

Taking into consideration the nature of the protective rights, an investor that only holds protective rights cannot own the power and cannot prevent another party to hold the power over an investee.

Examples of protective rights include:

- The right of a party that has granted a loan to prevent the loaned parties to run certain actions that ca significantly alter the credit risk from the loaned to the loaner.
- The right of a party that holds non-controlling interests over an investee to approve significant capital expenditures than normally needed or to approve the investee to issue capital or expenditure instruments and
- The right of a party that has granted a loan to execute the asset of the loaned entity in the situation in which the loaned party does not fulfill its contractual provisions in respect of reimbursing the loan.

In certain situations, structured entities are incorporated for holding one asset. The procurement of this asset is financed through a loan for which the assets represent also the role of collateral guarantee. In the situation of non-compliance with the contractual provisions, the loaner holds the right to own the asset but does not own the recourse right over other assets the loaned structured entity or over another's entity assets. At the moment the entity is incorporated, it shall own only the above mentioned assets and the loan used for procurement.

The fact that a structured entity holds only one asset does not modify the evaluation that the entity that has granted the loan holds or doesn't the protective rights to seize the asset. If the rights are protective by nature, it should be treated as such no matter if these rights refer to one or more assets held by the entity of if it refers to only one asset. The purpose of the rights needs to be settled for the party that has beneficiated from the loan if it is intended to provide the loaner the power over the loaned party or only protection of the interests' for the loaner by the loan agreement.

Example: Potential rights that prevent the shareholders of the majority of voting rights to have control:

Entities A, B, and C hold 60%, 20% and respectively 20% of shares in Entity D. There is an exception at the time the potential rights are used for decisions made over the relevant activities of Entity D that are being made only by the majority of votes at the general shareholders assembly.

Despite the fact that shareholders of Entity D have signed an agreement in which Entities B and C have potential rights at the shareholders assemblies regarding the acceptance or decline of actions taken by Entity A regarding the relevant activities. If Entities B and C use their potential rights, the proposed actions will be approved only of the shareholders on minimum 75% of voting rights agree.

In the above described circumstances, the rights owned by Entities B and C are not only protective rights. Potential rights do not only protect the interests of Entities B and C but also provide the possibility to prevent another party (Entity A) from taking unilateral decisions regarding the relevant activities of Entity D. Taking into consideration potential rights held by Entities B and C, Entity A does not hold control of Entity D.

7 Relevant activities are directed by voting rights

Frequently, voting or other similar rights provide power for the investor, individually or in combination with other agreements. For example, the general case in which an investee has a pallet of financing and operational activities that significantly affects its profits that require significant decisions to be taken constantly.

I. Power by a majority of voting rights

An investor that holds the majority of voting rights within an investee holds the power in the following situations (except the above mentioned ones):

-Relevant activities of the investee are directed by a single vote of the majority voting holder or

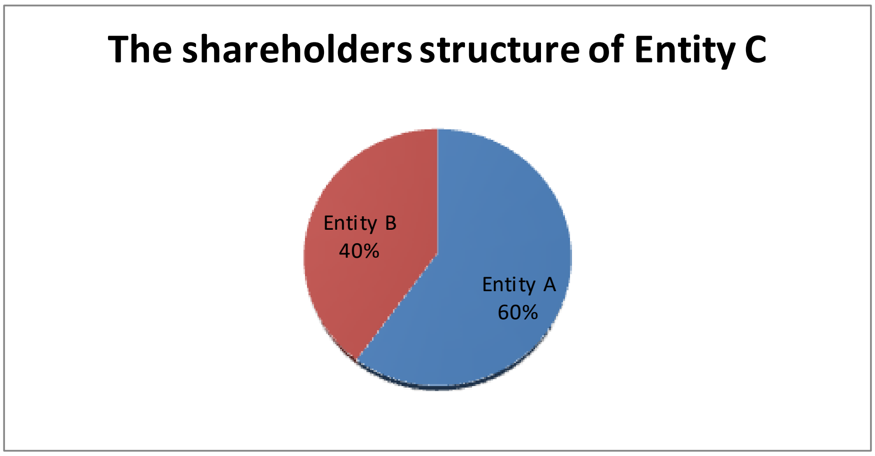
- A majority of members from the governance body that directs the relevant activities of the investee is named by a vote of the majority voting rights owner.

Example: Relevant activities of an investee are directed by a shareholder with a majority of voting rights within the investee:

Entities A and B hold 60 % and respectively 40% of the ordinary shares of Entity C. Relevant activities of Entity C are directed by the majority of voting rights within the shareholders assemblies. Each ordinary share carries by itself a vote in the shareholders assembly. If no other factors are taken into consideration (eg. Agreements between the shareholders of Entities A and B that have other provisions) the relevant activities of Entity C are directed by the entity that holds the majority of votes.

As a result, in absence of other significant factors, Entity A holds the power over Entity C due to the fact that it holds the majority of votes within Entity C.

Fig. 1 The shareholders structure of Entity C

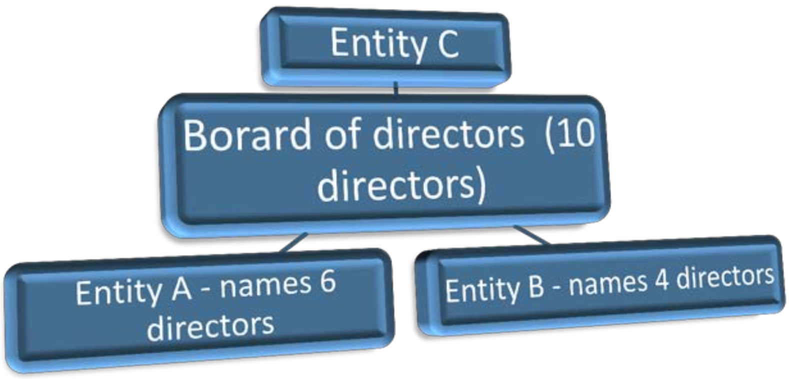


Source: issued by the authors

Example: Relevant activities of an investee are directed by a governing body and the majority of the members are named by the shareholder that holds the majority of the voting rights in the investee

Entities A and Entity B hold 60%, respectively 40% of the Entity C ordinary shares'. The investee is governed by the Board of directors. Entities A and B are entitled to name 6, respectively 4 directors, proportionally with the shares they own. As a result, in the absence of other relevant factors, Entity A holds the power over Entity C due to the fact that it has the right to name the majority of directors in the Board, therefore to direct the relevant activities of Entity C.

Fig. 2 Components of Entity C



Source: issued by the authors

II. Majority of voting rights but no power

An investor that holds more than half of the voting rights of an investee will have power over the investee through these rights only if the rights are significant and provide the investor the ability to direct the relevant activities, ability that is mainly made by determining the operational and financing policies.

Sometimes even though the investor holds the majority of voting rights of an investee, it doesn't necessarily hold the power. This situation is found at the time the investor holds the majority of voting right, put these votes are not substantive. Accordingly to IFRS 10, there are two situations:

- The situation in which another entity holds rights that provide the possibility to direct the relevant activities of an investee and that entity does not represent an agent of the investor, the investor does not possess the control over the investee.
- The situation in which the relevant activities of the investee are directed by a Government, Court House, Administrator or another regulatory factor. In these circumstances, the owner of the majority of voting rights cannot have the power.

It is not to be assumed that naming and administrator or liquidator will prevent the entity that holds the majority of voting rights will have the power. Rather than otherwise, it is necessary to be taken into consideration if the power held by the administrator or liquidator is enough to prevent the investor in directing the relevant activities of the investee. Although most often is the case of liquidation, these situations do not lead to the loss of control held by the entity that holds the majority of voting rights.

III. Power obtained with less than the majority of voting rights

The international standard IFRS 10 provides the information that an investor that holds less than the majority of voting rights of an investee can have the power over the investee. An investor can have the power in the following circumstances by:

- An agreement between the investor and the other parties that hold voting rights;
- Rights that are provided by certain contractual provisions;
- Voting right of the investor, if there are sufficient to provide the practical ability to direct the relevant activity;
- Potential voting rights;
- A combination of the above mentioned.

8 Power in the situation in which voting rights have no significant influence over the profit of the investee

In contradiction with the above mentioned situations, in certain circumstances voting rights can have no impact on the investee's profits (ex. The situation in which a contractual agreement determines the direction of the relevant activities and the voting rights has impact only in the administrative responsibilities).

In the situation the investee is structured in such a manner that voting rights do not represent a dominant factor in determining the controlling part, an investor must, also, give increase attention for these aspects when it takes into consideration the purpose and the structure of the investment:

- Risks at which the investee has been incorporated to be exposed;
- Risks at which the investee's has been incorporated to transfer towards involved parties and
- If the investor is exposed at any of the mentioned risks.

In such circumstances, considerations regarding the risks include not adverse risks but also the favourable risks.

"Information economy involves sophisticated maximizing behaviours that lead to the signing of complex contracts."[3] All the risks attributable to an investee do not necessarily associate with the relevant activities. Even though a certain risk can be present and affect the involved parties, the entity does or doesn't have in its structure means to diminish the risk. As a result, a relevant activity may not be found in relationship with that risk (for example the documents of financing the entity may include activities to diminish the exposure risk).

In the situation in which a risk is associated to a relevant activity, an investor won't be able to influence the variability of returns that can occur from that risk. As a result, the estimation of the first and third element of

[3] Grigore, M. Z. (2009). Information economics, instrument of analysis in new microeconomics. *Lex ET Scientia International Journal (LESIJ)*, *16*(2), 362.

control (the power of an investor over and investee and the ability to use its power to influence the amount of profit of an investee) would be concentrated on other present risks to which the relevant activities are associated.

Nevertheless, if a relevant activity cannot be associated to any risks, the variability that emerges from that risk must be analysed from the point of view of the decisional factor that can be the principal or the agent.

Example: Risks that is not associated to any relevant activities

An entity is incorporated for the procurements from a financial institution mortgages over some residential investments with a value of 100 Million UM at a fixed rate on 30 years. The entity is financed by 100 Million UM on a period of 3 years and guaranteed with subordinated debt titles.

Every month, the owner of the subordinated debt titles receives interest payments along with the interest reimbursement from the mortgages and any encashment of principal is used to cover the instalment subordinated to the loan. The documentation regarding the incorporation of the entity forbids it to cease its mortgages, procurement of investment are hiring derivative transactions.

Therefore, the entity exposes its investors to the following risks:

- Credit risk – the risk that mortgages will not be paid;
- Prepayments risk – the risk that the mortgages will be reimbursed in advance and the amount of interest will be reduces;
- Interest risk – the risk that the net book value of fixed instalments of mortgages will fluctuate along with the modification of the interest rated on the market.

Due to restrictions in place, the possible actions to be taken in order to manage the prepayments risk or the interest risk do not exist, therefore no relevant activity can be associated to these risks.

Analysing the fact that an investor has or not the power over an investee in influencing the amounts of profits will, in this case scenario, focus on the credit risk. In this respect, the investor must identify the activities associated to the credit risk and who holds the ability of taking decisions in this matter.

"In current activity, banks facing with a large range of risks related to credit operations and commercial activity, which may generate profit mitigation or even losses. One of these risks is the operational risk, which are a major source of financial loss in the banking sector and which importance grows up in the same time with financial globalization and banking activity diversification"[4] , fact that influence at a high level all the decisions that an investor has to make, as a result of taking into consideration all the inherent risks.

4 Conclusions

In applying the consolidation standard's provision a thorough analysis must be performed due to the fact that there are lots of aspects to be taken into consideration. As we presented in the above analysis, there are several steps and details to be taken into consideration in order to properly asses whether an investor has the relevant rights that provide control over the relevant activities of the investee.

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Yield and Risk - The Basic Coordinates of Socio-Economic Development Programs

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Abstract: *Public policies are implemented through larger and smaller public programs and projects that have to comply with very strict governance conditions. Evaluating the net benefits generated by public programs or projects allows for the identification of the cost-effective ones in order to select them. For this purpose, a lot of indicators, mainly the Net Present Value (NPV), both in financial and socio-economic terms, as well as the recovery period, are being constructed, the probabilistic modeling of which provides the information needed to determine the public spending performance, public expendityres financing the national economy development. Development and implementation of the public programs are faced with risks, their prediction being a complex approach. For the identification of risks, a wide range of values of indicators involved in risky actions is assigned so that probability appraisal of the occurrence of those risks can be made, including their impact upon environment and / or community. The mix of the probability of producing the risk and its impact leads to the identification of most of its manifestations, so that we can retain to evaluate the program only the significant risks. The paper also presents the most important criteria for the selection of the development programs / projects, focusing on addressing economic and social benefits, expressed in monetary terms. The cost-benefit analysis that must accompany any public project proposal will identify both its utility for the intended community and externalities, positive and / or negative, that will be a factor of impact upon the NPV.*

Keywords*: yield, risks, socio-economic development, appraisal, Net Present Value (NPV)*

1. Introduction

The analysis of the impact of the projects implemented in the economic and social environment for which they are conceived reveals important differences (gaps) between the information contained in the project and those obtained after its implementation. The risks generated by these gaps can produce significant negative effects and should therefore be estimated as accurately as possible, to prevent its being necessary to propose treatment methods for disposal or only reduction.

The gaps that may appear in socio-economic assessment have different causes, but most of them are produced by underestimating the costs and overestimating the benefits to be considered in the cost-benefit analysis underlying any feasibility study. To assess the level of risk in a project, statistical laws of functional distribution of sources of error are used: normal law, beta law, Gamma law, which are applies to available information, which also implies a risk.

There are several methods of risk management, most of which are of a quantitative nature, generally of a high degree of complexity, such as scenario analysis; sensitivity tests - Current Socio-Economic Net Value, etc. Qualitative analysis is a simpler, descriptive method and is therefore used for small-scale projects.

2. Methods of evaluation of macroeconomic development programs and projects

The assessment of macroeconomic and sectoral development programs can be achieved (* * * , 2011) by using several methods, such as:

- cost-benefit analysis, which calculates the net benefit (the sum of the results minus the sum of costs, expressed in updated monetary values), which provides information on the performance of a program. This analysis involves the observation of the impact of the actions proposed in the program concerning the most important aspects of economic and social activity. Currently considered a basic element for designing and evaluating any public program or project, this method involves the use of techniques for updating and estimating economic and social risks involving sophisticated statistical-mathematical models, as:

- multicriterial analysis, which seeks to satisfy multiple options simultaneously, each of these options being aimed at achieving a specific objective. The approach of this method requires the estimation of each set of option - impact - objective, the determination, generally by probability calculations, of the coefficients for each criterion, etc. ;

- the cost-effectiveness analysis is intended to be a simpler version of the cost-benefit analysis because it attempts to propose to achieve the objectives specified in the program or project with lower costs. However, using this method raises a number of issues if the results are to be the basis for making public policy decisions. Thus, some social aspects can be ignored; also, if the impact of proposed actions on the economic and social environment is not analyzed, negative externalities can occur which can not be ignored by the responsible public authorities. In addition, if certain costs are not taken into account, it may be possible to see an important difference between the estimated output of the program or project and the actual one that will compromise that policy;

- the development of macroeconomic, statistical and mathematical models that use databases containing medium and long-term variations of macroeconomic indicators describing developments at national and supra-national level - for example across the Union European or Eurozone. For the information produced by these models can also be used at lower levels: local, regional, microeconomic, they can be introduced as exogenous sizes in the models specially designed for those levels.

In the wide range of methods and techniques used to evaluate public programs (Le Maître – Sétra, 2014), two are most commonly used: macroeconomic scenario-based methods built on probabilistic estimates and methods based on the introduction of a lump-sum premium that expresses the risk in the discount rate of all financial and social sizes, denominated in monetary terms.

The selection of programs according to the criteria previously formulated by public authorities takes into account the foreseeable sensitivity in the different macroeconomic scenarios, which will be estimated for the main components of the net present value (NPV).

In the macroeconomic scenarios, the initial stage is represented by the probabilistic distributions of the indicators describing the added value gain achieved through the implementation of the proposed program.

3. Definition of the risks

A public program or project presents and substantiates the proposal to carry out an activity that will improve the characteristics of the economic, social, natural, technical environment, etc. In order to achieve the established objective, the program or project will allocate resources, use appropriate mechanisms and achieve results that should lead to the goal expressed in public policy. During the implementation period of the program / project, the risks may appear to disrupt the operation according to the program or project provisions and the ex-ante analysis of these risks is intended to diminish and even eliminate the effects of these risks, hence the importance of knowing them.

In the category of economic risks, two different categories are distinguished: systemic and non-systemic risks. The former are macroeconomic risks that affect the newly created national level (which can be expressed by the macroeconomic indicator Gross Domestic Product (GDP) or similar indicators, National Income (VN), Gross Global Product (PGB) or Net (PGN)

- non-systemic risks are those risks perceived as belonging to the assessment inability of those conducting the assessment operation. They may be confronted with insufficient information on macroeconomic and social indicators, the use of non-performing or inadequate software for high issues, the lack of reliable information on the evolution of the macroeconomic indicators, etc. ;

- systemic risks are generated by its functioning, as described by macroeconomic indicators, such as GDP and other assimilated ones. If they vary, it is expected that the level of development and, implicitly, the quality of life of the community will vary accordingly. In this respect, both public institutions and other organizations involved in macroeconomic forecasting activities elaborate several scenarios on the development of the economy as well as its main sectors.

All evaluations are based on the components of the internationally recognized macroeconomic indicator: GDP per capita at purchasing power parity (PPP). Considering the components of GDP formation, ie Gross Value Added (excluding asset depreciation) and net indirect taxes (involving fiscal policy coupled with commercial policy), it will be possible to follow the behavior of the community towards the potential of national gains, balancing the risks detected to achieve these earnings.

For this purpose, two statistically determined quantities are computed and compared based on the multiannual macroeconomic information: the hope of the key indicator (in this case, the NPV) :

E (NPV – NPV equivalent = the risk premium that the collectivity would agree to bear in order to avoid the risk, where E (NPV) = NPV hope,

and the NPV equivalent = current, net present value of a risk-free program / project in the sense that the NPV is not dependent on macroeconomic developments, ie GDP variation, which shows the equivalence with the preference of the community not to face risks.

4. Methods of risk assessment

- Scenario-Based Methods

Within each scenario, input and output financial flows are calculated to determine the net value of the value added, then the updated utility expectancy is calculated using the risk-free rate to calculate the NPV equivalent.

- Beta-based methods

Beta methods consist of computing the updated value of the macroeconomic indicators and their components retained in the program by completing the discount rate with a program / project specific risk premium, followed by the ways of applying the algorithm used for the scenario method.

The variation of the utility of the community in a certain economic and social environment, determined at the date of evaluation, follows two situations:

- without implementation of the project, so that only the foreseeable evolution of the current environment will be predicted. This situation is the reference situation, to which the analysis of the differences and, implicitly, of the benefits and risks generated by the proposed development project will be reported;

- the situation in which the project is being put into operation: the updated value of the equivalent NPV project is added to the existing wealth;

The updated sum of the annual community collectivity sampling values, calculated for the assessment period, will follow the same algorithm:

- without implementing the project, considering only the current year's (Ct) fuel wealth;

- the situation in which the project is put into operation, when the random gains obtained in the current year through project implementation are added to the random gain of the reference situation.

When the community has a risk aversion, the equivalent NPV is less than the hope NPV, in the sense that it would prefer to obtain a certain gain (NPV equivalent), rather than the uncertain gains that the risk situation would bring. The difference between the NPV's certainty and the expectation of NPV is what the community is willing to pay to avoid the risk, and this quantity is defined as a risk premium.

This risk premium is the product of the community's aversion to risk and is calculated by the actual value of the correlation between the annual benefits of the project and the wealth obtained by the community through its implementation in that year, a correlation that is quantified by the covariance of these two statistical variables.

As a project is most often aimed at replacing or completing an already existing service offer, the socio-economic assessment will attempt to estimate the cost-effectiveness of a project by comparing two situations obtained in a future context: one where the project is not realized (reference option), the other is the project. In the next sequence, the change process will focus on the clear definition of the overall macroeconomic context or the "baseline scenario", and the option to improve it by implementing the selected program / projects.

It should be noted that the baseline situation can not be confused with the present situation, this being the most probable situation that would occur in the future period in the absence of the project.

At the same time, the option to implement the program / project will predict in detail the most likely situation that would occur in the presence of the project.

5. Socio-economic assessment compared to financial evaluation (*Waaub Jean-Philippe,* 2012)

While the financial assessment only examines the financial effects of the project operator, the socio-economic assessment (* * * , 2015) compares, for every each major category of actors, the impact of the chosen version of the project version for which it was chosenthe impact of the project version for which it was chosen with the reference project.

In addition to commercial goods and services - which can be valued through market prices - included in the financial evaluation, respectively the commercial expenses and revenues related to the project, the socio-economic evaluation also looks at the value of the non-market goods and services produced by the project. Known as externalities, these positions are initially quantitatively assessed, as is customary in social, environmental and economic disciplines.

Also, with regard to costs, it is the question of determining the full cost, which entails evaluating both total costs, including investment costs, operating, maintenance and renewal costs, as well as the monetary estimation of negative externalities regarding the social and economic effects of human resources policy review, etc.

In terms of benefits, it is imperative to predict revenues and the monetary outlook of positive externalities what can happen with the time saved by economic agents, the gains in the safety of people's lives, or reducing the number of injured people, improving the environment and quality of life, social and economic ones by increasing the abilities of the population, decreasing morbidity, etc.

The socio-economic evaluation aims to synthesize, as far as possible, all the financial and non-financial effects of the project under evaluation.

Net present value (NPV) is defined as the sum of the updated benefits minus the sum of the updated costs. This aggregation involves the translation, wherever possible, of the impact of non-commercially-expressed monetary amounts, which should be as standardized as possible in order to achieve the fair comparability of programs / projects involving such sizes. This standardization involves the establishment of calculation conventions and the choice of reference values, also called tutelary values, the valuation conventions being based on the type of impact considered.

The most important factors for establishing the socio-economic profitability of a program / project - quality of life, competitiveness, biodiversity, etc. - will be able to be analyzed due to the monetary units being expressed in terms of NPV-SEs.

This indicator, the Socio-Economic Net Present Value (NPV-SE) of a project, is defined as the difference between the current amount of the benefits obtained through the project implementation and the current amount of estimated costs for realizing those revenues.

In the process of selecting the programs / projects proposed for achieving an objective of socio-economic development of the collectivity, several statistically developed indicators are used which present the essential aspects required for the acceptance of a public-funded approach. These indicators will highlight:

- the program / project profitability or benefit for the company: the net present value in financial or socio-economic terms;

- the liquidity, respectively the speed of recovery of the invested funds, expressed in the recovery period, also under conditions of updating;

- the risks faced by initiators of the program / project, which are very diverse, both financially and in terms of the usefulness of the community.

In terms of cost-effectiveness, public projects have a distinct feature compared to private ones: their profitability will not only take account of the possibility of realizing a monetary profit but social benefits for the community due to the project during its entire duration. These benefits can be expressed by raising living standards, education, etc., but they are difficult to express monetary, but NPV-SE needs to evaluate them as accurately as possible to present the benefits of implementing a public project.

In this respect, for the public programs / projects, which propose the realization, including the financing of public services, to provide the decision makers with reliable selection criteria, two indicators are calculated which express the net present value (NPV), meaning financial NPV (NPV-F) and socio-economic NPV (NPV SC):

- NPV-F is defined, from the financial investor point of view, by aggregating the updated cash flows with the discount rate set for the enterprise implementing the project. This discount rate is generally considered equal to the weighted average cost of capital - which is calculated as the average weighting of the debt and the share of equity in project financing, in current monetary units, ie the year considered.

- NPV-SE represents the collectivity's profitability requirements and, in this case, takes into account, in addition to the financial flows expressed in units of currency in the constant prices of the reference year, non-commercial costs and benefits, also expressed in monetary units , updated at the rate set by the public authorities.

NPV, and even NPV-SE, are used as criteria for selecting programs / projects, considering their absolute value without uncertainties, as the risk premium perceived by the community and the socio-economic beta[1] is included in the discount rate, which refers to the variation in macroeconomic development, expressed in GDP per capita.

However, many other risk factors, both exogenous and endogenous, are emerging in the project, such as the timing of the planned activities, the variation in the prices of the resources employed, the different evolution of the labor market, the mortgage market, etc., without takes into account the predictive errors of macroeconomic indicators that may arise from these factors.

In the best case scenario, by conducting a risk analysis or sensitivity analysis for several possible variations of macroeconomic aggregates and factor prices, the discount rate can be estimated and thus determine the value of the NPV-SE, considered a cost-effectiveness criterion for selecting programs / projects.

The profitability of a program / project can also be analyzed using its management rate, ie NPV reported to the invested monetary unit, showing under the same financial update terms the classification of projects in terms of budgetary implications.

6. Conclusions

Although the two profitability indicators: NPV-F and NPV-SE can be calculated for each program / project, they are rarely used at the same time. If, due to the scrupulous decision of the decision-makers, its are analyzed in the same work, several situations should be pursued: both positive, both negative, positive and negative, but in all situations, the interpretation of profitability, and therefore acceptance of the project, being different, thus:

- if both NPV-F and NPV-SE are negative, ie financially, but also as an impact on the social life of the community, its implementation does not improve, on the contrary, it causes unnecessary expenditure, and the project must be rejected;

- if both NPV-F and PSE are both positive, it is assumed that the program / project brings improvements to economic and social life, without compromising the financial balance of the community;

- more controversial situations arise when the two indicators are different:

- if NPV-SE is positive and NPV-F negative, it means that the project can bring benefits to the community, but the costs involved can not be supported solely by public funds. However, it is necessary to reconsider all the costs and sources of funding available to mobilize, including, in the case of the EU Member States, Community subsidies;

- if both indicators are negative, it is recommended to reject the program / project, at least in the form presented, although the analyzes made on the foreseeable developments of the communities and the economic environment may be the subject of some relevant proposals.

The general formula of the NPV of an investment involves using at the denominator of the discount rate, whose essential function is to make comparable economic flows occurring at different times.

[1] The "beta" coefficient represents the risk of the sector and the company considered; mathematically, it is measured by the dispersion of the profitability of the company around the average profitability, Source : Cléon 2018, http://rfcomptable.grouperf.com/dictionnaire/comptable_financier/navigation.php?lettre=a

Due to the importance of the discount rate for determining the profitability, liquidity and risk of a program / project, whether public or private, its sizing requires some clarification:

• the public discount rate is unique and applies uniformly to all public investment projects taken into account and to all sectors of activity. Deviations from this principle would lead to the systematic acceptance of significant inconsistencies in the allocation of public resources;

• the discount rate is a rate calculated without the risk premium. The risk review should not be incorporated by an implicit increase in the discount rate. The risk must be treated for each project together with the quantitative and pricing estimates that are appropriate to it.

• the discount rate is a real rate, in the sense that the values used for its calculation will be expressed in constant prices, generally based on the reference year;

• the update rate, estimated for the entire life of the program / project, decreases over time for long-term assessments;

• this rate should therefore be subject to periodic revisions to avoid a different estimation of developments in macroeconomic indicators: GDP variation, long-term interest rate trends, demographic variables, labor productivity, demographics, etc.).

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The Chinese presence on the periphery of Europe.
The "17 + 1 Format"[1], The Trojan horse of China?

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Abstract: - In this contribution, we analyze the presence of China in the countries of eastern and south-eastern Europe, some of which are EU members, others in the accession phase or in the process of becoming candidates, gathered in the 17 + 1 Format. This presence takes different forms: trade and direct investment (still low in volume, especially in comparison with the rest of Europe), the provision of services - construction of railway lines, ports, highways - thanks to bank loans granted by Chinese financial institutions. One wonders about the rationalities of the strategies implemented: search for outlets, especially for Chinese firms in overcapacity, attempt to create regional value chains, junction of the maritime and land routes of the new silk roads, finally, search of influence on the periphery of the European Union.

Key-words: 17+1 Format, China, EU, trade, investment
JEL Classification: F, F0

1. Introduction

In 2013, China launched an ambitious program to expand its overseas investment the *One Belt, One Road* project, (OBOR), which has since become the *Belt and Road Initiative* (BRI): *Belt* for land routes, *Road*, for shipping routes. An ambitious *Initiative* by the number of countries concerned, the financial volumes mobilized and, of course, the expected spin-offs (Zhang, Alon & Lattemann, 2018).

Chinese expansionism in the wake of the global Going out strategy launched in the early 2000? Leading to the refocussing of globalization around the Middle Kingdom? Recycling of the financial surpluses to escape the dependence on the Western markets, especially the US? Looking for opportunities for the overcapacities accumulated in many sectors in China? Continuation by other means of the export-led growth strategy that has made the success of the Chinese economy for several decades? A way to escape the middle-income trap? These are all factors that are behind this initiative, which is becoming increasingly important and whose implementation must make concrete the accomplishment of the "Chinese Dream" promised by President Xi Jinping to his fellow citizens.

In recent years, the *Initiative* has begun to take shape and has materialized through the construction of railway corridors, the modernization of ports, the construction of dry ports, particularly in Central Asia, raising questions about the purpose of these investments and their costs. The road is long and the weight of China seems to be felt more strongly with regard to investments made close to it (Miller, 2017). To date, more than 60 countries have initiated projects under the Initiative andmany more are in the pipeline. The Chinese government has decided to increase the volume of funding; international (World Bank), European (EBRD) and Asian (ADB) banks are approached to contribute financially.

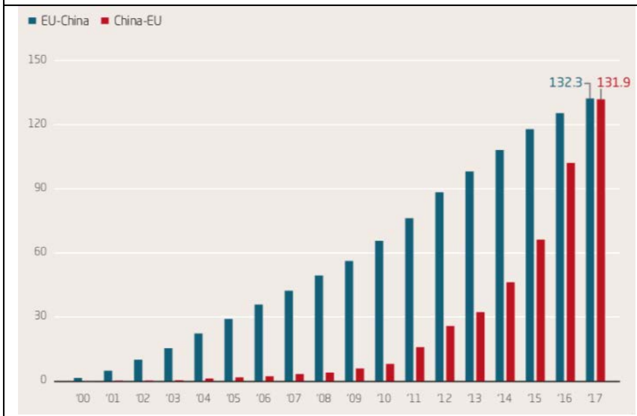
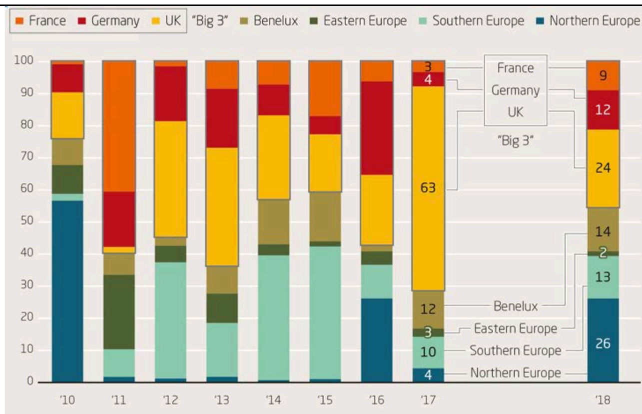
For the moment, one of the main destinations of these routes is Europe, but also other continents and regions of the world are targeted (Africa, Latin America). Europe is today one of China's leading trading partners. It is the 1st importer of Chinese products and China is the second destination for its exports, after the United States.

It has become one of the top destinations for the Chinese foreign direct investment. Their pace has recently increased following the virtual stagnation of Chinese FDI in the United States, where they seem to have reached their pick following the “trade war” triggered by President D. Trump (Hanemann, Huotari & Kratz, 2019). Their geographical distribution is rich in lessons on the strategy pursued by Chinese firms in the European Union (and the rest of Europe: Switzerland, Norway) (Richet, 2019d).

[1] This article was written before the recent 16 + 1 Summit in Dubrovnik on April 11 and 12, 2019, when Greece officially joined the *Format*, which has since become *17 + 1 Format*

They are heading to three distinct areas as shown in Figure 1. New member states (which have joined the EU in the last waves of enlargement) and Western Balkan countries account for a
low share (Table 1)
The *16 + 1 Format* refers to the association between China and 16 countries in Central and South-Eastern Europe (CSEE) that began in the early 2010s. This cooperation has since developed in the area of trade, investments, especially the building of several infrastructure construction projects (bridges, motorways, railways lines, modernization of ports).
The 16 countries comprise two categories of countries, those that have already joined the European Union, following three successive waves (2004, 2007, 2013), and the Accession countries of the Western Balkans[2] (WB6). All have in common to be former socialist economies of different varieties (centralized and relatively closed of Soviet type, decentralized and open of self-management type) before transformed into "dependent capitalist economies" (Richet 2019a).

Figure 1: Chinese FDI in the EU-28 and by group of countries (in US $ million)

Cumulated EU and Chinese FDI (EUR billion), 2000-2017	FDI Chinese concentration in the EU (%)
	

The "Big 3": includes France, Germany and the UK
Benelux: Belgium, Luxembourg, Netherlands
Eastern Europe: Austria, Bulgaria Czech Republic, Hungary, Poland, Romania, and Slovakia
Southern Europe: Croatia, Cyprus, Greece, Italy, Malta, Portugal, Slovenia and Spain
Northern Europe: Estonia, Denmark, Finland, Ireland, Latvai, Lithuania, Sweden
Source: Hanemann Thilo & Mikko Huotari (2018)

Over the last thirty years, these economies have undergone profound institutional, political, economic and territorial changes[3] following the fall of the Berlin Wall and the collapse of communism. They have been transformed into market economies, by restructuring according to the principles of the "Washington Consensus" and programs imposed by European leaders (privatization, opening and liberalization of markets). The convergence mechanisms, in particular the financial transfers and the structural funds, the massive inflow of foreign direct investment, mainly from the EU-15, have made it possible to transform them in depth, in almost two decades.

[2] Albania, Bosnia & Herzegovina, Macedonia, Montenegro, Kosovo, Serbia. Kosovo, which has seceded from Serbia, is not recognized by China, Russia, as well as by several States of the European Union. It is therefore not concerned by the BRI project, although Chinese products are in abundance in the country's markets.
[3] With the dissolution of former supranational entities that emerged during (USSR) and after (Czechoslovakia, Yugoslavia) World War I, the absorption of another (the GDR) after the Second World War. Poland, following the fall of the Berlin Wall and the disappearance of the USSR, has increased from three (GDR, Czechoslovakia, USSR) to seven neighbors (Germany, Czech Republic, Slovakia, Ukraine, Belarus, Lithuania, Russia) without changing its physical boundaries.

Several economies, including those in the north-east Poland, Hungary, Czech Republic, Slovakia (aka the Visegrad Group) have become the hinterlands of Germany. Further south, delays in the political process and the nature of investments under socialism made adjustment and convergence more difficult (Romania, Bulgaria).
The Western Balkans, for their part, with the brutal collapse of the former Yugoslavia and the violent inter-ethnic conflicts which preceded it, enter the third category with the disintegration of their former markets, the contraction of the new ones, their narrow specialization. Their rapprochement with Albania in a *Western Balkans Economic Area*, recently decided at the EU Trieste Summit in July 2017, can be considered as a sort of air lock before their future (possible?) integration into the European Union, that could be delayed with the establishment a multi-speed Europe, advocated by some member countries of the "first circle" of the Union (Richet, 2018).
The integration and enlargement of the EU has become a reality even though there is still a strong asymmetry between the three Europes, the EU-15 (with the pending departure of the UK), the New Member States (NEM-11), the Western Balkan countries in accession (WB-6). Today, due to the gravity effect, most of the trade of these countries takes place within the EU, especially the Western Balkans (Figure 2).
It is in this context that China is entering this region - the peripheral Europe - and its segmented markets, most of them very narrow but close to the dynamic markets of the EU-15. It increases trade in goods and services, the acquisition of businesses, its investments in the sectors of transport, energy, manufacturing[4] (Table 1), but its share in Europe is still low compared to its world distribution.

Table 1: Chinese FDI outward flows and exports to the EU-15, the New EU Members and WB-6, USD, Millions, 2006-2015

EU-15	**2006**	**2009**	**2011**	**2013**	**2015**
FDI Inward/Inflows	108,95	2928,9	7341,8	4356,5	5318,75
% of total Chinese investments	1,2	3,1	5,9	3,5	4,2
Export	93581	209275	314,843	285974	311871
New EU members					
FDI Inward/Inflows	19,2	37,5	219,0	167,0	160,6
% of total Chinese investments	0	0,04	0,18	0,13	0,13
Export	19850	27009	41177	41621	43116
Western Balkans					
FDI Inward/Inflows	n.a	1,5	0,25	12,6	19,97
% of total Chinese investments	n.a	0,002	0,00	0,01	0,02

Source : China custom, UNCTAD Data

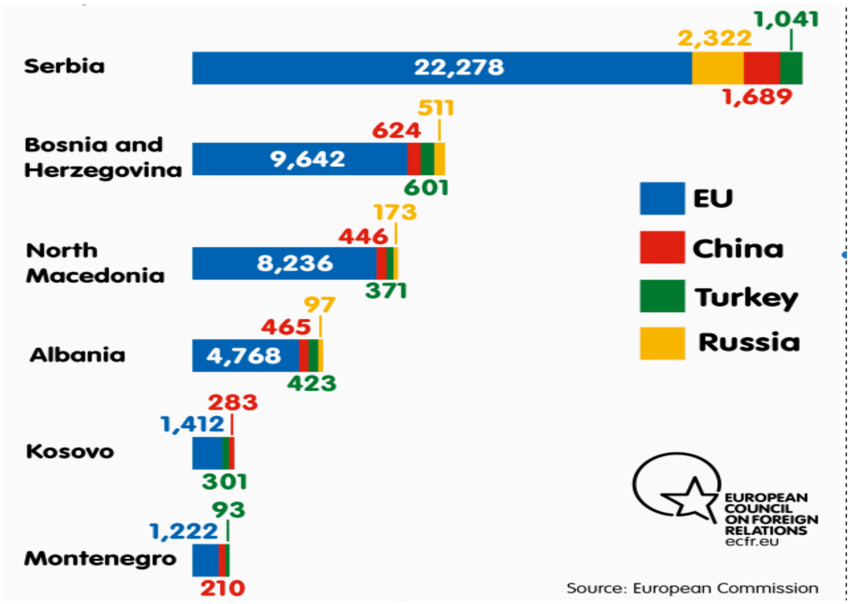
Motivations that push China and Chinese companies in the region are beginning to be identified:

- The economic and geographical zone represented by the 16 is a section of the New Silk Road that arrives by two routes: a land route, in the north, in Poland which crosses it to reach the

heart of Europe, a sea route to the south, in Greece[5]. Between both, a railway line Piraeus-Budapest will, later on, connect the north and south routes.

[4] We must distinguish foreign direct investment (acquisition of enterprises, construction of new enterprises, greenfield investment) from the provision of services (construction of a railway line, a nuclear power plant) against payment and whose operation will return to the sponsoring country.
[5] Which remains the most important access route for Chinese goods arriving in Europe: 94% arrive by sea, 1,8% by air, 3% by road, the remaining by train (Pairault, 2019).

Figure 2: Major Western Balkans trade partners, in 2017 (EUR, millions)



- Opportunities for Chinese state-owned enterprises, in overcapacity, particularly in the infrastructure sector, to participate - mainly through loans provided by Chinese banks (subsequently reimbursed by the beneficiary states) - to the construction of highways, of ports in the Balkan countries in particular, by addressing needs that are neglected in EU pre-accession programs.
- A "network effect” with investments made by some major high-tech Chinese telecommunication groups (ZTE, Huawei), medium and high technology investments (nuclear industry), investments in traditional and declining industries: iron and steel industry in Serbia, mining coal in Bosnia, the chemical industry in Hungary.
- Paving the way to create a regional value chain around a few sectors (cars, electric batteries in Bulgaria, Serbia, Croatia) like what other Chinese groups are doing more insistently in European advanced market economies (Germany, France, UK).
- More targeted, albeit limited, investments and cooperation in the high-tech sectors, in the Baltic States.

On the geopolitical level, does China's presence pose a threat to the EU? Does China seek to influence the governments of the periphery, to interfere in the internal affairs of the Union, to circumvent European regulations (Godement & Vasselier, 2018; Benner, 2018)?

For China, the challenge, besides the success of its establishment in the region, lies in its articulation with its overall European strategy, which is not yet assured because of the opposition that still exists between China and the European Union (absence of an EU-China bilateral investment agreement, non-recognition of China as a market economy within the WTO, recent statements of the EU concerning the China-EU relations).

Cooperation or competition? Does China have the means or does it seek to interfere in the affairs of Europe, at its margins? How can it seek cooperation with the EU, while pushing a corner in the EU squares? These questions have been highlighted during the last visit of President Xi in Italy and in France (March 2019) and by the publication of a recent statement by the European Commission, reminding that China is both a cooperation partner, a negotiating partner, an economic competitor and a systemic rival promoting alternative models of governance (EC 2019).

In this contribution, we address the following points:

1) the different aspects of the Chinese presence in the region,
2) the motivations of the 16 countries to cooperate with China
3) the likely impact of this Chinese presence in terms of investment, trade volumes, services procurement, and indirect diplomatic influence on the European affairs.

It will be emphasized that the future of the *16 + 1 Format* is ultimately linked to the relations between China and the EU, that the Chinese presence, through its realization, can create a leverage effect (Bastian, 2018; Hackaj, 2018) to accelerate the upgrading of the least developed economies in the region by integrating China into the European procedures and regulations.

2. Developing cooperation with a new sub-regional bloc

The Chinese presence in CSEEE dates back to the beginning of this decade, although historically, the links between China and the 16 are older, and date back to the fifties of the last century, at the time of the "friendship and cooperation" between the socialist countries. After the great Sino-Soviet schism, only the small Albania and Romania maintained their trade relations with China to a certain level. Subsequently and globally, trade flows have never been very important. At a time when Chinese growth was taking off at the beginning of 1980s, Eastern Europe was plunged into a long economic decline that lead to the disappearance of the socialist system in the region in 1989 (and of the USSR in 1992) and the implosion of Yugoslavia (1991) before undergoing the shock of transition, the systemic transformation and integration into the European Union.

In 2012, China founded an association with 16 countries in the region to promote exchanges between partners: *Cooperation between China and Central and Eastern European Countries* (aka *China-CEE*, the *16 + 1 Format*). The Association, headquartered in Beijing, officially gathers its members alternately in China and in one of the capitals of the 16. It has given rise to a myriad of institutions, of which the Chinese diplomacy is very fond of, with various concerns (academic, sectoral). It has set up specific funds and credit lines abounded by Chinese financial institutions. But up to now, the *16 + 1 Format* is an empty shell, a leaf of vines, it is more a regional institutional gathering which masks the bilateral character of the relations which are established between countries (contracts, financing) (Szczudlik 2019). Moreover, the *Format* can hardly be mobilized as a political instrument as 11 countries belong to the EU and are required to comply with the European regulations, despite the manifestations of "illiberalism" displayed by some of its members[6]. The loss of hope that accession to the EU could bring, the length of the waiting period for the acceding countries to become a member have fostered positive feelings about the Chinese presence in the region (an also towards Russia in Serbia?).

The 16 European member countries form a heterogeneous group as much by history, size, population, level of development as institutional membership (Figure 3).
Eleven countries are members of the European Union (Estonia, Latvia, Lithuania, Poland, Czech Republic, Slovakia, Hungary, Slovenia, Croatia, Romania, Bulgaria), and have joined it in several waves (2004, 2007, 2013). Five of them are already members of the euro area (Estonia, Latvia, Lithuania, Slovakia, Slovenia) and three (Bosnia and Herzegovina, Kosovo, Montenegro) use the European currency without being members of the Euro zone. Five other countries in the Western Balkans (Albania, Bosnia and Herzegovina, Macedonia, Montenegro, Serbia and Kosovo) are in the process of joining the European Union and are already subject to European regulations stemming from their status as future members. As such, they benefit from financial support from the EU. Following the 2017 Trieste European Summit, they have joined a new entity, the *Western Balkans Economic Area*. Two of these countries, Bosnia and Herzegovina and Kosovo, fragile and unstable state structure are "states built from outside", monitored by foreign powers and international institutions.

[6] Which must be economically relativized, as these countries rely heavily on EU-15 investment for employment and exports (Richet, 2019a)

Figure 3: Market size of the Central and South East European economies

(2015)	Market Size (population, mn)	Purchasing Power (Per-capita GDP, US$)
Hungary	9.9	12,240
Poland	38.0	12,495
Czech Republic	10.5	17,257
Romania	19.9	8,906
Slovakia	5.4	15,992
Serbia	7.1	5,120
Estonia	1.3	17,288
Slovenia	2.1	20,732
Bulgaria	7.2	6,832
Lithuania	2.9	14,210
Latvia	2.0	13,619
Croatia	4.2	11,573
Bosnia and Herzegovina	3.9	4,088
Macedonia	2.1	4,787
Albania	2.9	3,995
Montenegro	0.6	6,489

Source : IMF

Serbia - which has to deal politically with the secession of Kosovo and Montenegro, and it still has large-scale corruption =, has officially started negotiating with the EU and is expected, according to optimist views, to join the Union by 2025.

Some countries could be included in the *16 + 1 Format*: Greece (seniority in the European Union?)[7], Ukraine (instability and conflict with Russia?), Kosovo (support to Serbia), Belarus, Moldova (too close to Russia?).
It would therefore seem that the socialist past of the sixteen countries and their accession (including ongoing) to the EU are the ones that serve, primarily, as a common denominator for this regional gathering. This is a small common denominator. And it is a little surprising, considering that the countries of the region have quickly abandoned any reference to their socialist past and erased everything that could recall it.
It rather seems to be primarily a geopolitical motivation: to act at the margins to acquire more power vis-à-vis the core of Europe.

The 16 member countries can also be classified into sub-regions and sub-groups, taking into account their level of development, size and population, their previous institutional membership and progress in transforming themselves into market economies: there is the Baltic bloc (small countries, formerly part of the former USSR), the bloc of the Visegrad countries (Hungary, Poland, Czech Republic, Slovakia), the most developed and the nearest to the EU-15 markets (especially to Germany), then the laggards in the transformation (Bulgaria, Romania), less developed than the previous ones and, finally, the former Yugoslav bloc, the most economically open before the collapse of socialism and the disintegration of the country, plus Albania, the former hermit socialist economy of the region.

[7] Greece officially joined the 16 + 1 format in April 2019. For an analysis of this decision and its scope, consult Tonchev (2019)

Foreign direct investment coming mainly from the EU-15 countries (almost 80%), the balance coming from the United States and from the Asian countries (Japan, South Korea) has played a major role in reshaping these economies and liking them to the EU (Richet 2019d) .
In just two decades, trade within the EU has changed dramatically. The existing specializations, qualifications and low labour costs have led to a profound transformation of the industrial landscape. Countries of the Visegrad group have become major industrial centers in a number of sectors, including automotive and electronics. Today, the most dynamic sectors of the region are in the hands of the largest European, American, or even Southeast Asian countries (Japan, South Korea).

3. All roads lead to Rome...

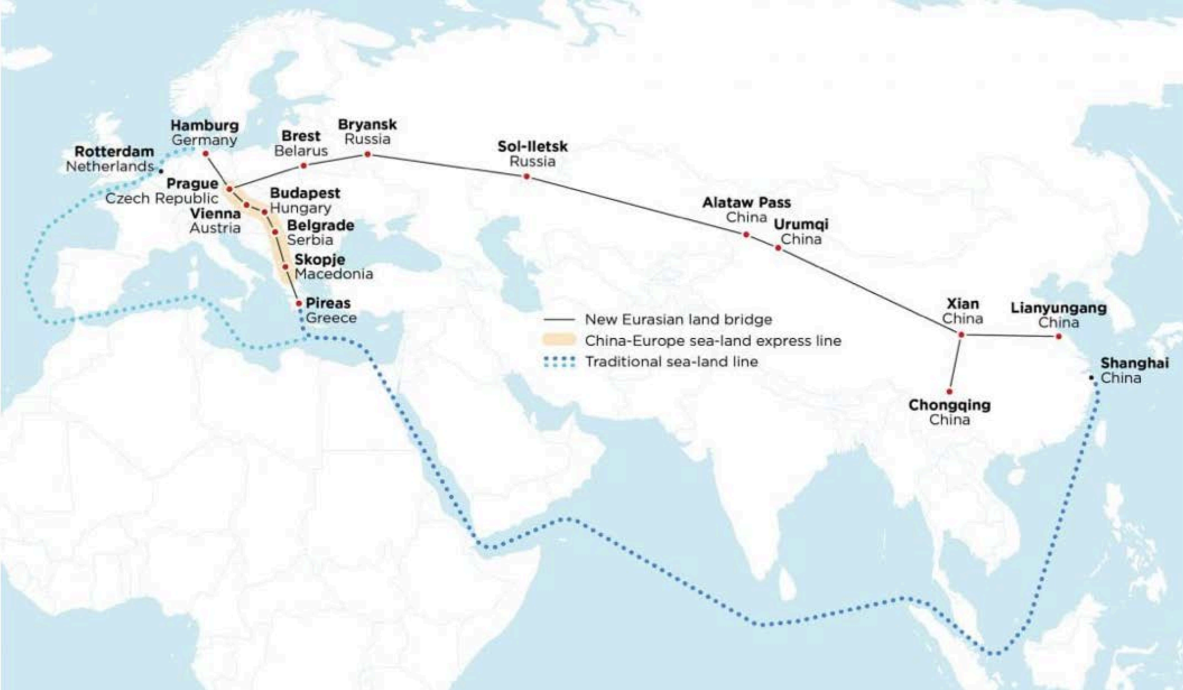
As part of the *Initiative*, China traces a land route from the Western Middle Kingdom, the less developed and land-locked regions of China, through the Central Asia and the former Soviet space (Frankopan, 2018). A sea route reaches southern Europe via the Suez Canal (Fabre, 2019).
For China, the CSEEE region is both a gateway, a market of nearly 100 million consumers, a stepping stone to the EU-15 and a part of Europe where infrastructure needs are important. A passage first. Poland, to the north-east, is on the land route connecting Belarus to the point of arrival of the trains that pass through the Eurasian Economic Union and continue on their way to Germany, Italy, France and even to Great Britain. In southern Europe, the sea route via the Suez Canal joins the port of Piraeus in Greece. Other nearby port terminals are of interest to China, including Bulgaria and Turkey, near Istanbul, the arrival point of another land route through Iran, Georgia and Turkey, an alternative to Russia (Figure 4).

The region is an important market in terms of consumers (more than 100 million people) enjoying growing purchasing power, albeit still far from per capita income in the more developed regions of the EU (figure 3).

For the Chinese companies investing in the project might be a way to join and built regional value chains, to get closer to technology centers in the heart of Europe, to support the internationalization of Chinese companies in search of new locations (Huawei, ZTE). Major investments in the sectors of railways, ports and highways illustrate the "infrastructure diplomacy" that China has become an expert in the world.
This plentiful supply of projects expresses both the know-how acquired by China at the national level (via cooperation and technology transfers from Western firms[8]) and mobilizes the overcapacities developed in these sectors in recent decades in the country. For these indebted companies, most of them state-owned, the exchange of debts against BRI credits allows them to continue their activities by using their overcapacity for other use.

[8] Process currently at the heart of Western accusations of looting the technology which is the cause of US sanctions: increase in customs duties, pressure from allied governments to close their markets to Chinese equipment manufacturers.

Figure 4: Maritime and land routes of the New Silk Road



Source : Tschinderle (2018)

Chinese companies can rely on the importance of financial resources accumulated and available through different channels: "political banks" under the control of the government (Exim Bank, China Development Bank), national banks, specific investment funds, lines of credit, international banks (New Development Bank, AIIDB) in which Chinese capital is dominant. The credibility of the project is an important factor for the future, especially with the aim to associate Western lenders in their financing (ADB, WB, EBRD, EIB).
Finally, the construction of the new Silk Road, including on this section, is the means to promote the use and thus the internationalization of the Chinese currency, the RMB as a means of exchange and investment (Richet 2019b)

The *16 +1 Format* benefits from a credit line of more than USD 10 billion, with specific funds allocated to project financing in the region (about USD 3 billion). Still, the modalities of access to this financing, the economic benefits and the expected benefits of this windfall raise many questions (Barisitz & Radzyner, 2018) and lead to a lot of criticisms formulated by recipient countries in particular, on the the quasi-monopoly of Chinese companies that carry out the projects, especially in the field of infrastructures, on the opacity of contracts, the cost of financing[9], the corruption - the interruption of construction projects in Macedonia (Makocki & Nechev, 2017) -, not to mention, consequently, the high indebtedness of the welcoming countries (Bosnia and Herzegovina, Montenegro) joining the growing list of countries heavily indebted to China (e.g. Pakistan, Sri Lanka, Laos, Myanmar, Venezuela). A risk for China is to generate a "Malaysia effect" with the request for abandonment or downward revision of projects signed between China and its partners, to reduce the burden of debt.

The Chinese presence, in terms of FDI volume, is still very modest (Table 1), in addition, Chinese investors have a strong preference to invest in the most developed part of the EU (Figure 3) where opportunities for acquiring firms are limited.

[9] The interest rate may decline due to the size of the contract contracted: the cost of a railway line plus the train order will result in a cheaper price than the financing only one track of the railway...

Table 2: Chinese direct investment stock in Central and South-Eastern Europe in 2009 and 2014 (Millions of USD)

	2009	2010	2011	2012	2013	2014	2009-2014 growth	Share of total Chinese investment in CEE (2014)
Hungary	97.41	465.70	475.35	507.41	532.35	556.35	471.14%	32.79%
Poland	120.30	140.31	201.26	208.11	257.04	329.35	173.77%	19.41%
Czech Republic	49.34	52.33	66.83	202.45	204.68	242.69	391.87%	14.31%
Romania	93.34	124.95	125.83	161.09	145.13	191.37	105.02%	11.28%
Bulgaria	2.31	18.60	72.56	126.74	149.85	170.27	7271.00%	10.04%
Slovakia	9.36	9.82	25.78	86.01	82.77	127.79	1265.28%	7.53%
Serbia	2.68	4.84	5.05	6.57	18.54	29.71	1008.58%	1.75%
Lithuania	3.93	3.93	3.93	6.97	12.48	12.48	217.56%	0.74%
Croatia	8.10	8.13	8.18	8.63	8.31	11.87	46.54%	0.70%
Albania	4.35	4.43	4.43	4.43	7.03	7.03	61.61%	0.41%
Bosnia-Herzegovina	5.92	5.98	6.01	6.07	6.13	6.13	3.55%	0.36%
Slovenia	5.00	5.00	5.00	5.00	5.00	5.00	0.00%	0.29%
Estonia	7.50	7.50	7.50	3.50	3.50	3.50	-53.33%	0.21%
Macedonia	0.20	0.20	0.20	0.26	2.09	2.11	955.00%	0.12%
Latvia	0.54	0.54	0.54	0.54	0.54	0.54	0.00%	0.03%
Montenegro	0.32	0.32	0.32	0.32	0.32	0.32	0.00%	0.02%
Total	**410.60**	**852.58**	**1008.77**	**1334.00**	**1435.76**	**1696.51**	**3.13**	**100%**

Source: China's Analysis (2016)

Box 1

Financing Piraeus-Budapest Railway

One attraction of the CSEEE is also the opportunity to connect to and penetrate the European markets, including for building infrastructure, which is insufficient in different countries, especially in the Balkans. To date, the flagship project remains the construction of a high-speed rail line between Belgrade and Budapest, bringing the journey along the the rail link from more than eight hours. to two and a half hours. The line is to be completed later by the sections of Belgrade-Skopje in Macedonia, then Skopje-Athens but it may also be postponed indefinitely because of the weak financing capacity of the economies concerned (Vörös, 2018). The project is financed by loans from the Chinese banks to the tune of 75%, the rest by the regional States, that will repay the Chinese banks for the committed credits. The construction of this line binds Chinese companies and the States concerned to comply with the European regulations on public procurement and environmental constraints. This is why the section of the line in Hungary has not yet started. The country must comply with the European regulations. Technically, the profitability of such a train raises doubts, given the limited number of users of this rapid service on the population basin concerned[10]. But this is not the problem of the Chinese builders who are not related to the operation of this new service. The search for sovereign guarantees is therefore very important, as several countries in the region are unable to cope with the risk of non-repayment because of their financial situation. Financial institutions (EIB, EBRD) are starting to be associated with these financial arrangements, by guaranteeing loans granted by the Chinese banks (Briant, 2018).

On the FDI side, the opportunities to acquire assets are limited following the privatizations and restructurings of the companies that have accompanied the transformation of the economies of the region. The volume of

[10] The future profitability of such projects is not an *a priori* constraint for the Chinese operators. The pharaonic construction of the bridge between Hong Kong and Macau, recently completed, currently generates a daily flow of 3,000 vehicles whereas it should have between 9,000 and 12,000 per day.

Chinese FDI in the CSEEE is low; it is even residual compared to investments made in the rest of the EU by China (Figure 4). The effect of proximity to the heart of Europe has made the region the backyard of major European industrial groups. A limited number of countries in the region account for the largest share of Chinese FDI. 6 countries, Bulgaria, the Czech Republic, Hungary, Poland, Romania and Slovakia host 95% of Chinese FDI, the rest only 5%. The mode of entry of the Chinese investors through acquisitions has necessarily a limited, or no effect in terms of spin-offs, or job creation in the region.

Attractive assets on display are limited. Chinese investors acquired companies in difficulty that could not be recapitalized by the domestic investors, in sectors such as steel (Serbia), chemicals (Hungary). They participate in the modernization and expansion of nuclear power plants (Romania) and in the construction and expansion of coal-fired power plants in Serbia and Bosnia and Herzegovina, building over-capacities which contribute to the pollution of the region. Investments committed to these sectors are financed by the Chinese political banks and not by the international banks with Chinese capital - CBD, AIIB - which link credits to green investments. Other sectors attract foreign direct investment in order to benefit from higher value-added local know-how (the Northern and Central Europe, the Baltic countries), to create a regional resource base in certain areas (information technology in Hungary, Romania) that can serve as a springboard to enter the EU-15 markets. In other cases, such as investments in car assembly in Bulgaria and production of electric batteries in Serbia and Croatia, FDI could favour the emergence of an automotive hub in the region. The recent bankruptcy of the Bulgarian-Chinese joint venture in the automotive industry illustrates the difficulty of developing a regional value chain in narrow, low-cost markets. The participation of Chinese investors in the future waves of companies' privatizations in Serbia should increase its presence and increase the phenomenon of sectoral diversification without being able to measure the coherence of these participations.

For the host countries, the Chinese presence is welcomed with interest, but also with some skepticism. The countries of the region, as in other parts of Europe, roll out the red carpet to accommodate Chinese investments. By some, they are seen as a way to escape the heavy dependence on the Western firms, a dependency that is unlikely to be reduced when we consider that the bulk of investments, employment, exports come from multinational firms located in these countries, especially in the Visegrad group.

Table 3: Chinese presence in Central and South East Europe

Country	Investments
Albania	Construction of a section of highway. China's financing of an industrial park in the coastal city of Durres. Project to build a deep water port. Estimated value of the project: € 2.2 million
Bosnia & Herzegovina	Construction and modernization by Chinese companies of three coal-fired power plants, investment in energy projects in the Serbian part (Republic of Srpska). Chinese financing reaching 85% (785 million euros). Project to build another power plant in the east of the country, by a Chinese consortium.
Bulgaria	Investment in infrastructure in the agri-food sector. Investment in bus construction by Great Wall. This was the first vehicle manufacturing company from China investing in the EU, but the project failed. Project of Chinese companies participation to the construction of the Black Sea highway linking Varna to Burgas. Chinese participation in the construction of a new nuclear reactor at the Kozloduy NPP.
Croatia	Investment project worth 30 million dollars in the car battery sector, by the car manufacturer Camel into the company Rimac Automobili. Project to open a Chongching-Zadar airline to transport 25,000 Chinese tourists during the summer months.
Czech Republic	Investment worth up to 1.4 billion euros by a Chinese conglomerate in financial services. The beneficiary is a local J & T company. Otherwise, minor investments,

	such as the investment projects in the pharmaceutical industry, or the USD 130 million investments in renewable energies.
Estonia	USD 130 million investment in renewable energy.
Hungary	Acquisition of a chemical group; electronics, ITC.
Latvia	Purchase of land to acquire residence permits in the EU against a minimum investment of € 70,000 recently raised to € 250,000. Real estate investments represent 40% of the overall Chinese investments. Investment projects in the port infrastructure of Riga, in communication infrastructures with the three Baltic capitals. Small investments in the agricultural sector.
Lithuania	Investments made by Huawei, ZTE, Lenovo, China National Petroleum and SAIC Chery Automobile.
Macedonia	Construction of two motorways financed by Exim bank for 680 million euros. Construction project of the gas network of the country. Chinese participation in the construction of the Macedonian section of the Athens-Belgrade railway line.
Montenegro	Construction of a 170 km highway financed by China and built by a Chinese firm. Renewal of the Montenegrin fleet with the construction of four vessels. Investments in several energy projects: hydroelectric and thermal plants. Project to participate in the construction of motorway sections, as part of the "Blue Corridor" project which will link Italy to Greece, along the Adriatic coast.
Poland	The largest country in the region, where trade with China is largest, but Chinese investment are still weak. It should increase soon.
Romania	Project to build new units of the Cernavoda nuclear power plant on the Danube for 6 billion euros. Several European companies have declined this market. Construction (Rovinari) and modernization (Mintia-Deva) of two coal-fired power plants and a hydrothermal power station (Tarnita-Lapustesti). Presence in the residential construction, electronics and communications market (Huwei).
Serbia	Construction of a bridge over the Danube, a coal-fired power plant, which is part of the Belgrade ring road. Construction of the Belgrade-Budapest high-speed railway line (already far behind). Construction of a motorway linking Serbia to Montenegro. Investment projects in the construction of electric cars, participation of China in the privatization program of 18 state-owned enterprises.
Slovakia	Very little Chinese investment exceeding $ 100 million.

