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PAPER

EU Regional Policy: Inception, Development and Results

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Abstract The article focuses on the evolution of the Common Regional Policy of the European Community. It analyzes the key reforms of the EC/EU Regional Policy, major factors that made such reforms necessary, and their implications for the institutional structure of the Community, and the Member States.

The author addresses the transformation of the regional policy from a purely economic means of ensuring cohesion between Member States towards a powerful tool of reshaping the Europe's political and economic space. He also describes the process of the delegation of powers from central governments to subnational entities, as well as of building-up of the institutional mechanisms for the representation of regional interests inside the EU decision-making system.

The article assesses the impact of the policy upon the progress of regionalization in Europe and decentralization of the nation state. The author argues that the common regional policy and, specifically, the introduction of the subsidiarity have contributed to the establishment of a new governance level in the EU and putting in place a multilevel governance system, thus reshaping the Community governance paradigm.

Keywords: European Union, integration, common regional policy, regions, regionalization, regional policy, comity of regions, regionalism.

JEL Classification: O52, P3, R59, Z18

1. Introduction

EU regional policy is an important vector of the activities of the Union and a powerful instrument of influence of communitarian structures on development of

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both member-states and European political space as a whole. Common regional policy is linked to the complex of changes taking place in the system of relations between the nation-state and its regions, as well as the transformation of the governance model implemented in the EU. From this perspective, consideration the common regional policy evolution and analyzing its impact on regionalization processes in Europe is of considerable scientific and practical interest, the importance of which is further enhanced by the need to adapt European experience and acquis communautaire - including in the dimension of regional policy - to the realities of modern Ukraine.

The objective is to analyze the development of the EU common regional policy and its influence on European states and regions. The author sets out the following tasks:

- to review the reasons for initiation and forming of the EU common regional policy;
- to identify factors, that had positive impact on the content and form of the common regional policy in the dynamics of its formation and development;
- to explore the interim results of the implementation of the common regional policy.

2. Literature review

A number of researchers study the problems of European regionalism. In this context, it is necessary to mention the works of the Finnish scientist G. Yarovoy and the Russian author O.V. Belokurova, who prepared the monograph "European Union for the Regions". They look broadly at the EU's common regional policy as a whole, while exploring the specifics of European project management (Yarovoy & Belokurova, 2012). In writing this article, Was used the work of A. Kolev, who looks into the impact of the European recession in the end of the first decade of the XXI century on the convergence of EU regions and, consequently, the evolutionary changes of the common regional policy (Kolev, 2012). The essence and forms of influence of the common Community policy on the relations between the region and the state, the region and the Community, as well as the structural dimension of regionalization are explored by Yann Fournis in his work "Regionalisms in Brittany: region and state (1950–2004)» (Fournis, 2005). He pays special attention to the implementation of the case study, analyzing this policy against the background of transformations in the French regions.

In turn, in the monograph "Regional Policy of the EU" Russian scientist O.V. Kuznetsov analyzes the transformation of EU regional policy in terms of leveling interregional disparities (Kuznetsov A.V., 2009).

Despite the significant relevance of the topic, it is necessary to state the shortage of relevant research in Ukraine. Nevertheless, it should be mentioned that a school of European regional studies is being formed in Ukraine, represented by such researchers of regionalism as Victor Konstantynov, Victor Chuzhykov (Chuzhykov, 2016), Alla Vasylyk, Svitlana Tkalenko, V. Parkhomenko (Tkalenko S. I & Parkhomenko V. V., 2015) and others.

3. Hypothesis, methodology and data

The foundations of the European regional policy were laid at the beginning of the process of establishing the EEC. Thus, the Treaty of Rome of 1957 set out to ensure the harmonious economic development of EEC countries "by overcoming the differences that exist between different regions and the backwardness of the least favored regions" (p. 217). This program principle - promoting rapprochement of the regions development levels - enshrined in this basic document authorized the implementation of Community regional policy, creating a legal and conceptual framework for its implementation. The same treaty established the European Social Fund (ESF), focusing on promoting employment in the Member States, as well as on promoting socio-economic cohesion between their regions, and the European Investment Bank (EIB), one of the functions of which was to finance development of the economically depressed regions through long-term lending.

However, the common regional policy has not been intensively pursued during the first decades of the EEC existence. In the author's view, this was done for the following reasons. First, it is appropriate to highlight that view within the EEC at the time that economic integration between the countries of the Community in itself will help to balance the imbalances between the regions. Secondly, regional development policy was almost exclusively focused on the national rather than the community level, whereas convergence was in fact within the competence of the member states. Third, the EEC institutions were in the process of being established, and the Community's financial leverage, which could support regional policy, was relatively insignificant. Fourthly, it should be noted that the Member States were at similar levels of socio-economic development, which led to the absence of an urgent need for a convergence policy in the meaning of the later stages of the development of the EEC / EU.

It can be stated that this situation began to gradually change in the mid-1960s, when the understanding developed within the EEC that it will be impossible to address the challenges of rapprochement through the efforts of individual countries. According to the decision of the European Council of 15 April 1964, regional policy was singled out as an independent policy direction of the EEC.

This move was reinforced by the creation in 1968 of the European Commission's Directorate-General for Regional Policy (Manzella & Mendez, 2009, p.6-7), authorized to work on the elaboration and harmonization of its provisions and the establishment in 1973 of the post of Commissioner-General for Regional Policy (Manzella & Mendez, 2009, p.9). In the early 1970s, Eurostat initiated the creation of a NUTS classification for the development and implementation of convergence policy ("History of NUTS - Eurostat", 2020), which facilitated further reforms in this area. Since the mid-1970s, the process of regional policy development reached a higher level. The author believes that the main impetus for changing the system of regional policy was the transformation of the environment of its implementation. In particular, several new countries have joined the EEC at this time (in 1973 - the United Kingdom, Denmark and Ireland, in 1981 - Greece, in 1986 - Spain and Portugal), which significantly increased the socio-economic gap between regions of the Communities due to the accession of a number of poor agricultural regions. In turn, this raised the issue of strengthening the cohesion policy of the rapprochement through the implementation of specific measures and projects supported by substantial funding.

In this context, the European Regional Development Fund (ERDF) was established in 1975 and was entrusted with the role of the Community's main financial instrument for regional policy and the Committee on Regional Policy with responsibility for the control of the expenditure of the ERDF (*The European Union explained: Regional policy*, 2014, p.4). For the first three years of the ERDF activity (1975-1977), expenditure was estimated at ECU 1.4 billion, representing 4% of the total Community budget at the time. It should be noted that, from that point on, financial support for EEC cohesion policy has started to grow in both absolute and relative terms. Thus, as early as 1983, allocations to regional policy reached 7% of the EEC budget. At the same time continued the practice of participating in the financial support of the ESF / EIB rapprochement policy, as well as the attraction of additional sources (in particular in 1981-1989) in favor of the regions of France and Italy, which suffered the greatest damages from Spain's and Portugal's accession to the EEC; special funds were allocated through a separate article of the Community budget) (Chuzhykov, 2016, p.17-18).

At the same time, the development of regional policy continued as one of the important activities of the EEC. In 1986, the Single European Act was adopted, outlining the legal basis for cohesion policy. Yes, Art. 130a of the Act stated "the Community is particularly keen to reduce the gap between the different regions and the backwardness of the regions with the least favorable conditions." It was determined that "the task of the European Regional Development Fund is to contribute to the elimination of major regional imbalances within the Community by participating in the development and structural reform of the regions with a slower pace of development and in conversion of declining industrial regions" (p. 130). States have undertaken to carry out their economic policies and coordinate them in light of these objectives, using communal structural funds (ESF, ERDF, European Agricultural Fund for Governance and Guarantees), the EIB, etc. (*Treaties establishing the European Communities*, 1987 p. 1033-1034).

It should be noted that during the 1970s - 1980s, regional policy of the EEC received not only a socio-economic but also a political ring. The official discourse of the EEC included an instruction to expand the economic and political and administrative powers of the regions (not only at the national but also at the communitarian levels), as well as to preserve and promote regional identity. This guidance has subsequently become one of the defining features of this policy and an important element in its substantive content. Thus, in its resolution of 22 April 1982, the European Parliament emphasized the need "to ensure as much involvement of local and regional authorities as possible" in the development of communitarian and national policies. In 1984, under the auspices of the EEC, the first Conference of the Regions of the Community was held ("Consolidated versions of the Treaty on European Union and the Treaty on the Functioning of the European Union - Consolidated version of the Treaty on European Union - Protocols - Declarations annexed to the Final Act of the Intergovernmental Conference which adopted the Treaty of Lisbon", 2007). The summary documents of the conference called on national states to redistribute the share of their power to the benefit of the regions and to create a regional level of power in territorial units where it did not yet exist. The Conference also called on the Community to establish a special regional affairs body within the supranational system.

In turn, a resolution of the European Parliament of 13 April 1984 defined the region as one of the key players in building a democratic Europe and called for joint work to expand the competence of the regional governance. In the same vein was adopted the Joint Declaration of the European Council, the Commission and the Parliament of 18 June 1984, which emphasized the need to involve regions in the development of communications policy ("Consolidated versions of the Treaty on European Union and the Treaty on the Functioning of the European Union - Consolidated version of the Treaty on European Union - Protocols - Declarations annexed to the Final Act of the Intergovernmental Conference which adopted the Treaty of Lisbon", 2007).

In a systemic context, this impulse - bringing discourse of regionalism to European politics - has contributed to forming of a powerful political trend that has engulfed Europe. In particular, broad reforms were initiated in a number of Common Market countries during this period, aimed at acquiring regions of subjectivity and gradually transforming the regional governance level into one of the decision-making levels.

Thus, in the 1970s, Belgium began its movement towards the federalization, the decentralization of power took place in Portugal and a series of regional reforms were passed in Spain. Reforms in the once rigidly centralized France were quite radical: during 1982-1983, its regions were granted the status of separate subjects of public law, their own system of executive power, as well as autonomous powers in the fields of economy, education, transport, ecology, culture, etc. ("European Parliament Resolution on the role of the regions (13 April 1984)", p. 79). From this point, EU regional policy partly reflected the current trends (on the one hand - the desire for more autonomy by a number of regions, and on the other - the nation-state's efforts to improve governance mechanisms through optimizing the distribution of powers and restructuring governance mechanisms), and partly shaped and reinforced these trends. It can be concluded, that a common regional policy has become one of the drivers of decentralization reforms, with a view of strengthening the regional level of decision-making and, in the long term, transforming the region into one of the important policy actors in Europe.

