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Europe and Asia in the Age of Irreversible Globalization and Fall of Nations

Giorgio Dominese

Abstract The Paper is focused on the crucial issues of the New Theories of Growth and of course a firm premise must be put forward for the Global Governance, in this really season of the history when winds of antagonist reactionary inspired thinking and political parties are tempted to embrace populism, nationalism, ethnic antagonism even racism. In a season of illiberal tolerance, a growing number of countries are affected and the adopted contrast measures seem still fragile and weak. International Relations, History and Political Sciences give room to realism and old fashioned approaches and policy choices without finding a valuable critical analysis and public debate.

The implications for the global order are quite alarming and the looming of more than 60 conflicts spreading all over the world are associated with main fires as the North Korea case or the never ending Middle East, South Asia, North West and East Africa, horrific terrorism ongoing and tyrants regimes still in power.

On the opposite side, the leadership of the reforming, open markets, economies and in primis the liberal democracies of the different inspirations are keeping higher the fences and the appropriate policies to dissipate the polluting clouds of extremism, while public opinions are poisoned by instrumental information, while too wide, diffused blind tolerance with movements and leaders who are feeding the authoritarian and nationalistic dangers, against constitutions and laws.

Are the New Theories of Growth in a revisionist process to compromise with the populism and demagogy contaminating the world? Even if apparently the political elites are very cautious of highering the tunes and the measures of contrast, the firm assumption that the globalism in the unique condition for growth and advancement of societies, economies and peace among nations is hardening fast. In fact, any possible restoration of the past is possible in the already irreversible structure of economies, finance, technology standards, human capital, higher environment priorities, new generation weaponries, outer space perspectives, energy shift from oil and coal: the list of the reasons to push back the front of antagonistic thinking, practices and governance might never end.

To enlighten the promising world governance and economies horizons to 2020-2030, the New Theory of Growth almost twenty years ago have added a terrific value added of research, innovative assumptions and policies: My paper proposes to read again the effective and well analyzed outcomes shown in the beginning of the mid Nineties with the publication of the Formel-G Global Trends 2020, by the Research Division of the Deutsche Bank. It was an

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applied and upgraded elaboration of the rigorous range and propositions by the distinguished scholars Romer-Mankiv-Weil from Berkeley University, announced by NEBER in December 1990. The New Theory of Growth is based in the relevant and quite impressive scientific and applied analyses of professors David Romer, Gregory Mankiv and Davis Weil. An extraordinary farsighted reviewing and enhancement of the global economics and governance perspectives of the world policies that I will summarize here as they might be not forgotten pillars in the scientific gathering of fellows, researchers and promising PhDs in the five continents and today at the CEA in Manchester University.

The dialectic between globalization and nationalism return should not be carried out purely on a kind of demagogic propaganda slogans among factions but in an intellectual and scientific frame, where no room is left for the destabilizing reactionary and shadow protagonists of the esoteric return to the past when ignorance and instrumental use of the institutions accompanied the world through the XIX and XX centuries governance, even if in presence of a great but elitist intellectual, scientific and cultural renaissance.

Nevertheless it had not even a comparison with the openness and accessible movement of people and ideas, the quality of life in contemporary society, where knowledge, scientific discoveries, arts and humanities, universities and think tanks are the one really face of the crucial factors of the “one World”, not of nations or alliances but just the endowment of the new factors of growth and development under our eyes into a wide, unique human horizon, where races and skin colors are simply accepted, with reciprocal respect and inclusion policies.

Keywords Global vs. Nations - Conflicts - Theory of Growth - Policies

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Economic Cooperation, Globalization and its Enemies

The impending change of the international order and the new players and factors determining policies and strategic choices, which once were an absolute monopoly of nation-states, empires and hegemonies, have now shown new profiles and tentative alternative processes still “work in progress” at the dawn of a planetary era as we are facing in these decades. It will be a very engaging age because it requires the acceptance of challenging and critically reviewing principles before given for eternal, adapting economic, social, political, ethnic identities but first and foremost new scientific and cultural assumptions and theories. No use to remain only spectators in a kind of comfortable process, with obsolete certitudes and simplified policies in mind when facing the complexity and the risks mounting in this very moment of the reshaping process.

The recent developments and the concrete threat of wide conflicts are showing the true “clash of civilizations”, that is not only the one proclaimed by the US historian Samuel P. Huntington¹ a few years ago - based mainly on the traditional contrasts and divide of faiths, ideologies, social and intellectual values, evoked as instrumental explanations easily communicated to the public and the “masses”, through the simplified language of worldwide coverage and tragic spectacle that quite often this implies - but mainly the antagonism of two strategies and camps. The first flying of the wings of the successful stories of the new economic order, the global openness full of opportunities; the second affected by the delusions of long caressed expectations of inclusiveness, in presence of the widening imbalances in wealth, poverty and jobs with the reduced middle classes and the multitude of lower income citizens.

¹ Samuel P. Huntington, author of “Clash of Civilizations” 2011, Simon & Schuster Publisher, New York

The first is attempting rationally to catalyze the new variables and factors of change in a sufficient least common multiple theoretical frame of values, policies and practices for an innovative global governance and interdependence among institutional, social, racial, religious, cultural often treated before as incompatible values.

The second is fueling the fire on the still deeply unequal sharing of the benefits resulting from the already achieved value added outcomes of the last decades of global growing dimension and the international governance. With the results that a more integrated community of nations and states is not approaching but instead risking to be pushed far away. In this poisoned environment conflicts and terrorism might find further support and capabilities never before shown, practiced and predicted.

The classic cocktail of ingredients bringing to the “the revolution of the masses”, so deeply analyzed by Ortega y Gasset² in his masterpiece of history, politology and economics on Europe in 1930, almost in coincidence with the advent of nihilist, nationalistic, militaristic ideologies interpreted soon later dramatically by nazism and fascism, with wars and racial discrimination up to the holocaust of almost 7 million Jews, and the catastrophic conclusion into the Second World War.

Back to the Global Vertical

To better focus the present situation in the world economy and society, Andrés Ortega is senior research fellow at the Elcano Royal Institute, a major Spanish foreign affairs think tank, had made an overview of approaches and interpretations quite simulating. I quote his recent contribution published by “The Globalist“. There are horizontal periods indeed some people, Thomas Friedman among them, believed some years ago that the world was definitively flat. And then there are periods in which verticality imposes itself again. In many ways, we are once again moving from the horizontal to the vertical dimension of global affairs. This “verticality” is making itself especially felt in social terms. Social classes are back on the agenda, although not in the traditional Marxist sense of class struggle. Rather, we are now coping with the decline of the middle classes and the emergence of a broader “precariat.” The social escalator is not working as in previous eras, despite renewed growth in many economies following the crisis. Benefits that were taken for granted, such as full-time jobs with social security protections, are disappearing in significant numbers”.

“Perhaps we are witnessing what Dennis J. Snower calls the “great decoupling,” which he labels “dangerous,” unlike its predecessor, which was “convenient.” When economic progress is not mirrored or is not linked to social progress, discontent is generated in those left behind. This decoupling ends up manifesting itself in politics. This is what may be going on in many countries amid the prospect of recovery, an uneven emergence from the crisis and, before that, globalization, which is now generally acknowledged to have produced winners and losers. The decoupling phenomenon is arising when the advanced economies, both industrial and post-industrial, are recovering from the crisis. As Marc Fleurbaey of Princeton University argues, we must “prepare people for life and support them in life.” Central to that is the commitment to education, particularly amid the challenge of technology and its controversial impact on employment and the concept of work. A smart policy approach in that regard, as Ylva Johansson, the Swedish Employment Minister, points out, is not protecting specific jobs (which may be dying) as protecting workers (which need to be actively equipped and/or a guided toward a new one)”.

2 Ortega y Gasset, *The Revolt of the Masses*, Madrid 1930, W.W. Norton & Company Publisher, New York

No Future without Global Governance

Nevertheless we have in front of us a wide, sophisticated dimension of one economy, one finance, one technology, one science, one ICT, one fashion, one environment, one access to what never before had been so available, tempting, desirable for humanity: equal opportunities, gender equality, education for all, youth on stage, human rights, great mobility of people through borders, work and job opportunities worldwide but very selective in quality and income. The list might be continued with tens of titles of value added reasons and benefits of the present and future scenarios of the human community. But antagonism is rising instead of convergence, or better the main stream of the convergence is encountering a fierce resistance and counter attacks by the past, traditional doctrines and institutional representations.

Even so, could we imagine a future without global governance? The general assumption is that we cannot at this stage of change and innovation negate its existence, as the main common ground assumptions have already widely spreading inside society life style with a decisive scientific support all the most relevant schools of thinking and quantitative researches centres worldwide. Pascal Lamy³, Director General of WTO, in a lecture at Oxford University in 2012, had in this way pictured the “state of the art” and no way back options: “We live in a world of ever-growing interdependence and interconnectedness. Our interdependence has grown beyond anyone’s imagination in fact. Economic and financial shocks spread faster than ever before. With the recent economic crisis we discovered that the collapse of one part of an economy can trigger a chain-reaction across the globe. With the climate crisis, that our planet is an indivisible whole. With the food crisis, that we are dependent on each other’s production and policies to feed ourselves. The scope of the challenges the world is facing has changed profoundly in the past decades more profoundly than we fully understand. The world of today is virtually unrecognizable from the world in which we lived one generation ago”⁴.

Looking to Europe and being in Manchester, I have to say Brexit has shown the negative perspective of the United Kingdom and it’s fatal that the past index of competitiveness, attractiveness and power will be missed more and more, in a slow declining of economy, banking and financial activities, high tech former sectors of partnership with EU and international players. Nationalism, protectionism, populism will lead only to a deadlock. The sirens of the past are lacking vision, culture, intellectual and political credibility, in absence of the main factors that what made great the past of the UK.

A long way must be undertaken to spread the benefits of an efficient global system to the many who are still staying at the window with growing resentments, listening the sound of populist voices, public disappointment and pressures from extremist fractions. Nothing is more destabilizing than the deluded expectations due to the missed opportunities. In this situation is not really simply alarmistic to evoke the spectre of future illiberal, nationalist and totalitarian adventures in some countries already exposed to the contagion due to social and migration factors. Hannah Arendt’s⁵ fundamental main 1951 work “The Origins of Totalitarianism”, “Elemente und Ursprünge totaler Herrschaft”, analyzed in a unique striking intellectual contribution all these phenomena and the tragedies they had induced in Europe but with an effective universal applicability. But who imagined that this international community would be attracted as the butterfly by the candles fire is far from the direction history and basis pillars of the international conditionality.

3 P. Lamy, (2012) Director General of WTO, in a lecture at Oxford University in 2012

4 Ibid

5 Hannah Arendt’s fundamental main 1951 work “The Origins of Totalitarianism”, Harcourt, Brace and Co., 1951; “Elemente und Ursprünge totaler Herrschaft”, Schocken Books, 1951

The US must be aware of this risk. Paternalism, populism, racism, and nationalism never emerged as they do now in the public statements of the ruling leadership, a kind of slow-knock-off of the “American dream”. A fatal illness that the “new world” cannot overlook or minimize. I mention this risk while listening to the Antonín Dvořák Symphony No. 9 “From the New World” in the integral version, with Herbert von Karajan conductor at the Vienna Philharmonic in October 1985. I invite you to have the pleasure to listen to it as well while in this privileged university, that could for sure raise the flag of “Universa Universis Manchester Libertas”, as the ancient universities enlighten the past world history. That means within the sacred places of the total freedom of thought that has been always granted to teachers and students alike, starting with the really first universities of Padua, Bologna, Paris, Oxford, Coimbra, Siena, Jena, Naples, Al-Azhar Cairo, Cambridge, Heidelberg, Tübingen, Vilnius. In other words, the lacking of advanced culture, history roots, future vision, global shared roots might and common unity in diversities will lead fatally to the decline of all the contemporary great powers in absence of a global approach to the governance and environment challenging issues.

Transatlantic and Transpacific Partnership

The intellectual aims should contribute to dissipating the general perception- in Europe and I think in the US, as well in Asia - that we are into an irreversible transitional phase of international relations, regional agreements, global governance, markets openness, trade and investments, last generation technologies and the implied innovative applications - that will fatally bring to a problematic, never before assisted widening of the Atlantic and Pacific into forms of diverging approaches and policies affecting economic, trade, financial, security and global issues.

The high risk North Korea case will test the capability of the international and even more regional cooperation in Eastern Asia to develop enough credibility, convergent unity and might to deter and prevent a fatal unpredictable conflict through appropriate policies and in case military enforcement before irreparable events on large scale might happens. As well as the conflictual Russian operations against Ukraine; the Balkans still not yet completed pacification and integration into the common EU house; all the Middle East and Caucasus region not settled down definitively, after years of atrocities and terroristic attempts to bring the world to an irreversible implosion. Assad’s Syria responsibility and horrible human rights offences perpetrated in a dramatic civil war that have been the main reason of the ISIL spreading out and threatening for years the world.

The weakness of the international community in 2013 in preventing also militarily the announced tragedy had been the first and most evident failure of the system of alliances. The never overcome attitudes of tyrants to impose their own despotic arrogance shows that Thucydides’ traps are still around, a lesson that seems not learnt even after World War II up to the contemporary Great Middle East and North Africa butchery and horrible crimes against humanity.

US Indispensable Role

Now it is the time to fix a deadline to all these destabilizing factors and to give political alternative leadership to the more critical countries. The great contribution of the US must be of course out of discussion and perceived by all the international community. But it is in fact the real weak flank in this moment. The new Presidency at the White House, nine months after the election, is still dominated by rumors, polemics, astonishing humoral attitudes, false steps, contradictions and at the end lack of coherence with the expectations of American citizens, allies countries and

main players in world relations. The “exceptionalism” of the political American system “shock absorbers” seems not yet capable to prevail and bring back the First power on track and the indispensable domestic and international governance from the syndrome of a too much erratic and disturbing political disease. A picture that now is disappointing also the American leadership both in the Congress, among the citizens and in the financial, business community. But the restoration of authority, credibility and strategic vision is far from being on sight even if very urgent and widely perceived as a global priority.

EU Leading Economic Cooperation

The roles of Europe and Asia - with the key players as from one side Germany, France, Italy, Spain, Sweden, Poland and to some extent UK, even if any no more in a clear format due to unpredictable results of Brexit, while on the Asian side China, Japan, India, Indonesia, Pakistan, Iran and Viet Nam, just to mention some main real players - must become more and more effective in this historic international reshaped order settlement and new global governance.

A scenario and a perspective not only lightening the EU but as well the before mentioned countries and the second row of emerging players facing similar strategies and policy choices, from Latin America and Brazil, Argentina, Chile and Mexico to the Africa with South Africa, Nigeria, Kenya, Tanzania, Egypt. If acting alone, all of them will be in the future weaker than in the past and the great powers too would fatally lose steam if caressing at home nationalism, populism and racists poisoning ideas. The energies of globalization and systems of alliances will never surrender to the shadow and reactionary attempts to bring back the world to the past centuries. But the price to be paid by the international community and all human beings might become very high.

The Horizon of China, the New Silk Road and the Paradox of Russia

The paradox of Russia - in this phase and until new processes of economic, social and political reform - shows a main power that doesn't seem to be a compatible partner in these efforts and challenging economic, financial and geopolitical choices if not as military power perceived as a threat to the international order. China must be careful not to leave room to any attraction by the sirens of the old order suggesting to slowdown while still in need of courageous domestic reforms and upgrading indispensable for the full society and for the appreciated great role already assumed in world economy, trade and technologic progress.

The New Silk Road might be a new window of fresh air in the vision of the future international landscape in which China intends to further grow and assume international roles. But as I said in 2016 at the CEA Forum in Duisburg University, there are now some unpredictable conditionality pending. I want to pick up a very actual quote of my presentation one year ago: “China as well. To use a paradigmatic scenario, the South and East China Sea dispute over the islands and the freedom of navigation must soon - luckily encouraging signs already circulate - turn into a positive negotiation process leading to a general framework agreement for the international, global dimension of the interests and rights at stake. At the same time to specific bilateral formal LoU's to take then the format of real state treaties, in the ways and the forms that China will have to agree with the involved countries, more or less all the East Asian countries and the US. Any further sound of drums, or show of nationalistic drifts, skirmishes and antagonism in all the East and South Asian frame, as well in the international frame of the main player countries, could have rather unpredictable developments and might compromise the final results and also affect negatively the New Silk Road main scope and long term cooperation value added. To contain and

reduce pressures on this Asia-Pacific issues represent the best strategy in order to bring benefits to all the involved parties but first of all to China and its international role”.

Of course China already arrived, after a forty year extenuate run, to conquest the top level of the main exclusive great power Club, with a great market oriented economy, trade and investments data really impressive and historically never seen before in the contemporary world, with middle classes growing beyond any expectation, even if the so called policy and social reforms are still waiting in stand-by or moving ahead slowly for the lower classes that amount around 2/3 of the population.. The strategy for the future has just a word: reforming. This is the message that Europe like to read and to hear, more and more.

The New Silk Road must be interpreting with more international vision this highly China valuable political contents of the governance. Also the Domestic industrial and financial main players are at stakes as you can't imagine trade and investments attractiveness simply like a developing countries new branding style. The success will be measured in the degree of internationalization of the Chinese system. For sure openness and reforms must be spreading inside China, first of all in the sensible sectors of high-tech, environment, internet access, aerospace, health and sound banking system, all chapters on which the market economy must be endorsed by a concrete and an effective, widespread of structural and sectoral reforms.

The involvement through the New Silk Road initiative of the South and Central Asia full geopolitical platform, the drive toward Eastern Europe, Baltic and Black Sea regions, as well as the widening of a Chinese Mediterranean perception and strategy, all these steps forward will upgrade more and more the already remarkable cooperation with the European Union and the countries closely connected and linked with the EU cooperation protocols beyond the Union Eastern Europe, Latin America and Africa. Asia will assist to a widening of the EU effectiveness in all the international oriented sectors of economy, finance and technology, but not excluding foreign policy and security. USA are not in this phase the unique main player in the crucial Asia affairs as in the past. If this will be the near future to 2030, China will have main partners in Europe and the world while the next transition steps will achieve hopefully the other goals still missing, as EU is expecting and wishing. In other words, East Asia will write with its future developments and policies the “peace or war among nations”.

“Thucydides’s Trap” Looming

The same considerations are really to the point, when a conflict with North Korea is still looming in presence of an effective, announced nuclear threat to the bordering countries as Japan and South Korea but with a fallout that might affect China and Russia as well, if not the same continental US. It means we are risking a widespread conflict starting regional and escalating to global dimension, like a really “Thucydides’s Trap”⁶.

The horizon, on the other side, is announcing that partnership and deeper relations, common shared policies have been extended to the main crucial countries in Asia as well in Africa and in Latin America, mainly for the many reasons of the competitive success of the European Union in building up a solid presence of cooperation in trade, investments, security, innovation, environment, culture, university, infrastructures within almost all the mentioned regional partners. But still we have to consider the worsening and the contagious menace the international order, hit already by more than 60 ongoing conflicts around the world. Could we underestimate these factors of instability and threatens in discussing global and regional cooperation? Of

⁶ Graham Allison, Director Belfer Center for Science and International Affairs at JFK Harvard Kennedy School, Boston, in *Destined to War-Can America and China Escape Thucydides’ Trap*, Houghton Mifflin Harcourt, Boston-New York

course not, so we have to be on the one hand “estote parati”, as we learnt from the ISIL criminal terrorist actions inside and outside Middle East, with a high toll of victims in many countries of Europe until the last Barcelona and before Paris, Berlin, Brussels, London and Manchester just to mention the most horribles, a long horrific trace of blood and hate fueled instrumentally by absurd ideologies and sectarian religious believes but covering in fact wide geopolitical targets involving the entire world order.

The New Theory of Growth and Global Governance

The second part of this presentation is dedicated in fact to the new theory of growth nowadays, after the new industrial revolution is still ongoing. As progress often happens in the middle of turbulent times and history as shown to us in the last millennium.

For many years, I have been dealing in my university wide experiences - in Italy, Europe and abroad specifically in East Asia, China, Latin America and the US - at direct contact with situations, incertitude, populism and nationalisms already tested. We had been passing in the past similar moments of fibrillations and wondering on the future, questioning on the international order, on alliances to be updated, on the future of established non-statehood great innovative experiences as the European Union, but also regional approaches to international cooperation and trade as never before was experienced.

My scientific efforts will continue to look for widening a partnership of research and feasibility options in the main interdependent areas when talking in the frame of International Relations and the Global Governance implied. In fact, many crucial and disparate disciplines and areas of studies need to be more and more involved and integrated in a kind of unique composite knowledge indispensable to govern the geological magnitude dynamics of evolution ahead in the history, policies, technologies and societies change.

Who still believes that there are possible ways of blocking the transition to future achievements and to new conquests in these directions - assuming the vision and the praxis of the metaphoric antagonist, as from the literature and the developments of last centuries -, will encounter the challenge of advancement in new social, economic and cultural changes that will fatally overcome in the long run all the attempts to invert the direction of history, hopefully in peace or fatally through war.

A relevant contribution to the understanding of the irreversible changes factors up from 1980 was brought by the debate and massive scientific efforts that had accompanied the New Theories of Growth appearance and now running fast towards not yet foreseen analytic and applied results and further interpretation tools for the interdependence and convergence of Economics, Law, Innovation, Environment, Alternative Energy, Aerospace, Social Sciences into a consistent theoretical background for the effective international governance. Human capital factor is in need of this high profile convergence to remain always adequate to future challenges and advancements.

Where IRs could not proceed due to the before mentioned reasons, these new platforms of theories around the basic principles of Growth and Governance have achieved great applied results and scientific robustness. We will see in the next sections the key factors and the implications for the international governance.

Economics and Institutions

Economists have often marginalized or even criticized, until the last decades, the role played by “institutions” in the productive system, while they have always better dedicated to the operative

aspects of economy, finance and corporate system at work, in one word following a business approach. Also Keynesian and neo-classic schools have focused on these key variables but never entering deeply into the effects of the ongoing change in the whole system of governance, left out of the reshaping in the future transitional time. The scenario and change from here up to 2030-2050 is simply amazing and positively unpredictable: environment, energy, innovative discoveries in almost all the traditional and advance sectors, agro-industrial advancements, welfare, health, supercomputing unbelievable and institutional implications.

In fact, the institutions determine nowadays the way and conditionality into which “systems” must be governed effectively and in a fine-tuned way in an ever advancing summing up of variables covering all aspects of governance, at national and transnational levels. “The invisible hand” is a metaphor used by Adam Smith⁷ to describe unintended social benefits resulting from individual actions, first of all and mainly with respect to income distribution. Now that “the hand” on the one side had become more visible, transparent and with a high degree of efficiency even when interfering with the classic theories but on the other had shifted into a more impenetrable and invisible challenge and daily confrontation to protect the sensitive “core” of the technologies and military high standing advanced sectors. That’s why - to use a popular assumption not far from the truth - hackers are at work tirelessly to penetrate the restricted area of governance at all levels, even the apparently less important. It’s a big game with a high stakes, where no main player can stay at the window, so everyone listens, monitors and interferes. We might respond by quoting the biblical sentence: “who is without sin cast the first stone.”

The “policy choices”, even if inside different architectures and organizations of the factors frames, are connecting in an interdependent way each country to others, a net of societies and markets looking for a desired permanent trend of growth and welfare. The same interdependence is involving the research and expertise sectors and professionals. The same binding conclusions can be easily be drawn even if the lack of a systemic and scientific integrated approach to face the challenges of global governance in a conditions of partial asymmetry. We are talking of course in general assumptions, as there are many exceptions and peculiarities.

The Turning Point Season 1980-2010

We can say that 1980 and the years immediately following brought a breakthrough for the change in attitudes, knowledge and progress regarding all these issues. But in the previous century, some brilliant scientists in the main disciplines spanning a broad horizon stood out in writing, teaching, researching, publishing and predicting the need of a “common ground” for the advancements in governing the changing economy, society and institutions of all the levels existing now. A kind of transnational movement in the name of the better governance of the planet.

What had happened in around 1980 to 2010 to make these years such turning point for the re-discussion and the new assumptions on world governance? The big push started really here and proceeded quickly up to the beginning of the new 21st Century . A constellation of many but very significant outcomes of researches and institutional focusing on the new stage of growth and development denominated “global”, in principle, and affecting all the leaderships as well as professionals, entrepreneurs, lawmakers and intellectuals.

As in the theoretic applications of the cobweb model, even the International Relations were becoming more and more affected by the new waves of theories. We assisted to a flourishing of tentative but robust policy advice outcomes circulating and pushing ahead new knowledge advancements.

7 “The invisible hand” is a metaphor used by Adam Smith to describe unintended social benefits resulting from individual actions, first of all and mainly with respect to income distribution.

These remarks are a bit far off - I am aware - from the traditional approach to systemic analyses. But at the end, we have fuelled a wider debate on peculiar and in many ways different starting conditions. No forms of conditionality or corporative or intellectual barrier is anymore granted to segments or islands with boundaries and "off-limits" scientific territories. The race for a better scientific approach to the future "horizons" of knowledge and intensive research dedication and value added.

Even geopolitics was facing the parallel "vexata questio" on the limits of power but of course no limits are any more sustainable if not being widely shared and negotiated with all the players on specific issues that are under questioning and debating in a growing number of critical cases.

From international to global. Around the 1990s the world experienced the passage from a traditional approach endogeneity and growth to the new theories cultivated in the best think-tanks worldwide. Universally accepted new theories domain and applied quantitative and sophisticated measurements of variables - still never well investigated and even when not yet well grounded on a scientific shared way but just posed into a strong trend line of credibility and consensus - start to be animated by economists and research centers.

However, incredible but true, the real avant-gardes of thinkers and analysts were coming, before 1980, from the International Relations studies and researches, attempting to provide a conceptual framework of robust theoretical perspective to the emerging but quickly inflated global quagmire. IRs theories were compared to pairs of different colored sunglasses that allow the wearer to see only salient events relevant to the theory; e.g. an adherent follower of "realism" might completely disregard an event that a constructivist were deeming as crucial, and vice versa.

The three most analyzed theories realism, liberalism and constructivism went quickly at odds with the consistent conservative attitude and a reforming dynamic and very determined minority of scholars, experts and researchers. The third theoretical frame was the new "intriguing" entry, as it's mainly connected with the experience and upgrading of the role and power of the European Union, at this crucial passage of the new Century almost enlarged to the today's dimension, with 28 member countries.

The theories of constructivism had propagated and asserted themselves rather strongly in the policy choices of the EU's regulatory ruling, in the ECB Eurozone strategy, in the economic and financial guidelines within the most advanced form of regional governance existing worldwide and assuming a growing power and "soft" but effective capability to give voice and enforce political will up to today.

Even the repercussion of a possible Brexit has been managed in 2015 quite successfully, following innovative and non-orthodox monetary, financial and policy choices, leaving the world quite wondering and questioning. A good ground for future debate and advanced research. The same not affecting showdown had come from Brexit, where the really very many negative consequences more and more appears to be affecting UK and not RU.

The Amazing around Year 1990

Which amazing events happened then in the years around 1990? Well, to mention just some of the main geopolitics events we remain astonished: the Internet changing completely the economic and human relations in the world; the German reunification opening the season in 1989-1990; the end of the Soviet Union in 1991; the rising of China to a distinctive great power, with almost two digits growth YoY, in a still socialist frame but in a progressively open market system and society; the war in the Former Yugoslavia bringing new hopes in the Balkans; the shocking, unpredictable terroristic attack on 9/11 to the Twin Towers and US symbols,

just an announcement of the contemporary ISIL terroristic massive attacks in Europe and all in Middle East and Africa.