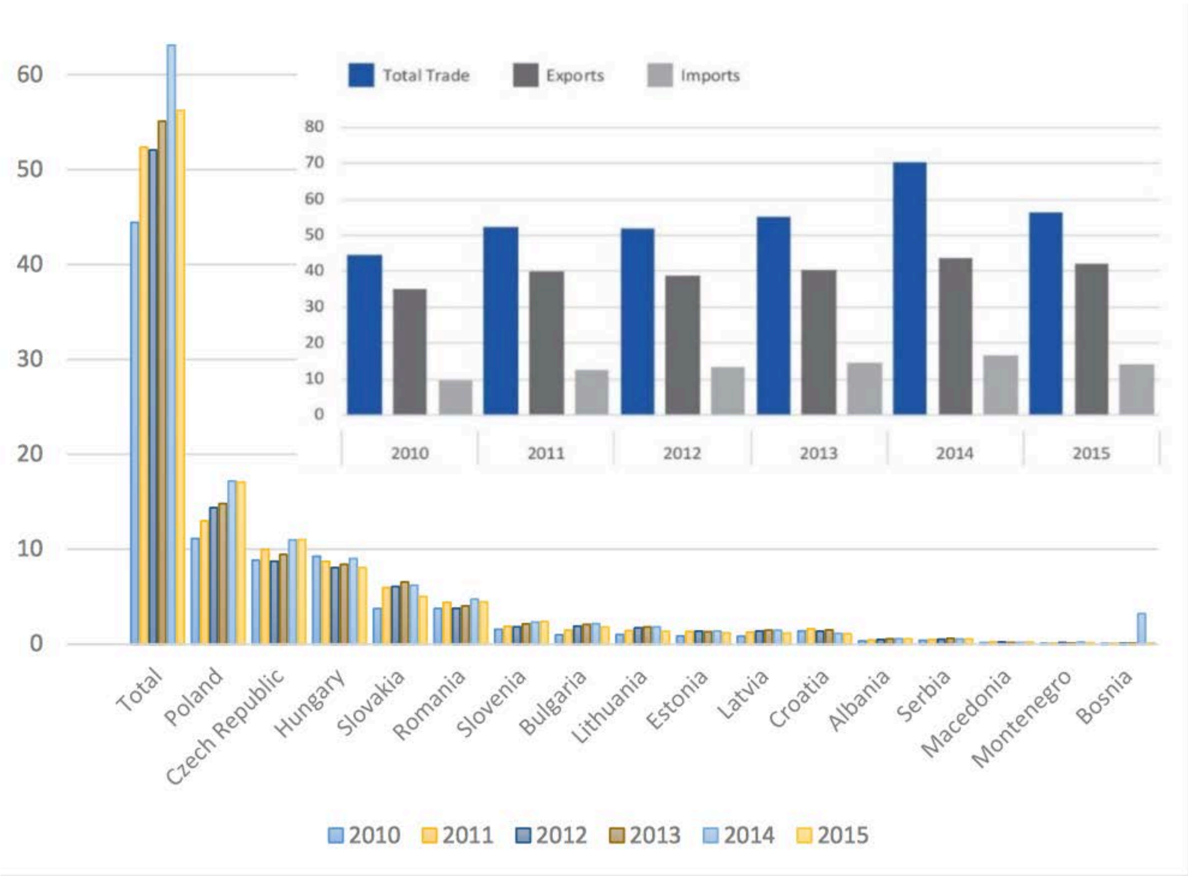
Source: compilation by the author

Railway lines provide the access of the Chinese goods to the EU markets, but do not contribute to the creation of many jobs, as opposed to greenfield investment. In addition, Chinese demand for products in the region remains limited and trade remains highly skewed (Figure 5).

The 16 wish to extend their cooperation with China to other areas (airways, tourism). Making greenfield investments rather than building railways, opening up the Chinese market to products from the region would contribute more to job creation. Observers underline the skepticism of the region's leaders about China's true commitment. Governments do not forget that their development is fundamentally linked to the EU and they cannot ignore the many regulations on procurement that constrain them (concerning mainly the investment bidding procedure). Additionally, the limited amounts of Chinese investments, resulted, up to now, from the strategy of scattering investment (a little for everyone) are disappointing and the strategy is quickly reaching its limits.

True regional anchoring or watering, to facilitate the crossing of this area? Finally, the Chinese economic presence in the region remains weak. In percentage terms, Chinese FDI is low and represents only a very small share of the Chinese FDI in the EU. They remain modest and concentrated in a few countries, with no apparent link to the size of the markets. This is the case of Poland, the largest country in the region (population, share in regional GDP, geopolitical position) which has one of the lowest rates of entry of Chinese capital[11] and relatively low bilateral trade volumes (Figure 4).
Some analyses mention China's interference in the EU politics, or, in the Balkan countries (in Serbia in particular), China's foothold as a way of countering the Russian presence. It is not certain that Serbia is the object of such an issue. The country remains unstable despite recent progress, is heavily indebted, is still strongly influenced by the impact of the Milosevic years (lack of investment, destruction by NATO, the Kosovo independence) and, as such, its room for maneuver is quite limited.
As the largest country in the Western Balkans, still heavily affected by the economic crisis that followed the implosion of the former Yugoslavia, Serbia has great investment needs in many areas that it cannot support itself. Welcoming Chinese investment in infrastructure remains an economic rather than a political challenge.

Figure 4: Volume and composition of trade between China and CSEEE (2010-15, USD million)



Source: National Bureau of Statistics of China

4. Implementing of the project in the 16 countries: some questions

For its designers, the Initiative is not a plan, the materialization of a concept, an idea that must be realized quickly. Like other major works in the past, their usefulness and full use can only be profitable in the long term, even if the motives underlying the launching of such programs must be considered to fit into a shorter time.

[11] Chinese investors may have been scalded by the disappointment of the COVEC Group which was unable to complete its project to build a motorway segment in the west of the country after winning the contract by breaking prices (Polytika, 2011).

The implementation of this project raises many institutional, technical, financial, economic and geopolitical issues.

At the institutional level, the *16 + 1 Format* remains a curious construction: a regional institutional structure, a vine leaf, which masks a network of bilateral relations which apparently does not aim at unifying the various projects. Bilateralism reflects the absence of a global vision of the Chinese presence in the region around structuring projects.

From a technical point of view, some of the projects fall into the category of services production, (railways lines, ports, motorways) whose use will continue to compete with other means of transport (especially maritime) in terms of costs. For the moment, on the existing lines, the utilization rate remains low, the cost of transporting goods is high (and subsidized), between two and three times the cost of goods transported by sea. On the other hand, the construction of motorways in the Balkans responds to the need for essential infrastructure, neglected until recently by the European Union. However, the implementation of these projects puts the host countries in difficulty (debt of Bosnia and Herzegovina, or of Montenegro, to finance their share of investments), it induces corruption leading to the abandonment of certain projects (e.g. the construction of a motorway in Macedonia) (Makock & Nechev, 2017). Moreover, in proportion of about 80%, projects are implemented by Chinese companies and their subcontractors and their workforce, so that they have little impact on the economies concerned in terms of employment, or spin-offs.

On the financial side, the opening of a credit line and the creation of a specific fund do not seem to attract many projects. Most of the available funds have not yet been committed. On the one hand, there are not many investment projects to finance, Chinese investors do not always take into account the demands of the host countries, especially for the construction of road infrastructure (highways in Romania), and, on the other hand, the European funding is also, if not more, competitive. The financing policy does not automatically encourage Chinese or local investors.

The result, if one considers the projects realized or in progress, is rather an "archipelago" type of approach: the investments made with the help of Chinese financing are part of the landscape of the region, but do not contribute to the emergence of local growth poles, structured around a few activities, with strong implications in terms of leverage, of economic spin-offs, creation of value chains, like the attempt by Chinese firms to acquire or make new investments in EU core countries. The acquisition of local businesses in Bosnia and Herzegovina (coal), Serbia (steel), Hungary (chemicals) reflects limited opportunities (declining sectors) and risky opportunities. The investment in the coal industry violates the environmental commitments made by the recipient country, as well as the commitments of Chinese-owned international banks to respect the environment. The weakness of local attractiveness reflects both the still limited opportunities of these economies, which are still looking forward to become EU members, particularly in the south (Richet 2019c), and the strong appeal of core Europe for Chinese investments.

It would be tempting to say that associating the least developed parts of China[12], which are supposed to be the actors and beneficiaries of the Initiative, to the countries on the periphery of the EU necessarily leads to a thwarted dynamic in terms of trade development. and investments.

This brings us to **the last point, geopolitical**, induced by the Chinese presence in this region.

Can China count on this growing presence to influence the European Union? The Chinese existence in the region presents an opportunity, an alternative and a threat. Opportunity in terms of developing new activities (trade, investment, service provision), generating jobs that the European integration cannot fully provide (country Member States), but limited due to the European constraints, often easier access to EU sources of funding, and lastly because of the selective nature of the investment operations carried out by Chinese companies that first see their own interests, or are not motivated to fund the desired projects by the host country. An alternative for the host countries needing infrastructure. As for the threat posed by the Chinese presence, it seems limited for the moment, even if it is strongly emphasized by several analysts. The "illiberalism" displayed by some countries (Hungary, Poland) has its limits which are linked to the strong

[12] Even though Chinese operators investing in these projects are not always clearly identified. Firms in Guangzhou Province, in order to take advantage of attractive loans, support Gansu province firms that can access subsidized credits distributed under the B & R Initiative.

dependence of these economies on the EU. Structural and Cohesion Funds that Hungary receives from the EU account for almost 6% of the country's GDP and further south, recurrent political instability (Bosnia and Herzegovina, Serbia and Kosovo) is certainly not an incentive for China to intervene in these cases.

Box 2
The Silk Roads, an instrument at the service of Chinese hegemony?

For several analysts (Guichard, 2014; Godement & Vasselier, 2018; Miller, 2017), the deployment of the Silk Road on different continents, which is accompanied through the internationalization of Chinese state and private enterprises, contributes to the hegemony of the Middle Kingdom by combining trade development, foreign direct investment, major works, paving the way, finally, to the conclusion of security and military agreements.
By observing the modalities of entry and the development of the Chinese presence in several countries in Latin America and the Central Europe, Horia Ciurtin (2018) proposes a model describing the different stages of China’s penetration into these economic spaces.

A Chinese model of entry and penetration through trade and investments

Phase 1: Trade:
Chinese firms enter the market and gradually take increasing market shares. China becomes the main economic partner of the country. China controls the financial flows that enter the country. The country is becoming sensitive to any change in China's trade and financial policy.

Phase 2: Foreign direct investment:
Trade relations open doors, FDI keep them open for a long time. First of all, investment is made by state-owned enterprises in the sectors concerned by trade (raw materials in the first place, and then other sectors). These sectors are formally controlled by the Chinese firms. Economic and political risk factors are not taken into account by Chinese investors. Host countries remain sovereign, but become dependent on a single source of income and investment.

Phase 3: Infrastructures:
Infrastructure investments related to the industries concerned and other sectors (roads, ports, railways) are undertaken. They are financed by mature Chinese loans provided by the Chinese state banks and reimbursed by the receiving countries.

Phase 4: Military and Security Cooperation
Signing military agreements, security, purchase of military equipment, joint maneuvers

Does this model reflect China's strategy in CSEEE?
It does not seem to be applicable to the Chinese presence in central and south-eastern Europe. The level of trade remains low and even in the future it could not be reversed to the detriment of the European Union, which remains the main partner of the countries of the region. The volume of FDI is also very low and cannot grow particularly in their current form (acquisitions). In addition, China's FDI has very little, if any, spin-off effect. Only greenfield investments could reverse this trend.
The construction of infrastructures in the countries of the region may represent a form of dependence with regard to their repayment (high level of indebtedness for certain receiving countries such as Montenegro, Bosnia and Herzegovina).
As for military cooperation, it is limited and does not seem to be able to develop in the future, including in Serbia. All other countries are members, or future members of NATO, a sufficient deterrent motive.

Conclusions

The BRI, in this part of Europe, is still in its infancy and many investments are not yet completed or have not reached maturity and been used, particularly with regard to the development of land routes, accompanied by investments allowing their optimal use. They could induce in the future, according to recent studies, a strong growth of the exchanges in the region of the Balkan countries (Briant, 2018)

However, we can see the outline of this ambitious project which, according to the Chinese designers, is more a state of mind, a new concept of exchanges based on cooperation, rather than a rigid framework imposed on the involved partners.

Several interesting lessons can already be learned.

- Recycling the financial surpluses by creating new channels of exchanges centered on the interests of China: supply and security of natural resources, access to new trade destinations.
- A logic of market penetration favoring Chinese companies, especially the state-owned, in sectors where China companies have skills, overcapacities, where they are confronted to more competition on the domestic market (automobile)
- This policy is based on substantial financial resources and favorable allocation conditions for borrowers, almost all Chinese companies, through political banks, in support of its development strategies.
- The implementation of these projects has not, for the moment, an integrating and structuring effect. In some countries, along the road, it induces significant asymmetries for the benefit of China. In Asia, the implementation of the initiative reflects the growing power of China and feeds tensions between the BRICS partners (Russia, India). In Europe, the Chinese presence is less important, the CSEEE remains a place of passage and not yet anchored: the market of the EU-15 and in particular those of core Europe are more important targets, but more difficult to achieve (BDI 2019).

This project involves risks.

First, those related to its profitability: will the infrastructure generate enough business to ensure the profitability of investments? Is China guaranteed to generate annually, through its exchanges, the level of resources needed to finance projects? Will the control of outside flows of Chinese FDI reduce the amount of capital leaving China?

Finally, the political and financial risks should not be neglected, especially with several host countries (some of which will not be able to repay), with neighbours worried about China's rise to power and not taking advantage of this Initiative presented as a "win-win" solution by its promoters, but perceived as "loser-winner" by its receivers.

Three recent events should help shed light on Chinese projects in this region and more generally in Europe:

- The recent declaration of the EU Balkan summit, reaffirming the interest of making progress in the enlargement and integration of the Western Balkans to the European Union, with economic projects involving important investments in infrastructure;
- The 10 points declaration of the European Commission concerning its relations with China and its consequences concerning the reception and control of Chinese investments in Europe,
- Finally, the signing of a memorandum between China and Italy which foresaw an increase of the Chinese presence in this country.

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Challenges and Opportunities of the EU Migration Policy[1]

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Abstract: - The strategies for managing the international labour flows become an integral part of the debate and the European Community's political agenda. Against the backdrop of rigidities and imbalances strongly rooted in labour markets in some Member States, the European Economic and Monetary Union cannot promote competitiveness and economic growth without additional labour force. The paper will try to analysis the impact (demographic and socio-economic) of migration on EU. In my opinion, the outcome of migration can be stronger only if the level of immigration training is high, competing with the native population. The structure of the population by field of activity shows that many people in the Central and Eastern European countries can be competitive with the native population, which explains the much higher employment rate among EU migrant workers than the average EU employment rate. In order to avoid potential negative effects (social dumping, increasing the risk of dismissal of workers in the indigenous population), there are required the flexibility of the labour market institutions throughout the EU and the strengthening of social protection systems in all Member States. The research methodology is based on the analysis of the statistical data provided by the Eurostat, as well as a qualitative analysis relying on EU documents in this field and migration theories and literature review.

Key-Words: migration, impact, employment, unemployment, integration, SWOT
JEL Classification: F22, J08, J21, J18

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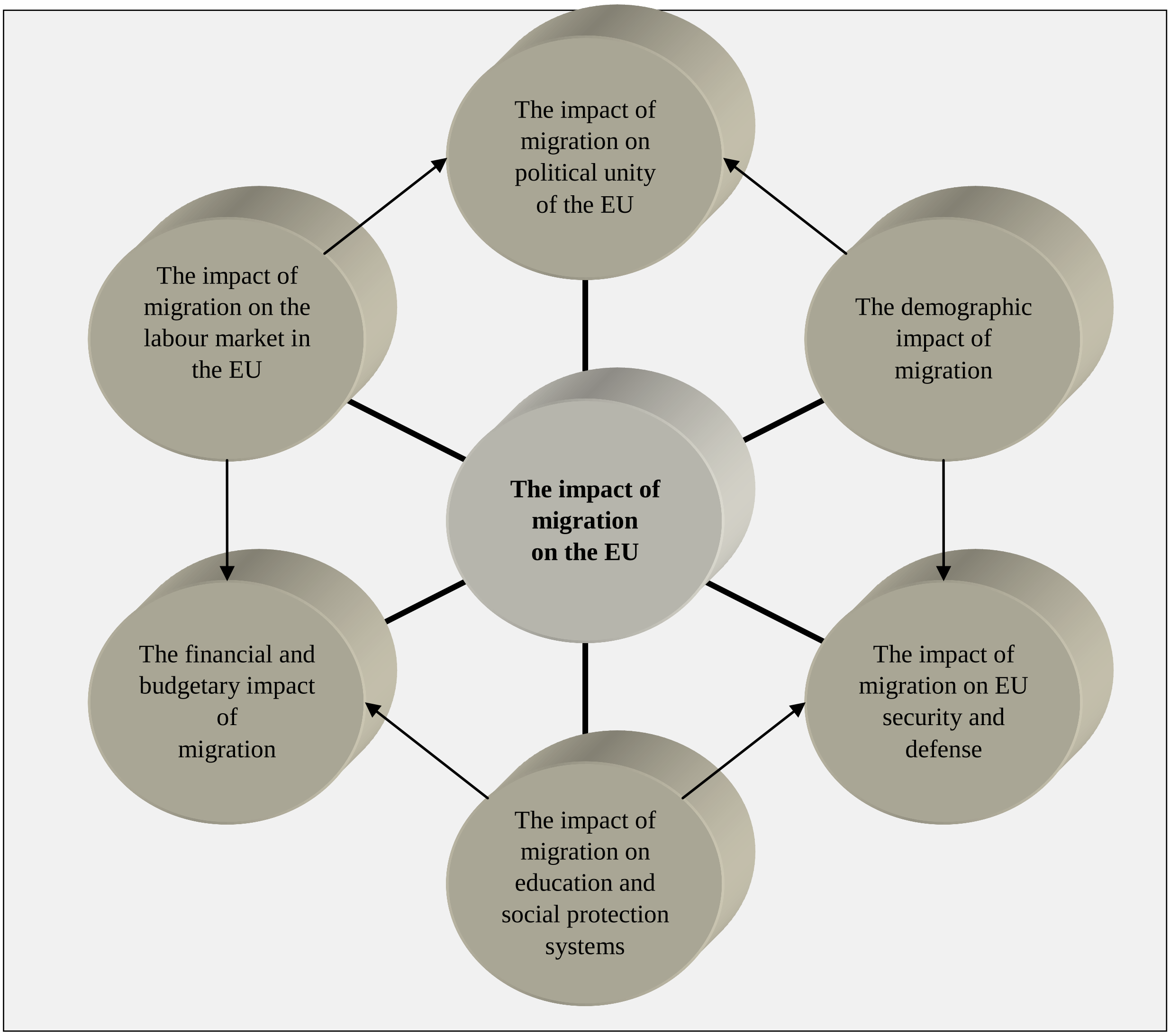
1. Introduction

The phenomenon of migration involves the movement of people (individuals, families or groups) from one place to another with the intention of permanently or temporarily settling in a new location. Migration can be voluntary (seeking a job) or forced (by war, natural disasters). Depending on the migrant's place of origin, migration in EU is divided into two types: intra-community migration (from one Member State to another) and extra-community migration (outside EU space).

The study aims to analyse a number of demographic, economic and social issues and to identify the impact of migration on the EU as a whole and on the Member States in order to find ways to manage the phenomenon more effectively and to integrate faster and to a high level, to the benefit of both native population and migrants (Figure 1). The ultimate goal is to turn this major challenge of migration into an opportunity to stimulate sustainable economic and social development and to offset the demographic deficit facing the EU.

Figure 1: Challenges of the EU Migration Policy



Source: Figure developed by the author.

The free movement of workers can be viewed in sociological terms as intra-community migration, with a strong negative impact on the demographic balance of migrants' countries of origin, especially since young, active, working people are determined and prepared to emigrate looking for a job and a better life. One of the most significant negative effects of emigration is the so-called phenomenon of “brain drain”, which is the loss of educated and highly qualified workforce.

In 2015, Romania, Poland, and the UK were the countries with the largest migratory flows, followed by Germany, Italy and Spain. Most of the new Member States still have higher emigration rates than the EU average, with the highest levels found in Lithuania, Latvia, Poland and Romania (two to three times the EU average). Also, migration has continued to grow in Estonia, Croatia, Hungary and Slovenia over the past two years.

On the other hand, there is also a positive economic impact of intra-community migration, as the country of origin earns in the short and medium term from the remittances of those working in other Member States. According to the World Bank estimates, after three years of consecutive decline, remittances sent to Europe and Central Asia rose 20.9 percent in 2017. The most important money transfers in this region were to Russia ($8 billion in 2017, compared with $6.7 billion in 2016), Ukraine ($7.9 billion in 2017 versus $6.1 billion in 2016) Poland ($6.8 billion in 2017 compared to $6.1 billion in 2016) and Romania ($4.9 billion compared with $3.5 billion in 2016) (The World Bank, 2018).

As for the countries of destination, migration (intra-community and extra-community) has a positive impact by gaining educated workforce, lowering labour costs and positive immigrants' contribution to economic growth but it can also produce negative effects by fueling labour market conflicts, increasing social costs related to migrant integration and, the last but not the least, the danger of escalating conflicts of a cultural or ethnic nature. With regard to the impact on wages, it can be limited by preventing wage cuts below the legal level, avoiding the so-called phenomenon of “social dumping”. The negative impact on public finances in the destination countries as a result of the costs associated with migrant social assistance programs is offset by their integration into the labour market and the increase in the number of taxpayers. On long-term, migration can have a positive impact on reducing the burden of social security budgets in many Member States, as a result of the ageing of the population.

According to the European Commission's report on intra-community migration in 2017, Germany and the UK were the main countries of destination of intra-community migrants, with around 50% of migrants in the EU-28 going into these two countries (Fries-Tersch, Tugran, Rossi & Bradley, 2018). This phenomenon is due to the fact that, starting with 2015, the migration flows in both countries gradually increased, and net mobility in Germany and the UK was about four times higher than in any other Member State. The UK hosts the largest number of employees from other Member States over the past ten years (1.8 million people) and Germany is considered “a traditional destination country”, with massive inflows over the past two years of 1.4 million extra-community migrants. In addition, EU citizens' annual inflows to Germany increased by more than 250% between 2009 and 2015, while in the UK they increased by 60% (similar to EU growth).

It should not be neglected that the issue of free movement of labour continues to be a hot topic on the community agenda, as it has been the subject of heated debates linked to Brexit. Future regulatory developments will mainly depend on the ability of Member States to find solutions that are favourable to all stakeholders while still respecting the principles of free movement of labour.

Spain and Italy continue to be important destination countries for both intra- and extra-EU migration, after Germany and the UK, but they have not regained their attractiveness existing before the 2008 crisis. For three years (2013-2015), migrant inflows into both countries were lower than in 2009, especially in Italy, where only half of the 2009 entry level was recorded. Another country of major destination is France, with the fifth largest number of migrants in the EU-28 and a significant entry of migrants in 2015. After a steady rise in 2009, migrant entrances to Austria were higher than those in Italy in 2015, making Austria the third country of destination in the EU in 2015 The Netherlands and Sweden are other major destination countries, which have also seen increases in migrant labour inputs in recent years (Eurostat, 2018a).

2. Migration theories and literature review

According to Hein de Haas (2014), the migration theories are based on four analytical dimensions:

- *the size of the levels*: macro, mezzo and micro, depending on which different conceptual analysis tools are used;

- *the geographical dimension and regional dimension* have an important influence on applied theories. Thus, neoclassical theory, which is based on the assumption that migration is stimulated primarily by rational economic considerations of benefits and costs, can be applied primarily to migration from rich countries where most people face relatively few mobility constraints;
- *the chronological dimension*, according to which the migration may vary depending on certain periods of time favourable to the movement;
- *the social dimension*, which implies that migration is a socially differentiated process, given that migration has varying degrees of applicability depending on migrants' occupations, abilities, income or ethnic groups. The social class to which the migrant belongs has a greater significance than ever, in accordance to the immigration policies increasingly favouring those with a certain social and professional status. Hein de Haas (2014) points out that "the poor migrate just as much as the rich", but they make it shorter and often unfavourable, with the danger that their "illegal" status will facilitate their exploitation.

Boswell (2008) considers that when analysing migration, it is difficult to delineate clearly the boundaries of economic discipline to those of the social structure, based on a uniform concept of rationality, which implies that individuals want to maximize their usefulness by rational means. In other words, individuals will act to maximize their usefulness in terms of opportunities, but also taking into account external constraints.

Stark (1991) asserts that the family decisively influences the individual's decision to take the risk of seeking a new job in different labour markets. As such, in the author's opinion, a group of people, not one individual, are the basis for making decisions about maximizing utility. His hypothesis is that individuals have a fundamental interest in the well-being of the family (group) that is incompatible with an egoistic self-decision ontology for the individual. In Stark's opinion, the decision on migration involves replacing the individual decision-maker with a well-defined unit (family or household), similar to the one in which microeconomics considers the firm to be a profit maximization unit.

Kurekova (2011) points out that, with the accession of the new Central and Eastern European countries to the EU, the neoclassical theory, which considers that migration is influenced mainly by the differences in labour market opportunities, could be tested. Kurekova (2011) points out that the community migration is determined by the real wage differences between countries that have heterogeneous degrees of labour market development. According to this theory, migration is determined by the geographical differences in supply and demand on the labour market, as well as by the differences resulting from wages between labour-rich countries and capital-rich countries.

Vanselow, Liebig & Koplanis (2016) point out that most empirical studies on the role of labour market migration refer to the aggregate or specific impact at the local level, rather than the analysis of concrete case studies. Most of these authors' research shows that there is no major negative effect of immigration on local wages nor on jobs, while a small proportion of analyses show that there is only a minimal effect on the labour market in the country of destination. In the authors' opinion, the fact that the impact remains at a minimum level is due to several factors, namely:

- the skills of migrants often complement those of natives;
- the native population occupies the highest places on the occupational scale compared to the migrants;
- the flexibility of the local labour force is superior to migrants;
- the impact of migration can be diminished through the adjustment processes, for example through changes in industrial structure and production technologies, as well as through the capital flows.

3. Integration versus assimilations

The EU Agenda for Migration sets as a priority objective the "effective integration of migrants". Under the current budgetary exercise (2014-2020), at least one fifth of the resources of the European Social Fund for Social Inclusion of Migrants is directed with a special focus on the protection of refugees and their children.

Integration has become a common term, frequently used at both Community and Member State levels in political documents and debates. Social integration implies a good knowledge of the characteristics and culture of the host country by migrants, but also the recognition of the distinctive character of immigrant culture by the majority population, and last but not the least “a mutual respect”. For migrants, integration involves a process of acceptance of the new adoption culture, the acquiring of citizens' rights, the access to social status and the achievement of a status in society, the building of interpersonal relationships with the members of the receiving society and the formation of feelings of belonging to society (King & Lulle 2016).

Assimilation means the complete erosion of the differences between migrants and the host society and involves the dominant role of the recipient country. In a number of Member States, it is preferable to assimilate migrants to the detriment of integration, and in some cases, there is an attempt to rehabilitate the concept, being considered as an optimal solution for preserving the “European identity” and promoting “Europeanization”.

At the pole, *multiculturalism* recognizes, and even appreciates, the diversity of culture brought by migrants of different origins and allows them to openly practice their cultures, but in some of these cases the EU is facing the challenges of *segregation*, the emergence of conflicts between certain values of extra-community cultures and the “European” principles of democracy, gender equality and human rights (King & Lulle, 2016).

4. The demographic impact of migratory flows

According to Eurostat data (2018a), in 2015, the year of the migration boom in the EU (especially the extra-community one) about 4.7 million people immigrated to one of the EU-28 member states. Of the 4.7 million immigrants registered in 2015, it is estimated that around 2.4 million were third country nationals, 1.4 million were citizens of another EU Member State than the destination country, about 860 000 were citizens of the EU Member State of destination (e.g. “returning home” or foreign-born) and about 19,000 were stateless.

Germany reported the highest total number of immigrants (1,543,800) in 2015, followed by the United Kingdom (613,500), France (363,900), Spain (342,100) and Italy (280,100). In parallel, Germany reported the largest number of emigrants in 2015 (347,200), followed by Spain (343,900), Great Britain (299,200), France (298,000) and Poland (258,800). In 2015, 17 of the EU Member States reported a higher share of immigration than emigration, but in Bulgaria, Ireland, Greece, Spain, Croatia, Cyprus, Poland, Portugal, Romania, Latvia and Lithuania the number of emigrants exceeded the number of immigrants.

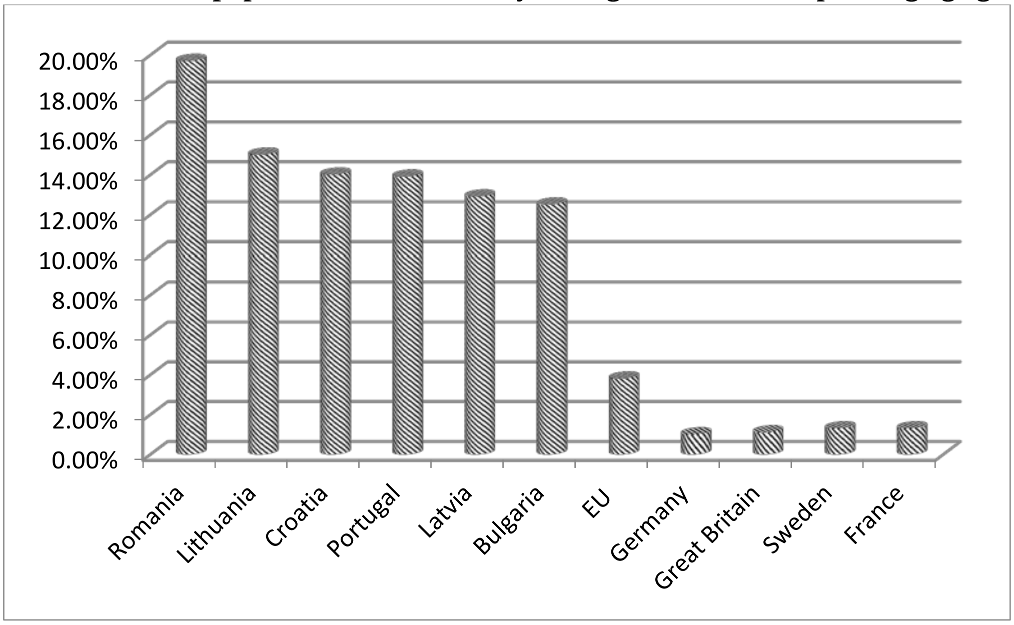
Concerning gender distribution of immigrants from EU Member States in 2015, there was a slight prevalence of males versus women (56% versus 44%). The Member State with the largest share of male immigrants was Germany (63%); in contrast, the largest share of female immigrants was recorded in Cyprus (57%). In 2015, immigrants from the EU Member States were, on average, much younger than the total population resident in their country of destination, given that the average age of immigrants was 27.5 years in the EU-28.

Subsequently, in 2016, the number of immigrants fell to 4.3 million people. Of these, 2.0 million people were third-country nationals, 1.3 million citizens of a Member State other than the one they emigrated, around 929,000 people were foreign-born nationals or nationals and about 16,000 were stateless. Germany reported the highest total number of immigrants (1,029,900) in 2016, followed by the UK (589,000), Spain (414,700), France (378,100) and Italy (300,000).

On 1 January 2017, the number of people residing in an EU Member State with a third-country nationality amounted to 21.6 million, representing 4.2% of the EU-28 population. In addition, on the same date, 16.9 million people lived with the citizenship of another EU Member State in one of the EU Member States. In absolute terms, the largest number of non-resident citizens living in EU Member States were located in Germany (9.2 million people), Great Britain (6.1 million), Italy (5.0 million), France (4.6 million) and Spain (4.4 million). The foreign citizens in these five Member States together accounted for 76% of the total number of foreigners living in all EU Member States, while the same five Member States had a 63% share in the EU-28 population. In contrast, foreign citizens represented less than 1% of the population of Poland and Romania (0.6% each) and Lithuania (0.7%).

A percentage of 3.8% of EU citizens of working age (20-64 years) resided in a Member State other than their nationality in 2017. This share increased from 2.5% ten years ago. The situation varies among Member States from 1.0% in Germany to 19.7% for Romania. High rates of migrant workers were registered by Lithuania (15.0%), Croatia (14.0%), Portugal (13.9%), Latvia (12.9%) and Bulgaria (12.5%). The EU Member States with the lowest share of mobile nationals (of the total population of the country) are Germany (1.0%), the UK (1.1%), Sweden and France (both with 1.3%). Compared to 2007, the share of Romanian nationals living in another Member State increased by 12.3 percentage points, also recorded a significant increase Latvia (10.0 pp), Lithuania (9.5 pp) and Bulgaria (8.0 pp) (Figure 2). The employment rate of mobile EU citizens is 76.1%, a high level compared to the total employment rate at the Community level, which is 72.1% (Eurostat, 2018c).

Figure 2: EU labor migrant workers (20-64 years) by country of citizenship in 2017 (in% of the resident population in the country of origin, in the corresponding age group)



Source: Figure developed by the author based on data provided by Eurostat (2018c).

5. The socio-economic impact of migration on the labor market in the EU

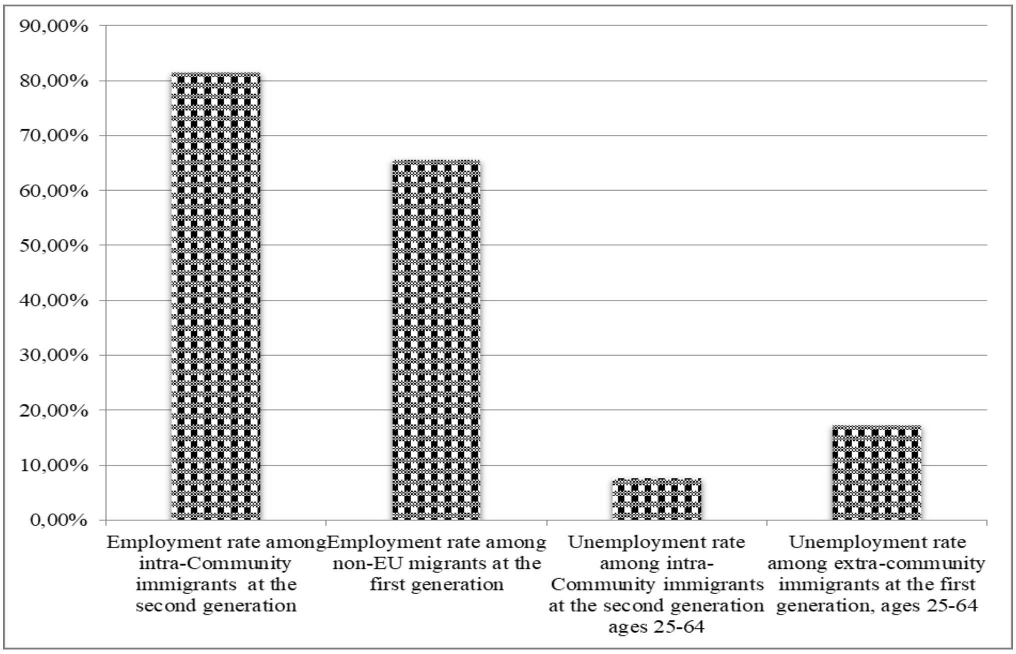
Ruhs & Vargas-Silva (2017) appreciated that the effects of immigration and potential changes in labour market participation rates cannot offset the decline in labour force in most European countries. According to the two specialists, *workforce deficits, which are already evident in many countries, are expected to persist and increase in the future.*

The group of Member States with employment rates above 70% includes: Great Britain, France, Germany, Ireland, Hungary, Latvia, Lithuania, Estonia, Finland and Portugal. The group of Member States with rates above 60% is concentrated in two areas: Western Mediterranean / Adriatic (Spain, Italy and Croatia) and the Eastern border of the EU, running from the Southern part of the Baltic Sea to the North end of the Black Sea (Poland, Slovakia, Romania, Bulgaria). In addition, Belgium is also included in this group of countries with employment rates of around 60%. A particular case is Greece with employment rates below 60%.

According to Eurostat (2016), the second-generation community immigrants represented the best integrated labour force group with an employment rate of 81.4% (above the European average), compared to 65,5% for extra-community immigrants in the first generation, in 2014. Among second-generation community immigrants, the gender pay gap between women and men was 7.5 percentage points, while for the first generation of migrants born outside the EU, it was 23.4 percentage points (Figure 3).

As far as unemployment is concerned, it is much higher among extra-community migrants. In 2014, the unemployment rate for first-generation immigrants from non-EU countries has risen to over 28% for those aged 15-29 and to 17.2% for the 25-54 age group. For the second-generation immigrants with non-EU origins, the gender gap was the highest (9.3% female unemployment rate, compared with 13.5% among men). On the other hand, the most integrated are the second-generation community migrants from the age group 25-54, with the unemployment rate of only 7.6% (Figure 3).

Figure 3: Employment rates and unemployment rates among immigrants in 2014 (%)



Source: Authors based on Eurostat data (2016)

The structural rigidities in EU labor markets caused that the workers shortages in most Member States to coexist with the existence of large groups of unemployed or inactive people, both among native citizens and migrants, who can also be affected by the new immigrants. On the other hand, given a very high youth unemployment rate (15-24 years), 15.3% in the EU-28 and 17.2% in the Euro zone in April 2018 and the existence of an inactive work force among young people or women, it is difficult to appreciate exactly what is the size of the real workforce shortage in some Member States.

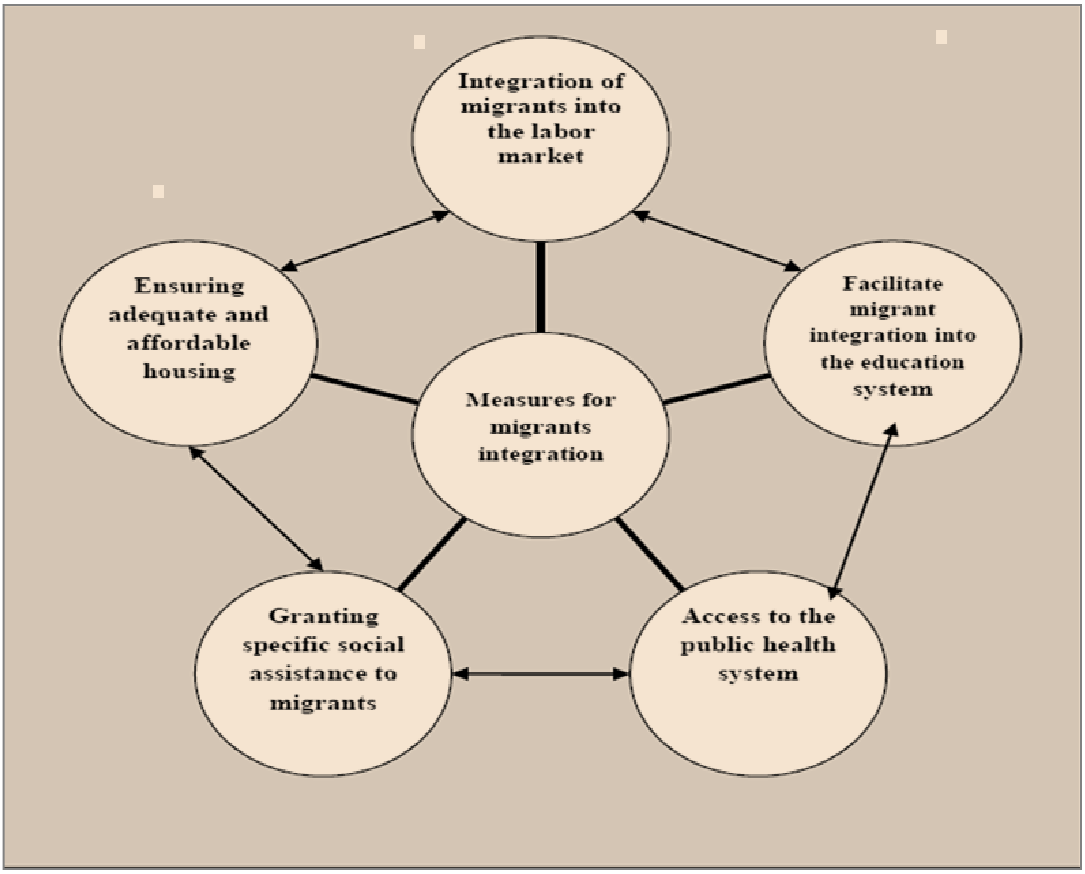
The segmentation of EU labour markets, corroborated with the differences in economic, social and institutional characteristics, has given rise to two distinct “migration regimes” in the countries of Northern and Southern Europe. The labour market imbalances are largely attributable to the structural rigidities. These include the lack of inter-regional geographic mobility accentuated by language barriers, the regulations restricting access to certain professions for citizens only, the inconsistencies between existing skills and those required on the labour market, and the cultural and socio-economic barriers involving the employment of migrants (especially low-paid jobs).

Dustmann, Glitz and Frattini (2008) consider that immigration can lead to the diversification of the mix of goods and services produced in the economy and can change the industrial occupational structure of the labour market. For example, immigration of low-skilled workers may extend the production (supply) of certain products (services) that use intensively low-skilled labor. The expansion of the respective sectors will then increase demand and lead to wage preservation. Similarly, immigration may change the technology used to produce (supply) certain products (services). In their opinion, the immigration of skilled workers can encourage the innovation and the adoption of technologies that require a higher qualification, which could again influence the demand for labour. Taking these theoretical aspects into account, the impact of immigration on wages and employment opportunities of existing workers varies depending on space (country or region) and time (economic boom, stagnation, crisis).

6. The measures for migrants' integration

According to OECD (2018), the integration of migrants is based on the implementation of sectoral support policies, which are presented in Figure 4.

Figure 4: The measures for migrants' integration



Source: Figure developed by the author

- **Integration of migrants into the labour market**. Labour demand (skilled / unskilled) that can be provided by migrants varies greatly in geographical space, so a number of regions have developed mechanisms to assess their demand and attract the necessary workforce from other areas. Local employment agencies can make the most effective link between the skills and needs of the local labour market by managing databases containing information on the newcomers' skills.

- **Ensuring adequate accommodation.** The real estate sector, and in particular small rent houses, are very demanding in major cities, and the social housing sector is very limited in a number of countries. For migrants, finding a home is a necessary step for legality and a prerequisite for registering as a resident in a locality. Migrants often encounter difficulties in accessing good housing due to regulations or discrimination issues.

- **Proving social assistance and access to the public health system.** The local social authorities ensure the provision of basic social services (shelters, showers, food) that often address the basic needs of migrants. In addition, some cities supplement social benefits (family support, child benefits, unemployment benefits, etc.) and provide health services tailored to the needs of migrants (prevention, primary care, hospitals and health centers).

- **Promoting access to the education system**. In general, the purpose of the education system is to quickly transfer migrant children from special classes to ordinary classes in the public education sector, avoiding the concentration of migrant students in certain schools. Another measure concerns the reduction of barriers for migrant students to vocational education. Moreover, OECD (2018) specialists recommend shorter training time for people who cannot afford to live on long-term apprentices' wages. According to the same source, several countries (e.g. Australia, Denmark, Germany, Switzerland) provide adult apprentices with relevant work experience to finish faster than the standard length of training.

7. Conclusions

According to the migration theories, in the context of formulating public policies in EU, a clear distinction must be made between migrants for economic reasons, who are generally looking for better paid jobs and are mostly young entrepreneurs, and political migrants or refugees, among whom there are many people who cannot be active on the labour market (children, the elderly), but also people with modest skills, who are more vulnerable to discrimination both on the labour market, and in society, and require additional social protection from the state.

In order to have a clearer picture of migration, many specialists have analysed the economic effects of this phenomenon on the Member States. Recent studies on European integration and the free movement of labour reveal that destination Member States have benefited from EU enlargement by developing business and migrant labour opportunities. On the other hand, these studies show that the income earned by immigrants does not burden the native population, as these incomes are lower than their profits. Labour migration also has an incentive effect on investment and domestic consumption. As such, it offers host countries more net benefits than social costs.

Some researchers in the field show that the immigration process can only have a minimal effect on unemployment in the Member States. In this respect, a distinction needs to be made between the distribution of jobs in the EU and the creation of new jobs (especially in elderly care, small-scale construction, low-skilled jobs, etc.), which do not address the native population.

As far as the negative impact of migration on wages is concerned, it will be limited by preventing wage cuts below the statutory level, avoiding the so-called “social dumping” phenomenon. Also, the negative impact of migration on public finances is negligible, influencing even positively the reduction of the burden on social security budgets (in the context of ageing population), by increasing the number of taxpayers.

In my opinion, the impact of migration can be stronger only if the level of immigration training is high, competing with the native population. The structure of the population by field of activity shows that many people in the Central and Eastern European countries can be competitive with the native population, which explains the much higher employment rate among EU migrant workers than the average EU employment rate. In order to avoid potential negative effects (social dumping, increasing the risk of dismissal of workers in the indigenous population), the flexibility of the labour market institutions throughout the EU and the strengthening of social protection systems in all Member States.

With the integration of the Central and Eastern European countries, a much freer flow of labour has been ensured, which has led to a more efficient allocation of human resources, has stimulated the production efficiency and has helped to increase the competitiveness of EU products. Also, the free movement of people has boosted the growth of welfare across the EU in destination countries by increasing contributions to social security and taxes paid by migrant workers and in home countries by increasing remittances.

The rapid technological changes and the new qualifications required by the labour market demand a re-evaluation of the necessary skills. The selective migration policies, which are focused on employment and are useful to meet specific short-term labour market demand, cannot be the basis for an effective long-term policy without a process of effective integration of migrants and their families.

Elaborating effective migration policies is based on the successful implementation of measures to integrate migrants not only on the labour market but also in the host society. Katseli (2004) points out that given the complexity of the process, most Member States’ governments have tried to keep migration integration issues at the minimum level on the internal political agenda. Their attempts to deal with the problems took the form of either defensive tactics or crisis management by tightening border controls or implementing selective immigration programs and massive regularization.

In conclusion, it is advisable that strategies for managing international labour flows become an integral part of the various economic and social debates and an important issue on the Community's political agenda. Against the backdrop of rigidities and imbalances strongly rooted in labour markets in some Member States, EMU cannot promote competitiveness and economic growth without additional labour force at EU level (Table 1).

Table 1: The SWOT synthesis of the migration impact in EU

STRONG POINTS:	WEAKNESSES:
• increasing the labour supply; • increasing employment; • increase labour productivity; • increasing the competitiveness of EU products.	• reducing wages on short-term; • increasing unemployment among existing workers with qualifications similar to those of migrants; • segregation, marginalization and difficulties of integration of migrants into society.
OPPORTUNITIES:	**THREATS:**
• diversifying the mix of goods and services produced in the economy; • stimulating economic growth; • increasing innovation and cutting-edge technology by attracting skilled migrants.	• the emergence of conflicts between host country workers and migrant workers; • increased unemployment and social spending in the host countries if migrant workers integration is not effective.

Source: Author after different sources

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Challenges, Opportunities and Prospects of Cooperation Under The 16+1 And Belt and Road Initiative

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Abstract: The world economy could be divided into several zones, and according to the basic framework of economic theory, trade which promoted by labor division, will increase productivity, give incentive to growth and improve welfare. The BRI intends to strengthen cooperation among relevant countries by facilities connection, convoy the ideas of open, harmony and inclusive development by market–oriented actions. Cooperation under the 16+1 and the BRI aims at building jointly, facing challenges together and sharing benefits mutually.
Key words: 16+1, BRI, trade
JEL Classification: F, F0

1. Introduction

Chinese President Xi Jinping raised the initiative of jointly building the Silk Road Economic Belt and the 21st-Century Maritime Silk Road, hereinafter referred to as one Belt and one Road (BRI), and more frequently referred as Belt and Road Initiative (BRI), during the period when he visited Central Asia and Southeast Asia in 2013. Almost at the same time, Chinese Premier Li Keqiang emphasized the need to build the Maritime Silk Road oriented toward ASEAN at the China-ASEAN Expo. The BRI initiative soon have attracted close attention from all over the world, suggesting that accelerating the building of the BRI may help economic prosperity of the countries along the Belt and Road, deepen regional economic cooperation, strengthen exchanges and mutual understanding among different civilizations, and promote world peace and development.

However, one year before the BRI was put forward, the "16+1" mechanism, a platform created in April 2012 by China and 16 Central and Eastern European (CEE) countries, has injected fresh impetus to cooperation between them, especially within the new framework of BRI. Beyond doubt, both are great undertakings that will benefit people of CEEC and China.

16+1 cooperation and BRI in Commons and their Supplementary

In fact, 16+1 cooperation and BRI are platforms of economic cooperation, or a mechanism, and an initiative/mechanism. Both emphasis on the cooperation and connectivity among countries, however, 16+1 cooperation focus on China and 16 Central and Eastern European (CEE) countries, while BRI not only primarily in Eurasia, but also open to all over the world. But both aims at the development and the establishment of economic partnership among countries, build community of interest, responsibility by economic integration, and political mutual trust. The Key of BRI is Facilities connectivity under initiative and implemented by market, and the key of 16+1cooperation is the promotion of cooperation with recognizing that strong support from governments is essential.

16+1 cooperation and BRI are all devoted on free trade and investment, became more important in facing of protectionism. 16+1 cooperation mechanism is an important part of BRI, was put forward one year ahead of BRI. BRI focus on facility connection and 16+1cooperation expends to cooperation in more fields. BRI is an initiative but 16+1 cooperation is a series of summit of top leaders, and already publish several compendiums and programs of Bucharest, Riga and Suzhou at governmental level. BRI is a open platform and 16+1 is a regional platform.

2. The Background of the 16+1 cooperation and the BRI against Stagnation and De-globalization

According the general view of point, the world economy could be divided into several zones, such as North American, Europe, Asia and Africa. According to the basic idea of economic theory, trade which promoting labor division, productivity, growth and development.

People of Eurasia explored several inland and maritime routes for trade and cultural exchanges that linked the major civilizations of Asia, Europe and Africa more than two millennia ago, collectively called the Silk Road later. The key Spirit of Silk Road, peace and cooperation, openness and inclusiveness, mutual understanding and mutual benefit, has been passed generations and generations, promoted the progress of human civilization, and contributed the prosperity and development of the countries along the Silk Road. The Silk Road is symbolizing the communication and cooperation between the East and the West, and is a historic and cultural heritage shared by all countries around the world.

The theme of 21st century marked by peace and development, cooperation and mutual benefit, make the Silk Road Spirit more important for us, especially in facing of the weak recovery of the global economy, and complex international and regional situations.

The underlying impact of the international financial crisis in 2008 keeps emerging and profound changes are taking place in world economy like secular stagnation. Savings exceed investment and made the natural interest rate keep low to negative. To find investment opportunity is crucial and the jointly building of the BRI and 16+1 cooperation mechanism might solution. The world economy is recovering slowly, and global development is uneven after decade of globalization; international trade and investment is facing the challenge of protectionism, rules for multilateral trade and investment are undergoing major adjustments. Both is devote to the jointly building of the infrastructure that will embrace the trend toward a multipolar world and global inclusive development.

Cultural diversity, national heterogeneity on endowment and ITC application, is designed to uphold the global free trade and investment, countries' opening up as well as regional cooperation by trade and investment. International trade and investment aimed at promoting orderly and freely flows of economic factors, highly efficient allocating resources and deepening integration of markets; encouraging countries along the belt and road to achieve economic policy coordination, pushing a broader and more in-depth regional cooperation to a higher standard; and jointly creating an open, inclusive and balanced international setting for global economic cooperation framework and architecture that benefits every member.

Globalization is the process of sharing ideas and resource among nations, the evidence is more positive than otherwise. The progress of globalization depends on two forces: technology, which eases travel and communication, and politics that underpin an open world. Now, Technology still drives integration forward, but political resistance is growing, because of the Globalization and its Discontents (Stiglitz) and The Globalization Paradox (Rodrick). But historically, the drag from politics seems weaker than the thrust from technology. There is no denying that the world finds itself in a new era, technology still drives integration forward, but political resistance is growing. Although there is no denying that finance is less international than it used to be, Globalization reset suggest something more positive, or sounder global management. After all, the new regulatory restrictions are at least partly a response to the risks of fast globalization, a desirable level of flows considerably lower than the pace during 2002–04. If the optimal ratio and manner were, globalization might be just about right.

The BRI and 16+1cooperation represent the new process of globalization reset.

In short, jointly building the belt and road, BRI and 16+1cooperation will benefit inclusively to world economy in the interests of the world community, reflecting the common ideals and pursuit of international societies. So, it is no wondering that the BRI received widely response all over the world. It is a positive endeavor of establishing a new model of international cooperation and global governance, and will contribute world peace and development.

3. The Rise and Fall of the Ancient Silk Road and the development of GVC

The rise of the ancient Silk Road is promoted by the demand for silk and tea from the west, and hence is driven by the inter-industry trade. It is true that the geographic difficulties through the hot and dry inland desert made the trade only limited to some high value goods like silk and tea which are insensitive to high transportation cost, and only few people and goods could traveled. This is the limitation of the ancient Silk Road. Even though sea belt transportation was established later, the limitation is still there.

However, thanks to the technical progress, the road through the inland desert from Asia to Europe is no longer harsh for transportation neither for goods nor people, and the transportation cost is greatly decreased today. Not only the trade goods can be expended, but also the trade itself can also be shift from inter-industry trade to intra-industry trade against the background of the expansion of global value chains network around the world, especially between developed countries and developing countries.

The key reason of the fall of the ancient Silk Road is the industry revolution in Europe change the trade advantage among countries. The huge production capacity in Europe made the trade dominated by raw materials and final product between Europe and the rest of the world, saying inter-industry trade. The low cost of final products from Europe is competitive on world market and result in the imbalance of trade. However, thanks to the technical progress, the intra-industry trade in global value chains reshaped trade advantage among countries along the Silk Road and made it is possible of the re-flourishing of the ancient Silk Road.

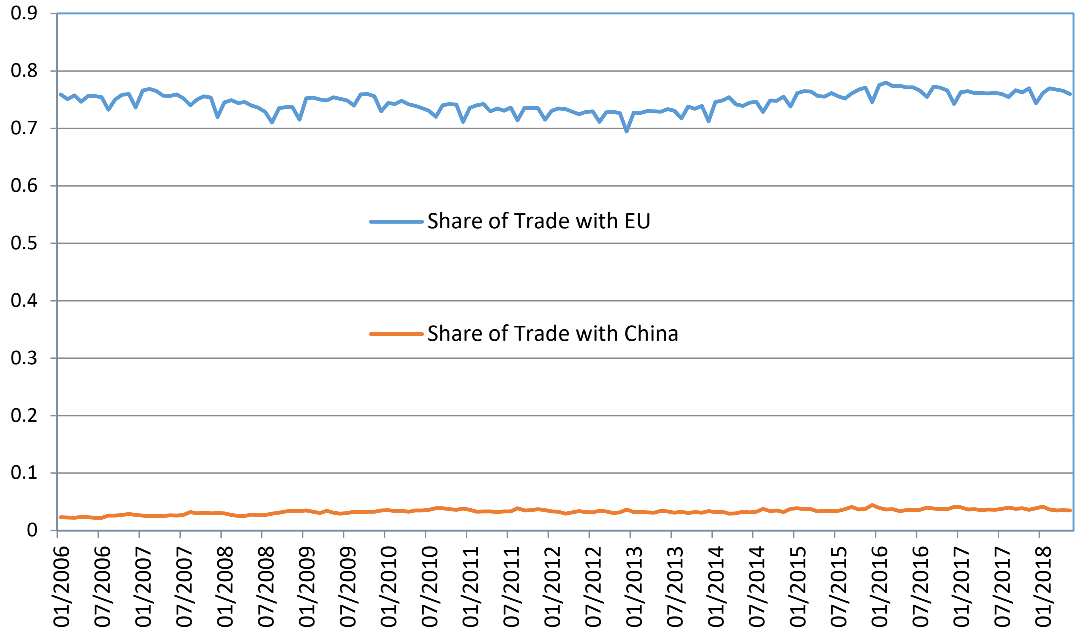
The shift from inter-industry trade to intra-industry trade is an important feature of the BRI and it can stabilize the trade relation in the long term. The ancient Silk Road was breakup several times in its history for the reason of war along the road, but now it is the time for peace and development, even though there may be some conflicts but will not lasted for long time.

It is more important and we has to mentioned here is the fact that the infrastructure for modern transportation along the Silk Road is less developed, so before the re-flourishing of trade, the first priority is the construction of infrastructures. It is for sure that the construction will benefit countries along the belt and road and lay foundation for further cooperation in the future.

4. Potential and Feasibility of 16+1 Cooperation and BRI

In this section, we will illustrate the potential of 16+1 cooperation within the framework of BRI, but only in term of trade because trade is the fundamental of economic cooperation, investment for example.

CEEC are geographically close to developed European countries and are members of EU，so it is naturally integrated into EU since the breakup of the USSR in early 1990’s. The trade share of CEEC with EU continuously increased from that time and reached peak level at the late 1990’s. From then on, the ration keeps as high as 70% (Figure 1). At the meantime, according to Broad Economic Classification (BEC), the trade structure of CEEC with the world dominated by intermediate goods, nearly 60%, and most of them are trade with EU (Table 1).



Source: calculated from CEIC database.

Figure 1: Trade Share of CEEC with EU and China

Table 1: Trade Structure of CEEC with the World

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Intermediate goods	0.57	0.57	0.56	0.56	0.54	0.56	0.57	0.56	0.56	0.56	0.55
Household consumption	0.16	0.15	0.16	0.16	0.19	0.17	0.16	0.17	0.17	0.18	0.18
Capital goods	0.13	0.13	0.13	0.12	0.12	0.11	0.11	0.11	0.11	0.11	0.12
Mixed end-use	0.10	0.10	0.11	0.10	0.11	0.11	0.10	0.10	0.11	0.11	0.11

Source: calculated from OECD database.

In the past twenty years, against the background of CEEC integrating into EU, CEEC trade ratio with China showed a very slow increase, less than 3%. However, the trade structure also dominated by intermediate goods, about 50% and only a little lower ratio than that with EU (Table 2). It suggests that even China is geographic far from CEEC than EU, but the trade structure is almost identical with that with EU. In Romania case, the share of intermediate goods trade with China sharply jumped since the global financial crisis in 2008, indicating the trade relation was deepened integrated significantly (Table 3).

Table 2: Trade Structure of CEEC with China

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Intermediate goods	0.45	0.47	0.49	0.48	0.47	0.51	0.48	0.46	0.45	0.46	0.45
Household consumption	0.24	0.23	0.22	0.22	0.22	0.19	0.19	0.19	0.18	0.19	0.18
Capital goods	0.15	0.15	0.16	0.16	0.16	0.15	0.15	0.15	0.16	0.16	0.12
Mixed end-use	0.15	0.15	0.13	0.14	0.14	0.15	0.17	0.18	0.19	0.18	0.22

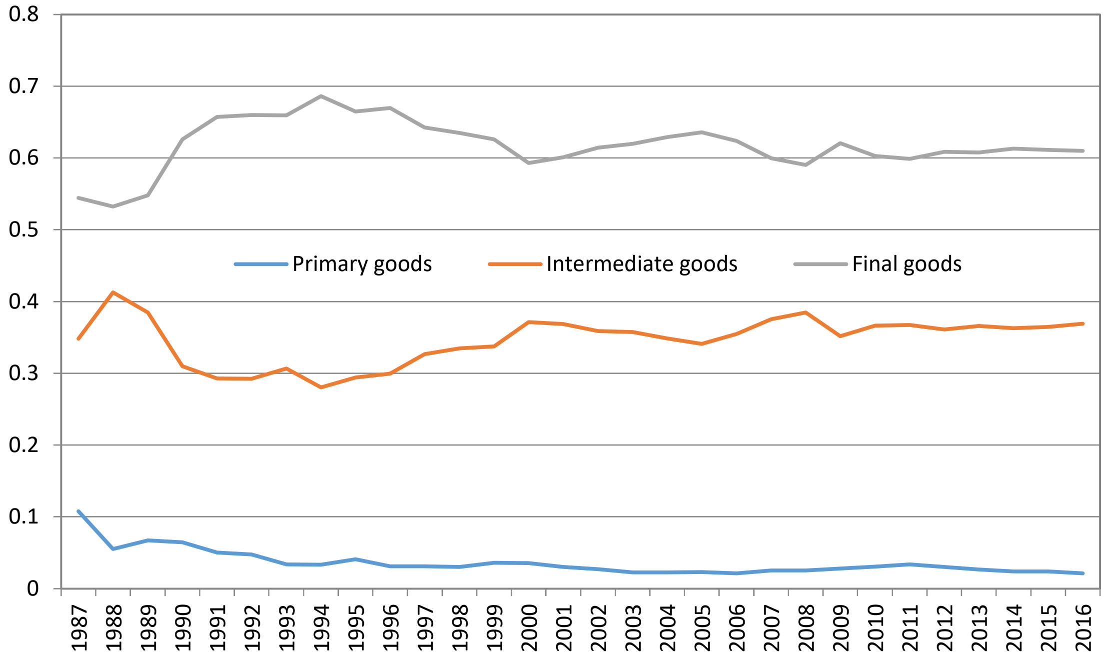
Source: calculated from OECD database.