The end of the 1980s was marked by a profound reformation of Community regional policy. In the author's view, respective changes in the EEC were prompted by the following factors:

1. new challenges emerged against the backdrop of convergence due to the accession of Spain and Portugal to the EEC, which has increased the number of backward regions of the Community by more than 20%;
2. negative impact of regional inequality on the pace of integration;
3. the apparent lack of structural funds to address the tasks of regional policy in all their complexity;
4. insufficient coordination between the Community and Member States in this area.

In the course of reforms aimed at providing a systemic response to these challenges, the goals, objectives and principles of regional policy were clarified, its institutional and financial base was substantially strengthened, and it took a leading role amid the political activity of communitaire structures. Convergence of the regions has been proclaimed as one of the programmatic guidelines of the EEC regional policy, and the concepts of "convergence policy" and "regional policy" became concurrent in Community practice. In fact, the foundations of European regional policy, as it stands today, were actually laid down.

The reform began with the adoption of a series of guidance documents that more clearly defined the Community's formal approach to regional issues, and formulated guidelines for regional policy in the future.

For example, on 18 November 1988 the European Parliament adopted a resolution on communitarian regional policy and the role of the regions. The resolution identified the need for greater coordination of regional policy and a steady increase in Community funding for its implementation. In addition, the resolution adopted a Community Charter on Regionalization, setting out the position and principles of EEC policy towards the regions. Thus, the EEC formally argued for the status of regions in national states to be stipulated in the constitution, for the regions to have their own elected bodies and to generate financial resources through their own taxes, and so on. This has deepened the already existing course, set in the previous decade. Hence, from now on, the promotion of regionalization in the member states of the EEC, that is, the autonomization of the regions, the delegation of powers to them from the national center, has become an important formalized aspect of regional policy. The important principle of regionalization has also been endorsed as the principle of partnership between the European Commission and national, regional and local authorities in the field of regional policy. (Official Journal of the European Communities, 1988).

The institutional dimension of the Community has also been modified: the European Commission has set up an Advisory Board of Regional and Local Authorities, engaging representatives of the regions from all 12 (at that time) Member States. The main task of the Advisory Board was to participate in the development of a common regional policy. Similar changes were also made against the background of the main instrument of support for the implementation of regional policy - the Structural Funds system, which switched to the programmatic principle of activity. The EEC has introduced the practice of adopting multiannual financial framework programs for 5 (and subsequently 7) years, with clear objectives subject to revision and adjustment for the next planning period. Another aspect of the reform was creation of the so-called Community Initiatives - targeted projects designed to address concrete problems specific to groups of regions and to finance specific areas of regional development. One of the most important was the INTERREG initiative[1], launched in 1989, which continues to this day ("Interreg: European Territorial Co-operation", 2020). The initiative was intended to stimulate cooperation between the Member States at different levels, with particular emphasis on promoting regional and cross-border cooperation.

At the same time, the volume of financing from the Structural Funds continued to increase, which was greatly facilitated by the increase in the communal budget that

[1] Short for Inter-Regional Cooperation

occurred during the Community budgetary reforms. Thus, in the period 1989-1993, the total cost of cohesion policy reached 64 billion ECU. («What is Regional policy. History of the policy», 2020). We emphasize that this growth marked a qualitative change in the context of EU regional policy. The dramatic increase in the resource supply of this policy has led to the consolidation of its power, it gained capacity to influence macroeconomic phenomena in Europe and public administration. Member States have become financially motivated to receive funding from Community regional policy programs, which has opened opportunities for the changes made by the policy provisions, and therefore for the continuation of the aforementioned course of regionalization.

The signing of the Maastricht Treaty and the transformation of the EEC into the EU (1993) paved the way for the further development of the principles laid down by the regional policy reforms of 1988-1989. Introduction of a notion of EU subsidiarity was an important impetus for further regionalization. ("Consolidated versions of the Treaty on European Union and the Treaty on the Functioning of the European Union - Consolidated version of the Treaty on European Union - Protocols - Declarations annexed to the Final Act of the Intergovernmental Conference which adopted the Treaty of Lisbon", 2007). According to this principle, decisions in the Union should be taken at the administrative level closest to the citizens and, at the same time, sufficient for the most effective resolution of those matters on which such decisions are taken. Thus, the principle of subsidiarity, together with the aforementioned partnership principle, provided the legal basis for engaging regional and local levels of government in the EU's administrative and political process.

The treaty also provided for the establishment of a new institution involved in the process of developing a communitarian regional policy – the Committee of the Regions (CoR), which replaced the Advisory Board of regional and local authorities. The CoR has become an EU advisory body composed of elected representatives of regional local authorities ("Consolidated versions of the Treaty on European Union and the Treaty on the Functioning of the European Union - Consolidated version of the Treaty on European Union - Protocols - Declarations annexed to the Final Act of the Intergovernmental Conference which adopted the Treaty of Lisbon", 2007).

It should be noted that in 1993, the Cohesion Fund (CF) was added to a range of Funds involved in the implementation of regional policy objectives. Its task was to support projects in the area of interregional transport infrastructure, ecology and energy. The fund had autonomous status vis-à-vis the structural funds (until 2007) and was intended primarily for countries whose gross national income per capita did not exceed 90% of the European average.

The practice of enhancing financial potential of the cohesion policy continued. Thus, in 1994-1999, total EU spending on regional policy goals increased to ECU 168 billion, reaching about 30% of the consolidated budget of the Union ("What is Regional policy. History of the policy», 2020).

All these steps have helped reduce the gap in development levels between different EU regions and the economic recovery in the backward regions. The basis for these changes was not simply the redistribution of funds and benefits, but the provision of community support for structural reforms, infrastructure development and search for new options for realizing regional potential. Another important interim consequence of the reform was the further promotion of the trend towards the autonomy of the European regions, their increasing involvement in national and communitarian policy-making on a wide range of issues, including through the mechanisms of the Committee of the Regions. Accordingly, decentralization of nation-states has continued in the EU. In particular, reforms were passed in Greece in 1994 and 1997-1998, in Great Britain in 1997-1998, etc. (Greer, 2001б p. 9-16); in parallel, in preparation for European integration, regionalization took place in the CEE countries. It should be emphasized that, on a pan-European scale, decentralization was both politico-administrative and budgetary in nature: along with the authorities the regions began to receive tax levers.

Another major transformation has been the EU's regional policy at the turn of the millennium - in early 1999, the EU Council reviewed the objectives of regional policy in the context of adapting to new European realities. At times there was the question of preparing the EU for the admission of a group of new members from the former states of the so-called "socialist camp" and the Republic of Cyprus. This expansion was expected to entail new challenges in the context of regional policy, as it resulted in the accession to the Union of countries composed of numerous regions with a markedly lower than average European level of development. At the same time, the reform had to address regional policy problems identified in the course of its implementation, such as its bureaucracy, existence of divergences between regional policy goals and EU priorities, and the lack of coherence of national and regional development programs that had been signaled in the previous period. Aimed at harmonizing the territorial and spatial development of the EU, INTERREG remains a key initiative of the Community and a major recipient of funds. In parallel, the EU has launched a number of programs to promote the integration of new Member States into the Union, including also in convergence dimension (in particular, such as PHARE and ISPA). A total of € 213 billion has been earmarked for regional policy tasks in 15 EU Member States, while another € 22 billion has been earmarked for rapprochement in the countries that acceded to the Union in 2004. (Yarovoy & Belokurova, 2012, p.82).

It is important to emphasize, that the enlargement of 2004 and 2007 have created an additional burden on the regional policy system, which transformed into one of the key directions of EU activity and one of the main recipients of the European budget funds. As a result of the 2004 enlargement, during which 10 countries have joined the EU, its population increased by 20% while the GDP has increased only by 5%., which resulted in sharp widening of the gap between the development levels of European regions (Kolev, 2012, p. 2). Significant difference between the growth indicators of the capital (usually closest to the average European parameters) and peripheral regions of the new Central and Eastern European member states became an important aspect of the problem of regional inequality.

New disbalances shaped new challenges against the backdrop of EU regional policy implementation. The urgent need to bridge this gap between the rich and poor European regions caused an additional revision of the regional policy tasks for 2007-2013. Resources consolidation of the convergence policy took place: in particular, the CF was included into a number of structural funds, and provisions regulating their functioning and allocation of finances were simplified. The following tasks of the regional policy emerged: ensuring growth and creation of new jobs in the least developed countries and regions, promoting regional competitiveness and employment, ensuring social cohesion through harmonious and balanced development of the European.

Analysis of the results of these transformations allows to conclude that these measures have born their fruit which were also due against the backdrop of the changes in economy. As a result of the European regional policy implementation a number of positive developments were reached in a key dimension of this policy – leveling the development in different EU regions. Thus, according to EuroStat, during 2007-2015 1.3 million jobs were created in the poorest regions. It is worth noting a considerable progress in the field of development of transport infrastructure and energy: from 2007 to 2014 the funds of regional policy were used to build 6.7 thousand km and reconstruct 42.3 thousand km of roads respectively; created 5,3 GVt of renewable energy producing stations. Direct investment of the EU allowed to launch about 360 thousand small and middle level business projects and over 140 thousand startups. As a result, during a historically short timeframe from 2007 to 2010 the income of residents in poorest EU regions increased from 60.5% to 62.7% compared to the average European level, notwithstanding the crisis and recession that hit the EU in 2008 p. («Key achievements of Regional Policy 2014-2020», 2017)

Political dimension also experienced significant shift, it was characterized by strengthening of the influence of regional policy on European states. One of the key trends that can be highlighted, was further strengthening of the political weight of a region on a Europan scale. Thus, following the effect of the Lisbon Treaty, in 2009 management if the Network of the subsidiary principle monitoring became part of the competency of the KP. Moreover, KP obtained the right to appeal to the EU Court when it believed EU laws are violating subsidiary principles ("Treaty of Lisbon amending the Treaty on European Union and the Treaty establishing the European Community", 2007). In its turn, regionalization and and respective reforms continued in Europe. In particular, the lengthy decentralization process was finalized in the Central and Eastern European countries. One of the most centralized European states – Greece – implemented in 2010-2011 the program «Kallikratis» In Britain further devolutions of the exective powere took place in such regions as Scotland and Wales; in Portugal the level of municipal communities emerged, that were in line with category NUTS-3 (2013) etc.

EU regional policy was further amended in 2013, with the aim to improve its efficiency. In particular, in order to overcome bureaucratic barriers, regulations of all structural funds engaged in its implementation were harmonized.