The contagion has been spreading out by the four years a civil war in Syria, in fact a regime butchering almost four hundred thousand lives and producing at least four millions refugees outside the country; by the open wounds of the still in action ISIL threatens and the stabilization of Iraq, the questioning on evolution in Turkey and the role of Iran are all on the hot list of problematic repercussions; finally, by the not yet resolved Israeli dialogue with Palestinians on the West Bank future and the connected lacerating problems. In conclusion, the even wider implications and spreading of the conflicts and terrorism from the Great Middle East to Europe, Africa, USA and Asia.

Economics and real economy could add a better rationality, the real substance, the very bright thinking behind these events: the technological revolution; the “health of nations”, prolonging life beyond any expectations; the environmental issue passing from a deficit spending to a factor of production; the human capital incorporated into innovation becoming the crucial factor of production; the new concept of security and defense; wider inequalities destabilizing the so called developed world and its central social stability, with two quintiles of middle classes inhabitants happily in power. All these issues give now enough reason to a “re-visitation” of the chaos theories, as the world collapse in fact did not come and will not come looking to the developments taking place in this 2017 scenario.

We are simply in a major transitional period of worldwide growth and governance towards 2030-2050. Good point to restart with our present and future. Two cornerstones in the academic and intellectual debate had certainly been the in depth research analyses with “A Contribution to the Empirics of Economic Growth” by Romer-Mankiv-Weil⁸, the trio from Berkeley University, published in preview by the prestigious NBER on December 1990, a real turning point in the Economic Sciences theoretical architecture on production, growth, institutions, technology and policy choices. The second was the silent, initially almost unknown scientific activity with a sophisticated value added of the contributions by Ronald H. Coase⁹, who was Nobel Prize of Economic Sciences in 1991, with his memorable lecture in Stockholm on “The Institutional Structure of Production”.

I copy and paste first the presentation of these assumptions on the Empirics of Economic Growth with no further comments, as we can all agree for a global standing scientific acclamation.

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NBER WORKING PAPERS SERIES
A CONTRIBUTION TO THE EMPIRICS
OF ECONOMIC GROWTH
N. Gregory Mankiw
David Romer
David N. Weil
Working Paper No. 3541

⁸N. Gregory Mankiw, David Romer, David N. Wei, “A Contribution to the Empirics of Economic Growth”, NBER Working Paper No. 3541, 1990

⁹Professor Ronald H. Coase was Clifton R. Musser Professor Emeritus of Economics at the University of Chicago Law School. For his discovery and clarification of the significance of transaction costs and property rights for the institutional structure and functioning of the economy, Ronald Coase received the Alfred Nobel Memorial Prize in Economic Sciences in 1991.

NATIONAL BUREAU OF ECONOMIC RESEARCH

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A CONTRIBUTION TO THE EMPIRICS

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ABSTRACT

This paper examines whether the Solow growth model is consistent with the international variation in the standard of living. It shows that an augmented Solow model that includes accumulation of human as well as physical capital provides an excellent description of the cross-country data. The model explains about 80 percent of the international variation in income per capita, and the estimated influences of physical-capital accumulation, human-capital accumulation, and population growth confirm the model's predictions. The paper also examines the implications of the Solow model for convergence in standards of living—that is, for whether poor countries tend to grow faster than rich countries. The evidence indicates that, holding population growth and capital accumulation constant, countries converge at about the rate the augmented Solow model predicts.

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Law and Economics

But Ronald Coase¹⁰ too had been really a lighthouse and maritime compass in the early spring of the economic research at that time. He was announcing the great, impressive change, in his Nobel Lecture on “The Institutional Structure of Production” and in a following interview from where I take some more lines of reference.

10 These citations are from Professor Ronald H. Coase's Nobel Prize Lecture in Stockholm and following comments.

“In my long life I have known some great economists but I have never counted myself among their number nor walked in their company. I have made no innovations in high theory. My contribution to economics has been to urge the inclusion in our analysis of features of the economic system so obvious that, like the postman in G.K. Chesterton’s Father Brown tale, The Invisible Man, they have tended to be overlooked. Nonetheless, once included in the analysis, they will, as I believe, bring about a complete change in the structure of economic theory, at least in what is called price theory or microeconomics. What I have done is to show the importance for the working of the economic system of what may be termed the institutional structure of production. In this lecture I shall explain why, in my view, these features of the economic system were ignored and why their recognition will lead to a change in the way we analyse the working of the economic system and in the way we think about economic policy, changes which are already beginning to occur. I will also speak about the empirical work that needs to be done if this transformation in our approach is to increase our understanding. In speaking about this transformation, I do not wish to suggest that it is the result of my work alone. Olivier Williamson, Harold Demsetz, Steven Cheung, among others, have made outstanding contributions to the subject and without their work and that of many others, I doubt whether the significance of my writings would have been recognized”.

And now the incipit of Professor Coase’s¹¹ interview. *“What I’m going to talk about today is why economics will change. I talk about it because I don’t only think it will change, I think it ought to change. And also I’d like to say something about the part which the University of Missouri will play in bringing it about. It will take a long time. It won’t be an easy task, but I’m glad there are people here who are willing to undertake it. What I’m saying today is not in an ordinary sense a lecture, it is just a talk, perhaps one would say a battle cry. It is just intended to give my views on this subject, why I think that economics will change. It is a striking – and for that matter depressing – feature of economics that it has such a static character. It is still the subject that Adam Smith created. It has the same shape, the same set of problems”.*

“Now of course we’ve made improvements, we’ve corrected some errors, we’ve tightened the argument, but one could still give a course based on Adam Smith. He was perhaps the greatest economist who has ever been, but the difference between what has happened in economics and what we find in the natural sciences such as physics, chemistry, or biology is really quite extraordinary. Isaac Newton was a great man. He made a great contribution, but you wouldn’t really base a lecture today in physics on Isaac Newton, or in chemistry on Lavoisier, or in biology Charles Darwin a great man, but we no longer accept his views on inheritance and therefore on how evolution works. Changes in physics, chemistry, and biology continue to this day. It so happens that before taking a degree in commerce, for a short period I started to take a degree in chemistry. What was taught then as chemistry was completely different from what is taught today. Francis Crick has called the old chemistry just a series of recipes. And my recollection of what I was taught suggests that was accurate”.

The Transition Towards 2030-2050

From the theories to the applications the distance was really short. Few years later, Deutsche Bank Research elaborated the Formel-G , a chapter of a frame program on Megatrend 2020 prepared in Frankfurt. Summarizing all the giant elaborations and testing done by the DBR Division, I focus now on the Report three crucial passages.

¹¹ “The Institutional Structure of Production” interview

Theory and methodology

After the first results have been presented and the analytical framework has been outlined, the next two sections explain the fundamentals of modern theoretical and empirical growth analysis. An important element of Formel-G¹² will be derived: the econometric equation.

Searching for technological progress

Growth forecasts must have a solid theoretical foundation. The basis of most growth analyses is the neoclassical production function in which output Y is a function of labour input L , capital input K and the level of technology A (Solow residual; usually called “total factor productivity”). Growth decompositions divide actual growth into these three components. However, over the long-term, the sole driver of any growth of per capita output is the progress of technology A . It also is crucial for the long-term increase in the capital stock per capita¹³. Therefore, forecasts of economic growth with the help of simple growth decompositions require more or less arbitrary assumptions on technological progress¹⁴. They do not explain the really interesting variable A but bury it in an assumption. Therefore, simple growth decompositions are not suitable for forecasting.

Theoretical foundation: the production function¹⁵

Production function in the Solow model

$$Y_t = K_t^\alpha \cdot (A_t \cdot L_t)^{1-\alpha}$$

The often assumed absolute convergence of income levels between countries (i.e. poor countries’ GDP grows faster than rich countries’) also lacks theoretical and empirical support. There is no automatism: higher income levels do not fall from heaven like manna but require hard work¹⁶. GDP of a country only converges to the country-specific income level that is determined by that country’s growth drivers.

Therefore, any useful model of the future has to explain technological progress. This is easier said than done, however. Mankiw/Romer/Weil made a path breaking contribution in 1992 by incorporating human capital H as a measure for the quality of labour input into the empirical growth analysis. Human capital describes a person’s ability to produce output efficiently and to develop new products. This important additional variable helped significantly in explaining historic income differences across countries.

Production function in the Mankiw/Romer/Weil model

$$Y_t = K_t^\alpha \cdot H_t^\beta \cdot (\tilde{A}_t \cdot L_t)^{1-\alpha-\beta}$$

For empirical growth analysis, this was a great step forward but not fully satisfactory yet. Both theoretical and empirical work of the last ten years tried to model the remaining, unexplained share of technological change after human capital is taken into consideration. The objective is

12 Deutsche Bank Research Formel-G

13 This is set out very clearly by Barro, Sala-i-Martin (2004), pp. 457 and 460. Hanna

14 For example, filter techniques with averages of the past are applied or absolute convergence with other countries is assumed.

15 Theoretical foundation: the production function

16 Easterly and Levine (2001) even observe a divergence in income levels.

to explain economic growth as fully as possible in the model by incorporating a further policy variable P (or several variables). Exogenous, unexplainable influences are to be minimised.

Production function in Formel-G

$$Y_t = K_t^\alpha \cdot H_t^\beta \cdot (P_t \cdot \hat{A}_t \cdot L_t)^{1-\alpha-\beta}$$

The search for P gave rise to a flourishing literature dealing with the role of politics, institutions, knowledge and innovation¹⁷. In their overview, Durlauf, Johnson and Temple (2004)¹⁸ identify 42 “growth theories” using a total of 102 variables – which may be combined in different variations¹⁹.

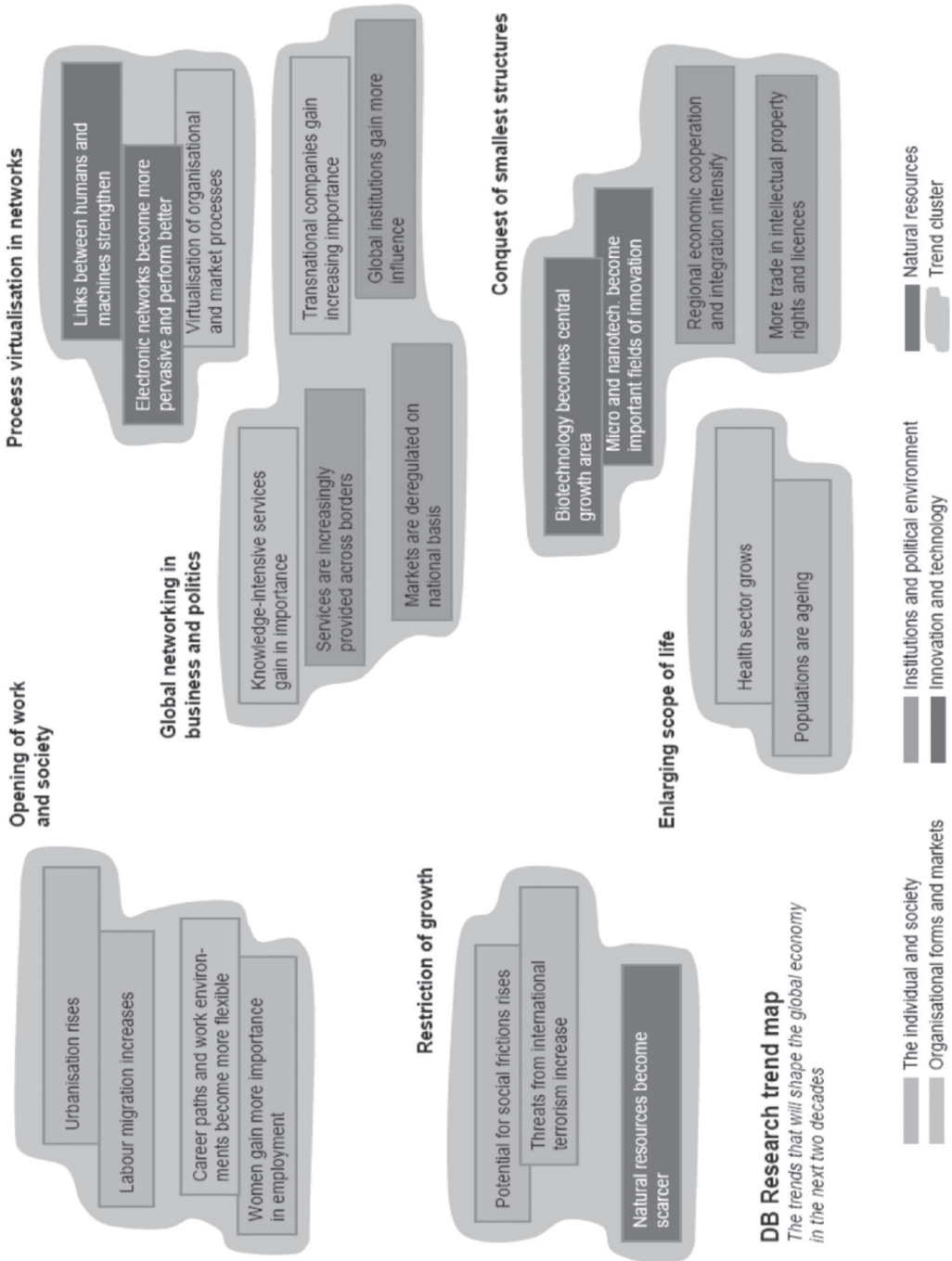
Although theory does not produce a clear conclusion on the “correct” growth model (the “correct” P) it helps us identify potential growth drivers. The decision as to which additional variables really have a statistically and economically significant link with growth will have to be based on econometric analysis.

¹⁷ The World Bank, the IMF, the OECD and the NBER have contributed many new insights with new data sets and a large number of publications.

¹⁸ Durlauf, Johnson and Temple (2004)

¹⁹ Temple (1999) also gives an excellent overview.

DBR - Deutsche Bank Research's trend map



Extensive Private Military Contractors: A New “Revolving Door” with the Axis of Commoditization on Human Life and Violence under the State Monopoly

Wang Ziming • Wang Hongyu

Abstract As for security issues within post-war Iraq and Afghanistan, Private Military Contractors (PMC), the companies providing armed combats and security services, are playing an increasingly important role and exerting further influence on national decision-making process. Growing in a capitalist culture, one must know how much impact a monopoly enterprise would have on the entire market and even on the political system, let alone the result when the government directly monopolizes the PMC industry market in which the nature of it is deeply embedded: Violence is being commoditized, involving human life as the “carrier” into the market exchange. Unavoidably, the extension of PMC has become a trend and, regardless of whether based on a government’s strategic considerations or the real needs in the post-war regions, it is definitely just a temporary relief rather than eradication the problems as most people are wishing.

Keywords Private Military Contractors (PMC) - labor - violence - market - state monopoly

Jel Classification F50 - F52

Introduction

In P. W. Singer’s work in 2003, a set of eye-catching data brought the trend on the extensive use of Private Military Contractors (PMC) into the global context: “In geographic terms, it operates in over 50 different countries. It’s operated in every single continent but Antarctica. In the 1990s, there used to be 50 military personnel for every¹ contractor, now the ratio is 10 to 1.”¹ According to a study conducted by the Office of the Director of National Intelligence (DNI) in 2008, private military contractors made up 29% of the workforce in the United States Intelligence Community and costed the equivalent of 49% of their personnel budgets.² The fact demonstrated by this series of data reminds people of the necessity to reconsider and clarify the logic operating behind the phenomenon of PMCs’ extension in the new time. As commonly

1 Singer, P. (2003) *Corporate Warriors: The Rise of the Privatized Military Industry*, Cornell University Press.
2 Priest, D. (2011) *Top Secret America: The Rise of the New American Security State*. Little, Brown and Company, p.320.

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defined, Private Military Contractors (PMC)³ are the companies providing armed combats and security services for profit-making which are regarded as mercenaries and prohibition in a UN convention ratified by 35 states so far.⁴ According to a conception outlined in the Geneva Conventions and the 2006 American Military Commission Act's explicit specification on it, "contractors who use offensive force in a war zone could be considered unlawful combatants."⁵ All the evidences above from international laws are informing people of a huge contradiction between the fact of PMCs' extension and the commonly-accepted impression from international society towards PMCs. Hence, the paper is here to explain this contradiction.

According to the "Top 100 Contractors Report" on the Federal Procurement Data System⁶, most of the existing PMCs, such as Constellis which merged the famous Academi (formerly Blackwater and Xe Services) in 2014, are found in the U.S. and have close relationships with the U.S. military. What's more important, both of the Iraq and Afghanistan Wars, which are considered as the major reasons of PMCs' extension, were declared and operated by Western countries led by the United States and generated the PMC market in the Middle East, in which the capitalist features must be embedded. Hence, this paper would mainly involve the PMCs from the U.S., which are considered to be the most persuasive and classic examples, into the analysis on the phenomenon of the extensive appearance of PMCs in Iraq and Afghanistan with the approaches from a political economic perspective, with the hope to help people better understand the roles that Government and Market play in this issue.

Creation of the Supply: Commoditization of Human Life and Violence

The nature of PMC is a modern mercenary with civilized disciplines driven by profit-making. Now that PMC has its own industry and market, supply and demand must be the preconditions of its development, even if now the industry has been monopolized. Two basic conditions in the creation of supply need to be clarified: Commoditization of Human Life and Commoditization of Violence.

1. Commoditization of Human Life

Looking through the history, from Laissez-faire to the variety of capitalism nowadays, market economy has experienced a long-term commoditization of various objects and the promoting of their own marketization driven by people's different needs in different times. Since human beings created markets, how could creators themselves be controlled by their own creation? The answer lies on the transformation from a feudalist society, a "non-market society" when free exchange couldn't be realized, to a "market society". With the development of this rapidly commercialized society, factors which were not created for the sale, especially land, labor, and money, were also introduced into the market and being commoditized as "fictitious commodities"⁷ for better serving the economic system and further profit-making. Although "fictitious" temporally, these commodities would always be turned into "real" ones at some point in the future if the boundless development of free-market economic spirits were still strongly insisted as what people do in

3 Except for "Private Military Contractors", "PMC" also refers to "Private military Company". Their Business are generally named as "Private Military Industry" or "The Circuit". For more details, please check: http://www.thesun.co.uk/sol/homepage/news/campaigns/our_boys/3862186/Brits-are-No1-guns-for-hire.html and <http://www.circuit-magazine.com/>

4 Higgins G. (2007) US rejects UN mercenary report USA Today, syndicated article by Associated Press.

5 Barnes E. (2007). "America's own unlawful combatants?", Los Angeles Times.

6 "Top 100 Contractors Report - Fiscal Year 2015". fpds.gov. Retrieved 4 January 2017.

7 Polanyi K. (1957) *The Great Transformation*, Beacon Press, Boston, p. 78.

this modern, business-mainstreaming world. When it makes a breakthrough on people’s moral judging that human life can also be decently commoditized rather than formerly classifying it into the moral grey-zone within civil society, which means allowing the market mechanism to be sole director of human beings’ fates⁸, the commoditization of human life will obtain support from social recognition just as what people previously did to tomatoes. At this point, “labor”⁹ can be produced for sale.

To define private soldiers serving at PMCs in the “labor” context, they are the excellent examples of a mixing type of labor, including both of free, wage labor and slave. First of all, one thing as the crucial evidence to prove that they are free, wage labors is their being paid with super high rewards on selling their own life to the employers. However, the phenomenon that people sell their labor power as “rather a sacrifice of their life”¹⁰ without much right to choose the business they are going to engage in can only exist in the slavery.

2. Commoditization of Violence

Except for the sale on human life, the other important element in PMC market is purchasing violence using as protection. “State is a human community that (successfully) claims the monopoly of legitimate use of physical force and violence within a given territory.”¹¹ The state monopoly applies the same logic with the market monopoly, or it’s more accurate to say that state monopoly appears even earlier than the market monopoly. Before the emerging of capitalism, the development of modern states had been initiated by the “prince” through expropriating “private” bearers of executive power including the means of administration, warfare, and financial organization, which as Weber said: “The whole process is a complete parallel to the development of capitalist enterprise through gradual expropriation of the independent producers.”¹² Now that PMCs are producing violence for sale, states must be the only monopoly power in this industry to keep their position of the sole source of the rights to use violence because no matter in what age, the realistic spirit that “who control over the violence, who rule” is always considered as the most important oriental principle by rulers, and even in the peaceful ages, such as the long-turn prevailing of Realism theories in the field of International Relations.

Except for ensuring the monopoly position, states’ changing the using of violence from a “sole right” to a “market” must have other reason: In U.S.’s case, the wave of Neo-Liberalism provided U.S. government with theoretical support on commoditization of violence. Besides, extending the PMC industry also means profit-making as well as keeping its “hard-power” influence in the foreign regions.

Creation of the Demand: A Bundle of Mixed Causes

Under these two processes of commoditization, supply of PMC market can be realized. Different from the situation of other industries which have monopoly powers, the oligopoly phenomenon is not that severe in PMC industry, which means there is truly a great demand for PMCs existing in the market. The two main sources of demands are the following:

8 Polanyi K. (1957) *The Great Transformation*, Beacon Press, Boston, p. 73.

9 According to Polanyi, “labor” is only another name for human activity which goes with life itself, which in its turn is not produced for sale but for entirely different reasons, nor can that activity be detached from the rest of life, be stored or mobilized. (1957) *The Great Transformation*, Beacon Press, Boston, p. 72.

10 Marx K. (1847) *Wage, Labour and Capital* (edited version in the Marx-Engels Reader), p. 204.

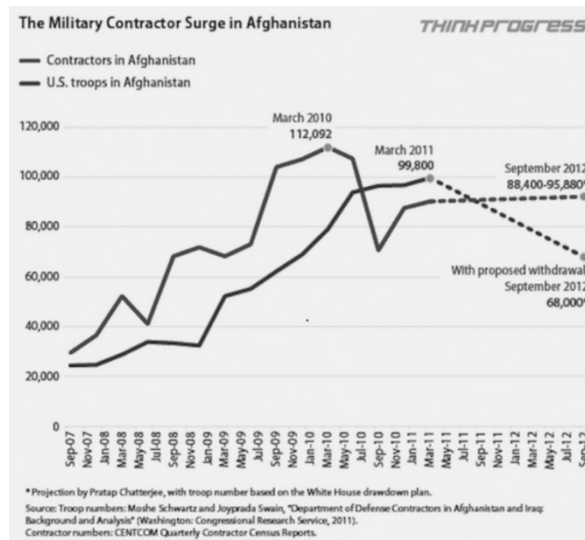
11 Weber M. (1946) *Politics as a Vocation*, Oxford University Press, New York, p.78.

12 Weber M. (1946) *Politics as a Vocation*, Oxford University Press, New York, p.82.

1. A “Double Movement” in the Middle East

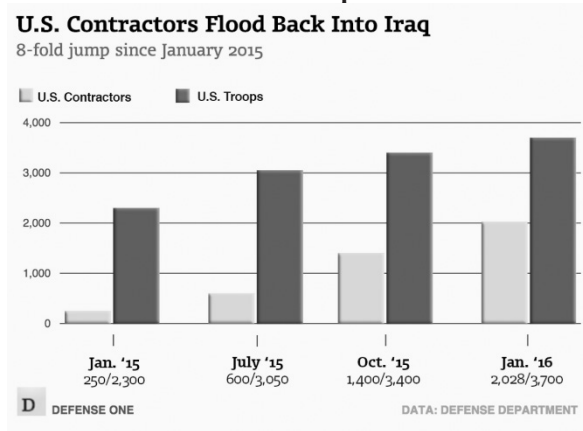
The conflict never ends. Critiques from human rights and both of International and domestic legal systems were intrinsically self-equipped with questioning on the rightfulness of applying violence to foreign countries or regions even for the sake of salvaging local people from the suffering of despots and spreading “real” democracy, under the pressure of which, the U.S. retreated their army from Iraq and Afghanistan during the Obama Administration. Ironically, “maybe pouring a can of tomato juice into the ocean gives you ownership of the ocean”¹³, but a fisherman who has been fishing over years on the ocean deserves authority to make a discourse rather than a stranger who has just forcefully poured a bottle of tomato juice, after all. It was totally understandable that U.S. officials continued interfering in local affairs in the sugar-coated cause of helping to reconstruct local security, aiming at replenishing the vacuum of U.S. power-influence in the post-war zones during the interim period, but this won’t always work and a solution in the long-run which can fundamentally solve the problems is needed. Besides, there’s still a huge number of private oil firms from the U.S. staying there for exploitation, thus they unavoidably became the primary targets of local terrorists after U.S. withdrawing their troops from the Middle East. The retreatment also gave more space to the oil firms from other countries to enter this region, which also raised the demands for security. Hence, both for maintaining U.S. fragile connection with the post-war Middle East and providing security for the western oil companies, a way suited in “capitalist characteristics” came out with the combination of political and economic spheres and also in the grey zone of laws and human rights. Relaxing the limitations on PMC industries’ extension in Iraq and Afghanistan can fulfill the demands and, what’s more important, create new profits in the meantime.

Figure 1 Military Contractor Surge in Afghanistan



13 Honderich T. (2003) *After The Terror*, McGill-Queen’s University Press, p. 45.

Figure 2 U.S. Contractors Flood Back into Iraq



However, where there’s repression, there’s resistance. Except for the attacks from terrorists groups, local citizens are increasingly unsatisfied with the PMCs. Previously, U.S. army soldiers sometimes mistakenly injured innocent people, let alone these private trained “armed labors”. This consisted a “Double-Movement”¹⁴: The “protection against marketization” was generated by the “protection on marketization” with more resistance, and also reversely became one of the pulsions of marketization and the “protection on marketization”.

2. Crisis of Surplus and Profit-Making

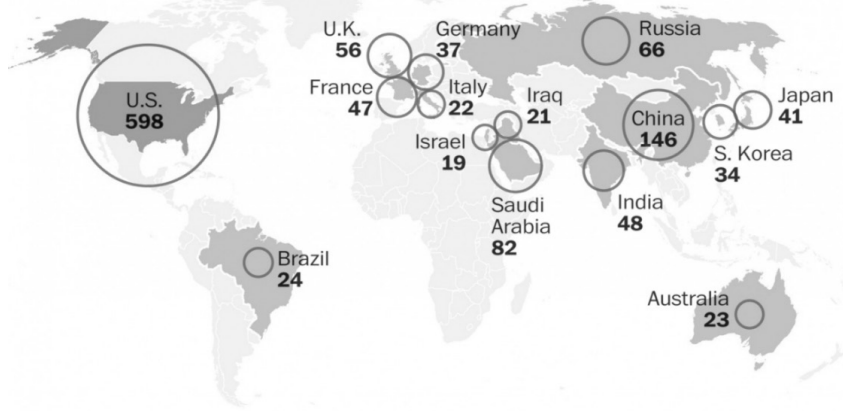
Back to the last half of 20th century, a capital accumulation process started in the developed countries, and “creating conditions favorable to the most rapid accumulation of capital is the central task of the capitalist states”, under which, industrial society got established and big corporations gradually squeezed the small capitalist proprietorship to the periphery or even out of the market competition: The monopoly stage of capitalism had come.¹⁵ Due to the oligopolistic power these giant enterprises held, productive inputs could be easily manipulated. In seeking for profits’ maximization, these enterprises lifted up the price of the products as well as expanding their production and most decisions made in such situations were only based on the expectation of short-term profits. However, people’s income didn’t get increased because corporations wanted to limit productive costs as much as possible. Most of the consumers could not afford the products causing a “Crisis of Surplus”, which accelerated the tendency for capitalist countries’ economies to secular stagnation, and the result lay on “the sales effort (export) is not enough to neutralize the tendency to stagnation...the state can counteract stagnation by suitably large expenditure on welfare and/or warfare.”¹⁶ In fact, the expenditure on warfare is ineluctably more popular than the one on welfare in capitalist countries because of one simple logic: Robbing the weak is always easier and faster than caring for the weak with the hope of getting pay-back. Although all above is the logic before the 2 World Wars, it’s also applicable to the PMC Industry’s extension in Iraq and Afghanistan. In PMC’s case, the monopoly power in the market is not from the big corporations, but from states according to Weber’s definition mentioned in the introduction paragraph.