Table 3: Trade Structure of Romania with China

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Intermediate goods	0.47	0.45	0.46	0.45	0.41	0.50	0.64	0.59	0.61	0.59	0.61
Household consumption	0.24	0.24	0.27	0.26	0.20	0.15	0.15	0.17	0.15	0.15	0.15
Capital goods	0.13	0.14	0.19	0.18	0.16	0.15	0.16	0.19	0.18	0.20	0.18
Mixed end-use	0.16	0.17	0.08	0.11	0.22	0.20	0.05	0.05	0.05	0.06	0.06

Source: calculated from OECD database.

By contrast, the trade structure between EU and China is dominated by final goods, about 60% and the rest share, about 40%, are intermediate goods, and the pattern is kept stable in the past 30 years (Figure 2).



Source: calculated from TID database.

Figure 2: Trade Structure between EU and China

The picture shows that the following stylized fasts about 16+1 cooperation within the framework of BRI. 1) EU is the largest trade partner of China, but China is the third trade partner of EU. 2) The trade between EU and China is dominated by final goods suggesting the trade is inter-industrial. 3) EU is the largest trade partner of CEE countries and trade dominated by intermediate goods suggesting trade relation between CEE and EU is intra-industrial integrated.

And so we can reach conclusions as: 1) Trade between CEEC and EC, as well as the trade between CEEC and China are all dominated by intermediate goods, suggesting that there exist a GVC between them, and the final goods of the GVC is traded between EC and China. It suggests that CEEC and China are linked by EU in Global Value Chains. 2) The trade of CEEC with EU is dominant and hence, BRI from CEE to West Europe is important. 3) BRI from EU to China is also important from the perspective of GVC between EU and CEEC.

5. The Key Focus of BRI and 16+1 Cooperation

Countries along the Belt and Road have their own endowment advantages and economic complementarity. Therefore, there is a great potential and space for trade and investment cooperation.

Facilities connection is a priority for implementing the Initiative because connection is the key function of the BRI. On the basis of respecting each other's sovereignty and security concerns, countries along the Belt and Road should coordinate for their infrastructure construction plans and technical standards, jointly push forward the construction of the Belt and Road step by step, even it may takes time. The BRI can be not build up overnight but China, jointly with other countries can do something on construction project with its comparative advantages.

BRI aiming at connecting Asia to Europe through a new Euro-Asia bridge will induce new investments in infrastructure that will raise productivity; connecting and integration will form new market and boost demand and growth. 16+1 stimulates the cooperation and integration between Europe and China on the basis of GVC and international labor division, also by finding a new trade and investment opportunity.

Investment and trade promotion is the major task of the Belt and Road. Improving investment and trade facilitation, and removing investment and trade barriers for the creation of a preferable environment in all relevant countries might be a tough achievement. Countries along the Belt and Road may establish free trade zone and reach free trade agreement so as to unleash the potential for expanded cooperation.

6. Principles of Jointly Building BRI and 16+1 Cooperation

The Belt and Road Initiative is a way for win-win and inclusive cooperation that promotes common development and prosperity and a road toward peace and friendship by enhancing mutual understanding and trust. The four ideas advocated by Chinese government are peace/cooperation, openness/inclusiveness, mutual learning and mutual benefit. So does ideas of 16+1 cooperation.

During the infrastructure construction for facility connecting, a more important principle suggested by Chinese government is market – oriented which means that enterprises are the main actors of BRI building. They work to build a community of shared interests, destiny and responsibility featuring mutual political trust, economic integration and cultural inclusiveness.

Within the framework of BRI, countries are equal on plan discussion, project complementation and benefit sharing. BRI Initiative is an ambitious vision of opening - up of and cooperation among the countries along the Belt and Road. Countries are expected to work harmonized toward the objectives of mutual benefit and common security. To be specific, they need to improve the infrastructure within their territory, and make it secured and efficient on land and at sea, further enhance trade and investment facilitation, establish a network of free trade areas by high standards and deepen political trust; enhance cultural exchanges; encourage different civilizations to learn from each other and flourish together; and promote mutual understanding, peace and friendship among people of all countries.

The following points are keys in the building BRI:

First, sticking to the principle of mutual respect and trust, and reinforce the foundation for win-win cooperation. Mutual respect is the basis of mutual understanding, and mutual understanding is the premise of mutual trust. The world is diverse with countries differing from one another in terms of size, strength and development level. The rights of all countries to choose their own social systems and development paths should be fully respected. Cooperation for the building of BRI should be set on a voluntary basis and on the principle of equality and mutual benefit.

Second, Openness and inclusiveness are the characteristics of the ancient Silk Road and the experiences of countries along the routes in pursuing development and prosperity, which is necessary to achieve greater success in the future. China’s achievement is inseparable from the international community, and it’s willing to make its contribution to global development. The construction of the Belt and Road will form wider, deeper and higher-level regional cooperation and forge a framework for open, inclusive and balanced cooperation benefiting all parties.

Third, the foundation of the Belt and Road construction lies in interconnectivity, and the driving force comes from down-to-earth work and innovation. Countries along the routes have different advantages in natural resources and human capital, providing huge potential for innovative and pragmatic cooperation.

Fourth, sticking to peace and development is the safeguard of the path toward win-win cooperation. The evolution of the ancient Silk Road proves that there’s no development without peace and no prosperity without security. Solidarity and harmonious coexistence is the gene of the Chinese nation and is also the essence of the Eastern civilization. China persists in peaceful development.

So does the 16+1 cooperation.

7. Potential Challenges of the BRI

We have talk more about the necessary and feasibility of the belt and road initiative, but can it be achieved smoothly? Many Chinese companies are seizing this opportunity, often underestimating the challenges and risks of venturing into the external markets. Outward investment crosses a set of countries that have a diverse range of cultures, economies, and legal, political and regulatory systems in various stages of development. Some of these regions lack political stability and effective governance. When Chinese enterprises expand into other countries, they need to actively research and forecast all types of cross-border operating risks and take steps to mitigate those risks.

In fact, BRI construction might face highly complex and diverse risks including: major political/policy changes by the host nation; religious/nationalist wars and/or civil strife; government nationalization and expropriation; third-country intervention; government withdrawal of cooperative support; discrimination against market access, including trade barriers and invisible investment; breach of contract and/or delayed company payments; commercial trade fraud; and organized crime and terrorism-related risks to the safety of employees and facilities of Chinese companies.

It is thus an urgent priority for the Chinese government and companies to assess, forecast and control such potential risks. To some extent, controlling the risk depends directly on the implementation and survival of the Belt and Road initiative. The Chinese government has already realized its importance. The Ministry of Foreign Affairs has set up a global emergency call center for consular protection and services. The Ministry of Commerce has issued a series of normative documents including Overseas Risk Warning on Foreign Investment and Cooperation, An Early Warning and Information Release System and Guidelines for Safety Management of Overseas Chinese-funded Enterprises. Some policy-based institutions like the China Export & Credit Insurance Corporation enhanced their support for companies seeking to globalize. The China International Contractors Association has established an overseas security platform.

In short, 16+1 cooperation and the BRI initiative convoys the ideals of open, harmony and inclusive by market – oriented actions, calls for the understandings and cooperation among relevant countries for growth and development. More important is that the BRI is an initiative to relevant countries and the building of the BRI should be jointly.

China's International Policy in the New Era[1]

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Abstract: In the increasingly interconnected world of today, the boundaries between domestic and foreign policies are more fluid and penetrable as ever. The well-known and rather worn metaphor of the butterfly effect found an appropriate correspondent in the attention the world paid to the domestic event of the 19th Congress of the Communist Party of China that convened in the autumn of 2017, as its decisions were expected to have an impact on the country's foreign policy as well. A New Era was defined within the The Thought on Socialism with Chinese Characteristics that was included in the Party's constitution, together with the Belt and Road Initiative. Decisions adopted in the following months outlined what allows for identifying at least four characteristics – the Four C's – of China's thinking, with a particular focus on international relations: continuity; creativity; consistency; and comprehensiveness. How they underpin China's foreign policy seems to be crucially important in its understanding of the world order and, ever so more telling, for what it may consider of doing about it.

Key-words: China's foreign policy; a new world order; Belt and Road
JEL Classification: F, F01, F02

1. Introduction

On October 18, 2017, the 19th Congress of the Communist Party of China (CPC) convened in Beijing against the background of developments, both domestic and foreign, that made it natural for the whole world to follow its proceedings and outcomes with utmost interest: China's growth process had been amazingly successful for over three decades at home and had brought about an increasingly visible Chinese footprint on global relationships. By the end of the year, China's GDP was to be US$ 12.2 trillion – i.e. 4.3 times bigger than in 2006 (in current dollars), and projections were that China's share in the global GDP read 19.62% for the end of the first two decades of this century – as against 7.4% at the beginning of the second millennium [World Bank, 2017].

Against the background of these impressive figures and prospects, China's 'Long March to Power and Glory', to paraphrase the title of a 2013 best-seller, had entered 'a next stage' that largely coincided with the previous CPC Congress five years before. By the beginning of this decade, the size of China's economy had become second to the US economy only; 2012 was the year when the global financial and economic crises seemed to have tentatively embarked on the upward slope of their 'U' curve, with China outperforming virtually all other major economies – albeit at costs that were on the verge of the unbelievable; the first 'edition' of the Belt and Road Initiative was launched by the end of 2013; China's relations with countries in the East and South China Seas flared up both rhetorically and in militarily; and last, but not least, China's growth slid to single digits for the first time in decades, while the emphasis turned to qualitative, rather than quantitative concerns.

All of the above, and more, were included in 'The New Normal', which was a set-phrase in the Chinese narrative for a couple of years onwards. Its contents had more than one meaning: there was reassurance that normalcy – i.e. stability – in China was alive and well amidst an increasingly unstable global environment; there was emphasis on China's new status that was fundamentally based on the end of 'the long century of

[1] Based on a presentation at the 3rd Romania - China Academic Round Table: *Challenges of Adjusting to a Changing World Economy in the 21st Century*, the Institute of the World Economy of the Romanian Academy and the Chinese Academy of Social Sciences, 20-21 September, 2018, Bucharest,

humiliation'; and there was commitment to implement 'China's Dream' of recovering the place it deserves under heaven.

At the same time, Change, with a capital 'C', seemed to be *the* key-word in the minds of the China watchers everywhere. The most important event in the life of the biggest political organization leading the most populous country in the world was expected to be a landmark in the record of the country's development beyond the customary significances of similar events. Decisions had been foretold that were supposed to bring about novelties in the top-tiers of the political management, in the management of the overall reform and, most probably, in China's foreign policy, since the global environment was clearly subject to dramatic trends at a scale, speed and complexity unseen for decades. 'Change' was, indeed, an opening concept: the very beginning of the report Xi Jinping, general secretary of the CPC Central Committee, delivered at the opening session clearly stated: '*Both China and the world are in the midst of profound and complex changes.*' Further in the report, the first paragraphs of chapter XII, which is dedicated to international politics, clarified China's outlook of how to deal with these changes: '*To make new and greater contributions for mankind is our Party's abiding mission. China will continue to hold high the banner of peace, development, cooperation, and mutual benefit and uphold its fundamental foreign policy goal of preserving world peace and promoting common development*' (Xi, 2017d).

The messages these sentences convey, alongside with other significant assertions all around the document, were further elaborated in documents and decisions that followed the 19th Congress with a view to preparing and/or implementing the '*Centennial Goals*' by 2021 and 2049 respectively; likewise, they allow for identifying what could be called *the four C's* of China's political thinking: *Continuity*; *Creativity; Consistency;* and *Comprehensiveness.* While they relate to domestic *and* foreign policies alike, by no means are these *C's* the only defining attributes of the Chinese outlook; they also need to be examined as a whole that is the yield of intense interactions among them and with the wider environment of global realities.

2. Foreign policy with Chinese characteristics

Continuity is a key-concept of China's overall view of itself and it finds its natural place in the ideological backbone of the CPC. The Chinese discourse frequently refers to the 5,000 year-long continuity of its civilization on an area that has been more or less the same all this time. In terms of political sentencing, explicit links may be found in messages of the top Chinese leaders: '[…]*(W)e are all convinced that our work will go down in the history of mankind, demonstrating that the Chinese people* […] *have now stood up*" Mao said in September 1949 [Mao, 1949]; almost 70 years later, Xi Jinping said at the 19th Congress: *The Chinese nation […] has achieved a tremendous transformation: it has stood up, grown rich, and is becoming strong* […](Xi, 2017d). Moreover, 'socialism with Chinese characteristics' has been a fundamental concept for almost 40 years: Deng Xiaoping put it forward in 1982, at the 12th National Congress of the CPC, at a time when vivid and passionate debates around what socialism meant were raging, particularly against the background of the ideological dispute between China and USSR. As Kissinger puts it, the 'Chinese characteristics' meant '*whatever was bringing more prosperity for China*' (Kissinger, 2011; Schell, Delury, 2013), and they are fundamental in turning China's Dream of Rejuvenation into reality.

The same continuity is strongly emphasized in home politics: The Four Cardinal Principles, which Deng postulated in 1979, are to be further upheld, while in foreign affairs '*China remains firm in its commitment to strengthening friendship and cooperation with other countries on the basis of the Five Principles of Peaceful Coexistence* […]'(Xi, 2017d), which were adopted in 1954.

Continuity is subtly, yet clearly, present in the very language Chinese leaders resort to when delivering their messages. It is a rather common rhetoric rule to quote proverbs, sayings and samples of wisdom in official speeches and the Chinese discourse is relentlessly following this practice as the treasure of the Chinese civilization and culture is virtually endless. When addressing the opening session of the World Economic Forum at Davos, in 2017, Xi Jinping said: '*a line in an old Chinese poem goes, "Honey melons hang on bitter vines; sweet dates grow on thistles and thorns.*"' as he approached the effects of globalization (Xi, 2017b). Wang Yi, State Councilor and minister of Foreign Affairs, found appropriate references in the Chinese wisdom when talking about specifics of China's diplomacy (Wang, 2018): in dealing with 'hotspots' in various places in the world, he said '*Our approach is rooted in traditional Chinese culture* […]; about China's relationship with Japan: '*As a saying goes, never forget why you started, and you can accomplish your mission.*'; about the China-India relations: '[…] *the Chinese "dragon" and the Indian "elephant" must not fight each other, but dance with each other.*'; on China's cooperation with ASEAN: '*It is useful to heed the wisdom of a Chinese verse, "Green hills cannot stop the river flowing; to the vast ocean it keeps advancing."*'

Creativity is mandatory, as new circumstances call for new approaches, both theoretical and practical. The Chinese reading of the 'new circumstances' include acknowledging well-known tectonic shifts in the international relationship among centers of power and, equally important, the spectacular upgrade in China's own global status.

The Thought on Socialism with Chinese Characteristics for a New Era makes it clear, among other things, that '*major country diplomacy with Chinese characteristics aims to foster a new type of international relations* […]', said Xi Jinping at the 19th Congress (Xi, 2017d, Beijing). References to the 'new type of international relations between major countries' had been made before – e.g., in the joint Chinese-French communiqué in 1997; in a speech Jiang Zemin delivered in Moscow in 2000; and in other official documents (Hankwon, 2013). However, the first years of this millennium provided a landmark in China's development of the concept, which seemed to have come of age.

A preview of the contents the new type of international relations had been made available in February 2012, during Xi Jinping's visit as Vice-President of China to the US, when he had outlined four orientations of further action in this field: mutual strategic trust; respect of concerns and interests of all parties; promoting win-win cooperation; and strengthening coordination and consultation on international and global issues (Xi, 2012). One year later, in the first visit abroad as President of China, Xi Jinping was quoted as saying in his address to the audience at the Moscow State Institute of International Relations: '*the trend of the times is so mighty and powerful that the best way to come to terms with it is to follow it, not go against it. And to keep up with the times, we cannot have ourselves physically living in the 21st century, but with a mindset belonging to the past, stalled in the old days of colonialism, and constrained by zero-sum Cold War mentality. The world community should jointly push for the building of a new type of international relations with win-win cooperation at the core, and people of all nations should combine their efforts to safeguard world peace and promote common development.*' (Xi, 2013).

The idea of the new international relations among major countries, which was somewhat absent in the Moscow speech, was to emerge later that year, during the informal Sino-American top-level dialogue at Sunnylands, California and it was rather detailed in the talks during President Obama's official visit to China, in 2014 (MFA, 2014).

The Chinese took great pains to prevent the perception of the concept of 'international relations among major countries' as an attempt to establish a 'China-US G-2' global formula of sorts. Hegemony had been anathema in China's stance ever since the ideological feud with the USSR and this outlook is strongly reinforced by the emphasis of China's status as 'a developing country' – albeit 'the largest one', as the official message runs. At the same time, sceptic views had been expressed quite a long time ago about the viability of a supposed 'G-2' formula: '*Even after 30 years of engagement, the United States and China still disagree about how the world should work. When there is agreement on the principles of global governance, more narrow economic interests or differences in political values typically make a common front elusive. And even when shared values and interests allow the two sides to move forward, the vast gap in governance and implementation capabilities often leads to mutual frustration and recriminations.*' (Economy, Segal, 2009). As for now, the issue seems to have been rendered moot after the US National Security Strategy of December 2017 viewed China as a 'strategic competitor' rather than as a partner.

Meanwhile, China's long-standing orientation has been to favour partnerships to alliances – an orientation Chinese scholars trace back to both the disputes with the USSR and the 'multidimensional diplomacy' of the 1990s (Feng, Huan, 2014). In January 2017, President Xi Jinping said that '*China is the first country to make partnership-building a principle guiding state-to-state relations. It has formed partnerships of various forms with over 90 countries and regional organizations* […]', including the EU (Xi, 2017a). China's partnerships are built on the consecrated three basic pillars of the political dialogue; the economic cooperation; and the people-to-people relations; what makes it quite noteworthy, however, is the diversity of the labels and flexibility in terms of institutionalization, actual contents and efficiency of said partnerships. Likewise, many of them have been either upgraded, or updated, or both, in keeping with the evolving interests of the parties concerned: with Russia: 1994 – *constructive partnership featuring good neighbourliness and mutually beneficial cooperation;* 1996 – *partnership of strategic coordination based on equality and mutual benefit and oriented toward the 21st century;* 2011 – *comprehensive strategic partnership of coordination;* similarly with France*;* 1997 – *comprehensive partnership;* 2004 – *comprehensive strategic partnership;* 2010 – *new, mature and stable comprehensive strategic partnership based on mutual trust and mutual benefit and with a global perspective;* 2014 – *close and lasting comprehensive strategic partnership* (Feng, Huan, 2014; Wenhui, 2015).

Alliances are considered 'a thing of the past' and an expression of Cold War thinking: '*We should* […] *resolutely reject the Cold War mentality and power politics, and take a new approach to developing state-to-state relations with communication, not confrontation, and with partnership, not alliance.'*, the general secretary said at the 19th Congress (Xi, 2017d). However, there are Chinese views that considered that '(t)*he ordinary strategic partnership cannot consolidate the bilateral strategic cooperation as reliably as a military alliance. The fundamental difference between domestic society and international society is that there is no central government monopolizing military power in the latter. Thus, all states without enough military capability to protect their own security have to rely on a foreign military power or organization for the sake of survival*.' Said opinions further note that China's rejection of alliances since 1982 has prevented it from setting up, or joining, such formats (Yan, 2015); the alternative is to promote partnerships instead and to follow a '*network strategy of embedded rise*', as other Chinese scholars say (Xun, Liu & Ma, 2017).

In practical terms, The Belt and Road Initiative (BRI) may be considered a text-book example of creative thinking insomuch as it combines 'chronic' challenges abroad (need for infrastructure) and 'acute' problems at home (overcapacity, increasing development gaps). The corresponding multilateral institution, the Asian Infrastructure Investment Bank, while not explicitly related to the initiative, is aiming to prove, *inter alia*, that a creative approach of existing rules in international investment and financing may actually improve the outcome of their implementation (see *infra*).

Consistency is to be understood here as bearing on the substance of policy decisions, which makes them virtually credible and implementable. Earmarking resources is obviously a must: e.g. the budget of the Ministry of Foreign Affairs in 2018 is US$ 9.49 billion – i.e. a 15.6% increase from a year before and 40% larger than in 2013. The same is true when the so-called 'cooperation for development' is concerned (to use the EU term) that, in China's case, has witnessed both spectacular levels of allotted funds: between 2000 and 2014, the Chinese assistance was around US$ 354.4 billion, coming close to the US assistance (US$ 394.6 billion) during the same period of time (AidData, 2017). and, even more importantly, an institutional upgrade and streamlining of this line of action occurred with the establishment of the China International Cooperation Agency (Legarda, 2018; Lo, 2018). Just like in other cases, the Chinese aid for development of other states has a long history as proved by the "Eight Principles of Foreign Economic and Technological Assistance" that Chinese Premier Zhou Enlai enumerated during a 10-nation trip to Africa in 1963 and 1964.

There were other decisions of particular political relevance: the nomination of Wang Yi, the minister of Foreign Affairs, as State Councilor, while keeping the leadership of the Ministry; the promotion of Yang Jiechi, former State Councilor and minister of Foreign Affairs, to the ranks of the Politburo; the inclusion of Wang Huning among the seven members of the Standing Committee (the highest party structure) - an academic who used to work in Shanghai and whose '*greatest talent has been to translate the ideas of Chinese political leaders over three generations from the time of Jiang* [Zemin] *into pithy slogans and then to give these some theoretical basis and justification*' (Brown, 2018); and the setting up of the Foreign Affairs Commission (Xinhua, 2018c) with the Communist Party of China Central Committee. This latter Commission is an heir of the former Central Leading Group for Foreign Affairs and it '*should play the roles of decision making, discussion and coordination in foreign affairs*', as Xi Jinping, who is heading the Commission, said at its inaugural meeting on May 15, 2018 (Xinhua, 2018c) meanwhile The United Front Work Department with the CC includes now the former Overseas Chinese Affairs Office and strengthens therefore the political component of its activities.

The list of institutional and political decisions bearing on China's foreign policy would be incomplete without at least two further items: the first in terms of import and relevance is the 'personal diplomacy', as illustrated by Xi Jinping's international agenda. Over 50 visits abroad in the five years between the latest two PCP congresses clearly highlight the particular increase of the political weight of China's actions – to say nothing about China hosting top-level sub-regional, regional and globally-reaching meetings (e.g. the 2016 G-20 summit in Hangzhou). Moreover, the Belt and Road Initiative was included in the PCP constitution at the 19th Congress, alongside with The Xi Jinping Thought – the first addition after the Mao Thought – which confers it the heaviest political weight in the party's overall actions aiming at implementing the China Dream.

Another most prominent example is the Silk Road Fund, which was set up in December 2014 with a total capital of US$ 40 billion and CNY 100 billion; at the first summit of the Belt and Road Forum for International Cooperation held in Beijing in May 2017, President Xi Jinping announced that China's decision to add CNY 100 billion to the Fund.

Comprehensiveness is a feature that is inherent to the concept of the 'community of a shared future', which was first mentioned in the report to the 18th Congress of the CPC in November 2012. Xi Jinping further developed it in his first address to the UN General Assembly in September 2015 (Xi, 2015), when he quoted '*an ancient Chinese adage*: *The greatest ideal is to create a world truly shared by all'*. Later on, in Geneva, he introduced China's proposal to '*build a community of shared future for mankind and achieve shared and win-win development*' and declared: '*To achieve this goal, the international community should promote partnership, security, growth, inter-civilization exchanges and the building of a sound ecosystem*'(Xi, 2017a).

The Chinese concept was included for the first time in a resolution adopted by the UN Security Council (UNSC, 2017) on March 17, 2017, which prompted the Chinese official news agency to claim: '*By proposing the concept of "a community of shared future for all humankind " and a roadmap thereof, China has offered the Chinese wisdom and Chinese plan for solving major problems concerning the future of mankind. The concept of "a community of shared future for all humankind" is a fresh idea, featuring Chinese characteristics and the spirit of the time, initiated by China to reform and rebuild a world order, and a new top-level design to lead global governance*'(Xinhua, 2017c).

As mankind is in, and by, itself a comprehensive concept, the Chinese formula can hardly be otherwise – and even a cursory look at BRI, which is most talked-about and the single truly global one so far, would reveal the many-faceted approach that China is steadily promoting. 'Connectivity', as the key-word of the initiative (another 'C' concept), is rather comprehensive too, with its five domains: policy connectivity; infrastructure connectivity; trade connectivity; financial connectivity; and people-to-people connectivity (Xi, 2017c). The record of the development of the BRI is under continuous scrutiny as the number of events and projects have mushroomed virtually all over the place – including where the initiative is viewed with skepticism bordering apprehension and mistrust. A brief sketch of several defining aspects would suffice to highlight that there is more to this initiative that deserves the attention of policy-makers and analysts alike if solutions to the troubling issue of the vanishing world order are to be considered.

For starters, it took almost two years for the initiative to evolve from a proposal that seemed to focus mainly on bridging gaps *within* China's development to connecting said development to the *outside* world and become more comprehensive. 'Stepping carefully' on the stones to cross the river has been somehow updated in China's endeavours to include 'making the stones' on which to tread, and the Chinese approach emphasizes the learning from experience, both domestic and foreign, when advancing proposals for actions. The results, so far, include institutions and processes that are both new and wide-opened (in some cases), or selective in terms of scope and membership, but fostering a global reach nonetheless.

The above-mentioned Silk Road Fund, which is directly linked to the BRI, is a Chinese-only institution, with the participation of four state-owned partners: the State Administration of Foreign Exchange; China Investment Corporation; China Development Bank; and the EXIM Bank of China. It professes to respect universal standards and norms while it follows the laws and regulations of China and the host countries and '*has engaged in cooperation with multilateral institutions and platforms including the International Finance Corporation, the European Investment Bank, and the European Bank for Reconstruction and Development, etc. The Fund has also established extensive contacts with governments of over 30 countries and regions and with embassies, and consulates or representative offices of over 20 countries operating in China*' (Silk Road Fund, 2018).

A far more spectacular Chinese initiative than the Fund is the Asian Infrastructure Investment Bank (AIIB): with an approved membership of almost 90 countries, it ranks second behind the World Bank, which has 189 members. With US$100 billion in capital, the AIIB is a medium-size regional development bank; however, its professed 'clean, lean and green' policy is enlightening for the ambitious goals – and so are the messages that Jin Liqun, president of the AIIB sent when delivering the opening address to the annual meeting of the Board of Governors in Mumbai in June 2018: '*We must also revitalize the global economic institutions. The global economic order is precious, but imperfect. As developing countries increase their share of the world economy, they should have greater weight in the multilateral institutions. But, with greater weight also comes the responsibility to support them and take a lead role in reforming and financing them*' (Jin, 2018). Should AIIB take that lead, the most challenging part might be achieving the efficient 'blend' between what is perceived as 'unfair Western-based regulations' in the field and the 'just approach' as the Chinese messages constantly support (Gutner, 2018; Lichtenstein, 2018; Xinhua, 2018).

China's comprehensive approach in its diplomacy includes the international legal field. On January 24, 2018, XINHUA announced that, following a decision of the Leading Group for Deepening Reform with the Central Committee of the CPC, '*A dispute settlement mechanism which connects litigation, mediation and arbitration will be created on the basis of China's current judiciary, arbitration and mediation agencies, and by absorbing and integrating legal service resources home and abroad* […]. *Members of the group called for equal protection for both Chinese and foreign parties' rights to create a stable, fair and transparent law-based business environment*' (Xinhua, 2018b). The next day, the daily *Global Times* quoted the director of an institute of international affairs in Beijing who alluded to the rationale of the Chinese decision and claimed that the current system to solve disputes is "…*complicated, time-consuming and costly.* […] *It applied laws from Western countries and used English as the common language*." (Global Times, 2018). Finally, on August 30, 2018, the spokesperson of China's MFA stated: '*Following […] the Forum on the Belt and Road Legal Cooperation in July, the S*[upreme] *P*[eople's] *C*[ourt]*'s International Commercial Expert Committee was officially established on August 26.* […] *The BRI has entered a new phase of comprehensive and practical cooperation, the BRI legal cooperation is also placed at a new starting point*' (MFA, 2018).

The developments above were rather predictable in hindsight – e.g., in 2017 the theoretical journal of the CPC run an article that reads, *inter alia*: '*'China has now become the world's second largest economy, and is transforming the US-led international economic order through the "Belt and Road" through the transformation of free innovation and industrial structure, and partially withdrawing from the US dollar through the AIIB and RMB offshore settlement*.' (Lu, 2017).

3. Conclusion: the Chinese Characteristics and the World Order

The big questions of whether, and how, the Chinese diplomacy 'in the New Era' shall act upon the world order have been doggedly accompanied by an unnerving dilemma: is China *upsetting* or *upgrading* the World Order? After all, abundant question marks hover about the very existence of that order and China's view about it was succinctly put by Zhou Enlai when he told Kissinger in 1971: '*All under heaven is in chaos, the situation is excellent*' (Kissinger, 2015); closer to our days, António Guterres, the UN Secretary General, thinks that our world '*is in pieces'* (Friedman, 2018). Similar assessments have become rather a common-place in both official documents and analytical papers, but further elaboration on this particular issue is less warranted here.

During most of the first three decades of its incarnation as the People's Republic in 1949, China had been fighting a World Order while heavily relying on ideological grounds. In China's outlook, the 'global chaos' Zhou Enlai was referring to was embodied by the existence of the Three Worlds that were made up of the US and USSR; Europe, Canada, Japan and Australia; and 'the Third World' respectively, which included the rest (Mao, 1974). In 1974, Deng Xiaoping traced the roots of the chaos to the disappearance of the socialist camp as a result of 'social-imperialism' and the dissolving of the 'Western block' because of the 'unequal capitalism development law'; Deng further elaborated on the 'new contradiction' between the first two worlds and the world of the developing countries, which were on their road to victory: the First World was marred by its antithetic contradiction between its superpowers, while the countries of the Second World were under various degrees of 'abuse and threat' from the former (Deng, 1974).

Then, for the last four decades, China's actions have been focused on a singular, unique and gigantic effort to accomplish a sort of pragmatic reconciliation between its own vision and understanding of self and a World Order that has proved to be rather beneficial. Now, China still heeds Deng's call, even if she no longer hides her strength – nor does China shy away from leading – but this only selectively, when and where it suits her 'core interest' in the first place. This attitude is relatively new – and novelties are inherently triggering doubts; however, merely taking a defensive-aggressive stand is bound to deepen these doubts and favour tensions, even conflicts and ultimately destruction.

However, the reality of China's performance so far, its status and potential and the '4 C's' as rather sketchily suggested above, may lead to several findings that, while seemingly obvious, are 'not necessarily less true', even if 'nothing is so treacherous than the obvious', like Schumpeter said.

As the list of the 'C's' is to be considered flexible and open-ended, the concept of *Communication* is to be added: dialogue is a key mode of action in China's messages, alongside with its persistent references to equality. At the same time, a huge challenge has to be overcome: to be viable, a global system needs more than economic, or military strength – it needs universal values that enjoy universal understanding and acceptance. The 'Chinese characteristics' are absolute in China's discourse; how they relate with 'specific characteristics' of the non-Chinese space is a matter of higher relevance than a mere philosophical or axiological debate. Under these circumstances, it seems but natural that intellectual contributions by all sides need to be greatly stimulated with a view to better explaining and understanding various, even opposite, points of view. Keeping an open mind goes beyond accepting The Outlook of the Other, at the same time with coming to terms with the need of updating one's beliefs.

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Belt and Road Initiative and Possible Implications for Central and Eastern Europe Countries

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Abstract: - Many of the Central and Eastern Europe Countries (CEEC) that are subject to The "16+1" Platform under China's Belt and Road Initiative, including Romania, are member states of the European Union (EU) and their economic development strategies are implicitly dependent on the European Union's goals, financing mechanisms and regulations. On the other hand, the CEEC's geographical position, bridging Asia and Western Europe and their economic potential in the global value and production chain make them indispensable for BRI integration within Eurasia. Furthermore, in a more and more restrictive European context, due to Brexit and the refugee crisis, meeting the financing needs for development and economic growth is crucial for this group of countries in order to ensure their real convergence with the more developed West.
In such a context, the present paper aims at bringing a contribution to the following pressing question for Brussels, in terms of geopolitical and economic concerns, namely, whether BRI can become a complementary support instrument to the European policies fostering CEEC's integration with the West and not a competitive strategy hindering EU's interests. To this aim, we try to investigate some of the features of specific cases of similar infrastructure investments in CEEC, financed by European funds and within the BRI framework, respectively, in order to have a base for a comparative analysis.

Key-Words: - economic integration, economic development, international relations, economic cooperation, geopolitics, European Union, Belt and Road

1. Introduction

The objective of our research endeavour was to deliver a qualitative analysis with respect to existing alternative solutions to the development of physical infrastructure in CEE countries, with the purpose to promote their economic growth, to foster trade and communication and to enhance the quality of life for all their citizens. The research methodology consists of a comparative analysis of case studies, and of a qualitative SWOT analysis of relevant investment.

2. The role of infrastructure for economic development

The research builds on a few premises, which will be briefly described next.

First, the infrastructure investment is still a key factor for economic development, mainly in the case of emerging economies, whose initial stock of capital leaves room for further improvements, both from a quantitative and a qualitative perspective. Economic infrastructures provide services and facilities that enable the functioning o the economy. The infrastructure contributes to economic growth at national level and to reducing regional gaps within and outside of the national borders. It accelerates the capital flows, the free movement of goods, services and labour, locally, regionally and world-wide. It also improves the productivity of economic processes.

Typically, infrastructure sectors refer to: i) Energy sector – refers to all industries directly related to the delivery of electricity and includes generators, transmission and distribution network assets; ii) Telecommunications sector – refers to all forms of telecommunications infrastructure assets for fixed line, mobile and broadband services; iii) Transport sector, with the following breakdown: iii-a) Airports – refers to all airport infrastructure, including terminals, runways, aprons and hangers, and dedicated car parks; iii-b) Ports - refers to all infrastructure in a port, including container, bulk, break-bulk, non-bulk and commodity ports; iii-c) Rail - refers to fixed assets which form an integral part of rail networks, such as tracks, signalling and stations, including urban rail networks; iii-d) Roads - refers to all paved roads, including highways, motorways and bridges; iv) Water sector - refers to water collection, treatment and processing, transmission and distribution assets, including desalination (Oxford Economics; Global Infratructure Hub, 2017).

Infrastructures contribute to the citizens' quality of life and countries' economic development.

- On the one hand, people need access to clean, safe water for drinking and cooking, energy for lighting and heating their homes, and, last but not least, roads and railways to get to work and travel for leisure, fixed line, mobile and broadband services to communicate. Businesses, on the other hand, need transport infrastructure to reach markets, power infrastructure to produce goods and services and
- Communication infrastructure to improve productivity. Labour and capital, along with total factor productivity, are the factors of production that contribute to the general economic growth and development of a country. The main features of economic infrastructure are described in the ***Table 1***, below.

Table 1. Main features of economic infrastructures:

Feature	**Effects/ Challenges**	**Potential Solutions**
Large scale	Large capital costs needed	- Investments cannot – usually – be financed by a single organization; - Debt is often inevitable and covers a large part of the financing needs
Long lifetime	Robust technologies needed	- Assets must be adequately designed to operate in the long run - Unproven technologies carry risks for all parties involved
Long payback time	Stable, predictable operating cash flows needed	- Policy stability is necessary to ensure stable revenues to repay investment capital - Regulatory intervention might be necessary to guarantee revenues
Social benefits greater than private returns	- Insufficient incentive for markets to provide infrastructure goods - Public intervention needed often - Short-term political considerations and government borrowing constraints may hinder consistent long-term planning and investment	- Regulations are necessary to address market inefficiencies, - Governments often provide infrastructure directly (sometimes with a private sector partner) - Governments look actively for alternative and/ or complementary financing sources in search for optimization

Source: (EUNOMIA, 2018)

Second, the regional context differs significantly between neighbours. Some of the CEE countries are members of the European Union, some of them are candidates to accession and some of them are included in the neighbouring policy of the European Union, but do not enjoy a short-run prospect of integration within EU at all. Also, the economic outlook for this group of countries is different. Some of the countries, like those belonging to the Visegrád Four group, have succeeded to reduce the development gap between them and the Western Europe faster than Romania or Bulgaria have, which, in turn are a step ahead of their neighbours in the Western Balkans. As a common pattern, the entire region is characterized by the same structural differences that make it lag behind of the developed Europe. CEE countries rely on capital flows with the West, on export and trade with the European single market while being insufficiently integrated within the global market. Their main advantage is related to the low costs of production and labour cost, in particular, which ensures them a certain position in the global value chains, but no clear prospects of leaping towards the innovative economy.

The economic integration has been giving a strong impulse to economic growth, trade and opening of the economies to the global flows. However, due to persistent structural differences, the real convergence process in the region has been delayed and the capital inflows tend to target the Western countries, rather than CEEC. Therefore, the catching up process has been very slow.

Third, it has also been noted that starting with 2007-2009, the European Union's resilience in the face of crises of larger magnitude and/or more complex has weakened. Today, the EU is facing difficulties in dealing with the refugee waves, Brexit and economic difficulties in the Eurozone, such as that related to the sovereign debt., All these have affected the general budget allocated for economic development and social cohesion. Thus, the catching-up countries are to confront limited space of intervention, whilst they, nevertheless, require capital investments larger than their more developed peers in order to face regional and global challenges.

It shouldn't come as a surprise then, that China's Belt and Road Initiative has been regarded by many actors as an opportunity for the CEEC to leverage the efforts for economic development. The initiative, though, still has to deliver a positive impact, the process being drawn back by several reasons. Cultural and management differences, non-conformity with the European rules and practices have constituted barriers for the process to advance accordingly. For the non-member states, equally, the Chinese funds could be attractive provided that they are consistent with clear and sustainable development policies and not only deliver short-term promises burdened by disadvantageous long-run economic terms.

3. Comparative analysis of EU funded project of large infrastructure in Romania and BRI funded large infrastructure project in Montenegro

For the purpose of the analysis, we have chosen two different approaches of infrastructure development in two countries that are located in the same region, South-Eastern Europe, Montenegro and Romania. Romania is one of the youngest member of the European Union, since its accession in 2007, while Montenegro is one of the youngest countries of the region, separated from the former Republic of Yugoslavia. Nowadays, Montenegro is engaged in the process of EU accession. Both countries are part of the "16+1" Platform to engage with China in a collaborative process of economic development, on the premises of mutual interests.

Both countries are characterized by an underdeveloped transport infrastructure, namely insufficient roads and railway interconnections with the Western Europe and this is an aspect that hinders their economic growth potential and convergence with the developed countries. The investment in infrastructure is seen as a part of the solution to increase the economic integration of the countries and regions in Europe and an opportunity to reduce the gaps between them. The investment in infrastructure is difficult to advance rapidly without an adequate support from the state or the European Union.

Case study 1. Chinese Motorway in Montenegro

Context
Montenegro is a small country in the Western Balkans, candidate to the European Union accession and a member of NATO since 2017. The infrastructure of Montenegro is not at par with the European standards; the network of roads is not in the category of express roads or motorways. Building motorways is regarded as a main national priority, in order to increase regional development, to make

the interconnections with its neighbours and intensify the economic activity, trade and tourism. The main infrastructure axis connects the Southern port of Bar in the Adriatic Sea to the Serbian border and further on to Belgrade. This is part of the European corridor XI that connects Bari (Italy) with Bucharest (Romania), via Belgrade (Serbia). Building the motorway from Bar to Boljare (Serbian border) is the largest infrastructure project in the history of Montenegro. It is a 164 km long, but very expensive due to rough mountain terrain, which requires very challenging mega constructions of tunnels and bridges. The estimated costs were initially at 2 billion euros, but have been rising up to 2.2 billion euros recently. The motorway project was divided into three phases. The government of Montenegro has started the discussions to call for an international bid, under a public-private partnership. After two failures to assign the contract to the bid winners for sections 1 and 3, respectively, because they failed to provide the banking guarantees in time, in 2011 the government decided to open discussions with China for building the road within a direct assignment arrangement under their bilateral treaty. The discussions were concluded in 2014, the contract successfully being granted to the Chinese companies in order to build the first section of the motorway, with the financial backing of Exim Bank of China and the possibility to build the other sections later on. The works for the first priority section of 41 km that connects Smokovac, near the capital Podgorica, to Matesevo, on the way to Boljare, have started in 2015 and are still under way to date. The section is estimated to be finalized in May 2019. (Seenews, 2017)

Management and finance

What were the main provisions of the bilateral agreement?

- Exim Bank of China offered a loan of EUR 809 million to Montenegro, which covers 85% of the total cost of the first phase of the motorway,
- The loan was denominated in USD (944 million) and carried an interest rate of 2%, with a repayment schedule of 20 years and 6 years of grace period,
- The constructor would be the state-owned China Road and Bridge Group (CRBC), a branch of China Communications Construction Company, the largest construction company in the world,
- The Montenegrin company Monteput would act as the supervisor and project management unit,
- Construction materials, equipment and other goods were to be imported from China, exempted of customs duties and VAT,
- Chinese workers were given 70% of works, equal to two-thirds of the total amount of 3,605 workers needed,
- Any legal dispute would be resolved under a jurisdiction of a legal court in China,
- Subcontractors, most of them from Montenegro, and suppliers from Europe were to be approved.

Issues

Since the works began, apparently, so the financial problems for Montenegro have been soaring. The government hasn’t hedged for the negative exchange rate variations, so that the cost of the project has raised to nearly EUR 1 billion, which represents 25% of Montenegro’ GDP. The Chinese loan for the first phase has determined a huge increase of the public debt of Montenegro which forced the government to increase taxes, freeze the wages and put an end to some other social policies, like benefits for mothers. Montenegro’s debt was expected to reach 80% of GDP in 2018. The IMF considers that the country would not be able to finalize the project anymore and the roll-over of debt will worsen the financial position of Montenegro. The second serious problem is that, at the current stage of project implementation, the motorway is largely ineffective, leading to nowhere. It connects two cities that have a small transit in between, of less than 6,000 vehicles a day, whilst the average traffic in order to render it effective would be of 22,000 to 25,000 vehicles a day. (Reuters, 2018)

Montenegro authorities hope that with the construction of the remaining phases, the highway would boost the economic growth, bring regional development in the underdeveloped North, increase trade with Serbia and improve road safety. But, in order to reach to its destination, the road would require additional USD 1.2 billion. The next two phases are less costly than the first one, due to a less challenging terrain profile, but the option to take on more debt is very improbable. In that sense, the solutions that the government is taking into consideration is a third partner to build and operate the highway, to run it under concession for 30 years to get a return on investment. The government

conceived with CRBC a memorandum of understanding to complete the rest of the road on a PPP basis.
There were worries expressed that this would be used by China to increase its influence over Montenegro.

Case study 2. TEN-T IV, Nădlac-Constanța highway

Context

Since Romania's EU accession in 2007, it was well acknowledged that building the transport infrastructure was a main development priority for Romania in order to catch-up with the developed economies of Western Europe. The interconnection to the neighbouring countries and from there to the Western Europe was set up in correlation with EU's mobility and transport plans coordinated by the European Commission (European Commission, 2018). Considering that European Commission's strategy is integrated for all the member states, for the established corridors of transport priority was given to the investments financed by European funds. In Romania's case, the main corridor is related to Rhine – Danube connection, on West – East route, for all the means of transport: railways, roads, maritime and airlines. Under this framework, considering that more than 70% of transport is made by road, it was designed the TEN-T corridor IV, which connects the Eastern port of Constanta, the largest in the Black Sea, with a motorway to the Hungarian border, via Nădlac. The importance of this road is paramaount, taking into account that it would make a shorter distance and time for trade of goods on the East-West route.
At the accession date, there were two functional highways, the one from Bucharest to Pitesti on A1 (110 km) and the one Bucharest to Cernavodă (152 km) on A2. In 2012, the completed road from Bucharest to Constanta (203 km) was opened for transit. The main challenge for the implementation of the investment plans with structural funds was to achieve an effective use of the funds while observing the EU's regulations and best practices. The economic model that many EU countries have embraced for developing their physical infrastructure rely on the absorption of European funds using the operational programs under the wide umbrella of regional development and cohesion policies. The determinant factor that encourages this kind of approach is the financial offer from the European Commission, which imposes a lighter burden on the Member States' public finances. Most of the investment costs are covered by European funds, with a limited financial co-participation from the beneficiary state. The European funds mechanism requires the beneficiaries of the funds (public authorities or companies, in this case, of large infrastructure investments), after an ex-ante evaluation and approval process in front of the EU authorities, to implement the projects with own financial resources (including state budget allocation and/ or banking loans), the expenses incurred, checked and approved by the EU authorities being later on reimbursed, with the exception of VAT. All the funds are allocated without charges or interests, if the objectives and regulations are observed by the engaged parts. The principles upon which the European policies of regional development are built include the concentration of resources, effort and spending, programming of the funds, partnership and additionality (European Commission, 2018). The programming phase is extremely important since it is during this phase when the interests of the member states and of the European Union are accommodated. The programming phase is jointly implemented by the EU and national authorities, considering the national needs, resources, as well as legislative and judicial aspects, the administrative capacity and compliance with European rules and procedures.
For the first multiannual budget framework 2007 – 2013, the implementation process initiated at a disappointingly slow pace. Nevertheless, this was the case of every new member of the European Union to face an initial, more difficult, period of legislative adaptation and strengthening of its administrative capacity. For Romania, it was not much easier, due to its rigid and underperforming administration, wide territorial spread of the projects and administrative structures, lack of project management skills, lagging behind economic reforms and budgetary constraints.
The motorway, which is meant to connect the capital, Bucharest, to Hungary and Western Europe has a total distance of 576 km and was divided in eight segments, including the Bucharest – Pitesti segment, which has already been in use since 1972. The rest of the seven segments are partially functional, under construction or not yet initiated, as it is the case of Pitesti – Sibiu, which is the most complex and expensive section, due to challenging mountain terrain. A number of five sections were carried out during the first multiannual budget framework 2007 – 2013, with the works being finalized during 2011 – 2015 (www.130km.ro, 2018). The entire investment was financed by European funds, except

VAT, and a contribution of 15% of the project value, which was financed from the state budget. The European Commission has granted a three years period of grace to end any project which had been initiated during the envisaged period and claim the reimbursement of the incurred expenditures. After the grace period, the expenditures, already incurred or not, would not be claimed and reimbursed and the beneficiary (the state) would bear all the remaining expenses.

For a better understanding, it is worth examining how the works for one segment have evolved, starting with the preparation phase, and continuing with the project design and execution. To this aim, we selected the Deva – Lugoj segment of the highway, covering a 100 km distance and having an estimated cost of 500 million euros. The highway segment was divided into four sections, with an average of 25 km each. The implementation process started in 2011, with separate international bids for each section. The bids were open to participants, on competition basis, using an open access software SEAP implemented by the Romanian Authority for Public Procurement, which is available for all the public institutions, state companies and even private enterprises.

The construction works for Section 1, of 27.4 km, were won by a consortium consisting of three Italian companies, with a total cost of 151 million euros; the works for Section 2, of 28.6 km, were granted to another consortium formed by two Italian companies, for a cost of 128 million euros; the works for Section 3, of 21 km, were won by a Spanish consortium, for a cost of 132 million euros and those for Section 4, of 22 km, were granted to a Romanian consortium, with a total cost of EUR 93 mil. (National Company for Road Infrastructure Administration, 2018) The schedule of execution provided six months for the technical design and two years for implementation. Most of the works have started in 2013. The deadlines for finalizing each section were 2015 for Section 1, 2021 for Section 2, partially finished in 2017, and 2018 for Sections 3 and 4.

Management and finance

- The contract of works was granted by the Romanian authority in charge with the operational program for infrastructure, with the approval of the European Commission,
- The biding consortium(s) had to present a banking guarantee for the participation in the bidding procedure, equal to an amount and for the period established by the contracting authority, based on Romanian legislation on public procurement,
- The consortium(s) had to meet all the imposed technical requirements in order to fulfil the tasks. They were allowed to subcontract part of the works, which they have often done,
- Most of the hired workers are Romanians, only few, supervisory staff being foreigners,
- Construction materials and equipment are either supplied by the Romanian subcontractors from the local market, or imported from the EU, free of customs duty, under the single market laws,
- The expenses are carried out by the consortium, which transfers all the documents that justify the activities and expenses to the beneficiary, which is the National Company of Road Infrastructure Administration. Based on an ex-post evaluation and verification of conformity, they reimburse the expenditures from the Romanian Authority of Payments. The Authority of Payments has budgetary provisions of expenses allocated from the state budget for all the programmed investments. Eventually, the Romanian authority claims the reimbursed amounts from the European Commission,
- The funds to cover the estimated expenses must be provided in the state budget allocation which was approved for the operational year,
- The consortium must ensure the cash-flow of the project in order to avoid shortages or delays of payment and works.

Issues

- The rigorous procedure under current legislation regarding public procurement, environmental protection and property regime, monitoring, control and verification from both the Romanian and European Commission authorities, make the process very complex and bureaucratic,
- Each phase which requires an open bid (project design and/ or execution) is usually delayed due to the right of other competitors willing to win the bid to challenge the results of the contest, for technical, economical or eligibility reasons. Most often than not, the bidding processes have been cancelled and initiated all over again. This has generated significant delays in project implementation, additional costs and litigations for the companies engaged in

the process and the beneficiary,

- There have been problems related to the technical capacity of the Consortiums and their subcontractors. In some instances, when the winning Consortium and/ or its subcontractors didn't provide the required guarantees or didn't meet the technical conditions the contract needed to be prematurely terminated. Sometimes contractors participate simultaneously in numeous bidding procedure and, when successful, end up committing to assignments far exceeding their capacity, with the potential to generate delays in project implementation. Large parts of the works are, therefore, subcontracted to local companies, which often don't have the technical ability to fulfil the tasks, missing the qualified staff, workers or equipment,
- The size of the labour force in Romania's construction sector is highly volatile. Free movement of labour across EU, higher quality of life incentives and wages in the West, the rapid rise of construction works demand in the economy have created many opportunities for and flexibility of the local labour force. Labour mobility and better working conditions elsewhere have the potential to generate a shortage of qualified workers in the construction sector and this can become a problem for any company engaged in road infrastructure projects, which leads to delays of works and rescheduling of operations,
- Although the EU funds are said to be free of charge, as they don't carry any interest rate, the allocation of funds from the state budget, due to the way the European mechanism of payments is designed, induces an increase of budget expenditures and sometimes a budget deficit, which requires a proper fiscal response,
- Although the projects are denominated in euro equivalent, the exchange rate is usually stable, Romania adopting most of the European provisions related to the monetary union and financial stability. In that respect, the currency risk is limited. Nevertheless, sometimes fluctuations of the exchange rate do occur, with the unexpected depreciation of the national currency inducing additional costs to the projects.

4. SWOT Analysis of Chinese versus EU funded investments in infrastructure

In what follows, ***Table 2*** and ***Table 3***we present the results of a SWOT analysis, based on the features of each of the cases presented above, which could, in turn, be taken into consideration as a base for the comparison of advantages and disadvantages of the two mechanisms available for the development of public infrastructure in the region.

Table 2. SWOT analysis of Chinese investments in infrastructure in CEECs, from their perspective

Strengths	**Weaknesses**
- Strong political commitment for reaching the project objectives, - Competitive costs of transfer and ancillary, respectively, - Experience and resources of contractor readily available to timely deliver in each of the project's phase, - Safety of contract pillars, considering the unitary approach with respect to: management, legal and financial issues, technical compliance and guarantees.	- Dependency on China's policy objectives and on a single source for project management and finance, - Limited capacity to negotiate the size of the financial support in line with the country's reimbursement capacity, - Limited use of local resources, including labour force, with a lower multiplying effect on economy, - Cultural differences, with potentially negative impact on project management outcomes, - Weak provisions for control of conformity and technical surveillance of the works, - Subpar compliance with EU policies and regulations regarding technical standards, public procurement rules and transparency, - Lower budget incomes due to duties exemptions

	on construction equipment and materials imports.
Opportunities - Increased economic integration, regional development and growth at the national level, - Better infrastructure connectivity with neighbouring countries, - Increase of local, regional transregional and global inbound and outbound flows of trade and investments, - Better road safety, - Diversification of cooperation with China.	**Threats** - Not meeting the envisaged economic target indicators (efficiency and effectiveness) for the road infrastructure due to poor correlation with the implementation of complementary infrastructure investment initiatives at the national and regional level, with implications on the financial sustainability of the public debt, - Further financial risks related to the currency exchange rate deterioration, which increase both the financial and the works costs, - Legal barriers and opacity of contract, - Potential corruption of government officials in the context of reduced transparency, - Control and verification of feasibility and technical conformity might be rigged, - Potential damage to the environment, - Externalizing of works, potential losses for local workers, - Increased geopolitical exposure to China, affecting the other players' interests in the region (EU).

Source: authors' analysis

Table 3. SWOT analysis of EU funded public investments in infrastructure in CEECs, from their perspective

Strengths - Alignment with EU policies for regional development and integration - programming, financing and coordination, - Compliance with EU regulations regarding legal aspects and technical standards, transparency, control and verification, - Availability of EU best practices of and resources for project implementation, - Relative safety of financial flows and lower fiscal burden (non-reimbursable funds).	**Weaknesses** - High fragmentation of the infrastructure project design and implementation, with subcontracting of main works and tasks, - Complex bureaucratic procedures for each project phase, - Higher cost of transfer for authorities and companies due to red tape, - Potential shortages of qualified workers, equipment and management skills, - Costly compliance with complex technical construction standards.
Opportunities - Interconnectivity with neighbours and trading partners, - Increase of trade and global access for businesses, - Economic growth and employment, - Foreign investments, - Environment protection, - Better road safety, - Fostering of European integration and regional development, - Promotion of sustainable, inclusive and smart growth, under the EU agenda.	**Threats** - Delays in project implementation, - Insufficient mobility of workers, - Cash-flow variations due to budgetary constraints, unavailability of other financial resources and delays in payments disbursement from the European Commission, - Not meeting the envisaged economic efficiency and effectiveness targets of the infrastructure project, - Weak administrative capacity of local and central authorities in charge with project

	implementation, - Weak technical capacity of subcontractors, - Increase of budget expenditure and sometimes of the budget deficit.

Source: authors' analysis

5. Conclusions

In this paper, we presented a qualitative analysis of existing alternative solutions to the development of physical infrastructure in CEE countries. Based on a couple of case studies, we identified the advantages and disadvantages of choosing one solution or another for public investment in large infrastructure. The case studies reflected the main characteristics of public investment based on Chinese Belt and Road Initiative, developed in Montenegro, respectively of a motorway project developed in Romania, based on European funds.

What both types of public investments showed was that there are still many opportunities and leverages that investments in infrastructure could drive. Economic infrastructures provide services and facilities that enable the functioning of the economy. Both type of international investments (BRI and EU policies) contribute to the quality of life and economic development, foster growth and development, facilitating trade and investment flows and labor force mobility.

Despite that, there are significant differences with regards to the practices and the management of the entire process of projects' implementation between the two models. While BRI projects are characterized by an integrated management and straight forward looking, the EU projects are characterized by an integrated strategy and programming. The integrated management leads to a stronger political commitment to deliver the results, a lower cost of implementation and safety of the contract pillars. The integrated strategy and programming, on the other side, lead to better alignment of EU policies and interests, regional development and interconnectivity, compliance with EU regulations and objectives, safety of financial flows and a lower fiscal burden on the state budget.

BRI projects are affected by lack of strategic development, they deliver an infrastructure which is not clear how would integrate with the regional perspectives. The risk of not meeting the economic targets and the investment return is increased. The beneficiary could eventually obtain a partially irrelevant road that leads to nowhere, but that could bear a huge cost of maintenance and loan reimbursement.

On the other side, EU funded projects are affected by lack of integrated management. The cost of red tape and the exhausting bureaucratic process more often increase the risks of delaying the implementation with years, there is a higher cost of compliance with regulations and a high fragmentation of projects.

Another conclusion is that there are cultural and practical differences of project management, which the Chinese partners need to observe in order to comply with EU regulation in order to cooperate with CEE countries. There is still a lot to improve in order to make Belt and Road Initative compatible with EU objectives and practices, but what the analysis showed was that there is a potential for Chinese investments to become a complementary source to the EU policies, considering the regional development needs of each CEEC.

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Six Years of '16+1'Framework of Cooperation – in Between EU, Expectations and Limitations[1]

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Abstract: In this paper we try to pursue general overview of the platform for cooperation between PR China and sixteen European countries that PRC initiated in 2012 under the name "Sixteen plus One" or "China and Central and Eastern European countries". After five years, several prime ministers' summits and different ways of cooperation being introduced, it left most, if not all its European participants with mixed impressions about the very experience and the prospect for the future development of the platform. Regarding the complex environment and intense dynamism and controversies surrounding the platform '16+1', we will try to analyze the achievements, problems and limitations for its future development, including its visibility and overlapping with the Belt and Road Initiative and its position within EU-China relations.

Key words: PRC, Central and Eastern European countries, "16 plus one", Belt and Road initiative, EU, connectivity, China rise

JEL Classification: F, F0

1. Introduction of the Framework and its Geopolitical and Geo-economic Context

When announced in Budapest, in 2011, by PRC's Premier Wen Jiabao and formally established one year later, the new format of cooperation between "Central and Eastern European countries" and China took everybody by surprise, including the sixteen participants and the EU. Unexpectedness of the Chinese initiative did not help when it comes to concerns coming from the Brussels and over the Atlantic Ocean or to the readiness of "the 16" actors chosen for collaboration.

Many analysts and policy makers wanted to know what was the interest of the "16 countries", especially of those eleven that, at the time, where already, or just to become, EU member states. But, the period before and after the outbreak of the global economic crises and the euro zone crises, was the period of disillusion of the "New Europe", as they were left on their own while the "Old Europe" financial and trade borders became again apparent in reality. Since the outbreak of the euro zone crises, new EU member states had been experiencing significant budget deficits, credit crunch and liquidity squeeze as well as the shrinkage by 50% of the foreign direct investment (FDI) from the "old" EU.. In the midst of EU's disappointing capabilities to deal with the ongoing crises, China stepped in with the new platform, for upgrading relations through the construction of transport and energy infrastructure, financial and "industrial capacity cooperation", culture and education, trade and other projects that should build the connectivity within "the 16" and between the "16" and China. China moved pro-actively on the European soil offering what was needed: funds, capability to perform and connect, market for specific goods coming from "the 16".

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The world economic crisis eased the accomplishment of huge Chinese interests in the EU market. China soon became an appreciated investor for some, even a rescuer of the Union's economy and of the EMU, while for the others it remained a profiteer and a challenger of the EU dominance in Europe. An important alarming signal for the later position has been the reviving of the economic cooperation between China and the Central and Eastern European countries through the "16+1" framework launching. This framework for cooperation looked at the time as matching interest-based cooperation between the CEE countries hungry for investments and the rising China, in the middle of its global dispersing asset-acquisition process. A long history and tradition in cooperation, dated from the very birth of the People's Republic, and the absence of political preconditioning only supported the initiative. As Chinese President Hu Jintao pointed in Zagreb in 2009: "*China has always respected sovereignty and territorial integrity of the South-European countries, as well as the development model chosen by the peoples of these countries*". In that sense, the cooperation with a rising China pleased each of these countries, although in some of them there were concerns that such a development could harm their close ties with the most powerful EU countries that – ironically - have China as a high priority global partner.

The impression of the political presence of China in the former republics of Yugoslavia, especially in Serbia - beyond the two high level visits to Croatia (2008) and Serbia (2009) -, was built by other elements. As a state that opposes the unilaterally declared independence of "Kosovo" and as a guarantor of the UNSC 1244 resolution, that keeps the runaway province within Serbia, for the first time China behaved proactively against unilateral secession, when taking part into the debate before the ICJ in Hague.. Also, the Chinese police forces took part into UN missions in Bosnia and Herzegovina and in Kosovo and Metohija.

Just a year later after "16+1" establishment, China initiated another, much more resonant and almost globally spread, initiative – the Belt and Road Initiative. Politically promoting The New Silk Road and strategic connectivity over Eurasia through numerous bilateral agreements of good neighbourhood, cooperative and strategic partnerships, China has financed and built transport, communication and energy infrastructure corridors over Eurasia, as well as in the Mediterranean. When it comes to the "16+1" cooperation, BRI added confusion to its already poor comprehensiveness. For some, including the Chinese officials and scholars in various occasions, they merged. Just as the previously agreed and even built projects were proclaimed BRI projects (similarly with parts of the Trans-Siberian Railways), some of the "16+1" projects "became" elements of BRI: cargo terminals of the Piraeus Port, or the Belgrade-Budapest railway (that contrary to the general understanding had existed for decades).