At the moment, EU regional policy is pursuing two strategic objectives, defined as «Investing in growth and jobs» and «European territorial». Overall, 351.8 billion Euro were envisaged for the needs of regional policy until 2020, which amounts to

32.5 of the EU budget. Characterizing the real financial impact of the regional policy, it is important to notem that mobilizing national, regional and extrabudget funds for relevant projects allowed to reach 450-500 billion Euro of the cumulative investment volume of the program. (*The European Union explained: Regional policy*, 2014, p. 3). It is noteworthy, that these substantive investment contribute not only to overcoming of the gap between the rich and the poor regions of Europe, but also stimulate growth of the economic potential and political and administrative power of the regions, and emergence of the regional level as one of the EU governance levels.

Emphasis on decentralization of the state and regionalization is one of the substantive essence of the EU common foreign policy. Thus, in the communiqué EC COM (2013) 280 stipulated the need to promote principles of community and regions strengthening as one of the recepies for overcoming economic challenges and stimulating reform in EU partner countries (Publications Office of the European Union, 2016, p. 65).

Speaking about the real practical projection of the common regional policy, its practical historical outcomes, one can state that that it had a deep structural impact on the development of EU-member states in economic, political and cultural dimensions. According to calculations, from 1989 to 2020 the cumulative amount of funds invested by the EU into implementation of its tasks will amount to over 1.2 trillion Euro [calculated for: (*The European Union explained: Regional policy*, 2014)]. During the use of the funds by the regions, social structures have emerged linked to the economic, societal and political interests of the regions. This trend contributed to forming or elevating the regional agenda in the cultural and political life of the European member-states. The commitment to decentralization and autonomization of the regions (regionalization), handover of power to the lower governance levels, closer to the individual and his/her needs, which has become one of the principles of the communautaire position regarding regional policy was adopted as a practice of the member-states and contributed to the reformatting of the administrative and political European landscape. If in 1970-s a large majority of European states, with a few exceptions such as Federative Republic of Germany, were centralized states, by the end of the second decade of the XXI century all EU states (and almost all European) have transformed into decentralized. In parallel, we see that on the European scale region became a separate administrative and political reality and economic player. Thus, in early 2010-th the major volume of power in administration, environment protection and housing in EU was not in the hands of central authorities, but regional and local structures. In particular, the latter incurred from 70% to 80% of all expenditures in these areas on average in the EU. Next areas in terms of decentralization level in European countries were the powers in such areas as health, culture, religion and education, with over 50% of funding in these areas coming from regional and local budgets. Overall, in the end of the first decade of the XXI century 16% of the EU GDP and 58% public budget investments were at the level of regions and communities (Governatori, 2012).

Thanks to the continuing fiscal decentralization further increasing share of the budget expenditures was disbursed through regional budgets. Overall in 2010 about

29% of public budget expenditures in EU were at the regional level. Leading countries for these indicators are the countries of “old Europe”, first of all, Denmark (63%), Spain (48%), Sweden (47%), Finland (49%), Germany (38%), Belgium (37%) etc. At the same time, the majority if the “new” members of EU-28, that were going through reform in the spirit of regionalization, have increased this indicator by at least 10% points from 1995 to 2010 (Governatori, 2012).

In its turn, regional structures were widely engaged in the broader European governance system in order to advance subsidiary and partnership principles. Thus, in line with the subsidiarity principle, regional and local bodies are responsible for implementation of over 70% of the communautaire legislative norms. (“Opinion of the Committee of the Regions on ‘building a European culture of multilevel governance: follow-up to the Committee of the Regions’ White Paper’”, 2012).

One of the important intermediary results of this process became formation in the EU of the so-called “system of multi-level governance”. The very concept of multilevel governance reflects of the emergence of the subnational (regional) governance level as one of the levels of power in the EU, along with the communautaire (supranational) and national. In this sense, the system of the state power in each EU member-state looks like a three-level hierarchy, where the highest level of power is represented by the Community, the middle – by the national government and the basic – by the region. Between these levels exists a complex network of links and influences, that balances the interests of all levels and directs them towards effective work for the benefit of a citizen, community, region, state and EU as a whole.

Principles of the multi-level governance continues to expand in the EU. Commitment to the decentralization of power, regionalization and development of multi-level governance has transformed into one of important directions of the modern regional communautaire policy and in a broader sense, one of the defining features of the European integration process.

Implementation of the acquis by Ukraine, which is a necessary condition for European integration, requires not only the mechanical transposition of EU norms into domestic legislation, but also a comprehensive review of established forms of “center-region” relations and, more broadly, the state management paradigm. Consideration of specific forms of such transit is beyond the scope of this study. Nevertheless, we consider it appropriate to emphasize that such transformations will be profound and will inevitably affect, among other things, a number of acute issues of domestic policy, including language and cultural issues, regional budgeting, decentralization and more.

In this light, a thorough analysis of the lessons and experience of both the common regional policy and the closely related process of regionalization in the EU becomes particularly relevant. We believe that such scientific task as forecasting the impact of the acquis on the development of Ukraine in the regional aspect, modeling the relevant transformation processes, studying and discussing the best ways to manage transit to a new paradigm of regional policy.

4. Conclusions

EU common regional policy was founded as a response to the need of harmonizing the economic development levels of the EEC member states and their regions. Now it is one of the main directions of the EU policies and relies on the most powerful resource base compared to other communautaire policies.

Until 1970-ies EEC regional policy had mostly economical dimension. Starting with the 1970-ies it acquires an increasingly pronounced political tone, postulating the need to develop the economic, cultural and administrative-political potential of the regions. The end of the 1980s and the beginning of the 1990s was marked by a significant increase in the economic support of regional policy, which allowed to fill the latter with real content and lay the foundation for further development and development of regionalization levers. The adoption of the principle of subsidiarity enshrined in the Maastricht Treaty was a significant contribution of the EU to the region's rise in the financial and political spheres.

A serious challenge for regional policy and at the same time a powerful incentive for its further deepening was the process of integration into the EU of new member states from among the former Soviet bloc countries, whose regions were at a significantly lower level of economic development than the EU average. In response to this challenge, during the 1990s and 2000s, the European Union set a course to further increase the resource potential of the common regional policy and raise the institutional importance of the region in the system of governance in the EU.

Following the guidelines of the common regional policy, most European countries have made extensive transformations in decentralization. The intermediate result of such reforms was the formation of a strong regional level of decision-making, embedded in the mechanisms of governance in the EU as a basic, closest to the citizen, administrative stage, and the corresponding development of a comprehensive system of multilevel governance across Europe.

The implementation of European norms in the legal system and the space of political practices of Ukraine is an important challenge, as it touches on a number of fundamental issues of state organization and domestic policy of our country. Large-scale research is needed to analyze the European experience of regionalism and find optimal ways of integration, taking into account the specifics of the EU's common regional policy.

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PAPER

Comparative Analysis of the Return on Foreign Investments of the United States, Germany and Japan

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Abstract This research paper aims to analyze the return on foreign outward and inward investments of the United States, Germany and Japan. For all of the three countries the cumulative inflows of the financial account from inward direct, portfolio and other investments significantly exceed the income outflow. At the same time, the amount of income received by the United States exceeds the amount of investment abroad. Due to the fact that the profitability of outward investments for the US, Japan and Germany exceeds the return on inward investments it can be concluded that participation of these countries in international investments has a positive effect on their balance of payments. In the countries that are partners of the United States, Japan and Germany the opposite effect is observed. The results of the study indicate that in 2020 due to the financial stimulation of the social-economic development in the conditions of the coronavirus pandemic the sharp increase of the level of public debt to GDP in the US, Japan and Germany has not yet affected significantly the yield of government securities. However, if the current expansionary fiscal policies of the United States and Japan are continued, countries may face substantial problems in servicing their public debt. In such a situation the Central Bank of Japan and the US Federal Reserve System will be forced to keep the discount rate at almost zero for a long time, fearing a sharp rise in the cost of servicing public debt.

Keywords: international capital flows, return on investment, public debt, yield of government securities.

JEL classification F21, F23, F65, G11, G15, O16, D25

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1. Introduction

In today's world, capital flows are an important aspect of the international monetary system, playing a significant role in the development of national economies. Investments affect absolutely all areas of the economy and opportunities for economic growth. The United States plays a unique role in the international financial system, as any changes in its economy can affect global capital flows. They have extremely favorable investment conditions – from a business-friendly environment to specific technologies, supply chains, infrastructure and manpower. At the same time, the United States is not only one of the largest exporters of capital, but also a country that attracts the world's largest volume of foreign investment. Japan, as the world's third largest economy, plays an important role in the international capital flows as well, and has a substantial impact on global trends in this field. The country is characterized by a surplus in financial account of the balance of payments, i.e., Japan is a net exporter of capital, and the largest in the world. Germany – the largest economy in the European Union – is among the ten countries that attracted the largest amount of foreign investment in 2019, because of a skilled workforce, ease of doing business and developed infrastructure. Given this, the analysis of the return on foreign investments in these countries is relevant in the view of the latest trends in the global economic environment.

2. Literature review

Capital flows are an important aspect of the international monetary system. The inflow of foreign capital helps increase domestic savings, promotes economic growth, risk sharing, deepening the domestic financial sector and productive resource allocation. However, significant capital inflows can stimulate inflation, increase of exchange rate in short-term period, and thus lead to financial instability according to A. Rashid (2019). Similarly, a large and sudden outflow of capital can also cause serious damage to the country's economy, cause a liquidity crisis.

Classical economists, such as A. Smith and D. Ricardo have studied the importance of investment in economic growth (I. Stubelj, 2014). Later, J. Keynes built a new paradigm for investment, in which they are the predominant factor in the national product. For post-Keynesians, investment is a very important factor in the economic system, as the exploitation of new technologies is possible only by attracting investment. According to the neoclassical approach, the flows of international investment are due to differences in productivity (P. Hotellerie-Fallois and P. Moreno, 2016). Capital flows have been estimated from a theoretical point of view using the standard Solow growth model. These models assume that flows will be determined by the productivity of capital as it flows from richer countries to poorer.

S. Yakubovskiy et al. (2020) analyzed the impact of the European Central Bank monetary policy on the financial indicators of Poland, Hungary and Czech Republic. The results of the analysis show that the European Central Bank monetary policy had overall positive influence on the balance of payments of East European countries.

The excessive U.S. total income is studied by two main components: income from foreign investments and capital gains from changes in prices of foreign and exchange rates (M. Habib, 2010).

There is also a large number of studies contributed to identifying the influence of different financial and social-economic factors on the return on foreign investments. Among them there are the studies of J. Hung and Y. Chang (2018), I. Podgorna (2020), O. Rogach (2019), F. Hünnekes et al. (2019).

3. Hypothesis, methodology and data

The main goal of the research is to conduct an economic analysis of the return on foreign inward and outward investments of the United States, Germany and Japan and compare the results.