14 Polanyi K. (1957) *The Great Transformation*, Beacon Press, Boston, p. 79.

15 Sweezy P. (1972 &2009) “Modern Capitalism” and “On the Theory of Monopoly Capitalism” in *Modern Capitalism and Other Essays*, pp. 6-7.

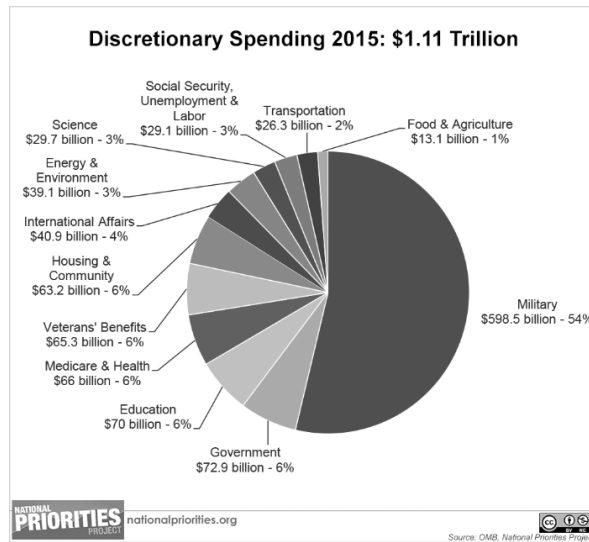
16 Sweezy, “Modern Capitalism” and “On the Theory of Monopoly Capitalism” in *Modern Capitalism and Other Essays*, 1972 &2009, p. 9.

Figure 3 Largest defense budgets in 2015 in billions of dollars



Source: International Institute for Strategic Studies
 LARIS KARKLIS/THE WASHINGTON POST

Figure 4 Discretionary Spending 2015 \$1.11 Trillion



For instance of U.S. military spending in 2015, almost a third of the global annual spending on defense was accounted by U.S. In the post-9/11 period, which is also the period of the War on Terror, the fear of homeland terrorist attacks has never got diminished, while reversely drove another round of military expansion in U.S. after the Cold War. However, from the chart we can see there was actually a tendency of decreasing in homeland terrorist attacks, which means there'll be a discordance between the military supply and military demand. Excluding the factor that the U.S. didn't have any "hot wars" with other countries or regions except for the ones in the Middle East in the post-9/11 period, the "Crisis of Surplus" happening in the military industries was proved by other convincing phenomena, such as the increasing national selling of weapons and the exponential domestic firearm retailers. The expansion of PMC Industry, as one of the results of the "Crisis of Surplus", can also be regarded as an effective way to

solve the problem, the logic behind which equals to national selling on weapons, “exporting”, in other words. Different from the logic of pre-WW2 period, U.S. firstly implemented the solution of “expenditure on warfare” rather than firstly confirming exportation could not mitigate the crisis. U.S. government’s declarations on the Iraq and Afghanistan wars were far away from international public’s expectation, which let people feel less astonished when they recognized there was an extensive trend of PMCs’ using in the middle east by U.S. government. Anyway, the combination of 2 methods contributes to the solving of the “Crisis of Surplus” in military industries.

Operating Mechanism: A New “Revolving Door”

To make sure this bond of methods could operate without errors, a brand new mechanism was created: A new “Revolving Door”¹⁷. Quick looking back to the “stagflation” in the 1970s, political crisis was brought to the fore and threatened the interests of the ruling class. Neo-Liberalization was implemented by governments as a political project and the boundless developing of it eventually led to the 2008 Global Economic Crisis. Behind this process, the increasingly tighter bonding between the private corporations and governments formed a “revolving door” rotating around the axis of profit-making.¹⁸ The same happened in the PMC’s extension: A new revolving door was built up between governments and PMCs with the axis of commoditization on human life and violence to make profits for both from its “rotation” through a strategy of government pointed out by Harvey: “To create controversies out of all manner of issues that simply do not matter and to propose solutions to questions that do not exist.”¹⁹

According to Tilly, states are “racketeers” who provide public with legitimate protection rackets. This “good cop-bad cop” role of “racketeers”, who are in charge of providing protections to the threats they created on their own, is designed for states to gain more profits through the creation of “rackets” which refers to dishonest and illegal ways of getting money, which granted states with the legitimacy to “commonly stimulate, stimulate, or even fabricate threats of external war.”²⁰ War-making generated the needs of extraction from people and, in PMC Industry, “War on Terror” declared by Bush Administration in 2001 was just fulfilling this need. For the sake of “protecting homeland” and “building counterterrorism institutions and enhancing agents’ skills”, the states gained a huge amount of profits through taxation and redistributed the money into another war-making and constructing this noble revolving door. The U.S. Government allows the extension of PMCs and, in the meantime, protects them from the prosecution of laws and gets the share of huge profits from PMCs. Besides, the U.S. government can also make profits from the oil firms who have special relations with it through ways, such as a discount on selling PMCs’ protection. According to the data from the Federal Procurement Data System, top 100 defense contractors may consumed up 40% of the military budget allocation and TOP 10 as followed accounted for 20% of the whole.²¹

17 A “Revolving Door” refers to a movement of personnel between roles as legislators and regulators and the industries affected by the legislation and regulation. In some case, including this time, this movement can be applied to describe an unhealthy relationship between the private sectors and government, based on the exchanging on privileges and priorities.

18 Harvey D. (2007) *A Brief History of Neoliberalism*, Oxford University Press, p. 206.

19 Harvey D. (2011) *The Party of Wall Street Meets its Nemesis*, Verso Blog.

20 Tilly C. (1985) “War-Making and State-Making as Organized Crime” in *Bringing the State Back In*, (edited by Peter Evans, Dietrich Rueschemeyer, and Theda Skocpol), Cambridge University Press, New York, p. 171.

21 “Top 100 Contractors Report - Fiscal Year 2015”. fpds.gov. Retrieved 4 January 2017.

Table 1 Top 10 Contractors

Global Vendor Name	Number of Actions	Dollars Obligated	%Total Actions	%Total Dollars
LOCKHEED MARTIN CORPORATION	121,387	\$36,259,911,070.83	0.6866%	8.2999%
THE BOEING COMPANY	13,201	\$16,646,781,379.52	0.0747%	3.8104%
GENERAL DYNAMICS CORPORATION	21,945	\$13,632,984,913.57	0.1241%	3.1206%
RAYTHEON COMPANY	10,554	\$13,114,246,704.69	0.0597%	3.0018%
NORTHROP GRUMMAN CORPORATION	11,628	\$10,637,246,770.72	0.0658%	2.4349%
MCKESSON CORPORATION	106,371	\$8,358,491,280.54	0.6017%	1.9133%
UNITED TECHNOLOGIES CORPORATION	25,400	\$6,792,039,706.41	0.1437%	1.5547%
L-3 COMMUNICATIONS HOLDINGS INC.	8,493	\$5,450,824,009.65	0.0480%	1.2477%
BECHTEL GROUP INC.	201	\$4,645,069,049.63	0.0011%	1.0633%
BAE SYSTEMS PLC	10,541	\$4,436,736,025.43	0.0596%	1.0156%

Conclusion

Now that governments have triggered the exponential increasing of PMCs and also cannot transfer the monopoly power on the legitimate violence to economic enterprises, they should keep a continuous interference in this industry with proper regulations to make sure that they wouldn't make more mistakes, at least. Finding a new market to keep the rotating of this revolving door cannot be working forever for solving the "Crisis of Surplus", while governments should redistribute the spending on defense to rebalance the production of different industries. Always making efforts towards peace with right approaches, then the problem will be mitigated rather than worsened.

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Towards Continental Integration in Africa: Examining the capacity of the African Union Commission (AUC) Institution as a facilitating Tool

Daniel Taye Medoye • Mark I. Rieker

Abstract This paper is an exploratory attempt to determine the capacity of the African Union Commission (AUC) as an organ of the African Union (AU) in facilitating the integration aspirations of African leaders on the continent. Considered a strategic organ of the AU, this study sets to examine the integrative capacity of the AUC and its ability to sensitise not only African leaders, but also wealthy Africans, notably in the private sector, to pool resources to catalyze efforts towards integration of the continent. This paper proceeds from the premise that, in post-colonial Africa, leaders of newly independent countries became increasingly associated with the idea of integration, and believes that with it, the quest for development on the continent would be facilitated. The authors predicated this inquiry on available and accessed literature to determine a departure from previous studies on integration in Africa and also provides a theoretical framework. This paper notes that at independence, some visionary African leaders foresaw a need for integration as a mechanism for realizing the lofty goals and expectations of the population. These include, good governance – embedded in the principle of rule of law – respect for human rights; provision of security and improvement in the standard of living, all aimed at fostering unity and integration on the continent. Unfortunately, the current situation, with respect to the socio-economic and political well-being of the peoples on the African continent is far from these envisaged results after several decades of political independence. The authors noted scholars' acknowledgement that African's integration efforts over the years have not yielded clearly noticeable and significant success especially with the emergence of challenges of widespread poverty, political misrule resulting in unbridled corruption, endemic diseases, and the sit-tight syndrome of African leaders. Furthermore, it is a generally held view that the pursuit of an integration strategy as a way to facilitate the realization of the objectives of African leaders in meeting the expectations of their peoples has not yielded satisfactory outcomes. The authors viewed the AUC as an organ that plays an interventionist role through policy advocacy which proposes and recommends policies and programmes for the consideration of African leaders during their plenary sessions towards pursuing their integrative goals. The study submits that, if accorded a near-supranational status, the AUC has the potency to galvanise resources and support to facilitate the desired integration of the African continent.

Keywords Integration - Functionalism - Neo-functionalism - Inter-governmentalism
Supranationalism

JEL classification F50 - F54

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Background to the African Union (AU) and the integration agenda

From a historical perspective, the Organization of African Unity (OAU) which transformed into the African Union (AU) was set up on May 25, 1963 in Addis Ababa with a mandate to, among other things, promote unity and solidarity among African States; eradicate all forms of colonialism; co-ordinate and intensify co-operation and efforts to achieve a better life for the peoples of Africa and promote a continental forum designed to catalyse the continent's aspiration agenda. The transmutation from OAU to AU which was formalised in 2012 at the Durban Summit of the African Union could be predicated on the dynamics of socio-economic and political development within the continent in over three decades of its existence as has been acknowledged in the views and writings of scholars and commentators alike. For example, Duodu (2012) and Hestermeyer (2002) observed that with the end of apartheid in South Africa, the major goals of the OAU had been achieved and the dreams of a united Africa regained momentum, and served as the impetus for a rebranding of the organization. This assertion could be true if complete political decolonisation of the continent was the only challenge faced by African countries at independence. But this is not so, as evidenced by the charter of the organization and its mandate referred to earlier.

Hestermeyer (2002) further argues that over time the priorities of the OAU started to change, and issues of human rights, need for good governance, ethnic and religious conflicts, infrastructural disparities, wide spread corruption by African leaders among others, emerged and constituted serious challenges against the organization which unavoidably required collective efforts to address. In response to this, the Heads of States and Government, at an Extraordinary Summit of the OAU held in Sirté, Libya on 9 September 1999, issued the Sirte Declaration calling for the establishment of the African Union, with a view, *inter alia*, to accelerate the process of unity among countries of the continent. It was believed that this will enable the organization to better participate in the global economy to more effectively address social, economic and political problems. In the furtherance of this, three summits were held to facilitate the implementation of the African Union. These include the Lome Summit in 2000 which specified the objectives, principles and organs of the AU as enshrined in the Constitutive Act adopted at the summit; the second is the Lusaka Summit in 2001, which drew the roadmap of the implementation of the AU, while the third, the Durban Summit in 2002 was where the AU was formerly launched and witnessed the First Assembly of Heads of States of the African Union, (AU: 2002).

Methodological Approach

This paper is based on literature and discourses on the subject of integration in Africa and relies considerably on relevant extracts predicated on the findings from the thesis of a doctoral degree programme of one of the authors which dealt with African Union and the role of its organs to catalyse the integration agenda of the continent. This paper drew on relevant theoretical models such as Functionalism, Neo-functionalism and Inter-governmentalism to provide reinforcement and context for analysis. Findings from the data generated for the doctoral degree will be deployed and highlighted in this paper, and recommendations arising from the analysis and discussion on the findings will be provided.

Literature Underpinnings

The concept of integration may be considered as old as human society, especially if viewed from the perspective of a collective attempt to advance shared concerns and expand mutual benefits of collaboration. In the contemporary international system, formal integration arrangements evolved in the aftermath of the holocaust that characterized the 2nd World War as an envisaged

panacea to halt future similar occurrences. In Europe for instance, cooperative arrangements were at the level of economic activities, but soon developed to incorporate political and diplomatic engagements, culminating in the European Union (EU) as it is today. From an historical point of view, the EU could be pin-pointed as a culmination of the sequential process of cooperative engagements that held sway in the 1950s. It is recalled that Frenchman Robert Schuman had opined that pooling together the production of Coal (France) and Steel (Germany) under a given authority would help to obviate the tendency to strife and ultimately, war between the two contingent countries (arch-rivals) and neighbouring countries in Europe (Schuman, 1950).

Specifically, in a declaration by Schuman Foundation of 9th May 1950, European Issue No.204, the following excerpt is considered insightful, and has been lifted to provide a basis for the link between integration and the search for peace in Europe -

... Schuman had "proposed that Franco-German production of coal and steel as a whole be placed under a common High Authority, within the framework of an organisation open to the participation of the other countries of Europe. The pooling of coal and steel production should immediately provide for the setting up of common foundations for economic development as a first step in the federation of Europe, and will change the destinies of those regions which have long been devoted to the manufacture of munitions of war, of which they have been the most constant victims. The solidarity in production thus established will make it plain that any war between France and Germany becomes not merely unthinkable, but materially impossible" Schuman (1950).

The above declaration is generally believed in academic circles to signal the evolution of economic cooperation which later snowballed into integrative arrangements among certain European countries, aimed towards achieving peace, and avoiding another world holocaust in which the 1st and 2nd world wars resulted. Subsequent and more formal arrangements by European leaders led to the Treaty of the European Union (EU), also known as the Maastricht Treaty which was signed in Maastricht in 1992 and came into force in 1993. This Treaty established the EU and gave Parliament more say in decision-making. Among the four decision-making organs of the EU is the European Commission (EC). This seems to have provided the model after which the African Union Commission has been patterned.

As pointed out in a report by the United Nations Economic Commission for Africa (UNECA, 2003), regional integration in Africa continues to hold a central place in the continent's endeavours to achieve economic transformation and attain sustainable socio-economic development. In the view of Qobo (2007), for regional integration in Africa to be a success, African leaders will have to move beyond grand gestures and abstract vision, suggesting that Africa's challenges call for pragmatism and a sense of urgency in action. And that this would require more focused and gradual steps that are carefully executed at the domestic level as the starting point. In this instance, the focus of such steps at the domestic level should be on bold and sustainable political and economic reforms. In Africa intergovernmental cooperative arrangements are as old as the independence era. However, this is not to prejudice the existence of cooperative arrangements prior to independence. As noted by Maruping (2005), some of the many African sub-regional arrangements have a long history of existence, dating back to the pre-independence era, but have been characterised by occasional stagnations or reversals in a few cases, and only modest achievements at best in others. Some of the African regional arrangements also cover issues of common interest in the areas of public governance, defence and security among other socio-economic and political dimensions. For instance, in the West African sub-region, attempts towards regional integration started with the Ghana-Guinea Union formed in 1958, to which Mali joined in 1960, known as Union of Independent African States. This Union, described as a loose organisation disbanded in 1963,

served as a quasi-model and a catalyst for subsequent efforts toward integration on the continent. Martin (2002) argues that post-independence African leaders had consistently pursued policies of regional cooperation and integration as a means of promoting socio-economic development and of reducing their dependence on the West. Martin however noted that while African scholars and policy-makers generally agreed on the need and desirability of African unity, they tended to disagree on the level, strategy, and ultimate goal of unification as well as on the scope of cooperation. This situation may be adduced to be a contributory factor for the slowness of the pursuit of harmonization of policies that African leaders have tended to contend within their aspirations for integration on the continent. In Sub-Saharan Africa (SSA), integrative activities have clearly manifested on the economic front, according to a report by the United Nations Economic Commission for Africa (UNECA:2004), and this is evident in the establishment of such bodies as the Economic Community of West African States (ECOWAS) in 1975, the Economic Community of Central African States (ECCAS) in 1983, The Arab Maghreb Union (UMA) in 1989, East African Community (EAC) in 1999, replacing the Permanent Tripartite Commission for East African Co-operation which itself was formed in 1967, and the South African Development Community (SADC) in 1992, formerly the South African Development Co-ordination Conference established in 1980. Maruping (2007), Gibb (2009), Tavares and Tang (2011), while admitting that the various sub-regional economic groupings have recorded some successes, though minimal, they have also been faced with challenges which include among others, membership issues; slow ratification of protocols and reluctant implementation of agreed plans; socio-economic policy divergence as well as limited national and regional capacity. This study observes that the foregoing challenges are clearly sub-regionally based, and perhaps reflects the different colonial experiences of the African states notably in language and culture. It is the contemplation of this study therefore that the attention of the contemporary African leaders would seem not to have been directed on internal mechanisms or institutions within the African Union in the context of their capacities. For example, the African Union Commission which serves as the secretariat for the articulation of policy guidelines and implementation of resolutions toward continental aspirations has not been subjected to discourses or critique to determine its efficacy on its mandate. This paper opines that such an inquiry is relevant in the contemporary times based on the statutory duty of the organ and also of necessity in view of the role of its European counterpart (the European Commission) whose impact on the European Union (EU) offers insights in a paper such as this.

Theoretical Underpinnings

Perhaps, it is noteworthy to mention that a great deal of scholarly work had been done on the issue of the integration of the African continent, and that it is widely acknowledged by scholars and commentators alike that such an initiative is a panacea to Africa's growth and development. The myriad literature on integration has unavoidably reflected on what the authors describe as the underlying theoretical frameworks which justify the phenomenon of integration. The authors will rely on select theoretical models to provide a reinforcement for this paper. These include Functionalism theory pioneered by David Mitrany, (Mitrany: 1943); Neo-functionalism theory led by Ernst Haas, (Haas: 1964); and the theory of Inter-governmentalism as conceived by Michelle Cini (Cini: 2010).

In examining the Neo-functional paradigm and its applicability to justify the capacity of the AUC in this paper, it is relevant to note the position of Haas, as a Neo-functional. Haas (1964) supports a direction that would permit the need for both experts and persons who have more influence on national policies to be involved in activities designed to be integrative.

Haas further argues as follows - organisation must develop an ideology that is compatible with the sub-goals of potential supporters, and which binds the organisation's staff; organisation's decisions should be made so as to upgrade common interests and that organisation's powers and objectives are extended; programming should proceed within the confines of organisation ideology and care should be taken that sub-goals do not become dominant over the more general ideology. By application, Haas prescriptions can be justified in the establishment and operations of the AU as an organization which exists to serve the interest of member states. In carrying out its functions, the AU is peopled by experts in various fields of human endeavors who can translate the vision of the Union into practical terms. In a more specific context, Schmitter (2002), suggests that neo-functionalism represents a theory of regional integration that places emphasis on the role of non-state actors – especially, the secretariat – of the regional organisation involved and those of interest associations and social movements that form at the level of the region in providing the dynamic for further integration. Schmitter further asserts that member states of such organisations remain important actors in the process. The member states set the terms of the initial agreement, even though they do not exclusively determine the direction and extent of the subsequent change. This inclusivity has to do with the nature of the international environment which is globalized and dynamic with the possibility of volatility. However, the ability of a regional community, such as Africa to facilitate growth and development of the continent, would seem to be better enhanced through an integrative arrangement which requires an integrating authority such the AU and its implementing organ - the AUC.

In the context of Inter-governmentalism theory, Garza (2006) contends that governments control the level and speed of state integration and that any increase in power at supranational level results from a direct decision by governments. This theory further posits that integration driven by national governments is often based on the domestic political and economic issues of the day. Garza however submits that, unlike a federal state, member states fully retain their sovereignty and participate voluntarily being subject to the supranational government only so far as they decide to remain members. Implicit in the foregoing is that sovereign and independent states, sharing common ideas on how positively to relate together, could enter into an agreement to form an entity for the advancement of their interests, which could be economic and political. And such is the African Union. The relevance of inter-governmentalism as a theory therefore derives from the standpoint that every inter-governmental organisation gets its statutory and enabling power from the Member States that created it, and that its operational capacity depends on the amount of commitment bestowed on it by the states. The AUC as an organ of the AU is a subset charged with the responsibility to implement decisions of the organization on behalf of African leaders. The relevant question that should arise here is – Does the AUC possess the authority to enforce implementation of its mandate on African leaders? The answer to this question in the light of the findings arising from the data generated for this study, and as presented in the previous chapter is No, especially in the present circumstance. This is because the AUC derives its strength and resources from the Member states of the AU. However, this is not to say that the AUC is totally ineffective as a result. After all, some developments within the organization in terms of fresh initiatives and ideas on how to empower the organization to achieve its set objectives, attributable to the AUC, are indications of its ability to facilitate integration efforts in Africa.

The AUC as an institution seeks to become “*an efficient and value-adding institution driving the African integration and development process in collaboration with African Union Member states, the Regional Economic Communities (RECs), and the African citizens*” (AUC Website). The Commission is the key organ playing a central role in the day-to-day management of the AU. Among others, the commission represents the Union and defends its interests; drafts common

positions of the Union; prepares strategic plans and studies for the consideration of the Economic Council; elaborates, promotes, coordinates and harmonizes the programmes and policies of the Union with those of the RECs; and ensures the mainstreaming of gender in all programmes and activities of the Union.

The AUC in pursuit of its mandate plays an interventionist role through policy advocacy for use by member states by way of adopting policies and programmes that would usher good governance for peaceful co-existence among their peoples, (NAN Report: 2014). A current initiative in this respect is the establishment of the African Union Foundation (AUF) which represents a bold step by the AUC for the overall benefit of African countries. In specific terms, the mission of the AUF is to mobilise resources in support of the African Union's vision of an integrated, people-centred and prosperous Africa at peace with itself and taking its rightful place in the world (AUC website: 2002).

Data collection, analysis and discussion of findings

As indicated earlier the authors draw considerably from the findings of the doctoral thesis of one of the authors which dealt with the African Union and the role of its organs (in this case, the African Union Commission) to catalyse the integration agenda of the continent. In the thesis, the following research question were posed –

How can the AUC drive and facilitate integration in Africa?

- What are the challenges facing AU's integration arrangements in Africa?
- How would you assess the various sub-regional communities as building blocks for integration in Africa in terms of successes and failures?
- How can the international environment influence the AUC in its integration efforts?
- What policy options and recommendations can be identified and proposed by the AUC for effective of integration.

To be able to address these research questions, the researcher formally contacted target participants at the secretariat of the Africa Union; the New Partnership for Africa's Development (an agency of the AU); the United Nations Economic Commission for Africa; the South Africa Institute for International Affairs, on the basis of their involvement with and knowledge of the activities of the continental body. This aligns with the criteria of sampling as espoused by Spradley (1979) which include – enculturation and involvement. By enculturation, Spradley refers to a situation when information is sought from someone who is very familiar with the setting or domain of the needed data, while current involvement is concerned with accessing those with current knowledge about the subject of research. Consequently, the AUC personnel and those from affiliate bodies such NEPAD and the UNECA are genuine sources of information for this study.

In carrying out the fieldwork to generate data for the thesis, the researcher sampled a total of thirty five (35) participants spread across the institutions targeted, and conducted interviews whereby the data collated were synthesized and the following findings emerged. On question one (Q1) of this study which sought to find out the role of the AUC and if it can facilitate integration on the continent.

All the participants in their respective responses demonstrated a clear understanding of the role and mandate of the AUC as an implementation organ to deliver on the decisions of the AU. It has been mentioned in this study that the AUC as an organ of the AU, emerged to replace the former Secretariat of the Organisation of African Union having been adopted at the Durban Summit of the 38th Ordinary Session of the Assembly of Heads of State and Government which held from 9-10 July 2002. Article 20 of the African Union states as follows –

“There shall be established a Commission of the Union, which shall be the Secretariat of the Union. The Commission shall be composed of the Chairman, his or her deputy or deputies and the Commissioners. They shall be assisted by the necessary staff for the smooth functioning of the Commission. The structure, functions and regulations of the Commission shall be determined by the Assembly”, AU Constitutive Act (2002).

This paper argues that there is no ambiguity about the role and the mandate of the AUC, and that it is an organ whose sole responsibility is to pursue the implementation of the decisions of the AU as may have been adopted. This speaks to the somewhat weak position of the AUC on account of its inability to enforce compliance on African leaders to provide the necessary environment, conditions and ultimately, needed resources the AUC requires for coordination and facilitation responsibility. However, the AUC is not a supranational body or organ like the European Commission (EC), and therefore does not possess a coercive capacity to compel any member state of the AU to obey and carry out any agreed instructions. As indicated earlier, the AUC is in a dilemma being an appendage of the AU in spite of its being peopled with seasoned experts and diplomats. This can be seen in quality of elected and appointed officials for all the organs of the AU. For example, the current Chairperson of the AUC was a former Prime Minister in the Republic of Chad, while the current Chairperson of the Peace and Security Council is the Nigerian Ambassador to Ethiopia.

The question that would be asked is whether the AUC can facilitate integration efforts in Africa which this study question one (Q1) seeks to answer. In providing answer to this question, it will be worthwhile to reflect on the environment in which the AUC has had to operate. It will be recalled that the assumption of office of the outgoing Chairperson of the organ, Her Excellency, Dr Nkosazana Dlamini-Zuma was characterized by infighting within the AU. This internecine rivalry arising from this can be measured in terms of the view by Maasho (2012) thus, “the issue of political infighting within the AU appears to be a volatile phenomenon that has continued to haunt the growth of the organisation. As pointed out by Maasho (2012), the election of the current Chairperson, Dr Nkozasana Dlamini Zuma on the 15th July 2012 was reported to be a culmination of a bruising leadership battle that had threatened to divide and weaken the organisation. The contest to head the Commission of the 54-member organisation had been deadlocked since the vote at the previous Summit ended in a stalemate.

Maasho (2012) noted that the impasse that persisted through the Summit of the AU heads had prompted the then African Union’s Chairperson, President Boni Yayi to warn African heads of states that the inability and failure of the organisation to resolve the leadership deadlock would divide and weaken and undermine its credibility in the world. Undercurrents at the Summit suggested that the contest between the outgoing Chairperson, Dr Jean Ping and Dr Nkozasana Zuma had clearly reinforced the polarity between the Francophone and the Anglophone member states of the Union. While the former reportedly had the support of the French speaking member states, the latter obtained the patronage and support of the English speaking member states, especially from the Eastern and Southern African countries”.

Consequent upon this background, it can be inferred that the ability of the AUC to facilitate integration in Africa may be faced with some challenges internal to it. However, it is noteworthy to reiterate that the AUC as its interventionist role of has been demonstrated through the establishment of the African Union Foundation (AUF: 2013). This is an initiative of the AUC designed to assist in financing the African priorities through voluntary contributions. In specific terms, the mission of the AUF is to mobilise resources in support of the AU’s vision of an integrated, people-oriented and prosperous Africa, at peace with itself and taking its rightful place

in the world. At the inaugural meeting of the foundation by its promoters which consists of the Chairperson and twelve others, the Chairperson – also the founder on behalf of the Commission, suggested that it was time for Africa to mobilise its own resources in support of its development and take charge of its destiny, AUF (2013).