Along with the continuing, traditionally strong, foreground Chinese economic engagement to Asia, the PRC has become a big donor and investor in Africa and Latin America, but also - in accordance with its high leaders' repeated announcements of 2009, 2010 and later -, in Europe, too. The very obvious and attention-causing Chinese worldwide growing financial involvement, including the European one, has taken place as part of the implementation of the "Go Global" strategy (People's Daily, 2001).

The Chinese first attempts to present their new infrastructure building and management capabilities in this part of Europe (and in Europe generally) were not that successful. On the contrary, a Polish road-building project in 2009 was a negative benchmark for cultural clashes and a negative image of Chinese builders. It was marked by formal protests of the Polish company (that lost a bid with 50% more expensive offer than the Chinese one) and finally by the broken contract with *China Overseas Engineering Group* (COVEC), as proved to be unable to deliver its US$447 million contract for a 50 km highway from Warsaw to the German border.

When it comes to Southern Europe, China's interest was seen a few years before, although neither announced as a strategy, nor explained later as such, to the engaged "16". China proved able to enter the EU through channels it founded or created – as through the highly costly transport infrastructure projects in Greece, a country that had serious liquidity problems at the moment when China made a long-term USD 2.5 billion investment to rent for thirty five years the Piraeus seaport, the main Greek trade port, strategically located between Europe, Asia and Africa (Sofia Echo, 2010). Chinese state-owned shipping giant COSCO invested an additional amount of EUR 400 million in upgrading and enlarging three container terminals of the Piraeus port, to enable them to connect with the South-Eastern Europe (Michaletos, 2010). Since 2009, PCT (Piraeus

Container Terminal) - a wholly-owned subsidiary of COSCO Pacific Limited, which is a world-leading container terminal operator -, has been operating in Greece, focussing its engagement on increasing the capacity of the port's terminal by 30% (Dredging Today, 2013). Finally, COSCO Shipping bought 51 percent of the Piraeus Port (OLP) in April 2016 for EUR 280.5 million (USD 312.51 million), in a deal with the HRADF, Greece's privatisation agency (Georgiopoulos, 2016)[2].

When President Hu Jintao visited Croatia in 2009, it was the first highest-level visit from China to the so-called Western Balkan and the first time that the Chinese intention to develop the economic relations with the countries of the region was announced (Hu, 2009). During the visit, and later, the Chinese companies expressed their interest to invest into the Rijeka seaport, and into the railway line Rijeka-Zagreb. The next year, Wu Banguo visited Serbia and declared the preferential financing and building of the "Chinese bridge" on the Danube, in Belgrade (*Pupinov most*), the first bridge built by a Chinese corporation on the European soil.

During 2010 Chinese Prime Minister Wen's visit to Europe, the Chinese side also announced the acquirement of Greek state bonds and the establishment of the regional investment fund for the South-Eastern part of Europe, run by *China Development Bank*. The Chinese corporations' intentions to rent the Thessalonica seaport were also expressed, as well as their interest for investments in railways, airports, shipbuilding, telecommunications, tourism and agriculture. Although at the time humble China was the only visible face of the rising power, the visit has also had a role in eliminating scepticism in the EU about the very nature of Chinese intentions. Wen asked for undisturbed access for Chinese companies, while announcing and making new business deals, which paved the way for the long-term presence of the Chinese companies and state in Europe (Mitrovic, 2014). A total of USD 4 billion deals in shipping, trade and energy were signed by China and Greece by Premier Li Keqiang during his visit to Athens in June 2014, as a continuation of the numerous deals made in May 2013, during the Greek Prime Minister Samaras' visit to Beijing. China had strong motivation to invest in strategic infrastructure in the South and South-Eastern Europe, situated at the crossroads of major inter-regional and intercontinental routes. An important development was also the influx of Chinese funds, mostly through bilateral loans, thusly creating what many define as a long-term strategy of Beijing to build a significant foothold in one of the most strategic placements of Europe.

During the above described process, pretty harsh criticism started to come from some academic and political circles in Brussels, pointing at China as a distracting factor, that was "building a wall" across the EU territory, or its zone of interest and future expansion. They saw China using the situation to empower its influence over certain countries, as well as over the whole of the EU. Although such a development comes along the road, such an understanding expressed reservations and partly prejudices towards China within certain circles in Europe and an attempt to eliminate a competitor, by the others.

2. Unwrapping the Package – "Twelve Measures", Their Applicability and Further

In April 2012, the Chinese Prime Minister Wen Jiabao *de facto* co-hosted in Warsaw[3] high envoys from 16 Central and South-East European countries, at the economic forum announced a year before in Budapest and introduced some measures (that were named later on, the "12 measures") as tools for developing the relations between "16 + 1" (Wen, 2012).

While some of the measures were immediately implemented – such as, for instance, establishing the Secretariat in Beijing, although with a very modest number of assigned officials, also the naming of the General Secretary, engaging the lower levels of administration in China to join etc. -, some others waited much longer to come to reality (for instance, the Young Political Leaders Forum occurred in 2017) and some were even presented in public as new joint ventures with Chinese business involvement (e.g. the Borca economic zone in

[2] Part of the deal was mandatory investments up to EUR 300 million, that the Chinese company would pay to HRADF an additional 88 million Euros and increase its stake by 16 percent to 67 percent in the following five years.
[3] Previously, in 2011, Poland and China established relations of strategic partnership, the second such agreement after the first one established with Serbia, in 2009.

Serbia, in 2018).[4] The announced Research Fund was launched in April 2018 (China-CEEC org., 2018 a), while its availability has remained vague and obviously meant to be used by Chinese academic and research institutions (China-CEEC org., 2014) that would later pick up partners in "the 16" (China-CEEC org., 2018 b), often designated by the relevant state institutions through political connections in their relevant country, sometimes with no previous knowledge about China, nor relevant experts. Usually, Chinese institutions would be advised by the Chinese Embassy in the relevant country and an "appropriate" partner picked up that would stage the annual "scientific conference" that would allow funds to be used, Chinese scholars to travel to Europe and deliver the speeches and "cooperation" pursued. While the tourism effects of such conferences, as well as the opportunities for researchers to meet were created, the academic aspect of them has remained dubious in many cases.

The credit line worth USD 10 billion for the support of future projects among which some 30% of the amount was earmarked to be financed under preferential conditions, soon became not-at-all-preferential, due to the global downturn of the interest rates, while the balance of 70% were named "commercial loans". So far, the whole amount of USD 7 billion has remained untouched, as unofficially explained, due to its' unfavourable conditions. Projects in the area of transport infrastructure, high-technology, renewable energy were said to be prioritized. But, the terms of the loans for infrastructure projects offered by China to the sixteen countries[5] were not applicable to the eleven of "the 16" that were EU member states, due to the EU regulations on mandatory bidding and market distortions.

When, in 2013, the Chinese Premier Li Keqiang visited Romania to attend the second summit of the "16 + 1" Meeting of the Heads of Governments of Central and Eastern European Countries and China, he was the first Chinese Premier to visit that country in nineteen years, as a typical example of "rediscovering" old friends and partners that goes for most of "the 16".

But cultural cooperation or, more correctly, the Chinese cultural spreading over the sixteen became obvious much earlier. While in 2006 the first Confucius Institutes in CEECs were established in the capitals of Bulgaria and Hungary, by May 2014 there were already 24 Confucius Institutes and 8 Confucius Classrooms established in fourteen out of the 16 CEE countries, with 18,000 students enrolled, mostly to study the Chinese language. At the same time, China's announcement to offer 5,000 scholarships to CEE countries and to invite 1,000 students to study Chinese language in China started to be put into practice, but mostly in an non-transparent manner.

At the Belgrade Summit held in December 2014, the parties stated that they deem the basic principles of the document entitled "*China 2020 Strategic Agenda for Cooperation*" and the EU legislation as their basis for cooperation. The first large-scale infrastructure project of the "16 + 1 Cooperation", the reconstruction of the Budapest-Belgrade railway line was signed (although the agreement between the foreign ministers was signed two years before). At the Summit, the parties also declared their support for the set-up of the China-CEEC Business Council in Warsaw. The decision on the formation of the first sectoral coordination centres was passed: the China-CEEC Tourism Promotion Agency in Budapest and the China-CEEC Investment Promotion Agency in Warsaw and Beijing. During the summit, the Chinese Premier Li insisted that all the agreements and projects were in accordance with the EU regulations.

The year 2015 and the first half of 2016 were marked by intensified cooperation and high level visits. The regular prime-ministers' summit was held in Suzhou in November 2015 and the bilateral cooperation of China and the Czech Republic, the Republic of Serbia and Poland was highlighted by President Xi's visits to the three states in the Spring of 2016. The general feature of the relations during that time was upgrading and framing cooperation into China's wider internal and international frameworks.

[4] In January 2018, the Serbian government announced that it was to "set up a joint venture with CRBC (China Road and Bridge Corporation)" and construct an industrial park in the Belgrade's suburb of Borca. Construction works were to be done by CRBC and financed by loans from EXIM bank of China, China Construction Bank and China Development Bank, while the Serbian government would pay EUR 300 million (USD 362.2 million) for an industrial park, that was supposed to be "*set up by China in each of the sixteen*".

[5] The Chinese side required state guarantees from the recipient state.

The modernization of the Belgrade-Budapest railway was initially agreed by China, Hungary and Serbia in November 2013, at the China-CEE countries premiers' meeting in Bucharest[6] (Mitrovic, 2016). Once completed, the railway was supposed to become a major commercial transport corridor along the planned path from the Athens (the Piraeus Port), all along Greece, Macedonia, Serbia and further northward to Hungary[7]. In Belgrade, in December 2014, a Memorandum of Understanding was signed by China, Hungary and Serbia. Again, the cooperation plan for the railway construction was signed in 2015 in Belgrade at the meeting of the Trilateral Group of China, Hungary and Serbia for Traffic and Infrastructure Cooperation, setting dates for certain phases of the project. The project was highlighted again at the Belgrade Summit, at the Suzhou Summit, the Riga Summit, the Budapest 2017 Summit and at the first Belt and Road Forum in Beijing, in 2017. The Budapest summit was postponed from May to the end of the 2017, as the beginning of the works on the railway was expected by the year end, but it did not occur.

The problem was and remained that the three-party project, described by the Chinese media as "*China Railway Corporation's first project in the EU*" had not started yet. Ever since it was announced, Brussels has loudly criticized such a deal as opposite to the EU regulations and the business practice, as it excluded competition and public tenders by assigning a (Chinese) company that would deliver the works, as well as assessing its price as a ballooned one. Hungary, as an EU member state and Serbia, as a candidate country, have been under direct and indirect scrutiny, political pressure and questioning regarding the project. Orban's government proved to be tough in pursuing the project and at the same time trying to get it along with the EU regulations, while Serbia, being over-indebted, was combining the terms of the financing project by the Chinese loan (US$1.6 billion), the previously received Russian loan and other possible models of financing, going on with the works on the railway. The technical and legal preparations went on (Tanjug, 2014), but not a single piece of practical realization of the project had happened, although announced several times (Xinhua, 2014). There was one more symbolic opening during the Budapest Summit in 2017, but it ended with the Chinese corporation's engagement in renovating the Zemun railway station. The project was later officially connected to BRI, and it remained a top priority for the Chinese planners (Mitrovic 2013), while the Chinese president Xi Jinping named it as a top project within BRI Forum in May 2017.

In Suzhou, in his opening remarks, Li said that this framework for cooperation was one with "all win outcomes": for China, the 16 and the EU, as the "16+1" cooperation "*had fully accommodated the relevant concerns of the EU and moved in parallel with the greater interests of China-EU cooperation*". Again in Suzhou, another level in carving the framework of "16+1" was reached while the EU posted itself more visibly as observer. Also, on the final day, President Xi held a group meeting with leaders of "the 16" when he and President Duda of Poland, the Serbian Prime Minister Vucic, the Prime Minister of the Czech Republic, Sobotka, the Bulgarian Prime Minister Borisov and the Slovakian Deputy Prime Minister, Vazhny, signed intergovernmental memorandums of understanding on jointly constructing the "Belt and Road" between China and five countries (MOFA, 2015). Hungary was the first country to sign a memorandum of understanding with China on promoting the Belt and Road Initiative (Tiezzi, 2015), followed by the Czech Republic, the Republic of Serbia, etc. (Mitrovic, 2016).

When it comes to "*connectivity in Europe*" and connectivity between Asia (Eastern China) and Europe, there has been notable increase of the railway lines across the three corridors announced by China as parts of the continental BRI, or The Belt. Strong political promotion of the new railway routes that connect China and Europe, also serves China's political, commercial and security objectives, especially when it comes to creating an alternative path to export and import and to reducing the Malacca dilemma. Still, its profitability and sustainability remains questionable (Besharati, 2017).[8]

3. Problems, Achievements and Opportunities

[6] The rail section through Serbia totalling over 200 km and 166 km through Hungary. According to earlier estimates, the modernization would cost between EUR 1.5 to 2 billion.

[7] Ibid. p. 8.

[8] It is evaluated that each container has been subsidized by the provincial governments in the PRC with USD 7,000.

The fact that several of “the 16” are not located in named area of Europe (e.g. “Central and Eastern Europe”), but in the Southern-Eastern part, only illustrates the way they were perceived and put in the same basket by the initiator. It remained the puzzle which was the criteria that China used when decided to pick up those sixteen European countries, beyond the fact that they had been socialist countries. It seems that geopolitics and geography played an important role. Nevertheless, putting these sixteen very different countries in the same basket was not positively accepted. When later on, the Chinese PM wanted to meet all their prime ministers together during the summits it caused negative reactions as they all wanted to be individually perceived and treated.

These individual “treatments”, though, did not help the functionality of the platform and its quality, as lack of coordination and alignment among “the 16” makes them exposed economically and politically to the enormously bigger partner. Not just that they could not articulate and coordinate their common interests in the platform, but they also performed as each other’s competitors for the “gate of China towards Europe” position. Actually, the code of conduct of the “16+1” was bilateralism between each of them and China, much more than it became a truly multilateral cooperative platform. On the other hand, China’s attempt to connect itself with “the 16” and to support their interconnectivity did occur when it comes to tourists, and especially experts in various think-tanks in “the 16”, that were showered with a variety of invitations from China and towards similar institutions in the other fifteen CEECs. They grasped the chance that elevated their relevant importance in national academic and research communities, while others took the opportunity of getting government support and financing, and becoming advising tools.

Although both sides have experienced tremendous and substantial changes since they were closely cooperating the last time, China had successfully initiated certain level of coordination of the development plans and courses of “the 16” – but each of them - with its' ongoing 13th Five Year Plan and the Belt and Road Initiative's agenda, as it was suggested by Li Keqiang at Suzhou Summit (Mitrovic, 2016 a). Hungary introduced its *Eastern Opening policy*, Poland has the *Go China Strategy* and the Czech Republic has the *China Investment Forum*, while Slovakia launched a three-year (2017-2020) *Strategy for Development of Economic Relations with China*.

The growing political influence of China in the 11 EU member states and the 'alternative model' that it could offer to the five candidate countries have caused concern and moved the European Commission into action. Brussels’ institutions have questioned the pattern of doing major infrastructure deals in the transport and energy sectors, in Serbia, Macedonia, Montenegro, Bosnia and Herzegovina and Albania. Without proper transparency about the contracts and no feasibility studies or public discussions on their quality or necessity, with the direct assigning of state-owned Chinese corporations to implement the projects and the picking of the local subcontractors in the same manner, these deals contributed to undermining the ongoing reforms of the local institutions, including the governance quality and to swaying them away from the reform path they had chosen according to the accession process towards the membership of the EU. Also, with each individual project, that could be huge in the relative context of the country’s economic strength, China enlarged its economic presence without taking care of the financial burden made to the countries that received loans.

When explaining the platform, Chinese scholars and politicians would usually describe it as part of the EU-China relations or way of empowering EU-China relations, but it was not perceived as such from the EU side. That contributed to the vague impression of some in Europe, that China has some hidden agenda about the platform. When analysing the economic cooperation between China and “the 16”, Chinese scholars typically analyse each of “the 16” individually and tend to express arithmetically their relevant “successes” in cooperation with China, with little, if any consideration towards the specific interests of “the 16”.

When it comes to the “16+1” and the BRI overlapping, or the first being absorbed by the later, it remained ambiguous and open for different interpretations, while China’s determination to incorporate into BRI projects those previously built or agreed was clear. President Xi’s visit to three European - and all three “Eastern” European - visits during the spring of 2016 was aimed to further promote the political ties with EEC countries, to further align their respective development strategies with China’s and to reassure their commitments for the Belt and Road projects (Mitrovic, 2016). As *Xinhua* pointed out in the commentary focused on President Xi's visit to the Czech Republic in March 2016, *"China, Czech Republic set example for broader region to advance Belt and Road Initiative"*, from their side, the three countries recommended themselves as "gates to EU" and "central points of China's presence in Europe", etc. seeking for benefits that China's economic presence in their relative economies could deliver through FDIs, opening segments of Chinese markets for their products and technology, better mutual and Eurasian traffic and people to people connectivity, soft and available loans, that could all upgrade their business environment.

Since China has started to more boldly push for its regional and global ambitions, it became louder and more present in Central and Eastern Europe with a dual approach to the EU: verbally abiding to its principles, while in reality taking advantage of EU's political, moral and economic weakness. China kept intensifying its far more important and profitable cooperation with the most developed Western EU economies, than the one with "the 16". That approach becomes obvious when it comes to evaluating China's accumulated direct investments in the economies of the 16 Central and Eastern European countries. By the end of 2016, they valued approximately USD 1.8 billion, according to the Ministry of Foreign Affairs and the Statistical Bureau of China, in spite of the 2015 record breaking China's private and state investment in Europe, of USD 23 billion. But, most of that impressive amount went into Western Europe. In 2017, the sum was colossal, due to the acquisition of the Swiss *Syngenta* for USD 43 billion, but the rest of the FDI into the top EU economies also significantly grew and hit the new record of USD $38 billion (Baker and McKenzie , 2016), accounting for almost 80 percent of the total China's European investment.

President Xi's visits to three "CEECs" in 2016 was also China's demonstration of a certain political triumphalism over the flaws and weak points of Brussels' *"high moral stands"*, including its concerns when it comes to all aspects of the "16+1" cooperation. The "New spring" in relations with the Czech Republic and Poland and "*special brotherly bond*" with Serbia, "*proved*" that China's road was a correct one and that it was on the right track with perceiving itself as a leading and creative power that "*as the second-largest economy in the world…should be more proactive in dealing with other countries"*, as president Xi told to the government officials, entrepreneurs and scholars in a recent meeting (Baijie, 2016). Additionally, by its position on the strategic water flow of Europe, the Danube (in Smederevo, Serbia), China strengthened its geopolitical grasp on Europe's soil.

High level visits and summits are important and powerful tools of political connections, but they failed to be followed by the Chinese investors. As it happened during Xi's visit to Prague, in March 2016, when he announced that the Czech Republic would receive over EUR 3 billion worth of Chinese investments by the end of that year, but so far there have been very modest implementation of those. The similar outcome followed in Serbia after the presidential visit, where there were a lot of promises from the Chinese side and only one investment deal happened[9]. Also, beyond the dramatic gap between China's FDI flow to the EU17 and that to "the16", mentioned before, there has been a strong geographic asymmetry among "the 16" themselves, as some 95% of the Chinese FDI go to Hungary, Bulgaria, Poland, Romania, the Czech Republic and Slovakia (Matura, 2018). But, in all those countries, even in Hungary as the biggest recipient among the CEECs, Chinese FDI account for only between 2.4 and 2.5 percent of the cumulative FDI in economy. During the 6th Summit of China and Central and Eastern European Countries prime ministers in Budapest in November 2017, the Chinese officials spoke of "*Chinese investment in CEEC … over US$9 billion*" (Xinhua, 2017), while they could actually only refer to Chinese loans borrowed by the different non-EU sixteen, plus FDI into "the 16" that were less than 20% of the mentioned amount.

When it comes to trade, aside of the proclaimed increase the two-way trade of up to USD100 billion by 2015 as one of the "12 measures" that was not reached, the trade increased continuously, but the trade deficit on the side of "the 16" did particularly so (Pencea 2017). In 2016, the trade volume between China and CEEC reached USD 58.7 billion, according to Chinese data. Additionally, the two-way trade was also focused on the

[9] *Construction of second Meita plant starts in Obrenovac – Investment worth EUR 90 million, jobs for 1,100 people*, (2018). E-kapija. April 3, Belgrade.

five mentioned CEECs, by 82 percent. In numerous participations to the trade fairs in China and in the sixteen partner countries, Chinese corporations were mostly interested in enlarging their export, while the biggest exporters among the CEECs, like Poland, complained that Chinese markets opened at certain points, but got closed for other products at the same time.

Cooperation has also included the financial sector, including the opening of the new branch of *Bank of China Ltd. Co* (that has already existed in Budapest) in Belgrade in 2017, and of several divisions of the *Bank of China* (in Poland and the Czech Republic), of the *Industrial and Commercial Bank of China* (in Prague and Warsaw) and of the *China Construction Bank* (in Warsaw), while the *Hungary Commercial Savings Bank* has opened a representative office in Beijing in 2017.

China has also established the USD 10 billion China-CEEC Investment Cooperation Fund I, in 2014, that it invested in dozen of projects worth USD 422 million, again in only five CEE countries, while Fund II was announced for secured commitments of USD 800 million and one billion as a target for the whole of 2018 (Gheorghe 2018). Hungary, Serbia, Lithuania and Poland have participated in China's bond market, while Poland was one of the founders of the Asian Investment Infrastructure Bank (AIIB), lately joined by Hungary and Romania. Cooperation between the central banks of the partners was also introduced, as well as the China-CEEC Inter-Bank Association. China has signed currency swap agreements with three of the CEECs: Hungary, Albania and Serbia, with a total swap size of 23 billion RMB.

Different and numerous additional institutional mechanisms were also introduced to serve various fields of cooperation, such as China-CEEC Investment and Trade Promotion Agencies Contact Mechanism, The China Investment Forum, China-CEEC Business Council, China-CEEC Secretariats on Logistic Cooperation, for Maritime Issues, for Customs cooperation, etc., situated in different CEECs and their frequency of meetings and events was pursued. There were over twenty different mechanisms so far, and although it might look like helping people to people and economic cooperation, V4 countries were particularly annoyed by the intensity of such frameworks that drained many of their capacities and, as said, prevented them to focus on the bilateral cooperation with China, that they appreciate much more than “16+1” framework. According to China specialists in these countries their relevant governments already made such comments when addressing their Chinese counterparts.

China and CEEC have truly witnessed growing people-to-people exchanges. In 2016, there were one million tourists between them, with the number of Chinese tourists visiting the CEE countries tripled, as compared to 2015.

4. Conclusions

For China, the 16+1 platform has served as a tool for multiplying and strengthening its presence in Europe, through building stronger influence on the EU from the inside and at the door step. China also wanted to get multiplied economic and geopolitical gains as seeing building, financing, investing, trading, connecting and spreading Chinese culture as part of the implementation of its *China Dream* and way of tackling its domestic economic problems. But, in spite of its strongest presence ever in the political arena and media of “the 16”, China’s economic presence remained symbolic compared to the EU or the German one, whether it comes to trade, or to foreign investments. Even that has caused strong EU reactions on the side of the Brussels and has caused China to get a more pragmatic and hedged approach. At the beginning of 2018, there were rumours that China would initiate new frequency of the “16+1” prime ministers' summit by making it happen every second year, instead of on yearly basis, but reactions within “the 16” were negative. Some saw this as China’s retreat in front of its much more important partner, the EU and its constant criticism.

However, the format, with all its shortcomings, put strong light on EU’s lack of political and economic capacity during the turbulent years of crises, during which the eleven member states and even more the candidate countries or to be candidate countries within “the 16” were politically disregarded and economically deprived of EU funds. Also, Brussels boldly insisted on the traffic corridors it drew while ignoring the needs and desires of the countries over which territories they were supposed to pass. China stepped in into “deserted” area and was welcomed by the local political elites, sometimes perhaps stimulated in various, not always acceptable ways (Xinhua, 2017). It could be that Chinese strong appearance “helped” the Brussels institutions to step in as responsible stakeholders with the *Junker Plan*, or the *Investment Fund for Europe* for the member states and other financial tools, and to introduce (though modest), a *Connectivity Agenda* as part of Berlin Process for the Western Balkans, worth EUR 1.4 billion. The other part of the EU awakening process is the *New Framework for Investment Screening* that will make any further Chinese corporation’s attempts to acquire security-sensitive European assets, such as energy infrastructure firms, harbours, etc., much more difficult, and submissive to strict EU rules.

The Central and Eastern European countries are seen by China as an important factor of China's Belt and Road Initiative and partners, as all the 16 CEE countries are seated on the route charted by the Initiative proposed by Chinese President Xi Jinping in 2013. That is why the previously initiated framework of cooperation “16 + 1” was immediately incorporated into the Belt and Road Initiative with all its twelve proposals. The major cooperation projects between CEECs and China have been moving ahead steadily, with certain obstacles, coming from (i) the limited capabilities of the relatively small economies of the “16”, (ii) the neglected ties between two sides in the past decades, (iii) China’s tendency of treating them as a unique group of states, disregarding their differences, (iv) the obstacles coming from the membership of the eleven of the sixteen countries to the EU, that have legal, political and economic impact on the cooperation and (v) China’s pursuing its way of conducting business operations (concluding business deals from top political level, with a strong state involvement in microeconomic matters and with minimum or no transparency). For the sixteen Central, Eastern and South-Eastern European countries cooperation with China will be much more beneficial if their governments manage to pursue less competition and more cooperation among them and try to form common middle and long-term positions in several major areas of cooperation. So far, they tend to be a passive partner in one of the most complex experiments of China’s ascending towards its desired global position.

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Sino-Russian Rapprochement and Its Impact on Global Power Dynamics

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Abstract: Currently, the debate about Sino-Russian relations is on the rise and draws the attention of many international analysts and policy makers. With bilateral cooperation increasing in recent years, an evident rapprochement is now occurring. This article aims at emphasising the common economic and geopolitical interests behind this new-era relationship, taking into account the recent economic and security pressures coming from the U.S. that created a common ground for the two countries, as well as the historical key-role played by trade and investment and by the energy link. Furthermore, the paper will argue the implications that this strategic economic and political partnership has on the transition in the balance of power in a unipolar world (currently led by U.S.) towards a more complex alignment. Having large natural resources, huge territory and a numerous population, both countries remain geopolitical forces in today's world. After the sanctions, Russia is currently building a strong economic partnership with China (through the Far East Initiative). It is our opinion that this new global power dynamics that sees China and Russia increasingly supporting each other on the world stage could moderate U.S. global influence leading to a new international equilibrium.

Key words: Sino-Russian relations, economic cooperation, trade, FDI, global power dynamics
JEL Classification: F01, F02, F1, F21

1. China – Russia relationship: brief history and present developments

Presently one of the main pols of international economic and political power of the 21st century, both China and Russia have undergone a series of great transformations, emerging from autarchic economic regimes into important players in the world economic arena (Nye, 2011). It is worth mentioning not only that the two countries have evolved separately, but that the balance of power in their bilateral relations has also shifted considerably. Considering this, in order to fully understand the complexities of the Sino-Russian relationship, certain historical corner stones need mentioning. As some authors (Wilson, 2017) pointed out, from an historical perspective the Sino-Russian relationship may be divided into three main epochs: post-war cooperation, Sino-Soviet Split and the new cooperation (see Figure 1).

Figure 1: China-Russia relationships – brief history

Source: Authors, based on the studied literature review.

At present, China's and Russia's soft alliance (Gabuev, 2015) is driven by certain key features: close military, economic, political and cultural partnership, coupled with the sharing of the same stance and mutual support in numerous global issues.

The current rapprochement based on regained cooperation, especially after 2000, is, as stated by certain analysis (Saradzhyan, Wyne, 2017), due to the outbreak of the Crimean crisis in the geopolitical landscape of the 21st century. Both Saradzhyan and Wyne indicate that "the West's subsequent effort to punish Russia" for its involvement in Crimean crisis "have caused Moscow to accelerate its pivot to Beijing".

2. Common geopolitical and economic interests as drivers of the bilateral relationship

As mentioned in the first part of our analysis, the West's sanctions against Russia and its increased distrust of China's global economic ambitions may very well be the drivers of the new dynamics between the two countries. While both were pushed away by the West's action towards them (sanctions against Russia and Trump's economic war with China), it must be stated that even before that, China and Russia had started to boost their cooperation largely based on an evolving series of strategic partnerships based on several core principles: mutual trust, equality in setting the specific economic targets in the China-Russia bilateral relations and mutual benefit.

The basis for this cooperation is the Strategic Partnership, signed between the two countries in 2014. Although this vector for bilateral cooperation is key for understanding the Sino-Russian rapprochement, the cooperation in international organizations where both countries are members is also a major tool to be considered when analyzing the current status-quo between these two global powers. Being both members in numerous international organizations, as shown before, China and Russia currently have the opportunity to support each other in the debate of relevant global issues. For instance, during the Asia-Pacific Economic Cooperation (APEC) most recent forum, China and Russia further affirmed their close cooperation and ongoing communication on policy matters with an international dimension. Both countries agreed to promote the APEC bloc by fostering regional and economic growth strategies. This included their support for an Asia-Pacific free trade area for all 21 member states. Their joint support for regional free trade came on the heels of U.S. President Donald Trump seeming to back away from the Trans-Pacific Partnership free trade agreement – an exclusive U.S.-led trade bloc including 12 states on both sides of the Pacific Ocean.

At the last forum of the Shanghai Cooperation Organization (SCO) proposals for integrating China's Belt Road Initiative (BRI) with the Russian-led Eurasian Economic Union (EEU) played a key role. Although the SCO is a separate institution from the BRI and the EEU, it is increasingly viewed by governments across the world as an organization reflecting the political and economic ascendancy of the Eurasian region.

Taking into consideration the current stages of the bilateral cooperation, it is fair to say that the breadth and depth of the China-Russia relations have spilled over into multiple spheres of governmental and institutional policymaking. This has included both countries' central governments, as well as regional and municipal governments, in addition to the increasing role played by state and private companies and various civil society sectors.

As a result, the speed and scale of the relationship may be more aptly described as "revolutionary" rather than evolutionary. Clearly, external factors such as the Ukraine crisis were pivotal in turning the Russian leadership away from its post-Soviet relations with Western Europe.

The present dynamics of the Sino-Russian Cooperation is based on a series of driving factors, such as the high level of complementarity, reciprocity, shared interests, and common threats. The common interests are mainly linked to China's necessary support for Russia in Central Asia if the BRI is to fully succeed. The two countries' cooperation may create a "core geopolitical space" under exclusive Sino-Russian control in Eurasia, beyond the reach of EU and U.S. influence.

On the other hand, the Russian expansion in the Asia-Pacific area has occurred with the friendly support of China. This mutual interpenetration in the two countries' areas of geopolitical influence, on a seemingly equal basis, seems to point at a relationship marked by symmetricity, complementarity, and reciprocity.

The sanctions have created for Russia a downward spiral that is pushing the country on the path of political and economic isolation, hence Russia has started to look at the Asia-Pacific area as a viable way to expand its markets and those of the EEU. In this perspective, integration with the BRI can offer the EEU a privileged trade channel to the markets of Asia-Pacific, providing Russia with a unique opportunity to boost its "Going East" strategy. While at present Russia and China continue to have a very different type of relationship vis-à-vis the U.S., the recent statements made by President Donald Trump in which both China and Russia were defined as revisionist countries, may bring those two countries closer than ever. Moreover, there are analyses (Saradzyan, Wyne, 2017) showing that the current commercial war of US against China has set the stage for pushing this country to her Russian partner since both countries were destined to have pursued deeper cooperation, even if China had not been rising so dramatically, if only because they are two states that share a number of interests. They seek to deepen mutual economic ties, with Russia interested in selling and China interested in buying Russian oil and gas.

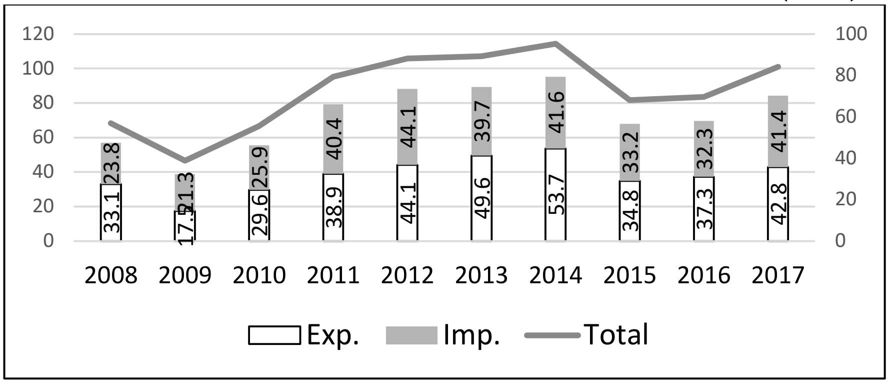
While the EU's sanctions against Russia have played a key role in the country's new strategic approach regarding the creation of a close partnership with China, it must be stated that Russia had been attempting to pivot towards China even before the Ukrainian crisis entered its acute stage in early 2014. For instance, during a speech in 2002, the Russian president at the time (who is the current president also), Vladimir Putin, mentioned that Russia has long been an intrinsic part of the Asian-Pacific region and that it has always viewed this dynamic region as the most important factor for the successful future of the entire country, as well as for the development of Siberia and the Far East.

While shared global and regional interests are important links to the Sino-Russian relationships, they are not the only bonds: trade and investment play a key-role.

3. Bilateral trade and investments - recent developments

After 2010, bilateral trade grew rapidly, as the leaders of both countries have committed to advancing bilateral economic cooperation (see Chart 1). In this respect, it is important to notice that the economic relationship between China and Russia has been driven by a variety of bilateral intergovernmental commissions, including 26 subcommissions. Accordingly, in recent years, in recent years trade relations between the two countries have entered on a rapid path.

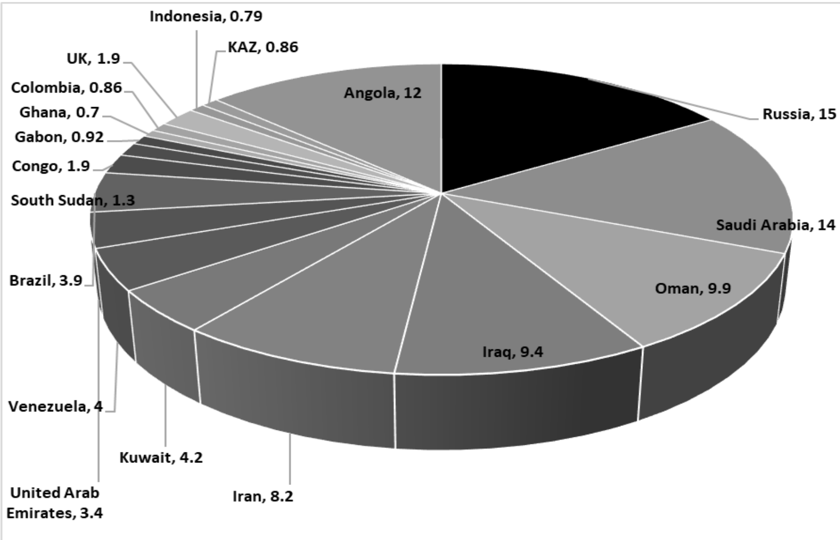
Chart 1: China-Russia trade volume in the last decade ($ bn.)



Source: Authors, based on NBSC (2018).

After the Crimean crisis, China became Russia's largest bilateral trade partner, in 2015. Despite the declining overall bilateral trade in U.S. dollar terms (mainly due to the sharp declines of the rubble and of the yuan), relative to 2014, trade flows continued to expand in terms of volume even in 2017. Therefore, according to China's General Administration of Customs (Xinhua, 2018), in 2017 China remained the largest trade partner of Russia for three years in row[1], while the main imports of energy of China came from Russia (Chart 2).

Chart 2: Chinese oil imports, by country of origin, main suppliers in 2016 (%)



Source: Authors, based on Observatory of Economic Complexity, 2016

After Crimea, Russia faced not only international sanctions but also a collapse in the price of oil. The signing of the Power of Siberia megaproject in May 2014, only two months after Russia's annexation of Crimea, showed that China bankrolled Russia out of the crisis.

China is presently Russia's biggest trade partner and is worth mentioning that until 2015 Netherlands, Italy and Germany used to be the first major trade partners (mainly for exports) , but sanctions forced Russia to turn eastward. Moreover, Russia and China signed a number of joint venture deals, mainly in the commodity businesses, like agriculture and energy that boosted bilateral trade. The statistics for 2017 show that Russia's main import partner was China, accounting for approx. 21 percent of all imports, while 10.8% of the country's exports go to China. As for 2018, the national preliminary data calculated for the first eight months of the year shows that bilateral trade surged by 25.7% year on year, to 67,5 USD billion, well above China's overall foreign trade growth of 9.1% (Xinhua, 2018). However, according to WTO data, China does not count Russia among its top largest trading partner (as for China, Russia is only the 14th largest customer both for exports and

[1] In the across countries hierarchy; among regions, European Union (28) continues to rank first position (see Table 1).

for imports), having a more balanced trade pattern with U.S. and Hong-Kong, and with Japan and Korea, partners of similar weight.

Table 1: China and Russia: export by main destinations and import by main origin, 2017

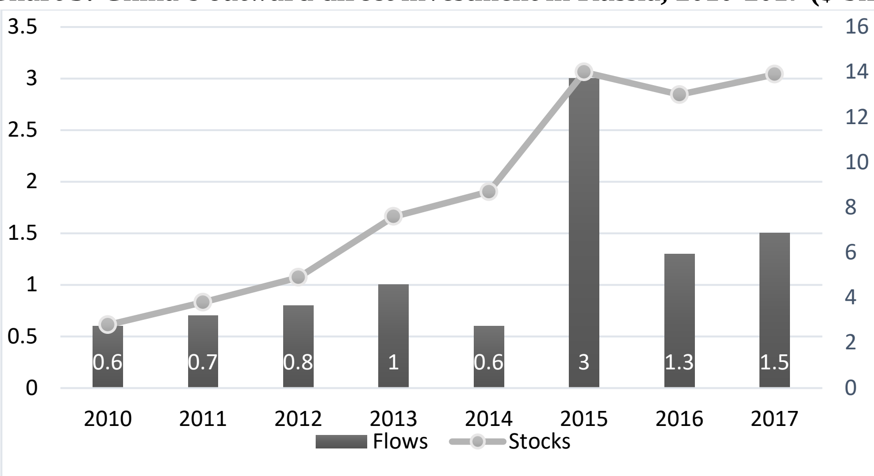
Exports by main destinations			
China		**Russia**	
Partner country/region	% of total exp.	Partner country/region	% of total exp.
(1). U.S.	19.0	(1). EU (28)	44.4
(2). EU (28)	16.8	(2). China	10.8
(3). Hong-Kong	12.3	(3). Belarus	5.4
(4). Japan	6.0	(4). Turkey	5.1
(5). Korea, Rep.	4.5	(5). Korea, Rep.	3.4
……			
(14). Russia	1.9		
Imports by main origin			
China		**Russia**	
Partner country/region	% of total imp.	Partner country/region	% of total imp.
(1). EU (28)	13.7	(1). EU (28)	35.6
(2). Korea, Rep.	9.6	(2). China	21.2
(3). Japan	9.0	(3). U.S.	5.6
(4). Other Asian countries, unspecified	8.5	(4). Belarus	5.0
(5). U.S.	8.4	(5). Japan	3.4
….			
(14). Russia	2.2		

Source: Authors, based on WTO and WITS (2019).

After 2014, Russia became an important recipient of Chinese direct investment in relation to the Chinese government's Belt and Road Initiative connecting Asia with Europe and with continuously Russian attempts to shift its economic policy towards the East, following the annexation of Crimea and the start of Western sanctions,. The strong relationship between the two countries helps as a basis for the interplay of Russian and BRI investment projects. Besides, China did not support the Western economic sanctions on Russia and continued to invest in various strategic sectors of the Russian economy. Consequently, Russia saw in China the favourable circumstances to capitalize on investment, trade and growth opportunities, to balance against the U.S. power and to boost its negotiating force in relation with the West countries (Makoki & Popescu, 2016).

As a result, Chinese foreign direct investment (FDI) into Russia increased in 2015 five times comparing with the previous year (Chart 3), but even though it was still accounting for less than 6% of Russian's total inward FDI (Central Bank of the Russian Federation, 2019).

Chart 3: China's outward direct investment in Russia, 2010-2017 ($ bn.)



Source: Authors based on NBSC (2019).

According to the Chinese statistics data, the following year Chinese FDI fell to less than half that level, mainly due the sharp devaluation of the Russian rubble coupled with worsening climate of the national economy, which caused the decline in confidence for foreign investors. One year later (2017), China's FDI inflows into Russia reached USD 1.5 bn., which represents a year-on-year increase of 19.7%, accounting for 1% of the Chinese total outward direct investment flows and 8.4% of its total to Europe. Similarly, by the end of 2017, China's outward FDI stock in Russia reached USD 13.9 bn., namely 0.8% of the total and 12.5% of its outward FDI stock in Europe. China's strategic interests in Russia are, in all evidence, directly reflected in the scale of Chinese investment, and they bring real benefits to the Russian economy. In 2017, this made Russia the third country in European Union in terms of accumulated Chinese investment after Germany (USD 2.7 bn.) and UK (USD 2.0 bn.) and placed it on the 12th position in the in the top-20 recipient countries of the Chinese FDI at global level (MCPRC, 2018). Thus, China is emerging as the biggest of the large investors into Russia. Given its role as Russia's major trade partner, this creates a high level of interdependence between the two countries. In all evidence, the political factor is of no small importance as a Chinese investment booster and it is clear that Chinese investments are helping Russia endure through its conflict with the West.

In the years leading up to the conflict over Ukraine oil prices were high, Western countries open to cooperation and foreign companies eager to invest in Russia—especially in the petroleum sector. Many Russian companies, including state-controlled oil and gas corporations, took on high levels of debt, based on the assumption that oil prices would remain high

4. Chinese–Russian energy relations post Crimea

After 2014 it become obvious that the Strategic Partnership, ratified shortly after Russia's annexation of Crimea, amid the launch of the U.S. and EU joint sanctions against Russia laid the foundation for a series of much-publicized and high-profile "deals" especially in the energy field.

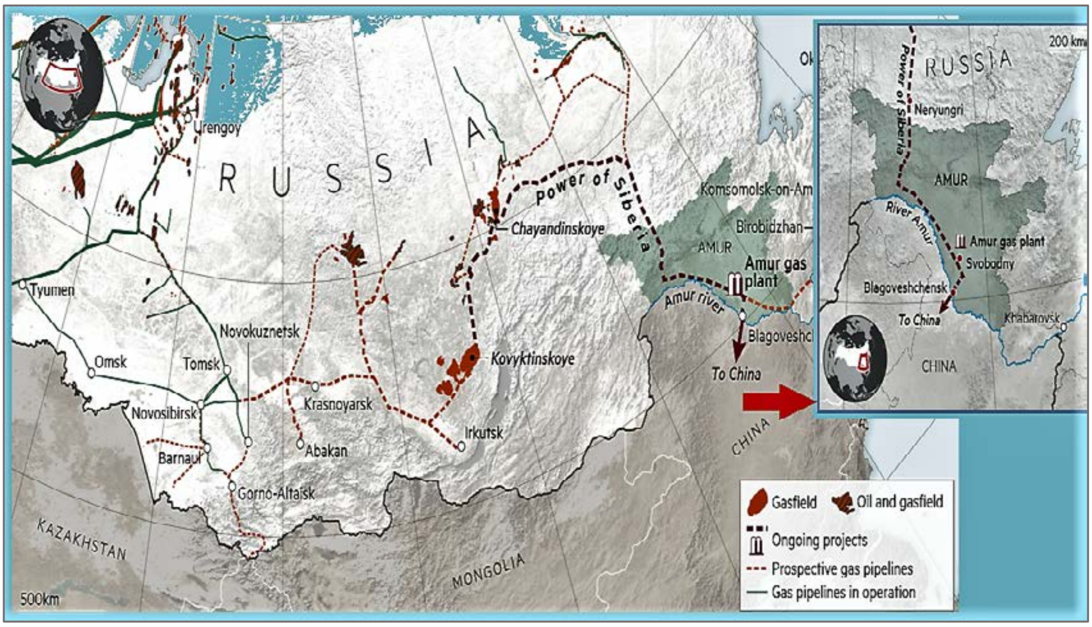
The magnitude of the Sino-Russian cooperation in the energy field is a clear evidence that after the Ukraine crisis, Russia has been increasingly aligning itself with China. Many analysts are arguing that this shift from the West towards China is most obvious in the strategic sphere of energy cooperation' (Klein and Westphal, 2016, Gabuev, 2015, Charap et al., 2017).

That could have happened because after Crimea, Russia faced not only international sanctions but also a collapse in the price of oil. The combination of the lower oil price and the sanctions left Russia economically and politically vulnerable, and potentially dependent on its biggest non-Western trading partner: China. As pointed out by Overland and Kubayeva (2017), the signing of the Power of Siberia megaproject in May 2014, only two months after Russia's annexation of Crimea, created the impression that China bankrolled Russia out of the crisis. In a sense, it could be argued that it is so, especially since the new mega-gas pipeline finalized after 2014 (see Figure 2) are essential to bring cash flow to the Russia.

In the gas sector, a 40-year gas supply agreement was concluded between Gazprom and China National Petroleum Corporation (CNPC). The landmark gas supply deal included plans to build the "Power of Siberia" gas pipeline. In the oil sector, a deal with Russia's largest oil company, state-owned Rosneft, involving financing agreements with CNPC to supply oil worth up to $500 billion from Russia's largest oil field, was also established shortly after Crimean crisis, prospectively enabling Russia to surpass Saudi Arabia as China's main supplier of oil.

There are many analyses underlining that energetic cooperation is the backbone of China – Russia economic ties. Only two years after the Crimean crisis, energy cooperation was already the pillar of the Russia-China economic partnership (Xinhua, 2016).

Figure 2: The energetic link: Russian gas pipelines to China



Source: Gazprom Official Site (2018).

At present, there are several large energy projects in which the Chinese and the Russians have attempted to cooperate. Two of the most important involve major Russian oil and gas companies that have been subjected to Western sanctions: Transneft (see Figure 3) and Gazprom (see Figure 4). The Eastern Siberia–Pacific Ocean (ESPO) oil pipeline was built and is managed by Russia’s state-owned oil pipeline monopoly Transneft, the world’s largest oil pipeline company. However, the cooperation moved slowly, partly due to the difficult investment climate in Russia, and partly because China sought concessions from the Russians on pricing.

Figure 3: Timeline of Sino-Russian cooperation on ESPO pipeline

Date	Development
July 2001	Russian and Chinese prime ministers sign agreement on feasibility studies for ESPO
May 2003	China and Russia agree on the construction of the pipeline
Dec. 2004	Russian government approves the construction of ESPO
Apr. 2006	Construction of pipeline starts
June 2009	China and Russia agree to build a spur to Daqing in China
Dec. 2009	First stage of the pipeline completed

Date	Development
Sept. 2010	Daqing spur completed
Jan. 2011	Shipments via Daqing commence
Dec. 2012	Second stage of the pipeline completed
June 2016	Work on second pipe of Daqing spur commences, to double spur capacity to 30 mt/year
Oct. 2017	Daqing spur second pipe scheduled for completion

Source: Authors, based on studied literature

Second large project involves Gazprom and has as objective the construction of the Power of Siberia Pipeline. Even prior to the Crimean crisis (from 2009), in 2009, China and Russia signed an agreement on major terms and conditions for the supply of gas which detailed the terms of actual implementation. While negotiations with the Chinese continued, Gazprom started preparations for developing the Chaiandinskoe gas field and planning the Power of Siberia pipeline. Even though a deal with the Chinese still had not been finalized, in late October 2012 President Vladimir Putin instructed Gazprom to start building the pipeline.

Figure 4: Timeline of Sino-Russian cooperation on Power of Siberia

Sept. 2014	Power of Siberia construction launched
Oct 2014	Gazprom and CNPC discuss the negotiation schedule for gas supply to China via Altai
Feb. 2015	The parties address the state of the Altai negotiations
June 2015	Further negotiations on gas supply via Altai
Aug. 2015	Further negotiations on gas supply via Altai
Nov. 2015	The parties discuss the progress of the construction of the Power of Siberia gas pipeline.
Dec. 2015	Negotiations on the finalization of agreement on cross-border section of Power of Siberia
Dec. 2015	The parties discuss both Power of Siberia and Altai

May 2016	**Gazprom and the Chinese review possible joint activities related to hydrocarbon exploration and production, including LNG**
June 2016	**Gazprom and CNPC discuss gas supplies via Altai in detail**
June 2016	**Gazprom and CNPC sign MoU on underground gas storage and gas-fired power generation**
July 2016	**Gazprom and CNPC agree on roadmaps for implementing the MoU on underground gas storage and gas-fired power generation**
Aug. 2016	**Gazprom and Chinese Ambassador Li Hui make positive statements about Sino-Russian cooperation in gas sector**
Sept. 2016	**Gazprom and CNPC sign contract on underwater border crossing for Power of Siberia**

Source: Authors, based on studied literature

Disagreement on the price of the gas to flow through the pipeline postponed the signing of the final contract from November 2013 to January 2014—and then to the St Petersburg Economic Forum in May 2014. At that forum, President Vladimir Putin presented a deal. The signing of the agreement with China was undoubtedly a major geopolitical victory: an escape from dependence on the capricious European market and the yoke of Western sanctions.

5. Conclusions

After the annexation of Crimea, the beginning of the conflict in Ukraine followed by the imposition of international economic sanctions against Russia in 2014, the national policy-makers decided to "turn to the East", by reorienting Russian's foreign and economic policies away from the West. Under these circumstances, a closer partnership with China was supposed to offer Russia a viable alternative to the western alliances, allowing it to counterbalance the sanctions regime. On the other hand, the rapprochement to Russia was seen by China as an optimal way to achieve its major objective of building a multipolar world.

Under these circumstances, Sino-Russian relations have evolved into an increasingly closer cooperation, underpinning the existence of a complex multidimensional geopolitical project driven by mutual interests and common threats. The two countries seem to have learned from the past that divisions don't play well in face of common threats, in particular when it comes to their major competitor, the United States. The Chinese rapprochement with Russia is characterized by the primacy of trade and markets (especially in the energy field) over ideology and protectionism.

It is very important to state that the resilience of this "entente" between China and Russia is based on its "multi-modality." Unlike the Soviet Union during the Cold War, the Sino-Russian system would be able to coexist side by side with the current Western-led international system, with a high degree of interdependence in a multipolar, globalized regime.

The very core of the Sino-Russian system could be designed to control a large, resource-rich swath of Eurasian and Asian land, where China and Russia could enforce their model, replicating the features of the current international order, with its own institutions, markets, security infrastructure, currency, and payment mechanisms, bypassing the dollar-based system if necessary. This scenario could in fact occur if the level of antagonism between China, Russia, and the United States were to escalate to the point where the West seeks to enforce an economic and political isolation of China as it already does with Russia today and as it did with the Soviet Union during the Cold War. Looking at Xi Jinping's foreign policy, a number of priorities stand out. First of all, there has been an emphasis on the need to maintain a stable international environment, in particular with regard to the United States. Here, President Xi Jinping during a trip to the United States in February 2012 proposed the idea of "a new type of relationship between major countries in the 21st century". As a response to the United States' rebalancing as regards the Asia-Pacific region, Xi Jinping is also eager to develop China's relations with "old friends". The Belt and Road Initiative, which Xi Jinping proposed five years ago, has marked a departure in China's foreign policy towards much closer economic, political and strategic engagement with other countries, not least on the Eurasian continent. Moscow had its own measure of hopes and fears related to the Belt and Road Initiative before it came to a realistic assessment of Beijing's new approach and its likely impact on Russia. The Sino-Russian economic engagement has broken new ground with Moscow, giving Beijing access to some of Siberia's energy resources, and promising some infrastructure projects. Yet the Moscow-Beijing relationship, while not an alliance, is also more than the strategic partnership. To utilize a word from the past century, it is best described as an entente — a basic agreement about the fundamentals of world order supported by a strong body of common interest.

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The Spirit of the New Silk Road - A global Revolution of Creativity and Progress

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Abstract: - The greatest dynamical change on a planetary scale has been brought about by China's „New Silk Road" or BRI-initiative. It has already succeeded to create a phase shift in international relations for peace and progress through „win-win" cooperation, instead of geopolitics and conflict and has established new metrics of economic progress. By applying long-term investments into the physical economy, assisted by new credit institutions (along with the BRICS), BRI has changed fundamentally the productivity platform of whole regions of the world, which were heavily underdeveloped, rather than focusing on short-term monetarist profit. The BRI-initiative has become the largest cross-country infrastructure and industrialization program, that has ever existed on the planet. It is quickly moving towards becoming a World Landbridge, interconnecting all continents and peoples, offering „win-win" cooperation for human development. China's BRI-policy offers China's own experience of lifting 700 million people out of poverty to other nations and contributes greatly to realizing globally the most fundamental human right to development, as defined by the UN Charter.
At the center, China has taken the lead in science, technology and fundamental research to resolve scientific and technological problems which are holding back global economic and industrial development. Like the Old Silk Road, which promoted civilizational progress by the exchange of knowledge, technologies and cultures, the New Silk Road dynamic enables the development of the creative potential of mankind as the real source of wealth. It is of crucial importance for all European nations, to join this process and reinvigorate its own spirit of innovation, progress and creativity, which made Europe great before.
The paper will show how this approach provides the basis for durable peace, including a fruitful dialogue of civilizations.

Key words: Creativity, Silk Road Spirit, Belt and Road Initiative, World Landbridge, New Metrics of Economic Progress, Right to Development, Dialogue of Civilizations
JEL Classification: F, F0

1. Introduction

In 1988, after arriving in the district of Ningde, where he stayed as a regional party secretary until 1990, Xi Jinping wrote a series of speeches and reflections. This area was then a very destitute place, among the poorest in China at that time. The first essay is called "How can a weak hatchling bird be the first to fly?". Xi's approach to improve this difficult environment for the people is very bold, challenging the self-defeating attitude of pessimism about one's own difficult situation. He first states: "*Impoverished regions cannot have impoverished ideals*". And then he adds: "*The weak hatchling bird can be the first to fly and the poorest can be the first to become rich…. But to be the first to 'take flight' or to 'become rich', we must first have such a concept in mind. This will allow us to break through old ways of looking at problems and do things in a positive frame of mind.*" (Xi Jinping, 2016).

This approach has been China's guiding star throughout these 40 years, and it provides the "secret key" to how China achieved its stunning success.

The focus on progress, the common good and creative breakthroughs in science has allowed China to bring 700 million of its people out of poverty in this period, which amounts to 70% of global poverty reduction in this 40 years period, according to the UN. Since 2002, China's contribution to global economic growth has approached 30% on the average, and the Chinese economy has become a major engine for global economic recovery and growth. China has become today the world's leading nation, as exemplified by the density of new breakthroughs and plans in space science, nuclear fission and fusion, high speed and maglev[1] railroad building and excellence in science and education, which will be even more intensified by the "Made in China 2025" program.

At the same time, by the Belt and Road Initiative (BRI), China has offered its achievements and assistance to the world, with the effect that the BRI has spread globally with an astonishing velocity, since 2013. The BRI (along with the BRICS) has thus become an unprecedented catalyst for a global economic development dynamics which is responding to the aspirations of nations around the world, especially in Africa. New credit mechanisms for long-term infrastructure, industrial and agricultural investments such as offered by the AIIB, Silk Road Fund, or the NDB - the BRICS New Development Bank - and other such facilities have enabled real economic growth and the improvement of living standards.

Global economic development provides the basis for durable peace, and solutions to pressing problems such as the migration from the devastated countries in the Middle East and Africa. In the West, to respond to these challenges and to China's offer, we should revitalize those economic and scientific concepts by which today's industrial nations were created in the first place, instead of prevailing financial and monetarist dogmas. Only then, will a true dialogue of cultures be possible and geopolitical confrontation be avoided. The nations of Europe have a special responsibility in this respect.

2. Innovation as a world development driver

What is the secret to China's success? There is no secret, really, just as in Edgar Allan Poe's story "The Purloined Letter".

In addressing the Conference on World Science Literacy in September 2018, President Xi Jinping called science and technology "*the primary productive force*" and innovation a *"driving force behind development"* (Xi Jinping, 2018). In the same spirit, at the Johannesburg, South Africa, BRICS Business Forum, on July 25, 2018, President Xi stressed that it is science and technology that are the key factors of productivity and the increasing prosperity of nations, leading to giant leaps for humanity, as it progressed from an agricultural civilization to an industrial civilization. "*Science and technology, as the primary production forces, have provided inexhaustible power driving progress of human civilization*." And he put the challenge: "…*the next decade will be a crucial one in which new global growth drivers will take the place of old ones. A new round of revolution and transformation in science, technology and industries featuring artificial intelligence, big data, quantum information and bio-technology are gaining momentum. They are giving birth to a large number of new industries and business forms and models and will fundamentally change global development and people's work and lives. We must seize this important opportunity to enable emerging markets and developing countries to achieve leapfrog development*." (Xi Jinping, 2018)

According to China's State Council Information Office's White Paper on "China and the WTO" (June 2018), more than 80 countries and international organizations have signed cooperation agreements with China, since 2013. From 2013-2017, the total value of China's trade with other BRI countries exceeded $5 trillion and total investment by Chinese enterprises in these countries exceeded $70 billion. By the end of 2017, Chinese enterprises had set up 75 overseas and trade cooperation zones in relevant countries, contributed more than $ 1.6 billion in taxes to the host countries and created 220,000 local jobs (White Paper, 2018).

[1] Magnetic levitation rail transport.

In 2017, China's trade with its BRI partners accounted for 40% of global trade in goods, in terms of value, according to a report of the China Media Group (Chu Daye, 2018). China's ports now connect with 600 other global ports, while the number of freight trains that travelled between China and Europe has risen to 10,000.

According to a report released by the International Labor Organization (ILO) on Latin America and the Caribbean regions, - "*Effects of China on the Quantity and Quality of Jobs in LA and the Caribbean"* -, China created 1.8 million jobs from 1990, to 2016 (Peters & Armony, 2017). The level of cooperation in the context of BRI in this region has increased in an unprecedented way.

As a continent, it is Africa, which in President Xi's view holds the greatest **potential** for development in the world today, especially due to its huge and quickly growing young population. This is very different to the Western dictum of Africa being the biggest **problem**, the source of refugees, terrorist activities, supposed overpopulation - in other words, a "dark continent", which will never come out of misery and corruption. Not mentioned in this narrative of course is Western colonialism, looting and regime change wars, which have caused the present situation.

As announced at the September 2018 FOCAC Summit in Beijing, China will be investing another $60 billion in Africa over the next three years – including $ 15 billion of interest-free and concessional loans, $ 20 billion in credit lines, a $ 10 billion special fund for financing development, a $ 5 billion special fund for financing imports from Africa and for encouraging investment by Chinese companies in Africa, to the tune of $ 10 billion financing.

In the presence of more than 50 heads of state from Africa, President Xi welcomed Africa "*…to the express train of Chinese development…*", inviting other partners to also help in assisting Africa's development and to explore a new path of international relations. To meet the challenges of the time, he announced that China will push forward the development of the BRI and make, as such, a greater contribution (Xi Jinping, 2018).

South African President Ramophosa, who co-chaired this meeting with President Xi Jinping, refuted sharply those who claim that China is creating a debt-trap for Africa, reminding them of their own colonial past, while the new African Union's (AU) chairman, the President of Senegal, described the new perspective for Africa as "a golden age" (Xinhua, 2018).

The BRI initiative is in synergy with the African Union's "Agenda 2063", which foresees the construction of a trans-African system of high-speed trains crisscrossing the continent, the development of huge water and electrification projects - such as the Grand Ingra Dam -, the full industrialization of Africa and the complete elimination of poverty 100 years after the formal ending of colonialism.

Europe should participate and assist in this dynamic of peace through joint "win-win"- economic development, together with China. What better way of combating hunger, disease and solving the root causes of migration, than cooperation in the development of Africa?

3. The Science of Physical economy defines the new metrics of progress

Why was not this policy adopted in the West, so far? The short version is that, since the collapse of the Bretton Woods system in 1971, the Anglo-American policies went into the opposite direction of monetarism, financialization, short-term profit, deregulation, privatization, coupled with austerity and a growing anti-science bias, which in various stages, has ruined the physical economic basis of the world economy.

After 2008, any serious financial reorganization (the *Glass-Steagall Act* enacting the separation of investment and commercial banks) was blocked, and instead, new financial liquidity issued through the central banks entered the global speculation system, leading to the new great danger of an uncontrolled crash of the over indebted and overleveraged transatlantic financial system. In contrast, China's policy of issuing credit for real economic projects, especially in the field of infrastructure, creates a physical surplus and improves the overall productivity (Askary & Ross, 2018).