The concept of return on investment assets as a factor in international capital movements can be studied either from the point of view of individual investors or from the point of view of the countries that accept these investments (T. Rodionova et al., 2019, S. Yakubovskiy et al., 2019, 2020). Investment income flows are becoming increasingly important as elements of smoothing intermediate consumption between emerging markets and developed countries. The cost of servicing these investments plays an important role in assessing the priorities for attracting one or another form of foreign investment.

In order to compare the scale of repatriation of profits of foreign investors and the corresponding received investment flows for a certain period of time, the concept of «coverage ratio of foreign investment» was introduced and developed by T. Rodionova.

$$CoverInw^x = \frac{\sum INCd_t^x}{\sum L_t^x} \qquad (1)$$

where *CoverInw* – coefficient of coverage of inward foreign investments of type *x* (direct, portfolio and other investments) for a specific time period.

According to the formula 1, the return on foreign investment attracted to the United States, Germany and Japan is calculated as the ratio of investment income payments by the country ($INCd^X$ - debit of the current account income on liabilities of type X - direct, portfolio or other investments) to the accumulation of external liabilities (L) of type X.

To determine the coverage ratios and profitability of outflow foreign investments the following formula is used:

$$CoverOutfl^x = \frac{\sum INCc_t^x}{\sum A_t^x} \qquad (2)$$

where *CoverOutfl* – coefficient of coverage of outward foreign investments of type *x* (direct, portfolio and other investments) for a specific time period.

According to the formula 2, the return on outward foreign investment from the United States, Germany and Japan is calculated as the ratio of investment income payments received by the home country ($INCc^X$ - credit of the current account income on assets of type *X* - direct, portfolio or other investments) to the accumulation of external assets (A) of type *X*.

To calculate the coverage ratio of foreign inward and outward investments the yearly data from 1999 to 2019 is used, taken from the Balance of Payments Statistics of the International Monetary Fund.

4. Results and discussion

Based on the data on attracting foreign investment in the United States, Germany and Japan, calculations were made to build the database with the structure of investment income outflow. The analysis of the received data showed that in the United States from 1999 to 2019 the share of foreign direct investments in the total outflow of foreign investors` income is equal to 27.4% ($ 3 063.1 billion), the share of other investment – 12.5% ($ 1 380.8 billion), so in the United States income payments on portfolio investments prevail, accounting for 59.6% ($ 6 569.1 billion) of total revenue outflows.

It should be noted, that the United States remained the largest recipient of FDI, attracting $251 billion in inflows in 2019 (UNCTAD, 2020). In Germany for the same period the share of foreign direct investment in total outflow of foreign investors` income is equal 26.1% ($ 851.1 billion), the share of portfolio investment income – 46.1% ($ 1 502.5 billion), other investment income – 27.8% ($ 903.8 billion), i.e. in Germany also prevails the payment of income on portfolio investments, which account for almost half of total income of foreign investors. In Japan for the same period the share of foreign direct investment in the total outflow of income is equal to 27% ($ 320.4 billion), the share of other investment income – 22.2% ($ 263.7 billion), i.e. in Japan, as in the United States and Germany, income payments on portfolio investments prevail, accounting for 50.8% ($ 602.4 billion) of total revenue outflows.

The results of calculation of the average value of the return on inward investments for the United States, Germany and Japan are presented in table 1.

Table 1. Average value of the return on inward investments from 1999 to 2019, %

Country	FDI	Portfolio	Long-Term Government Bond	Other
United States	3.33	3.28	3.54	1.92
Germany	3.77	3.27	2.69	2.49
Japan	9.72	1.59	0.98	1.02

Source: authors' calculations, IMF (2020).

Based on the obtained calculations, the highest return on inward investment for the period 1999-2019 was obtained by foreign investors on direct investment in Japan. The rate of return on direct investment in Japan was 9.72%, which is the highest value. The return on direct and portfolio investment in the United States is almost at the same level. Foreign investors received the lowest returns from other investments in Japan, the figure was 1.02%. Thus, it should be noted that foreign investors have the highest return in the studied countries on foreign direct investment, the lowest return – on other investments. All countries have indicators of return on investment within the optimal values, i.e. investment risks for foreign investors are not high. It can also be noted that the average values of profitability in the U.S. and Germany are almost at the same level.

Nominally, the United States for the period 1999-2019 received foreign capital in the amount of $ 21.8 trillion. At the same time, the ratio of the amount of foreign investment income outflow to the total investment inflow was 50.49% (Tabl. 2).

Table 2. The ratio of foreign investment income outflow in the relevant cumulative receipts of the financial account (foreign investment coverage ratio), 1999-2019

Country	FDI	Portfolio	Other	Total revenue outflow, billion dollars	Cumulative financial account receipts, billion dollars	The ratio of income outflow to the total investment inflow
United States	52.71%	54.99%	34.04%	11 013.1	21 810.7	50.49%
Germany	54.10%	96.12%	58.96%	3 257.4	4 669.2	69.76%
Japan	112.8%	26.24%	23.03%	1 186.6	3 725.1	31.85%

Source: authors' calculations, IMF (2020).

Analyzing certain categories of investments, it can be noted that in the United States, income on portfolio investments dominate. It accounts for 54.99% of the received capital. Income on direct investments has a slightly lower percentage – 52.71% of the received capital. Investment payments on other investments for the same period amount to 34.04%. Thus, it is possible to conclude that in the U.S. financial account receipts exceed the repatriation of investment income.

Income from foreign investments worth $ 3.2 trillion was repatriated from Germany for the period from 1999 to 2019. At the same time, the country received $ 4.6 trillion over the same period, i.e. the coverage ratio was 69.76%. Payments on direct investments account for 54.10% of the received capital. Payments on portfolio investments dominate and amount to 96.12% of the received capital. Investment payments on other investments make up 58.96% of the received capital. Thus, in Germany, amount of the investment inflow exceeds the repatriation of investment income. In Japan, the ratio of total income, taken out by foreign investors to the relevant cumulative receipts of the financial account, was 31.85% – total outflow amounted to almost $ 1.2 trillion, the cumulative receipts of the financial account amounted to $ 3.7 trillion. It can be noted that the ratio of payments on direct investments is the largest – 112.8%. Payments on portfolio investments account for 26.24% of the received capital. The lowest percentage is by investment payments on other investments – 23.03% of the received capital.

To determine the coverage ratios and profitability of outflow foreign investments a structure of investment income inflow was explored. Analysis of the data showed that in the United States from 1999 to 2019, the share of foreign direct investment in total income inflow was 55.2%, equivalent to $ 7 707.5 billion, the share of portfolio investment was 32.6% ($4 556.6 billion), the share of other investment was 11.4% ($ 1 666.6 billion), i.e. in the United States, income payments on foreign direct investment prevail. Income from outward other investments is the lowest. In Germany, from 1999 to 2019, the share of foreign direct investment in total income inflow was 37.2%, equivalent to $ 1 585.9 billion, the share of portfolio investment was 36.0% ($ 1 534.7 billion), the share of other investment was 26.7% ($ 1 136.6 billion), i.e. in Germany, as well as in the United States, income payments on foreign direct investment prevail. Income from outward other investments is the lowest. In Japan, from 1999 to 2019, the share of portfolio investment in total income inflow dominates and was 59.4% ($ 2 417.5 billion), foreign direct investment – 30.8% ($ 1 252.35 billion). Revenues from outward other investments are the lowest – 9.7% ($ 395.1 billion) in total income inflow.

For a more detailed analysis, the return on outward investments was calculated. The calculation is made as the ratio of received payments of investment income from abroad (credit of the current account income item for type X assets - direct, portfolio or other investments) to the accumulation of external assets of type X. The results are represented in table 3.

Table 3. The average value of the return on outflow investments 1999-2019, %

Country	FDI	Portfolio	Other
United States	7.28	3.46	2.55
Germany	5.05	3.63	2.43
Japan	7.44	4.57	1.48

Source: authors' calculations, IMF (2020).

Thus, based on the obtained calculations, the highest return on foreign investment for the period 1999-2019 was obtained by Japan from outward direct investments. The rate of return on direct investment from the United States was 7.28%, which is the highest value. Next are portfolio investments, for which the return for the studied period was 3.46%. In the United States and Germany, the return on portfolio and other investments was almost at the same level. The lowest return was received by Japanese investors from other investments abroad, it was 1.48%. Thus, it should be noted that in these countries the returns on foreign outward direct investments are the highest.

Nominally, the United States invested $ 12.06 trillion between 1999 and 2019 (Tabl. 4). At the same time, the ratio of the amount of foreign investment income inflow to the total investment outflow was 115.48%

Table 4. The ratio of total income inflow to the corresponding cumulative costs of the financial account (foreign investment coverage ratio), for the period 1999-2019

Country	**FDI**	**Portfolio**	**Other**	**Total inflow of revenues, billion dollars**	**Cumulative outflow of all investments, billion dollars**	**The ratio of income inflow to the total investment outflow**
United States	130.24%	95.34%	122.0%	13 948.9	12 062.7	115.48%
Germany	72.17%	53.26%	43.66%	4 262.8	7 681.5	55.49%
Japan	60.01%	77.64%	72.38%	4 064.9	5 745.8	70.74%

Source: authors' calculations, IMF (2020).

It can be noted that in the United States income payments on foreign direct investment dominate – 130.24% of the capital, invested abroad. Income payments to American investors on portfolio investments have a slightly lower percentage – 95.34% of the invested capital. Income payments on other investments for the same period amount to 122.0%. Thus, it is possible to conclude that in the United States the repatriation of investment income exceeds outward investments. In the period from 1999 to 2019, a total of $ 4.2 trillion of foreign investment income was received by German investors. At the same time, $ 7.6 trillion of outward investment was observed during the same period, i.e. the coverage ratio was 55.49%. Payments to German investors for direct investment account for the largest percentage – 72.17%. Payments on portfolio investments account for 53.26% of the invested capital. The lowest ratio is observed for income payments on other investments – 43.66% of the invested capital. Thus, in Germany there is a high share of foreign direct investment in the structure of foreign assets income.

Nominally, Japan invested $ 5.7 trillion for the period 1999-2019. At the same time, the ratio of income inflow to the total investment outflow was 70.74%. Payments to Japanese investors for direct investment account for 60.01%. Payments on portfolio investments account for the largest percentage – 77.64% of the invested capital. Investment payments on other investments account for 72.38% of the invested capital. Thus, in Japan, in contrast to the United States and Germany, there is a high share of portfolio investment income in the structure of external assets returns.