In particular, the Chairperson was of the view that the foundation will strive to more deeply engage Africa's private sector, African individuals and communities and leading African philanthropists to generate resources and provide valuable insights on ways in which their success can enhance the growth and development of Africa. In furtherance of this, the AU at its July Summit in Kigali adopted as one of its resolutions, African leaders agreeing to raise about one-point-two-billion (\$1.2) US dollars a year to fund the African Union Commission to enable it carry out its mandate as an organ of the organisation. It is believed that this development will enhance the capacity of the AUC to carry out its mandate to implement decisions in pursuit of the goal of the organisation for the continent.

On research question two (Q2), which borders on the major and remote challenges facing integration efforts of the AU, the participants' responses have been synthesised by the researcher thematically as reproduced here below –

- Lack of political will and commitment
- Unequal economic capabilities
- Differing vestiges of colonial legacies, coupled with predisposition of the former imperial masters to maintain a dependency syndrome
- Multi-cultural nature of African economies and non-competitiveness of products
- Differing political interests of African leaders
- Corruption, tyranny and perpetuity in office.

The researcher alluded to what could be regarded as the remote challenges the AUC seems to be contending against. The challenges were identified in the publications emanating from a non-governmental and independent think tank known as the Conflict for Conflict Resolution, based in Cape Town, and Friedrich Ebert Stiftung, Germany (2012). These include the issue of political infighting within the AU which appears to be a volatile phenomenon that has continued to haunt the growth of the organisation; the allegation of administrative failures associated with the AU; the issue of overlapping inter-agency responsibility; the challenge of low rates of intra-African trade and its attendant consequences; the AUC's effectiveness also believed to be hampered by the challenge of low staffing; and finally, the unwillingness of member states to pay their dues and annual subscription. As a consequence, the organisation is being described as lacking effective leadership (in addition to the other challenges beyond its control) significantly because of its inability to enforce compliance on member states to meet their obligations.

The issue of lack of political will and commitment on the part of African leaders in the pursuit of the organisations' agenda seems to be a paramount challenge to the continent's aspiration towards integration. As observed in the reactions of the participants in this study, African leaders are yet to show enough collective readiness and willingness to pursue the goal of integration through practical demonstration of intentions which will result in effective harmonisation of policies and protocols leading to result-oriented execution. It will be recalled that a participant from NEPAD had remarked that African leaders' desire towards integration is not in doubt, especially in terms of policy commitment and protocols adopted so far. However, the journey towards integration is not an easy one. While there are leaders who are genuinely committed, there are others who seem to be hypocritical and therefore create some form of bottlenecks with no authority to enforce actions towards implementation of the organisation's programmes. With regard to the issue of unequal economic capabilities subsisting among the member countries of

the AU, the researcher notes the common narrative in the responses of the research participants which tends to confirm this claim of inequality. Among the fifty four (54) independent and member states of the AU, it is noteworthy to argue that just a few can be said to be developing while a majority of nation-states are very poor in the strict economic sense. This is because, in much of the continent, there is widespread poverty, incidences of diseases, poor and bad governance system, coupled with tyranny and civil dictatorship. Given the mono-cultural nature of African economies, and the non-competitiveness of products produced on the continent, the volume of intra-Africa trade has not been significant to propel development of the continent. In a publication by NEPAD titled *Move Africa* (2016), the share of intra-African trade in Africa's total trade over the past decade was only about 11%. The implication of this is the generally held view that African countries are dependent economies, and do not have capacity to engage in competitive trading activities.

On the effects of differing colonial experiences and the perpetuation of dependency consideration, all the participants are agreed that African countries are still tied to the apron strings of their former colonial masters. The ties can be viewed in the context of what the former imperial powers stand to benefit in such a relationship. It is generally argued that the continent of Africa accounts for a significant portion of the resources available for exploitation by the former colonial powers who will do anything to preserve their grip on Africa. According to Adisa and Agbaje (1986), Africa is known to possess vast reserves of natural resources in form of minerals and serve as immediate raw materials for the industrial needs of the colonial masters. On the other hand, the failure of the African leaders to provide good leadership on the continent, coupled with the tendency to perpetuate office indefinitely is also being regarded as having the connivance of the western powers. Shaw (1989) contends that while Africa is the largest regional sub-system in terms of territorial size and number of states, it is unarguably the least industrialised and characterized by the most inequality. This perhaps explains the dependency syndrome that characterizes African countries relations with the European powers.

The phenomenon of corruption and greed, sustained by tyranny and dictatorship, African leaders have not disguised their tendency in this regard, but have created structures around leadership that seem to assist in preserving their stay in office. The fallout of this is the widening level of poverty and the temptations to rebellion by the people. In this instance, there has been a rise in civil strives in much of Africa in the last one decade in protest against bad governance lack of respect to constitutional provisions guiding tenures of office.

In assessing the effectiveness of the sub-regional bodies as building blocks for continental integration arrangements representing research question three, all the participants in the study agreed that such framework is very relevant and has contributed in some way to demonstrate the essence of economic cooperation among countries within the respective regions. ECOWAS for instance has facilitated the movement of people across the region through the adoption of a regional travel document such as the international passport, and has also permitted a travel free visa for a period of three months within the region. This has reportedly been replicated in the East African Community.

All the interviewed participants admitted that the sub-regional organisations indeed provide a platform for continental integration project, especially with the level of relative successes recorded in each region. For example, in the area of free movement of goods and services, the ECOWAS, ECA and SADC, etc, can be tipped to have made significant impact in their respective regions. According to some of the participants, while it can be said that the African Union (AU) has an excellent development model on ground, this, in practice, has not been the case with the sub-regional bodies because of the following factors, and these include the fact that

the regional bodies were created on separate treaties that have nothing to do with the AU. This brings about loyalty issues and challenges. These sub-regional groupings don't report to the AU but to their national governments. Besides, there are competing demands between the AU and the sub-regional bodies which seem to result into duplications in many areas. The AU and its member states only appear to converge on issues of peace and security, as well as, on governance (in particular, election matters). Furthermore, the AU suffers from what can be referred to as the "big brother mentality" where the relatively bigger and stronger member-states call the shots all the time. Essentially, with the differing, and sometimes contradicting internal structures of the sub-regional bodies from the set up at the AUC level, the role of coordination of their activities by the AUC remains an intractable challenge.

Besides, further consideration on the relevance of sub-regional bodies, and particularly focusing the Common Market for Eastern and Southern Africa (COMESA), which starts Libya down to Zimbabwe, the view that sub-regional bodies can lead to integration of the continent may be plausible as observed by some AUC participants. However, they submitted that it all depends on the final objectives being pursued or intended. COMESA for instance, has so far not mentioned about political integration, but has continued to emphasise economic integration. Member states are often divided on which direction to follow between economic and political integration. It is clear then that the problem with the AU is its mandate, structure and powers, hence, impeding the role of the AUC which relies on the mandate of the AU. There is the need to decentralize the focus and objectives of the organisation and for the implementing organs to be given more resources and effective power and authority. In all of this, there seems to be a collective acceptance by the participants, of the relevance and effectiveness of regional economic communities to offer a credible platform upon which a continental superstructure can be laid, subject to unwavering political will and commitment of African leaders in this regard. Reactions by the participants to research question four (Q4) which borders on how can the international environment influence the AUC in its integration efforts, showed a unanimous position which depicts an influential relationship. As presented in chapter five, the AUC participants' disclosures of the level of assistance coming from the donors who are principally outside the African continent to support the latter's programmes lend credence to the unavoidable influence under review.

Specifically, the participants responded as follows – With over 90% of AU program budget financed by external forces, the organization is clearly made to dance to the tune of the funders. Donors put in money to sustain their interest. For instance, donors tend to put their money to ensure peace and security and in the contemporary times, paying attention to migration issues. The international environment does and can influence integration arrangement in Africa. Integration is not done in a vacuum. Africa is equally a player in the international environment, and can be affected by developments therein. The influence can either be positive or negative, depending on the policy initiatives and drive of the integration arrangement of the integrators and the policy direction of the blocs outside of the African environment, such as the European Union (EU) and BRICS, etc.

In another dimension, there are arguments that given the issues associated with globalization, African continent cannot be immune to events happening around the international system. These include technological advancement in transport and communications and attendant improvements in information travels and services delivery across the world. UNECA participants provided the following supporting views –

.....Unstable and volatile global environment, triggered by politico-economic upheavals, will and have continued to negatively affect integration efforts in Africa. There is no doubt that the European integration experience offers some insights for Africa.

Scholars like Arnold Rivkin contend that African presence in the world economy is an indication of its leaders' determination to give meaning to their political independence by developing support economies. And this would require a determined effort to catch up with the developed states, with other areas of the world, and with one another, Rivkin (1963). Implicit in the above submission, is the fact that having suffered economic deprivations and political subjugation for a period referred to as the colonial era, Africa would need to have practical affinity and interactions with the international system in spite of clear structural disparities that characterize the global system. In so doing, Africa will unavoidably be affected one way or the other by happenings outside of the continent. As remarked by some of the study participants, such effect could either be positive or negative.

Regarding the research question five (Q5) which sought to explore potential policy options and recommendations that can be identified and proposed by the AUC for effective of integration of the continent, the participants submitted as reproduced below - Leadership is of essence in the efforts to achieve results in every endeavour. In the case of the AUC, its leadership must be purposeful, committed, unbiased, transparent, and focused. While it is noted that the AU has enough of policies and resolutions aimed at achieving the goal of integration in Africa, the following recommendations will be offered for consideration – Overlapping membership challenge should be urgently addressed to give room for a clear political commitment; given the challenge of economic inequalities among member states, new policy instrument to deal with the fears of economic polarization must be explored, e.g, multispeed arrangement which requires allowing weaker member states more time to liberalize; Private sector groups to be adequately involved in the integration project; Disputes resolution mechanisms must be strengthened and ways to ensure policy credibility must be pursued; Peace and security to be enhanced because wars and conflicts in a number of African regions and countries which have devastated transport networks, poor communications networks and inadequate and damaged infrastructure need to be resolved. On issues of greed and corruption, the AU should adopt a protocol on zero tolerance for corruption by African leaders, promote transparency and accountability in government. Political institutions in African countries should be strengthened so that it will be very easy to vote out corrupt leaders during elections. Leadership is of essence in the efforts to achieve results in every endeavour. In the case of the AUC, its leadership must be purposeful, committed, unbiased, transparent, and focused. While it is noted that the AU has enough of policies and resolutions aimed at achieving the goal of integration in Africa, the following recommendations will be offered for consideration – Overlapping membership challenge should be urgently addressed to give room for a clear political commitment; given the challenge of economic inequalities among member states, new policy instrument to deal with the fears of economic polarization must be explored, e.g, multispeed arrangement which requires allowing weaker member states more time to liberalize; Private sector groups to be adequately involved in the integration project; Disputes resolution mechanisms must be strengthened and ways to ensure policy credibility must be pursued; Peace and security to be enhanced because wars and conflicts in a number of African regions and countries which have devastated transport networks, poor communications networks and inadequate and damaged infrastructure need to be resolved. On issues of greed and corruption, the AU should adopt a protocol on zero tolerance for corruption by African leaders, promote transparency and accountability in government. Political institutions in African countries should be strengthened so that it will be very easy to vote out corrupt leaders during elections.

Critically viewed, the following themes were captured from participants' responses to research question five -

- Need for good governance and purposeful leadership;
- Internalise sources of funding in order to reduce dependency syndrome;

- Establishing relevant and manageable structure/resolving overlapping membership incidences;
- Develop and adopt workable and practicable treaties and prioritise developmental programmes;
- Respect for rule of law, human rights, and promotion of genuine democratic practice;
- Greater level of commitment to common continental agenda;
- Promotion of and respect for Pan-Africanist ideals to facilitate unity and cohesion.

Participants from SAIIA specifically contended that the AUC can only provide the necessary platform where decisions on integration can be explored and pursued towards implementation. This view is predicated on the somewhat weak position of the AUC which, on its own, does not have any enforcement authority over member states. Hence, African leaders who have the responsibility to demonstrate the needed political will for integration, should engage more in intense consultation to encourage unenthusiastic members to get on board.

Concluding remarks

This study set out to critically examine the capacity of the African Union Commission (AUC) to facilitate the integration agenda to which African leaders had expressed commitment in the context of institutional capacities and the challenges of continental integration. It is worth repeating that the AUC is one of the organs of the African Union (AU) which conducts the administrative affairs of the continental organization, and charged with the responsibility to implement the decisions and resolutions of union which may arise from either its ordinary or extra-ordinary summits.

Considering the challenges which could pass for limitations, and in view of the findings that emerged from both the fieldwork and the strength of the literature accessed and applied, the following conclusive remarks about this study can be highlighted.

Firstly, and in reaction to research question one, the authors argue that the African Union Commission (AUC) being the organ in charge of the Secretariat of the African Union (AU), can facilitate integration agenda of the organization. This assertion is in consonance with the status of the AUC having being vested with the statutory responsibility to represent the Union and defend its interests under the guidance of and as mandated by the Assembly of Heads of State and government and the Executive Council, and also implementing the decisions taken by Policy Organs. Additionally, the mandate of the AUC which empowers it to initiate proposals for consideration by Policy Organs – The Assembly and the Executive Council – portrays the AUC as having the ability of the organ to perform accordingly.

Secondly, despite the enormity of the challenges facing integration efforts in Africa as has been established from the findings, the researcher submits that the goal of continental integration is achievable. What is perhaps required is for African leaders to muster courage and take steps to address the identified impediments, many of which are self-inflicted. These include the intractable factor of absence of political commitment needed to collectively resolve issues on which there are differences; non-payment of annual dues and subscriptions by member states; over-reliance on external support and its dependency syndrome; greed, corruption and sit-tightism and its accompanying consequences such as civil strifes, wars, diseases, etc. On this basis, the researcher argues that a deliberate effort by African leaders to replace their personal interest with the interest of their peoples will mark a turning point in the pursuit of the goal of continental development.

Thirdly, on whether the sub-regional bodies can provide a platform for the integration agenda of the continent, the authors contend that the level of successes recorded within each of

the regional economic communities is an indication that such can be replicated on the continent. For example, free movement of goods and services in ECOWAS and the EAC, may be seen as a catalyst to the adoption of the African passport which was launched at the 27th African Summit in Kigali in 2016. Even though the continental travel document is still being developed, its evolution points to the fact that the integration aspirations for Africa are gaining momentum. The impact of ECOWAS passport as a travel document for the citizens of the region has greatly facilitated travels within the region and goes to validate the claim of regional economic communities as requisite building blocks upon which a continental institution can stand.

Fourthly, the views expressed by the study participants whether the international environment can or does influence integration efforts in Africa leads the authors to agree less. As indicated in the discussion in chapter six, African continent cannot be immune to events happening around the international system. By implication therefore, any occurrence within Africa will either trigger another round of events outside the continent or contend with the effects emanating from the international system as a consequence of an action previously taken. For example, it was also noted that unstable and volatile global environment, will and have continued to negatively affect integration efforts in Africa, in terms of slow response to demands for attention or for aid in the area of finance, infrastructure and security. Therefore, happenings in Africa, including integration arrangements, trade and commerce will be influenced by events outside of the continent, especially now that the world is a globalized system.

Fifthly, the authors align with the view by a majority of the respondents to the effect that there is no famine of policies, treaties, protocols and agreements aimed at leading Africa to its desired level of development. But what seems to be a source of worry is the widely accepted view of absence of political will or commitment by African leaders to concretise their decisions in respect of their developmental agenda. Besides, the failure to accept and practise democratic values and respect for rule of law as essential ingredients to building a stable society on the continent is the bane of development in Africa. These challenges, if not addressed, will continue to haunt the continent.

Recommendations

All said, the authors are of the opinion that reflecting on the results of this study, as espoused in chapter six, dedicated to discussion of findings, conclusive remarks above, theory and extant literature reviewed, the researcher makes recommendations on the following areas – the role of the AUC; challenges facing integration in Africa; regional economic communities as building blocks; influence of the external environment on integration efforts; and policy options to speed up integration in Africa.

On the AUC and its role, the authors recommend that the 32-action points which spell out the functions of the organ could better streamlined, made issue-based and workable. This will require that duties or functions which may have been duplicated or which bear considerable similarity, would be realigned and put together. Doing this will define and present a template of action that would make for easy implementation of decisions on issues and resolutions adopted towards achieving target goals.

On challenges facing integration in Africa, the authors recommend very strongly that the refrain of lack of political will associated with African leaders required for effective action should be addressed with utmost urgency, so that implementation of decisions could proceed seamlessly. With respect to the issue of overlapping membership associated with the regional economic communities and consequences for continental issues, the researcher recommends that appropriate steps should be taken by member states to redress the condition and with the

required sense of urgency willingness. While the new initiative on funding whereby member states have committed to raise funds from a levy on imports at a given percentage, the researcher recommends that this step should be backed up with noticeable action. Member states should also see their membership dues and subscription as an obligation that cannot be treated with levity, but should be viewed seriously. On greed, corruption and sit-tightism, the authors acknowledge with delight, the intervention by ECOWAS in the situation in Gambia leading to the ouster of the former President, and strongly recommend similar reaction in any country on the continent where the leader refuses to abdicate power even after losing election.

Regarding an assessment of regional economic communities (RECs) as building blocks for integration at the continental level, the authors acknowledge the role and impact of the bodies and recommends that the necessary support be given them for greater level of successes than currently is. In the view of some of the AUC participants, sub-regional organisations as building blocks provided an opportunity to reach the grassroots, and as such, will be better placed to discharge their functions if given the support they require. As noted under the conclusive remarks above, integration has recorded visible success at the sub-regional level in terms of harmonization of policies in the area of movement of people and goods, and this has provided an impetus for a replication at the continental stage. The ECOWAS experience readily comes out for mention.

On the impact of the external environment on integration efforts in Africa, the authors note that given the globalized nature of the world system, Africa remains a participant in the system and will be affected by occurrences therein. Consequently, the authors recommend that African leaders should be more united than ever in their cooperative engagements and forge a solid front to be an active participant alongside others in the international system. As a first step in this regard, issues of leadership challenges should be addressed, and that deliberate efforts be made to provide good governance anchored on respect for democratic practice, rule of law, and fundamental human rights. Besides, it is recommended that African leaders should seek to achieve growth of their economies for the purpose of development of their peoples, especially through the creation of a conducive society, integrated to collectively pursue common goals for the benefit of their peoples. This can be facilitated by massive provision and development of infrastructure, manpower development programmes through the provision educational facilities for improve literacy.

On policy options to speed up integration, the authors acknowledge existing policy guidelines, protocols and resolutions adopted to pursue integration agenda on the continent as highlighted in the course of this study, but would recommend as follows – That the AUC, as an implementing organ be strengthened perhaps to the level of supranational entity by which it could enforce compliance with agreed decisions by member states. Although, this suggestion may appear to be difficult, its adoption will no doubt, catalyse efforts towards development on the continent.

That the policy of engaging private individuals and non-state actors for resource mobilization is noteworthy, and being a novel initiative, and first ever endeavour of its nature the continental body has embarked on should be given a chance to evolve. It will be recalled that the African Union Foundation (AUF) founded in 2013 was a practical development in this regard. It is an initiative of the AUC designed to assist in financing the African priorities through voluntary contributions.

Furthermore, since finance has been identified a major challenge of the organisation as it seeks to pursue its goals, it is recommended that the inward-looking strategy of an imposition of levy which came out as one of the resolutions at the 27th AU Summit in Kigali in 2016 should be enforced and maintained. By so doing, the ability of the AUC to carry out its implementation

mandate will be enhanced and chances of more visible successes will be high. Finally, the authors note that the vestiges of colonialism still remain a scourge, and continually hamper the speed of decision making process at the AU. Of particular concern is the manifestation of divergences on the basis of differing languages in Africa and its challenges. Against this situation, the researcher would admonish African leaders to seek to relegate the impact of language barrier to give room for more productive engagement and interactions to facilitate greater socio-economic and political framework in the interest of the citizens of the continent. The paper submits that, if accorded a near-supranational status and given the requisite authority to act, the AUC has the potency to galvanise resources and support to facilitate the much desired integration of the African continent.

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Islamic Accounting and the Impact of Accounting Ratios on the Islamic Banks' Share Prices

Carlo Mastrosimone

Abstract The aim of this article is to investigate the role of the accounting regulation for the Islamic financial system, how Islamic banks have to account their investments, according to the Shari'ah law, and how they consider their financial assets. In addition, financial statement, and its relative accounting ratios, has become an integral part in the investment choices, thus, determining potential oscillations of the stock price of banks and companies. Moreover, the article will consider the share price of Islamic banks listed in the Bahrain Bourse, during the years 2009 – 2014, and accounting ratios such as Return on Assets (ROA), Return on Equity (ROE), size of the firm and debt ratio, in order to understand their impact on the share price. A theoretical analysis develops the knowledge about the Islamic sector by analysing the main financial instruments and how Islamic banks must account for, and why the accounting regulation is an important part of this field. In addition, the main Islamic standards will be examined in order to understand and describe in a proper way the environment in which the research is rooted.

Finally, a quantitative analysis will be performed by using the panel data analysis in order to investigate the effect of the selected accounting ratios on the share price. In this particular case the Random Effect Model is deemed to be the best model for this research. The final results show that ROA, debt ratio and share price are characterised by a positive relationship, whereas firm size and share price are linked by a negative relationship.

Keywords AAOIFI - Islamic Banks - Share Price - Islamic Accounting - Profit and Loss
Sharing - Panel Data Analysis - Random Effect

Jel classification C33

1. The Islamic system

Financial practitioners, researchers, and in particular financial newspapers are often tempted to use the word “globalization” for the financial system. Often it seems difficult to demonstrate that there is no connection in the financial industry among different countries and follow the same rules all over the world. However, it is of paramount importance to clarify that the Islamic financial sector is ruled by a different set of principles compared with the conventional system. The most important principles of the Islamic system are the concepts of “riba”, the

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sharing of the profits and losses (PLS), and zakat. Firstly, *riba* is the application of interest which is forbidden in accordance with the Islamic law (Shari'ah). Due to this rule, the financial and bank industry cannot impose and receive interest as compensation for their investments. In addition, the second principle affirms that the bank is considered a shareholder and participates in the financing of several projects and must bear losses or profits (Dar H. A. and Presely 2000). As a result, this principle also governs the relationship between investors and the bank. Another significant difference with the conventional system is the presence and calculation of the zakat, which is a form of tax applied on unused wealth, and in general is around 2.5% per annum (Olson and Zoubi 2008). Moreover, the Islamic financial institutions are not characterized by lending money because they try to make their profits by acting as an agent or by purchasing commodities on behalf of their customers or by entering in joint venture business with other investors.

All these differences are also reflected in the Islamic accounting system, in the necessity to adopt different accounting approaches. The difference between conventional and Islamic accounting is that the former is based on economic rationalism which includes principles of individualism, profit maximization and self-interest; whereas the latter is based on the principles of the unity of God, which include community interest, reasonable profits and equity (Velayutham 2014). In the Islamic accounting, it is permissible to shift from the classical revenue-expense approach to an Islamic approach assets-liabilities in the determination of the incomes (Gambling and Karim 1991). In addition, the differences are originated from peculiar consideration of the concept of the "time value of money", according to which it is inappropriate to charge any kind of interest. In addition, a transaction that is not based on trade must be considered a purely financial transaction which is not allowed in the Islamic finance (AOSSG 2010).

The aim of this article is to analyse the Islamic financial and bank system from a different perspective such as the Islamic accounting system. It seems to be extremely important to understand how a different economic and financial system works and what kind of accounting rules must be adopted. By looking at the history of the Islamic banking and accounting the first aim was to comply with the Islamic ethics and in order to do so, due to the diversity of the Islamic contracts and business, there was a need for specific Islamic standards. Now, with the exponential growth of the Islamic financial institutions, the main problem is to understand the Islamic accounting system and its standards that separate the Islamic environment from the rest of the international system.

Harahap (2003) affirms that the action of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) is extremely important and this organization represents the foundation for the future development of a common Islamic accounting system. However, Mohammed et al. (2015) state that by working with two different accounting standard systems it is impossible to consolidate the financial reporting of Islamic banks that operate in more than one country. Financial reporting is the translation of the business operations of an entity, which provides qualitative and quantitative information to its users, especially to the investors. For the users to make better financial decisions it is imperative to understand under which accounting rules and convention the financial statement has been prepared and the potential issues related to it.

2. Islamic accounting: state of art

Despite the constant and significant development of the Islamic finance, the literature around the topic of the Islamic accounting is still at the beginning stage due to the fact that there is a lack of use and acceptance of the Islamic accounting standards around the world (Haniffa and Hudaib 2010). By analysing the literature on this topic, it seems important to start with the definition of accounting. As reported in Ahmed et al. (2016, pag. 191), accounting is defined as "the process of

identifying, measuring and communicating economic information to permit informed judgement and decisions by users of that information". From this definition, it is possible to deduce that accounting, and the financial statement, is the only way in order to spread the knowledge and how business has been run by the management, by using qualitative and quantitative description of the business itself. When this definition is applied to the Islamic system, it is important to consider the compliance with the Shari'ah law, the prohibition of any kind of interest and the ban of any speculative behaviours. Napier (2009) and Hayoshi (1989) analyse the meaning of accounting in the context of the Islamic culture, defining that Islamic accounting can be considered as a pool of principles, guidelines, a way of considering accounting figures according to the rules expressed through the Islamic law (Hayoshi 1989). On the other hand, Al Khadash (2001) defines Islamic accounting as "the process of identifying, measuring and communicating the legitimacy of financial activities to be useful in making decisions, calculating zakat as well as calculating the right profit of Islamic investment operations based on its rules" (Al Khadash 2001, pag. 26). However, this definition, which can be considered as a merge of the two definitions reported above, is more concerned about the quality and the religious dimension of the accounting's role. These researches can be considered the most important works on the definition of the Islamic accounting which tries to merge financial communication with the religion.

On the other hand, the Islamic worldview is different from the Western worldview and this lead to a different interpretation of the economic and financial reality. As stated by Ibrahim and Yaya (2005) there are three main reasons that lead to the inappropriateness of the Western accounting system in relation to the Islamic model such as (i) discrepancy with the Islamic prescriptions, (ii) discrepancy with the Islamic accounting objectives, (iii) neglect the Islamic socio-economic objectives. Moreover, there are three main objectives for the Islamic accounting such as (i) decision usefulness, (ii) stewardship and (iii) accountability (Ibrahim and Yaya 2005, pag. 82). In the Islamic view, the concept of stewardship descends from the relation among the human being and God, according to which the mankind must manage and use the properties in an effective way and with responsibility, also towards the rest of the society. This point of view has been translated into the separation of ownership and capital, and the managers are considered the steward who must act in a responsible way. Moreover, the financial statement is considered the way of demonstrating that the managers are acting in accordance with honesty and reliability in managing a company (Ibrahim and Yaya 2005). Conversely, the concept of accountability can be translated into the relationship among principal and agent. The agent will be considered responsible for his/her choice and must provide accounts of those choices (Ibrahim and Yaya 2005).