The European nations and the United States have to turn again to their own economic history of long-term investments into infrastructure and productive innovations in the economy, policies that created the Western industrial nations in the first place. To name just the most important contributors to this success:

- Gottfried Wilhelm Leibniz (1646-1716), the great German universal scientist and philosopher, founded the science of physical economy, based on the development of productive powers and the creation of ever more productive economic platforms through technological innovations (such as the steam engine). Leibniz, who was in dialogue with Czar Peter the Great, admired Chinese science and philosophy, as witnessed in his book Novissima Sinica (1697).

- Alexander Hamilton (1757-1804) , the first Treasury Secretary of the United States after the American revolution, created the First National Bank for facilitating industry, agriculture and a transport system. He also laid out the policies which became known as the "American System of Political Economy", in his Three Reports to Congress (Hamilton, 1790-1791);
- The German-American economist and railroad pioneer Friedrich List (1789-1846) identified the "*planting of the productive powers of nations"* as the key for economic success, as opposed to the British monetarist theory of value (Adam Smith). The latter only deals with the simple exchange of values and trade, on how to "*buy cheap and sell dear*" and neglects the necessary dirigistic role of the state; List instead calls the "*spiritual capital of the population*" the "*true wealth of nations",* which must be developed and protected. In his "National System of Political Economy" (List, 1841), he refutes the British *"free trade dogma"* as a trick to kill in the cradle the industrial development of other nations. List compares the intellectual work in society, which increases the power of man continuously by new innovations, to the soul in the body. Scientific breakthroughs by individuals are of key importance, because they create progress for mankind as a whole. And he stresses, that each nation is only productive to the degree to which it is able to absorb the achievements of previous generations, followed by a multiplication of its own achievements. For that to happen, this includes the protection of newly arising industries by tariffs, the productive credit policy, and a focus on infrastructure and education by the state, to create the environment for the private industry to flourish. His dirigistic policies were accepted and applied by German statesman and Chancellor Otto von Bismarck and created the basis for Germany's industrial success in the 19^{th} and 20^{th} century. Lists writings were quickly translated in many languages and became influential in Russia (Count Sergej Witte, 1849-1915), China (Dr. Sun Yat Sen, 1866-1925), India, Japan, and European countries such as Hungary and Romania (Peter S. Aurelian, 1833-1909) among other nations (Wendler, 1989). Today, in China, there is renewed interest in List's ideas (Jones, 2016).

4. Global Cooperation for "Peace through Development"

In the last 50 years, the American economist Lyndon LaRouche has developed the Science of Physical Economy (including the principle of the necessary increase of energy-flux density as decisive for economic progress, and the increase of the relative potential population density as a yardstick for economic success). His **Four Laws** were formulated with a view to coming out of the crisis after the crash of 2008, placing at the core the banking separation (a new "Glass-Steagall"- law), the sovereign credit policy for the real economy (National Bank), transcontinental infrastructure projects and a science driver policy (fusion energy, fission, space program) (LaRouche, 2017).

On this conceptual basis, since the fall of communism in 1989, the Schiller Institute has presented studies for Eurasian Development and the World Landbridge (see appendix 1), as a basis of durable peace through joint economic development, such as, for instance, "*The New Silk Road becomes the World Landbridge*" (in 2014 and 2018) and "*Extending the New Silk Road to West Asia and Africa"* (2017).

Only by cooperating with the new reality of the Belt and Road Dynamic, will Western Europe and the US be able to get out of the deep crisis the transatlantic system is presently in, including the very real danger of a new financial crash, worse than the 2008 one. It will also only be on that road of "win-win" cooperation and common understanding, that world peace can be achieved and the Thucydides trap be evaded.

There are many positive signs that this is entirely possible, provided the axiomatic of the spheres of influence, old bloc thinking and confrontationist geopolitics are left aside, and a positive approach is taken:
The new reality in North Korea, in which China, along with Russia together with the United States are playing a key role in settling this heretofore seemingly "impossible" problem, by offering an overall perspective of the regional and the Eurasian economic development.

The intensified economic and strategic cooperation between Russia and China, as witnessed at the Eastern Economic Forum in Vladivostok in September 2018, which was attended by President Xi and also by President

Abe of Japan, who called for an end of all the “post war thinking” in Asia. President Abe is working for a peace treaty with Russia, while also upgrading relations with China. India is improving ties with China and recently, we have seen very unprecedented steps towards improving relations with India by the new Pakistani Prime Minister Khan.

The key nation, that must be won over for really creating a lasting new world order, based on development and not on British-style divide and conquer and geopolitical confrontation is the United States. As we saw in the unprecedented meeting of President Trump with the North Korean leader Kim Jong Un, President Trump’s stressing of good relations with President Xi Jinping and his continuous emphasis that he wants to reestablish good relations with Russia, this is very possible. It will be decisive for the world peace, whether the forces of cooperation can win over in the USA and defeat those who try to cling to the old “divide and conquer”- system of geopolitics (Zepp-LaRouche, 2017).

China has also offered substantial reconstruction aid for war-torn Syria and other devastated nations of the Middle East, which will be the precondition for durable peace, once this regime-change war has been finally ended. Russia has been organizing for economic reconstruction of Syria, to help stabilize the majority of the country, so that refugees can return. Europe must cooperate in this respect.

There are more and more countries in Western Europe, who have understood that it only through economic development, that social stability and peace are possible, both at home and abroad. In addition to the 16+1 (CEEC) initiative, to be noted in this respect, are the efforts of the Italian government, which has set up a special taskforce for working with China on investments into infrastructure and on cooperation in infrastructure and development projects in Africa. Especially important in this respect is the support of the government for cooperation with Power China on the project to refill Lake Chad, a continental project, politically agreed upon by 8 leading governments of the region at the February 2018 conference in Abuja/Nigeria. In autumn of 2018 Greece has signed a MoU for cooperating in the Belt and Road project, providing an economic perspective for the nation, which has been hard hit by EU-imposed austerity and the refugee crisis. Austria is engaged to link up with the Silk Road and the Eurasian Economic Union (Vienna Institute for International Economic Studies, 2018); Spain and Portugal are very interested in cooperating on the Maritime Silk Road; while in Germany, industry on all levels is engaged and looking forward to more opportunities of cooperation with China and the BRI.

5. Conclusions

There are many opportunities now for realizing the common aims of mankind and building our common future, especially necessary today, in a world situation with great dangers, even the threat of a nuclear annihilation of civilization. So, Europe should take this golden chance for a new paradigm of cooperation and link up with China, Russia, India and all the other nations, which are striving for development. To promote such a global peace and progress alliance, the Schiller Institute has issued an international resolution, calling for a new strategic alliance for development and a New Bretton Woods global credit system instead of geopolitical confrontation and war, to be formed around a core of the most powerful nations, namely China, Russia, India and the USA (Schiller Institute, 2018).

With the New Silk Road, a powerful idea has materialized and will not go away. It has already become an institution, which has changed the world forever. The genie of human progress, the Promethean Fire, is out of the bottle and cannot be put back in again.

The nations of Europe should work for a constructive cooperation with China in this respect, to realize the true “win-win”-potential for humanity.

In this context, the 16+1 Initiative is an extremely important element in the momentum for prosperity and growth, enabling Eastern and Central European nations to reactivate their productive forces and scientific potentials for the overall project of Eurasian development and a new economic, science-based impetus. (Fimmen, 2018). The launching of the “China-CEEC Science, Technology and Innovation Partnership Program” in July 2018 in Bulgaria is very promising in this respect, along with the various infrastructure and economic programs already brought on the way.

Romania as a key Black Sea and Danube country can become a real hub of overall Eurasian development. With its rich history in science, especially nuclear science, and a strong tradition in cooperation with developing countries, Romania has a great potential, outside of any geopolitical schemes, to participate in launching the creative spirit of the New Silk Road as a global “win-win”-policy (Bellea-Noury, 2018).

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The Belt and Road Initiative and Globalization: The Perspective of Globalization-Constituting Theory

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Abstract: Because the Belt and Road Initiative was proposed by only one country—China, most of previous studies have adopted a state-centered economic perspective to understand it. However, this perspective is inadequate to grasp this project that is designed to involve actors other than nation-states in at least 60 countries. This paper tries to comprehend the Initiative from the globalization perspective. After proposing a globalization-constituting theory, this paper argues that the Belt and Road Initiative should be considered as part of the globalization-constituting process, because even though it is launched mainly by China, the Belt and Road Initiative has global relevance and involves multiple agents at multiple levels, and its contents are consistent with the structural tendencies of the globalization process. Furthermore, the Belt and Road Initiative implies a realistic approach to globalization, which would lead to a better globalization.

Key words: globalization; Belt and Road Initiative; globalization theory
JEL Classification: F, F19

1. Question: The Belt and Road Initiative and globalization

In September 2013, Chinese President Xi Jinping called for the joint building of the “Silk Road Economic Belt” during his visit to Kazakhstan. One month later, he proposed constructing the “21st Century Maritime Silk Road” in Indonesia. In November 2013, the “One Belt and One Road Initiative” (or the “Belt and Road Initiative”) was included in the comprehensive reform blueprint at the third Plenum of the 18th National Congress of the Communist Part of China. In March 2015, with the approval by the State Council, the detailed plan—Vision and Actions for Jointly Building the Silk Road Economic Belt and the 21st Century Maritime Silk Road (Vision and Actions, for short)—was promulgated by the National Development and Reform Commission, Foreign Ministry and Ministry of Commerce.

Because the Belt and Road Initiative is proposed by one country—China, previous studies about this project have exclusively adopted a state-centered-economic perspective. As to its objectives and reasons, Cheng (2016) listed the following viewpoints put forward by commentators: to expand markets to deal with China’s excess production capacity, inadequate domestic demand and saturated export markets in developed countries; to increase direct investment to secure supply of resources; to promote Reminbin’s (RMB) internationalization; to achieve geopolitical relationships; and to counterbalance the U.S, the strategic “pivot to Asia” policy. All these viewpoints focused on China’s intention as the initiator of the Belt and Road project. As to its causes, the slowdown of China’s economic development and the rise of China in the international arena has been emphasized as the driving force behind the Chinese government launching the Belt and Road Initiative. While the decreasing economic growth rate has made China’s government actively seek new markets and opportunities, the rise of China’s position at international level has made it harder to continue the previous relationship with developed countries (Wang, 2016; Huang, 2016; Overholt, 2015; Ploberger, 2017).

However, the state-centered-economic perspective is inadequate to comprehensively understand the nature, contents, consequences and future of the Belt and Road Initiative. As to the geographic scope of the Belt and Road Initiative, it includes as least 60 countries accounting for 64% of the world population (4.4 billion people) and 30% of global GDP ($21 trillion). Its building inevitably involves complex interactions among nations, enterprises and other organizations, which makes employing the state-centered perspective insufficient for understanding the initiative. Furthermore, the Belt and Road Initiative contains five priority areas: policy dialogue, infrastructure connectivity, unimpeded trade, financial support, and people-to-people exchange. Though economic development, especially infrastructure development, is its most important feature, the achievement of all economic objectives depends on political, cultural and social connectivity, which requires a more comprehensive investigation than the economic perspective.

On the other hand, various globalization theories have paid more attention to actors other than nation states and spheres other than economic globalization. This aim of paper is, therefore, to understand the Belt and Road Initiative from the globalization perspective. Specifically, this paper will answer the following question: even though the Belt and Road Initiative was mainly launched by China under its specific national and international conditions, how would it influence the globalization process?

2. Perspective: A globalization-constituting theory

The biggest difficulty in understanding the Belt and Road Initiative from the globalization perspective consists of the ambiguities and controversies on the notion of globalization. For example, while some scholars treat "globalization" as a description of existing conditions or of reality, others consider the term as a slogan or discourse sold by liberal and radical scholars (Rosenberg, 2005). Admitting the ideology or discourse aspect of globalization as Hirsch (2005) and Fairclough and Thomas (2004) did, globalization can be defined as the reality of "the widening, deepening and speeding up of worldwide interconnectedness in all aspects of contemporary social life, from the cultural to the criminal, the financial to the spiritual" (Held, McGrew, Goldblatt, & Perraton, 1999: 2), so that "events, decisions and activities in one region of the world come to have significance for individuals and communities in distant regions of the globe" (Held & McGrew, 2007: 2).

Even with this general definition, there are still more questions and debates about the current conditions, future tendencies and underlying mechanisms of globalization. Reviewing, analyzing and integrating various globalization theories would amount to a globalization-constituting theory to be applied to understanding the Belt and Road Initiative. Specifically, the globalization-constituting theory emphasizes that the structural tendencies of globalization in multiple spheres and levels are created by the strategic actions and interactions among multiple agents who are mainly concerned with their own interests.

First, globalization can be conceptualized as structural tendencies in multiple spheres and at multiple levels. The increase of global interconnectedness and inter-influence can be found in economic, political, cultural and social spheres. As Giddens (1990; 2003) said, it is a mistake to see globalization solely in economic terms, as globalization is political, technological and cultural, besides economic. Appadurai (1990; 2006) also pointed to the intersection of various scapes—ethnoscapes, finanscapes, mediascapes, ideoscapes and technoscapes. Global structural tendencies occurs at different levels, including global flows at the most superficial level, global institutions or mechanism at the immediate level, and global principles and consensus at the deepest level. Taking economic globalization for example, international trade, transnational production, the global financial system, and the global division of labor have more and increasingly linked people in different areas of the world (Gilpin, 2001; O'Brien & Williams, 2013). The global institutions and principles behind global economic flows can be found in technological advancements and the resulting "space-time compression", the institution of capitalism and markets, and globalization ideology (e.g., neoliberalism) and so on (Kotz, 2002; Gerny, 1994; Nishibe, 2016).

Second, in order to understand the emergence and development of global structural tendencies, globalization should be examined in its constituting process by the actions and interactions of multiple agents. In his network perspective on the process of economic globalization, Dicken (2011) used tangled webs of production circuits and networks to describe the increasingly interconnected components of the world economy, including the participants, their interconnections and power relationships. In this framework, geographically specific configurations of social-cultural practices and institutions are embedded in the interconnections between states, firms, consumers, labor and civil society organizations, whose actions and interactions are influenced by the previous world structure. Furthermore, Dicken and other scholars (e.g., Webster, Lambert & Bezuidenhout, 2008; Sassen, 2007) also pointed out that these agents may exist at different scalar levels. For example, firms can be transnational corporations, state-owned enterprises, city enterprises, and local firms and civil society organizations can exist at global, national and municipal and neighborhood levels.

Finally, to specify the constituting process of globalization and the actions of the multiple agents in the process, it is still required to closely examine the ways in which those agents interact with one another. It turns out that globalization has been a temporally fluctuating, geographically uneven, and culturally diverse process, rather than a linear, even and universal progression, which have been emphasized by the skeptics of globalization (Stiglitz, 2002; Chase-Dunn, Kawano, & Brewer, 2000; Pieterse, 2013; Roudometof, 2015). The globalization-constituting theory can explain these phenomena by treating globalization as a process consisting of the strategic actions and interactions of multiple agents at multiple levels and spheres. First, the actors' strategic actions involve their own interests, concerns and logic, which inevitably results in conflicts among the relevant actors. Second, as they focus on their own interests, global agents may not consciously recognize, speak of, promote or impede the globalization process, which means globalization is largely an unintentional or unexpected consequence, for at least some actors. Third, for all actors, whether they were trying to enhance or hinder the globalization process, their actions have been shaped by the previous globalization condition and will shape the future globalization trajectory. Steger's (2003: 1-7) analysis of the 9/11 terrorist attack indicates that even extremely anti-globalization movements can be considered as part of the globalization-constituting process.

3. The Belt and Road Initiative as part of globalization

If globalization is defined as the widening, deepening and speeding up of worldwide interconnectedness, characterized by fluctuating, uneven and diverse processes and constituted by multiple agents at multiple levels, it is appropriate to consider the Belt and Road Initiative as an integral part of the globalization process, even if it is launched mainly by China. Generally speaking, even though the Belt and Road Initiative is a strategic action launched by the Chinese government, it has global influence, its contents are consistent with the structural tendencies of the globalization process, and its mechanisms have taken into account of the concerns, interests, actions and interactions of multiple agents at multiple spheres and levels.

3.1 Belt and Road as China's strategic action with global relevance

According to the globalization-constituting theory, although globalization is characterized by structural tendencies of worldwide interconnectedness, the underlying force of those structural tendencies is formed of strategic actions and interactions among various agents. Similarly, from the structural-agency perspective, the Belt and Road Initiative is mainly a strategic action of the Chinese government based on its own concerns and interests under specific national conditions, but this strategic action has global influence and relevance.

In *Vision and Actions*, the Belt and Road runs through the continents of Asia, Europe and Africa, connecting the vibrant East Asian economic circle at one end and developed European economic circle at the other, and encompassing countries with a huge potential for economic development. The Silk Road Economic Belt focuses on bringing together China, Central Asia, Russia and Europe (the Baltic); linking China with the Persian Gulf and the Mediterranean Sea through Central Asia and West Asia; and connecting China with Southeast Asia, South Asia and the Indian Ocean. The 21st-Century Maritime Silk Road is designed to go from China's coast to Europe through the South China Sea and the Indian Ocean in one route, and from China's coast through the South China Sea to the South Pacific in the other. On land, the Initiative will focus on jointly building a new Eurasian Land Bridge and developing the China-Mongolia-Russia, China-Central Asia-West Asia and China-Indochina Peninsula economic corridors by taking advantage of international transport routes, relying on core cities along the Belt and Road and using key economic industrial parks as cooperation platforms. At sea, the Initiative will focus on jointly building smooth, secure and efficient transport routes connecting major sea ports along the Belt and Road. The China-Pakistan Economic Corridor and the Bangladesh-China-India-Myanmar Economic Corridor are closely related to the Belt and Road Initiative, and therefore require closer cooperation and greater progress.

Officially, the geographic scope of the Belt and Road Initiative includes as least 60 countries accounting for 64% of the world population (4.4 billion people) and 30% of global GDP ($21 trillion). However, if we consider the influence of the Initiative, it seems more ambitious because it would influence all countries in the world through the networks that have been developed through the previous globalization process. Though the Belt and Road Initiative largely concentrates on the relationship between China and those countries in the region between West Europe and East Asia, it would influence the strategy of other countries (such as Russia, the United States, and the EU countries) towards this area and China (Arduino, 2016; Gabuev, 2016). So, Aoyama (2016) argued that the Belt and Road Initiative is not just a regional policy, but a global strategy, whose potential impact on global politics cannot be overlooked.

3.2 The Belt and Road and globalization structural tendencies

From a structural perspective, the contents of the Belt and Road Initiative are consistent with the structural tendencies of the globalization process, which can be found in its goals and policies.

In *Vision and Actions*, five major goals are proposed, which reflect the structural tendencies of globalization in five areas or spheres. In the political sphere, enhancing policy coordination is regarded as a guarantee for implementing the initiative. Policy coordination seeks to identify and expand shared interests, enhance mutual political trust, reach new cooperation consensus, and integrate economic development strategies and policies. This would be achieved by inter-governmental cooperation through a multi-level inter-governmental macro policy exchange and communication mechanisms. Moreover, political cooperation, in the form of policy coordination, plays an important part in all other areas such as trade policies, investment policies, and financial policies. In social and cultural area, the Belt and Road Initiative emphasize developing people-to-people bond and cultural exchange, including extensive cultural and academic exchanges, personnel exchanges and cooperation, media cooperation, youth and women exchanges and volunteer services.

In the economic area, the document lists three main goals and relevant policies. The first is facilities connectivity, which mainly means the connectivity of infrastructure constructions, including international trunk passageways, infrastructure network connecting all sub-regions in Asia, and between Asia, Europe and Africa, low-carbon infrastructure and other energy infrastructure. Some scholars consider this as "the feature distinguishing the Belt and Road Initiative from many other international cooperation mechanisms" (Huang, 2016: 319). Moreover, the proposal also emphasizes the connectivity of technical standard systems, which is an important institution for global interconnectedness. The second economic priority is unimpeded trade and investment. Investment and trade are two means by which the people in different parts of the world are connected. The Belt and Road Initiative also seeks to facilitate investment and trade by removing investment and trade barriers, including by opening free trade areas, enhancing customs cooperation, improving bilateral and multilateral cooperation, implementing WTO Trade Facilitation Agreement, improving customs clearance capability, improving the coordination of cross-border supervision procedures, lowering non-tariff barriers, speeding up investment facilitation, expanding mutual investment areas, deepening investment in agriculture, forestry, manufacturing and emerging industries, and so on. The third economic goal is to promote financial integration, including the deepening of financial cooperation, the building of a currency stability system, investment and financing system and credit information system.

3.3 The Joint Building of the Belt and Road projects and the globalization-constituting process

If the contents—main goals and policy proposals—of the Belt and Road Initiative reflect the structural tendencies of globalization, the realistic ways proposed to achieve those goals demonstrate the actions and interactions among multiple agents in the globalization-constituting process.

First, the Belt and Road Initiative has taken into account the multiple agents involved in the projects. Governments of the countries along the Belt and Road are the most important actors in the Initiative. The Belt and Roald Initiative tries to promote intergovernmental cooperation, build a multi-level intergovernmental macro policy exchange and communication mechanism, expand shared interests, enhance mutual political trust, and reach new cooperation consensus. However, the agents of various economic sectors are more important participants in the Initiative. The Initiative is to abide by market rules and international norms, give play to the decisive role of the market in resource allocation and primary role of enterprises, and let the governments perform their due functions. In other words, economic enterprises would be the primary forces for achieving the economic goals of the Initiative, while the role of governments is largely to facilitate and support economic actors by providing a more favorable environment. The proposals, such as improving connectivity of infrastructure plans and technical standard systems, enhancing customs clearance capability, and building a currency stability system, are to create a more convenient for companies and financial institutions to cooperate. In the Initiative, there are also social and cultural actors promoting extensive cultural and academic exchanges, personnel exchanges and cooperation, media cooperation, youth and women exchange and voluntary services.

Second, the Belt and Road Initiative has upheld a realistic approach with respect to the interactions among the multiple agents. In particular, the Initiative tries to accommodate "the interests and concerns of all parties involved”. Scholars have noticed that the project is not to be dominated by China and its enterprises, because cooperation from other countries is critical to make it work (Zhang, 2016). The realistic approach is supported by the Silk Road Spirit, which has been characterized as “peace and cooperation, openness and inclusiveness, mutual learning and mutual benefit” in Vision and Actions. The realistic approach is reflected in the principles of the Belt and Road Initiative. The principles state that the Belt and Road Initiative should be jointly built through consultation to meet the interests of all. The realistic approach is applied through the cooperation mechanisms, including bilateral and multilateral cooperation mechanisms, such as the Shanghai Cooperation Organization (SCO), ASEAN Plus China (10+1), Asia-Pacific Economic Cooperation (APEC), Asia-Europe Meeting (ASEM), Asia Cooperation Dialogue (ACD), Conference on Interaction and Confidence-Building Measures in Asia (CICA), China-Arab States Cooperation Forum (CASCF).

4. Implications of the Belt and Road Initiative for the future of globalization

The above analyses indicate that although the Belt and Road Initiative was launched mainly by China, it should be treated as a part of the globalization process with respect to its background, influences, contents and mechanisms. The Belt and Road Initiative was shaped by China’s previous globalization experiences and the changing role of China in the world. As a major beneficiary of the globalization process since the end of 1970s when it employed opening-up and reform policies, China has good reasons to continue the opening-up policies to promote economic growth and upgrading. On the other hand, as its position in world economy has been changed, China, as an important agent of globalization, will adopt new strategies of its foreign policies.

As an effort by a developing country to deeply participate and reshape the globalization process, the Belt and Road Initiative also has features that distinguish it from previous globalization mechanisms, with significant implications for the future of globalization. First, facing the hot debate between globalists and critics, transformists try to tame the globalization process and avoid problems caused by globalization. A realistic approach regarding the transformation the previous globalization process has been seen in the spirits, principles and actions of the Belt and Road Initiative, which might make globalization more equally beneficial. Second, the two aspects of globalization—structural tendencies and strategic actions—should be more closely linked. Strategic actions by multiple agents should consciously consider the globalization structural tendencies, or they will become nostalgic protectionism. On the other hand, globalization structural tendencies should be examined in the context of strategic actions and interactions, or it will become a discourse of the powerful agents. These features represent a conscious and realistic approach to globalization, which might be an important contribution of Chinese wisdom to economic globalization, global development and global governance.

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The Chinese Development Model and The Multi-Polar World. Exploring the Possibility of Other Countries Adapting and Adopting This Model

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Abstract: The development results achieved by China in the past 30 years are so impressive and evident that they can be neither ignored nor denied. As a result, in many developing and even developed countries there is an interest for understanding what are the characteristics of the Chinese development model, whether there are any prerequisites and what are the costs. The paper analyzes the merits of this model and particularly its effectiveness in achieving tangible results in the development process and particularly in moving from quantitative to qualitative results. The conclusion is that particularly for the developing countries the Chinese development model may become more attractive towards the middle of the 21st century.

Key words: economic growth, economic development, development model, Chinese development model, sustainable development, state capitalism
JEL classification: B55, E20, F02, F63

1. The Chinese development model in the context of a changing global economy

Researchers and geopolitical experts had discussed about globalization and the disappearance of distances for many decades but globalization became a reality, something that affects countries, firms and individuals in one way or another, starting with the 1990s and especially after 2000. One may say that today's global economy is characterized by **two intrinsic aspects**: **the ever-increasing interconnectedness and the changing of hierarchies**.

Both characteristics are dynamic and they define at least for the moment a transition period that may last until 2040-2050. During this transition period some institutions and rules of the game defined more than 70 years ago in the Bretton Woods era coexist with certain new approaches required by new realities. History proves once again that it is not linear in its evolution: the world is not going towards the end of history and towards an universal model of market economy and liberal democracy (as they are defined today in the Western world) but rather towards diversity based on local, historical, cultural, spiritual and political realities.

The first characteristic mentioned above, **the ever-increasing interconnectedness,** has been possible because of the enormous improvements in transport and communication made possible by technological and scientific advances as well as because many obstacles related to international trade and investment flows were removed. Some people speculated that this increasing interconnectedness would lead to an ever more integrated global economy, to a universal acceptance of multilateral regulations and institutions and to the emergence of large economic integration areas, such as the now rejected Transatlantic Trade and Investment Partnership (TTIP) and Transpacific Partnership (TPP).

In today's world this interconnectedness did not disappear but one can remark a certain return to bilateral trade and investment negotiations (at least among significant actors), a return to approaches based on national interest and the acceptance that existing institutions and rules have to be adapted, changed or even replaced by new ones.

The second characteristic, **the changing of hierarchies**, mainly refers to the change in the economic development of countries/national economies but includes much more than the economic side, other dimensions being scientific research, military power, culture and the attractiveness of a certain economic, social and political model for other countries.

A very concise demonstration of the changing of hierarchies and emergence of a multi-polar world between 1995 and 2040 can be provided by the comparison of two groups of countries (PwC, 2017):

- **The G7 group** consisting of: Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States;
- **The E7 group** consisting of: China, India, Brazil, Mexico, Russia, Indonesia and Turkey.

In 1995, the E7 group had a Gross Domestic Product expressed at Purchasing Power Parity of only 50% of the G7 group.

In 2015, the E7 group had almost the same Gross Domestic Product expressed at Purchasing Power Parity as the G7 group.

In 2040, it is forecasted that the E7 group will have a Gross Domestic Product expressed at Purchasing Power Parity 2 times larger than that of the G7 group.

Some may argue that Gross Domestic Product is an imperfect economic indicator (which in fact is absolutely true) but at the same time it still can be a good proxy for the ranking of global economic powers. Another argument for sustaining this shift in the global balance of economic power is the fact that in the long run the economic power of countries and regions tends to be correlated with their demographics as long as there are no particularly adverse conditions, such as ageing or effects of inherited wealth on inequality (Brands, 2019; Piketty, 2014).

It is in this context of increased interconnectedness among the players in the world economy and of gradual changing of hierarchies that the impressive economic development results obtained by China over the last 40 years have become more and more of interest for those countries that may consider China as a model as well as for those countries that may consider China a competitor or even an adversary (Walt, 2019).

2. A fresh look at the Chinese development model

While everybody agrees that China has had a phenomenal economic development over the past 40 years, there are voices that contest the accuracy of Chinese statistics (albeit not their essence), others that define the Chinese model as authoritarian state capitalism and still others that say that it is difficult to define the Chinese model and the more so to imitate it.

In this paper we propose a look at the Chinese model from the perspective of **two ideas** (1 - the 4th industrial revolution and large scale implementation of AI that may allow centralized systems to work better than distributed systems; and 2 - the importance of national identity and dignity) derived from **two books** (1 - Yuval Noah Harari: *21 Lessons for the 21 Century*; and 2 - Francis Fukuyama: *Identity: The Demand for Dignity and the Politics of Resentment*).

Yuval Harari's analysis is important because he questions the assumption that under all conditions and circumstances distributed systems (that is market economies) work better than centralized systems (Harari, 2018). Basically, his answer is that it depends on many circumstances deriving from technology, economics and politics factors. His hypothesis is that a centralized system may be more efficient and effective nowadays and in the forthcoming future because of the power of machine learning, big data algorithms and artificial intelligence that are available now.

As for the second author, Francis Fukuyama, his importance for this analysis is twofold: first because three decades ago he launched the idea of the end of history in the sense of an universal acceptance of market economy and liberal democracy principles (Fukuyama, 1989) while now he accepts and argues in favor of diversity; and second because he recognizes that the world cannot be explained only in terms of individuals but rather in terms of groups, societies and nations that have a national identity and a need for dignity (Fukuyama, 2018). It is interesting to note that the remarks of Francis Fukuyama in fact reiterate the position of Aristotle who wrote in the 4^{th} century BC that "that man is by nature a political animal" (Aristotle, 1885).

In the following parts we attempt to answer a number of questions relevant for the Chinese development model and the possibility of other countries adapting and adopting this model.

3. Why China represents an outstanding development model?

The starting point when answering this question is the fact that in 40 years (1978-2018) China managed to pass from a low development level to a high development level as a national economy but also for a vast majority of its huge population. As Jim Yong Kim, the President of the World Bank stated: "Starting in 1990 with the evolution of the Chinese economic system and its embrace of the global market China has lifted over 800 million out of poverty …This is one of the great stories in human history …" (Business Standard, 2017).

Another fact, difficult to be accepted from the point of view of a market economy which is intrinsically characterized by a succession of periods of expansion and contraction, China has avoided recession for the past 25 years (Noah, 2018). During this quarter-century period the Chinese economy never had an annual growth rate lower than 6%.

What is remarkable is the fact that in the pursuit of its development China had not simply applied the models of the Western developed countries but rather designed an original approach that combines state intervention and market mechanisms with a fast implementation of information technologies and the use of artificial intelligence. From this perspective China has already proved that it can be an innovation leader, especially in the field of new technologies, such as AI and robotics.

But the Chinese development model is not limited to China. This model has also a much broader component, with a regional and even global perspective, namely the Chinese "Belt and Road" initiative which proposes a large scale/global approach to development, based on a universally accepted idea: infrastructure is fundamental for development.

While these four aspects are not describing the whole Chinese development model, they are more than enough to stir the interest of many developing countries and, to a certain extent, even of developed countries.

3.1. A personal view on the characteristics of the Chinese development model

Taking into account the evolution of the Chinese economy and society over the past 40 years as well as the current official plans of the Chinese government, some characteristics can be identified:

- Prioritization of the society over the individual specific to the Chinese authorities. This approach takes into account the power of the many and the capitalization of individual potential. The specific challenge for the Chinese authorities has been how to create a synergy among the small inputs generated by a very large population.
- Prioritization of long-term goals over short-term goals. This approach can be also described as the art of patience.
- Prioritization of the national/cultural identity over universalism. This approach recognizes that a coherent entity is stronger than a divided one, even if this may lead to some social and environmental costs.
- Flexibility and determination.
- Unity of command and efficient delegation of decision.

These characteristics have been identified based on a personal perception and analysis and they do not imply in any way that the Chinese model is perfect, recommendable for all circumstances or that the model will remain successful forever. Based on these characteristics one may conclude that the Chinese model has performed well for the past 40 years, with clear social, political, demographical, environmental costs and that it seems able to perform in a successful manner for the coming decades, towards 2030-2040.

3.2. Important characteristics of the Chinese approach to development and globalization

As world economy is characterized by globalization, no country can avoid adopting a certain position vis-à-vis this phenomenon. Also from this perspective, one can identify some specific Chinese characteristics.

The Western world tries to convince that there is a universal path to modernization, based on market economy and liberal democracy.

China, on the other hand, is not interested in changing other people's minds about their own systems and this approach appears to be favored by the leaders of many developing countries in Africa and Asia. More and more Western officials have stated that the main confrontation in today's world is moving from economic results or even military capabilities towards a confrontation of models which is primarily an ideological confrontation.

An analyst from King's College in London remarked in this respect: "If China succeeds in creating a future with no political reform but a fully modernized economy, then theories of development will need to be rewritten" (Brown, 2018).

3.3. The Chinese development model and the role of the state in development

A specific characteristic of the Chinese development model is that the state has played a significant role. However, the role of state in achieving economic and social development is not a unique Chinese characteristic.

The state also played an important role in development in, Japan; South Korea, Singapore, in South East Asia in development of automotive industry. Specifically, the state also played a significant role in the Germany's development (Ralf, 2009).

At the same time one can note that in the period after World War II the state also played an important role in developed countries in the military sector and research and development.

3.4. The Chinese model - What can be adapted and adopted by other countries?

In its current form of manifestation, the Chinese experience/model may interest primarily the developing countries in Asia, Africa and Latin America. In this regard, at least in the official statements, China is not promoting its model but rather offers a choice to states that seek to develop rapidly.

If one tries to make a comparison with the post 1990 period and the position of Western countries regarding transition in Central and Eastern Europe we can say that there is no "Beijing Consensus" (a clear recipe to be followed) as an alternative to the Washington Consensus.

At the same time, it is also clear that even China did not start 40 years ago with a clear blueprint but rather applied the principle "cross the river by feeling the stones", that is beginning with small steps and adapting permanently to the internal and international realities.

The Chinese approach to development is based on the idea that growth models applied in developing economies should be different from those in the developed countries.

In retrospect, the Chinese development model had some elements that can be used in a specific manner by other countries. Among them:

- Some ingredients for the success of the Chinese model: a highly literate population as well as a vast market;
- Certain essential steps in the modernization process: adoption of market oriented reforms and the welcoming of globalization (with focus on trade and foreign direct investment flows, first inward flows, then outward flows as well); development of infrastructure; great focus on research and development; early adoption and huge state support for development of artificial intelligence, robots and the digital economy;
- The market is regarded as a tool that can be used by all countries;
- The role of science and technology is fundamental for long-term development;
- The recognition of the need to deal with pollution and problems related to urbanization.

While the above aspects and elements do not represent a development model as such, they do represent elements of a development approach that has been successful in a country that started with a relatively low level of development and bearing the responsibility of a population of more than a billion people.

4. Conclusions

Global economy is passing through a period of multiple changes determined by quantitative accumulations from the previous decades, but also by technological and scientific discoveries that redefine all human activities. These changes are reflected more and more in a multi-polar structure of world economy, in which United States remain the prominent power but much less "the indispensable nation" envisaged by Madeleine Albright (Bacevich, 2019).

Therefore, world order is in the process of redefining and restructuring which create numerous opportunities but also numerous challenges, perhaps much more difficult than ever before, while the risk of conflicts, even among former allies, is increasing.

In this context, the states reaffirm themselves as key players in the global arena and, as result, countries big and small are involved in negotiations according to their power and diplomatic skills. International institutions such as the International Monetary Fund or the World Trade Organization seem to be less important and bilateral negotiations are more frequently involved. Under such circumstances, clarity, long-term coherence and unity of command are essential for any country that wants to maximize its potential.

At the same time, development requires focusing on existing resources as well as a sequencing of goals because no country has enough resources to do everything at once. And based on historical experience all types of infrastructure, human resources, education and scientific research should be placed at the top the development agenda.

Speaking about development, two sides of the same coin emerge: on the one hand, sustainable development requires the design of specific solutions for each country. On the other hand, global sustainable development requires the collaboration of all countries on topics such as climate change, avoidance of military conflicts, inequality.

Taking into account all these aspects, perhaps the most important lesson from the Chinese experience over the past 40 years is to embrace the long-term perspective rather than the immediate success and to secure coherence and unity of action.

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Sino-Romania Relations Under the Framework of Relations Between China and CEECS Countries: A Perspective of Local Cooperation

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Abstract: *As the third country to establish diplomatic relations with the People's Republic of China, friendship and companionship have been the fundamental characteristics of Sino-Romania relations in the past 70 years. However, this good tendency of the relations between the two countries has subtly changed in the past decade, especially fading from other Central and Eastern Europe countries received more attention from China and even considered China's top partners in this region. Local cooperation is the unique feature of cooperation under "16+1 cooperation" framework and makes up the asymmetry of market sizes between two sides, providing another perspective for examining relations and exchanges between countries. Compared with the Czech Republic, whose population size and gross domestic product are close to Romania, it further highlights the lagging characteristics of local cooperation between China and Romania. In order to strengthen local cooperation and then comprehensively promote Sino-Romania relations and "16+1 cooperation", it is necessary to promote Romania to host the "16+1" local leaders meeting as soon as possible, fully make synergy between "16+1" local cooperation and the Romanian regional development strategy, continue to support Romania to establish much more new cooperation mechanism or platform under the framework of "16+1 Cooperation", set up and select a fixed partner city to advance local cooperation as an example, construct a multinational cooperation platform within the framework of Belt and Road Initiative, and strengthen people-to-people bond and cultural exchange.*

Key-Words: Sino-Romania relations, local cooperation, "16+1 Cooperation", Belt and Road Initiative, the Czech Republic
JEL Classification: F, F10, F19

1. Introduction

As the third country to establish diplomatic relations with the People's Republic of China, friendship and companionship have been the fundamental characteristics of Sino-Romania relations in the past 70 years. Like president Xi Jinping pointed out that speaking of China-Romania relations, we will first think of "friendship" when he met with Prime Minister of Romania Victor-Viorel Ponta On September 2, 2014 (Ministry of Foreign Affairs of China, 2014).Both of them take pride in the uninterrupted and continuously fruitful evolution of our relationship of friendship and cooperation (Doru Costea, 2016). One should watch the videos of Mao's warm welcoming to Nicolae Ceausescu during his visit to Beijing to get an idea of how intimate the relationship between the two countries was. Their ties were so closely linked that Romania even played a role in the rapprochement between USA and China, as Kissinger mentions in his book "*On China*" (Mihai Titienar, 2016). In the post-Cold War era, Romania has still been the most important partner in Central and Eastern Europe (hereinafter referred to as "CEECs") for China. Both sides have been keeping a high-level official visit every year; some years even twice (Liu Yong, 2009). The first visit of Chinese Prime Minister Li Peng in CEECs was made in Romania in July 1994. And, Romania has been the first country in CEECs to establish All-round

Friendly and Cooperative Partnership with China, as the Joint Statement on the Establishment of China-Romania All-round Friendly and Cooperative Partnership was signed in June 2004.

In addition to bilateral attributes, Sino-Romanian relations also have obvious group or collective significance, namely, the relationship between countries in the socialist camp during the Cold War, the Sino-European relations and the relations between China and CEECs in the post-Cold War era. Therefore, to comparatively explore the Sino-Romanian relations in a larger international background can highlight its particularity and difference, and thus provide reference for the development of Sino-Romanian relations and the promotion of relations between China and CEECs and even Sino-European relations. As a matter of fact, this good tendency of the relations between the two countries has subtly changed in the past decade, especially fading from other countries such as Poland, Hungary, Serbia and the Czech Republic received more attention from China and even considered China’s top partners in this region. Among them, the diplomatic and local cooperation of the sub-national governments is also an important part of international exchanges, providing another perspective for examining relations and exchanges between countries. Based on the practice of local cooperation, this paper analyzes the particularity of Sino-Romania relations and the space to be improved under “16+1 cooperation” and the Belt and Road Initiative through historical outlying and horizontal analogy.

2. Progress of Sino-Romanian Relations and Local Cooperation in the past 70 years

Since the establishment of diplomatic relations in 1949, Sino-Romania relations are about to enter the 70th year. Sino-Romania relations have generally maintained a steady development. However, due to the change of their domestic situation and taking into account the shifting international environment, Sino-Romania relations have experienced some twists and turns, peaks, downhills, and stagnation. In general, Sino-Romania relations could be roughly divided into five stages. In the first phase, from the founding of New China to the early 1960s, Sino-Soviet relations were generally better. China and Romania and other Eastern European socialist countries maintained close exchanges and frequent inter-party exchanges. Exchanges between cultural and social group increased. They paid mutual attention to learn and exchange the experience of socialist revolution and socialist construction. In the second stage, from the early 1960s to the end of the 1970s with China implementing reform and opening up policy, due to the split and deterioration of Sino-Soviet relations, the relationship between China and Eastern European countries has diverged. Romania has quickly abandoned its ideological controversy and turned closer to China, becoming a friendly country with very good relations with China. Sino-Romanian relations have also become examples of seeking common ground while reserving differences among socialist countries. In the third stage, China and Romania maintained a stable relationship after the reform and opening up of China. In the fourth stage, Romania merged into the Euro-Atlantic structure after the upheaval, and the relationship between the two sides was re-recognized and started. In the fifth stage, since China and Romania established All-round Friendly and Cooperative Partnership in 2004 and Romania joined the European Union in 2007, the relations between the two countries has staying put and no headway.

In line with the development trend of relations between the two countries, the diplomatic and local cooperation of the sub-national governments also showed the characteristic that they had an optimistic beginning but suffered disappointing progress afterwards. To a large extent, apart from establishing several Friendship People's Commune with the socialist countries, New China had no local diplomacy for a long period of time. Sino-Romanian Friendship People's Commune was renamed in 1964, originated from Lugou Bridge Commune in 1958. After China returned to the United Nations in 1971 and the normalization of diplomatic relations between China and Japan in 1972, China’s foreign policy has been adjusted, and local government’s foreign exchanges have begun to appear. However, local governments have undertaken central diplomatic tasks, participated in foreign activities, and generally set up local government foreign affairs offices, which is after the reform and opening up.

In the early days of reform and opening up, relations between China and Romania were generally stable, and local cooperation was gradually strengthening. As for the sister city twining initiative, Romania is also the third Eastern European country to twin a sister city with China after Yugoslavia and Poland, mainly because she is the third Eastern European country to recognize the new China. In May and August 1987, Galați County and Galați city, Romania, twinned with Hubei province and Wuhan city respectively.

Based on traditional friendship, the development of Sino-Romania relations in all fields is generally stable and is at the forefront of CEECs during 1990s and early 2000s. Local cooperation is no exception. In a few years, sister city twining in Romania accounted for almost half of CEECs, and the total number also accounted for more than 40% (see table 1). Since 2004, Sino-Romania relations have remained at the level of All-round Friendly and Cooperative Partnership for a long time and have not advanced. Similarly, the sister city twining has slowed down, and there is no one in multiple years (see table 2).

Table 1 Number of Sister Cities of Romania and CEECs with China（1991-2004）

1991		1992		1993		1994		1995		1996		1997	
RO	CEECs	RO	CEECs	RO	CEECs	RO	CEECs	RO	CEECs	RO	CEECs	RO	CEECs
0	0	1	2	2	4	3	6	3	7	2	3	0	3
1998		1999		2000		2001		2002		2003		2004	
RO	CEECs	RO	CEECs	RO	CEECs	RO	CEECs	RO	CEECs	RO	CEECs	RO	CEECs
0	2	2	4	2	3	0	1	3	5	0	2	1	3

Source: Statistics of China International Friendship Cities Association, http://www.cifca.org.cn/Web/YouChengTongJi.aspx.

Table 2 Number of Sister Cities of Romania and CEECs with China（2005–2017）

2005		2006		2007		2008		2009		2010		2011	
RO	CEECs	RO	CEECs	RO	CEECs	RO	CEECs	RO	CEECs	RO	CEECs	RO	CEECs
2	5	0	5	0	4	1	4	1	6	1	8	0	5
2012		2013		2014		2015		2016		2017		2018	
RO	CEECs	RO	CEECs	RO	CEECs	RO	CEECs	RO	CEECs	RO	CEECs	RO	CEECs
0	5	4	10	0	6	1	12	2	22	0	12	0	1

Source: Statistics of China International Friendship Cities Association, http://www.cifca.org.cn/Web/YouChengTongJi.aspx.

Therefore, compared with the past, Sino-Romania relations and local cooperation have shown a trend that "not to advance is to go back" in the past decade. Particularly, in contrast to the significant increase in relations between other CEECs and China, this trend of Sino-Romania relations and local cooperation has become more significant.

3. Local Cooperation under the Framework of 16+1: Comparison between Romania and the Czech Republic

After the launch of the "16+1 Cooperation" in 2012 and the Belt and Road Initiative in 2013, local cooperation and exchanges between China and CEECs have entered a new era and stage. Local cooperation has become an important brand and platform for "16+1 cooperation". Meanwhile, local cooperation is the unique feature and highlight of cooperation between China and CEECs and makes up the asymmetry of market sizes between two sides (Huang Ping et al., 2018).

Among the 16 countries in CEEC, Romania and the Czech Republic are relatively close in terms of population size and gross domestic product. And, Bucharest is close to Prague by the economic level and market size. Therefore, compared with the Czech Republic's participation in the "16+1" local cooperation, it further highlights the lagging characteristics between China and Romania.

Firstly, Romania's enthusiasm seems to be weaker in the sister city twining and cooperation between cities than in the Czech Republic after 2012. In August 2014, the 2nd China-CEEC Local Leaders' Meeting was held in Prague. The Memorandum of Understanding on Promotion of the Establishment of the Association of Governors of Provinces of China and Representatives of Regions of CEECs was signed during this meeting. Although the Czech Republic step in much later in the process of twin sister cities with China compared with Romania, the number of sister city in the past five years has greatly exceeded that of Romania (see table 3).

Table 3 Top Six Countries of Sister Cities with China in CEECs（2012 – 2017）

Hungary	Poland	Czech Republic	Romania	Bulgaria	Serbia/Croatia
18	14	12	7	4	2

Source: Statistics of China International Friendship Cities Association, http://www.cifca.org.cn/Web/YouChengTongJi.aspx.

Secondly, both Romania and the Czech Republic have established a cooperation mechanism or platform under the framework of “16+1 Cooperation”, with the China-CEEC Association of Governors of Provinces Regions in Prague in August 2014 and the China-CEEC Center for Dialogue and Cooperation on Energy Projects in Bucharest in October 2016. In terms of time, Romania is later than the Czech Republic. In addition, after the inclusion of “The Bucharest Guidelines for Cooperation between China and Central and Eastern European Countries” in 2013, the China Investment Forum, held in Prague in August 2014, November 2015, November 2016, July 2017, and October 2018, which has been a city card for Prague.

Thirdly, Prague has become the most utilized route in terms of connectivity for air transport toward China (compared with all other CEECs countries) while Romania has not yet opened direct flight with any China city. In September 2015, China Hainan Airlines launched a direct route from Beijing to Prague. In June 2016, China Eastern Airlines opened a direct route from Shanghai to Prague. In August 2016, China Sichuan Airlines started a direct route from Chengdu to Prague. In September 2017, China Hainan Airlines opened the Beijing-Prague-Belgrade route. What’s more, Prague has becoming popular top destination for Chinese tourists in CEECs’ city.

Fourthly, at present, there are only temporary China-Europe Express Rail to Romania and no fixed shifts and routes, but the Czech Republic has been an important destination country or transit country of the China-Europe Express Rail after Poland. Since the successful start of the first China-Europe Express Rail in Chongqing in March 2011 (Chongqing-Duisburg, YuXin'Ou Railway), and more than 11 thousands has been accumulated by the end of 2018, most of which have passed through CEE and are mainly Poland. The destinations to the Czech Republic include Wuhan to Pardubice Railway, Chengdu to Prague Railway and Yiwu to Prague Railway.

Fifthly, the Czech Republic’s advantages in industrial park cooperation are even more pronounced than those of Romania. The “Zhongjie Friendship Farm”, which was built in 1956, has gradually become a high-tech leading area, a modern agricultural demonstration area, an expanding open country area and an ecologically creative and livable area. It has now appeared in the Zhongjie Industrial Park in the Bohai New Area of Cangzhou. It has formed the development layout of “One Body and Two Wings”, and committed to creating a technological innovation engine for the emerging economic growth of Hebei Province during the integration of Beijing-Tianjin-Hebei, and bridgehead for technology industry transfer and innovation cooperation with 16 countries in CEE. In addition, Zhejiang Zhongjie (Ningbo) Industrial Cooperation Park and Zhongjie (Pujiang) Crystal Industry Cooperation Park have become models of this kind of cooperation. By contrast, the industrial park cooperation between China and Romania is still in discussion.

In addition, the Czech Republic’s financial cooperation with China is also stronger than Romania. In August 2015, the Bank of China set up a branch in Prague. In September 2017, the Industrial and Commercial Bank of China established a branch in Prague, the only branch in the Czech Republic that was established by a non-EU bank. In contrast, there is no Chinese financial branch in Romania.

Obviously, just as Sino-Romania relations are still in the stage of All-round Friendly and Cooperative Partnership and China and the Czech Republic has upgraded ties to a strategic partnership, local cooperation is lagging behind as well. If to compare with Poland, Hungary and Serbia, the gap of Romania would be much more evident.

4. Strengthen Local Cooperation and Comprehensively Promote Sino-Romania Relations under “16+1 cooperation” and the Belt and Road Initiative

As the former Ambassador of Romania to China Mr. Doru Costea emphasized, there are three fundamental pillars to be found in our partnership-like relations with frequent high-level meetings and intense political dialogue, the people-to-people dialogue and local cooperation, and economic connection (Doru Costea, 2016). Although Sino-Romanian relations reached a standstill after Romania's admission in NATO and the EU, the new generation of Chinese leaders, that were elected in 2012 are showing interest in Romania once again (Vlad Costea, 2014). Romania is not only a part of "16+1 cooperation", but also a country alongside the Belt and Road initiative. Although Sino-Romanian relations has benefited from the traditional friendship, both sides could not use their old capital (CCTV.COM, 2017). The requirement of a long-term political commitment to address the complexity of such deals makes such investments in Energy and other strategic infrastructure very demanding and prone to failure in the unstable institutional environment of Romania (Jan Drahokoupil, et al., 2017).Therefore, to comprehensively promote Sino-Romania relations and "16+1 cooperation", it is necessary to strengthen Sino-Romanian local cooperation.

5 Conclusions

Our analysis showed that are some crucial initiatives necessary to increase and consolidate the Sino-Romanian local cooperation.

First, to promote Romania to host the "16+1" local leaders meeting as soon as possible, promote more cities to apply to become members of the China-CEEC Association of Governors of Provinces Regions, actively encourage local governmental exchanges between China and Romania, and effectively twin much more sister cities. From the China side, we would use the friendship city to help the Romanian sister cities to host "16+1" local leaders' meetings and related meetings, actively invite the Romanian local government to lead a delegation to visit China and attend the 2020 China International Friendship Cities Conference held in Kunming, warmly welcome more Romanian cities to become members of the International Cooperation Sister City Tourism Alliance established in Chengdu in September 2012.

Second, to fully make synergy between "16+1" local cooperation and the Romanian regional development strategy. It is necessary to transform their respective cooperation needs into visible and tangible cooperation projects to achieve complementary advantages and common development. The Memorandum on the preparation of a portfolio of transport projects to be implemented in the period 2018-2027 initiated December 2017, approved by the Romanian government, which would bring opportunities. Romania has two Core Network Corridors crossing its territory within the EU infrastructure and connectivity programs, namely the Orient/East-Med Corridor and Rhine-Danube Corridor, by that Danube River plays one of the key roles. In particular, both Romania and China must pay attention to the development of the Danube and Black Sea projects, attach importance to the role of Constanta in the construction of the "Three Seaports", and establish several demonstration projects and benchmarking projects. In this regard, building Yangtze River - Danube cooperation mechanism would be contribute to 16+1 cooperation and Sino-Romania local cooperation as well. Furthermore, it is of great significance to promote the industrial park cooperation between the China and Romania and study the feasibility of establishing branches of Chinese financial institutions in Romania.

Third, to continue to support Romania to establish much more new cooperation mechanism or platform under the framework of "16+1 Cooperation", promote Romania to participate in local cooperation mechanisms under the framework of China-EU cooperation, and broaden other channels for local cooperation. For example, they would continue to promote the EU-China Mayors' Forum and the EU-China Urbanisation Forum to spread and spill over this successful experience to other functional areas, thereby promoting the overall development and strategic synergy of Sino-Romania relations.

Fourth, to set up and select a fixed partner city to advance local cooperation as an example. By now, the Qingdao Eurasian Economic and Trade Cooperation Industrial Park and the "16+1" Economic and Trade Demonstration Zone in Ningbo have been and will be the important platform to enhance all-round cooperation between two sides. However, Shenzhen would have much more advantage then Qingdao and Ningbo, which has been the Friendly Exchange City with Bucharest in 2014, and the headquarters of three important investors in Romania of Huawei, ZTE Corporation, and CGN (China General Nuclear Power Group). The China-Romania Economic and Trade Exchange Promotion Conference and Shenzhen International Image Promotion Conference were held in Shenzhen and Bucharest one after another in 2014. Shenzhen Science and Industry Park and Romania's Euromentor Development entered into a memorandum of understanding on building two industrial parks: one in Shenzhen, to house Romanian companies, and one in Cluj-Napoca, the second-most populous city in Romania, to accommodate Chinese firms in China Hi-Tech Fair (CHTF) 2013 in Budapest (Shenzhen Daily, 2013). What's more, New Kopel Car Import, a SIXT Group Romania company, one of the top companies from the automotive industry, announced that it has become the importer of BYD Electric busses and vehicles located in Shenzhen in June 2018. All in all, Shenzhen should be the most important partner to promote its cooperation with Bucharest and cooperation between other cities.

Fifth, to construct a multinational cooperation platform within the framework of "16+1 Cooperation", and learn from the successful experience of "Guangzhou-Lyon-Frankfurt-Birmingham Four Cities Economic Alliance". For example, it is a constructive way to introduce "Chengdu-Lodz-Budapest-Bucharest cities alliance" or "Chengdu-Warsaw-Prague-Bucharest cities alliance" in the "16+1 cooperation" countries to form an economic alliance and tap the potential of multilateral cooperation between these cities. In this regard, it is urgent that feasibly of new China-Europe Express Rail to Bucharest and/or other big city in Romania should be in discuss.

Last but not the least, to leverage the Belt and Road cooperation platform to fully achieve its synergy with "16+1" local cooperation, and make use of other cooperation mechanisms elsewhere to promote "16+1" local cooperation. To strengthen people-to-people bond and cultural exchange such as "Shenzhen Week" in Bucharest and "Bucharest Week in Beijing" would develop grass-root relations effectively.

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"16+1 Cooperation"：Considering Three Sets of Relationships

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Abstract: The paper analyzes three sets of relationships related to the "16+1 Cooperation". First, the relationship between the "16+1 Cooperation" and the Belt and Road Initiative (hereinafter referred to as the B&R Initiative). On the one hand, both were developed against the same background. The former is an important part of the latter, while the latter provides the former with more opportunities. On the other hand, the "16+1 Cooperation" is a unique part of the B&R Initiative. So it is worth considering how to coordinate the relationship between the "16+1 Cooperation" and the B&R Initiative, push the "16+1 Cooperation" forward and give full play to the role of the "16+1 Cooperation" in the B&R Initiative. Second, the relationship between the "16+1 Cooperation" and the China-EU relations. The "16+1 Cooperation" is an integral part and useful supplement of the China-EU relations. China and the CEE countries repeatedly stress the significance of the "16+1 Cooperation" in the China-EU relations and work hard to coordinate the relationship between them. But the EU often worries that the "16+1 Cooperation" will divide the EU. Therefore, it is worth considering how to remove the EU's worries and coordinate the relationship between the "16+1 Cooperation" and the China-EU relations effectively. Third, the relationship between bilateral cooperation and multilateral cooperation. The "16+1 Cooperation" includes both bilateral and multilateral cooperation, but so far, cooperation has mostly taken place at bilateral level. As a result, it is worth considering how to take advantage of the various institutionalized exchange platforms established by China and the CEE countries to expand the multilateral cooperation.

Key words: 16+1 Cooperation, the B&R Initiative, China-EU relations, bilateral cooperation, multilateral cooperation

Since its beginning six years ago, the "16+1 Cooperation" has yielded fruitful results but has also faced many challenges. Among them, three sets of relationships—the relationship between the "16+1 Cooperation" and the B&R Initiative, the relationship between the "16+1 Cooperation" and the China-EU relations, the relationship between bilateral cooperation and multilateral cooperation—are worth considering.

1. The "16+1 Cooperation" and the B&R Initiative

In 2012 and 2013, the "16+1 Cooperation" and the B&R Initiative were proposed by China successively. What is the relationship between them?

First, the "16+1 Cooperation" and the B&R Initiative were raised under the same background.

Looking at the world, "peace and development remain the theme of the era, and the trend of peace, development, cooperation and mutual benefit is even stronger." (Publicity Department, CCCPC, 2016, pp.260-261). "China will continue to hold high the banner of peace, development, cooperation, and mutual benefit and uphold its fundamental foreign policy goal of preserving world peace and promoting common development. China remains firm in its commitment to strengthening friendship and cooperation with other countries on the basis of the Five Principles of Peaceful Coexistence, and to forging a new form of international relations featuring mutual respect, fairness, justice, and win-win cooperation."(Xi, 2017, p.58) The CEE countries and China enjoy profound traditional friendship, respect and support for each other's foreign policies, sharing common views on many major international issues. The launch of the "16+1 Cooperation" will help further promote the relations between China and the CEE countries and contribute to world development and prosperity. "Jointly building the Belt and Road is in the interests of the world community. Reflecting the common ideals and the pursuit of human societies, it is a positive endeavor to seek new models of international cooperation and global governance and will inject new positive energy into world peace and development." (National Development and Reform Commission, Ministry of Foreign Affairs and Ministry of Commerce of the P.R. China, 2015, p.3). In addition, CEE countries have suffered greatly from the international financial crisis and the Eurozone debt crisis since 2008, and global economic growth also faced many instable and uncertain factors. The "16+1 Cooperation" and the B&R Initiative are aimed at dealing with the crises, upholding the global free trade regime and the open world economy.

Looking at China, opening-up is the fundamental national policy of China. As the most promising region in Europe, the CEE region enjoys a sound investment environment. Chinese capital and goods can enter the EU market with the "16+1 Cooperation", thus expanding the economic and trade cooperation with the EU. Similarly, the B&R Initiative "will enable China to further expand and deepen its opening-up", "build a new pattern of all-around opening-up and integrate itself deeper into the world economic system." (National Development and Reform Commission, Ministry of Foreign Affairs and Ministry of Commerce of the P.R. China, 2015, p.4)

Second, the "16+1 Cooperation" is an important part of the B&R Initiative.

In terms of cooperation partners, the "16+1 Cooperation" is oriented towards 16 countries in the CEE region. "The Belt and Road run through the continents of Asia, Europe and Africa, connecting the vibrant East Asia economic circle at one end and developed European economic circle at the other, and encompassing countries with huge potential for economic development." (National Development and Reform Commission, Ministry of Foreign Affairs and Ministry of Commerce of the P.R. China, 2015,p.6) "The 16 CEE countries account for a quarter of the countries along the B&R" (Xinhuanet, 2015), therefore the "16+1 Cooperation" is within the framework of the B&R Initiative.

In terms of their intention for cooperation, the 16 CEE countries responded positively to the B&R Initiative. As early as May 2014, the national coordinators and representatives from the 16 CEE countries expressed their hope to play a role in the B&R construction at the third meeting of national coordinators for China-CEEC Cooperation (Cooperation between China and CEE Countries website, 2014a). China has been more welcoming towards the CEE countries to participate in the B&R construction. In December 2014, Chinese Premier Li Keqiang pointed out at the third meeting of heads of government of China and the CEE countries, "China raised the initiative of jointly building the Silk Road Economic Belt and the 21st-Century Maritime Silk Road and welcomes the active participation of the CEE countries." (Cooperation between China and CEE Countries website, 2014b). In November 2015, the Medium-Term Agenda for Cooperation between China and Central and Eastern European Countries formulated by China and the CEE countries stated that "the 16+1 Cooperation will make full use of the opportunities offered by the Belt and Road Initiative to steadily expand cooperation and in turn contribute to the initiative." (Cooperation between China and CEE Countries website, 2015a) During the sixth meeting of heads of Government of China and the CEE countries in November 2017, China signed the Memorandum of Understanding on Jointly Building the B&R Initiative with Estonia, Lithuania and Slovenia so that the B&R Initiative covered all the 16 CEE countries.

In terms of cooperation priorities, the main achievements of the "16+1 Cooperation" cover policy coordination, connectivity, economic, trade and financial cooperation， people-to-people and cultural exchange (Permanent Mission of China to the UN website, 2017a)， while the five major goals of the B&R Initiative are policy coordination, facilities connectivity, unimpeded trade, financial integration and people-to-people bonds (National Development and Reform Commission, Ministry of Foreign Affairs and Ministry of Commerce of the P.R. China, 2015, pp.7-14). Therefore, the "16+1 Cooperation" and the B&R Initiative have roughly the same cooperation priorities.

Third, the "16+1 Cooperation" is different from the cooperation between China and the other countries along the B&R.