In view of the above, special attention should be paid to the problem of public debt in the countries. In Germany, the public debt-to-GDP ratio in 2019 was 59.8%, down one percent from the previous year (Trading Economics, 2020). In general, during the period 1999-2019, the debt tends to decrease, which is the result of government measures to achieve a debt-to-GDP ratio of 60% in accordance with the Maastricht Treaty. Falling debt levels in Germany show that the government has the ability to repay debt instruments when they fall due. This usually increases the value of government bonds and allows the government to charge a lower interest rate when issuing new bonds. In Japan, debt fell slightly to 236.6% of GDP in 2019, but remains the largest in the world. At the same time, the government is financed by the central bank at an ultra-low interest rate, which makes the debt situation more resilient. Debt in the United States increased to 106.9% in 2019 due to tax cuts and increased government spending.

Comparison of the yield on government bonds with the yield on portfolio investments of countries (Tabl. 1) showed that, on average, long-term government bonds have higher yields in the United States, while portfolio investments have higher yields in Germany and Japan (FRED Economic Data, 2020). Long-term government bond yields worldwide hit one of the lowest levels in recent years (The New York Times, 2019). The yield on the U.S. government long-term bonds in 2019 fell to 2.14%. First of all, this was the result of a sharp decline in the target range for the federal funds rate by the Federal Reserve System, which led to a sharp decline in the U.S. bond yields (Federal Reserve, 2020). The situation was also influenced by the growing budget deficit, which entailed the attraction of new borrowings. A large part of the supply of new government bonds was bought by the Federal Reserve System, which also lowered government bond yields despite soaring debt and deficits (The New York Times, 2020). In addition, tensions in economic relations between the United States and China were affecting the yield on the U.S. government bonds. The yield on German government long-term bonds fell to -0.25% in 2019. This was the result of their deficits, where the supply has been low in recent years due to the budget surplus, along with the purchase of the ECB for quantitative easing. Weak economic data, prospects for new rate cut and additional stimulus reinforce this trend (Reuters, 2019). Japan's government long-term bond yields declined to -0.11% in 2019, despite persistently large primary/fiscal deficits ratios and elevated government debt ratios. The actions of the Bank of Japan were the main factor determining the long-term interest rate on the JGB. The Bank of Japan has been advisedly keeping JGB's nominal yield low through a combination of low interest rates, direct long-term interest rate targeting, and other loose monetary policy measures (T. Akram and H. Li, 2019).

In 2020, due to the coronavirus epidemic, the situation with the ratio of government debt to GDP has changed substantially. In particular, according to the IMF forecast in 2020, the overall fiscal balance in percentage to GDP for the United States will be -23.8%, for Germany – -10.7%, for Japan - -14.7%. As a result, at the end of 2020 the ratio of public debt to GDP will increase in the US to 141.4%, in Germany – to 77.2, in Japan – to 268.0% (IMF, 2020).

At the same time, the sharp increase in the ratio of public debt to GDP did not lead to a substantial increase in the yield of government bonds. In particular, on October 2, 2020, the yield on 10-year government bonds of Germany was negative – -0.54% (it increased over the year by only 0.04%); the yield on 10-year government bonds of

Japan was 0.02% (it increased over the year by 0.247%); and in the US, the yield on 10-year government bonds generally fell over the year by 0.847% % to 0.70% (Trading Economics, 2020).

Thus, it can be stated that the yield of government securities of the United States, Japan and Germany weakly correlates with the growth of the ratio of government debt to GDP, and depends, first of all, on government policy to support the low yield of national government securities.

Moreover, the expansionary financial and budgetary policy of the USA, Japan, Germany did not lead to substantial mitigation of the negative consequences of the COVID-19 pandemic (in the second quarter of 2020, the decline in Japan`s GDP was 7.9%; the decline of Germany’s GDP – 9.7%; the decline of the US GDP – 31.4%;), but led to an increase in stock indices. In particular, despite the economic downturn, as of October 10, 2020 the Germany DAX 30 Stock Market Index increased by 7.29% in annual comparison; the US Dow Jones Industrial Average increased by 7.89% and the Japan NIKKEI 225 Stock Market Index increased by 8.35% (Trading Economics, 2020).

Thus, it was the financial sector of the US, Japan and Germany that accumulated most of the financial resources issued to combat the economic consequences of the coronavirus epidemic.

5. Conclusion

An analysis of the structure of investment income outflow showed that over the past twenty years, foreign investors in US, Japan and Germany have the highest returns on foreign direct investment, the lowest return – on other investments. At the same time, direct investors in Japan received the highest returns, which compensate the difficulties that foreign investors face when doing business in Japan.

The analysis of the coverage ratio of attracted investments showed that in all three countries the amount of the cumulative investment inflow of the financial account significantly exceed the income outflow from foreign investments.

An analysis of the structure of investment income inflow has shown that over the past twenty years, income payments on direct investments have prevailed in the United States and Germany, and on portfolio investments in Japan. The analysis of the return on exported investments showed that the highest return on foreign investment for the period 1999-2019 was obtained by Japanese and American investors on direct investment. Japanese investors received the lowest returns from other investments. Average yields in the U.S. and Germany are almost at the same level. In general, national investors have the highest return on foreign direct investment, the lowest return on other investment. The analysis of the ratio of outflow investments showed that in the United States the amount of income received exceeds the amount of investment abroad, which is due to the longer presence of the U.S. investment abroad. The opposite situation is observed in Germany and Japan. In the United States and Germany, investment payments received on foreign direct investment prevail.

Due to the fact that the profitability of outward investments for the US, Japan and Germany exceeds the return on inward investments it can be concluded that participation of these countries in international investment activities has a positive effect on their balance of payments. In countries that are partners of the United States, Japan and Germany the opposite effect is observed. However, this study considered only financial flows included in the financial accounts of countries and the income of foreign investors, and did not take into account the export-import operations, which have a significant impact on export-oriented and import-dependent countries.

The results of the study indicate that in 2020 due to the financial stimulation of the social-economic development in the conditions of the coronavirus pandemic the sharp increase in the US, Japan and Germany of the level of public debt to GDP has not yet affected the yield of government securities. However, if the current expansionary fiscal policies of the United States and Japan are continued, countries may face substantial problems in servicing their public debt. In such a situation, the Central Bank of Japan and the US Federal Reserve System will be forced to keep the base interest rate at almost zero, fearing a sharp rise in the cost of servicing the public debt.

The consequence of this situation is overheating of the stock market, which, with a sharp drop in stock indices, can lead to a new financial crisis, to overcome which regulators in the United States and Japan will have to provide huge new direct financial support to financial institutions to prevent their bankruptcies.

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PAPER

Modelling countries' inclusion into global value networks and testing its influence over mega-regional unions existence

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Abstract The paper is devoted to the modelling of the relationship between global value networks functioning and existence of mega-regional unions. The goal of the paper is to test an influence of firm' openness to global economy on global value chains and after global value chains functioning on mega-regional unions existence. Using World bank enterprises survey data covering 2005-2017 on specific indicators describing countries' enterprises openness to global economy and OECD-EORA GVC-related indicators specific OLS and probit models were testing, including testing GVC in 2017 and in 2011 on openness to global economy indicators, change in GVC's participation on changes in openness to global economy, probability of being mega-regional member on GVC in 2017, 2011 and 2005 respectively, the same for different megaregions (TTP, TTIP, RCEP, SHOSS, BRICS), the reverse relation between GVCs' participation and fact of being mega-regional member. Most of models have high explanative power, coefficients before independent variables are statistically significant and have right signs. It was concluded that more time remote progress in GVC's participation has more effect over the probability of entering mega-regional unions. Reversely, mega-regional unions' membership does not influence expansion of GVCs directly, but rather captures country specific effects. The research results are limited to countries under consideration and models used. Further researches could be concentrated on the elaboration of mutual dependence of GVCs and mega-regionals. It is suggested to include time variable indicating moment of being included into mega-regional union in order to test the instant effects over global value networks functioning. Moreover, it is advised to instrument dummy variable "megaregion" by country related economic indicators (GDP, FDI, etc.) to see whether it make difference over regression results.

Keywords: global value networks, global economy, mega-regionalization, modelling, probit, OLS.

JEL Classification: F02, F55, F15

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Introduction

Recent decades were marked by unprecedented changes in the form of global economic being. MNC were partly replaced by global value chains and networks. According to different researches this process started in mid-1990 and was suggested for consideration first in works by Gereffi (1994). At the beginning, terms such as global production chains, global commodity chain, global supply chain were in wide use. Lately, in early 2000 value approach had begun replacing its predecessors from general use. Inherited from Porter (1985, 1986) the term was further elaborated in Dicken et al. (2001) supplied by networking analysis which is suggested to better suit global economy essence.

As Baldwin (2012) mentions, global value chains unbundled at least in two stages, each of them was associated with progress in infrastructure- in first cases with advances in transportation and telecommunications, in second- with ICT. The sophisticated mix of local and global alongside with changing global economic landscape (industrialization of South, increased divergence in incomes) and emerging possibilities to get economic rent using global disparities were aligned by new political economy of liberalization. It was marked by ubiquitous refuse to use restriction on external trade, FDI or off-shore business set-up.

The last observation gives us the first attempt to link global value chains expansion with the changes in world trade policies and global economic governance, in whole.

Mega-regional unions, as the latest sophisticated form of global economic governance, act as the most similar, in terms of global economy covering, networking character of economic liaisons, to global value chains and networks.

Even considering the primary form of international economic integration, Ricardo Mendez states that “new RTAs are organized around a set of deeper integration issues that fosters transnational collaborative production and global value chains” (Melendez-Ortiz, 2014). He claims that mega-regionals, in their turn, go much deeper into writing rules that underpin global value chains.

Kobylianska (2019) revealed that rise of GVCs is positively followed by an increase in number of PTAs in place.

However, unstoppable complication of global economic being and inability of PTAs and other integration initiatives, which do not go beyond specific geographic region and are based heavily on WTO/GATT ruling currently experiencing serious crisis, do not fit the global nature and global needs of global value chains and networks.

From this perspective mega-regional unions could serve as a tool of governing global economy from the perspective of global value chains and networks.

Despite wide literature devoted separately to GVCs and global value networks and to mega-regional unions, there is a lack of research dealing with the investigation of the link between these two phenomena. Current paper is aiming at filling lack of this kind of works.

Thus, the goal of the paper is to assess how global value chains functioning is linked to existence of mega-regionals.