Moreover, in the literature, it is possible to find other interpretations and considerations of the Islamic accounting objectives. Three objectives have been recognised for the Islamic accounting by Haniffa and Hudaib (2002) such as (i) the necessity to achieve a socio-economic justice, (ii) to achieve the obligations to Allah and the community; (iii) all of them in order to obtain the rewards in this life and hereafter. However, as reported by Haniffa and Hudaib (2010), the Islamic accounting has an important role in "(i) providing assurance to users of accounting information through proper recording and disclosure that transactions do not contravene Shari'ah principles and (ii) ensuring that resources are allocated fairly through proper measurement and recognition of assets, liabilities, revenues and expenses" (Haniffa and Hudaib 2010, pag. 6). However, as reported by Ibrahim (2007) the Islamic financial institutions need different accounting standards because "Islamic financial institutions are not based on the capitalistic worldview which underlies the current International Financial Reporting Standards (IFRS) [...], Islamic accounting is based on an accountability cum Shari'ah compliance framework which seeks to determine the rights and obligation of all interested parties, including those rights and obligations resulting from

incomplete transaction and other events, in accordance with the principles of the Shari'ah and its concept of fairness, charity, and compliance with Islamic business value" (Ibrahim 2007, pag. 5, and AAOIFI 2010, SFA No. 1).

Unfortunately, all these studies scarcely went beyond the social dimension (Kamla et al. 2006). As stated by Haniffa and Hudaib (2002) one of the main weakness of Islamic accounting studies is that accounting must provide financial information rather than achieve a sort of social justice. On this issue, Kamla (2009) critically affirms that there are also other elements that belong to the Islamic accounting practices and must be considered.

In fact, regarding the accounting method, Mirza and Baydoun (2000) affirm that historical cost accounting method is deemed as a high reliable source of information in describing company's assets, debt, cash and other operations. However, Ibrahim and Yaya (2005) affirm that the current valuation should be the best way in order to report accounting figures because it takes into consideration the future realizations of a past investments.

Moreover, as mentioned by Karim (2001), there are different ways of accounting for investment accounts. In fact, there are three different ways such as account them on-balance sheet, off-balance sheet and the third approach is to treat investment account as "fiduciary" account. The reason why Islamic banks record investment accounts on-balance sheet is because they are considered simply as equity and are identified as participating shares or are considered simply as assets. On the other hand, banks, which report investment accounts off-balance sheet or as "fiduciary", affirm that these funds cannot be considered as bank's assets, but they manage them on behalf of the investors and for this reason they are not reported in the balance sheet. However, the AAOIFI is encouraging the Islamic financial institutions to consider these funds as banks' asset because in general they will be invested through profit and loss sharing agreements (PLS) and for this kind of contracts the AAOIFI allows banks to create provisions and reserves in order to limit potential losses.

By moving forward, another group of researchers has focused their attention on the different types of Islamic financial contracts and their implication from the accounting point of view. Studies conducted by Abdul Rahman (2003) and Salah (2010) focus their attention on the analysis of the Sukuk and how they are classified, how Islamic financial institutions report and measure them in the financial statement. This analysis is made by considering the Islamic Financial Accounting Standard No. 17 issued by the AAOIFI regarding investment, by looking at the differences with the conventional products. This researches conclude that the Islamic financial industry is different from the conventional financial industry and for this reason the former needs a special environment where a particular set of standards must be developed and increased. The accounting implications will be discussed in details in the next section of this research.

Tomkins and Karim (1987), Saddiqui (2003), Vinnecombe (2010), and Atmeh and Ramadan (2012) concentrate their attention on problems related on one of the most important PLS contract, the mudarabah contract. After a deep description of this type of financial agreement, they focus their attention on the different ways of reporting the mudarabah in the balance sheet, because some Islamic banks record this tool as a liability, others as an asset. In addition, the same treatment is valid also for the musharakah contract and wakalah contract, both belong to the PLS category (Maurer 2002, Archer and Karim 2009, and Salah 2010)

On the other hand, Ahmed et al. (2016) focus their attention on the murabah contract, which is the most important contract that it is not based on the PLS principles but on the mark-up principle. In addition, the criticism is related also on how the AAOIFI has decided to discipline this contract by issuing the standard on murabah financing. According to Ahmed et al. (2016), there are many weak points in the standard that can allow accounting managers to play with the

accounting figures and mislead the users of the financial statement.

In the financial and accounting literature there is a huge number of researches that have investigated the presence of the practices of the income smoothing, but it seems difficult to find researches on this topic that have used non – American banks and in particular Islamic banks. However, this topic is the main objective of the research conducted by Taktak et al. (2010) due to the fact that the Islamic accounting standards, and in particular the Islamic Financial Accounting Standards No. 11, encourage the creation of provisions and reserves in order to limit potential losses from investments based on the mudarabah contract. However, Taktak et al. (2010) by using a sample composed of sixty-six Islamic banks have reached the conclusion that Islamic banks are characterized by earnings management and by smoothing their results, but it is also clear that 75% of these financial institutions do not use loan losses provisions. For this reason, can be likely considered that banks can use other figures in order to reach their main objectives. In fact, Islamic accounting allows the banks to create profit equalization reserves (PER) and investment risk reserves (IRR). However, as explained earlier, it is possible to imagine that these provisions and reserves could also be used in order to smooth the financial result at the end of the financial period. In fact, Zoubi and Al-Khazali (2007) and Ismail and Be Lay (2002) have conducted different researches on earnings management by reaching the same conclusion that it is a typical behaviour that banks in Malaysia and in the GCC area often use loan provisions in order to alter their financial situation.

2.1 Studies on the effect of accounting ratios on the share price

After giving an overview of the main studies conducted on the topic of the Islamic accounting, the aim of this second part will be to provide an exhaustive analysis of the literature related to the impact of accounting ratios on the share price of a company.

Related to this topic, Ahmed and Khababa (1999) have used the main accounting ratios as Return on Equity (ROE), Return on Assets (ROA) and Earning per Share (EPS) as the main yardstick in order to measure the banks' profitability, by affirming that these important ratios are considered by the investors during their investment decision and by observing an influence on the value of the shares traded in the market.

Another important research is conducted by Kabajah and Nu'aimat (2012), and the main aim is to find out the level of explanatory power of the main accounting ratios such as ROA, ROE and Return on Investment (ROI) against the market share price of insurance companies in Jordan during the years 2002 – 2007. Kabajah and Nu'aimat (2012) construct their research by running four different regression model and show that by regressing ROA, ROE and ROI against the share price there is a positive relationship between ROA, ROE and share price. On the other hand, ROI and share price are linked by a negative relationship with a negative coefficient. In addition, the overall adjusted R-squared is 0.459 or 45.9%, thus, the three accounting ratios can explain 45.9% of the movement of the share prices. A similar result is obtained by running singular regression analysis but in this case only the ROE, considered alone, is not significant with a 0% of adjusted R-squared.

On the same wave, also Dehuan and Zhenhu (2008) focus their attention on the relation between the general performance of a company considered by the interpretation of ROE, EPS, ROA, total asset turnover, in relation to the price of the companies' stock with a particular attention to the Shanghai Stock Exchange. Also in this case the final result shows that the accounting figures have an explanatory power on the share price.

Furthermore, in their analysis, Issah and Ngmenipuo (2015) uses a panel data analysis by regressing market data share price as dependent variable and ROE, ROA and ROI for each firm

listed in Ghana during the period 2009 – 2013. The final results show that the ROA and ROE have a good explanatory power on the value of the share price, and they can explain around 20.1% of the movement of the share price even if the ROE has a more important explanatory power than ROA.

Moreover, also the Saudi market has been the object of a study conducted by Abdallah (2014), who focuses his attention on 46 industrial companies which shares are traded in the Saudi Stock Market between the years 2009 – 2012. This analysis is done by considering as independent variables financial structures, profitability and leverage and as the dependent variable the share price. The final results show that only ROE and capital structure are able to influence the share by having a positive relation.

A different result was obtained by Menaje (2012), who tries to find a relationship between EPS, ROA and the trend of the share price by detecting 50 companies listed in the Philippine Stock Market. The final output showed that there is an important positive correlation between EPS and share price, but this is not true between ROA and share price because they are characterized by a negative and weak correlation.

A recent study, conducted by Abba and Suleiman (2016), is based on the analysis of 5 pharmaceutical companies listed in the Nigerian Stock Exchange during the year 2004 – 2013. As dependent variable is considered the stock price while as the independent variable they have considered the ROE, liquidity, the firm growth and the level of leverage. From their output, it is possible to observe that the ROE is able to influence the share price with an increment of 61.23% for every 1% in ROE's growth. In addition, only the level of liquidity has no disturbance on the share price while the other figures have reported a good impact on the value of the share price. In addition, Abu Shanab (2008) has investigated if there are any relations between the returns and risk on the share price in Jordan among public industrial companies from 2000 to 2007. The final result shows that the share price is not affected by returns, risk and also dividends, although there is a good relationship between the price of share and the level of cash flow.

A different result is obtained by Al Kurdi (2005) who analyses a sample of hundred and ten public companies in Jordan from the year 1994 to 2004, by regressing accounting information against the share price. The final results show that there is a relationship between share prices and public accounting data. Similar results have been obtained by Abu Hasheeh (2003) who shows that there is a positive relationship between the share price and ratios between the net profits to equity, assets and dividends.

On the other hand, according to Glezakos et al. (2012) there is a relationship between the share price and EPS and book value per share of thirty-eight Greek companies, listed in the Athens Stock Exchange, from the year 1996 to 2008. The study shows that the explanatory power of the accounting figures has an upward trend during this period of time and it is possible to say that during the analysis of the share price the investors are more concentrated on the fundamentals of the company than on the market data.

On the same line, Safdar et al. (2013) analyse whether the share price of 307 companies, which trade their shares in the Karachi Stock Exchange, can be affected by financial figures as market capitalization, EPS, sales growth during the period 2000 - 2012. By using a regression model, the final output shows that all these firms' figures have an impact on the trend of the share price.

Even more, Nirmala et al. (2011) describe the effect, by using a panel data analysis, on 3 Indian sectors such as public sector, healthcare and automotive sector of P/E, leverage and dividend on the price of the share of the companies included in the sample during the years 2000 - 2009. In this case, only the profitability figures of the companies have no effect on the price of the automotive sector's shares.

3. Methodology and Data

As described above, the existing literature on Islamic accounting and the impact of the main accounting ratios on the share price shows how the Islamic banks have to account for their financial instruments and whether there is an impact on the share price due to the analysis of the main accounting figures in different industrial sectors.

The second part of the article is more quantitative oriented, and it is focused on the impact of the selected accounting ratios, such as Return on Assets (ROA), Return on Equity (ROE), firm size and debt ratio, on the share price of the Islamic banks considered in the research.

This section includes the description of the data collection, what kind of sources have been used, what kind of methodology have been used in order to describe the impact of the independent variables on the dependent variable, description and interpretation of the final results will be included in the last part.

3.1 Sample and Data

The sample employed in this article is composed of a panel data originated by observing 6 commercial Islamic banks listed in the Bahrain Bourse from 2009 to 2014. The decision to develop this research during this period of time is due to the will to avoid the financial crisis that shook the global system since 2007, and due to the data availability. The sample size is limited to 6 Islamic banks for several reasons. First of all, the aim of this article is to analyse Islamic banks which comply with the Islamic accounting standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), and in the Bahrain Bourse only 6 banks out of 8 adhere to the AAOIFI's standards.

Secondly, the aim is to analyse Islamic commercial banks because they use the majority of the Islamic financial products, such as "mudarabah" and "musharakah" contracts, which belong to the profit and loss sharing (PLS) agreement, "murabah" agreement, which is a mark-up contract, "ijarah" contract or leasing and "sukuk", known as Islamic bonds.

Thirdly, the sample size is limited to Bahrain because the Kingdom of Bahrain is the most important country in the field of the Islamic accounting standards and it is considered as the hub of the Islamic finance and where the majority of the Islamic institutions were born, such as the International Islamic Financial Market (IIFM), the Islamic International Rating Agency (IIRA), the AAOIFI and the General Council for Islamic Banks and Financial Institutions (Serea, 2012). What is more, the Islamic accounting standards are not compulsory in every Islamic country, but they are adopted only in Bahrain, Pakistan, Syria and Sudan. Due to the international situation, Syria cannot be considered because of its state of war, Pakistan has created an Islamic index only in 2015, thus, there is a huge lack of information, and also Sudan is characterized by a lack of information as well as a lack of reliability.

The data employed in this article are divided into two groups. The first group is composed of data that will be considered as independent variables, and they are the main accounting ratios, such as ROA, ROE, the size of the firm and the debt ratio. They have been collected in two different ways. First of all, ROA and ROE have been downloaded from Bloomberg. This choice is due to the fact that Bloomberg provides the methodology used in order to compute each accounting ratio and by doing so it is possible to limit any potential distortion and they are more reliable. Secondly, the size of the firm and the debt ratio have been calculated by analysing the financial statement of each bank from the period 2009 – 2014. At the time of data collection, the financial statement for the year 2015 was not available for all the banks included in the sample. The second group is composed by the daily share price, and considering its logarithm, of each

bank in the sample for the years 2009 – 2014. Moreover, due to the fact that the accounting ratios are annual figures, the annual average logarithm share price has been calculated in order to create a well-organized panel data. The logarithm share price is considered as the dependent variable.

3.2 The importance of the independent variables

The majority of the previous researches, described above, in order to analyse the impact of the accounting ratios on the share price have considered the main profitability ratios such as ROA and ROE and other accounting ratios between the Earnings per Share (EPS), firm size, Return on Investment and so on.

In addition, as reported by Taktak et al. (2010) and Iqbal (2001) when Islamic banks decide to invest in a specific project it will be considered as a partner and must bear potential risks due to the nature of the business, thus, the ROE will be higher if compared with conventional banks. Besides, the principle of profit and loss sharing will provide the advantage to amortise potential and unpredictable movement in the ROA (Hutchison and Cox 2006, and Taktak et al. 2010).

For a company, it seems to be important the relationship existing between the capital structure and the ROE. Adjustment in the capital structure is extremely important because, in particular a bank, it is subject to changes in its level of debt and equity, and its relative cost of debt and equity. The balance between the level of equity and the level of debt is important also from the point of view of the shareholder because a high levered bank is riskier and, as a consequence, an investor will require a high return on investing in the bank's capital (Al-Kayed et al. 2014).

In addition, also the size is an important figure, although Islamic banks are in general small, but the size can be considered as signal of its market competitiveness and ability to diversify their investments, and of course a big bank can be considered by the investors as safer than a small bank (Hutchison and Cox 2006).

The ROA is a measure of efficiency based on the ability of the company to generate profits by using the total assets, whereas the ROE is a measure of the rate of return that shareholder will get by investing in the company (Kabajah and Nu'aimat 2012). In addition, in the bank sector the ROA can be affected by the interest rates' trend in the financial market and of course the bank will not get any beneficial effect if the interest rates in the market are high (Madura 2015). What is more, for an Islamic bank in particular, ROA can be strongly related to the general economic condition, due to the nature of the Islamic financial contracts, and on the quality of the creditors. As mentioned before, ROA is able to reveal how well the management is using their assets in order to generate profits. In addition, ROA can be simply calculated as Net Profit After Tax over the Total Assets. What is more in the banking sector a good value of ROA is between 1.2% - 1.4%, by considering a benchmark of 1% (Goel 2014).

On the other hand, ROE represents the amount of earnings generated in the investment in equity. This figure can be considered extremely important from the point of view of the equity holder. As the definition says the ROE can be calculated as Net Profit After Tax over the Equity Capital, and also for the ROE exists a range, and as reported by Issah and Ngmenipuo (2015) for the actual bank industry a good ROE should be between 11% and 33%.

In addition, as stated by Sutton (2004) there are several factors that can influence the ROE and ROA and for this reason can be recorded a high value of correlation between the two profitability ratios.

Finally, even if in the case of the Islamic banks, they can be depicted as companies without debt, all-equity financed, due to the fact that all the depositors are considered as partners and

must share the potential losses and profits (Al-Kayed et al., 2014), from an accounting point of view the banks have always some liabilities to the investors and for this reason it is also important to consider the debt ratio because it is the measure of bank's solvency.

3.3 Methodology

By considering the previous researches presented in the literature review, this article follows the same pattern, and all the data are organised according to the panel data structure and are regressed according to the panel data model.

As reported by Wooldridge (2012) a panel data, also known as "longitudinal data", is a combination of both cross-sectional data and time series data. Cross-sectional data allows the researchers to analyse different companies, countries, and in general different entities in the same period of time. On the other hand, time series analysis allows the researches to analyse one individual during different period of time.

Formally, panel data is represented as "Y_{it}", where $i = 1,2,3,4,5 \dots N$ represents all the entities included in the panel data and object of analysis, and $t = 1,2,3,4,5 \dots T$ is the expression of the time (Koop 2008). In addition, the panel data constructed for the purpose of this research is considered balanced panel data because, as stated by Gujarati (2009) when each entity of the panel has the same amount of observation in the same time period it can be defined as balanced. In addition, the panel data analysis can reduce the level of collinearity between the variables and what is more important it considers the possibility of heterogeneity among the entities by taking in consideration that they are and can be different (Wooldridge 2012). Moreover, the panel data can intercept specific characteristics that can be not considered by the researchers, or they are difficult to identify. In other words, the panel data match unobserved variables with the explanatory variables reported in the panel (Baltagi 2005).

However, panel data is not a perfect model and as main limitations can be considered the fact that there is always a lack of coverage with a limited number of entities and in general short time dimension because often with a panel data are analysed annual information (Gujarati 2009). Furthermore, the panel data analysis is characterised by three main models. First of all, it is possible to mention the pooled model which consider all the observations free from any kind of individual effect, as they are originated by the same regression model, the intercept is constant as well as the coefficient. Moreover, the pooled method uses the ordinary least squares (OLS) estimators as the best and efficient parameters estimates (Koop 2008).

Secondly, it is possible to use the fixed model, which use dummy variables in order to model the effect of an individual entity. In general, the formula for the fixed effect is:

$$Y_{it} = \alpha_1 * D1 + \alpha_2 * D2 + \alpha_3 * D3 + \dots + \alpha_n * Dn + \beta * X_{it} + \epsilon_{it} \quad (1)$$

where $\alpha_1, \alpha_2, \alpha_3, \alpha_n$ are the intercepts, $D1, D2, D3, Dn$ are the dummy variables, β is the coefficient, and ϵ is the error.

As it can be seen from the formula (1), in the fixed effect the intercept is considered not constant and is different from the entities in the sample (Greene 2012). In addition, the fixed effect is computed by using the least squares dummy variable (LSDV) (Park 2011).

Thirdly, it is possible to use the random effect which assumes that the intercept can change by following a random pattern, and the effect, which characterises the entities, is not correlated with the regressors (Greene 2012 and Park 2011). Moreover, in the random effect the intercept and the inclination of the regressors are considered to be the same, but the difference is present in the error term, and each individual is characterised by a specific error (Park 2011).

As reported by Koop (2008), the random effect is computed by utilizing the generalised least square (GLS) when every entity has a known covariance structure. In case the covariance structure is unknown the random effect uses the feasible generalised least squares (FGLS) or estimated generalised least squares (EGLS), which are the most common methods (Baltagi 2005, and Greene 2012).

3.4 Specification of the model used

As described above, in the panel data analysis it is possible to use pooled ordinary least squares (OLS), fixed effect model and random effect model.

However, in general there is always a model that is better to use compared with the others. For the purpose of this research different tests have been performed in order to decide which is the best model.

By utilizing the statistical software STATA, the panel data has been tested for time effect. In this way, as specified by Koop (2008) and Greene (2012) it is possible to understand if the time component has some impact in the model by eliminating the possibility that the pooled model should be used, due to the fact that the pooled model neglect the possibility of heterogeneity of the entity, which helps to understand whether the regression function is stable over the period of time.

In order to perform this test with STATA, it is important to create “time dummy variables”, with the command “xi: regress variable1, variable2..., variable N, i.years”, then run the regression by using OLS and finally test whether the time dummy variables are equal to zero. The test performed is known as “testparm” and the null hypothesis (H0) is that the time dummy variables are equal to zero (Wooldridge 2012).

By running the test, it is possible to observe a p-value of 0.0025, which is less than 0.05 confidence interval, and for this reason, it is possible to reject the null hypothesis, which means that the dummy variables are not equal to zero. In this situation, the pooled model is not the best model to use.

Now, the choice of the right model is between the fixed effect model and the random effect model. In this situation it is possible to use the Hausman Test (Hausman 1978) and the null hypothesis (H0) is that the regressors and the individual effect are not correlated. This test has been performed for the sample of this research, and the final result shows that the test statistic has a chi-square distribution with a value of 0.0958 which means that it is not possible to reject the null hypothesis and the random effect should be used (Baltagi 2005).

Finally, as stated above, the random effect model is the most efficient method that is used in this research. In addition, according to Greene (2012) and Park (2011) the random effect can be estimated through GLS, FGLS and EGLS, however, due to the fact that the covariance is likely to be unknown EGLS is the most common method.

The next section reports the description and interpretation of the data obtained by running the regression model.

3.5 Descriptive statistics

This section presents the general statistics of the sample considered in the research. Table 1 shows that the mean of the first variable, log share price, is negative, with a value of -0.0001722, with a minimum value of -0.0027519 and a maximum value of 0.0038572. By looking at these figures, it is possible to understand that from 2009 to 2014 the performance of the shares traded in the Bahrain Bourse has followed a downward trend. It is important to consider that the Islamic banks are allowed to invest only in specific sectors. In general, in the

Middle East, the main sectors are the real estate, energy, infrastructure, retail and consumer goods. The negative result can also be considered as a negative consequence generated by the bubble on the real estate that hit the countries in the Middle East particularly in United Arab Emirates, Qatar and Bahrain in 2007 – 2008. The Return on Equity (ROE), has recorded a mean of 0.0090194, with a standard deviation of 12.8%, reporting a minimum value of -0.2724139, and a maximum value of 0.4645528. The ROE is an important figure, from the perspective of the shareholders, because it represents the earnings generated from the equity investment. In addition, as reported by Issah and Ngmenipuo (2015), in general, the bank sector is characterized by a ROE that is around 11% and 33%. The value reported by the Islamic banks in Bahrain are characterized by a broad fluctuation with values between -27.24139% and 46.45528%.

Moreover, the Return on Assets (ROA) is essential in the analysis of the company's profitability as well. The mean value of the ROA is negative, -0.0003889, with a low standard deviation (0.0150557). Also for the ROA it is possible to see a broad fluctuation of its figures, with a minimum value of -0.0355056, and a maximum value of 0.0434944. As mentioned earlier, the ROA is a measure of returns generated from the assets owned by the bank and as stated by Goel (2014) a good value of the ROA should be between 1.2% and 1.4%. However, also in this case the severe fluctuation pushes away the mean value from the range reported by Goel (2014), and it is possible to deduce that the projects financed through Islamic contracts have experienced a bad performance due to the fact that they are considered as bank's assets, and the profit of the bank is linked to the trend of its investments. Thus, because of the bad state of the economy, after the period of the financial crisis, the performance of the assets' return was also affected by the trend of the entire economy.

Table 1 Overall descriptive statistics

Variable	Mean	Std. Dev.	Min	Max	Observations (N)
Log share Price	-0.0001722	0.0015533	-0.0027519	0.0038572	36
ROE	0.0090194	0.1283947	-0.2724139	0.4645528	36
ROA	-0.0003889	0.0150557	-0.0355056	0.0434944	36
Firm Size	9.509783	0.1048353	9.251454	9.784951	36
Debt Ratio	0.8495427	0.0265593	0.7929304	0.9130785	36

Source: STATA output

Furthermore, the firm size is important because it can be seen as the ability of the bank to enhance their investments. The mean value of the firm size is 9.509783, which is included in the range with a minimum value of 9.251454 and a maximum value of 9.784951. In addition, the bank's size can also be indicative of market competitiveness and the ability to enhance portfolio investments, even if in general the Islamic banks are small financial institutions (Hutchinson and Cox 2006).

Finally, although the Islamic banks are considered as financial institutions without debt, due to the nature of the Islamic contracts, all the investors are considered partners, thus they must share potential losses and profits, the banks must always recognise an amount of debt, and they always have liabilities to their investors. For this reason, it is important to consider the debt ratio, and as can be seen from Table 1, the mean value is 0.8495427, with a range

between the minimum value of 0.7929304 and the maximum value of 0.9130785. However, the value of the standard deviation is small, so the risk associated with the debt ratio is attested to be 0.0265593. Yet, it is possible to observe that the percentage of debt in the Islamic banks is rather high, but in order to understand this figure better, it is necessary to have a deep analysis of the investment decision of the bank, how they have decided to invest and what was the state of the payments. In addition, the high level of debt reported in Table 1 is in line with the study conducted by Kadom and Eid (2008), according to which the Islamic banks are characterized by 75% of their capital coming from their depositors, through profit and loss sharing (PLS) agreements, and only 25% coming from equity.

4. Panel data analysis

The panel data analysis, as mentioned earlier, will allow performing a regression analysis for several entities in different periods of time. The aim of this section is to understand what is the impact of the accounting ratios, adopted as part of the sample, on the log share price of six Islamic banks in Bahrain.

4.1 Multicollinearity analysis

Before starting with the analysis of the regression model, it seems to be useful and appropriate to check the level of multicollinearity between the variables.

Table 2 Multicollinearity

	Log Share Price	ROE	ROA	Firm Size	Debt ratio
Log share Price	1.0000				
ROE	0.1333	1.0000			
ROA	0.1754	0.9557	1.0000		
Firm Size	0.0981	0.4416	0.3517	1.0000	
Debt ratio	0.1865	0.0653	-0.0184	0.6538	1.0000

Source: STATA output

As can be seen from Table 2 there is a high multicollinearity between the ROE and ROA and this result is in line with Sutton (2004), who affirms that there are several common factors that can affect the Return on Equity and Return on Assets; thus, they are often correlated with each other. In this case, it is possible to observe a 95.57% of correlation, that is extremely high. According to Koop (2008) and Gujarati (2003), in case there is a high level of multicollinearity between the variables there are two options that it is possible to follow. The first option is to keep the variables and continue to analyse them if there is a theoretical reason to include these regressors, but the consequence can be an imprecise standard error. The second option is to reduce the number of regressors and exclude one variable, in this case, it is possible to reduce the multicollinearity, or transform the data by taking the first difference, or add new data (Koop 2008).

In this context where there is a deficiency of available data, and the sample is not broad enough, the best options is to drop a variable and keep the others and continue the analysis. In the case of the 95.57% correlation between the ROE and ROA, the decision is to exclude

the ROE from the analysis because it is believed that due to the nature of the Islamic contracts and how they are considered in the balance sheet, the value of the assets can have a more significant influence on the investment decision of the shareholders, thus, in this specific situation the ROA is believed to be more important than ROE.

Regarding the correlation between the firm size and debt ratio, which is 65.38% the decision taken is to keep the variables in the analysis as well as in the case of the correlation between ROA and firm size, which is 35.17%.

4.2 Regression Model

As mentioned earlier, in the panel data analysis there are three regression models that are possible to perform namely, pooled model, random effect model and fixed effect model. All three of them are good models but in the regression analysis there is always one model that is better than the others.

By utilizing the statistical software STATA, the test for time effect has been performed. According to Koop (2008) and Greene (2012), by running a time effect test it is possible to understand whether this component has some influence on the model, and by doing so it is possible to decide that the pooled model should not be used, because it considers the regression function stable over the period of time.

By running the “testparm”, with the null hypothesis (H0) that the time dummy variables are equal to zero (Wooldridge 2012), the final result shows a p-value of 0.0025, which is less than 0.05 confidence interval, thus, the H0 can be rejected, and the time dummy variables are different from zero. In this situation, the final consideration is that the pooled model is not an appropriate model.

Therefore, the two models left are the random effect model and fixed effect model. The main test used in order to decide which model is more appropriate for the analysis is the Hausman Test (Hausman 1978), which is characterized by a null hypothesis (H0) which states that the regressors and the individual error terms are not correlated. The Hausman Test is characterized by a chi – square distribution and the final result shows a p-value of 0.0958, which is higher than 0.05 significance level. This large p-value can be interpreted as a sign that the null hypothesis cannot be rejected, so the random effect is the best model to use with the sample in question. By moving forward, Table 3 reports the final result obtained by running a regression model by using the random effect model through utilising the software EViews, and as specified by Green (2012) and Park (2011) the result have been obtained by using the most common method, estimated generalised least squares (EGLS), due to the fact that the covariance is unknown.