The "16+1 Cooperation" pays attention to its significance in the China-EU relations, which will be discussed in the next section.

The "16+1 Cooperation" attaches importance to cooperation at local level. Since the second meeting of heads of government of China and the CEE countries in 2013, local cooperation has become one of the important pillars for the "16+1 Cooperation". The China-CEEC Local Leaders' Meeting was held three times in

2013, 2014 and 2016. The China-CEEC Association of Governors of Provinces and Regions was established, and its working meeting has been held three times in 2015, 2016 and 2017. So far, China and the CEE countries have established more than 60 pairs of friendship cities and visited each other's provinces, regions and municipalities more than 300 times. The Budapest Guidelines for Cooperation between China and Central and Eastern European Countries formulated in November 2017 designated 2018 as Year of Cooperation between Local Governments and Local Enterprises. When visiting Bulgaria and attending the seventh meeting of heads of government of China and the CEE countries in July 2018, Prime Minister Li Keqiang visited an exhibition of local cooperation with the leaders of 16 CEE countries.

The "16+1 Cooperation" has its own working body. The first measure of China's Twelve Measures for Promoting Friendly Cooperation with Central and Eastern European Countries proposed by Premier Wen Jiabao in April 2012 is to "set up a secretariat for cooperation between China and central and eastern European countries. The secretariat will be based within China's Ministry of Foreign Affairs and charged with communication and coordination on matters related to cooperation, preparation for leaders' meetings and business forums and the implementation of relevant outcomes. The 16 central and eastern European countries will, voluntarily, each designate a counterpart department and a coordinator to take part in the work of the secretariat." (Cooperation between China and CEE Countries website, 2012a). In September 2012, The Secretariat for Cooperation was established, and the first National Coordinators' Meeting was held. In April 2015, the Chinese Ministry of Foreign Affairs appointed the Special Representative for China-CEEC Cooperation.

The "16+1 Cooperation" has set up more than 20 new institutionalized exchange platforms, such as the China-CEEC liaison mechanism for investment promotion agencies, the China-CEEC coordination mechanism for forestry cooperation, the customs clearance facilitation cooperation mechanism for the China-Europe Land-Sea Express Line among the Chinese, Hungarian, Serbian, Macedonian and Greek Customs, the expert advisory committee on the construction of transportation network between China and CEE countries, the China-CEEC Association of Governors of Provinces and Regions, the China-CEEC Higher Education Institutes Consortium, the China-CEEC Business Council, the China-CEEC association of tourism promotion agencies and businesses, the China-CEEC association on promoting agricultural cooperation, the China-CEEC think tanks network, the China-CEEC association on logistics cooperation, the China-CEEC Energy Dialogue and Cooperation Center, and so on. The Sofia Guidelines for Cooperation between China and Central and Eastern European Countries prepared and issued in July 2018 announced China and the 16 CEE countries supported Croatia in leading the efforts to establish the 16+1 Coordination Mechanism for SMEs, Romania in establishing a 16+1 Smart City Coordination Center, and Lithuania in establishing a 16+1 Fintech Coordination Center, and agreed to establish a Global Partnership Center of CEECs and China in Bulgaria (Xinhuanet, 2018a).

In conclusion, on the one hand, the "16+1 Cooperation" and the B&R Initiative were developed against the same background. The former is an important part of the latter, while the latter provides the former with more opportunities. On the other hand, the "16+1 Cooperation" is a unique part of the B&R Initiative. Therefore, it is worth considering how to coordinate the relationship between them, push the "16+1 Cooperation" forward and give full play to the role of the "16+1 Cooperation" in the B&R Initiative.

2. The "16+1 Cooperation" and the China-EU relations

Eleven of the 16 CEE countries are the EU Member States, while the other five countries are aspiring to join the EU. When promoting the "16+1 Cooperation", the relations between China and the EU must be taken into account.

China and the 16 CEE countries have been paying attention to the significance of the "16+1 Cooperation" in the China-EU relations, and they have deepened their understanding of the significance over time.

During the first meeting of heads of government of China and the CEE countries in 2012, "The leaders at the meeting indicated that China and the CEE countries have traditional friendship and their mutual relations represent an important part of the relationship between China and the EU as a whole.” (Cooperation between China and CEE Countries website, 2012b)

During the second meeting in 2013, “Parties at the meeting stressed that China-CEEC cooperation is in line with China-EU comprehensive strategic partnership and expressed their readiness to continue to strengthen and deepen the China-CEEC cooperation on the basis of mutual respect, equality and mutual benefit, and work to make it a growth point for China-Europe cooperation for the benefit of development in all the countries, of their peoples of these countries and of world peace and stability, while providing a useful experience for countries with different civilizations, systems and levels of development to live in harmony with each another and develop hand in hand. ” (Cooperation between China and CEE Countries website, 2013).

During the third meeting in 2014, “The participants reiterated that China-CEEC cooperation is in line with China-EU relations and reaffirmed their commitment for the deepening of their partnership for peace, growth, reform and civilization based on the principles of equality, respect and trust, thus contributing, as appropriate, to the implementation of the EU-China 2020 Strategic Agenda for Cooperation.” (Cooperation between China and CEE Countries website, 2014c)

During the fourth meeting in 2015, participants at the meeting put forward the concept of “synergy” for the first time. They “welcomed and supported the important agreement between the Chinese and EU leaders on establishing the China-EU Connectivity Platform, as well as on developing synergies between the China’s Belt and Road Initiative of China and the Investment Plan for Europe, and between 16+1 Cooperation and China-EU relations.” (Cooperation between China and CEE Countries website, 2015b)

During the fifth meeting in 2016, participants at the meeting reaffirmed the intention to “develop synergies between 16+1 Cooperation and the EU-China Comprehensive Strategic Partnership, including through the EU-China Connectivity Platform” (Cooperation between China and CEE Countries website, 2016a).

During the sixth meeting in 2017, participants had a more comprehensive and in-depth understanding of the “16+1 Cooperation” and of the China-EU relations. “16+1 Cooperation represents an important part of the cooperation between China and Europe as a whole. The Chinese side reaffirms that it attaches great importance to the China-EU comprehensive strategic partnership, that it supports the road of integration chosen independently by the EU Member States, that it wishes to see a united, stable and prosperous Europe, and that it will promote the China-EU partnership for peace, growth, reform and civilization. EU Member States and candidate countries from among the 16 CEECs are committed to the advancement of the EU-China Comprehensive Strategic Partnership and the EU-China Agenda 2020, including actively promoting practical cooperation in the framework of the EU-China Connectivity Platform, in the Investment Plan for Europe, and supporting the conclusion of an ambitious and comprehensive Agreement on Investment between the EU and China.” (Permanent Mission of China to the UN website, 2017b)

During the seventh meeting in 2018, participants reaffirmed that the “16+1 Cooperation represents an important part of and a positive complementary component to the relationship between China and the EU and that they are ready to work together, in this format and in line with their respective competences and existing commitments to ensure that China-EU relations continue to develop in a balanced way.” (Xinhuanet, 2018a) Meanwhile, they underlined that EU Member States and candidate countries actively promoted “practical cooperation through pilot projects in the framework of the EU-China Connectivity Platform, the Investment Plan for Europe and the extended Trans-European Network (TEN-T)”. (Xinhuanet, 2018a).

China and the 16 CEE countries have also been paying attention to the coordination of the “16+1 Cooperation” and the China-EU relations on concrete measures.

First, China and the 16 CEE countries have invited representatives of the EU and of certain Western European countries as observers in the meeting of heads of government of China and the CEE countries. EU representatives were present at the third meeting in 2014. Representatives of the EU and Austria were present as observers at the fourth meeting in 2015. Since the fifth meeting in 2016, besides representatives of the EU and Austria, those of Greece and Switzerland were also present as observers.

Second, China and the 16 CEE countries have been observing EU legislation, regulations as well as the standards and policies applying to EU Member States and candidate countries. In the field of connectivity, the 17 countries took note of the agreed EU regulations, guidelines, policies and processes and the agreed regulations, guidelines, policies and processes of other regions, and supported the exploration of possibilities for cooperation(Cooperation between China and CEE Countries website, 2014c); they would "step up cooperation in infrastructure development, including roads, railways, ports, airports, telecommunications and oil and gas pipeline networks, taking into account existing policy commitments and priorities at the EU level" (Cooperation between China and CEE Countries website, 2015a); China, Hungary and Serbia have reached an agreement to strive to build the Hungary-Serbia Railway into a modern high-speed railway meeting EU standards and the needs of all parties (Cooperation between China and CEE Countries website, 2014b), and the Hungarian section of the Hungary-Serbia Railway has been put up for public bidding according to the EU public procurement law and EU standards (Xinhuanet, 2018b); the EU member states participating in Adriatic-Baltic-Black Sea Seaport Cooperation reaffirmed that the implementation of the actions must be done without prejudice to the competencies of the EU and with respect for the obligations stemming from their membership of the EU (Cooperation between China and CEE Countries website, 2016b). In the field of financial cooperation, Prime Minister Li Keqiang said that China respected relevant EU standards when discussing with the 16 CEE countries to expand channels to solve financing problems (Xinhuanet, 2015); the China-CEEC financial holding company established by Industrial and Commercial Bank of China complied with the sovereign debt rules of EU Member States and raised funds from global markets through commercial operations (Cooperation between China and CEE Countries website, 2016c).

Third, China and the 16 CEE countries have been promoting the close integration of the "16+1 Cooperation" and the China-EU relations. They encouraged and supported synergies between the "16+1 Cooperation" on connectivity and the EU's existing network priorities and their extension to the Western Balkans, promoted the construction of the Hungary-Serbia Railway and the China-Europe Land-Sea Express as well as the Port Area Cooperation between China and the CEECs bordering the Baltic, Adriatic and Black Sea, expanded cooperation in development of container block trains services and combined mode transport solutions, and continued to carry out practical cooperation in the framework of the EU-China Connectivity Platform; encouraged more eligible CEE countries to take part in the China-EU Smart and Secure Trade Lanes Pilot Project and other cooperation projects under the China-EU Strategic Framework for Customs Cooperation; supported multilateral agricultural irrigation exchanges and cooperation within frameworks such as the China-Europe Water Platform and the China-EU Water Policy Dialogue; supported the conclusion of an ambitious and comprehensive China-EU investment agreement, promoted the level of investment cooperation between China and the CEE countries, welcomed efforts made by the China Development Bank and the Export-Import Bank of China to establish Belt and Road special loans, welcomed efforts made by the Silk Road Fund and European Investment Fund to establish the China-EU Co-Investment Fund, and welcomed the investment made by all relevant Funds in projects within the framework of 16+1 Cooperation, etc. (Cooperation between China and CEE Countries website, 2014c; 2015a; 2015b; 2016a; 2016b; Permanent Mission of China to the UN website, 2017b; Xinhuanet, 2018a). Moreover, China proposed to carry out trilateral cooperation by combining its advantages in production capacity with the development needs of the CEE countries and the key technologies of the developed Western European countries, so as to achieve mutual benefit and win-win cooperation (Xinhuanet, 2015; Cooperation between China and CEE Countries website, 2015c; 2016c; 2017).

In fact, the "16+1 Cooperation" has become a useful complementary asset of the China-EU cooperation and played a positive role in promoting the balanced development of the China-EU relations. For instance, in 2017, the trade growth rate between China and most CEE countries was faster than the average growth rate between China and the EU. In particular, the trade volume between China and each of five Western Balkan countries maintained a positive growth in contrast with the decline one between China and non-EU countries (see Table 1).

Table 1: Trade Volume between China and Europe, 2017 (USD 10 000)

Country（Region）	Trade	Export	Import	Annual change (%)		
				Trade	Export	Import
Europe	66,102,684	37,916,560	28,186,124	10.5	9.5	11.9
EU28	61,691,595	37,204,153	24,487,422	12.7	9.7	17.7
Eurozone19	45,931,396	26,295,266	19,636,130	13.3	10.7	17.0
Slovakia	531,460	272,960	258,500	0.8	-4.6	7.3
Slovenia	338,317	288,784	49,534	25	27.2	13.4
Latvia	132,522	114,804	17,718	10.9	8	34
Lithuania	185,568	160,047	25,521	27.5	23.9	55.6
Estonia	126,722	100,687	26,035	7.8	4.4	22.9
Other EU member states	15,760,179	10,908,887	4,851,292	11.2	7.5	20.7
Poland	2,122,945	1,787,632	335,312	20.4	18.4	32.1
Czech Republic	1,248,866	879,321	369,545	13.4	9.1	25.2
Hungary	1,012,671	604,960	407,711	13.9	11.5	17.7
Romania	560,221	377,807	182,414	14.2	9.6	25.4
Bulgaria	213,770	116,905	96,865	29.8	10.6	64.1
Croatia	134,267	115,958	18,308	13.9	14	13.4
Other European countries	4,411,110	712,407	3,698,702	-13.5	-0.5	-15.7
Serbia	75,717	54,567	21,151	27.3	26.2	30
Albania	65,024	45,366	19,657	2.3	-10.5	52.9
Bosnia and Herzegovina	13,606	7,880	5,725	26.4	22.9	31.5
Montenegro	19,912	13,264	6,648	41.3	22.4	104
Macedonia	16,448	7,800	8,648	20.2	-13.5	85.2

Source: Department of European Affairs, Ministry of Commerce of the People's Republic of China, http://ozs.mofcom.gov.cn/article/zojmgx/date/201802/20180202714530.shtml.

However, unfortunately, the "16+1 Cooperation" has been facing suspicion from the EU since its initiation, though China and the CEE countries have been stressing the significance of the "16+1 Cooperation" in the China-EU relations and have made many efforts to coordinate the "16+1 Cooperation" and the China-EU relations on concrete measures. Therefore, it is worth considering how to dispel the EU's doubt about the "16+1 Cooperation" to separate the old and new member states of the EU and further coordinate the "16+1 Cooperation" and the China-EU relations.

3. The bilateral cooperation and the multilateral cooperation

The bilateral cooperation between China and the CEE countries is not only the basis of the "16+1 Cooperation", but also enjoys unprecedented opportunities and great progress thanks to the "16+1 Cooperation".

First, the level of the relations between China and Bulgaria, the Czech Republic, Serbia, Poland and Hungary has increased.

When President Rosen Plevneliev of Bulgaria visited China in January 2014, the two countries decided to establish the China-Bulgaria comprehensive friendly cooperative partnership in order to consolidate the traditional friendship and upgrade bilateral relations to a higher level. When President Xi Jinping of China visited the Czech Republic in March 2016, the two heads of state agreed to transform the China-Czech relations into a strategic partnership and usher it into a new stage. When he visited Serbia and Poland in June 2016, President Xi Jinping decided to upgrade the strategic partnership into a comprehensive strategic partnership with the heads of the two countries. When Prime Minister Viktor Orban of Hungary visited China and attended the B&R Forum for International Cooperation in May 2017, President Xi Jinping met with him and they announced the establishment of a comprehensive strategic partnership between the two countries.

Second, the practical cooperation between China and CEE countries has made remarkable progress, mainly in the fields of connectivity, economy and trade, and finance.

In the field of connectivity, six new air routes have been opened between China and the CEE countries; All 16 CEE countries have become destination countries for Chinese citizens traveling abroad, and citizens of all 16 CEE countries are entitled to 72-hour visa-free transit in ports including Beijing and Shanghai; China and Serbia as well as Bosnia and Herzegovina have visa-free access for ordinary passport holders; Albania granted visa-free access to Chinese citizens holding ordinary passports between April 1 and October 31, 2018.

In the field of economy and trade, the trade volume between China and CEE countries increased from US$52.06 billion in 2012 (Ministry of Commerce of the P.R. China, 2012) to US$67.98 billion in 2017 (Ministry of Commerce of the P.R. China, 2017); China signed cooperation agreements on quality inspection with Hungary, Latvia, Serbia and Macedonia; China signed cooperation documents on the peaceful use of nuclear energy with Romania and the Czech Republic, and signed Memorandums of Understanding on nuclear energy cooperation with Hungary and Poland; China reached Memorandums of Understanding with Serbia and Estonia on e-commerce cooperation and key projects in industrial capacity cooperation, and signed Agreement on Agricultural Cooperation with Bosnia and Herzegovina; China’s HeSteel Group invested in the Smederevo Steel Mill in Serbia; China HNA Airport Group together with Bulgaria Plovdiv Airport Investment Company was granted the Plovdiv airport franchise for 35 years; the Danube bridge in Belgrade, the Kostolac Power Plant in Serbia and the Serbian section of European Route 763, Pelješac bridge in Croatia, the Stanari Thermal Power Plant and Tuzla Thermal Power Plant in Bosnia and Herzegovina, the north-south highway in Montenegro, the transportation arteries in Macedonia, the Rovinari Power Station in Romania, the city flood facility in Wroclaw, Poland, the Maribor Airport in Slovenia and some other projects have been completed or are under construction by Chinese enterprises.

In the field of finance, Bank of China set up branches in Poland, Hungary, the Czech Republic and Serbia separately; the Industrial and Commercial Bank of China and the China Construction Bank set up a branch in Warsaw, Poland successively; the Hungary Branch of the Bank of China was authorized as the first clearing bank for RMB business in the CEE region；Czech National Bank issued a banking license for Industrial and Commercial Bank of China；OTP bank set up a representative office in Beijing; the People’s Bank of China signed bilateral currency swap agreements with Hungarian National Bank, State Bank of Albania and National Bank of Serbia; the Hungarian National Bank and the National Bank of Poland invested in the Chinese inter-bank bond market as overseas central banks, the Bank of Lithuania invested in the Chinese inter-bank bond market as QFII, and Hungary issued 1 billion RMB panda bonds with a three-year maturity in China's inter-bank bond market; the Hungarian National Bank and the National Bank of Slovakia entered China's inter-bank foreign exchange market, and the Hungarian Forint and the Polish Zloty can be directly exchanged in China's inter-bank foreign exchange market; Poland and Hungary became formal members of the Asian Infrastructure and Investment Bank, and Romania became a new prospective member; the Bank of China issued 1 billion RMB dim sum bonds on behalf of the Hungarian government and issued 3 billion RMB panda bonds on behalf of the Polish government; China UnionPay and the Hungary Branch of Bank of China issued the Chinese RMB and Hungarian forint dual-currency debit card; Shanghai gold exchange signed a Memorandum of Understanding with Hungary Budapest Stock Exchange in Beijing.

Compared with the bilateral cooperation, the multilateral cooperation between China and the CEE countries was more focused on making rules and regulations and establishing platforms. The 17 countries formulated the Medium-Term Agenda for Cooperation between China and Central and Eastern European Countries, issued six Guidelines, and set up more than 20 institutionalized exchange platforms. Besides, the achievements of multilateral cooperation are fewer than those of bilateral cooperation, mainly in the fields of connectivity and finance.

In the field of connectivity, the most notable is the construction of the Hungary-Serbia Railway. In November 2013, China, Hungary and Serbia jointly announced the cooperation in the construction of the Hungarian-Serbia Railway linking Belgrade and Budapest. In June 2014, the first meeting of the China-Hungary-Serbia joint working group on transport infrastructure cooperation was held, and then six meetings followed in January, July, and November 2015, September 2016, June 2017 and June 2018. In December 2014, China, Hungary and Serbia signed an interdepartmental Memorandum of Understanding on Hungary-Serbia Railway cooperation projects. In November 2015, China and Hungary signed an agreement on the development, construction and financing cooperation of the Hungary Section of the Hungary-Serbia Railway. In December 2015, the launching ceremony of the Serbia Section of the Hungary-Serbia Railway was held in Novi Sad, Serbia. In November 2016, China signed with Hungary an agreement for the establishment of a joint venture company for Hungary-Serbia Railway, a construction contract and a Memorandum of Understanding on financing cooperation, and signed with Serbia a commercial contract for the Belgrade Center-Stara Pazova Section of the Hungarian-Serbian Railway Line and a Memorandum of Understanding on financing cooperation. In May 2017, China and Serbia signed the loan agreements on the modernization and reconstruction of Hungarian-Serbian Railway Line for the Belgrade Center-Stara Pazova Section. In November 2017, construction began on the Belgrade Center-Stara Pazova Section, and Hungary announced an open tender for the Hungarian section of the Hungarian-Serbian Railway. In July 2018, a commercial contract for the modernization and reconstruction project of the Novi Sad-Subotica-national border Section of the Hungarian-Serbian Railway Line was signed.

Furthermore, China put forward the initiatives of the China-Europe Land-Sea Express Line and the Adriatic-Baltic-Black Sea Seaport Cooperation. In January 2015, the customs clearance facilitation cooperation mechanism for the China-Europe Land-Sea Express Line among the Chinese, Hungarian, Serbian, Macedonian and Greek Customs was officially established. In November 2016, Riga Declaration published at the fifth meeting of heads of Government of China and the CEE countries reaffirmed the support for the cooperation initiative involving the ports at the Adriatic, Baltic and Black Sea and along the inland waterways, which was put forward by Premier Li Keqiang during the fourth meeting in November 2015 (Cooperation between China and CEE Countries website, 2016b). In July 2018, the Sofia Guidelines issued at the seventh meeting stated: the participants "are willing to explore the possible extension of the connection between Belgrade-Budapest railway and the Albanian, Croatian, Montenegrin and Slovenian ports, taking note of the Three Seas Initiative proposed by the countries concerned. The participants support moving forward practical cooperation in the development of the China-Europe Land Sea Express Line. The participants welcome similar infrastructure development cooperation by enterprises from the 17 countries to develop routes of China-Europe Land Sea Express Line and the container block trains services." (Xinhuanet, 2018a)

In the field of finance, China initiated a US$10 billion special credit line and the China-CEEC Investment Cooperation Fund in April 2012, and the China-CEEC Investment Cooperation Fund (stage one) officially launched in 2014. China proposed to establish the China-CEEC Coordinated Investment and Financing Framework in December 2014. The Industrial and Commercial Bank of China established the China-CEEC financial holding company in November 2016. The China-CEEC Inter-Bank Association was established in November 2017. The China-CEEC Investment Cooperation Fund (stage two) was implemented in November 2017 and went into operation in February 2018.

So far, the "16+1 Cooperation" was mostly carried out at the bilateral level, which was closely related to the diversity and differences of the CEE countries. However, the "16+1 Cooperation" does not mean adding up the 16 bilateral ties simply, and it should be conducted not only at bilateral but also at multilateral level. The various institutionalized exchange platforms established by China and the CEE countries have laid a solid foundation for the "16+1 Cooperation". Therefore, it is worth considering how to take advantage of these platforms to expand the multilateral cooperation.

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Financial Cooperation between China and CEEC: Development and Prospective

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Abstract: Since the implementation of "16+1 Cooperation", several financial instruments have been adopted by the Chinese government to strengthen the cooperation between China and the CEE countries, including US$ 10 billion USD Special Credit Line, China-CEEC Investment Cooperation Fund (second phase), Sino-CEE Finance Holding Company Ltd and China-CEE Fund. In addition, many Chinese banks have set up branches in CEE countries. Cooperation with institutions such as the European Bank for Reconstruction and Development has been strengthened, and a China-CEEC Interbank Consortium has been established. To diversify the channels of cooperation, currency swap agreements and RMB clearance arrangements have been signed, and cooperation in the bond market has also be strengthened. The main characteristics of China-CEEC financial cooperation are market-orientation and voluntary participation. In the past six years, achievements have been made, and the implementation of various projects contributed a lot to the "16+1 Cooperation".

Key-words: 16+1 Cooperation, Financial Cooperation, development and prospective, policy suggestion
JEL Classification:

Financial cooperation is not only a significant pillar for China-CEEC cooperation, playing an important role in promoting Chinese investment in CEE countries and attracting CEE countries to participate in the "16+1" Cooperation, but also a model for implementing the Belt and Road Initiative in the investment sector. This article will provide a summary of the framework, policy toolkit, the principles of the "16+1" Financial Cooperation, as well as the achievements that have been made in the past years.

1. Framework and toolkit of "16+1" Financial Cooperation

"16+1" Financial Cooperation consists of three levels: At the first level, cooperation is achieved though the establishment of financial a toolkit, which is mainly initiated, financed or co-financed by China. At the second level, cooperation is achieved by the collaboration between financial institutions from China and CEE countries. At the third level, cooperation is mainly achieved by signing currency swap agreement and issuing bonds in each other's bond market.

1.1 Framework and instruments of the China-CEEC Cooperation

1.1.1 The US$10 Billion Special Credit Line

The first instrument adopted by China is the US$10 billion special credit line, focusing on investing in infrastructure construction, green and high technology, green economy as well as other sectors. The US$10 billion special credit line was initiated in *China's Twelve Measures for Promoting Friendly Cooperation with Central and Eastern Europe* published during China-CEE Leaders' Meeting in Warsaw in 2012.

The US$10 billion special credit line includes favorable loans, and there are strict requirements for the use of these favorable loans when investing in projects in targeted countries. For any project to be financed by the favorable loan on a preferential lending rate at 1%-3%, the location of the project should be within CEE countries, and a Chinese contractor should be included in the project. After the application for the favorable loan is approved, receiving countries do not need to pay for the insurance fee, but will be responsible for the administrative fee. Bedsides, receiving countries should also provide national sovereign guarantee for the construction of the projects. All projects proposals, together with the Special Credit Line application, should be put forward to the China Development Bank, the Export and Import Bank of China, the Industrial and Commercial Bank of China, the Bank of China, the China Construction Bank and China CITIC Bank.

Since the establishment of the US$10 Billion Special Credit Line, CEE countries, as debtors, have started the Special Credit Line application and project construction process. So far, the favorable loans of the Special Credit Line, with a value equaling to US$ 3 billion, have been used up, while the commercial loans have almost not received applications so far.

1.1.2 The China-CEEC Investment Cooperation Fund

The establishment of the China-CEEC Investment Cooperation Fund was firstly put forward in *China's Twelve Measures for Promoting Friendly Cooperation with Central and Eastern Europe* in 2012. In 2013, China-CEE Management S.à r.l. registered in Luxembourg, providing management, projects investment, accounting and administrative services for the China-CEE Investment Cooperation Fund. In 2014, the first phase of the Fund, totaled US$ 435 million, became operational. In 2016, the second phase of the Fund, totaled US$ 800 million, became operational. In 2018, the Fund (second phase) announced the inauguration of a new round of fund raising totaling US$ 1 billion. So far, China-CEE Management S.à r.l. has set up two offices in Warsaw and Prague.

As an off-shore equity investment fund with limited partnership, the partners of the China-CEE Investment Cooperation Fund include the Export-Import Bank of China and the Hungarian Export-Import Bank. The core of the Fund's investment strategy is to be market-oriented and commercial-operated, focusing on the effective value of the projects and the enterprises that receive funding, as well as to synergize and integrate resources through optimizing the structure of capital and governance in enterprises with steady investment. There are five principles that the Fund must abide by: (1) Focusing on supporting the development in areas of infrastructure construction, telecommunication, energy, manufacturing, education and medical care. (2) Looking for competitive enterprises and projects and conducting due diligence on potential projects to ensure that the targeted enterprise is in positive operation with steady future currency flow, foreseeable profits and strong risk-management ability. (3) Building up strategic-partner relationships with targeted enterprises and providing value-added services to targeted enterprises and projects. (4) Adopting a multiple investment model with equity investment, mezzanine debt and multiple financial derivatives. (5) The scale of each investment should be in kept within US$ 10 million to US$ 70 million.

1.1.3 Sino-CEE Finance Holding Company Ltd and the China-CEE Fund

During the Fourth Meeting of Heads of Government of Central and Eastern European Countries and China in 2015, China raised the proposal of exploring opportunities of cooperation in connectivity and capacity between China and CEE countries by providing financial support in a commercial way. In the *Riga Guidelines for Cooperation between China and CEE Countries*, it is stated that financial institutions and enterprises in CEE countries are invited to contribute to the China-CEE Fund, established by Sino-CEE Finance Holding Company Ltd., on a voluntary basis, to jointly promote cooperation between China and CEE countries in connectivity and other industries. In 2017, the *Budapest Guidelines for Cooperation between China and CEE Countries* reiterate that CEE countries are welcome to contribute to Sino-CEE Holding Company Ltd. and support the fund raising for cooperation between China and CEE countries.

Sino-CEE Holding Company Ltd. was established in 2016 with leading support from the Industrial and Commercial Bank of China, as well as support from China Life Insurance Company, Golden Eagle Group, Fosun International and partners from CEE countries. The China-CEE Fund was launched by Sino-CEE Holding Company Ltd, totaled 10 billion euros, aiming at leveraging credit and loan totaling 50 billion euros. So far, agreements have been signed between the Fund and the Hungarian Export-Import Bank, and negotiations are ongoing between the Fund and other institutions, such as the Chinese Silk Road Fund, foreign institutions from Poland, the Czech Republic, and Latvia about injecting capital into the Fund. The first phase of the Fund has reached over 3 billion euros.

Sino-CEE Holding Company Ltd. broadens the channel of market financing for the China-CEE commercial cooperation. As the first non-sovereign overseas investment fund supported by the Chinese Government, the China-CEE Fund abides by the principle of market orientation and commercial operation, focusing on the commercial feasibility of investment in the areas of infrastructure construction, high-tech production, public consumption and more. Based on that, the Fund provides capital support for China-CEE capacity cooperation policies, aimed at achieving cross-regional market development by bridging global capital and introducing Chinese support. The Fund is mainly targeted in CEE countries and will extend to other European countries and regions when needed.

1.2. Regional institutional cooperation

1.2.1 The Asian Infrastructure Investment Bank (AIIB)

As an inter-governmental and multi-lateral development institution in Asia firstly initiated by China, AIIB mainly focuses on investing in infrastructure construction. It is founded under the principle of promoting the connectivity and economic integrity within the region, as well as at the strengthening of cooperation between China and countries in Asia and other regions. Since its was started, CEE countries have shown strong interests and took active actions. Poland, together with Austria and Switzerland, who are observers of the China-CEE Cooperation (16+1 Cooperation), are among the first 57 countries that were granted AIIB membership. Hungary, Romania, as well as Greece and Belarus, received their membership later. CEE countries' membership contributes to a stronger foundation of the cooperation of AIIB and provides market opportunities for CEE countries in Asia.

1.2.2 Branches of banks from China and CEEC

With the fast 16+1 Cooperation development momentum, bank branches were set up in CEE countries such as Poland and Hungary by the Bank of China, the Industrial and Commercial Bank of China, the China Construction Bank. By the end of 2017, there were eight branches launched in CEE countries (Table 1).

Table 1: Branches of Chinese Banks in CEE countries

Name of the Bank	Local Branches	Launching Date
Bank of China	Bank of China (Hungary) Close Ltd.	February 2003
	Bank of China (Luxembourg) S.A., Poland Branch	June 2012
	Bank of China Limited Hungarian Branch	December 2014
	Bank of China (Hungary) Close Ltd Prague Branch	August 2015
	Bank of China Serbia a. d. Belgrade	January 2017
Industrial and Commercial Bank of China	Industrial and Commercial Bank of China Poland Branch	November 2012
	Industrial and Commercial Bank of China Prague Branch	September 2017
China Construction Bank	China Construction Bank Warsaw Branch	May 2017

Source:

Meanwhile, banks from CEE countries also started businesses in China. In October 2017, OTP Bank from Hungary set up its representative office in Beijing.

1.2.3 Cooperation with international institutions

In November 2015, representatives of the European Bank for Reconstruction and Development (EBRD) attended the Fourth Meeting of Heads of Government of Central and Eastern European Countries and China in Suzhou as the only institutional observer. In December 2015, China was granted non-debtor membership of

EBRD, becoming the 67th shareholder-member. The cooperation between China and EBRD broadens towards investment channels for China and promotes cooperation between China and Europe in the areas of RMB internationalization and sub-regional development in Europe. At the same time, as a result of their communicating with EBRD on experiences and practices, Chinese financial institutions accumulate knowledge and experiences on information storage, investment practices and risk management, which contribute to the development of Chinese financial institutions in the process of implementing the "Going Out" policy.

There are possibilities for China and CEE countries to forge multi-lateral cooperation within international financial institutions, considering China and several CEE countries are members of the World Bank and the International Monetary Fund (IMF). For instance, when Hungary was granted membership of IMF in 1980 (IMF, 1982), the People's Bank of China provided US$ 88 million of loans from its US$ 375 million of SDR quota to Hungary as Hungarian quota and membership fee (Müller and Kovács , 2017). Support from China played an important role in the successful accession of Hungary to the IMF because the Hungarian National Bank was lacking capital at the time. After RMB joined the SDR of IMF in 2016, the RMB's value as international reserve currency was recognized, and the RMB became increasingly welcomed in CEE countries. Several CEE countries have signed agreements with China on Currency Swaps, Outright Monetary Transactions, and RMB clearing bank services and RMB cross-border payment systems.

1.2.4 The China-CEE Interbank Consortium

The *Riga Guidelines for Cooperation between China and CEE Countries*, during the Fifth Meeting of Heads of Government of Central and Eastern European Countries and China in 2016, encouraged China and CEE countries to jointly explore the possibility of launching a China-CEE Interbank Consortium on a voluntary basis. In *the Budapest Guidelines for Cooperation between China and CEE Countries* in 2017, it is actively expressed that all parties welcome the establishment of the China-CEE Interbank Consortium mentioned in the *Riga Guideline*, and support the establishment of a Secretary and a Coordinating Center of China-CEE Interbank Consortium, led by the China Development Bank and the Hungarian Development Bank respectively. The China-CEE Interbank Consortium was officially launched in November 2017. So far, there are 14 member banks. As the initiator of the Interbank Consortium, the China Development Bank will provide 2 billion euros cooperative development loans to member banks in the coming five years.

As a typical development financial organization, interbank consortium is a significant platform for cooperation except cooperation between commercial banks and central banks. [1] China-CEE Interbank Consortium aims at promoting multi-lateral financial cooperation within the framework of "16+1" Cooperation, which will contribute to the economic and social development through project financing, inter-bank credit, training and exchanges, high-level dialogue, policy communication and information sharing. All member banks of the China-CEE Interbank Consortium are policy banks or development institutions and national commercial banks, including the China Development Bank, the Hungarian Development Bank, the Czech Republican Export-Import Bank, the Slovakian Export-Import Bank, the Croatian Bank for Reconstruction and Development, the Bulgarian Development Bank, the Romanian Export-Import Bank, the Serbian Postal Saving Bank, the Export Development Bank of Slovenia, the Republic of Srpska Investment Development Bank, the Macedonian Development Promotion Bank, the Investment Development Fund of Montenegro, ALTUM from Latvia and the Lithuanian Investment Development Agency. The Consortium consists of a Board of Directors, a High-Level Meeting and a Secretary. Under the principle of autonomous operation, independent decision-making and undertaking of risks, the China-CEE Interbank Consortium provides financial support to key projects of the China-CEE cooperation through effective communication and commercial cooperation, and guides capital into less developed or bottlenecked areas, such as infrastructure construction, electricity energy, agriculture and high-tech development.

1.2.5 Fintech cooperation and coordination

[1] Interbank Consortium is a method frequently taken by China to promote regional financial cooperation. So far, there are the SCO Interbank Consortium, the BRICS countries Interbank Consortium, the China-Asia Interbank Consortium, the China-Africa Interbank Consortium and more.

In *the Sofia Guidelines for Cooperation between China and Central and Eastern European Countries*, all parties support the establishment of a 16+1 Fintech Coordination Center in Lithuania, and the organization of a High Level Forum on 16+1 Fintech Cooperation in Lithuania in 2019. With the fast development momentum, China is leading in the international fintech sector. On the contrary, fintech development differs in CEE countries. Therefore, the cooperation between China and CEE countries in fintech field helps fill not only the gap in CEE countries, but also that under the framework of “16+1” Cooperation. Lithuania enjoys advantages in fintech legislation, supervision, equipment, talents, business environment and entrepreneurship, while, as a eurozone country, the fintech cooperation platform will also contribute to the cooperation between China and eurozone countries.

1.3 Currency cooperation

1.3.1 Currency swaps

So far, China has signed currency swap agreements with Albania and Serbia, and has renewed the agreements with Hungary, with the total swaps scale reaching RMB 23 billion (Table 2).

Table 2: Currency swap agreements between China and CEE countries

Parties	Date	Scale	Validation	Notes
Central Bank of Hungary	2013	RMB 10 billion/HUF 375 billion	3 years	
Central Bank of Hungary	2016	RMB 10 billion/HUF 375 billion	3 years	renewed
Central Bank of Albania	2013	RMB 2 billion/ALL 35.8 billion	3 years	
Central Bank of Serbia	2016	RMB 1.5 billion/ RSD 27 billion	3 years	

Currency swap
Source:

The currency swap agreement highlights financial cooperation, promotes bilateral trade and investment, and contributes to financial stability. With its strong economy and the fast internationalization of the RMB, China needs to strengthen its financial risk resilience. As a back-up instrument, the currency swaps agreement will help the signing countries maintain confidence in the market with the risk of financial crisis and currency deflation hovering. Meanwhile, as a practical instrument, the currency swap agreement would promote investment through loans and credits.

1.3.2 RMB clearance arrangements and RMB circulation

In June 2015, a memorandum on RMB clearance arrangement was signed, and the Bank of China, the Hungarian Branch, was designated by the Bank of China as the RMB clearing bank in Hungary, becoming the first RMB clearing bank in the CEE region. UniCredit, one of the largest banks in the CEE region, transferred its RMB account with the RMB clearance service from Hong Kong, China to the Bank of China, the Hungarian Branch in 2016. Besides, a HUF and RMB debit card was issued by Bank of China (Hungary) Close Ltd. in 2017, which was the first RMB debit card issued in CEE region.

1.3.3 Bond market cooperation

The cooperation is less witnessed on the bond market compared with that on other markets. So far, cooperation only exists between China Poland and Hungary. Poland is the first European country that issued Panda Bonds on the Chinese market. On June 20, 2016, a memorandum on Panda Bonds was signed between Bank of China and Poland’s Ministry of Treasury. As the major contractor, Bank of China will assist in the registration and the issuance of Panda Bonds for the Polish Ministry of Treasury, the bond scale reaching RMB 3 billion with the validation of three years and the nominal rate of 3.40%. It is both the first time for Polish government to issue RMB dominated Treasury bond, and the first time for a European country to enter the Chinese bond market and issue Panda Bonds.

In 2015, an Agency Agreement was signed for the People’s Bank of China to Manage Magyar Nemzeti Bank’s Investment on China’s interbank bond market, and it was also decided that the People’s Bank of China would extend the RMB Qualified Foreign Institutional Investors (RQFII) scheme to Hungary with a total investment quota of RMB 50 billion. In 2016, a Dim-Sum Bond totaling RMB 1 billion was issued in Hong Kong by the Bank of China Hungarian Branch, designated by Hungarian Debt Management Agency (AKK), with the validation of three years. It is the first RMB bond issued by a CEE country, and the third RMB sovereign bond issued on the global market, as well as the first time for Hungary to issue bonds on the international bond market after two years' leaving. In 2017, Hungary issued a Panda Bond totaled RMB 1 billion in China's Interbank Bond Market with the validation of three years and nominal rate of 4.85%.

2. Principles of the China-CEE Financial Cooperation—voluntary basis and market-orientation

Since the Warsaw Summit in 2012, numerous financial cooperation proposals were put forward, serving as the policy guidance for cooperation. The principles of the China CEEC financial cooperation state that cooperation between 17 countries will be strengthened on a voluntary basis and market-oriented new channels and instruments will be explored. The core of the China-CEE financial cooperation is market orientation. Financial instruments from China are not non-profitable, and are is neither a political debt nor a free gift, but a market-oriented instrument with favorable debt and low interest rate that aiming at leveraging cooperation.

The comparison between grant and loan can be adopted here as an example, to provide a further analysis of the principle of market orientation. EU grants, such as those under the Structural Fund and Cohesion Fund, are the major financial tool provided by EU to CEE countries. CEE countries can apply to EU for such grants. If the conditions imposed by the EU on democracy, rule of law, anticorruption, market reform etc. are met in CEE countries the grant is provided to CEE countries, without interest and capital being refunded. Therefore, it is clear that the grant is closely related to politics. In comparison, for any financial instrument provided by China to CEE countries, the form is that of a loan, which means that interest and capital must be repaid, as in any commercial loan, and there is no political conditionality related to the loan.

3. Characteristics of the China-CEE cooperation

3.1. Initiation by the government with participation by national financial institutions

Investment instruments from China to CEE countries are mostly initiated by the Chinese government with participation by political banks and state-owned banks. For the Special Credit Line and Investment Fund, major participants include some political banks, such as the China Export-Import Bank and the China Development Bank, and state-owned banks, such as the Industrial and Commercial Bank of China and Bank of China. Most loans and credits come from such Chinese banks. As development financing institutions, the China Development Bank and the China Export-Import Bank played important roles in promoting the "16+1" investment cooperation, connecting governmental will, market interests and commercial resources. Sino-CEE Finance Holding Company Ltd, established by the Industrial and Commercial Bank of China, serves as a pilot for China to operate overseas investment in the form of a holding company, as well as to leverage capital through market-oriented methods.

3.2. Market-oriented commercial loans

The implementation of commercial loans is a priority in promoting China-CEE cooperation, and commercial loans play huge parts in all financial instruments. For instance, commercial loans took up 70% of all US$ 10 billion Special Credit Line, and commercial loans are also the instrument adopted by Sino-CEE Finance Holding Company Ltd aiming at leveraging market capital totaling 50 billion Euros by 10 billion Euros. Although the commercial loans weigh over favorable loans in quantity, they are less effective than favorable loans, due to the high interest rate of these commercial loans. So far, the interest rate of these loans is around 6%-7%, which is less competitive in European market.

3.3. Loans and funds as the major channels for investment

Another feature of the China-CEE Cooperation is that traditional channels of investment, such as loans and funds, hold an important position in investment and financing cooperation. By comparison, there is less interaction between China and CEE countries on the bond market. So far, there are only two Panda Bonds that have ever been issued on the Chinese market by Poland and Hungary, and the effect has more of a symbolic meaning.

3.4. The risk-and-benefit sharing principle

In the process of implementing the "16+1" Cooperation, many of the financial instruments are provided by Chinese government, such as the China Development Bank and the China Export-Import Bank, which means that most financial risks and most of the pressure are carried by Chinese financial institutions. Therefore, Chinese financial institutions are now actively exploring new financing channels for risk-and-benefit sharing, such as sovereign guarantee and joint financing with CEE countries.

4. Evaluation of the China-CEEC financial cooperation

4.1. Active achievement of the China-CEEC financial cooperation

Over the past six years, financial instruments have been widely adopted, for example, most of the favorable loans in the US$ 10 billion Special Credit Line have been used, the first phase of the China-CEEC Investment Cooperation Fund has been operational and the second phase has been inaugurated. Investment from China has contributed to the benign business environment in the CEE market, making the CEE market more attractive to Chinese investors.

The biggest beneficiary of the favorable loans under the US$ 10 billion Special Credit Line is the Balkan region, with most loans going to projects in infrastructure and energy development.

Table 3: Projects of favorable loans under the US$ 10 billion Special Credit Line

Country	Projects	Value	Instruction
Bosnia and Herzegovina	Stanari Coal-fired Thermal Power Plant	550 million Euros (350 million Euros from Special Credit Line)	As the first project financed by the Special Credit Line, it started in May, 2013, and ended in September, 2016. The Power Station belongs to the British EFT Group, with the contractor being Dongfang Electric Corporation. It is environmental-friendly, satisfying both local and EU green standards. It is the first energy cooperation project between China and Bosnia and Herzegovina since the establishment of bilateral relationship, as well as the first power plant designed and constructed by a Chinese company independently in Europe.
Macedonia	Ohrid-Kicevo highway and Skopje-Stip highway	637 million Euros (579 million Euros from Special Credit Line)	Contracted by Sinohydro, the Ohrid-Kicevo highway and the Skopje-Stip highway will contribute to improved connectivity in Macedonia, shortening transport time from Skopje, the capital of Macedonia, to the historical resort Ohrid, which will activate regional productivity and promote economic development.
Montenegro	Smokovac-Mateševo section of	Contract value: 809 million Euros (743 million from	Contracted by China Road and Bridge Corporation, the project started in May 2015 and will contribute to economic development

Country	Projects	Value	Instruction
	North-South highway	Special Credit Line)	and connectivity improvement.

Source:

The first phase of the China-CEEC Investment Cooperation Fund totaled US$ 435 million, of which US$ 422 million has been used. So far, the investment has covered 12 projects in 5 countries, including in the energy, higher education, manufacture, telecommunication, bio-medication and lighting fields, with active social and economic influence.

Table 4: Projects supported by the China-CEEC Investment Cooperation Fund (by 2017)

Fields	Country	Projects	Year
Energy	Poland	Investment in joint wind power farms projects, Wroblew and Project 2, developed by GEO Renewables, becoming majority shareholders with 50.1% ownership.	2014
		Purchasing 16% stake of PEP, Poland's largest private utility company in renewable energy.	2014
		Investment in Polenergia, a Polish independent power utility listed on the Warsaw Stock Exchange and active in convential and renewable energy generation and distribution.	2015
		Purchase of the wind power turbine Zopowy.	2015
	Czech Republic	Purchase of three solar power plants of ContourGlobal, a solar energy provider.	2016
		Investment in Energy 21, the second-largest PV plants operator.	2016
Telecommunication	Poland	Investment in Electronic Control System S.A., one of the leading engineering company providing telecommunication service.	2015
	Hungary	Purchase of Invitech, a leading communications infrastructure service provider.	2017
Higher education	Hungary	Investment in Budapest Metropolitan University (MetU)	2014
Manufacture	Bulgaria	Investment in Walltopia, a world leader in climbing wall design and manufacturing.	2015
Bio-Medication	Poland	Purchase of 13.2% of stakes of Bioton S. A., a biotechnology company specialized in drug development and manufacturing.	2015
Lighting	Slovenia	Investment in Javna Razsvetljava, a marker leader in design and implementation of public lighting and signaling solutions.	2016

Source:

By 2017, the above investment projects have been widely recognized, helping the China- CEEC Investment Cooperation Fund acquire the title of top Renewable Deal of the Year on CEE Energy Summit in 2015, Top Chinese Investor of the Year in the FDI Poland Investor Awards in 2015, the title of CEE Clean Energy Investor in the third annual CEE Clean Energy Awards in 2016.

Analyzing the location of all the projects, most of the US$ 10 billion Special Credit Line goes into non-EU countries in the Balkan region, and the reason is that the implementation of the Special Credit Line requires sovereign guarantees, a barrier for EU Member States in CEE region because of the EU regulation on national debt. By comparison, most of the China-CEEC Investment Cooperation Fund goes into countries such as Poland, Hungary, Czech Republic, Slovak and Romania, where the business environment, economic situation and solvency capability are better than in other CEE countries.

4.2. Problems related to the China-CEEC financial cooperation

4.2.1 Lack of private capital involvement and low rate of financing from the market

So far, the financing of the "16+1" Cooperation mostly comes from the government, and participants are state-owned banks and financial institutions related to the government. As the commercial pivot, Sino-CEE Finance Holding Company Ltd only started its business recently with few achievements. Government-supported investors caused distrust and doubts among people in some countries who worried there will be geopolitical factors behind such investments.

The general business scale of the Chinese private financial institutions is limited in the CEE region, which is another reason for the negative participation in the China-CEEC Financial Cooperation except for the low level of intention. Besides, there is the problem of information asymmetry in terms of information storage and update, which also contributes to the imbalanced participation between governmental supported banks and private financial institutions.

Another problem that "16+1" Cooperation faces is the low rate of direct market financing. There are only two governments from the CEE countries, Poland and Hungary, that have issued Panda Bonds on the Chinese bond market, and no companies from CEE countries have ever issued any bonds on the Chinese market. At the same time, there direct financing related to "16+1" Cooperation projects is rarely seen on the global market. If direct financing becomes possible for the "16+1" Cooperation, it would contribute a lot to relieving the financing burden on China and reducing the financing risk.

4.2.2 Conflicting rules between "16+1" Cooperation and the EU

Some of EU rules are barriers for China-CEEC Financial Instruments entering European market. One of the most representative conflicts is the requirement on sovereign guarantee. If the government of CEE countries provide sovereign guarantee for the "16+1" Cooperation project, it is highly possible for its national debt to increase and exceed the standard set by the EU, which requests that the value of national debt should not exceed 60% of GDP or add negative influence on the financial feasibility. Such rules make it difficult for China's favorable loan being adopted in CEE countries. Even when Chinese loans are used in CEE countries, they are easily suspected and criticized by the public, accusing that China, acting with a geopolitical purpose, is trying to manipulate CEE countries through the loans. The non-EU states in the CEE region are all candidate countries or in the process of accession, therefore, these potential EU members all need to follow EU rules to certain degree. Especially in the infrastructure sector, Western Balkan countries all agreed to follow EU rules on energy and transportation, such as the environmental standards and the EU competition law. However, the adoption of China's loan usually comes with the condition to reach inter-governmental agreements on Chinese labor hiring, raw material and equipment importing, and special taxes exemption. Such an inter-governmental agreement obviously goes against the public biding and government procurement required by EU (Grieger, 2017)[2]. China-CEEC Special Credit Line cannot be influential unless the conflict of rules between China and the EU could be solved.

4.2.3 Insufficient currency cooperation

From the layout of branches of Chinese banks, it could be easily discovered that there is huge space for improvement for Chinese banks providing overseas services. In comparison with the dominant position of Western banks in CEE region, Chinese banks are lagging far behind in terms of quantities, and most of the current branches are located mainly in Serbia and the Visegrad countries, leaving Baltic and Balkan counties unexplored.

For the current currency cooperation, China and CEE countries have reached benign consensus, signed memorandums of understanding on cooperation, and taken certain symbolic actions, such as issuing HUF and RMB debit card in Hungary to encourage the use of RMB. However, looking through the general picture, there are only three countries out of the 16 counties that have signed currency swap agreements with China, and only two countries, Poland and Hungary, have ever issued bonds in the market. Other countries have not made any concrete movement after signing the symbolic memorandum of understanding on cooperation, which means that cooperation is superficial but not concrete.

4.2.4 Lack of a risk prevention mechanism

Many CEE countries are faced with the problems of high government debt, strong dependence on foreign investment and financial support from the European Investment Bank and the European Bank for Reconstruction and Development, not to mention the problems of unstable regimes and ethnic conflicts in some CEE countries. When dealing with such problems, there is no mechanism in the "16+1" Financial Cooperation that can be adopted to provide solutions on potential risk evaluation and prevention. Even though memorandums of understanding on financial supervision and risk prevention have been signed, the China-CEEC Interbank Consortium has been established, and the Central Bank's Governor Meeting has been held regularly, concrete steps on financial risk preventions remain to be taken.

5. Suggestions for promoting the China-CEEC financial cooperation

5.1. Continuing to abide by the principle of risk-and-benefit sharing

The implementation of "16+1" Financial Cooperation should avoid creating the image that "China is sending money to CEE countries", and for the sake of the financial sustainability, the amount of favorable loans should be carefully controlled.

Based on the current traditional financing channels, it is necessary to explore more possibilities and encourage the involvement of private sector and social capital in the form of PPPs. At the same time, it is also important to diversify the financing instruments, deepen cooperation in the bond market, increase the direct financing in the global capital market, and augment financial support for the "16+1" Cooperation.

As the "16+1" Cooperation deepens, improving the ability of risk prevention becomes crucial to guarantee the sustainability of cooperation, therefore, it is highly suggested that the Chinese government strengthen its cooperation with CEE countries on regular information communication and supervision and establish mechanisms to deal with financial security issues. So far, the Central Bank Governors' Club of Central Asia, Black Sea Region and Balkan Countries has played a coordinating role in regional financial affairs, which could be a model for the China-CEEC Interbank Consortium in coordinating the collaboration within the "16+1" Cooperation. Similarly, the China-CEEC Interbank Consortium should serve as a coordinating mechanism for leveraging capital and assisting supervision, and contribute to building a multi-level supervision and security mechanism through communication among different parties.

5.2 Actively dealing with the conflict of rules and promoting mutual benefits

First, it is necessary to make the investment strategy more transparent, and actively promote coordination, communication and information-sharing on various platforms. A smooth channel for communication is helpful for increasing the transparency and openness of cooperation, and contributes to a mechanism of risk prevention and emergency responses. Besides, it is also suggested to communicate with other financial institutions in Europe and encourage third parties to participate in the China-CEEC Cooperation.

Second, a thorough understanding and analysis of EU laws and regulations is a must. Such conflicts can only be avoided when there is no blind point in the laws and regulations of targeted countries. For example, to solve the conflict concerning sovereign guarantee, it could be better to develop another commercial financing instrument that does not require any sovereign guarantee.

When it comes to the problem of public biding, compliance with EU requirement on public tenders for any investment project is necessary.

5.3. Expanding the scale of currency swaps and RMB cross-border usage

Closer currency cooperation will not only contribute to promoting multilateral investment and trade, but also reducing the risk of exchange rate fluctuation, strengthening the stability of cooperation and the internationalization of RMB. With the premise of and accurate evaluation of currency swaps and exchange rate fluctuation risks, agreements and renewal agreements on currency swaps are highly encouraged. The momentum of RMB usage brought by the establishment of RMB Clearing Banks and the issuing of HUF and RMB debit card should be kept. Moreover, it is important to ensure the infrastructure construction of the RMB clearance system and unified payment system so as to guarantee the smooth use of RMB.

5.4. RMB financing and green bond cooperation

As one of the largest green bond markets, China has experience in the issuance of green bonds. If the green bonds cooperation could be added to "16+1" Financial Cooperation, more capital would flow into green sectors of CEE countries, which will not only satisfy the economic need on the short term, but also helpful to the sustainability of the economy and society in the CEE region.

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Interconnection Cooperation Between China and CEECs under the Belt and Road Initiative

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Abstract: The interconnection cooperation is important way to improve the relationship and deepening the field of China and CEECs under the "17+1 cooperation" framework. After the Belt and Road Initiative was proposed, the connectivity cooperation of China and CEECs could be included in the five cooperation priorities of B&R. There have been some cooperation fruits of China and CEECs on the connectivity. However, the connectivity cooperation between China and CEECs meets some barriers and challenges, such as less policy coordination, financial problem, trade barrier and insufficient people to people bond. Focusing on the problems above, some recommendations were introduced in the end of paper.
Key words: Connectivity China CEECs B&R

1. Introduction

The core conception of Belt and Road Initiative (B&R) could be concluded as the Interconnection, which includes "hard connection" such as infrastructure and trade, and "soft connection" such as exchanges of rule, system, financing and people to people. The five cooperation priorities of B&R, namely Policy Coordination, Facilities Connective, Unimpeded Trade, Financial Integration and People to People Bond, can be understood as the ways of interconnectivity building in the different cooperation areas. The 16+1 Cooperation is promoting the relationship of China and Central and Eastern European Counties (CEECs) by flourishing trade, investment, infrastructure, financing and culture, which has provided an excellent platform for CEECs to join, construct and share the B&R together. This paper would give some introductions about prospects for connectivity cooperation between China and CEECs, discussed the factors effecting connectivity cooperation and gave some recommendations for the cooperation.

2. Prospects for Connectivity Cooperation between China and CEECs

Obviously, the connectivity cooperation between China and CEECs will benefit all parties and create opportunities. In other words, the cooperation has bright prospects.

Firstly, the CEE region has been included in the construction of B&R and could get sufficient supporting policies. The important location of CEE region in the Eurasian continent is often mentioned by strategists. The sprite and content of 16+1 Cooperation are highly compatible with B&R Initiative, although the former was carried out earlier than the latter. The connectivity between China and CEECs is important component of interconnectivity and infrastructure construction of B&R. All the 16 CEECs have signed the cooperation documents with China about the B&R Construction, in which the construction of connective infrastructure was attached great importance by CEEC countries. There are many polices and financing tools under the B&R, such as Silk Road Found and Asian Infrastructure Investment Bank (AIIB). So under the B&R initiative, a global governance plan promoted by China, connectivity cooperation between China and CEECs will receive many finance and policies support.

Secondly, the ability and source of China in the field of infrastructure construction can improve the connective infrastructure in the CEE region in a more efficient way. Chinese enterprises of infrastructure have rich experience in undertaking large-scale projects. Compared with the infrastructure projects invested by the EU, the infrastructure projects invested and built are more efficient and timesaving. The infrastructure projects invested by EU would go through a complex process of project approval and implementation, the time of project usually is very long and inefficient. In addition, the technology of infrastructure, relevant equipment, raw materials and labor force of Chinese companies have price advantages, and they have comparative advantage over EU's enterprises in undertaking infrastructure projects in the CEE region.

Thirdly, there is bright future for connective cooperation between China and EU. The improvement of infrastructure conditions in CEE region has been as an EU developing strategy for many years. In the year of 2014, the EU open the "Berlin Process" in the West Balkans Summits and West Balkan countries need to improve their infrastructures in order to integrate to EU market better.1 In the second West Balkans Summits of 2015, EU has determined to invest 1.2 billion Euros for connectivity construction in the region, of which 1 billion euros will be gradually invested in the next five years. However, the infrastructure connectivity will require 7.7 billion Euros in the future for West Balkans.2 This situation in West Balkans reflected the dilemma of EU investing the transportation infrastructure in CEE region. Nevertheless, EU has rich experience in making standards and rule of connectivity, and CEE countries have been included into the EU system. It can be said that the EU has more soft influence in CEE region. The "hard power" of China in connectivity construction and the "soft power" of EU in rules are complementary and integrated in CEE region. On the other hand, the B&R initiative is aligned with the EU's strategy for CEECs, which would mean to achieve third-party cooperation between China and the EU in CEE region. So the strategic partnership between China and EU would be greatly deepened by connectivity cooperation in CEE region.

3. The Factors Effecting Connectivity Cooperation between China and CEECs

It seems like that the construction of connectivity includes transportation, communication and so on, in the other words, the infrastructure. However, connectivity involves many factors, such as politics, trade, investment, financing and culture exchange between different countries. Particularly, the CEE countries are differing from each other on economic level, infrastructure condition and demand about connectivity. For China, there are many barriers and difficulties to cooperate with CEECs in the connectivity and the comprehensive approach is needed. The factors effecting connectivity cooperation between China and CEECs should be clarified.

3.1 Policy Coordination

As a country outside the region, China needs to make policy coordination with CEECs when participate in connectivity projects in the region. It is obviously that the diversity of CEECs makes policy coordination more difficult and costly. The 16 CEE countries differ greatly in terms of social, economic, political environment, history, culture and religious. As a result, these countries have diversified demands for connectivity. It is difficult to work out a connectivity plan that covers the whole region and is in line with multilateral interests. For example, the Baltic countries (Lithuania, Estonia and Latvia) have proposed to build the Baltic Railway, which is a high-speed railway running through the three countries to increase passenger and cargo transportation. However, the three Baltic countries have serious disputes on the route direction, construction standards, equipment procurement and other aspects, and the implementation of the project has been delayed. Only in January 2017 did the three countries sign the agreement about railway project, and the 728km high-speed railway is scheduled to be completed in the year of 2025.

In addition, 11 of the 16 CEE countries have joined the European Union. It needs to coordinate policy with EU when China develops cooperation on connectivity with CEECs. In September 2018, the EU adopted joint communication which titled as Connecting Europe and Asia - Building blocks for an EU Strategy3. In this

[1] Final Declaration by the Chair of the Conference on the Western Balkans, Berlin, 28 August 2014 . http://shtetiweb.org/berlin-process.

[2] Final Declaration by the Chair of the Vienna Western Balkans Summit , 27 August 2015. http://ec.europa.eu/enlargement/pdf/policy-highlights/regional-cooperation/20150828_chairmans_conclusions_western_balkans_summit.pdf

[3] Connecting Europe and Asia - Building blocks for an EU Strategy. https://cdn3-eeas.fpfis.tech.ec.europa.eu/cdn/farfuture/_014y_ZmZOKD0lvjc4Zx1hfTSz91fJMhUGyXRUHp25I/mtime:1537348892/si

communication China was the foremost cooperation partner in connectivity, however, some media interpreted the document as an attempt by the EU to counter China's B&R initiative in the Eurasia. Different interpretations of EU's documents reflect doubts and confusion about the relationship of China and the EU under the B&R. Therefore, policy coordination between China and the EU is a key prerequisite for connectivity under the 16+1 cooperation.

3.2 Financial Integration

The amount of capital investing connectivity construction is beyond the capacity of one country and requires the joint efforts of relevant countries and various types of capital. So the strong financial support is necessary. Since 2012, China has taken the lead in setting up financial security instruments, such as the 10 billion special loans providing to CEE countries, the China-CEECs Investment Cooperation Fund and the China-CEECs Financial Holding co., LTD. In addition, China and CEECs have strengthened cooperation in the financial sector by setting up financial institutions, signing currency swap agreements and issuing bonds.

However, it should also be noted that the financing platforms and tools for bilateral cooperation are funded and leaded by China, so the financial risk would be mainly taken by China. Financial investment and financing cooperation between China and CEECs is dominated by state-owned funds, and the ability to leverage private capital is limited. The EU has strict rules and regulations on the use of infrastructure funds, to which all parties and funds have to abide. However, China indeed lacks experience and knowledge about EU's rules. Only by solving the above financing problems can the connectivity cooperation between China and CEECs get fully financial guaranteed.