Data

To meet the goal of the paper, the research is primarily based on World Bank indicators and researches, namely: the data on enterprises survey is used in order to proxy the intention of the country to enter global value networks. This data covers period from 2005 to 2017 and the whole set of emerging markets and developing economies including global cities. Such indicators were used for research purposes:

Table 1. Indicators of country inclusion into global value networks

	Name of indicator	Variables	Measure
Independent variables	Percent of firms having their own Web site	web2011 web2017	%
	Percent of firms identifying access to finance as a major constraint	accfin2011 accfin2017	
	Percent of firms identifying customs and trade regulations as a major constraint	custtrade2011 custrade2017	%
	Percent of firms using material inputs and/or supplies of foreign origin	forinp2011 forin2017	%
	Percent of firms using technology licensed from foreign companies	forlict2011 forlict2017	%
	Percent of firms with an internationally-recognized quality certification	intqcert2011 inqcert2017	%
	Percent of firms with an annual financial statement reviewed by external auditors	extaud2011 extaud2017	%
	Proportion of total inputs that are of foreign origin (%)	percfirinp2011 perfirinp2017	%
	Proportion of total sales that are exported directly (%)	expdir2017 (the indicator is available for period after 2011)	%
Dependent variable	GVC	GVC2005 GVC2011 GVC2017	USD th

Source: developed by author based upon World Bank. Enterprise survey (World Bank)

As the data is gathered by World bank based upon interviews conducted once in 5-6 years on a random base (e.g. Nigeria responded in 2006 and 2012, while Poland – in 2010 and 2015 respectively), the additional operations were taken, and for each indicator chosen supplementing proxies were constructed - one covering respective interview results available for countries for the period up to 2011, another one- from 2012 up to 2017.

On the other side the GVC indicator of UNCTAD-EORA database (UNCTAD-EORA) is used to measure the inclusion of a country into global value networks.

Additional dummy variables taking values 0 or 1 and representing the fact of the country being the member of one of biggest mega-regional unions (TTP, TTIP, Shanghai economic cooperation organization, BRICS, RCEP, EU) were constructed. Dummy variable "megaregion" represents the whole set of cases when the country is the member of any of mentioned unions.

The data was cleared to avoid missed values, so that we ended with the sample of 92 countries.

Methodology

The research is conducted in several stages.

First, general OLS will be tested estimating dependence of the inclusion into global value networks on a list of chosen indicators separately for two periods: 2012-2017 and 2005-2011, as well as growth of GVCs on growth of independent variables. This would help us to understand how increasing openness of firms' to global economic conditions influences global value networks functioning.

We expect that share of foreign inputs in total input, percent of firms having external audit, percent of frim using foreign licensed technologies, quality certifications positively influence global value chains inclusion, while customs and trade obstacles and share of sales exported directly- negatively. The latter is the reason why firms and countries seek for more comprehensive trade agreements, including mega-regional ones.

Logically the second step is testing probit model for the fact of being mega-regional member on deepness of inclusion into global value networks and respective indicators' growth rates.

The results will be used to conclude on whether mega-regions' existence is driven by GVCs.

Results

Testing dependence of countries' inclusion into global value networks on firms' openness to global economy

Using general OLS: $GVCi=a+bXi+e$,

where Xi - set of indicators of countries' inclusion into global economy from table 1, i - year under consideration, let's estimate dependence of inclusion into global value networks on openness of firms to global markets in 2017 and 2011 respectively.

In order to avoid multicollinearity only such indicators, as: expdir2017 extaud2017, incert2017, forinp2017, custrtrade2017 are used as the respective correlation coefficients are less than 0,8 (Table2).

Table 2. Correlation matrix on indicators representing inclusion of countries into global economy

	web2011	web2017	expdir2017	forinp2011	forin2017	extaud2017	intqcert2011	inqcert2011	inqcert2017	forlict2017	perfirinp2017	custtrade2011	custrade2017	GVC2011
expdir2017		0,71												
forin2017		0,65	0,60											
extaud2011	0,54			0,57										
extaud 2017		0,61			0,56									
inqcert2011	0,68					0,51								
inqcert2017		0,79	0,64											
forlict2011	0,51							0,56						
forlict2017		0,64			0,54		0,57		0,55					
percfirinp2011	0,60			0,91		0,70								
perfirinp2017		0,75	0,61		0,96		0,64		0,51	0,62				
custrade2017					0,58		0,55				0,61			
accfin2011												0,68		
accfin2017					0,61		0,53				0,64		0,84	
GVC2017														0,99

Source: estimated by author with the use of Stata10.

Thus, Table 3 represents OLS estimation results for the dependence of countries' inclusion to global value chains on indicators describing local firms' openness to global economy.

Table 3. Dependence of inclusion into global value networks on openness of countries' firms to global markets in 2012-2017.

*gvc2017=const+b*expdir2017+b*forin2017+b*extaud2017+b*inqcert2017 +b*forlict2017+b*custrade2017+b*gvc2011*

Source	SS	df	MS		Number of obs	92
					F(7, 84)	=11679.98
Model	1.0172e+18	7	1.453,10E+18		Prob > F	= 0.0000
Residual	1.0451e+15	84	1.244,10E+14		R-squared	= 0.9990
					Adj R-squared	= 0.9989
Total	1.0182e+18	91	1.118,90E+17		Root MSE	= 3.5e+06
gvc2017	Coef.	Std. Err.	t	P>t	[95% Conf.	Interval]
expdir2017	-213783.5	118352.1	-1.81	0.074	-449139.6	21572.72
forin2017	34497.09	30964.07	1.11	0.268	-27078.35	96072.53
extaud2017	39155.59	20124.1	1.95	0.055	-863.3905	79174.57
inqcert2017	82589.85	48551.96	1.7	0.093	-13961.04	179140.7
forlict2017	-63749.99	52284.67	-1.22	0.226	-167723.8	40223.81
custrade2017	-27225.7	42238.16	-0.64	0.521	-111220.9	56769.51
gvc2011	1.059177	.0045712	231.71	0.000	1.050087	1.068268
_cons	-2236305	649226	-3.44	0.001	-3527362	-945248

Source: estimated by author in Stata10.

Model was modified via including of gvc2011 into regression, as in the first appearance the explicative power of model was too low. While in current case R-squared is high (0.99) signifying high fit of the model. The coefficients before such indicators, as: the share of sales exported directly in 2017, share of firms having international quality certificates both in 2011 and 2017, inclusion into global value chains in 2011, -are significant and have right signs, the same is true for constant. The constant takes negative value showing that without influence of all indicators the inclusion of countries into global value chains in 2017 would take opposite direction.

For comparison purposes lets perform the same type of analysis for GVC2011 (Table 4).

Table 4. Dependence of inclusion into global value networks on openness of countries' firms to global markets in 2005-2011

*gvc2011=a+b1*web2011+b2* forinp2011+b3* extaud2017+b4* inqcert2011+b5* forlict2011 +b6*custtrade2011+b7* accfin2011*

Source	SS	Df	MS		Number of obs	= 92
					F(7, 84	= 2.24
Model	1.4144e+17	7	2.026,00E+16		Prob > F	= 0.0391
Residual	7.5924e+17	84	9.038,60E+16		R-squared	= 0.1570
					Adj R-squared	= 0.0868
Total	9.0068e+17	91	9.897,60E+16		Root MSE	= 9.5e+07
gvc2011	Coef.	Std. Err.	T	P>t	[95% Conf.	Interval]
web2011	373538.7	671495.5	0.56	0.579	-961803.8	1708881
forinp2011	-1147946	667881.6	-1.72	0.089	-2476102	180209.8
extaud2011	-442677.4	543119.8	-0.82	0.417	-1522731	637375.9
inqcert2011	-92400.55	1421592	-0.06	0.948	-2919392	2734591
forlict2011	-448022	1295918	-0.35	0.730	-3025098	2129054
custtra~2011	-229488.2	1176971	-0.19	0.846	-2570024	2111047
accfin2011	-690759.4	786551.1	-0.88	0.382	-2254902	873383.8
_cons	1.05e+08	2.38e+07	4.41	0.000	5.77e+07	1.52e+08

Source: estimated by author in Stata10.

To avoid multicollinearity problem some indicators was also excluded from consideration. This model has low explicative power (0.16) and only two coefficients are statistically significant (that of the share of foreign inputs in total inputs in 2011 and of constant value). An increase in the share of foreign inputs in total inputs by 1 p.p. was leading to decrease in country's participation in GVC by average 1148 USD mln prior 2011.

To compare, once we include gvc2005 indicating country's inclusion into global value networks, we get considerably higher R-squared (Table 5).

Table 5. Dependence of inclusion into global value networks on openness of countries' firms to global markets in 2005-2011

*gvc2011=a+b1*web2011+b2* forinp2011+b3* extaud2017+b4* inqcert2011+b5* forlict2011 +b6*custtrade2011+b7* accfin2011+b8*gvc2005*

Source	SS df		MS	Number of obs	= 92
				F(8, 83)	= 580.08
Model	8.8486e+17	8	1.16,10E+18	Prob > F	= 0.0000
Residual	1.5826e+16	83	1.96,70E+15	R-squared	= 0.9824
				Adj R-squared	= 0.9807
Total	9.0068e+17	91 9.8	9,76E+17	Root MSE	= 1.4e+07

Source	SS df	MS			Number of obs	= 92
gvc2011	*Coef.*	*Std. Err.*	*t*	*P>t*	*[95% Conf.*	*Interval]*
web2011	-74882.57	97794.04	-0.77	0.446	-269391	119625.8
forinp2011	118603.7	99103.11	1.2	0.235	-78508.37	315715.9
extaud2011	22039.94	79234.64	0.28	0.782	-135554.6	179634.4
inqcert2011	-192399.9	206482.5	-0.93	0.354	-603085.2	218285.4
forlict2011	230207.5	188536.2	1.22	0.226	-144783.4	605198.3
custtra~2011	114608.7	171035.5	0.67	0.505	-225574.1	454791.4
gvc2005	2.627729	.0420833	62.44	0.000	2.544027	2.711431
_cons	-1.04e+07	3922555	-2.64	0.010	-1.82e+07	-2567370

Source: Source: estimated by author in Stata10.

In this case, any of the coefficients, unless those before gvc2005 and constant, is statistically significant. Still the signs before statistically significant coefficients are the same as in model estimated for 2017. Higher coefficient before gvc2005(Table5) than before gvc2011 (Table4) evidenced for the lower pace of getting involved into global economy, meaning that the biggest expansion occurred before 2011. This evidence supports the results obtained in Kobylianska (2019), especially taking into account the fact that biggest economies experienced decrease in GVC participation after 2018.