Table 3 Random Effect method

Variable	Coefficient	Std. Error	t-statistic	p-value
ROA	0.023934	0.002143	11.17074	0.0000
Firm Size	-0.000573	0.000109	-5.269247	0.0000
Debt ratio	0.006418	0.001024	6.266743	0.0000

Source: EViews output

From the analysis of the p-value, it is possible to declare that the ROA, firm size and debt ratio are significant at 0.05 significance level, because all of them have reported a p-value that is less than 5%. In addition, it is possible to analyse and interpret the different coefficients generated by the regression model. The ROA and the log share price are characterized by a

positive relationship, which is indicated by the positive coefficient of 0.023934. This figure represents that a change of one unit in the level of ROA causes a change of 0.023934 in the log share price of the banks considered in the sample. This means that the return generated by the project financed by the Islamic banks are extremely important because by selecting and using the banks' assets in a profitable way it is possible to increase the value of the share and the wealth of the investors. Thus, this scenario can suggest that the managers have the task to carefully select and finance projects that can guarantee a positive return in order to increase the wealth of the shareholders. This result is also consistent with the studies reported in the literature review where in all of them the ROA has a positive and significant influence on the share price.

Furthermore, the firm size and the log share price are characterized by a negative and significant relationship with a coefficient of -0.000573 and a p-value of 0.0000. This means that an increase of one percent in the size of the bank can cause a decrease in the stock price of 0.000573. It can be gathered that for the Islamic banking sector, a small bank can have more chance to increase the price of its shares. From this result, it is possible to affirm that with regard to the Islamic banking industry, an investor invests the most in small banks because he/she believes that these banks can make a more careful and precise evaluation of the projects they want to fund. In addition, being a small bank, there is an incentive in monitoring the risks that may arise from risky investments and what is more an Islamic investor thinks that a small bank is more concerned about the goodness and compliance with the Islamic law. Thus, there is a high demand for the small bank's shares.

The debt ratio and log share price are related by a positive and significant relationship. The coefficient reported in Table 3 shows that a change of one unit in the debt ratio can affect the log share price by increasing it of 0.006416. For the Islamic banks the debt side is composed by operational liabilities, where it is possible to include all the funds gathered by profit and loss sharing contracts (PLS), and in several cases, sukuk contracts. All this means that Islamic investors want to invest in banks that have a huge amount of project financed by PLS contracts because this implies a diversification in the investments, therefore the risk in investments are reduced.

Finally, from the results obtained by running the regression model, it is possible to consider the value of the adjusted R-squared which reports a value of 0.777191. This means that the ROA, firm size and debt ratio can explain 77.71% of the changes in the log share price.

5. Conclusion

The preeminent objective of this article is to analyse the main characteristics of the Islamic accounting system and the impact of the accounting ratios on the share price of six Islamic banks based in Bahrain.

In the first section, the introduction of the Islamic system, introduction of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), and structure of the article are presented. The second part contains the literature review which has been divided into two parts, the first part presents the theoretical researches about Islamic accounting system whereas the second part presents the main studies on the impact of the accounting ratios on the share price of companies.

Based on the previous researches the methodology has been explained, by analysing the data collected on six Islamic banks. Furthermore, the data's description, the main descriptive statistics, the analysis of multicollinearity as well as the analysis of the regression model and results' explanation about the impact of the accounting ratios on the share price is reported.

5.1 Main findings

In this article four factors have been used in order to detect the impact of accounting ratios on the share price. Two model specification tests have been run and the random effect is proved to be the best model in order to analyse the available data for the purpose of this research. The main findings are that the three accounting ratios, namely, Return on Assets (ROA), Return on Equity (ROE), size of the firm and debt ratio do exert impact on share price. In fact, the ROA and log share price are characterised by positive relationship with a coefficient of 0.023934, by causing an increase of the log share price by the same amount. This means that the return generated by the projects financed by the bank are extremely important and has an immense impact on the share price.

By considering the result obtained for the firm size, it is possible to observe a negative relationship with the log share price, with a coefficient of -0.000573, this indicates that a small Islamic bank can have more chance to increase the price of its shares.

Different result has been obtained for the debt ratio. It is possible to record a positive impact on the share price by having a coefficient of 0.006416. Thus, a bank with a high level of debt can be more attractive for a Muslim investor because he/she may think that the bank is investing its capital in several projects which can improve the shareholders' wealth.

From the analysis of the regression model, the three accounting ratios such as ROA, firm size and debt ratio can explain 77.71% of the changes in the log share price.

By moving on to the theoretical part of this study, the main remarks are that the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) is the main organization in order to spread awareness of the Islamic standards, but the primary limitation is that the AAOIFI's rules are not compulsory. In addition, there is a lack in the homogeneity due to the fact that the majority of the Islamic banks have relationships with Western business organizations which comply with the IFRS or US GAAP, as well as the local legislation comply with Western standards.

5.2 Contribution of this study

This study has an important contribution to the literature related to the topic of the Islamic accounting system. The literature review examines the main researches related to this topic and in particular in the second part of the literature review, it can be found that it is possible to understand that there is a lack of quantitative studies on Islamic banks. The majority of researches are focused on other kind of companies, however, this research wants to add an important study focused only on Islamic banks, even if several difficulties were encountered during the data collection. This is due to the fact that the Islamic accounting standards are not compulsory. In addition, the importance of this study is also related to the fact that the data employed in the research are collected from authoritative sources and are recent.

5.3 Limitation and recommendations for future research

This research analyses the Islamic accounting standards and the impact of the Islamic accounting ratios on the share price of six Islamic banks based in Bahrain. This study has several limitations due to the lack of data, and in particular reliable data on Islamic banks. Furthermore, as mentioned earlier, the Islamic accounting standards are not compulsory, and for this reason it is not easy to find banks which publish reliable financial statements, trade their shares in the financial market and at the same time comply with the standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). In addition, this research is

focused only on Islamic banks based in Bahrain, but it seems to be interesting that futures studies could take into consideration with regards to other Islamic countries. From a quantitative point of view, this research focuses its attention only on Return of Assets (ROA), Return on Equity (ROE), and firm size and debt ratio. Suggestions for future researches can be made and it is possible to mention that, due to the nature of the Islamic financial contracts and the business in which they operate, it is interesting to also consider financial and accounting data of the sectors in which the Islamic banks are allowed to invest, by detecting whether the investment in a specific sector can have an impact on the banks' share price.

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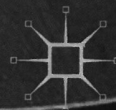
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STABILITY WITHOUT STATEHOOD

**Lessons from Europe's History
before the Sovereign State**

PETER HALDÉN



A Tale of Accountability Trivia:

What is the Status of Social Accountability in Bangladesh?

Awal Hossain Mollah

Abstract The aim of this paper is to introduce and explore the trivia of accountability, which is indispensable for ensuring rule of law, human rights and good governance in a country. The paper intends to depict the theoretical aspects of accountability, its typology, mechanisms, and application in the governance. Special attention has focused on social accountability to evaluate the citizens' involvement in public service delivery as well as in ensuring public accountability in the context of Bangladesh. There are various mechanisms and components in ensuring social accountability; however, three components—citizen charter, participatory budget making process, and access to information, have been selected and used for the present paper. Empirical data and experiences of the author have been analyzed to evaluate social accountability in Bangladesh. The major findings of this study are- social accountability is a very effective opportunity to engage citizens in the participatory governance process and it has been already introduced and applied in Bangladesh. However, the people of Bangladesh are still not aware enough about social accountability and its mechanisms. Besides, the officials are still bear colonial attitude and behavior instead of friendly service providers.

Keywords Accountability - Social accountability - Participatory budget making process
Access to information - Citizen charter - Citizen engagement Governance - Bangladesh

JEL classification H83 - O35

1. Introduction

“Accountability is a fundamental norm in public administration, related to alluring promises of democratic governance, appropriate behavior, justice and better performance” (Dubnick and Frederickson 2011:17; Cited in Schillemans and Busuioc, 2014).

Though, the concept ‘accountability’ is as old as civilization, however, it has been popularized as an Anglo-Norman concept by some OECD member countries and some scholars like- Pollitt (1990), Pollitt and Bouckaert,(2005), Hood (1991), Lan & Rosenbloom (1992), Osborne & Gaebler (1993), Bovens (2005a:1) through introducing new public management (NPM). More emphasize on accountability has been given later by various international aid providing agencies to ensure good governance by overcoming crisis of governance to efficient project implementation in developing countries (WB, 1990 and 1992; UNDP, 1997; IMF,

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1997; ADB, 1999; Pollitt and Bouckaert, 2011). Both the approaches- NPM and Governance focused on accountability, transparency, efficiency, effectiveness, and customer satisfaction by applying various market mechanisms and private sector management principles (Mollah, 2014:27). These principles are basically followed by two political-economic theories- public choice, and principal agent (Aucoin, 1990 and 2012; Dunsire, 1995; Lueder, 1996; Reichard, 1996; Schedler, 1995; Osborne & Gaebler 1993; Reinermann, 1995).

According to Stigler (1975:171 cited in Hughes, 2003), the key assumption of public choice theory is:

'A rational man must be guided by the incentive system within which he operates. No matter what his own personal desires, he must be discouraged from certain activities if they carry penalties and attracted toward others if they carry large rewards. The carrot and the stick guide scientists and politicians as well as donkeys'.

Public choice theory discloses the fact that every person works for his/her self-interest, for instances, politicians do for vote collection to reach state power, and bureaucrats do for self-esteem and status, not for public interest (Hughes, 2003). Therefore, common peoples are depriving of their rights. To overcome this problem, the public choice theory offers market mechanisms to enhance the opportunities of alternative service options through better control and accountability.

Similarly, the principal agent theory also focuses on private sector management principles. According to this theory, all the service providers are agents and services receivers are principals. Agents should carry out works to meet the will and expectations of principals (Hughes, 2003). This theory focuses on the “responsiveness of the agents decisions to the principal’s goals, and how this responsiveness is mediated by actions available to each actor as well as institutional settings in which they interact”(Gailmard, 2014:1). Principals have the capacity to judge the performance of their agents to ensure public accountability (Achen and Bartels 2002; Healy and Malhotra 2010; Lenz 2012; Lupia and McCubbins 1998; cited in Gailmard, 2014).

In this paper, citizens are considered as principals, whereas; politicians (elected representatives) and public officials are considered as agents of delivering public services. However, in practice, citizens are treated as servant or agents or service providers are treated as principals. Therefore, citizens are depriving of getting their adequate services. To overcome this problem, this theory also offers market principles and privatizations for better service delivery in a transparent and accountable manner.

The common guiding principles of market mechanisms and private sector management are- customer care, citizen engagement, debureaucratization, performance and contract based jobs, decentralization, participatory budget making process, privatization, and outsourcing (Hood, 1989, 1991 and 1995; Pollitt, 1995; Osborne and Gaebler, 1993; Hughes, 1998; Common, 1998; Minogue, 1998; Lan and Rosenbloom, 1992; Borins, 1995). How far these principles and theories are applied and implemented in Bangladesh have been examined based on empirical data (see annexes).

This paper highlights on various types of accountability and its mechanisms in general, and emphasize has been given on social accountability particularly. Social accountability is one of the important ways of engaging citizens in governance affairs for ensuring their rights in a transparent and accountable manner. Though, numerous mechanisms exist for ensuring social accountability, however, three components—citizen charters, participatory budget making process, and access to information, have been selected to evaluate the effectiveness of citizens’ role in ensuring accountability of public officials.

The main aim of this study is to evaluate the current status of social accountability in the context of Bangladesh. To attain this objective, the following specific objectives have been analyzed:

1. To know about general concept, types and mechanisms of accountability;
2. To know the level of citizens awareness and effectiveness of ensuring social accountability;
3. To examine the selected mechanisms of social accountability in accounting public officials for getting services of citizens; and
4. To explore and evaluate the applicability of principal-agent relationships and opportunity of public choice in social accountability in the context of Bangladeshi governance.

This is a case-oriented qualitative study, which is predominantly based on secondary sources of literature and few empirical data has been used to examine status of social accountability in Bangladesh. Empirical or primary data has been collected by interview, questionnaire survey (both open and close ended) and informal discussions. The Informal discussion has been effectively reflected for collecting more authentic data in this study. The empirical data has been collected from the selected respondents of three public service organizations of Rajshahi City and one Union Parishad of Godagari Upazila in Rajshahi District (see annexes).¹ Secondary data has been collected by documentary analysis and by internet browsing.

The study would be helpful for academicians, researchers and readers in general for wider knowledge about various aspects of accountability. The findings of this study would be helpful for policy makers to take necessary steps for overcoming existing shortcomings of the social accountability in local governance (both urban and rural) in Bangladesh based on this case study (on Rajshahi district).

2. Accountability

The word ‘accountability’ is originated from the Latin word ‘*acomptare*’ which is closely related to accounting and recognized as an Anglo-Norman concept (Bovens, 2005a:1). The roots of the concept of accountability can be traced back to the reign of William-I (Dubnick, 2002). However, gradually it has re-shaped to free from its original bondage of accounting and emerged as a strong emphasis on effective and transparent governance instead of bookkeeping (Bovens, 2005b). Thus, the paradigm shifts from financial accounting to public accountability through introduction of NPM (Pollitt and Bouckaert, 2005). Therefore, accountability refers to the obligation on the part of public officials to report on the usage of public resources and answerability for failing to meet the targeted objectives.

Accountability is considered as one of the core concepts of public administration because it constitutes the principle that informs the processes whereby those who hold and exercise public authority are held to account (Aucoin and Heintzman, 2000). Accountability denotes the “methods, procedures, and forces by which administrative decisions are determined and influenced” (Simon, Smithburg and Thompson 1991; cited in Lynn and Carolyn, 2001). The similar definition given by Mulgan as ‘accountability is about calling and holding institutions and officials to account in undertaking their functions or duties’ (Mulgan, 2003:15 cited in Bovens, 2005a). In another opinion, accountability is a relationship between two individuals or parties, where, an individual is subject to another’s oversight and control to provide information or justification for their actions (Rick and Mitchell, n.d.).

¹ Three service organizations are- Rajshahi Medical College Hospital, Rajshahi Railway Office, and Regional Passport office of Rajshahi. From these three organizations data have been collected about role of citizens’ charter and access to information regarding service delivery. Besides, a Union Parishad has been selected for collecting data about participatory budget making process. Selected respondents and presentation of data with important questions has been displayed by annexes at the end of this paper.

Therefore, the concept of accountability involves two distinct stages: answerability and enforcement. Answerability requires that an organization must do to satisfy its obligation and to answer for its actions. In other words, answerability refers to the obligation of the government officials to provide information about their decisions and dealings and to give an explanation to the public and those organizations of accountability tasked with providing oversight. This obligation may be met simply by issuing an annual report or making a statement to a legislative committee and if the statement is complete and authentic then the obligation is discharged (Peters, n.d. cited in Pere and Osain, 2015). Conversely, enforcement refers to that public officials must be responsible for contravening behavior through application of sanctions. The ability of the overseeing actor(s) to impose punishment on the accountable actor(s) for failures and transgressions gives “teeth” to accountability (Brinkerhoff, 2001). Answerability without sanctions is generally considered as the weaker form of accountability. Though, most of the people like sanctions with requirements, standards, and penalties embodied in laws, statutes, and regulations but legal punishment are narrower than sanctions. They include, for example professional codes of conduct, an array of incentives that are intended to reward good behavior and action and discourage bad behavior and action without necessarily involving recourse to legal enforcement. Therefore, different organizations of accountability might be responsible for either or both of these stages (Bovens, 2005a). Thus, accountability is considered as the foundation of any administrative process and also a check on the power and authority exercised by both politicians and administrators (Dwivedi and Jabbra, 1988).

Aucoin and Heintzman (2000) have identified three core objectives of accountability in a democratic polity. The first is to control the abuse and misuse of public authority. The second is to provide assurance in respect to the use of public resources and adherence to the law and public service values. The third is to encourage and promote learning in pursuit of continuous improvement in governance and public administration. The most concise description of accountability would be: ‘the obligation to explain and justify the conduct’. This ‘implies a relationship between an actor and a forum’ (Pollitt 2003: 89). The relationship encompasses to provide information about the conduct of duties, questioning between forum and actor, and finally, judgment for sanctions or rewards (Bovens, 2005b). Thus, accountability refers to as ‘a relationship between an actor and a forum, in which the actor has an obligation to explain and to justify his or her conduct, the forum can pose questions and pass judgment, and the actor can be sanctioned’ (Mark Bovens, 2005a; also cited in Brandsma, 2013).

Accountability then requires an actor with a duty to render an account and a second actor (forum) with the authorization to judge and, usually, impose sanctions. It implies that the actor explains and justifies his behavior and the forum has the right to demand information, the duty to pass judgment and the opportunity to sanction dissatisfactory conduct (Orbuch 1997: 455; Roberts 2001: 1551; Keohane 2002: 4; Dubnick 2005: 1; cited in Schillemans, 2007).

The actor can be an individual, an organization, an official or civil servant or a public agency or an autonomous body. On the other hand, forum can be a specific person, such as a superior, a minister, or a journalist or it can be an agency, such as parliament, a court, or the audit office (Brandsma, 2013), but in the case of public accountability the general public is considered as the forum. The obligation that lies upon the actor can be formal or informal. Public officials often will be under a formal obligation to render account on a regular basis for specific forums, such as supervisory agencies, courts, or auditors. In the wake of administrative deviance, policy failures, or arbitrariness of public officials can be forced to appear in administrative or penal courts or to testify before parliamentary committees. From an analytical perspective, processes of accountability normally involve three phases or stages (Mulgan, 2003; Bovens 2005a;

Schillemans, 2007). First, the information phase where an actor is obliged to inform the forum about his conduct, by providing various sorts of data about his/her jobs, the performance of tasks, outcomes, or about procedures. In the debating phase, actor and forum engage in a debate on this account. The forum has the right to interrogate the actor and to question the adequacy of the information or the legitimacy of the conduct. The actor will answer to questions and if necessary justify and defend his course of action. Finally, the judgement stage where the forum comes to a concluding judgment and decides whether and how to make use of available consequences like sanctions or rewards. This is also known as the sanctions or consequence phase. Sanctions may vary from formal disapproval to tighten regulations, fines, discharge of management or even the termination of the organization.

Based on the above discussion, attempts have been made to conceptualize the meaning of accountability in the context of the study. It can be said, though there is no generally accepted definition; the six elements of accountability can be distinguished: i. there is an event that triggers the accountability process, ii. a person or organization that is accountable, iii. an action or situation for which the person or organization is accountable, iv. a forum to which the person or organization is accountable, v. there are criteria to judge the action or situation, and vi. if necessary, there are sanctions which can be imposed on the person or organization.

In this study, public official is treated as an actor or agent and citizen is the forum or principal. Here, public officials are obliged to answer their action's legality or validity to the citizen and based on the query or review process the citizen discharge judgments with possible consequences or sanctions. Above and beyond, for better understanding of the concept 'accountability' it is necessary to analyze the typologies of accountability first.

3. Typologies of Accountability and Its Mechanisms

Accountability in general classified by vertical and horizontal but in practice it incorporates several typology, dimensions or components, which are further inexorably intertwined and independent. It is really an assiduous task to segregate this concept and operationalize it in the right manner (Rahman, 2000). Yet questions are often raised regarding accountability, for example, 'accountability to whom?' accountability for what? And 'accountability through which mechanisms'? Keeping it in mind the various types of accountability and its mechanisms are discussed below.

3.1 Vertical Accountability and Horizontal Accountability:

During the 1990s, Guillermo O'Donnell brought the conceptual framework of vertical and horizontal accountability to contemporary debates about democracy. According to O'Donnell, accountability runs not only vertically, making elected officials answerable to the ballot box, but also horizontally, across a network of relatively autonomous powers (i.e., other institutions) that can call into question, and eventually punish, improper ways of discharging the responsibilities of a given office (O'Donnell, 1999). Theorists refer to this important distinction as "vertical" accountability (by the State to the citizens) versus "horizontal" accountability (by the State to its own public institutions of accountability).

Where there is a classic top-down, principal agent relationship, whereby the principal delegates to the agent, the agent is accountable to their direct superiors in the chain-of-command and this constitutes a form of vertical accountability. For instance the public official answers to the department/ agency minister, the department answers to the minister, the minister answers to parliament (in particular in parliamentary systems), and parliament answers to citizens.

Parliament, as principal, requires the government and its officials, as agents, to implement the laws, policies and programs it has approved and holds the government and officials to account for their performance in this regard. Parliament is also an agent, in that the electorate (the principal) elects legislators to enact laws and oversee government actions on their behalf. The electorate then holds legislators to account at election time and, in a few jurisdictions, through recall, where dissatisfied voters can recall their elected representative and vote for an alternative.

On the other hand, horizontal accountability is the capacity of state institutions to check abuses by other public agencies and branches of government, or the requirement for agencies to report sideways. Numerous scholars have recently referred to horizontal accountability (Day and Klein, 1987: 28; Sinclair, 1995: 223; Scott 2000: 42; Goetz and Jenkins, 2001: 363; Keohane, 2002: 22; Mulgan, 2003: 26; Bovens, 1998 and 2005a). The concept is most strongly linked with the study of O'Donnell (1999 and 2003; Kenney, 2003; Schillemans, 2008). According to O'Donnell, horizontal accountability is the existence of state agencies that are legally enabled and empowered, and factually willing and able, to take actions that span from routine oversight to criminal sanctions or impeachment in relation to actions or omissions by other agents or agencies of the state that may be qualified as unlawful (O'Donnell, 1999). These state agencies comprise the classic separation of powers, but also include a variety of oversight entities, such as audit offices, ombudsmen, courts of accounts, electoral commissions, judiciary, anti-corruption body, human rights commission and so on. Three aspects of horizontal accountability are hereby specified: who exercises horizontal accountability (state agencies), what the exercise of horizontal accountability consists of (oversight, sanctions, impeachment), and with respect to what actions or omissions horizontal accountability may be exercised (those qualified as unlawful). Vertical accountability is exercised by societal actors with respect to state actors, and horizontal accountability is exercised within the state by different state agencies.

Table 1 Vertical vs Horizontal Accountability with Illustrative Examples

Sanctions/enforcement	Mechanisms of Horizontal Accountability	Mechanisms of Vertical Accountability (outsider)
High enforcement/ sanctions Capacity	<ul style="list-style-type: none"> • Supreme audit institutions • Courts • Comptrollers general • Law enforcement agencies • Parliamentary hearings • Legislative committees • Administrative review councils • Anti-corruption agencies 	<ul style="list-style-type: none"> • Elections • Professional codes of conduct • National/international standard-setting bodies • Accreditation agencies • Referenda • Public interest law
Low enforcement/ sanctions Capacity	<ul style="list-style-type: none"> • Advisory boards • Interministerial committees • Ombudsman offices • Blue ribbon panels • Citizens' charters • Freedom of information laws 	<ul style="list-style-type: none"> • Citizen oversight committees • Service delivery surveys • Civil society watchdog organizations • Policy research (e.g., by think tanks or universities) • Investigative journalism (media)

Source: Derick W. Brinkerhoff (2001), *Taking Account of Accountability: A Conceptual Overview and Strategic Options*, studied by U.S. Agency for International Development, Center for Democracy and Governance, Implementing Policy Change Project, Phase 2, Washington, DC. March 2001.

3.1 Constitutional/Political Accountability

In democratic societies, there is a constitutional obligation that both the political leaders (ministers) and professional executives (civil servants) will be accountable to the parliament for the execution of public policies, programs and activities. The constitution of most of the democratic countries like Bangladesh provides for a system of ensuring that ministers are accountable to the parliament for their actions (along with those of their subordinates). This type of accountability is exercised along the chain of principal-agent relationships (Strom, 2000). Electorates delegate their sovereignty to popular representatives, who in turn, at least in parliamentary democracies, delegate the majority of their authorities to a cabinet of ministers. This type of accountability is also sometimes known as ministerial responsibility. In parliamentary systems with ministerial accountability, such as the United Kingdom, the Netherlands and Germany, public servants and their organizations are accountable to their minister, who must render political account to parliament (Flinders, 2001; Boven, 2005). As the representative of peoples, minister's act, as the political heads of the government offices are accountable to the parliament. The key relationship under political accountability resembles that between a representative and his/her constituent (Romzek, 1998). Periodic election featuring limited terms of office appears as the principal weapon in the hand of citizens to ensure political accountability and render the basis of legitimacy to govern. Political accountability is the accountability of the government, civil servant and politicians to the public and to legislature. In parliamentary systems, the government relies on the support of parliament, which gives parliament power to hold the government to account. For example, some parliaments can pass a vote of no confidence in the government. According to Jabbara and Dwivedi (1998), political leadership has a constitutional duty to account to the parliament and in addition, to expect the accountability of public servants by dint of political accountability. Political accountability is realized by making political leaders responsive to pressures laid upon them by MPs, pressure groups, local political action groups and consumer interest groups (Younis and Mostafa, 2000). To ensure political accountability there are some other instruments which include parliamentary questions, debates and reviews, parliamentary committees, the vote of no confidence, budget appropriations, interest groups, business organizations, electronic media, civil societies and political parties.

3.3 Administrative Accountability

The administrative accountability system involves two simple ingredients: an organized and legitimate relationship between a superior and a subordinate in which need to follow 'orders' is unquestioned; and close supervision or a surrogate system of standard operating procedures or clearly stated rules and regulation (Romzek and Dubnik, 1987). Internal rules and norms as well as some independent commission are mechanisms to hold civil servant within the administration of government accountable. Within a department or ministry, firstly, behavior is bounded by rules and regulations; secondly, civil servants are subordinates in a hierarchy and accountable to superiors. Administrative accountability is a key factor in ensuring an effective check on the power and authority exercised by the administrators. Smith notes:

"Administrators have great power in most societies by way of their expertise, permanence, size of their organizations and their close proximity to political power. Administrators also implement policies and are often in a position whereby they can exercise considerable discretion in policy application" (Smith, 1991: 95).

Administrative accountability is a mechanism that ensures rules, regulations and instructions, supervisions, hierarchy, etc., by which public officials act and by which they are also required to

account for their actions (Jabbara and Dwivedi, 1988: 5). Simon et al, use the term accountability as a responsive legislative body, acting largely through politically responsive committees (Simon, et al. 1991). They argue that this accountability will become effective when the Chief Executive is elected by the people and is held accountable to them.

Certain mechanisms (both internal and external) exist under this type of accountability such as (internal) the hierarchical, evaluation of performance, rules, regulations, supervision, inspections, codes of conduct, and (external) judicial reviews of administrative actions, ombudsman, legislative reviews, review tribunals etc. External mechanisms are sometimes called legal accountability, which consists of two crucial subcategories i.e. accountability through judiciary and accountability through parliament and its institutions. In this research, administrative accountability is used to mean answerability and legality of every action, power and authority exercised by an administrative authority, which can be checked by citizens.