3.3 Unimpeded Trade

Promoting the trade relationship of China and CEECs is the essential force and goal for connectivity cooperation between China and CEECs. Central and eastern Europe is the important node of the Eurasian trade corridor. All the railway freight lines between China and Europe pass through CEE region. The continuous development of economic and trade relations between China and CEECs can drive relevant countries to attach importance to connectivity, especially paying great attentions to the construction of unimpeded trade routes.
Compared with traditional maritime transport, China-EU railway express can save 10-15 days. This improvement on time efficiency has been vigorously mentioned by China as a highlight. However, the enthusiast from CEECs for saving transporting time is not very high. As mater as fact, enterprises of CEECs are more concerned about the cost of transportation other than saving transportation time. In other words, the enterprises are thinking about decreasing the prices of goods, raw materials and products, while time saving is a secondary consideration. The production mode and rhythm of most enterprises in Europe have been determined during the long-term development, and the cargo travel time and production rhythm have been well adapted to each other in most of enterprises. The manufacturing industry in Central and Eastern Europe get raw commodity traditional and distribute products mainly through ports around the Western Europe, which is much lower in price than China—Europe railway express. In addition, CEECs have a large trade deficit with China, and the exports from CEECs to China are not increasing quickly. There are limited needs for the products and good made by CEECs to be transported by China—Europe railway express. As a result, the transport capacity of China-Europe railway lines cannot be fully utilized and some rail wagons are empty when return from Europe. Therefore, the flourishing trade between China and CEECs could provide inexhaustible impetus for connectivity cooperation.

3.4 People to People Bond

Some media and think tanks have some doubts about Chinese ability and purposes of connectivity cooperation. The failure case of Chinese company constructing the high speed way in Poland was repeatedly mentioned by scholars and media reports since 2011. As research fellow of think tank from CEE analyzed, there are few transportation infrastructure projects in CEECs. Any infrastructure project will attract the

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tes/eeas/files/joint_communication_-_connecting_europe_and_asia_-_building_blocks_for_an_eu_strategy_2018-09-19.pdf attention and focus of the public and media. Therefore, failure case will be regarded as poor performance and reputation of enterprise. The public and media in CEECs have more trust in western European companies and Chinese companies are seen as newcomer. Chinese companies are likely to be questioned about their insufficient capacity for projects. 4 In addition, most of the infrastructure projects in CEE are undertaken by Chinese state-owned enterprises, whose status is easily questioned and doubted as the strategic investment with political intentions by China.

The misunderstanding towards Chinese abilities and intentions of connectivity are rooted in unfamiliarity with China by CEECs. In order to dispelling these misunderstandings, people to people exchange is essential, which could make the media and public truly understand China's soft and hard forces and realize the mutually beneficial, open and inclusive nature of the B&R and 16+1 cooperation initiated by China. It is fair to say that people-to-people bound is an important basis for connectivity between China and CEECs.

4 Recommendations for Improving Connectivity cooperation between China and CEECs

By analyzing the factors that affect connectivity cooperation between China and CEECs, some existing issues and obstacles can be found. Some recommendations were carried out in this paper, which could give inspiration to connectivity cooperation between China and CEECs under B&R initiative.

4.1 Policy Coordination of China with CEECs and EU

The rules and regulations are the core system of EU. The member states should take the rules and standards of the EU as guideline of their actions. The EU has doubted the 16+1 cooperation mechanism as Trojan horse, which mean would divide and conquer Europe. China has always announced that 16+1 cooperation is the important part of strategical partnership of China and EU since 2012. China’s position of supporting EU and her integration process has never changed and welcome EU’s institutes to participate 16+1 the cooperation with CEECs. In order to dispelling EU’s doubts, China should advertise her policies, principles and spirits of Consultation, Contribution and Shared Benefits. For China and EU, the policy coordination and synergy of development strategy should be enhanced.

For each CEE countries, the policies about connectivity are various, which are based on the national conditions and demands. Therefore, it is important to conduct in-depth research on specific areas of cooperation from the policy perspective, which means to understand each country's demand for connectivity, identify cooperation projects. Making sure that "one country, one policy" is implemented so that China's competitive technologies and production capacity are in line with the actual needs of CEE countries. For example, there are many people in China who believe that China's technology-leading position on high-speed railway will make cooperation of railway construction to be advantage projects in CEECs. However, in fact, the advantages of China's high-speed railway are not obvious, especially the cost advantages. For example, according to relevant data, the cost of China's high-speed railway is about two-thirds of that of Western Europe countries, but if the difference in price of land costs and labor between China and CEECs are taken into account, the cost advantage of China's high-speed rail will be greatly reduced. Some CEECs’ are narrow in land area and there are little demands about high-speed rail way. So the polices and key fields of connectivity cooperation should be various for CEECs.

4.2 Using Financial Platform and Exploring New Financing Model

Some high-level financial cooperation platforms for China and CEECs have been established, such as China-CEEC Inter-Bank Association, Conference of China-CEEC Central Bank Presidents, which have closed relationship with relevant countries’ financial departments. These financial cooperation platforms should be used effectively through conducting coordination, information sharing and risk prevention. In order to improve the transparency of cooperation and reducing risks, it need to increase active communication with various financial sectors of relevant countries and rely on local financial service institutions to do consulting business.

[4] Interview with Richard Turcsany from Institute of Asian Studies, Slovakia, Aug. 16, 2018, in Beijing.

On the other hand, new financial models are needed for the connectivity projects. Firstly, the public-private partnership (PPP) model is welcomed by many CEECs, especially those countries with high government debt. PPP mode transfers part of government responsibilities to enterprises in the form of franchise. The government and enterprises establish a cooperation relationship by benefit and risk sharing and whole-process cooperation, which can reduce the financial burden of the government. The PPP financing model in infrastructure projects should be encouraged by all parties, which would be meet the needs of CEECs on financing. Secondly, strengthen cooperation with international financial organizations, such as the European Bank for Reconstruction and Development (EBRD). The EBRD has lots of experience on participating in investment in CEE region, and acquaintance EU's rule and regulation countries' conditions. It would not only enable Chinese investors to gain experience of investment in Central and Eastern European countries, but also enable Chinese companies to get into the financial markets of CEE through cooperation with EBRD. Last but not least, we need to leverage private capital to participate in financing platforms for infrastructure projects in CEECs. The existing investment funds and financial investment companies should open more to private capital and attract local and global private capital, which would gain greater financial support for the connectivity cooperation.

4.3 Building Good Image for Chinese State Owned Enterprises

Most Chinese participates in the connectivity cooperation of CEECs are state owned enterprises. The status of state-owned enterprises is often be doubted by media and public of CEECS. It is suspected that China is making strategic investment with political intentions in CEE region. However, due to the lack of cooperation experience in infrastructure projects in Europe, Chinese private enterprises do not have enough enthusiasm to engage into the projects in CEECs. In the future, state-owned enterprises will remain the main force of China in participating in infrastructure projects in CEECs.

CEECs should give objective understanding to Chinese state-owned enterprises, which are market-oriented and abide by international trade and investment rules. In participating in CEECs' connectivity cooperation projects, Chinese state-owned enterprises have made great progress in adapting to the environment of the host country, following local laws and regulations and taking on social responsibilities.

For example, the Chinese construction enterprise, SINOHYDRO, has been contracted to build two high-speed roads in Macedonia, which is one of first projects financed by 10 billion USD special loans between China and CEECs. Since the commencement of construction, there have been no organized protests by local residents on the pretext of environmental protection. SINOHYDRO's project department in Macedonia has maintained good relationship and friendly exchange with local residents. In addition to strictly complying with environmental protection standards and doing a good job in project quality, the Chinese enterprise has kept communicating with local media, community and governments. SINOHYDRO proclaimed through the media of Macedonian that it is the company's goal and task to promote local economic development and public transportation conditions by constructing the roads. The company also helped local people to solve the difficulties and troubles in their lives, such as digging wells for the community, repairing the roads washed out by floods. Additionally, this company sand presents and letters of consolation to local government and community. All these have made local people feel that Chinese enterprises are not the so-called economic colonization and cultural aggression hyped by some media.

It can be seen that Chinese stated owned enterprises are undertaking the responsibility and sprit of benefit share, harmony and inclusiveness under China's B&R initiative and 16+1 cooperation.

4.4 The Role of Local Governments in the Connectivity Cooperation between China and CEECs

The cooperation of local governments between China and CEECs is bright spot, which could benefit all the public and improve bilateral cooperation of China and each CEEC. Although China has a vast territory and abundant resources, the economic development level and natural resources conditions of various regions are quite different, which made the demand for cooperation quite different. There is potential for complementarity between China's regional diversities and those of CEECs. The infrastructure, electric power, telecommunications, industrial parks, agriculture, small and medium-sized enterprises, high and new technologies and other fields will be included into the cooperation of local governments. Some recommendations were put forward as following to improve the local cooperation between China and CEECs.

Firstly, there should be an outline for the local governments which is made by bilateral central governments. There are many cooperation fields for local governments, which would involve national interests and development plans. So the bilateral central governments should discuss and make outlines for connectivity cooperation, which would summarize and give instructions on the priorities, approaches, mechanisms and expected outcomes of the cooperation, thus pointing out the direction and path for bilateral cooperation between local governments.

Secondly, the local cooperation between China and CEECs should focus on the industries or sectors with local advantages. The diversity of CEECs and Chinese local regions make the cooperation more complicated, so respective advantages of China and CEECs should be found and encouraged. The related research institutes and think tanks from China and CEECs could play important role in finding the cooperation advantages. Especially, the enterprises, tank tanks and local governments of CEEC should pay more attention to central and western provinces of China. These provinces are developing faster than eastern region of China. The central and western region of China is experiencing a new round of development and needs new channel and opportunity to cooperate with other regions of world, especially in the fields of infrastructure, agriculture, green industries, people to people and culture exchanges. The connectivity cooperation between local governments of these regions and CEECs is one of the best chances to work closely relation.

Last but not least, for local governments of China, the cooperation with CEECs is to promote opening-up and deepen internal reform. Many local governments of blindly participate in connectivity projects under the B&R in disregard of local conditions, which may easily lead to vicious competition among local governments and waste of resource. For example, many provinces and cities in China are engaged in the China—Europe railway Express and subsidize the operation and transportation, which result in competition among the local governments. In the future, Chinese local governments will be guided by central government and coordinate the policies and actions of cooperation with CEECs.

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How Do BRI Narratives and Actions Impact Cooperation Relations and Partnerships Worldwide?

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Abstract: - China's large-scale initiative BRI announced in 2013 first in Kazakhstan, then in Indonesia, detailed in March 2015 and included in the Chinese constitution in October 2017, has become the most intensely discussed and disputed development project worldwide. In the context of actual power shifts, it has been accompanied by both new narratives and actions of countries worldwide but especially in Asia-Pacific and even by the replacement of this denomination with the concept of "Indo-Pacific", strongly supported by the participants at the Quadrilateral Dialogue (United States-Japan-India-Australia). In only several years, BRI has forged for China solid partnerships with some countries but at the same time it increased the antagonism with others. Taking into account the present context, this paper is focused on finding out how the BRI is influencing the relations between the main actors, situated at the core of global changes.

Key-Words: - Belt and Road Initiative, Indo-Pacific vision, power shifts, alternative Silk Roads

1. Introduction: BRI, generator of a harsh competition among the actual and aspirant world powers

There are many answers offered by third parties at the question: *What is the Belt and Road Initiative (BRI)?* Among the most usual answers in the literature there are: *China's global strategy or Grand Strategy, China's vision for global connectivity, interregional initiative* or *an instrument of the Chinese foreign policy*.

BRI is an economic initiative but with "geopolitical repercussions" (Fowdy, 2019). It is "Xi Jinping's signature foreign policy initiative" (Wuthnow, 2017) and "it is symbolic of China's more assertive foreign policy and departure from the strategy of *hide and bide* that long characterized Beijing's global engagement" (Feng *et al.*, 2019). Most of the recent Chinese initiatives have been included in the large BRI framework. Initially, this New Silk Road included two main segments: the land route (Silk Road Economic Belt, with six ramifications connecting China with Southeast, South and West Asia, the Middle East and Europe) with **six economic corridors** and the sea route (the 21st Century Maritime Silk Road, linking Asia-Africa-Europe) (Map 1).

Map 1: Components of the BRI

Sources: South China Morning Post (2018), Merics (2018) and Grare (2018).

The first step in understanding BRI is a thorough study of Chinese official documents on the New Silk Road, its objectives, ways of implementation, priorities and cooperation mechanisms (Box 1). The second is an in-depth research on third countries' declarations and actions regarding BRI. The third is the literature review, together with the analysis of projects associated with the BRI (which can fall into several categories: successful for participants, successful for one side, renegotiated, postponed or cancelled). Otherwise we risk taking sides before having completely understood this complex project.

Box 1: Chinese visions and actions on jointly building the BRI, in search of complementarities with other connectivity initiatives

NDRC (2015) describes BRI as "a **systematic project**, which should be jointly built through **consultation to meet the interests of all**, and efforts should be made to integrate the development strategies of the countries along the Belt and Road". The principles associated with this development project represent the **"Silk Road Spirit"**, namely "peace and cooperation, openness and inclusiveness, mutual learning and mutual benefit", which are win-win features. BRI has **five key goals**: "policy coordination, facilities connectivity, unimpeded trade, financial integration and people-to-people bonds". A distinct sub-objective is to "form an infrastructure network connecting all sub-regions in Asia, and between Asia, Europe and Africa step by step". Therefore the main focus is the Asian region, then the network of links with Europe and Africa, but also South America and other regions (BRF, 2017). This is not only a South-South cooperation platform but also a North-South one. Infrastructure development is seen as prerequisite to increasing trade, investment, job opportunities, people-to-people and cultural exchanges. It is encouraged "involvement of governments, international and regional organizations, the private sector, civil society and citizens".

The BRI **principles** refer to: "consultation on equal footing", "mutual benefit", "harmony and inclusiveness", "market-based operation" and "balance and sustainability" – being in line with those of the international organizations –.

In the list of **cooperation mechanisms** are included: "the Shanghai Cooperation Organization (SCO), ASEAN Plus China (10+1), Asia-Pacific Economic Cooperation (APEC), Asia-Europe Meeting (ASEM), Asia Cooperation Dialogue (ACD), Conference on Interaction and Confidence-Building Measures in Asia (CICA), China-Arab States Cooperation Forum (CASCF), China-Gulf Cooperation Council Strategic Dialogue, Greater Mekong Sub-region (GMS) Economic Cooperation, and Central Asia Regional Economic Cooperation (CAREC)", which are necessary "to strengthen communication with relevant countries". Subsequently other countries, regions and institutions will be invited to participate in the BRI. At present, more than 70 countries have signed Memoranda of Understanding (MoU) and statements with China related to cooperation under the BRI. The joint projects may be financed via Chinese banks (China Development Bank, the Export-Import Bank of China etc.), as well as the Silk Road Fund, China-Eurasia Economic Cooperation Fund and more recently by multilateral development banks (MDBs): The Asian Development Bank (ADB), Asian Infrastructure Investment Bank (AIIB), the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the New Development Bank and the World Bank Group.[1]

Source: Box elaborated by the author based on NDRC (2015) and BRF (2017).

The BRI map has been extending continuously so that nowadays it surpasses boundaries of Asia, Europe and Africa and reaches the Americas, the Arctic, cyberspace and even the outer space (Hillman, 2018a).

BRI has generated positive reactions (related to its objectives of *policy coordination, facilities connectivity, unimpeded trade, financial integration and people-to-people bonds*) but it faces also "enormous challenges of geopolitical suspicion, economic uncertainty and security risks" (Cui, 2016).

[1] Please consult the MoU dated May 2017, *on collaboration on matters of common interest under the BRI*, available at: https://www.ndb.int/wp-content/uploads/2018/09/MOU-on-BRI-signed.pdf.

As the attitudes of the key global actors (including here the triad US-Japan-EU) towards China have changed after the BRI was launched in 2013, this paper focuses on two inter-related aspects. First, it analyzes the new narratives and actions, associated with the actual power shifts. It stresses that many of the Chinese partners have become much more critical and harsh against BRI. Besides, some of them launched their own initiatives, such as the *US Indo-Pacific Economic Vision* or the *EU Strategy on Connecting Europe and Asia*. Second, it synthesizes the strengths, weaknesses, opportunities and threats (SWOT) linked to BRI, from the perspective of the new narratives and actions.

2. New narratives and actions going together with the BRI, a symbol of actual power shifts

Xi Jinping Thought has been accompanied by new narratives for the world (such as "shared destiny for mankind" and "win-win cooperation") and for the Chinese society (the "Chinese dream", the "great rejuvenation of the Chinese nation") but also by large-scale initiatives (Belt and Road or the New Silk Road, the launch of a new multilateral development bank, namely the Asian Infrastructure Investment Bank, inter-regional and Asian projects). Together with the new narratives and actions, the Chinese process of opening up and reform has continued after 2012 at a much faster pace than before.

Both Chinese narratives and actions are equivalent with more competitive advantages for China, which enables it on one hand to attract more and more supporters of its development model and on other hand to become a "fully developed nation" and a "world leader in science and technology" in the next three decades. However the EU and the US, together with other developed countries but also emerging and developing ones, have chosen to counterbalance China and have resorted to: **anti-Chinese narratives** and **concrete actions** in order to obtain more reciprocity and fairness in bilateral relations. In the literature, middle-power states' strategy on how to deal with China is described as "hedging", which includes "both containment and engagement" (López i Vidal and Pelegrín, 2018). Their prevailing position towards BRI is that of hedging against China but without losing sight of economic interests.

As regards competitors' concrete actions, these include both bilateral and multilateral perspectives, such as: (1) the trade war initiated by the US against China; (2) steps to identify any project which could become a "threat" to national security, specific frameworks for screening FDI (US, EU, Japan) or even the cancellation/renegotiation of large-scale investment projects considered to be against the national interest (e.g. in Malaysia); (3) multilateral frameworks to hedge against China, such as the Quadrilateral Dialogue (United States-Japan-India-Australia); (4) alternatives to the BRI (*alternative Silk Roads*), for instance: the Japan-India "Asia-Africa Growth Corridor" (2017) (Prakash, 2018), the US Indo-Pacific Economic Vision (Pompeo, 2018), the US-Australia-Japan Trilateral Partnership on Infrastructure Investment in the Indo-Pacific (US Embassy and Consulates in Australia, 2018) and the EU Strategy on Connecting Europe and Asia (2018) (EC-HR, 2018).

There is a plenty of anti-Chinese narratives examples in the recent US strategies (*US Defence Strategy of December 2017* – The White House, 2017a – and the *US Strategy in Afghanistan and South Asia* – The White House, 2017b –), but also in official documents issued by other governmental and non-governmental organizations. In general, concrete actions are associated with anti-Chinese narratives.

In the *American Indo-Pacific Economic Vision* of 2018, US puts forth democratic values: "high standards, transparency, and adherence to the rule of law", a "free" and "open" Indo-Pacific (FOIP) (Pompeo, 2018), resonating with the Japanese FOIP of 2016. It is underscored that "the United States does not invest for political influence, but rather practices partnership economics… We believe in strategic partnerships, not strategic dependency… We thus have never and will never seek domination in the Indo-Pacific, and we will oppose any country that does". If one correlates this statement with the *US Defence Strategy of December 2017*, China appears as a "threat". US intends to invest USD 113 million in new initiatives "to support foundational areas of the future: digital economy, energy, and infrastructure" in the Indo-Pacific and "the US government's development finance capacity would more than double to $60 billion dollars", incomparably lower than the BRI projects. The US compensates this discrepancy by a strong narrative against China (as seen in the *US Defence Strategy*). Even the "terminological" enlargement of Asia-Pacific in order to include India represents a concession offered to a much needed partner in the Indo-Pacific region (Oehler-Şincai, 2019). India, which in vain has been trying for more than 25 years to accede to APEC, represents for the US a like-minded partner and a large market (e.g. for the defence industry). Similar to other countries in the region, it considers that **hedging against China** is necessary, even if the bilateral trade and investment ties are strong.

Anti-Chinese narratives include general and specific assertions. In the category of **general assertions** is included the Chinese model itself, which is presented in antagonism with the neo-liberal models, a-priori associated with generally accepted political and economical values (*democracy, human dignity, human rights, freedom, equality and the rule of law, fairness, reciprocity*). There is also a host of **specific cases**, which put in antithesis good initiatives with the BRI, associated with: a “debt trap” (Hurley, Morris and Portelance, 2018) and consequently with the risk of “loss of sovereignty” (Yamada, Palma, 2018), the lack of transparency, non-compliance with international standards and norms and the crowding out phenomenon (Passi, 2018; Baruah, 2018; Grare, 2018; Saarela, 2018). The goals associated with the US-Australia-Japan Trilateral Partnership on Infrastructure Investment in the Indo-Pacific is a good illustration in this regard: “We share the belief that good investments stem from transparency, open competition, sustainability, adhering to robust global standards, employing the local workforce, and avoiding unsustainable debt burdens” (US Embassy and Consulates in Australia, 2018).

China’s relations with most of the countries in Asia-Pacific are similar to the Sino-Malaysian ties, which are compared with a “delicate balance” (Fowdy, 2019). China is the most important trade partner for most of the countries in the region. In the ASEAN group, only for Laos and Brunei it is the second largest partner (European Commission, 2019a). However these countries know how to hedge against China, especially together with large actors such as the US, Japan and India, which restrain from cooperating with China under the BRI. Their common front against China enables them to acquire a stronger bargaining power, as demonstrated by the recent renegotiation of the BRI projects by Malaysia, including the East Coast High Speed Railway.

The four decades of Chinese opening up and reform have shown that the pace of change is slower as compared to the others’ expectations. This is not due to bad will, but to specific conditions in China’s economy, culture and society, and political leaders must first take into account the expectations and needs of the population. US President Donald Trump reiterated in his speeches at prestigious summits that “America first” means the pursuit by the US of national interests, and every nation of the world must first take into account its own interests. Of course, it is not easy to overcome the situation when national interests collide, in which case both sides must resort to compromise in order to reach a new balance. The EU is currently requiring from China very much, as underlined by the document of March 2019, *EU-China – A Strategic Outlook.* But China, considered a “systemic rival promoting alternative models of governance” (European Commission, 2019b), cannot give up its model based on strong political control and meritocracy. It can make larger concessions in some areas, as indicated by its new investment law for instance, smaller in others, or even cannot make any concessions in sectors of national security. BRI is the best way for China to pursue its opening up and reform and at the same time to stimulate economic growth worldwide.

3. A concise SWOT analysis of the BRI

The most relevant group of projects under the BRI are those related to infrastructure development and adjacent services, essential for trade, investment, energy supply, better living standards and people-to-people exchanges. There are already many success stories linked to the BRI (Belt and Road News, 2019; South China Morning Post, 2018), such as:

- The projects in the Gwadar harbour, including the connection between the Pakistani Gwadar harbour and the Chinese Kashgar through an oil pipeline estimated to come into operation in 2021, which would complement the oil supplies via Dubai-Shanghai-Urumqi route (CPEC, 2018);
- The extension of the Central Asia-China gas pipeline;
- The Khorgos dry port, facilitating the railway transportation between East and West;
- The 142 km Jakarta-Bandung high-speed railway, under construction;

- The completion of the 186.5 km Abuja–Kaduna Railway in Nigeria, as the first segment of the Lagos–Kano standard gauge project;
- Development of the Colombo Port City in Sri Lanka;
- The 30 km Temburong Bridge in Brunei, the country's longest sea-crossing bridge, scheduled to open to traffic by the end of 2019;
- The railway system linking Asia to Europe (Box 2), reducing the travel time from around 40 days by sea to 18-20 days;
- The railway to Iran, via Khorgos-Almaty-Tode Bi-Tashkent-Samarkand-Bukara-Bayramaly-Mashhad-Shahrud-Teheran (10,400 km in 14 days);
- China-Belarus industrial park;
- Punta Sierra Wind Farm in Chile;
- Yamal LNG Project in Russia;
- Completion of the Padma bridge in Bangladesh, a first project among many others which are planned in the near future, with a total value estimated at around USD 31 billion, half of the amounts necessary for the China-Pakistan Economic Corridor.

Box 2: Railway services between China and Europe

According to Hillman (2018b), the development of **railway services** between China and Europe developed at an impressive pace, even if trade by rail represents only around 2% of the China-Europe trade by value. "Just 10 years ago, regular direct freight services from China to Europe did not exist… Today, they connect roughly 35 Chinese cities with 34 European cities". This evolution is due to Chinese state subsidies but also to market-driven factors, in terms of costs and speed and also to the relocation of Chinese manufacturing facilities from the Eastern provinces to the Central and Western regions.

Source: Box elaborated by the author based on Hillman (2018b).

Such projects generated not only benefits for the host countries, but also advantages for China, such as: securing access to strategic resources, expanding to new markets, promoting the internationalization of the national currency, RMB, sea routes alternatives to the Malacca strait, opportunities of moving excess capacities abroad or larger marginal revenues for Chinese companies. Therefore they have been associated with a stronger Chinese geopolitical influence, generating fear of a too strong China. The following table synthesizes the strengths, weaknesses, opportunities and threats (SWOT) linked to BRI.

Table 1: A SWOT analysis of the BRI based on the literature review

Strengths, opportunities	Weaknesses, threats
The multi-trillion BRI corresponds to a strong demand for investment in infrastructure and connectivity development (only developing Asia's needs being estimated at USD 26 trillion from 2016 to 2030, according to ADB, 2017).	Local pushback, renegotiation/cancellation of particular projects (because: an initial low level of local industry and workforce participation at BRI projects; fear of overdependence on China; third party influence; ethnic, social, and political divides linked to concerns about the fair distribution of benefits among different regions as it is the case in Balochistan/Pakistan) (Passi, 2018, Grare, 2018).
Infrastructure development has the potential to generate spillover effects in countries participating in the BRI (attraction of FDI in various sectors, participation at complex regional logistics networks, stimulation of local industries and labour market).	Large Chinese state owned companies are the main beneficiaries of the projects, which means distortion of fair competition (Saarela, 2018).
Cooperation with MDBs, taking into account their "knowledge, extensive experience, substantial	"BRI is not based on universally recognized international norms, good governance, rule of

Strengths, opportunities	Weaknesses, threats
resources, and convening power” and also with multinational corporations from other countries in order to implement BRI projects.	law, openness, transparency and equality” (Baruah, 2018).
Infrastructure projects in less developed regions have a larger marginal benefit than in developed ones (Feng *et al.*, 2019).	It is focused on lending money, generating a “debt trap” especially for countries with a weak bargaining power, associated with an increasing Chinese geopolitical influence (Hurley, Morris and Portelance, 2018, Wuthnow, 2017).
It stimulates the increase of people-to-people exchanges, it spurs trade and investment and it “could serve as an accelerator, an effective enabler to achieve the Sustainable Development Goals” (CCIEE-UNDP, 2017).	Lack of sustainability and transparency with multiple potential effects: preventing other businesses to take part in projects, poor governance, corruption, increasing China’s influence (Feng *et al.*, 2019).
It helps China advance the reform and opening up not only through the development of the Chinese regions lagging behind but also by: expanding to new markets, diminishing the national production capacities in excess, promoting the internationalization of the national currency, RMB and generating a “circle of friends” in regions of Central Asia, Middle East, North Africa (Adarov, 2018).	Ignoring domestic problems in favour of overseas development and business opportunities (Feng *et al.*, 2019), the risk of increasing bad debts (Wuthnow, 2017) and also security risks, as BRI implies also projects in regions associated with conflicts and instability (Wuthnow, 2017).
China has taken measures in order to temper side effects/partners’ fears (increased international cooperation, partnerships with MDBs etc.).	Strategic locations in harbours generate suspicion from other global players, which aggravate tensions (Baruah, 2018).
The BRI map is continuously expanding according to partner countries’ development objectives.	The overall impact of the BRI is overestimated, as most of China’s infrastructure projects began as bilateral projects before the BRI was launched (Baruah, 2018).

Source: Table elaborated by the author based on ADB (2017), CCIEE-UNDP (2017), Passi (2018), Baruah (2018), Grare (2018), Adarov (2018), Hurley, Morris and Portelance (2018), Saarela (2018) and Feng *et al.* (2019).

4. Conclusions

Most of the countries worldwide are ready to intensify cooperation with China under the BRI. This large scale initiative corresponds to a strong demand for investment in infrastructure and connectivity development. There are already many success stories under the BRI. However, the US, Japan and India do not participate in the BRI. The EU launched in 2015 a Connectivity Platform in order to link the BRI with European projects, however EU has recently distanced partially from China.

Critics of the BRI have resorted to concrete actions, which include both bilateral and multilateral perspectives, such as: (1) the trade war initiated by the US against China; (2) steps to identify any project which could become a “threat” to national security; (3) multilateral frameworks to hedge against China; (4) launch of alternative Silk Roads. The last mentioned category has become a new phenomenon which is worth paying attention to. It would represent a good engine of the world economy if it relied on complementarities with BRI, instead of fierce competition. The Japan-India Asia-Africa Growth Corridor (2017), the US Indo-Pacific Economic Vision (2018), the US-Australia-Japan Trilateral Partnership on Infrastructure Investment in the Indo-Pacific (2018) and even the EU Strategy on Connecting Europe and Asia (2018) fall into this category.

Other states pursue a strategy of hedging against China, in order to increase their bargaining power, which resonates with their national interests. It is a good perspective as long as it leads to a higher level of participation at BRI projects on the part of private sector, local industry and workforce. China itself has already taken measures in order to temper side effects and partners' fears.

It is true that BRI brings various benefits not only for China's partners but for China itself, reflecting its win-win character, underlined by Chinese officials from the inception of the project. BRI is the best way for China to pursue its opening up and reform and at the same time to stimulate economic growth worldwide.

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The Looming USA-China Trade War and Its Consequences[1]

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Abstract: This paper looks at the evolution of the US-China economic relations from their complex, strong, multi-dimensional co-dependency, built up along many decades, to their growing disengagement and rivalry, following the lose-lose option for a trade war. The analysis places the trade tensions against the backdrop of the international production structured into global value chains and production networks, stressing upon the inadequacy of the policies adopted by the two actors, primarily by the US, and demonstrating why the consequences of the conflict are expected to be negative. The clash of the two world economic giants, which has unrolled since the begining of 2018, but has intensified especially in its second part, has disrupted not only the two rival economies, but also their other partner countries and the world economy as a whole. As such, in its final part, the paper focusses on the expected consequences of the trade war for the economies, companies and populations of the US, China, South-East Asia and the EU, concluding that the US-China trade war will have no winners and recognising its real rationale as the scramble for the economic and technological dominance of the world.

Key words: US, China, trade war, tariffs, economic and technological domination
JEL Classification: F13, F23, F51

1. Introduction

Globalisation has deeply changed the setup and functioning of world industrial production and of the international trade. In the 21st century, their salient feature rests in their structuring into, and operating within global value chains (GVCs) and international production networks (IPNs). Manufacturing has become international, its whole process – from design, to delivery and marketing – being decomposed into segments of activities which are allocated to companies in various countries according to their comparative and competitive advatages, so that the final goods can be subsequently assembled and offered at optimal cost and quality levels. Integrating companies into GVCs plays an essential role in transfering technology and technical, organizational and managerial know-how to the developing countries, as well as in job creation, skills and competitiveness enhancement, production and foreign trade furthering and, ultimately, in stimulating economic growth. Affiliation to GVCs has been fundamental in attaining the „miracle" development and progress of some investment and export-driven economies with outstanding ascent, such as China and the „Asian tigers"[2].

Against the backdrop of the current global production setup, trade in components makes the largest part of the world commercial exchanges, the majority (two thirds) of the global trade takes place within the GVCs and, as such, the fundamentals of the international trade are dramatically changed, at least in two major regards (Sally, 2013):

(i) Exports have come to depend more than ever on imports, so that, in most economies, the value added abroad accounts for about 30% of their total export value, double the average proportion it accounted for in the 1990s.

(ii) Services have gained higher importance, accounting for about 30% of the global exports value, on average (30% in China and over 50% in the US and the EU).

As such, when trade policies are reformulated, or when measures with an impact on the international trade are taken (especially by economies with a significant weight in the global economy, such as the US and

[1] This title was registered at the *Romania-China Academic Round Table, Bucharest, 20-21 September 2018,* before the US-China trade war flared up and it addresses the time-frame precursory of mid-September 2018.
[2] South Korea, Singapore, Hong Kong, Taiwan, Thailand, the Philippines, Indonesia, Malaysia.

China), the current architecture and functioning of the world manufacturing cannot be overlooked, and that implies taking into account the following realities:

- GVGs transform into non-sense the mercantilist approaches built on the belief that "exports are good and imports are bad for the national economy", as nowadays competitive exports vitally depend on large and free access to imported inputs;
- GVCs, which define the current reality of global production and trade, can maximize competitive advantages only provided that trade is free, economies are open to both foreign trade and foreign investments, private property is protected and the business environment is friendly and efficient;
- GVCs delegitimize any arguments in favour of traditional industrial policies which include, for instance, the selective protection and promotion of specific industries or companies (e.g. fostering "national champions").

Acting within this reality, but trying to mold it in its favour in ways which defy free market economy rules, China is developing new industrial policy programmes (e.g. Made in China 2025, Internet+), aiming at swiftly climbing the technology ladder and becoming the „key stone" of the GVC that will buttress the global industries of the future. To that end and defying the same rules, it has used both the influx of foreign capital (FDI) into its economy[3] and, more recently, its own outbound direct investments (ODI)[4] – plus some other „unorthodox" methods[5] – to accelerate its access to, and mastering of the western state-of-the-art technologies.

On the other hand, amid the same reality of GVCs dominance, but seeming to ignore it or to believe that it can overrule it, the Trump administration also wants to tailor the world to US interests, but it hopes to get that by breaching the market economy rules in a different way: by introducing barriers to international trade (both to US imports and to some sensitive US exports), by hindering the free movement of entrepreneurial capital and even by trying to compel a partner country (China) to give up its economic development programmes. Ignoring, defying or even forcing the objective reality in which it develops its policies, the US will most probably come to feel the boomerang effects of at least some of these measures.

2. US-China relationship: from co-dependency to uncoupling and trade war

2.1 From codependency to uncoupling

US and China are entangled in a complex, symbiotic relationship of co-dependency, which has been built up gradually since the '70s, when both countries needed new recipes of economic revival and, as such, they turned to each other, trying to tap on their complementarities.

(a) The first and most obvious field was that of the ***bilateral trade***: China, a low-costs country starting to implement the reforms of Deng Xiaoping, setting up a new export-led economic model and opening up to the global market, could deliver great quantities of afordable goods, while the US, a consumption-oriented economy, could provide for a large market, with high absorption capacity.

It is important to highlight that, more often than not, the American imports from China are considerably larger than the Chinese imports from the US, resulting in a significant American commercial deficit. In 2017, for instance, the US imported Chinese goods worth USD 505 billion, over four times more than China's total annual imports from the US, worth only USD 130 billion. Such imbalances have kept generating trade deficits with China, year by year. The 2017 deficit, worth USD 375 billion (US Census Bureau, 2018), is undisputably large and chronic, but it only accounts for less than half (about 47%) the overall American commercial deficit - worth USD 800 billion in 2017 -, as the US are chronically running trade deficits with many other countries besides China. In 2017, there were 102 such countries worldwide (Roach, 2018).

Nevertheless, if before the outbreak of the global economic and financial crisis (2007), China relied heavily on external demand and exports to attain high economic growth, afterwards, it opted for a different strategy and its interests and aims have substantially changed. The country started the transition from its

[3] e.g. Compulsory joint ventures with local companies, followed by forced technology transfers;

[4] e.g. Takeovers of selected western hi-tech companies which own advanced innovative capabilities and valuable IP portfolios, mainly by Chinese State-owned enterprises (SOEs), but also by Chinese private-ownership enterprises (POEs), all of them backed by the Chinese government.

[5] e.g. Imitation and copying, reverse engineering, industrial and cyber spying, IP theft etc.

investment and export-driven development model, to a new growth model led by domestic demand, consumption, services and high technologies. The shift has already resulted in an significant decline of its dependence on foreign, and specifically American, demand: in comparison with 2007, when exports accounted for 37% of GDP, in 2017 they came to account for only 18% of the Chinese domestic product (Roach, 2018). Therefore, while the Chinese economy continues to be driven to a certain extent by exports and as the US continues to be its largest market, following a decade of reforms focussed on economic rebalancing, China can now rely more on its domestic demand and better cope with the external pressures on its exports. Its dependence on the US market is gradually decreasing.

(b) A second realm of the US-China codependency was gradually formed by way of ***investments while the international production system configured into GVCs and IPNs has developed.*** To tap on the cost advantages presented by China, more and more western companies, American ones included, have relocated segments of their industrial activities to this country, building international supply and production chains and integrating China in them. The (segments of) activities initially transfered to China were mainly in the low value-added range, i.e. placed in the middle of the production chain (assembling, finishing, packaging, delivery), while the „chain ends", which add much more value to goods (RDI[6], design, planning etc., at one extreme, and marketing, branding, advertising etc. at the other) were usually retained further on in the western units of foreign companies. However, all parties enjoyed benefits: foreign firms obtained diminishing costs, improved productivity and competitiveness and higher profits, while Chinese companies benefitted from FDI, new jobs, skills, technologies and the diversification of industrial activities, plus know-how transfer, increased production and export, access to new export markets etc.).

At the same time, trade within GVCs between the American MNCs[7] and their units or partners in China, has contributed to the growing US trade deficit with this country. However, one should note that statistics may be catchy in this respect and should consider the following:

- First, that Chinese exports by foreign-invested companies account for a large proportion of the overall Chinese exports (46%, in 2014) and their weight is even larger when the destination of exports is the US (60%) (Lovely &Young, 2018). In other words, what appears at first sight to be Chinese exports to the US, might in fact be – with a high probability (60%) - those of some western businesses, American included;
- Second, that according to OCDE and WTO data, at least 40% of the US trade deficit with China results from the functioning of the world components supply chains: China is supplied components from all over the world to assemble them into final goods and then export them to various destinations, primarily to its largest market, the US. As they leave China, these goods are registered as Chinese exports, although they incorporate parts produced and value added elsewhere. In other words, not all the exported value recorded as Chinese, is Chinese production. A considerable part of it is produced in many other countries. According to Roach (2018), if the GVCs effect could be removed and only the value added by China would be considered, then China's weight in the US trade deficit would fall from 47%, to about 28%.

For now, due to their companies' tight integration into GVCs, US and China maintain a strong relationship of co-dependency in terms of international production, investments and trade, but that is going to change once the trade war and the growing technological rivalry between them will lead to the reconfiguration of the GVCs and IPNs, or, potentially, in the longer-run, even to a wholly different architecture of the world manufacturing and trade, as well as to a new world order. Far away as they might seem today, such mutations are on the great powers' agendas and they may become reality sooner than they seem now. China, for instance, has reinforced its economic development approach with selective industrial policies (e.g. Made in China 2025, Internet+, national champions etc.) with a view to gaining technological prowess, restructuring regional and global value chains in the industries of the future and remodeling the entire global order according to its national interests. That obviously implies not only the uncoupling from the US, but fighting against the US for economic, technologic, military and strategic supremacy.

[6] Research-Development-Innovation
[7] Multi-National Companies

(c) A third area of bilateral dependency is ***technology***. To do away with its technological backwardness, for many years China has pre-conditioned the access of foreign companies to its market, by ***technology transfers***. Foreign companies looking to access China's market were legally bound to set up joint-ventures with Chinese partners and to give them access to their technology. Sometimes they were even lured to remise their IP[8] rights. Eager to get access to a huge and growing market, to the local comparative advantages and economies of scale, foreign companies, the American ones included, usually accepted to give away their technologies, knowledge, good practice and know-how and to train the Chinese employees. Additionally, besides benefitting from these transfers, Chinese firms have also practiced intensively the reverse engineering and copying of western products, advancing gradually to a stage when they could improve and diversify those products by their own innovating effort. Also, in time, quite many of the American and other western companies decided to tap on the local pool of creative talents and transfered to China parts of their research-development and innovation activities.

All these developments in the bilateral relation of the two countries contributed, this time, to creating a third form of strongly assymetric co-dependency involving the ***technology, knowledge and know-how transfers***. Aiming at building a knowledge-based, technology-driven economy and society, China is increasingly investing huge amounts in its own research and development, making significant strides in various research fields, but the gap that separates it in this respect from the western economies, and especially from the US, is still sizeable. Despite all its great efforts, China was and still is highly dependent on the US and on other western technologically-advanced countries[9].

To bridge the technological gap sooner, besides using the FDI inflows to its economy in the manner described above – a method which it will have to abandon rather soon, under the international pressure -, China has started to transform its outbound investments (ODI) into a means of getting access to the state-of-the-art technologies of the West. Both the Chinese state-owned enterprises (SOEs) and the privately owned ones (POEs), backed by the Chinese state, have started to implement the „going out, going global" (2002) and „Belt and Road" (2013) governmental strategies, aiming at acquiring some of the most valuable western strategic and high-technology assets, with the final purpose of taking over their research capabilities and IP portfolios and use them to propel China's technological ascent. Obviously, the better China attains its technological development goals, the sooner its economy will be technologically uncoupled from that of the US and the two countries will become fierce rivals.

The record acquisitions of numerous famous industrial assets finalized in 2015 and 2016 by Chinese enterprises, especially in Europe, but also in the US, as well as China's industrial strategy focussed on fostering ten industries of the future[10] (Made in China 2025) allarmed and worried the targetted countries and triggered their prompt backlash. Particularly the US acted very fermly by restricting certain sensitive exports and by reinforcing and tightening the mechanisms of *investment screening* through CFIUS[11] and FIRMA[12]. The EU is following a similar path. Both the new western vigilence and the Chinese measures aiming at forbidding and/or getting rid of „irrational" acquisitions have led to a major drop of the Chinese takeovers of US and EU high tech assets, in 2017 and 2018. For the US-China relations, such developments may be also considered elements of an uncoupling process in progress.

(d) Another facet of the US-China co-dependency is that reflected in the ***financial*** sphere, also reliant on the complementarities of the two economies: in the US, savings are very low, while investments and consumption - as a part of the American culture (consumerism) - are high, always above the level of total savings, whereas in China, on the contrary, the population still maintains a large propensity for frugal consumption and high savings, companies and institutions are also saving and such a behaviour results in the accumulation of considerable financial reserves. Additionally, for many years China has been running significant trade surpluses and has kept attracting huge FDI which contributed to the accretion of the *all-time*

[8] Intellectual Property Rights

[9] For instance in the household appliances industry, where China is the global leader, the basic technologies are mainly of American, Japanese or South Korean origin, in the automotive industry, they are mainly German, American, or Japanese and in the photo voltaic (PV) panels industry, they are German (Pencea, 2017).

[10] State-of-the-art information technology (IT), artificial intelligence (AI) and robotics, airplanes and aerospace equipment, high-tech ships, high-speed trains, vehicles propelled by new energy sources, new materials, energetic equipment, high-tech agricultural machinery, biopharmaceuticals and high performance medical equipment.

[11] Committee on Foreign Investments in the US.

[12] Foreign Investment Risk Review Modernization Act.

largest foreign reserve in the world, reaching annual levels between USD 3,000 billion - USD 4,000 billion, in the last decade.

To make its budgetary deficit good, the US needed to repeatedly issue treasury bonds, while China, untill not long ago, chose to capitalize safely on its foreign reserves by investing in American or other countries' state bonds. As such, China has come to hold in its external reserve US treasury bonds worth USD 1,300 billion, ranking first in the world in this respect.

However, more recently, the strong ***financial co-dependence*** established for many years between the two countries is weakening too. China has been taking steps in this direction for some years, by either acquiring other securities, or by redirecting its disposable foreign reserves towards outbound direct investments and loans, while implementing the „going out, going global" and the Belt and Road strategies. Numbers are relevant in illustrating the change that is already unrolling as regards the financial co-dependency of the two: during 2013-2017, in only five years, the weight of the American treasury bonds in the overall Chinese external reserve has dropped by 10.1%. And the process is going on. According to Roach (2015), as China will also more firmly shift from saving surpluses and financing American consumption and investments, to using those surpluses „... for building a safety net to Chinese citizens", the United States will „... find it tough to fill the void."

(e) Finally, there is another US-China bilateral linkage that has become, in time, quite close and significant in the field of ***academic relations***. Over 300,000 Chinese students are studying yearly in the US, many of them are getting their doctor's degree and/or are remaining in the US to work in research, banking or in large corporations. Other graduates travel to the US to exchange experience. According to the American National Science Foundation, 92% of the Chinese students were still in the US five years after their graduation (GCP, 2018). On the other hand, tapping on the bilateral academic exchanges, the American professors, researchers, students and artists had also much to gain from their exposure to oldest, uninterrupted civilization of the world (Bader, 2018).

But the trend is shifting in this field too, and the Chinese policies aimed at attracting the graduates back home are increasingly more successful, as both the wages offered as part of their „return package" and the funding available for research programmes are now similar in China to those in the US. At the same time, in the US, these highly-educated experts are, more recently, openly accused of spying and of IP theft, president Trump expresses his doubts as regards their presence in sensitive activities, such as the US research, and he wonders if it is worth offering them US scholarships in the future. This kind of pressures help many of the graduates decide to return home and it enlarges the trail of „sea turtles"[13] that go back to China to give a major boost to the Chinese national research, industry, finance and education and to contribute to speeding up their country's advancement to the top technological prowess. This outcome is exactly what president Trump wants in principle to obstruct, but in fact he encourages to happen through his messages and actions.

Numbers are quite impressive. According to Chinese statistics (Ministry of Education), the number of Chinese students studying abroad raised to 540,000 in 2016, 37.6% larger than in 2011, while the number of the returned (430,000) increased by 57% during the same time-frame. Among the returned, 11,1% had a doctor's degree (GCP, 2018).

All the developments that are unrolling in the five main realms of US-China co-dependency are redirecting their bilateral relationship towards uncoupling and increased rivalry. They have been generated by the major changes undergone by the two countries, mostly during the recent three decades. Without elaborating here on the complex transformations of the two great powers, we confine to briefly pointing out some of the main changes that are worth mentioning in the light of our subject matter.

On the one hand, as regards **the US**, the terrorist attack of September 2001 lead to some subsequent unilateral US decisions subsumed to the „anti-terrorist fight" that involved bending international norms and rules. This was an unfortunate signal, that might have shaken the belief of many developing countries' leaders, the Chinease leadership included, in the western principles-and-rules-based system, in which each and every actor should theoretically observe, without exception, the same, binding-for-all, rules.

[13] Affectionate naming by the Chinese of the their young, who left home, travelled far way overseas in search of the best education and then are returning home, bringing everything they have accumulated to contribute to the progress of their motherland.

Secondly, the global economic and financial crisis of 2007-2010, that was triggered by the US, has badly damaged the western world, demonstrating that the western economic development model was not in reality as strong and stable as it had seemed to be. Again, this might have shaken China's trust in the western way and its resolution of following it, the more so as **China** itself managed to navigate very well through the crisis, recovering very quickly, turning the crisis into a range of opportunities and helping, at the same time, other countries to cope with its misfortunes.

Moreover, as opposed to the lengthy malaise of the developed countries in the aftermath of the global economic crisis, its own success has encouraged China to become more vocal and assertive at global level, to trust more in its own development solutions and to proclaim and promote its own development model as more performant and efficient than the western one. Its domestic reforms and evolutions in the recent five to ten years have also changed China considerably and contributed to moving it away from the western model, which it had seemed to target in the 1992-2001, but it obviously abandons now (Rosen, 2018). Among these:

- ✓ The change of its development model from export-led, to consumption-driven growth;
- ✓ The rebalancing its economy from manufacturing to services, from traditional, labour-and-resources-intensive industries, to high tech, knowledge-and-skills-intensive industries, from polluting heating, manufacturing and transport, to green, renewable energy use;
- ✓ The reinforcing of selective industrial policies (e.g. Made in China 2025);
- ✓ The reinforcing of the Chinese Communist Party's (CCP) and Chinese state's involvement in the macro and micro-economic management of the economy and the consolidation of SOEs, envisioned to become national champions;
- ✓ The increasingly vocal claim of having a more sustainable alternative development model distinct from the western one. *„The key distinction drawn is that the western model is just market oriented, while the Chinese model uses markets to allocate some resources but the state, represented by the Communist Party, to run the economy."* (Rosen, 2018);
- ✓ The devising of strategies aiming at establishing China's regional and global domination (e.g. Belt and Road, with both its land and maritime components);

For short:

- ➢ China gives up its long-preserved ambiguity regarding the nature of its system and its tacit option of adopting western norms, vouching that its system is different;
- ➢ The US no longer considers China a country in transition to the western system of norms and rules, it defines and treats it as a *strategic rival* and it switches to *disengagement.*

Until recently, the US-China co-dependency has acted as a brake to the escalation of distrust and confrontation, preserving a certain global balance and the world stability. As the US and China are now gradually shifting from co-dependency to uncoupling, strategic rivalry and trade war, major risks to the global stability are nurtured.

2.2 The US-China trade war synopsis

Since the US presidential elections and all along his first mandate, Donald Trump has often spoken about the huge and unjust trade deficit with China, about China's unfair practices in international trade, competition, market access, forced technology transfers, IP protection and development strategies. By the end of 2017, and especially between January and September 2018, the American president has complemented his critical discourses and threats, with concrete decisions and actions: he started to raise in stages, the tariffs on the US imports from China, and China retaliated similarly to each of his measures. US and China, the first two largest economies and commercial powers of the world, were at war, a trade war. In the way they selected the lists of products, sequence and the tariff levels, each of the two actors tried to hit the most sensitive areas of the other, without hurting itself too much. In a world dominated by GVCs this is a very difficult undertaking, the more so as the confrontation keeps escalating and not many fields remain untouched.

Looking at the big picture of trade hostilities (Table 1), one finds out that in 2018 there have been three significant rounds of import tariff rises, doubled by retaliations, involving lists of goods worth a total of USD 360 billion (2017 levels), of which USD 250 billion American imports and USD 110 billion Chinese ones.

By the end of 2018, about half of the American imports from China (worth USD 255 billion) and only 15% of the Chinese imports from the US (worth USD 20 billion) were still unaffected by the tariff war.

Table 1: The US-China trade war synopsis (USD, billion; %)

US-CHINA TRADE, 2017[14]	**TARIFF INCREASES IN US-CN TRADE, 2018**
	US CN
➢ CN exports to US $ 505 bn. ➢ US exports to CN $ 130 bn. **TOTAL TRADE: $ 635 bn**. **US TRADE DEFICIT:** ➢ US Total* $ 800 bn. ➢ **US vs. CN $ 375 bn**. US vs. CN 46.9% **US is currently runnig trade deficits with 102 countries*	▪ July: $ 34 bn.* $ 34 bn.* ▪ August: $ 16 bn.* $ 16 bn.* ▪ Sept.: $ 200 bn.** $ 60 bn.*** **TOTAL: $ 250bn. $ 110bn.** **$ 360bn.** (56.7% of the bilateral trade) Still unaffected by tariff rise: $ 255bn $ 20 bn. ✓ US raised tariffs on goods worth $250bn./49.5% of its imports from CN ✓ CN raised tariffs on goods worth $110bn./85% of its imports from the US ** new tariffs raised to 25%* *** new tariffs raised to 10% and, potentially, further, to 25%, by December 2018* **** new tariffs raised to 5%-25%*

Source: The author

It is significant to notice that in the first US list of imports from China, worth USD 50 billion, to which tariff increases of 25% were enforced in two stages (USD 34 bn. in June and USD 16 bn. in August, 2018), about 95% of the items were intermediate and capital goods needed by the American and foreign manufacturers located in the United States. The second US list of imports from China, worth USD 200 billion, to which tariff increases of 10% were enforced, in a first stage, in September 2018, included more consumption goods demanded by the American population.

At first, for an obvious reason, the retaliatory measures taken by China targeted the US agricultural products and food produced in the states that had voted president Trump, but then, they also aimed at other products, including components and other inputs for the Chinese factories that assemble for export. China could not parallel dollar per dollar the American measures, because it imports much less from the US, than the US does from China, and also because some American products - such as the semiconductors - are vital for its IT&C giants.

3. Expected consequences of the US-China Trade war

3.1 The United States

The American producers were the first to feel the impact of increased tariffs, both as importers of intermediate and capital goods from China, and as exporters to the Chinese market. Some of them were affected only by one of these tariff increases (either that of the US, or China's), but others - who either import components and industrial equipment from China and then export there the final goods, or they first export machinery and components to be assembled in China for subsequent import of the goods assembled – were hit

[14] The 2017 bilateral trade volumes were the ones used as reference in all the analyses, debates, negotiations and decisions regarding import tariff increases in US-China trade.

twice. According to a study by Lovely&Yang (2018), some of the most affected companies will be the American MNCs that assemble final goods in China from parts made in the US. In their oppinion, 87% of the items affected by the new tariffs are those of the non-Chinese MNCs and only the balance of 13% are items produced by Chinese firms. Another study, by the Federal Bank of San Francisco pointed out, back in 2011, that for each dollar spent on a product made in China, 55 cents are for services produced in the US (NYT, 2018). That means that the import barriers to their access on the American market impacts the US suppliers of such services more than they hit the Chinese firms.

The US import tariffs are ultimately paid by the American consumers and producers, not by the Chinese ones, and, usually, the country that imports more is prone to suffer more from a trade war. That's the case of the US, at least theoretically, in their trade relationship with China. Some of the affected American companies may decide, in case they can, to absorb the additional costs and diminish their profits. Others, may transfer those costs to the consumer, risking to lose clients, market shares and, again, profit. As exporters, they are also at a disadvantage in the international markets, where they may meet competitors which don't have these additional costs and, as such, become more competitive by comparison. In fact, more accurately, what happens is that the American companies lose competitiveness and, consequently, they are forced to find ways of either reducing costs, or increasing the value added to their goods.

To cut costs, US companies may try to replace their Chinese suppliers or assemblers, but normally, in a GVC, the market forces had already optimized costs, therefore the chance of finding replacements may be reduced, while the costs of identifying and integrating them efficiently into the GVC might be quite high and time-consuming. Some companies might also decide to postpone their investments and development plans, to cut other costs, freeze wages, fire personnel etc. Others might decide to relocate their activities in low-cost countries which are not subject of either the American, or the Chinese higher import tariffs.

On the other hand, there are many American companies - from Starbucks, Nike and Apple, to General Motors (which sells more cars in China than in the US), Ford and Boeing – that have developed great businesses in China. These companies, to which China became a key market, might suffer the consequences of the trade war not only by way of higher tariffs, but also in case Chinese consumers decide to boycott them, refusing to buy their goods and services. This has happened before in China's disputes on goods and services offered by South Korea, Japan, or the Philippines, and it might happen again (NYT, 2018).

To conclude, the impact of the new import tarrifs on the US companies, reflected in higher costs, diminished competitivenes and profit, lost jobs, eforts to redesign the supply chains and/or to relocate production in low-cost countries unaffected by the trade war, is not at all what the Trump administration intended (i.e. more orders for American companies located in the US, more jobs in the US domestic labour market, the return in the US of the American firms relocated in China and elsewhere etc.), but on the contrary.

The American consumers might not have felt a too strong impact from the first two rounds of tariff raises, which were focussed on the American companies and farms. Therefore, the impact on consumers was indirect, mild and objectively delayed. It was also additionally diluted by the fiscal and monetary measures taken in advance by the American administration: tax cuts for companies and gradual increases of the benchmark interest rate. The tax cuts have given a quite vigorous boost to the US economic growth, while the repeated interest rate increases have attracted dollars back into the American banks, contributing to the strengthening of the US currency. This has attenuated the potential decline of the American consumers' purchasing power due to rising prices.

As elsewhere, the American consumers have long benefitted from low inflation levels backed up by the abundance of cheap goods imported from China. However, the higher tariffs levied on Chinese imports may generate an inflation leap, especially when more consumer goods will be targetted. As compared to the first two rounds, the third round of tariff increases (of September 2018, worth USD 200 billion) included more consumer goods (47%) and the increase was deliberately moderate, to only 10%, specifically to protect American consumers. But it also provided for potential further tarrif increses, to 25%, in case US-China negotiations fail[15]. If tarrifs on the consumer goods imported from China do reach 25%, the impact on the the American consumers will be direct and considerably stronger than before.

[15] Following a three months truce (January to March 31, 2019) agreed by the end of 2018 with the purpose of gaining time for negotiations, the expected US-China deal didn't materialize and, on May 10th, 2019, the US Administration did increase the import tariffs again, to 25%, for the USD 200 billion third tranche of Chinese imports. In retaliation, the

It is worth mentioning here that a dollar that became stronger, as described above, as well as a RMB (yuan) that is currently depreciating are expected to trigger developments contrary to president's Trump intentions when he decided to change tariffs: a stronger dollar will descourage American exports, while a declining yuan will stimulate the Chinese ones and that will negatively impact the hoped-for rebalancing of the Balance of Trade. The US trade deficit with China will not decline, but on the contrary, it might grow.

The American economy. Trade policy is not the adequate tool for the American trade deficit correction, which results from a structural problem of the US economy and, as such, it needs different solutions. The root cause of the US sizeable trade deficit (with China and with other 101 economies of the world), is the low propensity to saving of the American population, coupled with the American society's high propensity to consumption and investments. American yearly domestic investments systematically overtop annual savings and, as such, to make ends meet, the US needs to attract capital from other sources, year by year, perpetuating and aggravating its trade deficit.

On this topic, Joseph E. Stiglitz, a Nobel prize laureat in economics, says: *"... macroeconomics always prevails: if the United State's domestic investments continue to exceed its savings, it will have to import and have a large trade deficit. Worse, because of the tax cuts enacted at the end of last year, the US fiscal deficit is reaching new records – recently projected to exceed $1 trillion by 2020 – which means that the trade deficit will surely increase, whatever the outcome of the trade war."* Also, he adds that *„The „best" outcome of Trump's narrow focus on trade deficit with China would be improvement in the bilateral balance, matched by an increase of an equal amount in the deficit with some other country (or countries)."* (Stiglitz, 2018)

Trade surpluses and deficits are not the equivalent of surpluses and deficits in a company's balance sheet, as the Trump administration seems to treat them. The deficit is not necessarily a loss, and the surplus is not profit. For the USD 375 billion paid to China in 2017 for imports in excess of the amount cashed from China for their exports, the US received goods of equivalent value which, on the one hand, met the demand of the American companies, upheld their production, competitiveness and profits, and helped increase the amounts collected for the state buget by taxation, while, on the other hand, they met the American population's demand for affordable consumption goods, contributing to a low inflation, higher purchasing power and better living standards. Nevertheless, by increasing the import taxes all these advantages disappear: the American companies will have to adjust, making suboptimal choices that will impair their performances (at least in the shorter run), while the American population will face rising inflation and diminishing purchasing power.

According to EIU[16], the US-China trade war will impinge especially on the US, and its outcomes will burden mainly the American citizens. They will have to bear a higher inflation, raised by 1.5 p.p., as compared to its previous level, before the trade war outburst (Warner, 2018). Also, according to a preliminary prediction by Kirill Borusyak, from Princeton University, and by professor Xavier Jaravel, from London School of Economics, the new tariffs introduced by both the US and China will lead to additional monthly costs of USD 127, for each American family (Bryan, Gal & Chang, 2018).

Most economists also expect an additional cost materialized in lost jobs and in slowing economic growth. It is difficult, for now, to estimate the potential job loss, but only for the first tariff increases enacted on steel (to 25%) and Aluminium (to 10%), which had been supposed to salvage 30,000 American jobs in those two industries, it seems that the rising import tariffs will, instead, generate the loss of 432.700 jobs in a diversity of downstream industries: from a relatively low number of lost jobs in the fields of transport by pipes, food, chemichals and wood processing, to machinery and equipment, automotive and auto parts (about 10,000 lost jobs, by each), communications, metal components and financial services (15,000 lost jobs each), to construction (60,000), trade and distribution (about 100,000) and a large range of services (180,000-200,000).

As the propensity for saving is chronically low in the US, but still strong in China, the trade imbalance between the two might persist for many years on. Until now, in opposition with president Trump's expectations, but in keeping with the predictions made by numerous economists, the trade deficit with China has been prone to rising. A survey by the *National Association of Business Economics*, carried out in August 2018, when many of the tariffs were still unchanged, showed that 91% of the economists interviewed about the consequences of increased import tariffs, thought that these will injure American economy and that other rising

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Chinese Ministry of Finance announced that, starting June 1st, 2019, they will also increase import tariffs to 25%, on 2,493 American products (Heeb, 2019).

[16] Economist Intelligence Unit

tariffs rounds should be abandoned. Obviously, the American administration did't take these oppinions into account and US import tariffs continued to be driven up. We expect that this trend will continue.

Still, the solution for the bilateral trade imbalance is not a return to protectionism. Structural imbalances should be corrected by fiscal policies and other means that address the American low savings and the Chinese low consumption. However, if stimulating consumption in China might seem easier to accomplish because it is, to a certain extent, a natural trend, stimulating savings in consumerist US, at the expense of high consumption, might prove extremely challenging, unpopular and very risky for politicians, discouraging, as such, even the ideea of any attempts in this direction.