To elaborate on our analysis lets' test how progress in countries' GVCs participation depends on changes in indicators describing local firms' openness to global economy (Table 6). For this additional growth indicators for GVC from 2017 to 2011- GVC71, share of foreign inputs in total inputs (grforinp), percent of firms having international certification (grinqcert), external auditing (grextaud), foreign llicensed technology (grforlict), percent of firms having personal web-site (grweb), percent of firms reporting customs and trade obstacles as important challengies in conducating international activities (grcusttr) and GVC growth from 2005 to 2011 (gr15).

Table 6. Estimating development of GVCs' participation

Source	SS df	MS			Number of obs	= 75
					F(7, 67)	= 3.63
Model	.1254	7	.01791		Prob > F	= 0.0022
Residual	.3304	67	.00493		R-squared	= 0.2752
					Adj R-squared	= 0.1994
Total	.4558	74	.0061		Root MSE	= .07022
gvc71	Coef.	Std. Err.	t	P>t	[95% Conf.	Interval]
grforinp	.0542039	.0234437	2.31	0.024	.0074101	.1009
grextaud	.0239985	.0191799	1.25	0.215	-.0142846	.0622

Source	SS df	MS			Number of obs	= 75
grinqcert	-.0023065	.0154708	-0.15	0.882	-.0331862	.0285
grcusttr	-.0093953	.0167548	-0.56	0.577	-.042838	.0240
grforlict	-.0049565	.0091847	-0.54	0.591	-.0232893	.01337
gr15	-.0217145	.0150523	-1.44	0.154	-.0517591	.00833
grweb	.0090638	.0154504	0.59	0.559	-.0217754	.0399
_cons	.976733	.0341514	28.60	0.000	.9085664	1.0449

Source: Source: estimated by author in Stata10.

R-squared equals 0,28 which is considerable low, still growth in share of foreign inputs used in production positively influenced expansion of GVC between 2011 and 2017 (1 p.p. increase led to additional 0,05 change in growth of GVC).

Testing probability of being included into mega-regional unions on GVCs participation. Basing on previous results, claiming that the correlation links are more tough in case of GVC and number of RTAs in next periods than in case of GVC and number of RTAs in current period, let's test the hypothesis that gvc's expansion leads to the creation of mega-regions. As gvc2017, gvc2011 and gvc2005 are highly correlated (correlation coefficient are even higher than 0.99), lets' first test probit model of probability entering in mega-regions on GVC in different periods.

Table 7. Dependence of mega-regions existence on member-country's inclusion into global value networks in different periods- probit models testing

	Megaregion (1)	Megaregion (2)	Megaregion (3)
Gvc2017	6.36e-10		
Gvc2011		1.94e-09	
Gvc2005			2.39e-09*
Log likelihood	-57.66	-57.55	-56.69
Prob > chi2	0.1336	0.1166	0.0408
Pseudo R2	0.0191	0.0209	0.0356
Number of observations	92	92	92

Source: estimated by author in Stata10.

It is evident that the deepness of inclusion into global value chains only in 2005 has an effect on the fact of being mega-regional country-member (the coefficient is statistically significant ofr 2005 , not for 0211 and 2017) meaning that more distant in time GVCs' participation has more influence on being mega-regional member.

Table 8. Dependence of mega-regions existence on progress in member-country's participation in global value networks - probit models testing (marginal effects).

	Megaregion (1)	Megaregion (2)	Megaregion (3)
GVC change during 2017 -2011	2.02**		
GVC change during 2011-2005		.04	
GVC change during 2017-2005			.11

Source: estimated by author in Stata10.

The models testing results showed that change in GVC between 2011 and 2017 has positive significant effect over possibility of being mega-regional member. If we compare this to the results of previous model, we can conclude that changes of 2005 influenced general global economic landscape, having a prolonged impact over 2011, while drastic changes appeared between 2011 and 2017.

To support the results obtained lets' take into account country and regional specifics and test our model for separate megaregions (TTP, TTIP, SHOSS, BRICS, RCEP, EU) (Table 9).

Table 9. Dependence of specific mega-regions existence on member-country's inclusion into global value networks- probit models testing (marginal effects).

	TTP	TTIP	SHOSS	BRICS	RCEP	EU
gvc2017						
gvc2011						
gvc2005	9.84e-10	1.01e-09	1.51e-09*	6.3e-10	3.44e-09**	9.94e-10
Log likelihood	-11.49	-30.46	-29.29	-4.88	-25.21	-34.78
Prob > chi2	0.0016	0.1280	0.0307	0.0008	0.0007	0.1934
Pseudo R2	0.3013	0.0366	0.0738	0.6309	0.2515	0.0237
Number of observations	92	92	92	92	92	92

Source: estimated by author in Stata10.

Table 9 represents the results of separate testing of the fact of being member of some of mega-region on the deepness of country's inclusion into global value networks in 2005. Only SHOSS and RCEP membership showed being dependent on gvc2005 at statistically significant level supporting the idea of active development of both mega-regionalism and global value chains in Asian region. The impact is rather low, however it exists.

Table 9. Dependence of specific mega-regional unions existence on progress in member-country's participation in global value networks – probit models testing (marginal effects).

	TTP	TTIP	SHOSS	BRICS	RCEP	EU
GVC change during 2017 -2011		.87**			1.29***	.97**
GVC change during 2011-2005						
GVC change during 2017-2005			.07 *		.079*	

Source: estimated by author in Stata10. Note only statistically significant results are repoted.

As expected, in most of the cases (TTIP, RCEP, EU) we got positive statistically significant results for growth in GVCs' participation between 2017 and 2011, as well as support for our hypothesis on importance of GVCs' participation in 2005.

To conclude on results obtained, lets' test the reverse relationship between mega-regional functioning and GVC's participation. To start with we need to test future models' parameters for possible multicollinearity (Table 10).

Table 10. Correlation matrix on indicators representing the inclusion of countries into mega-regional unions and global value networks.

	gvc 2017	gvc 2011	gvc 2005	Mega-region	TTP	RCEP	BRICS	SHOSS
gvc2017	1							
gvc2011	0.99	1						
gvc2005	0.99	0.99	1					
Mega-region	0.16	0.17	0.23	1				
TTP	0.54	0.54	0.53	0.07	1			
TTIP	0.12	0.13	0.18	0.49	-0.07			
RCEP	0.41	0.41	0.43	0.45	0.25	1		
BRICS	0.64	0.65	0.62	0.13	0.26	0.12	1	
SHOSS	0.33	0.33	0.29	0.42	0.10	0.19	0.33	1

Source: estimated by author.

Correlation analysis results showed that we could've expect existence of influence of TTP and BRICS over GVC inclusion, at the same time we could not include these indicators simultaneously into the model as independent variables as respective correlation coefficients between them are higher than 0.5 (marked grey). The same is true for simultaneous use of EU and TTIP in model.

At first step, we regress gvc2017, gvc2011, gvc2005 on "megaregion" variable- in each of three cases we got extremely low explanative power of models and insignificant coefficients before independent variable, notifying that fact of being member of mega-regional unions does influence inclusion into GVC, at least directly. Thus, our previous conclusions on absence of reverse influence of megaregional over GVCs are reliable.

Once we include into the model variable indicating previous deepness of inclusion into global value networks (such as GVC2011 while regressing GVC2017 or GVC2005 for GVC2011), we obtained that these variables alongside with "megaregional" variable both have significant impact over the next state of country's inclusion into global value networks (Table 11). The explanative power of models increases by almost 33% (e.g. comparing equation 3 to 4 and equation 7 to 8).

Table 11. OLS-testing dependence of deepness of inclusion into global value networks on membership in mega-regions.

	gvc2017 (1)	*gvc2017 (2)*	*gvc2017 (3)*	*gvc2017 (4)*	*gvc2017 (5)*	*gvc2011 (6)*	*gvc2011 (7)*	*gvc2011 (8)*
gvc2011	1.06**			1.06**				
gvc2005		2.77***			2.77***	2.61**		2.62***
megaregion	-1774368*	-1.38e+07***				-1.14e+07**		
TTP			1.77e+08**				1.66e+08 ***	
TTIP(EU)			7.72e+07**	-1553529	-1.92e+07***		7.42e+07***	-1.69e+07***
SHOSS			3.67e+07	918532.5	1.35e+07 **		3.32e+07	1.16e+07**
BRICS			2.97e+08**				2.82e+08***	
RCEP			8.94e+07**	241153.4	-1.11e+07*		8.39e+07***	-1.11e+07**
_cons	-619736.6	-496093.8	-7564556	-1109902 **	-3183284	71804.71	-6109555	-1961916
Prob > F	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
R-squared	0.99	0.99	0.68	0.99	0.97	0.98	0.67	0.98
Number of observations	92	92	92	92	92	92	92	92

Source: estimated by author in Stata10.

At the same time variable megaregion has negative sign meaning that inclusion into mega-regional union has rather negative effect, possibly testifying for erosion of the need to cooperate internationally in production process while the external markets are free for access. Another interesting result is that GVC2005 has higher coefficient than GVC2011, supporting previous results of bigger power of more remote developments.

Moreover, in case of gvc2017, once gvc2011 is included all other coefficient became insufficient, allowing us concluding that gvc2011 captures all country-specific effects (compare models 3 and 4). The same is not true than we include gvc2005 into the models, both while regressing gvc2017 and gvc2011 on gvc2005 and mega-regional dummies (models 4 and 5 and 7 and 8).

Meaning that prior 2011 countries' specific characteristics had influence over their inclusion into global value chains.

It should be noted that the coefficients obtained are pretty similar for gvc2017 and gvc2011- to confirm this statement please consider models (3) and (7), (2) and (6), (5) and (8): the coefficients are almost equal (for 2017 are higher than for 2011); signs before coefficients are the same, the fact of being included or possibility of being included into TTIP and RCEP has both negative effect over GVC's participation in 2017 and in 2011.

Nevertheless, we could not claim existence of mutual dependence of GVC and mega-regional unions as without using previous values of GVC the respective coefficients are insignificant. The change in significance is mostly driven by specific characteristics of countries included into consideration and captured by "mega-regional variable" (e.g. it could be GDP volume and growth, volume of FDI etc.).

To end up out consideration lets test the degree of being included into GVC on respective progress prior reporting year (Table 12).

Table 12. OLS-testing dependence of deepness of inclusion into global value networks on previous progresses

	gvc2011 (1)	P>t	gvc2017 (2)	P>t
GVC growth 2011 to 2005	1.05e+07	0.584		
GVC growth 2017 to 2011			1.63e+08	0.253
megaregion	3.49e+07	0.116	2.75e+07	0.265
_cons	-3445196	0.939	-1.37e+08	0.323
Prob > F	0.0321		0.1615	
R-squared	0.0101		0.0406	
Number of observations	91		91	

Source: estimated by author in Stata10.