3.4 Legal Accountability

The term 'legal accountability' refers to judicial process through which actions and the decisions of government officials can be placed under judicial review and are then open to inspection and liable to challenge in the courts, usually on the grounds that certain officials have acted without legal power, or have exceeded their powers (Younis and Mostafa, 2000). The objectives of judicial accountability are to ensure high standards of decision-making and public acceptance of judicial decisions (Murray, 1994; cited in Akkas, 2004). In most western countries, legal accountability is of increasing importance to public institutions as a result of the growing formalization of social relations or because of the greater trust which is placed on the courts than in parliaments that can be the 'ordinary' civil courts, as in Britain, or also specialized administrative courts, as in France, Belgium, and The Netherlands (Boven, 2005). In the UK, the meaning of judicial accountability is answerability to the law courts for the lawfulness action (Wade and Forsyth, 1982). The role of judges within the system is to advance principles to guide administrative procedures, and to judge their legality. As Feldman asserts, the role of the judges is to uphold the Rule of Law and Parliamentary Supremacy, by ensuring that officials do not exceed or abuse the powers given by Parliament (Younis and Mostafa, 2000). In the context of USA, Simon et al (1991) has identified three basic levels of judicial accountability. These are:

- An action based on the statute or order may be challenged in the law courts because the statute or order is claimed to violate the constitution.
- Any given action or class of actions can be reviewed by the courts who in fact determine their lawfulness (or otherwise). Judges of regular courts of law test authority delegated to administrative agencies, in order to determine whether it is legal or illegal, valid or invalid. 'No law can authorize what the courts regard as arbitrary action'.
- An officer can be held personally accountable for his actions if he acts outside the scope of the law and powers. Therefore, actions taken by officers must be within the purview of law, or the courts can penalize them (Simon et al, 1991).

Effective judicial review is one of the most important mechanisms for ensuring judicial accountability on the part of judicial officers. Strong personal ethics may also serve to guide judicial officers towards giving correct judgments. In this study legal or judicial accountability refers to include all public/government officials.

3.5 Managerial Accountability

Managerial accountability is a technical process, which refers to the answerability of officials regarding carrying out of agreed tasks according to agreed performance standards. Managerial

accountability consists of three dimensions: fiscal accountability, process accountability and program accountability (Stewart, 1984). These three dimensions can respectively be called regularity, efficiency and effectiveness of the audit.

Fiscal accountability refers to the answerability of officials in ensuring that money has been spent in accordance with prescribed rules. Legal accountability can also be seen to occur in this area. The role of the parliament is to ensure that public money is not being wasted, and to this end it has been authorized to prevent fraud and misappropriation.

Process accountability revolves around ensuring that the goals of a given course of action have been achieved using the minimum amount of resources, i.e. money, certain things should be ensured and there should be an incentive in public budgeting to save public money (Younis and Mostafa, 2000). In this way, the government decision-making process should be improved and public expenditure can be controlled.

On the other hand program accountability involves ensuring that the performance of any given course of action has achieved its purpose or goal. Auditing program monitoring, personnel management and budgets are the principal mechanisms for ensuring managerial accountability.

3.6 Professional Accountability

Professional accountability refers to professional standards by which the performance of duties can be measured (Jabbara and Dwivedi, 1988). This type of accountability refers to the high professionals in all walks of life. Professional accountability demands that professionals in the public service should balance the code or norms of their profession with the broader context of safeguarding the public interest. Like the civil service employs professional people (such as lawyers, doctors, teachers, engineers, accountants) who will be accountable to standard professional for behaviour established by professional associations. This type of accountability may imply accountability relationships with professional associations and disciplinary tribunals which lay down codes with standards for acceptable practice that are binding for all members (Boven, 2005). The relationships of this type of accountability will be particularly relevant for public managers who work in professional public organizations, such as hospitals, schools, universities, research institutes, police departments, public officials of agricultural or engineering departments and like those. It is characterized by placement of control over organizational activities in the hands of the employee with the expertise or special skills to get the job done (Romzek and Dubnik, 1987). Professional accountability can be ensured through having effective, dedicated and committed professional groups, with professional itself being an effective mechanism. It includes professional code of ethics to guide members of the profession, codes that are often enforced by formal means. Many professions have secured legal power to practice their skills, and professional codes of conduct can prevent the misuse of this power. However, professionals can also be held accountable indirectly through effective parliamentary questioning, committee system and by the press (Mostafa and Younis, 2000). Again, citizen group can play a very effective role in alerting public opinion against the misuse of clinical and other freedoms.

3.7 Quasi-Judicial Accountability

There are certain limitations to judicial accountability because judicial process is costly, though administrative tribunals have been initiated in some countries to reduce the cost. This is one example of quasi- judicial accountability. The administrative system in a department is quasi-judicial in terms of working procedures, structures and objectives (Keeling, 1972). Quasi-judicial

accountability involves the formulation of codes, departmental rules, guidelines and instructions to control the discretion of officials. Administrative tribunals are set up for review, and they also exist to provide precedents in order to guide interpretation of the law and the exercise of the discretion. Review tribunals, therefore, can make this type of accountability, effective (Smith, 1980).

3.8 Financial Accountability

Financial accountability refers to tracking and reporting on allocation, disbursement, and utilization of financial resources, using the tools of auditing, budgeting, and accounting (Jabbar and Dwivedi, 1988). Financial accountability deals with compliance with laws, rules, and regulations regarding financial control and management. Ministry of Finance and Ministry of Planning exercise oversight and control functions regarding line ministries and other executing agencies as part of executive branch. Besides, many executing agencies contract with the private sector or with non-governmental organizations (NGOs), these oversight and control functions extend to cover public procurement and contracting. Legislatures pass the budget law that becomes the basis for executive agency spending targets, for which they are held accountable. Obviously, a critical issue for the viable, functioning of financial accountability is the institutional capacity of the various public and private entities involved. If internal audit departments are unable to track funds, if executive agencies cannot report on their budgets and expenditures, and if external review bodies do not have the technical capacity or the resources to conduct financial reviews, then financial accountability is weakened. Another issue has to do with linking the use of financial resources to the achievement of results. Some systems are structured on the assumption that proper procedure is a sufficient proxy for appropriate use of resources to generate desired outcomes (Brinkerhoff, 2001). This is where financial accountability needs to connect to performance accountability. Increasingly, national audit institutions in industrialized countries have expanded their scope to include questions of performance (PUMA, 1996). A related issue is the planned versus actual allocation of financial resources to executive agencies. If agencies fail to receive allocations in a timely manner and if what is received constitutes only a small proportion of planned budgetary envelopes, then it can be difficult to talk meaningfully about accountability that links financing to performance.

3.9 Performance Accountability

Performance accountability refers to demonstrating and accountable for performance in light of agreed-upon performance targets. Sometimes termed managerial accountability, its focus is on the services, outputs, and results of public agencies and programs (Brinkerhoff, 2001). This is linked to financial accountability in that the financial resources to be accounted for are intended to produce goods, services, and benefits for citizens, but it is distinct in that financial accountability's emphasis concentrating on legal procedural compliance whereas performance accountability on results. It is connected to democratic/political accountability in that among the criteria for performances are responsiveness to citizens and achievement of service delivery targets that meet their needs and demands. On the surface, performance accountability appears deceptively simple: public officials should be accountable for the outputs, results, and impacts. However, a number of methodological issues arise in thinking about performance accountability and governance reform. One has to do with the setting of performance targets and their measurement (Cook et al., 1995). As both analysts and practitioners have noted, these tasks are easier for service delivery agencies than for organizations whose outputs are policy-related and

less tangible. It is also easier for service users to assess performance directly and to hold agencies accountable when the service provided is straightforward and concrete. Another issue has to do with shared accountability and attribution of responsibility for outcomes. For activities that cut across several government departments or involve public-private partnerships, how to determine who has done what, and thus, to ensure accountability is often unclear (PUMA, 1999).

3.10 Consultative Accountability

In recent years, there has been an increasing need for consultative accountability. Departments or ministers need to consult with interested parties, citizens, business organizations and other interest groups in the formulation of public policies (Younis and Mostafa, 2000). Consultative groups, boards or committees provide advisory services to the departments and work for the parent department's benefit by exerting a measure of control over their sources of information. Obligation to the department or ministries concerned is an important mechanism in rendering this accountability effectively. Advisory committees, boards and consultative groups must accept that obligation (Younis and Mostafa, 2000). Pressure from interest groups can be another mechanism, but these groups also have to be committed to assisting the departments or ministries by offering constructive criticisms and problems.

3.11 Social Accountability

Social accountability is an approach towards building accountability that relies on civic engagement, namely a situation whereby ordinary citizens and/or civil society organizations participate directly or indirectly in exacting accountability. Such accountability is sometimes referred to it as society driven horizontal accountability. The term social accountability is, in a sense, a misnomer since it is not meant to refer to a specific type of accountability, but rather to a particular approach (or set of mechanisms) for ensuring accountability. The logic behind this type of accountability is in many western democracies for more direct and explicit accountability relations between public agencies on the one hand and clients, citizens and civil society on the other hand (McCandless, 2001). Mechanisms of social accountability can be initiated and supported by the state, citizens or both, but very often they are demand-driven and operate from the bottom-up. It is generally accepted that social accountability mechanisms are an example of vertical accountability. Boven (2005) also mentioned that agencies or individual public managers should feel obliged to account for their performance to the public at large or at least, to civil interest groups, charities, and associations of clients. However, a minority of commentators argues that, with respect to social accountability, a hierarchical relationship is generally lacking between actor and forum, as are any formal obligations to render account. Giving account to various stakeholders occurs basically on a voluntary basis with no intervention on the part of the principal. Therefore, social accountability would be a form of horizontal accountability. Recently, the tendency of increasing for the results of inspections, assessments and benchmarks is put on the internet. For example, in The Netherlands, as in the, the National Board of School Inspectors makes its inspection reports on individual schools widely available on the internet UK (Pollitt, 2003; Boven, 2005). Parents, journalists, and local councils easily can compare the results of a particular school with similar schools in the region, because quantitative and comparative benchmarks are provided for, but they also have access to the quite extensive qualitative reports (Boven, 2005). Besides, social accountability initiatives are as varied and different as participatory budgeting, administrative procedures acts, social audits, and citizen report cards which all involve citizens in the oversight and control of government. This can be

contrasted with government initiatives or entities, such as citizen advisory boards, which fulfill public functions.

3.12 Moral Accountability

Moral accountability refers to a moral sense (of feeling) that aids the loyalty of public officials in matters of public interests, and makes them act in a responsible manner (Jabbara and Dwivedi, 1998). A personal ethic is an important mechanism in making this type of accountability effective. There exist many other forms of accountability, such as decentralized accountability, public corporation accountability, procedural accountability, financial accountability, etc.

Several conclusions can be reached from reviewing the various meanings of accountability. First, accountability refers to the relationship among citizens, public policy, political leadership and public officials. Second, it is a settled language of discourse about conduct and performance, and the criterion that should be used in appraising them. Third, it concerns answerability, responsiveness, perceptions and power, and openness. Fourth, it is concerned with the concept of legality, responsibility and sanctions. Fifth, it involves cost, dedication, loyalty and high professional and moral/ethical standards. Sixth, it involves a number of interrelated internal controls and performance evaluation attributes.

The question of how accountability can be ensured is closely linked with the matter of channels, or mechanisms of accountability. It is important to be aware of the channel through which mechanisms can be secured. The following table 2 shows the types of mechanisms of accountability and its degree of control. This table highlights the fact that a diverse range of mechanisms operates at different points in the system. Some of these mechanisms relate primarily to politicians; some are focused on the need to secure the accountability of officials to their administrative superiors. The table serves to illustrate who is accountable to whom and what is the nature of the mechanisms and degree of control. It also serves as a guide to the behavior of politician and civil servants, since the mechanisms themselves outline of expected behavior. The table shows that the mechanisms include system of performance that identifies objective rather than subjective criteria, against which individual and organizational performance can be judged. As, mentioned above mechanisms also include the role of political parties, pressure groups, freedom of information and the media in promoting government accountability.

Table 2 Mechanisms of Accountability

Internal	External	Degree of Control
Formal:		
Hierarchy	Legislative Review	Tight
Rules/Regulations	Advisory Committees	
Budgets	Judicial Review	
Personnel Management	Ombudsman	
Performance Evaluation	Review Tribunal	
Auditing Program Monitoring	Evaluation Research	
Code of Conduct	Freedom of information	

Internal	External	Degree of Control
Informal:		
Personal Ethics	Public Comment	Loose
Professionalisms	Interest Group Pressure	
Representative Bureaucracy	Peer Review	
Commitment	Media Scrutiny	
Anticipated Reactions from Superior	Political Parties	
N/A	Politician and Official at other levels of Government	

Adopted from Younis and Mostafa (2000:35) and Romzek and Dubnik (1987, 229).

From the foregoing discussion, various types of accountability and its mechanisms has been found. In the context of the present study, emphasis has been given on the social accountability of government officials that is ensured through the citizen engagement as a horizontal and external mechanism.

4. How far Social Accountability is Ensuring in Bangladesh:

Social accountability is a process of building relationships between citizens and government institutions through citizen participation and civic engagement (PRIA, 2013). This is an option of creating opportunities and spaces for the citizens to participate in government activities in ensuring accountability of public officials. According to WB's (2006) social accountability source book-

“Social accountability is about affirming and operationalizing direct accountability relationships between citizens, the state and service providers. Social accountability refers to the broad range of actions and mechanisms (beyond voting) that citizens can use to hold the public officials to account, as well as, actions on the part of government, civil society, media and other societal actors that promote or facilitate these efforts”.

Therefore, social accountability depends on the ability of citizens to hold the government institutions accountable and increase the effectiveness of their programs through a broad range of actions. These actions help the governance institutions and citizens to recognize their mutual responsibility in promoting governance. The actions and mechanisms of social accountability are used in various types throughout the world like citizen charter, participatory budget process, citizen report card, ward Shaba (meeting), monitoring group of citizens, access to information, study circles, deliberative polling, consensus conferences, public hearings, citizens' juries, CSO oversight committees, local oversight committees, ombudsman etc. (WB, 2006). However, for the present study three basic mechanisms have been tested to evaluate the social accountability and its impact on service delivery and governance. These three mechanisms are: citizen charter, access to information and information service center, and participatory budget making process.

4.1 Citizen Charter

It is one of the vital tools of social accountability, which is used widely by the public service sector to inform the citizens about details of their services. A Citizens' Charter is the expression of an understanding between the citizen and the public service provider about the quantity and

quality of services citizens receive in exchange for their taxes. The Citizen's Charter is a written, voluntary declaration by service providers about service standards, choice, accessibility, non-discrimination, transparency and accountability. Therefore, it is a useful way of defining for the customers, the nature of service provision and explicit standards of service delivery. In this paper, the author used some field data (see Annex-1) about the health service, railway services, and passport services of Rajshahi City. Through analyzing field data, it has been found that selected three organizations (mentioned in footnote) are well equipped by technology, IT service, staffs, doctors and citizen charters. However, medical college hospital has not adequate infrastructure compared to patients, like, beds, Operation Theaters (OTS) and words. Therefore, patients are suffering from lack of beds and Operation Theater (OT) services.

In railway office at Rajshahi, service delivery is easier and quicker than previous years. Citizens are very happy and they do not face any hazards for collecting tickets or any other services in Rajshahi. Conversely, services of passport office are not friendly like railway. Most of the service receivers are annoyed and frustrated to the officials of this office. To get a passport is very hazardous and the staffs are not cooperative enough. They act as principal instead of agents. Thought citizen charter displayed in front of the selected offices, however, most of the service receivers have not adequate knowledge about citizen charter and services, and they have not enough knowledge about their rights and services especially for services. Therefore, they have no voice for receiving service-adequately, timely, and properly. One the other hand, service providers are almost aware about this, but they are less careful to provide services transparently and promptly. They act like the principal instead of the agent. Therefore, citizens' charter is showing just like a calendar on the wall instead of an instrument of social accountability. Thus, the aim of citizen engagement in public service through citizens' charter is not ensured in health, passport, and railway services in Rajshahi city as well urban governance in Bangladesh.

Lack of consciousness of citizens and inadequate publicity about citizen charter are the main reasons of failure to ensure social accountability and better service delivery in the selected areas, which has identified by the field data (see annex-1).

4.2 Participatory Budget Making Process

This is another important weapon of engaging citizen in policy issues and development of a country as well as ensuring social accountability of government. Recently a study has been conducted by TIB on participatory budget making process and found that-

“Participation of the beneficiaries of development efforts as stakeholders make the budget more appropriate, transparent, accountable and effective. Participatory and open budget, budget tracking and monitoring with the participation of the service recipients are key elements in the build up as well as follow-up on the IP” (TIB, 2012).

Similarly, the UNDP has an empirical study on ‘open budget’ in Bangladesh which has been conducted for 2013-14 financial pre budget discussion with common people in an Upazila. In this study, the joint secretary of Upazila as a focal person expressed his opinion that -

“we could not prepare the budget from 2009 to 2011 as UZP functionaries had no knowledge or training how to prepare it. Now, after getting the training provided by the UNDP, the UZPs are much more capable and confident in preparing the budget” (UNDP, 2014).

In another empirical study, on “Participatory Budgeting in Bangladesh Local Government Context” conducted by four scholars (Hossain et al., 2014) in the Nabigonj Municipality of Habigonj in Bangladesh. The findings of this study is different from previous two studies as given below-

“level of scope of participations was very low in this area, but the majority (55.3%) of people were highly positive about the initiation to (Participatory Budgeting) PB. This study also reveals that understanding of participatory budgeting as a concept that leads to improve governance is still very limited and Citizens were incapable of contributing productively to policy-making within the Nabigonj Municipality” (Hossain et al., 2014:28).

The author has a study on participation of Ward Shava (See annex-2) of Gogram Union Parishad of Godagari Upazila in Rajshahi district and found most of the cases opinions are accepted from the upper class participants and nominated by ruling political party. Besides, in decision making including budget discussion, poor, marginalized and women are skipped because of the domination of rich and politically selected people. Another interesting finding of this study was, most of the respondents have not enough knowledge on Ward Shava and budget.

Though, the participatory budget making process is an effective mechanism of inclusive governance and social accountability, however, lack of enough ideas and knowledge of common people about this, participation is very poor. Apart from this, it is a very prospective instrument to ensure social accountability and inclusive governance in Bangladesh but need more publicity among citizens to ensure their meaningful participation.

4.3 Access to Information and Information Service Centre:

The government of Bangladesh has passed Right to Information (RTI) Act in 2009 to ensure accountability of public agencies and subsequently an information commission was established to provide necessary information to the citizens (Hasanuzzaman, 2012; Mollah, 2014: 36). Besides, the government has already established Union Information Services Centers (UISC) as a one-stop service at all 4,547 Union Parishads (UP, at the lowest tier of local government) of the country (Connecttask, 2014). The aim of UISC is to provide various types of information related to government, livelihood and private services to the citizens in rural areas run by local entrepreneurs, hosted by UPs and supported by central administration (Connecttask, 2014). The study of Connecttask (2014) also explored that 45 Million citizen got services from UISC in the last 2 years countrywide for instance, 40 Million got services for birth registration (Connecttask, 2014).

However, in the context of social accountability, though, five years have been passed after passing the Act of RTI, no substantial progress in practice, the current state of human rights, democracy, abuse of executive and political power and corruption are still continuing (Mollah, 2014:36). Most of the cases, citizens are less conscious and officials are not very friendly to cooperate the service receivers.

The author's field data revealed that most of the officials are aware about access to information but less care to provide information to the citizens. The staffs of railway office of Rajshahi are friendly comparing to other two organizations regarding cooperation and service delivery to citizens. Besides, citizens are not conscious enough to right to information and have not bargaining power with officials. However, both citizens and officials recognize that this can be an effective mechanism of ensuring social accountability and citizen rights (see annex-1).

Practical case story: recently (April-May, 2015), the author himself as a service receiver and observer visited several times (7 times) at the Divisional Passport Office, Rajshahi for his three family members' passports and his own, but the official is very careless to provide appropriate information at a time to fill up the application form. As a result common people are suffering a lot and several times citizens have to do the same jobs. The author talked (informal discussion) with around 20 people who came to this office for making passport and found the fact that none of them did complete and collect their passport without any hazards. The author directly talked

with the head of this office (Assistant Director) regarding this, but he/she just instructs his/her subordinates and subordinate manipulate service receivers in various ways. Apart from this, some people found in this office who desired to help people by exchange of money recognized as a broker who has a hidden link with officials.

Therefore, access to information as a mean of social accountability is very ineffective to get proper information and services from public offices for example passport office in Rajshahi. In contrast, service centers of local government are very useful and helpful for collecting information, but most of the people are not aware and informed about this.

5. Conclusion

The main objective of this paper was to evaluate the status of social accountability in Bangladesh based on field data and the case studies of three service organizations of Rajshahi city and a Union Parishad of Godagari Upazila in Rajshahi District. Before doing that, a theoretical analysis has been done for better understanding of the concept and trivia of accountability. From the foregoing discussion and analysis of theoretical and empirical information, and with practical experience, observation, and perception of this paper, the readers and researchers in the field of accountability and governance would find ideas, and knowledge about various interesting types of accountability and its ensuring mechanisms. Besides, to attain the main objective, few specific objectives have been analyzed. And for doing that, an attempt has been made for an in-depth empirical study on social accountability based on field data. From analysis it has been found that social accountability is a means by which, both people and administration have a chance to share opinions and work together. In empirical section, the author has used three vital components of social accountability—citizen charter, participatory budget making process, and access to information. The major findings of this paper are these three components of social accountability are very effective for accountable, transparent, and participatory governance that has been recognized by officials and citizens however, in Bangladesh the practice of these components is not very effective and satisfactory.

In introduction, it has been disclosed that recent concept of accountability has been developed by influencing two political and economic theories public choice, and principal-agent theories. According to those theories, every person is guided by self interests not for public interest. In addition, citizen should be treated as principal and official as agents will work for meet the expectation of citizens. In practice, we found that official are working for their own willingness and like as principals instead of agents. Therefore, to overcome those limitations more market principles should be introduced which have been prescribed by these two theories in above. The major causes of ineffectiveness are less consciousness and the absence of the voice of the people. Apart from this, the officials are not friendly, less cooperative and elitist in character. To overcome this problem and shortcoming, more campaign and conscious building program should be undertaken by government with NGOs and voluntary organizations to aware the common people. Motivational training program should be introduced for government officials to change their elitist character and behavior for citizen friendly services.

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Annexs

Annex-1: –Role CC and Access to information in service delivery and social accountability

Respondents		Health Services (HS) at RMCH															
Accountability Mechanisms	Do you know about CC of HS?	Why CC and AP		Do you follow CC rules?		Govt. services available for citizens?		Wards and facilities available?		OT and IT facilities and services available?		Do you think CC and AI is one of the mechanisms citizens engagements?		Do you think CC and AI is an effective mechanism of ensuring social accountability?			
		D-N	WB	D-N	WB	D-N	WB	D-N	WB	D-N	WB	D-N	WB	D-N	WB	D-N	WB
25 officials (10 doctors+10 nurses+5 ward boys)	Yes	To inform about the services to the citizens		Never		Yes but not adequate		no		Yes but not satisfactory		yes		yes		yes	
50 service receivers (patients and their guardians)	Heard about it but don't know what does it mean	Unknown		Unknown		Yes, but not adequate		No		Limited		Yes		Yes		effective in	
25 others (Surrounding people of Hospital)	Heard but have not adequate idea	Perhaps for service information		Just saw in front of the hospital but never quite about this		Yes, but not adequate		No		Limited		Yes		Yes		unknown	
Total=100																	
Rajshahi Rail Way Office																	
10 officials	Do you know about CC of RS?	Why CC and AP		Do you follow CC rules?		Govt. services available for citizens?		Is IT facilities and services of Officials adequate?		Do you think CC and AI is an effective mechanism of ensuring social accountability?		Do you think CC and AI is an effective mechanism of ensuring social accountability?		Do you think CC and AI is an effective mechanism of ensuring social accountability?		Do you think CC and AI is an effective mechanism of ensuring social accountability?	
50 service receivers	Yes	For providing service information to the citizens		not practice		Yes		Yes, online ticket and information available.		Yes but no one can quite regarding this		Yes but no one can quite regarding this		Yes, but never we bargaining for any service facilities.		Yes, but never we bargaining for any service facilities.	
Total 60	20% = 10 respondents know about cc but have not adequate knowledge. Rest of the respondents have no idea.	May be service information		No		Yes		Yes, service providers are competent but there is no separate service line for women and autistic.		Yes, but never we bargaining for any service facilities.		Yes, but never we bargaining for any service facilities.		Yes, but never we bargaining for any service facilities.		Yes, but never we bargaining for any service facilities.	
Regional Passport Office Rajshahi																	
10 officials	Do you know about CC of PS?	Why CC and AP		Do you follow CC rules?		Available for citizens?		R. IT facilities and services of officials adequate?		Do you think CC and AI is an effective mechanism of ensuring social accountability?		Do you think CC and AI is an effective mechanism of ensuring social accountability?		Do you think CC and AI is an effective mechanism of ensuring social accountability?		Do you think CC and AI is an effective mechanism of ensuring social accountability?	
25 service receivers	Yes	Service information and facilities		No		Yes		Yes		Yes, but never practice here.		Yes, but never practice here.		Yes, however we have no bargaining power		Yes, however we have no bargaining power	
Total=35	15 respondents know about this but unknown to 10 respondents.	15 respondents know about it. Information about rule regulations of issuing passports		No		Yes		Facilities available, but service delivery is very hazardous, irritating and less cooperative.		Yes		Yes		Yes, however we have no bargaining power		Yes, however we have no bargaining power	
Grand Total=195	Grand total service receivers=150																

Note: This chart is compiled by number of tables initially made by field data. Since, the space of an article is limited, therefore, I made the chart concisely. Data has been collected by author with three graduate students in July-October, 2014.

Here,

AI= Access to information, CC= Citizen Charter, HS=health Services, RS= Railway Services,

PS= Passport Services, UP= Union Parishad.

RMCH= Rajshahi Medical College Hospital.

Annex-2 Role participatory Budget making process by Ward Shava in ensuring Social accountability and Governance in GOgram Union

Respondents	Do you know about Ward Shava?	Do you know about Budget?	Did your opinion Accept in Shava?	Do you think it is helpful for ensuring citizen rights?	Do you think it is an effective mechanism of Social accountability?
Officials=11	Yes	Yes	Yes	Yes	Yes
Citizens: Upper class =13	Yes	Yes	Yes	Yes	May be
Middleclass=13	Yes	No	Sometimes	Yes, but most of the cases opinion of influential are reflected.	unknown
Lower class=13	No	No	No	Yes,	unknown
Total= 50					

Note: This table also compiled by various tables of primary data. Data has been collected by author with three graduate students in July-October 2014.

Here official means,

Chairman=1

Members=9

Secretary=1

Classes of citizens based on economic condition and influence in the study area.

Estimates of Trade Dependence of Ukraine: An Indicator of Effectiveness of its Economic Structure and Foreign Economic Activities

O. Borzenko • M. Rubtsova • N. Reznikova • V. Panchenko

Abstract The approach to study the significance of trade relations between countries by analyzing economic vulnerability, economic sensitivity, symmetry and asymmetry of the established economic links is proposed in this article. This approach is adapted to analysis of the trade dependence of Ukraine. The estimated interdependence ratios for Ukraine and its largest trade partners – EU, Russian Federation, post-soviet countries, China, the U.S., and Brazil and India as emerging economies – are compared to the respective ratios of Ukraine’s dependence on these countries’ markets. The analyzed dynamics of the Ukrainian GDP dependence on the Ukraine’s trade partners shows the growing relative weight of the countries that had not played a substantial role in the foreign trade of Ukraine. The proposed approach for estimating the quality of the established trade relations is supposed to contribute to the radical transformation of Ukraine’s foreign trade.