According to Jeffrey D. Sachs (2018) Donald Trump's „... *misbigotten trade wars*" and his policy on Iran will undermine the international use of the American dollar, already rivalled by the euro and, to a lower but increasing extent, by the yuan. In his oppinion president Trump's *„ill-conceived"* international economic policies will hasten the end of the US dollar's world dominance and particularly the trade war will weaken China's growth only in the short run, but it *„... will bolster China's determination to escape from its continued partial dependency on US finances and trade, and lead the Chinese autorities to double down on millitary build-up, heavy investments in cutting-edge technologies and the creation of a renminbi-based global payments system as an alternative to the dollar system."*

As none of these signals have been considered, the American economy will increasingly feel the negative consequences of the trade war. This is, in fact, the main reason why the IMF October 2018 outlook revises downwards its forecasts on growth rates for 2018, from 2.9% to 2,5% in the US, from 6.6% to 6.2% in China and from 3.9% to 3.7% globally (Ward, 2018).

3.2 China

As a very large and diversified economy, in which the government promptly intervenes every time it senses risks, China is relatively immune to the external disturbances. Empirical evidence demonstrate that in the recent 40 years any developments involving foreign markets - from the natural fluctuations of foreign trade, to disruptive events, such as the economic crises -, have exerted a limited influence on China's economic growth and have never driven the growth rates in the negative zone. Additionally, as China has made significant progress in its endeavour of switching from the investment and export-driven development model to a consumption-led one, its dependency on foreign demand and markets, even on the American one which is the largest, has decreased considerably: while the weight of China's exports into its GDP has declined from 37% (in 2007), to 18% (in 2017) (Roach, 2018), its dependence on the exports to the US fell more briskly, by almost 53%, from 7.2% of its GDP, to only 3.4%, during the same time-frame (Lau, 2018).

The Chinese producers do feel, undoubtedly, the impact of the trade war, but, most probably, comparatively less than the American ones, if we also consider – besides the above mentioned factors - the still high proportion of the *processing trade* in the Chinese foreign commercial exchanges (33% in 2014). While processing trade was pervasive before the year 2000, at present, the traditional commercial exchanges are dominant (54% in 2014) and the main actors are: (i) Chinese POEs (23.1% of the overall foreign trade) and (ii) SOEs (12.5%), (iii) foreign companies with operating units located in China (9.2%), (iv) foreign-invested joint ventures (6.2%), (v) others (2.8%) (Bawoo, 2017). In this section we will briefly look only at the companies with whole Chinese capital, either SOEs, POEs, large or SMEs[17].

Large SOEs exporting goods to the US are usually very powerful companies that benefit from permanent state support in every respect (favourable regulation, cheap financing, subsidies, support for outbound investments and RDI, strategic guidance and every other elements of the *national champions* industrial policy tool-kit). **Large Chinese POEs** – such as Huawei, or Alibaba - enjoy, broadly, almost the same regimen, but the active governmental support is more discrete. In principle, both SOEs and POEs, which are all implementing and promoting abroad the Chinese government's interests and strategies, have gained, in time, both enough economic strength of their own, and sustained protection and help from the Chinese state, to not be badly hurt in the trade war. However, companies in the high technology (HT) fields are still dependant on imports and technology from the US and other economically advanced economies and, therefore, still quite

[17] Small and Medium Enterprises.

vulnerable, in spite of their high ranking in international hierarchies (as the recent case of ZTE has demonstrated[18]).

Following the outburst of the trade war, foreign orders to China have started declining and the predictions for 2018 are that the export decline will inflict losses amounting to USD 22 billion on Chinese exporters and will generate unemployment, mainly on the East coast (Zhang, 2018). Some industries will be hurt more than others. Among the most affected ones will be those already burdened by overcapacity, such as the steel and aluminium industries, for which the new US tariffs rose to 25% and 10%, respectively, driving exports down by 53% since March (Hao, 2018). Another relevant example is that of the Chinese car industry and market: the Chinese car market, which is the largest in the world, declined in 2018 for the first time in 26 years, the industry's stocks have also fallen significantly, some of the companies postponed their investment plans and revised downwards the outlook on their annual results. All these developments triggered the authorities' intervention through fiscal policies, primarily tax cuts of 50% on new car acquisitions.

However, the **Chinese SMEs** are the ones prone to suffer the most, as the consequences of the trade war will add to the adverse effects generated by some of the on-going domestic reforms, such as those in finance and banking. For instance, one side-effect of the government's efforts to reign credit and to contain *shadow banking* was that the SMEs – which, as a rule, were not accepted for lending by the big state banks -, started to face increasing funding shortage and, because of that, to lose oders, market shares, profit and jobs. They are also losing competitiveness, due to the increasing costs of labour and of the other inputs, and are forced to function with very thin margins. Against such a backdrop, the consequences of the trade war added more pressure and roughened their fight for survival (Lee A., 2018). In response, some of the Chinese SMEs speeded-up upgrading, investing in automation and robots, while the government instructed the state banks to start giving them loans. The government also implemented a range of other supporting policies: fiscal policy (tax cuts on certain acquisitions, to stimulate domestic sales), monetary policy (four successive RRR[19] cuts, to increase money supply) and customs policy (tariff cuts for 1300 items imported from other countries than the US, to stimulate trade substitution and domestic consumption).

The American market remains a major and difficult to replace market for the Chinese companies, irrespective of their size, economic power or type of ownership. That is why, under the circumstances, they will do everything in their power to keep their US market shares, trying to restructure, cut costs, raise productivity and quality, but also by finding ways to avoid the new American import tariffs, such as: (i) by re-routing deliveries through third countries that enjoy lower, or no tariffs on US imports; (ii) by totally or partially relocating their activities in neighbouring countries which, besides enjoying better customs regimen for their exports to the US, can also offer cost advantages that China no longer has.

The Chinese consumers will probably face a mildly higher inflation, some job losses and even a dent of their trust, reflected in an increased cautiousness towards spending. Chinese population is still massively, although not predominantly, rural. Their consumption is still quite frugal, traditional and oriented towards Chinese-made goods and, as such, they are not directly affected by the US import decline. As compared to them, city dwellers and the affluent, especialy the young, are much more interested in western (luxury) goods (mainly cars, electronics, cosmetics and fashion), as well as in travelling abroad, but they are ready to boicott the US exporters if required.

Chinese consumers will not feel a direct impact of the trade war with the US, but they will probably suffer its indirect effects if the economy keeps slowing further, the macroeconomic evolution worsens and especially if they happen to become unemployed. Generally, the trade war is not on the news and most of the population is not even aware of it.

The Chinese economy is the main target of the protectionist measures adopted by the US, during president's Trump first mandate.The US-China trade war has contributed to slowing China's economic growth and it might obstruct for a while China's advancement, but it will not reverse it. It might also have contributed to some adjustments in the Chinese domestic policies agenda, postponing some of the reforms and implementing others, but it surely has also strengthened the resolution of both the authorities and the population

[18] In April 2018, at president's Trump order, the US export of semiconductors to ZTE was interrupted and in about one month the company was on the brink of collapse. Only following the dialogue of the two presidents deliveries were resumed and the company saved.

[19] Rate of Required Reserves

to accelerate their country's technological development, economic advancement and the Chinese economy's uncoupling from the US, turning it into an increasingly powerful rival of the US.

According to the IMF, in the most severe scenario, during the first two years of trade war China might lose just 1.6 p.p. of its economic growth rate, because much of the impact will be neutralized by the public policies implemented by the government with a view to stimulating the economy and giving growth a boost. The IMF forecasts a slower and declining economic growth rate of 6.6% in 2018 and 6.2% in 2019 (WEO, 2018). On the other hand, a report of September 2018 by JP Morgan Chase predicted that, in case the US will decide to levy 25% duties on all Chinese imports and China will retaliate, China could lose 5.5 million jobs (Fahad, 2019).

The new international context created by the trade war accelerates the economic adjustments in China by both market-triggered processes (GVCs restructuring, relocations, industrial upgrading, trade diversion or trade flows re-routing etc.) and state-initiated policies. The Chinese government not only answers to the US assault with similar tariff and non-tariff measures, but it also devises and implements active policies able to attenuate both the negative impact of the trade war on its domestic economy (by stabilizing investments, encouraging consumption, more firmly supporting RDI, the private sector and SMEs, by monitorring credit, debt and unemplyment etc.) and on China's international relations (by stimulating Chinese imports, promising more open markets, opening new industries to foreign investments, promising to eradicate forced technology transfers and strengthen IPRs etc.).

3.3 Third countries

A trade war involving the two largest economies of the world (1^{st} - USA; 2^{nd} - China by GDP), and, at the same time, the largest commercial powers on earth (1^{st} - China; 2^{nd} - USA by total exports and total trade) which are tightly linked through the innumerable GVCs and IPNs of their companies, could not unroll without impacting on the other countries and on the world economy functioning as a whole. Among the most affected third countries, which could also have a significant role to play in the newly created context of the US-China trade war, there are, on the one hand,

(i) their neighbouring countries and/or those integrated into the same regional/global value chains as the US and/or China, especially the countries in S.E. Asia, and, on the other hand,

(ii) the other major trade partners of each of the two - in this case, the European Union, which is the most important trade partner for both the US and China.

For all these countries, the US-China trade war can generate great challenges and risks, but also extraordinary opportunities.

3.3.1 The South-East Asian countries are, in their great majority, developing and emerging economies, whose companies are involved in the regional supply and production chains built around China thanks to their cost advantages. At the same time, other numerous companies headquartered in the highly developed economies of Asia (Japan, South Koreea, Singapore, Honk Kong, Taiwan), Europe (the EU Member States) and the US, are also integral to the Asian regional value chains (RVCs), mainly due to their technological superiority and outstanding RDI capabilities.

In the second half of 2018, the Asian companies have come to experience the consequences of the trade war and, consequently, to adopt different strategies of response.

First, an increasingly consistent trend among the exporters to the US located in China, is represented by the relocations of their production facilities to the neighbouring South East Asian countries, with a view to capitalizing on both their cost advantages or technological prowess, and on their lack of obstructions to the US market access. Many of these companies – either totally Chinese, or foreign invested – had already been under the pressure of the rising production costs in China and of the increasingly thinner profit margins that they had to practice, so that, when the new import tariffs were introduced on both bilateral trade flows, they had sufficiently compelling reasons to decide to move their facilities elsewhere. With development, China ceased to be a cheap production place. Depending on the complexity of the work involved, Vietnam, Thailand, India, Bangladesh, Pakistan, the Philipinnes and even some Eastern European countries have become the favourite destinations of these companies for the relocation of labour-intensive activities, while Taiwan, Hong Kong, South Korea and Japan are chosen for the relocation of the capital-and-technology-intensive industries.

Secondly, a distinctive group of companies among the exporters to the US located in China is that of the companies that dependent on American imports (mainly electronic components) to function, which now have to cope with higher tariffs on both their import of components and on their exports of final goods. These companies are currently searching for other suppliers in Asia, especially in Taiwan, South Korea and Japan. According to some surveys, even 30% of the American companies working in China and using American inputs are now trying to find new sources of components in the region and new locations for their facilities outside China (Kawase, 2018). It is interesting to notice that both the facility relocations and the GVCs restructuring by changing suppliers happen much more rapidly in the HT industries, than in the labour-intensive ones. It is also worth highlighting that, from the point of view of the receptor countries, the trade war has beneficial outcomes, creating unexpected opportunities for them to receive foreign investments, to benefit from additional job creation, product diversification and a boost to their GDP growth.

Thirdly, among the Chinese exporters to the large American consumer goods trading networks (such as Walmart, Macy's etc.), which used to have their suppliers located mostly in China (e.g. Li&Fung), the acquisitions from China are now drastically declining while new suppliers of garments are searched for in Bangladesh, Vietnam, India, Pakistan and the Philipinnes and suppliers of footware are looked for in Vietnam, India, Indonesia and Europe.

Finally, the the trade war impact is also felt at the level of the transport, forwarding and logistics companies. Their new orders decline and routes change according to trade diversion. For instance, as a consequence of lower maritime trafic, COSCO Shipping Holdings, the third largest maritime company in the world, gave up transports on one of the maritime routes that used to connect China and the US, which had become unprofitable.

Speaking about the trade war impact on the S.E. Asian economies, one of the most affected one could be South Korea, which depends on China for 25% of its exports and on the US for 12%. According to a report by KITA[20], in the worst case scenario, of a total trade war, in which China's exports (which include South Korean components) fall dramatically, this country could register a 6.4% drop in exports, which is the equvalent of USD 36.7 billion (Lee J.-h., 2018b).

Another such example could be that of Singapore, which is a huge regional transboarding hub extremely dependent on foreign trade. In Singapore, 9 of 10 handled containers have a foreign destination, and many of the components coming from various countries and heading for China stop there for some intermediate operations. That is why the potential traffic decline generated by the US-China trade war could lead to a significant GDP drop of 0.8 p.p. in 2018 and 1.5 p.p. in 2019. Similarly, other S.E.Asian countries that have developed as export hubs, such as South Korea, Malaysia and Taiwan could lose up to 0.6% of their GDP, in 2018 (Vaswani, 2018).

All these examples show just one thing: that in a trade war almost everybody loses. With the exception of a few developing economies which may unexpectedly be in the situation of receiving the investors chased away from other countries by the consequences of the trade war, all the other countries are losing in the long-term, even after the trade hostilities have ceased. The trade war itself is disruptive, generating powerful shocks, uncertainty, losses, but, in their turn, the solutions that companies are resorting to in their fight to survive, are disruptive too, and also suboptimal, expensive and difficult to implement. Both relocations and GVCs restructuring are very difficult moves, that imply high costs and, at least initialy, untill the learning processes roll on and the cooperation mechanisms between links run in, they generate inefficiencies. Additionally, even after such a conflict is finally closed, long-term scars, that cannot heal, still persist in the guise of mutual distrust, reservedness and suspicion, which will inccur further costs: those of the cooperation deals which, against this backdrop, will no longer happen.

3.3.2 The European Union didn't have a very good start in its relationship with the Trump administration, but the tensions have subsided once the American president has fully focussed on China. Untill the negotiations for a US-EU free trade agreement (FTA) are finalized, the US-China trade war opens a window of opportunity that should be capitalized on (Wolff, 2018). As it is under the trade war pressure, China needs good relations with the EU and, as such, it might become more flexible and ready to conclude the negotiations on the EU-China bilateral investment treaty (BIT) that have stalled for quite long. It might be a proper moment to solve the negotiation blockages on the question of reciprocity in investments, or the technology and IPR transfers, issues that are also among the techy themes which president Trump also insists on.

[20] Korean International Trade Association

The European companies that have developed productive and trade activities in both the US and China are broadly facing the same challenges as the similar firms from other regions that we have already looked at, above. Still an interesting example worth highlighting is that of the German companies in the car industry (Daimler Benz, BMW) which have assembling facilities in the US, where they build cars for both the American domestic market and for various export markets, China included. A significant part of the components assembled by the American units come from the European value chains that integrate the production of numerous Central and Eastern European factories, including many from Romania. By potentially enacting and charging higher duties on the European imported car parts, the US could give a serious blow to these intermediate goods manufacturers. Having the imports of EU components into the US market made more expensive and then facing again hightened Chinese duties for the US-assembled German cars exported to China, could create huge problems to both the German companies and their numerous European suppliers, but also to the American assemblers and their staff.

Fortunately, this is only a hypothesis which, hopefully, will not become reality, once the US-EU negotiations have already resumed.

Moreover, an interesting additional aspect of this example, which highlights once more the absurd of any trade war, is that the Chinese car company Geely, that has recently become one of the new co-owners of Daimler Benz, as well as its largest investor[21], will see its commercial interests and profits harmed by the protectionist measures enacted by its own Chinese state, which will be charging higher duties on the US exports of Daimler cars to China.

According to a research by Bruegel[22] (Garcia-Herrero, 2018), the US-China trade war may generate immediate commercial opportunities for third economies such as that of the EU (e.g. import substitution of US agricultural products in Chinese market and of some consumption goods in the American one), but also, more importantly, it may offer the opportunity of obtaining certain concessions that China was not previously willing to give, as regards: the opening up of its economy to EU imports and investments, under reciprocity terms; giving subsidies up; reaching some common ground on questions regarding Chinese takeovers of HT companies in Europe at subsidized prices that neutralize any competition, with the purpose of getting access to their technologies and RDI capabilities etc.

Starting from the US and the EU export structures to China, which are quite similar[23], and presuming that the US will not hit the EU in the manner it did with China, the cited above study comes to the conclusion that the EU *motor vehicle* producers, followed by the *chemicals* and the *machinery and equipment* ones, would gain the most in the US market, while in the Chinese market, the EU companies that will benefit the most will be those in *aviation*, which would have practically no rivals. Also, starting with the third round of tariff hikes for Chinese imports worth USD 200 billion, enacted by the US, the EU consumer goods manufacturers could take the opportunity to replace at least partially the Chinese exports to the American market. Another important conclusion of this research is that the EU could benefit more by substituting Chinese exports on the US markets (earning up to USD 69 billion more, in the bilateral trade with the US), than by replacing the American exports to China (for additional amounts of up to USD 32 billion). In other words, the EU companies could profit more from the tariff sanctions enacted by the US on China, than by the tariffs charged in retaliation by China, on the US.

In paralel, other reports warn that under the US-China trade war, the euro zone will have a modest economic growth in 2018, easy to be neutralized in case of further escalation of the hostilities. According to a recurring survey by Reuters among 44 economists, the current trade war presents a clear risk of incurring the euro zone growth decline to 2.1% in 2018 and to 1.8% in 2019, while the inflation rate could remain flat, at 1.7 in both years (Reuters, 2018).

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[21] In 2018, the Chinese group Zheijiang Geely Holding Co. which includes Geely Auto and owns the Swedish Volvo Cars and Vorvo Trucks (partially), acquired, for USD 9 billion, 10% of Daimler Benz (which owns Mercedez Benz and Dailer Truck). Daimler Benz sold a record 600 000 cars and SUVs to China in 2017, double the number sold in the US (Bloomberg, 2018).

[22] Bruegel is a European think tank head-quartered in Brussels.

[23] The main 5 groups of goods exported by US to China are: (1) chemicals; (2) transport equipment; (3) motor vehicles; (4) machinery and equipment; (5)medical instruments, while the main 5 groups of goods exported by the EU to China are: (1) motor vehicles; (2) machinery and equipment: (3) chemicals; (4) medical instruments and (5) transport equipment).

4. Conclusions

As any other trade wars, the US-China one will not have real winners, whatever the speeches of the two presidents caught in this fight will be, after reaching an agreement. This trade war has disrupted considerably not only the two economies directly involved in it, but the whole world, and not for a few months, but for very long term, most probably measurable in decades. It has incurred losses both to the two countries and to their partners, and it will keep generating quantifiable, as well as - potentially even more important - unquantifiable costs. It has already brought forth and it will continue to generate outcomes that are contrary to those expected by its initiator, president Donald Trump, and the American people will probably pay most of the price of this adventure, started on the wrong assumptions and approached with the wrong instruments. The US-China trade war has sowed the seeds of long-term uncertainty and distrust among countries, it has relativized principles, it has contributed to the undermining of the institutional architecture that has sustained the world peace and the world's path to prosperity in the postwar decades, in spite of all its imperfections, failures, imbalances and the inequity that has persisted.

Under the leadership of president Trump, the return to protectionism of the country that has for so long promoted liberalism, multilateralism and globalization, in parallel with president's Xi rhetoric - not exactly justified by facts - on openness, international cooperation and the support of other developing nations by way of investments, picture the image of a world that is losing its landmarks, it infringes on its principles and it defies its institutions, sliding towards populism, isolationism and confrontation.

The encounter of the two largest economies of the world is only at surface a trade war. In its deeper layers, it is a fierce fight for economic, technological and military domination, a fight between two different models of development, governance, political system and type of social relations. And it is also a confrontation of prides, of not only the two leaders, but of two grand nations: one that is coming from a unique past, of thousands of years of greatness, and is thirsty to regain its glorious status, and another one, which, in just a couple of centuries has built up itself, it has rebuilt and modernized the postwar world and it earned, and is still firmly keeping, the reins of power.

In the recent half of a century the US and China have managed to weave an increasingly strong and complex bilateral relationship that was a guarantee of global stability and peace. Gradually, but steadily, this tight relationship is now loosening and changing into a new, fundamentally different one, that takes shape right now, under our very eyes.

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People to People Communication: A case study of Education Cooperation between China and CEECs from 2006-2016[1]

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Abstract: - This article analysis the basic situation of 16 CEE Countries students to study in China from 2006-2016 to examine how the“16+1” cooperation framework promotes China-CEECs educational cooperation? The main finds reveals that in 2006-2016, the total number of international students studying in China from 16 CEE Countries in Central and Eastern Europe has been increasing year by year. Especially since the formation of the “16+1" cooperation in 2012, the number of international students from 16 CEE Countries in Central and Eastern Europe has increased significantly, Meanwhile the category of countries and professionals of international students are more and more diversity and balance. The authors suggest that it’s should be more introduction to study in China to promote further cooperation.

Key words: People to People bond; China-CEECs educational cooperation; International students
JEL Classification: F, F19

1. Introduction

The “16+1” platform involves 16 countries from the Central and Eastern Europe and China. The “16+1 ” cooperation framework marks the first time that China takes a leadership role in a region that is not part of what is referred as Global South. After common interest in establishing the platform has been defined in the first round of consultations in China-CEE National Economic and Trade Forum in 2011, ‘16+1’ have been officially established as a multilateral framework in 2012 during then Premier Wen Jiabao’s visit to Poland and meeting with leaders and high-level representative of 16 CEE countries.

Establishment of “16+1” marks a dramatic change in the relationship between China and CEE. During the Cold War period, the two sides fostered their economic ties and political communication in 1950s, regardless of China and CEE were generally quite distant for most of the Cold War due to tensions between the USSR and China. Since the Cold War, the political and economic relations between CEE and China significantly lagged those between China and West European countries, illustrated by lower intensity of diplomatic activities between CEE countries and China, as well as by the fact that trade between China and CEE is only equivalent to 1/10 of China-EU trade . “16+1” was established to explore the untapped potential of expanding and deepening exchange and cooperation between China and CEE. Both sides take a very pragmatic approach toward promoting trade, investment and economic cooperation, all of which take priority over political concerns.

Since 2012, China’s multilateral cooperation with CEE has progressed from “rediscovering” each other to a structured exploration of common interests, as it relies on a number of various increasingly frequent, diverse

[1] Supported by the Fundamental Research Funds for the Central Universities in China

and/or institutionalized mechanisms and practices. “16+1” hence possess all typical characteristics of China-led multilateral platforms. As will be discussed in greater detail in the following paragraphs, the initiative institutionalized an annual meeting of the Head of the States, regular meetings on ministerial and sub-ministerial level, and increasing number of exchange mechanisms spanning various areas, such as trade and investment, agriculture, education and research, culture and media, tourism, and others. Additionally, China has put on disposal USD 13 billion in loans and another USD 3 billion in investment capital for the region, and is financing most of the initiatives under the framework, reflective of both the economic asymmetry between China and other participating countries, as well as of Beijing’s role as a key driving-force and implementer within the “16+1”.

Furthermore, growing economic cooperation are coupled with intensification of people to people communication between CEE countries and China on bilateral level. The China-CEE relationship has experienced ups and downs in the past 70 years. Overall, due to the many differences between the two sides, both politically and with regard to the disparity of economic scale, China and the CEE have had difficulties in reaching mutual understanding. Thus, people to people communication is an very unique channel to rebuild mutual trust .As of December 2017, China and the CEE countries had formed more than 60 friendly provinces and states and more than 100 pairs of sister cities. Since the launch of the ‘16+1 cooperation’, the number of direct flights between China and the CEE countries has increased significantly, in part to ferry the booming tourist flows that have increased by 146 per cent between 2011 and 2016. The CEE countries have also committed to further developing tourist facilities that are more suitable for Chinese tourists' consumption habits.

In people to people communication area, education Cooperation between China and CEECs also deserves attention. China-CEEC Education Policy Dialogue is held from 2013. The collaboration between China and CEEC’s higher education institutions is of great significance to China’s international cooperation work in higher education. China has signed the agreement on mutual recognition of degree and diploma with 8 CEE countries until May 2018.The number of oversea students in each other’s territory more than 10,000 now. China-CEEC Higher Education Institutions Consortium founded in 2014. [2]

So, This article analysis the basic situation of 16 CEE Countries students to study in China from 2006-2016 according to the open data from Chinese Ministry of Education website to examine the question, How the China –CEECs “16+1 cooperation ”platform promotes China-CEECs higher educational cooperation? Three assumptions as follows: 1)What’s the situation of China-CEECs higher educational cooperation before 2012 ? 2) What’s the progress of China-CEECs higher educational cooperation after the foundation of China –CEECs “16+1 cooperation ”platform ? 3) In which areas the “16+1 cooperation ”platform really plays a role in China-CEECs educational cooperation ? The research methods of this study include : Statistical analysis and Questionnaire research.

2. China- CEECs Education Cooperation guidelines in “16+1” summit

The annual China-CEE Summit of Head of States of member countries is the core element of the “16+1” cooperation platform between China and CEE. Cooperative agendas and outlines reached and announced in the past summits have provided the principles and broad directions for cooperation between the involved parties. For example, “China's Twelve Measures for Promoting Friendly Cooperation with Central and Eastern European Countries” issued at the first Warsaw summit in 2012 set the general context and objectives of the “16+1” cooperation mechanism. Since then, every Summit has been followed by issuance of joint declarations, named “guidelines”, which summarize the achievements of the framework in the past year, and lay out the goals for the upcoming year. At the first China-Central and Eastern European Leaders' Warsaw Summit held in 2012, China's twelve initiatives to promote friendly cooperation with the countries of Central and Eastern Europe put forward that 5,000 scholarships should be offered to 16 countries of Central and Eastern Europe in the next five years. Confucius Institutes and Confucius Classrooms in 16 countries should be supported. In the

[2] China-CEEC Higher Education Institution Consortium , https://www.ccheic.org/home, retrieved April 5, 2019

next five years, 1,000 students from all countries will be invited to study Chinese in China. Inter-university exchanges and alliances should be strengthened. In the next five years, 1000 students and scholars will be sent to study in 16 countries. The Ministry of Education of China plans to hold the "China-Central and Eastern European Countries Education Policy Dialogue" in China next year (CEEC- China, 2019).

On November 26, 2013, the second China-Central and Eastern European Leaders' meeting was held in Bucharest, Romania. In the Bucharest Outline issued in 2013, it was pointed out that China-Central and Eastern European countries should hold regular dialogue on education policies. It was actively discussed to establish China-Central and Eastern European Union of Universities (The Bucharest Guidelines for Cooperation between China and Central and Eastern European Countries, 2019). On December 16, 2014, the Third China-Central and Eastern European Leaders' Meeting was held in Belgrade, Serbia. In the Belgrade Outline issued in 2014, it was pointed out that the Third China-Central and Eastern European Education Policy Dialogue would be held in the Central and Eastern European countries in 2015. Welcomes the Sofia University of Bulgaria as the first rotating president of the China-Central and Eastern European Union of Universities, and supports the Federation in playing an important role in promoting educational exchanges and cooperation between China and Central and Eastern European countries (The Belgrade Guidelines for Cooperation between China and Central and Eastern European Countries, 2019).

On November 24, 2015, the fourth China-Central and Eastern European Leaders' Meeting was held in Suzhou, China. Premier Li Keqiang put forward the "1+6" cooperation framework, which is one goal and six key points. One of the key points is to expand the breadth and depth of cultural exchanges. In the Suzhou Platform issued in 2015, it was pointed out that the fourth China-Central and Eastern European Countries Educational Policy Dialogue and the third meeting of China-Central and Eastern European Union of Universities would be held in China in 2016 (The Suzhou Guidelines for Cooperation between China and Central and Eastern European Countries, 2016). People to People exchange is also be strengthened in Medium-Term Agenda for Cooperation between China and Central and Eastern European Countries ,such as the three points follows: The teaching and learning of Mandarin in CEEC will be encouraged and the teaching and learning of the languages of CEEC will be strengthened in China; China-CEEC exchanges of students will be expanded. The Participants will step up cooperation on mutual recognition of academic degrees, credentials and credit, joint research and country- and region-specific research; The Participants will organize the China-CEEC Education Policy Dialogue alternately in China and one of the CEECs on a regular basis and support the functioning of the China- CEEC Higher Education Institutes Consortium (The Medium-Term Agenda for Cooperation between China and Central and Eastern European Countries, 2019).

On November 5, 2016, the Fifth China-Central and Eastern European Leaders' Meeting was held in Riga, Latvia. Premier Li Keqiang put forward four major initiatives on "16+1 Cooperation". One of them was to further strengthen exchanges and cooperation in the humanities field. In the Riga Outline issued in 2016, it was pointed out that the Fifth China-Central and Eastern European Countries' Education Policy Dialogue and China would be held in 2017 on the Fourth Meeting of the Federation of Universities of Central and Eastern European Countries (The Riga Guidelines for Cooperation between China and Central and Eastern European Countries, 2017).

On November 27, 2017, the Sixth China-Central and Eastern European Leaders’ Meeting was held in Budapest, Hungary. Premier Li Keqiang put forward five suggestions, one of which was to deepen cultural exchanges. In the Budapest Platform issued in 2017, it is pointed out that the sixth China-Central and Eastern European Countries Educational Policy Dialogue and the fifth meeting of China-Central and Eastern European Union of Universities will be held in 2018. The parties welcomed the establishment of the Second Secretariat of the China-Central and Eastern European Union of Universities by the University of Novi Sad, Serbia. All parties welcomed the signing of educational cooperation agreements between China and Central and Eastern European countries (The Budapest Guidelines for Cooperation between China and Central and Eastern European Countries, 2019).

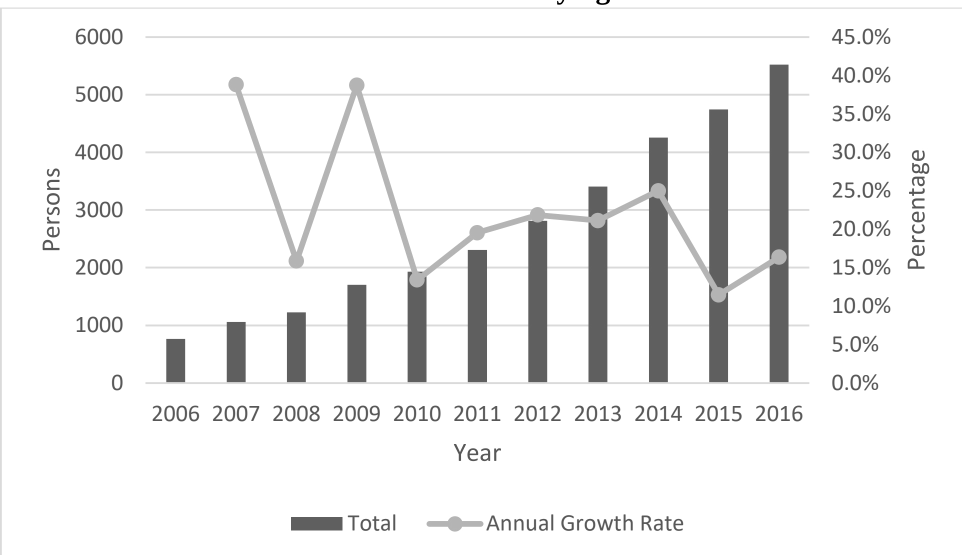
On July 7, 2018, the Seventh China-Central and Eastern European Leaders’ Meeting was held in Sofia, Bulgaria. Premier Li Keqiang put forward five suggestions on the blueprint for future development of "16+1 cooperation", one of which is to constantly tighten the ties of cultural exchanges. In the Sofia Platform for China-Central and Eastern European Countries Cooperation issued in 2018, it was pointed out that all parties declared 2019 the "16+1 Year of Education and Youth Exchange". All parties' support enhancing mutual understanding and deepening cooperation in the fields of education and youth through dialogue, visits and training. The parties appreciate China's hosting of the Sixth China-Central and Eastern European Education Policy Dialogue and are willing to jointly carry out educational capacity-building projects. China will invite education officials and principals from Central and Eastern European countries to visit China and carry out education capacity training. We welcome the Central and Eastern European countries to attend the China Education Exhibition in 2019 to strengthen the exchange and dialogue between China and universities in Central and Eastern European countries. All parties support the establishment of 16+1 youth development centers in Central and Eastern European countries. In 2019, China will continue to hold the "Bridge of the Future" China-Central and Eastern Europe Youth Research and Exchange Camp. In 2019, the Seventh China-Central and Eastern European Countries Educational Policy Dialogue and the Sixth Meeting of China-Central and Eastern European Universities Federation were held in Central and Eastern European countries (The Sofia Guidelines for Cooperation between China and Central and Eastern European Countries, 2019).

People to People exchange are also one of important cooperation area stated in EU-China 2020 Strategic Agenda for Cooperation. Three aims are including :first ,Encourage the learning of the Chinese language and EU languages in the education systems of the EU and China; second, Expand students and scholars exchange, and support mutual exchange visits of Young People .third ,Continue dialogue on education policy, notably in the framework of the Higher Education Platform for Cooperation and Exchanges.[3] Therefore, people to people exchanges between China and Central and Eastern Europe is an important complement to the people to people communication between China and Europe. The 16+1 mechanism should be seen as an important part of and a useful supplement to China–EU cooperation. For countries still wishing to join the European Union, the 16+1 cooperation helps them narrow the development gap, which is conducive to their early entry. In the end, actions speak louder than words. The 16+1 cooperation should continue to work hard and do more practical things to prove that China is not aiming to divide Europe but instead wants to promote China–EU cooperation through the 16+1 cooperation.

Results: The number of the international students studying in China from the CEE Countries

In 2006-2016, the total number of international students coming to China from 16 countries in Central and Eastern Europe has been increasing year by year. In 2016, the total number of international students coming to China in 16 countries reached more than 5,500, more than seven times that of 763 in 2006, an increase of 16.4% over 2015 (See Figure 1.1).

Figure 1.1.: The Amount of the international students studying in China from the 16 CEE Countries



Source: Created by authors.

Table 1.1 lists the total number and growth of international students from China along the "Belt and Road" countries in 2006-2016 and 16 countries in Central and Eastern Europe. Although in terms of the number of

[3] http://eeas.europa.eu/archives/docs/china/docs/eu-china_2020_ strategic_ agenda_en.pdf, retrieved April 5, 2019

students, until 2016, the number of international students from 16 countries in Central and Eastern Europe only accounted for 2.7% of the total number of international students in the “Belt and Road” countries. However, its growth rate in recent years has been significantly higher than the overall growth rate of international students coming to China along the “Belt and Road” countries. Especially since the formation of 16+1 cooperation in 2012, the growth rate has been 7.3% to 17.3% higher than the overall. From 2013 to 2016, the average annual growth rate of international students from 16 countries in Central and Eastern Europe reached 18.5%, which was significantly higher than the average annual growth rate of 9.6% in the countries along the “Belt and Road”(See table 1.1)

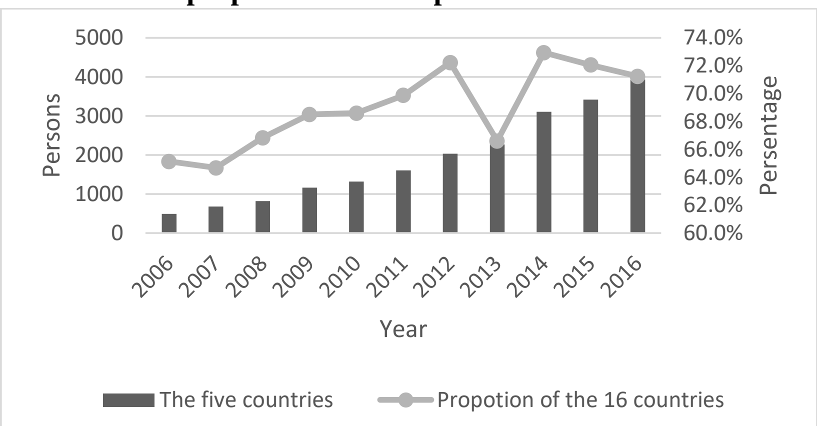
Table 1.1 International students from China from the “Belt and Road” countries and 16 CEE countries

Index / Year	International students from the Belt and Road Countries		International students from the 16 CEE Countries of Central and Eastern Europe
	Annual Growth Rate	Annual Growth Rate	Proportion of the Belt and Road Countries
2006	-	-	1.5%
2007	33.2%	38.8%	1.6%
2008	18.0%	15.9%	1.6%
2009	20.5%	38.7%	1.8%
2010	16.3%	13.4%	1.7%
2011	14.8%	19.5%	1.8%
2012	13.6%	21.8%	2.0%
2013	13.8%	21.1%	2.1%
2014	7.7%	25.0%	2.4%
2015	7.4%	11.5%	2.5%
2016	9.5%	16.4%	2.7%

Source: Created by authors, based on national statistics.

In 2006-2016, the top five international students in the 16 countries were always Poland, Czech Republic, Hungary, Romania, and Bulgaria. The above five countries accounted for 65%-73% of the total number of 16 countries over the years (See Figure 1.2). In 2013, the proportion of international students in the five countries from the 16 countries showed a significant decline. Although it rebounded in 2014, it also showed a downward trend. This shows that since the formation of “16+1” cooperation, international students from in the 16 countries is developing towards diversity and balance.

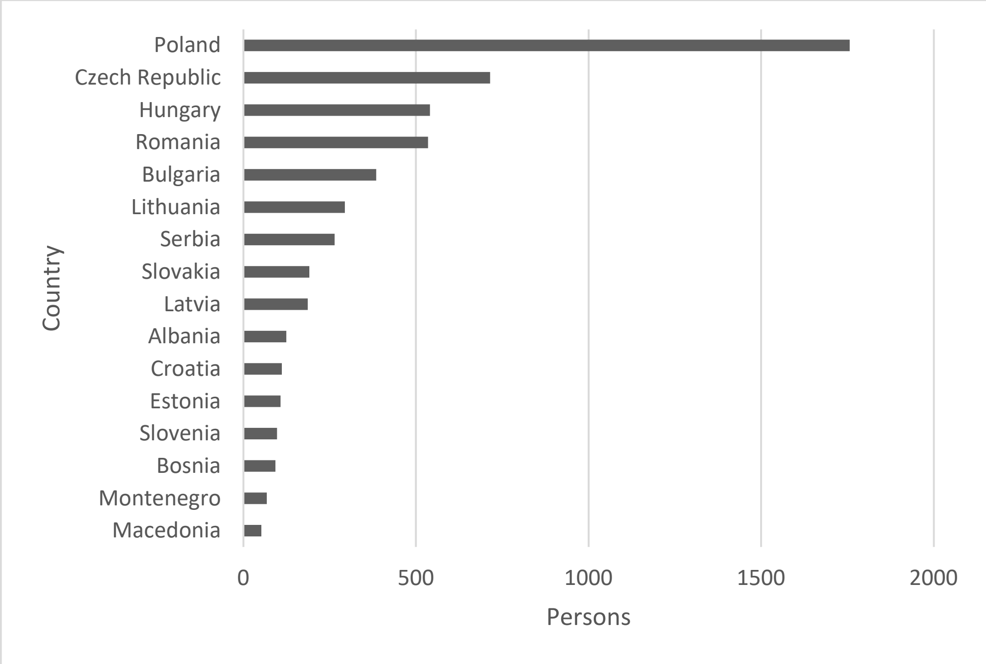
Figure 1.2.: The number and proportion of the top 5 countries in the 16 CEE countries



Source: Created by authors.

In the past 10 years, the overall size of international students from 16 countries in Central and Eastern Europe has grown significantly. The international students from all countries in China have achieved rapid growth in the past decade, but the differences between countries are large. As shown in Figure 1.3, in 2016, the country with the largest number of international students in China, Poland, reached 1,757 in that year. The least countries are Macedonia, with only 52 people.

Figure 1.3.: The International Students from the 16 CEE Countries in 2016

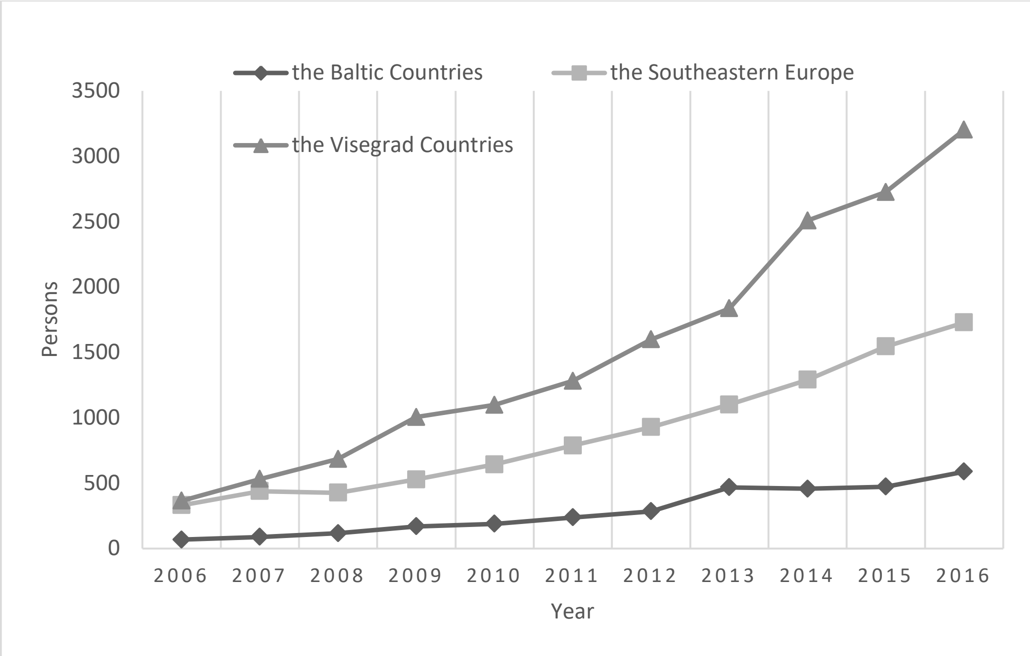


Source: Created by authors.

Differences among the CEE countries in cultural, geographic, economic and political environment and conditions create difficulties for China to cooperate effectively through a single overall platform. On the other hand, such heterogeneity opens the door for customized approaches toward groups of countries with similar "characteristics". Hence, China is additionally calibrating cooperation with three sub-regional clusters of countries to supplement "16+1"-level exchange. These include Visegrád Group(Poland, Hungary, Czech Republic, Slovakia), Baltic countries (Estonia, Latvia, Lithuania), and the Southeastern Europe, including Romania, Bulgaria, Slovenia, Croatia, Serbia, Macedonia, Bosnia and Herzegovina, Montenegro, Albania.

Figure 2.2 shows the trend of the number of international students coming to China in three different regions of the 16 countries of Central and Eastern Europe during the decade. It can be seen from the figure that the Visegrad four countries are the regions with the largest number of international students in China over the years, mainly due to Poland. The contributions of the Czech Republic and Hungary can be seen from Figure 2.2. Since the formation of the 16+1 cooperation, the sub-regional differences in the size of international students in China have been expanding, showing a trend of stronger development in the region with the basis of the previous exchange experience.

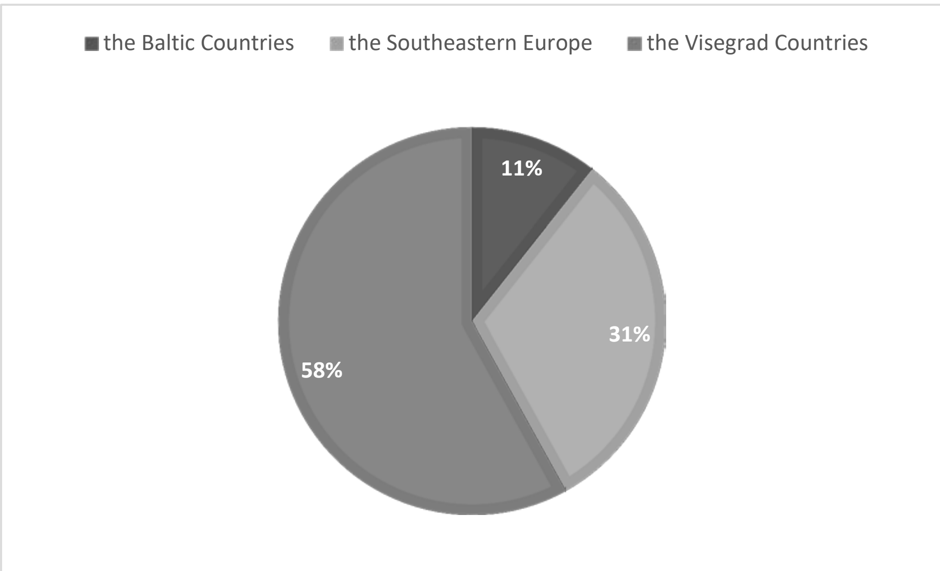
Figure 2.2.: Trends of international students studying in China from three regions of CEE countries



Source: Created by authors

In 2016, the number of international students in the three regions of Visegrad, Southeastern Europe and the Baltic countries of Visegrad was 58.0%, 31.3% and 10.7%. The region of the Visegrad four countries still tops the list (See Figure 2.3).

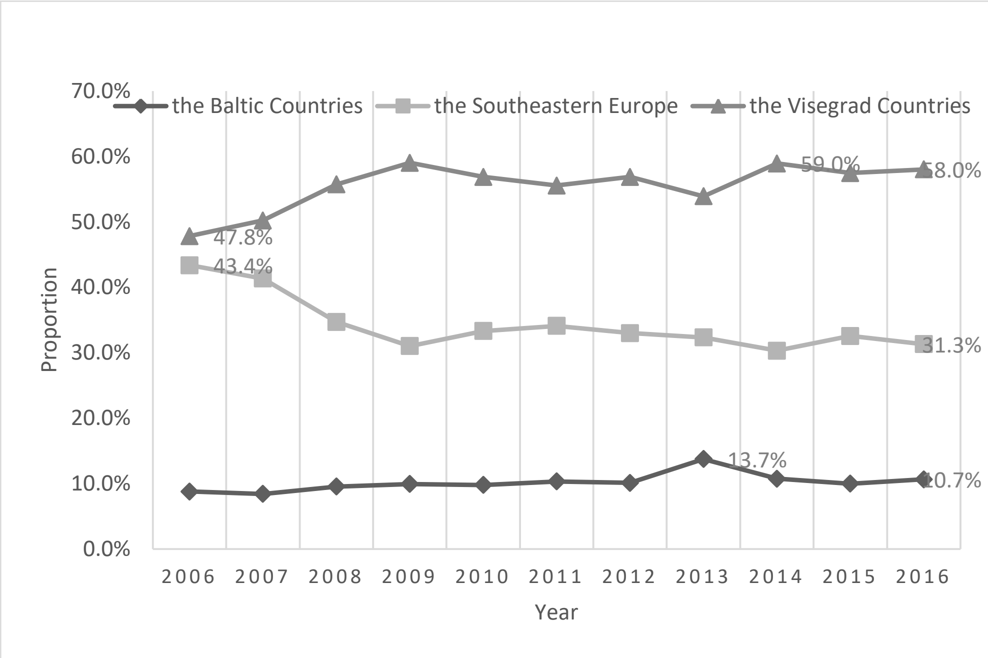
Figure 2.3.: Proportions of the international students studying in China from the three regions in 2016



Source: Created by authors

As can be seen from Figure 2.4, during the decade, the number of international students from the Baltic countries to China increased, while the proportion of the total number of people did not change much, and remained at around 8%-10%, with the exception of 13.7% in 2013; In contrast, the proportion of international students coming to China in the nine countries of Southeast Europe has shown an overall downward trend, while the Visegrad four countries have the opposite trend, showing an overall upward trend.

Figure 2.4.: Proportions and trend of the international students studying in China from the three regions of the 16 CEE countries

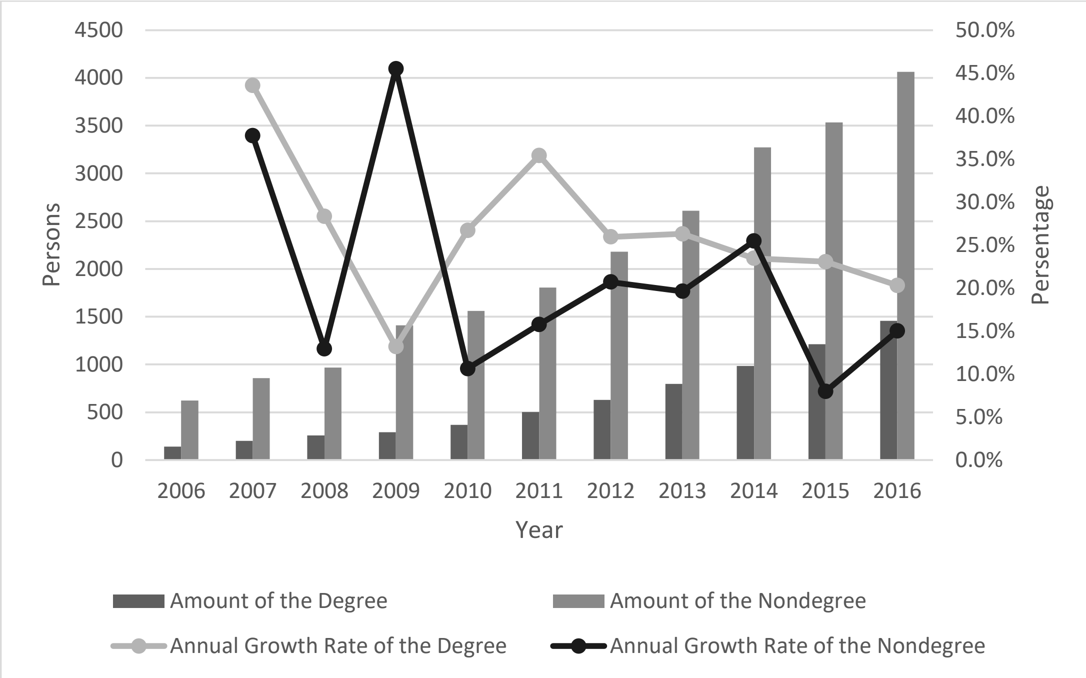


Source: Created by authors.

With the continuous increase in the number of international students from 16 countries in Central and Eastern Europe between 2006 and 2016, the international student structure in China has also undergone great changes. According to the regulations of the International Exchange and Cooperation Department of the Ministry of Education of China, “International students with academic qualifications” including specialist students, undergraduate students, master's students and doctoral students. “Non-academic International students” refers to all kinds of long-term and short-term foreign students, including advanced, general, language and short-term foreign students, who do not study for higher academic degrees in China. Advanced students refer to those who have master's degree or above and come to China for further study on a particular subject. General students refer to those who are sophomore or above. Language students refer to those who come to China for further study with the purpose of learning and improving their Chinese language proficiency. Short-term students refer to those who come to China for less than one semester The following will describe the situation according to the learning categories, academic qualifications and funding sources of international students in China.

As shown in Figure 3.1, in the decade from 2006 to 2016, among the 16 international students from Central and Eastern Europe, the academic and non-degree students showed a trend of increasing year by year. In 2010, the master's degree exceeded the undergraduate and became The largest group to study in China. Among them, the non-degree calendar has occupied the main position in the calendar year, and in 2016 it broke through 4,000 people. In 2013, the differences in the size of students at different levels of education were increasing, and the growth rate of academic students tends to be stable. And the main status of master students and undergraduates was increasingly prominent. There are optimization trends in the academic structure of international students from 16 countries.

Figure 3.1.: The number and proportion of the Degree students and the Non-degree students from CEE countries

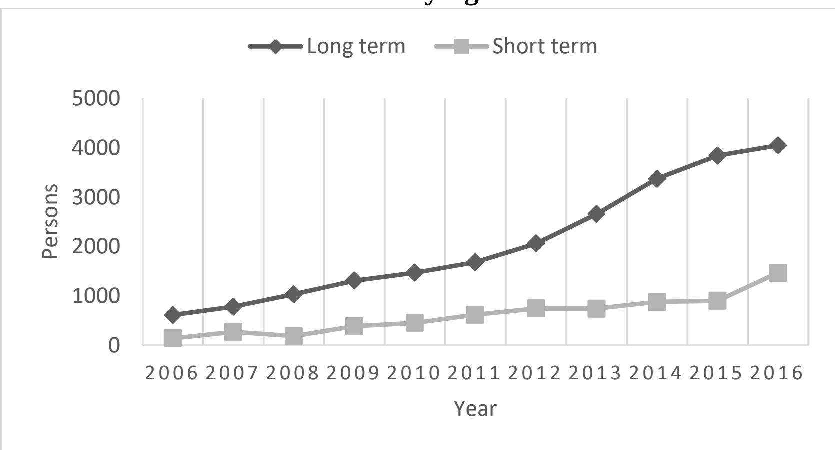


Source: Created by authors.

It is noteworthy that since the formation of the 16+1 cooperation, the top five countries (Poland, Czech Republic, Hungary, Romania, Bulgaria) signed mutual recognition agreements with China. The further strengthen the education cooperation between China and these countries.

Figure 3.2 shows the long-term international (more than three months) and short-term (less than three months) of the 16 countries in Central and Eastern Europe. It can be seen that since the 16+1 cooperation was concluded, it has achieved rapid growth in long-term life. The distance between the students and the short-term students is opened year by year. In 2016, the long-term student broke through 4,000 people.

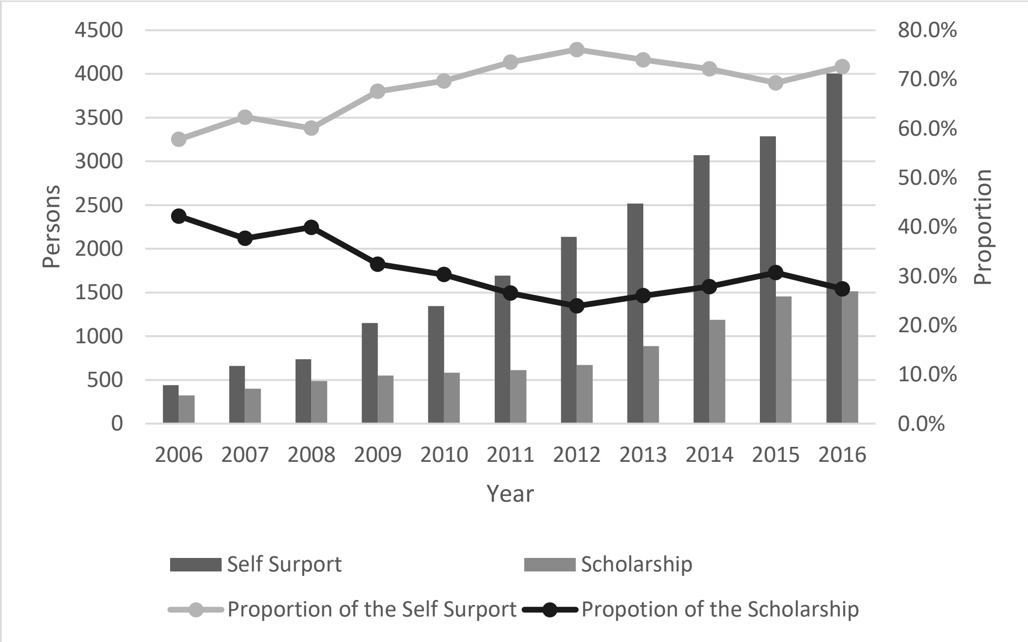
Figure 3.2.: The trends of the Long term and the short term(less than 3 months) students from CEE countries studying in China



Source: Created by authors

The number of Self- Support Students continued to grow, the number of students was significantly higher than that of scholarship-supported students. In 2016, the proportion of self-Support students reached 72.6%, and the proportion of scholarship students was 27.4%. (See Figure 3.3)

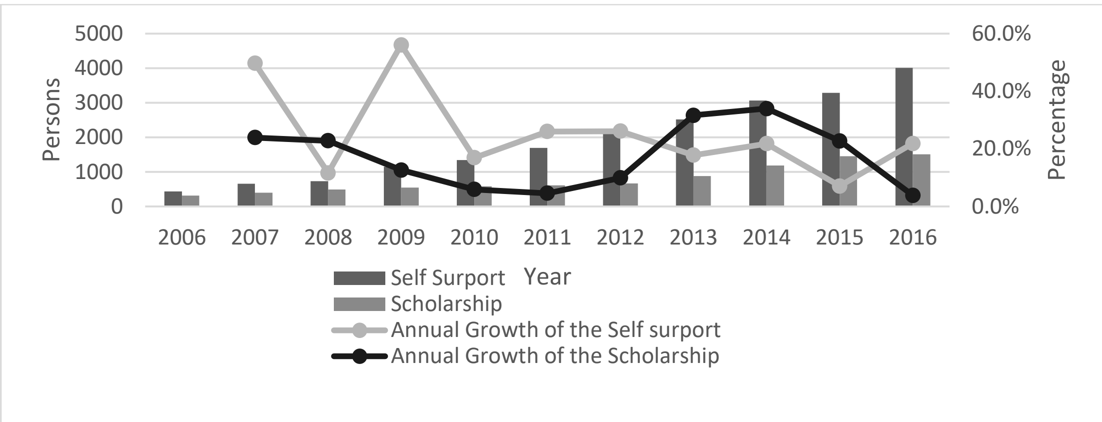
Figure 3.3.: The number and Proportion of the Self Support Students and Scholarship Students from CEE countries



Source: Created by authors

Although the overall growth of self-support students is much higher than that of scholarship students, it is very obvious that in 2013-2015, the growth rate of scholarship students exceed the growth rate of self-funded students in the same period (See Figure 3.4).Regardless of the scale and the number of growth, self-funded students were much more than scholarship students in the past 10 years. It can be seen that self-support students from CEE countries are increasing year by year. At the same time the growth rate of scholarship students has surpassed the self-support students in recent years, which is partly affected by the "16+1" policy.

Figure 3.4.: Annual Growth of the Self Support Students and Scholarship Students from CEE countries



Source: Created by authors

3. Discussion

The average growth rate (18.5% ,2013-2016)of international students from CEECs coming to China is significantly higher than the growth rate(9.6% 2013-2016)of along the "Belt and Road" countries in recent years. In this sense ,"16+1 cooperation " platform is a model for "Belt and Road Initiative" (BRI) in people to people communication level.

From 2006 to 2016, Most international students were always Poland, Czech Republic, Hungary, Romania, and Bulgaria. The above five countries accounted for 65%-73% of the total number students from 16 countries over the years. The education cooperation between theses five countries and China has a solid foundation in the past .It is noteworthy that since the formation of the "16+1 cooperation", these countries signed mutual recognition agreements for degree and diploma with China.

The CEEC students studying in China for PhD, MA and BA degree was increasingly prominent，most of them choose to study China for practical reasons. Short-term (Less than 3 month) and long-term exchanges both increased dramatically. International students have a very significant growth after 2012 , one of the reasons is Chinese government and local government Scholarship covered more CEEC University after 2012.

Considering the scale, self-supporting students were much more than scholarship students over the year. It can be seen that self-supporting students from CEE countries are still increasing year by year. At the same time the growth rate of scholarship students has surpassed the self-funded students in recent years, which is partly affected by the "16+1" platform for education cooperation. The students in CEE countries are, , concerned about China's development and take seriously the growth of China's influence in Central and Eastern Europe. The CEEC students are unsatisfied with learning about China from their own media and publications, they are suspicious towards Chinese propaganda and messages issued by Chinese official sources.

Since the economic gains of cooperation with China are not immediately forthcoming, the sense of disappointment with the relationship with China is growing. The strengthening of people to people communication helps to overcome such disappointment and short-term interest demands from both sides. Which also help to increase the knowledge and understanding of each other's market conditions, investment environment, technical standards, industrial advantages and related laws and regulations,

In the process of their post-1989 political and economic transition, CEE countries have adopted liberal values, and anti-communist sentiments are strong across the CEE region. The memory of the Stalinist socialist period and the Brezhnev Doctrine has a direct impact on the way that China is perceived in larger parts of CEE, and contributes to a negative image of China. China's official communist ideology provokes antipathy and China is perceived as the "other" that is substantively different than the west. Through studying in China, the younger generation in Central and Eastern Europe can reverse their negative impression of China.

Overall, The 16+1 cooperation platform has also become an important avenue for China to promote the construction of the Belt and Road Initiative (BRI). China and the CEE countries have been actively working around the BRI's 'five types of connectivity': that is, policy coordination, facilities connectivity, unimpeded trade, financial integration and people-to-people bonds. China sees the 16+1 cooperation as an important gateway to incorporate the 'Belt and Road Initiative' into the European economic community, a priority platform to step up China–EU ties, as well as a new engine to drive China–EU cooperation.

4. Conclusions

The increasing importance of China in the foreign economic and trade agenda of CEE provides opportunities for China to develop public and cultural diplomacy in this region. The immediate goal for China's public diplomacy in CEE is to consolidate the existing diplomatic achievements, create mutual understanding and win support from local governments and civil institutions. Higher Education Cooperation between China and CEECs is an important part for people to people communication.

The growth of international students from CEECs coming to China is Continue to grow but grows faster since 2013, it means The China –CEECs "16+1 cooperation "platform promotes China-CEECs higher educational cooperation through related mechanisms and policies. In deepening of substantive collaboration of higher education, its need to improve the quality of China's higher education and make it more international, promoting the students exchange programs, scholars exchange programs. Meanwhile, Expanding the members of China-CEEC Higher Education Institutions Consortium. Due to the uneven proportion of students from CEECs studying in China, the above-mentioned policies should cover more of under- cooperation CEE countries.

Needless to say, China needs time and patience to evaluate whether its influence in CEE countries goes beyond economics.

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