Keywords Interdependence - Dependence - Quality Patterns - Ukraine vs. Russia
Progressive disruption but convergence with EU

JEL Classification F14 - F15 - F51 - F62 - O33

1. Introduction

Interdependence should be interpreted in view of the two critical characteristics: sensitivity and vulnerability. Sensitivity refers to direct and primary costs that can be imposed by one of the partner countries by changing interdependent relations between two partner countries. Sensitivity is associated with the severity of losses resulting from unpredictable change. Vulnerability, on the other hand, is conditional for the country’s capability to recover after

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losses resulting from a change in the policy of another country. R. Cooper [1] elaborates two conceptual differences between sensitivity and vulnerability, and addresses these concepts as the two parallel definitions to separate forms of interdependence. Interdependence associated with vulnerability refers to the costs that a country has to bear (when the economic relations are disrupted), in order to do without trade transactions with its already former trade partner. These costs are classified in the public costs met by a country to the extent of its capacities, once it could adapt to the new situation.

On the other hand, interdependence associated with sensitivity acts as a tool for short-term corrections of public costs that a government has to impose on foreign policy measures in response to departures from established standards or economic practices. Therefore, while interdependence associated with sensitivity involves the costs related with maintenance of economic relations with another country, interdependence associated with vulnerability refers to the costs required for the disruption of such relations.

Yet, this theoretical modeling cannot solve the problem related to the manifestation of these costs' effects. The concept of interdependence cannot be systematized unless the causal factors behind these benefits or final costs are found out, because it would be too difficult to extract systematically the vulnerability component without understanding the factor causing these costs. In-depth analysis of the most typical variations in cross-country interactions gives reaffirming arguments of the essential modification in the meaning of the dependence phenomenon, caused by endogenous and exogenous factors. Maneuvering between economic vulnerability and sensitivity, between internal and external dependence allows us to interpret the condition of economic interdependence as the intermediate and equidistant case between the two extreme cases of full dependence and full dominance.

The concept of significance refers to the importance of trade relations relative to other trade relations. The significance of trade for one country in bilateral trade relations won't be always similar to its trade partner. For example, in the case of trade relations between Ukraine and the EU, their significance is much higher for Ukraine than for the EU. The key aspect that we are going to emphasize when interpreting the concept of interdependence is symmetry in cross-country relations. It is argued that the significance of economic relations can vary in the dyad of countries, whereas the symmetry indicates the relative equality of their economic interdependence. A potential case of the ideal symmetry is when both countries are equally dependent on each other. The ideal asymmetry occurs when one country is fully dependent on its trade partner, but this partner is almost independent on the former country. Yet, considering that each country's dependency is a function of the total exports and imports between them, and this total does not equal zero for one country in the dyad, the total won't be zero for the other country as well. Therefore, the case when one country is absolutely independent from the other country can only occur when the other country is also fully independent.

The interdependence can be estimated in the three phases. First, it establishes the relative importance of bilateral trade relations for each of the countries compared with the amounts of their total trade (in both cases imports and exports are accounted for). For two countries (Country i and Country j), $TradeShare_{ij}$ measures the ratio of economic exchange between countries i and j , and the exchange of County i with all the partners.

At the first phase, the ratio of economic exchange for a dyad of countries is estimated by the formula:

$$TradeShare_{ij} = \frac{DyadicTrade_{ij}}{TotalTrade_i} \quad (1)$$

Where $DyadicTrade_{ij}$ is the total imports and exports between Country i and Country j , $TotalTrade_i$ is the total imports and exports of Country i with all the partners.

This ratio can range between 0 and 1, with 0 indicating absence of imports or exports between Country i and Country j , and 1 showing that Country i has international trade relations only with Country j . Using the basic share of trade derived by (1), the significance of interdependence between two countries can be estimated by multiplying the share of $TradeShare_{ij}$ for both countries and taking square root from the product by the formula:

$$Salience_{ij} = \sqrt{TradeShare_{ij} \cdot TradeShare_{ji}} \quad (2)$$

The low level of dependence for one country decreases the overall significance of the relations in a dyad of countries. The overall significance for each of the two countries can be estimated by use of $TradeShare_{ij}$ for each country.

At the second phase, the symmetry of trade relations between Country i and Country j is estimated by the formula:

$$Symmetry_{ij} = 1 - \left| TradeShare_{ij} - TradeShare_{ji} \right| \quad (3)$$

When the symmetry estimate is 1, this means that countries i and j are absolutely symmetrical. When it approaches 0, it will be an indication to as explicitly asymmetrical relations between them as may be. Like the indicator of significance, the indicator of symmetry is valid for both countries. At the third phase, these two indicators of economic relations are consolidated into one, to estimate the interdependency indicator:

$$Interdependece_{ij} = Salience_{ij} \cdot Symmetry_{ij} \quad (4)$$

The low level of dependence for one of the countries decreases the overall significance of the relations in a dyad. The overall significance for a dyad can be estimated by use of $TradeShare_{ij}$ for each country.

The interdependence phenomenon results from interactions of the two indicators. The interdependence will be the highest, when both countries are fully reliant on each other in the trade, i. e. when both indicators, of the significance and of the symmetry, are close to 1. Lower estimates for the significance and for the symmetry decrease the overall level of interdependence for a dyad of countries, whereas high estimates of the two indicators are required to have the highest levels of interdependence.

The reliability of the obtained data is proposed to test by estimating the dependence of Country i on Country j on Gross Domestic Product (GDP) of Country i :

$$Depend_{ij,t} = \frac{X_{ij,t} + M_{ij,t}}{GDP_{i,t}} \quad (5)$$

where $Depend_{ij,t}$ is the estimate of dependence of Country i on Country j , $X_{ij,t}$ is the exports from Country i to Country j in the moment of time t , and $M_{ij,t}$ is the imports to Country i from Country j in the moment of time t .

The only essential difference between this indicator and the three-phase estimation of interdependence is use of GDP in denominator.

2. Estimating $TradeShare_{ij}$ for Ukraine and its selected trade partners

Estimation of $TradeShare_{ij}$ for Ukraine and its selected trade partners – EU, Russian Federation, post-soviet countries, China, the U.S., and the group of countries consisting of Brazil and India – allows for the following conclusions (see Table 1, Table 2, Figure 1):

1. Trade relations of Ukraine with the EU and the Russian Federation can be referred to as significant and indicative of the vulnerability of the Ukrainian economy to their dynamics.
2. The relative vulnerability of trade relations between Ukraine and the Russian Federation have been gradually decreasing.
3. The trade interdependence of Ukraine and post-soviet countries features high volatility and the decreasing vulnerability.
4. Regarding the interrelations of Ukraine and the EU, the period from 2000 to 2008 stands out as one demonstrating most clearly the growing share of the EU in the total exports and imports of Ukraine.
5. Ukrainian-American trade relations do not feature dynamics.
6. Joining of Ukraine to WTO has not made Ukraine's trade relations with principal partners less vulnerable.
7. The dynamics of interdependence ratios derived for the Ukraine – China dyad shows the increasing vulnerability of their trade relations.

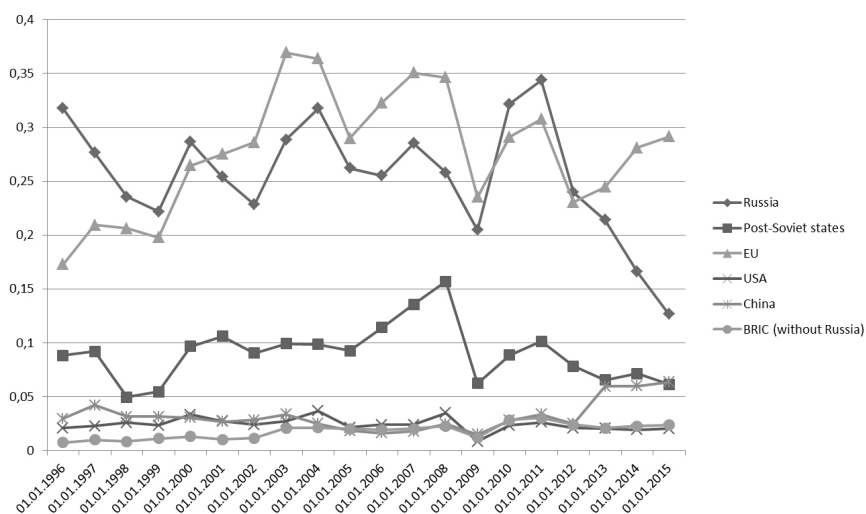
Table 1 Ratios of interdependence between Ukraine and its largest trade partners

TradeShare _{ij}						
Date	Russian Fed.	Post-soviet countries	EU	The U.S.	China	BRIC (not incl. Russian Fed.)
01.01.1996	0.318	0.088	0.173	0.021	0.030	0.007
01.01.1997	0.277	0.092	0.209	0.023	0.042	0.010
01.01.1998	0.236	0.049	0.206	0.026	0.031	0.008
01.01.1999	0.222	0.054	0.198	0.023	0.031	0.011
01.01.2000	0.287	0.097	0.265	0.033	0.030	0.013
01.01.2001	0.254	0.106	0.275	0.027	0.027	0.010
01.01.2002	0.229	0.091	0.286	0.024	0.028	0.011
01.01.2003	0.289	0.099	0.369	0.027	0.033	0.021
01.01.2004	0.318	0.098	0.364	0.037	0.025	0.021
01.01.2005	0.262	0.093	0.290	0.021	0.018	0.020
01.01.2006	0.255	0.114	0.323	0.024	0.016	0.019
01.01.2007	0.285	0.136	0.351	0.024	0.018	0.020
01.01.2008	0.258	0.157	0.347	0.035	0.025	0.022
01.01.2009	0.205	0.062	0.235	0.008	0.015	0.012
01.01.2010	0.322	0.089	0.291	0.023	0.028	0.028
01.01.2011	0.344	0.101	0.308	0.026	0.034	0.030
01.01.2012	0.240	0.078	0.231	0.021	0.025	0.024
01.01.2013	0.214	0.065	0.245	0.020	0.059	0.021
01.01.2014	0.166	0.071	0.281	0.019	0.060	0.023
01.01.2015	0.127	0.061	0.291	0.020	0.063	0.024

Source: estimated and constructed by the author by data [2; 3; 4]

The analysis of data for 2015 shows the continually decreasing trade dependence of Ukraine on the Russian Federation due to the sanctions (0.127 in 2015; 0.214 in 2013, against 0.318 in 1996); in parallel, estimates of trade dependence for Ukraine in the posts-crisis year of 2009 marking the shrinking global demand show that markets in post-soviet countries could adapt to the consumption of Ukrainian products.

Figure 1 Dynamics of dependence of Ukrainian GDP on its trade partners



Source: estimated and constructed by the author by data [2; 3; 4]

Beginning with 2012, the dependence of Ukraine on the Russian Federation and post-soviet countries was notably decreasing, contrary to the markets of the EU and China, which, given the high volatility (turning points of growths and recessions), could retain stability. In parallel, the decreasing dependence of Ukraine on the main trade partners in 2012–2015 is an indication to the growing relative weight of the third countries, which had not a substantial role in the Ukraine’s foreign trade. It is true that Egypt or Turkey, which figures of trade with Ukraine are beyond the scope of our analysis, could increase their shares in the foreign trade with Ukraine beginning with 2014.

Table 2 Estimation of correlation between indicators of economic exchange between Ukraine and other countries (TradeShareij, by use of pair correlation coefficients)

Estimates of economic exchange between Ukraine and other countries (TradeShareij)						GDP	
Russian Fed.	Post-soviet countries	EU	U.S.	China	BRIC (not incl. Russian Fed.)	thousand USD	per capita, USD.
1.000	0.447	0.550	0.615	0.374	0.406	-0.359	-0.355
0.447	1.000	0.731	0.528	-0.227	0.376	0.004	0.004
0.550	0.731	1.000	0.678	-0.135	0.610	-0.132	-0.122
0.615	0.528	0.678	1.000	0.273	0.195	-0.447	-0.441

Estimates of economic exchange between Ukraine and other countries (TradeShareij)						GDP	
Russian Fed.	Post-soviet countries	EU	U.S.	China	BRIC (not incl. Russian Fed.)	thousand USD	per capita, USD.
0.406	0.376	0.610	0.195	-0.180	1.000	0.534	0.545
-0.359	0.004	-0.132	-0.447	-0.396	0.534	1.000	1.000
-0.355	0.004	-0.122	-0.441	-0.395	0.545	1.000	1.000

Source: estimated and constructed by the author by data [2; 3; 4]

3. Estimating $Depend_{ij,t}$ for Ukraine and its selected trade partners

Estimation of $Depend_{ij,t}$ for Ukraine and its selected trade partners – EU, Russian Federation, post-soviet countries, China, the U.S., and the group of countries consisting of Brazil, China and India – allows for the following conclusions (see Table 3):

- The dependence of the Ukrainian GDP growth on trade relations of the Russian Federation has decreased; interrelations between Ukraine and the Russian Federation have five explicit phases of economic activity, correlating closely with the political climate in Ukraine.
- The contribution of post-soviet countries in the Ukrainian GDP growth has rapidly decreased (dependence ratio 0.114 as of 1 January 2008, against 0.062 as of 1 January 2016).
- Although the impact of trade relations between Ukraine and EU countries on growth of the Ukrainian GDP features relative stability (dependence ratio 0.319 for 2003; 0.254 for 2006; 0.259 for 2011), in 2015 EU countries (with a dependence ratio of 0.295 recorded for the second time after 2000, the year when the significance of trade relations with this group of countries was dominant for the Ukrainian GDP dynamics) became the trade partner for Ukraine with the most essential impact on the dynamics of the Ukrainian GDP. However, given that the indicators of dependence of the Ukrainian trade on EU countries are analyzed considering the waves of EU enlargement (enlarging significantly the number of EU members), the change in Ukraine – EU relations is not explicit.
- Given that China joined the top three trade partners of Ukraine by the results of 2016, its impact on the dynamics of the Ukrainian GDP gives evidence of gradual transformations in China – Ukraine relations: its nearly zero impact on the Ukrainian GDP at early phases of the Ukraine's state building (0.019 dependence ratio as of 1 January 1996) was gradually increasing to catch up with the dependence estimates for the group of post-soviet countries, with which the significance of trade was rapidly falling (dependence ratio 0.064 for China and 0.062 for the group of post-soviet countries as of 1 January 2016, against 0.026 for China and 0.090 for the group of post-soviet countries as of 1 January 2006).

Table 3 Ratios of dependence of Ukrainian GDP growth on trade relations with Ukraine's partners

	$Depend_{ij,t}$					
	Russian Fed.	Post-soviet countries	EU	U.S.	China	Anchor countries (Brazil, China, India)
01.01.1996	0.312	0.087	0.170	0.021	0.019	0.007
01.01.1997	0.223	0.074	0.169	0.018	0.024	0.008
01.01.1998	0.230	0.048	0.201	0.025	0.020	0.008

	<i>Depend_{ij,t}</i>					
	Russian Fed.	Post-soviet countries	EU	U.S.	China	Anchor countries (Brazil, China, India)
01.01.2000	0.289	0.097	0.266	0.034	0.042	0.013
01.01.2001	0.241	0.101	0.262	0.026	0.019	0.010
01.01.2002	0.216	0.086	0.271	0.023	0.022	0.011
01.01.2003	0.249	0.086	0.319	0.023	0.029	0.018
01.01.2004	0.268	0.083	0.307	0.031	0.023	0.018
01.01.2005	0.228	0.081	0.252	0.019	0.028	0.017
01.01.2006	0.201	0.090	0.254	0.019	0.026	0.015
01.01.2007	0.198	0.094	0.244	0.017	0.025	0.014
01.01.2008	0.187	0.114	0.251	0.025	0.033	0.016
01.01.2009	0.179	0.094	0.205	0.013	0.034	0.018
01.01.2010	0.252	0.069	0.228	0.018	0.043	0.022
01.01.2011	0.289	0.085	0.259	0.022	0.050	0.025
01.01.2012	0.247	0.081	0.237	0.021	0.053	0.025
01.01.2013	0.201	0.061	0.230	0.019	0.056	0,019
01.01.2014	0.171	0.073	0.289	0.020	0.061	0,023
01.01.2015	0.128	0.062	0.295	0.020	0.064	0.024

Source: estimated and constructed by the author by data [2; 3; 4]

Given the strong impact from the U.S. on shaping the geopolitical vector of Ukraine's development, the existing trade relations between the two countries indicate the unchanged positions (dependence ratio 0.021 as of 1996 and 0.020 as of 2015).

Yet, the estimates of $TradeShare_{ij}$ $Depend_{ij,t}$ demonstrate the quality of the economic exchange between Ukraine and its partners in a more representative way, which allows for the following statements:

- the structure of Ukraine's foreign trade with the Russian Federation and, to a larger extent, with the U.S. is too ineffective;
- while the impact of Ukraine's foreign trade with the EU on the Ukrainian GDP changed from negative (-0.132 in 2012) to positive (0.204), in the case of foreign trade with the Russian Federation (-0.359) and the U.S. (-0,447) the situation is too bad.;
- the impact of Ukraine's foreign economic relations with developing countries (Brazil, India, China) on the Ukrainian GDP growth is positive (0.534);
- it should be noted that Ukraine's membership in WTO was of no effect for the trade dependence of Ukraine on its principal partners;
- high estimates of dependence show insufficient structural diversification of the Ukrainian economy, disregard to the need for the import substitution policy implementation, which would change commodity positions of the Ukrainian exports and imports.

In the case of Ukraine (given its economic dependence on EU (0.295 as of the end of 2015) and the Russian Federation (0.128 as of the end of 2015, against 0.217 as of the end of 2013)), the estimates give evidence of the skewed trade structure and orientation on the group of selected partners.

4. Analysis and discussion of results.

We have built the equation of regression for the total exports and imports by country, which looks representative.

$$Y_1 = -2,758X_6 + 4,922X_9 + 2,042X_{12} + 16,524X_{15} - 35,289X_{18} + 23,273X_{21} + 54687205 \quad (6)$$

coefficient of determination $R^2 = 0,940$;

where X_6 – total imports and exports with Russian Federation;

X_9 – total imports and exports with post-soviet countries (not including Russian Federation);

X_{12} – total imports and exports with EU countries;

X_{15} – total imports and exports with China;

X_{18} – total imports and exports with the U.S.;

X_{21} – total imports and exports with Brazil, China, and India.

The results lead to the following conclusions:

- Ukraine's dependence on foreign economic relations with the Russian Federation has a negative impact on the growth rates of the Ukrainian GDP (growth in the trade relations by 1000 UAH reduces the GDP by 2758 UAH);
- Ukraine's dependence on foreign economic relations with the U.S. has an extremely negative impact on the growth rates of the Ukrainian GDP (growth in the trade relations by 1000 UAH reduces the GDP by 35289 UAH);
- Ukraine's dependence on foreign economic relations with China has a positive impact on the growth rates of the Ukrainian GDP (growth in the trade relations by 1000 UAH increases the GDP by 16524 UAH);
- Ukraine's dependence on foreign economic relations with post-soviet countries has a positive impact on the growth rates of the Ukrainian GDP (growth in the trade relations by 1000 UAH increases the GDP by 4922 UAH);
- Ukraine's dependence on foreign economic relations with EU countries has a positive impact on the growth rates of the Ukrainian GDP (growth in the trade relations by 1000 UAH increases the GDP by 2042 UAH);
- Trade leaders with positive impact on the growth rates of the Ukrainian GDP (growth worth of 23273 UAH per each 1000 UAH) are Brazil, China, and India.

5. Summary and conclusion

1. The proposed methodology of estimating the indicators of dependence, interdependence, as well as of symmetry, sensitivity and vulnerability of interrelations between partner countries can be useful in analyzing the established relations, in order to find the dynamics of change in the character of relations between the partner countries that differ from each other by indicators of economic capacity, and between the partner countries with similar economic structures. However, it should be born in mind that the import substitution policy or a policy like re-shoring that will inevitably change its economic structure and, therefore, the structure of its demand for goods proposed by the global market, when pursued by one of the partner countries, will have a substantial impact on the quality of the established relations and gradually transform them towards either the lesser asymmetry (when the import substitution policy is adopted by the country that is the outsider of relations) or more explicit asymmetries (when the re-shoring policy is adopted by the country that is the leader of relations).

2. The lesser diversified is the economic structure of a country and the more similar is the structure of its partner countries, the more stable are the relations. Accordingly, if even the trade between such partner countries shrinks, the quality of their relations will remain unchanged, with the implicit asymmetric or symmetric dependence. Furthermore, changes tend to be mutual if even asymmetric relations are preserved.
3. The decreasing interdependence of partner countries, along with establishing more diversified trade relations and/or re-orienting on production of alternative goods/services, and with the respective growth in exports, is a signal of the country's economic development.
4. A growth in interdependence of partner countries' economies can be caused by the symmetrically increased demand for goods that they offer, if even the technological gaps between these countries are preserved. For example, the growing technology imports by one of the partner countries may be accompanied by the symmetric growth in its exports of minerals to the market of its partner country. The quality of such trade relations can, therefore, hardly be determined without a detailed study of the commodity structure of exports and imports.
5. Dynamics of dependence-based cross-country relations are effected by not only endogenous factors (economic structure, demand structure, macroeconomic stability in a country), but by factors of exogenous origin (global economic growth rate, global commodity markets conjuncture, conditions of access to capital markets and intellectual property markets etc.). When GDP in one of the partner countries shows substantial growth, absence of rapid change in the indicators of its trade relations with selected countries cannot be evidence of the relations decline.
6. The Ukrainian GDP, GDP per capita in particular, is dependent on external trade, which is confirmed by the estimations (the correlation coefficient is 0.993). Ukraine, as a small open economy, demonstrates classical dependence on external markets: the correlation coefficient did not change in 1996–2012 and 1996–2015 (0.994 compared with 0.993), which does not show any structural change in the Ukrainian economy. Higher degree of diversification in the Ukrainian economy and higher capacity of the domestic market due to the increasing solvency of the population have to be the key orientations.
7. The computed estimates give clear evidence of the need for imports regulation, in order to optimize their structure and scopes.
8. Foreign trade relations of Ukraine are based on interdependence, characterized by sensibility in relations with all its trade partners, except for Russian Federations, with which Ukraine has the interdependence associated with vulnerability, because it refers to the intended disruption of the existing relations and minimization of the Russia's role as exporter and importer, being Russia more and more asymmetric with Ukraine and facing a deep economic slowdown, a part the military building-up, the same mistake done in the Sixties and Seventies as former Soviet Union. History had apparently not given any learning to Moscow on how to promote growth and competitiveness.
9. In the case of Ukraine (given its economic dependence on EU (0.295 as of the end of 2015) and Russian Federation (0.128 as of the end of 2015, against 0.217 as of the end of 2013)), the estimates give evidence of the skewed trade structure and orientation on the group of selected partners.
10. Although the impact of trade relations between Ukraine and EU countries on growth of the Ukrainian GDP features relative stability (dependence ratio 0.319 for 2003; 0.254 for 2006; 0.259 for 2011), in 2015 EU countries (with dependence ratio of 0.295 recorded for the second time after 2000, the year when the significance of trade relations with this group

of countries was dominant for the Ukrainian GDP dynamics) became the trade partner for Ukraine with the most essential impact on the dynamics of the Ukrainian GDP. However, given that the indicators of dependence of the Ukrainian trade on EU countries are analyzed considering the waves of EU enlargement (enlarging significantly the number of EU members), the change in Ukraine – EU relations is not explicit.

11. The existence of the large shadow economy sector in one of the partner countries causes serious errors in estimations.
12. Considering the already built economic capacities and the industrial structure of Ukraine, it should be noted, that Ukraine, intending to integrate in the global market that has undergone the powerful globalization processes aiming to reconcile the interests of international value added chains, faces objective challenges. We believe that Ukraine needs to diversify the foreign economic relations in five mainstream directions: technological, financial, infrastructural, structural and diplomatic.

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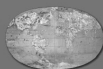
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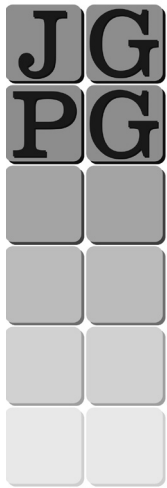
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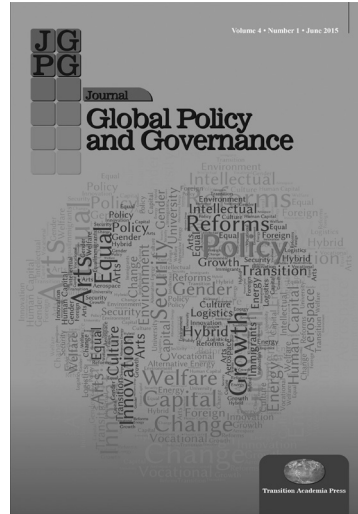
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Journal of Global Policy and Governance
Aims and scope

Global governance is a challenge of our era and us as human beings no matter where we live and what values we believe in. After a 100 years of development, international relations are so closely and tightly knit. A problem in a community might affect the life of the people in a remote part of the world and its solution might also be in the hands of these people but can't be assumed outside the more global International Relations theories and practices approach, an interrelated already practiced at every policy decision making, economic and financial levels and first of all by the main powers.

How can we manage this complex of various relations matters for our life and common future? It is the time for us to invest our wisdom and energy to make global governance work now and to give a sense to the United Nations already reduced to a zero-sum-game playing on the major emergencies and conflicts due first of all to the obsolete veto system that would be at least extended to all the 15 countries of the Security Council, being them permanent or at rotation, with the weighting of votes bringing less hypocrite the present five Jalta powers partition already 70 years ago. We are talking of the world not existing anymore.

There is no simple way and framework for global governance. Global governance is a general term which means to think globally and act globally. It is complicated because problems might be local. It is complicated because problems might be also global. It is complicated because the solution of problems might be local but also in a global framework global. That is why we need to check issues case by case carefully. We need to sort out what solution is the best choice for the problem. We need to identify who should be the persons of good will taking the challenge and adding their intellectual and scientific capabilities to the human destiny. We have to take an action worldwide. Global issues are definitely the subjects of global governance. Meanwhile, global governance takes care of issues with local reasons and local solution because we believe the experience might be helpful for people living in other parts of the world. Interdependence of International Relations with finance, economy, technology, research and advanced knowledge

until a few years ago unimaginable, new military might introduced by innovation must be some of the crucial challenges, where also our Journal Global Policy and Governance intends to contribute opening its pages, issue after issue, to faculty, experts, testimonies, articles and relevant review of books, junior researches working papers. But we know also that traditional conflicts would not have any perspective in the medium term and will bring to the defeat of the ones who are imagining a return to the past.

We intend to embrace and reach all the possible interested colleagues and fellows around the world, as choices and strategies in all the sectors involving public and private governance, nobody excluded, are under questioning and innovative evaluation. Global world is not anymore a provocative statement, a kind of utopian return to realism and the theories dominant up to the German reunification, the end of Soviet Union and the war in the Balkans have now become obsolete by definition.

Middle East, Black Sea, Eurasia, Ukraine, Baltic, Turkey have the capability to reshape the future. Even if they are now in the middle of the fire, soon the devastations and impressive mass killings will be overcome and reconstruction taking the lead in many of these countries.

But why not underline the successful 30 years development and growth of China, a unique case in the last 500 years. China is the third world power, after European Union and USA, and has now similar problems we have encountered and are still facing nowadays, needs to find a political solution to reforming and giving voice to an accountability to its almost 1 billion 500 million inhabitants.

We really have to rethink the International Relations and the theories of Global Governance and Policy Choices, accepting the pluralities of institutional architectures and ways to give voice and accountability to the citizens. The European Union represents a “non Statehood” institutional governance, without even a Constitution and the Sovereignty belonging to the member countries. Do you believe the EU will change its architecture established by the Treaty of Rome in the future? This is an illusion of the antagonists of the different strategies and policies that were adopted right up to the Euro and the high welfare and technologic standards already achieved, even in the face of a crisis on 2008 that from the Atlantic arrived to Europe three years later and is now affecting East Asia. By 2020 we will be out of this tunnel everywhere in the world. To add a valuable contribution to this scientific debate is our very aim and scope

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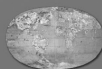
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