Both models have low explanative power, unlike in Table 11 both coefficients before mega-regional dummy and GVCs' growth indicators are statistically insignificant supporting our assumption on importance of country specific characteristics and their change as a result of GVCs inclusion or mega-regions participation.

Table 13. OLS-testing dependence of progress in deepness of inclusion into global value networks on previous progresses

	GVC growth 2017 to 2005 (1)	GVC growth 2017 to 2011 (2)
GVC growth 2011 to 2005	.9880682***	-.0018654
ttp	-.0412594	-.0199676
ttip	.1441485**	.0669722**
brics	.0325456	-.0023587
rcep	.2183186***	.0955117***
shoss	.0142699	.0191761
_cons	-.0457281	.9715018***
Prob > F	0.0000	.0058
R-squared	0.9049	0.1905
_cons	91	91

Source: estimated by author in Stata10.

Model (1) has high explanative power (0.9), as in case of table 11 previous progress in GVC participation and fact of being possible member of TTIP and member of RCEP has positive impact over GVC growth between 2017 and 2005.

Conclusions

Current research showed high degree of dependence of global value networks functioning on firms' openness to global economy as well as positive influence of GVCs' country participation over probability of being included into mega-regional agreement.

Specifically, it was shown that in 2017 GVCs' participation was negatively dependent on share of foreign inputs in total inputs and positively dependent on previous participation in GVC. The same is true for GVCs' participation in 2005.

Higher coefficient before gvc2005 than before gvc2011 (Table4) evidenced for the lower pace of getting involved into global economy, meaning that the biggest expansion occurred before 2011. Testing growth in GVCs' participation between 2011 and 2017 on respective set of indicators related openness to globnal economy, it was shown that the model has low explanative power, thus this issue should be elaborated in further researches.

As a results of probit modelling, it became evident that the deepness of inclusion into global value chains only in 2005 has an effect on the fact of being mega-regional country-member (the coefficients are statistically significant in model for 2005 indicator , not for 2011 and 2017) meaning that more distant in time GVCs' participation has more influence on being mega-regional member.

The models testing results showed that change in GVC between 2011 and 2017 has positive significant effect over possibility of being mega-regional member. Separately testing the fact of being member of some of mega-region on the deepness of country's inclusion into global value networks in 2005, we got that only SHOSS and RCEP membership showed being dependent on GVC in 2005 at statistically significant level supporting the idea of active development of both mega-regionalism and global value chains in Asian region. The impact is rather low, however it exists.

As expected, in most of the cases (TTIP, RCEP, EU) we got positive statistically significant results for growth in GVCs' participation between 2017 and 2011, as well as support for our hypothesis on importance of GVCs' participation in 2005.

While testing for reverse relationship between mega-regional functioning and GVC's participation, we concluded on the fact that dummy "megaregion" captures country specific characteristics, as used solely without additional independent variables this dummy has not statistically significant effect for GVCs' functioning neither in 2017 nor in 2011.

The research results are limited to countries under consideration and models used. Further researches could be concentrated on the elaboration of mutual dependence of GVCs and mega-regionals. It is suggested to include time variable indicating moment of being included into mega-regional union in order to test the instant effects over global value networks functioning. Moreover, it is advised to instrument dummy variable "megaregion" by country related economic indicators (GDP, FDI, etc.) to see whether it make difference over regression results.

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PAPER

Public Debt and Economic Growth in the Western Balkan Countries

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Abstract The paper empirically examines the relationship between public debt and economic growth in the Western Balkan countries during the period from 1995 to 2017 (both years inclusive). The study attempts to identify and determine the threshold values or the extent to which public debt-to-GDP ratio has a positive effect on economic growth, and beyond which point debt has a negative effect on the economic growth in Western Balkans countries. For this purpose, we employ different econometric models and techniques such as pooled OLS, fixed and random effects models, and GMM (Generalized Method of Moments). The results are consistent with the theoretical hypothesis that lower level of public debt has a positive effect on economic growth, and beyond certain threshold level it inverts into a negative effect on economic growth. The results show that the debt-to-GDP ratio t*urning point is between 50% and 60%, which means that any increase of public debt up to this point has a positive impact on economic growth, however, it inverts to a negative effect beyond this point.* The findings of this study are useful for governments of Western Balkans countries, since it provides them with useful information about the level of public debt, i.e. the point at which the positive effects of public debt on economic growth turn negative.

Keywords: Economic Growth, Public Debt, Turning Point, Panel Date, the Western Balkans.

JEL Classification: E60, E69, E011, H63

1. Introduction

There is a mountain of empirical studies that have investigated the relationship between public debt and economic growth. However, the empirical evidence is still inconclusive and debatable regarding the threshold of the public debt. Most of the

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studies show that lower public debt or debt below a certain threshold value has positive effect on economic growth (Reinhart and Rogoff 2010, Baum et al. 2013, Woo and Kumar 2015, Taylor et al. 2012, Irons and Bivens 2010, Pescatori et al. 2014, Rankin and Roffia 2003). Surprisingly, only a few studies have examined the issue of public debt, and how the threshold value of public debt affects economic growth in transition countries, particularly in Western Balkan countries (Mencinger, Aristovnik &Verbic, 2015; Checherita & Rother, 2010). Western Balkan countries have been faced with several problems including war, political instability, hyperinflation, high public debt and the collapse of their financial sector. In the process of transitioning, these countries now offer an interesting case study, particularly with regard to relationships between publc debt and economic growth. Therfore, the aim of this paper is to examine the public debt threshold value and its effect on economic growth in the Western Balkan countries. To examine the relationships between public debt and economic growth we propose the following research hypothesis:

H1: Debt-to-GDP ratio below certain point of threshold value for Western Balkan countries has a positive impact on economic growth.

H2: Debt-to-GDP ratio over certain point of threshold value for Western Balkan countries has a negative impact on economic growth.

To test the hypotheses we employ different econometric models and techniques such as pooled OLS, fixed and random effects model, and GMM (Generalized Method of Moments).The data, for this paper have been collected from World Bank (WB), International Monetary Fund (IMF), **European Union (EU), Open Data Portal** (EU ODP), and European Bank for Reconstruction and Development (EBRD).

The main argument for this study is that only a few studies have examined the threshold value of public debt and its effect on economic growth in Western Balkans countries, hence a gap exists in the literature that this study seeks to fill.

To summarize, the findings of this study show that the debt-to-GDP ratio t*urning point is between 50% and 60%, which means that any increase of public debt up to this interval has a positive impact on economic growth, and higher than this interval, the positive effect inverts and higher* debt-to-GDP ratio *has a negative effect on economic growth.* This means that any increase of public debt in Western Balkan countries up to 50% will positively impact economic growth. Another interesting issue is that, squaring debt will also negatively affect economic growth in the Western Balkan countries.

The reminder of this paper is organized as a follows: Section 2 reviews of literature; Section 3 presents research methodology and data; Section 4 provides the results and discussion, and Section 5 provides the findings and conclusion.

2. Literature Review

There are several authors who have examined the effect of public debt threshold value on economic growth, both developed, and countries in transition (Meade 1958, Checherita and Rother 2010, Baldacci and Kumar2010, Egert 2013, Wigger 2009, Baum et al 2013, Schclarek 2004, Modigliani 1961, Buchanan 1958, Adam and Bevan 2005). However, there are only few studies that have examined the public debt threshold value and its effect on economic growth in countries in transition, particularly the Western Balkan countries. Noted is the fact that the empirical evidence does show consensus relating to the public debt threshold value and its effect on economic growth. The study by Mencinger, Aristovnik, Verbic (2015) found that the public debt threshold in developed countries is ranged from 90% to 94%,which means that above this public debt threshold, it will have a negative effect on economic growth. However, the public debt threshold below 90% will have a positive effect on economic growth. In addition, the findings show that public debt threshold limit in developing countries is ranged from 44% to 45%, below this limit the public debt will have positive effects on economic growth, while above this limit it will have a negative impact on economic growth. These findings suggest that there is a difference between developed and developing countries with regard to the relationship between public debt and threshold value.

Checherita and Rother (2010) examined the public debt threshold in the EU countries and found that the public debt threshold value ranged from 82% to 91%. If the public debt is above this threshold, it will have a negative effect on economic growth in EU countries. On the other hand, if the public debt remains below the threshold value of 82%, it will have a positive impact on economic growth, and will foster the economic growth on these countries.

The study by Baum and Rogoff (2010) investigated the impact of public debt on real long-term GDP growth rates, taking into account a sample of 24 developing countries, over a period of nearly 200 years (1790-2010). They have found that the public debt may have positive effect on economic growth in the short run, while in the long run the public debt has been rated as negative by systematically curbing the growth and economic development of these countries. Baldacci and Kumar (2010) examined the impact of fiscal deficits and public debt on long-term interest rates during 1980–2008, taking into account a wide range of country-specific factors for a panel of 31 advanced and emerging market economies. The authors found that higher deficits and public debt lead to a significant increase in long-term interest rates, which in turn lead to decrease of economic growth.

Panizza and Presbitero (2014),and Afonso and Alves (2014) analyzed the linkages between growth, public debt and productivity in the 155 countries over the period 1970-2008. The authors found that there is a negative effect of debt ratio to GDP and financial crisis on economic growth. Afonso and Alves (2015) analyzed the effects of sovereign debt-to-GDP ratio on economic growth for 14 European countries over 43 years (1970-2012). The study concluded that government debt has a negative effect on economic growth, both, in the short and long-term. This contrast with Panizza and Presbitero (2013) who showed that there is no evidence that debt has an effect on economic growth and there are different ways through which a large public debt may harm the economy.

Ghosh et al. (2013) examined empirically a sample of 23 advanced economies over 1970–2007 and found robust empirical support for the fiscal fatigue characteristic. They found that the marginal response of primary budget balance to lagged debt is nonlinear, remaining positive at moderate debt levels but starting to decline when debt reaches around 90-100 percent of GDP. Furthermore, they found that the estimated debt limits and corresponding fiscal space vary considerably across countries. For example, the debt limit obtained for countries in the sample ranges between 150 to 250 percent of GDP, while the fiscal space estimates indicate limited or no available fiscal space for Greece, Iceland, Italy, Japan and Portugal, and ample space for Australia, Korea and the Nordic countries.

Gnegne and Jawadi (2013) analyzed public debt and its dynamics for the UK and the USA, and public debt proved to be asymmetric and nonlinear making the authors conclude that public debt seems to be based on several threshold effects, which helps to understand its dynamics with more accuracy. Schclarek (2004) found that a significant relation between the government debt and economic growth could not be identified for the industrialized countries. For the developing countries, low levels of external debt are associated with higher growth rates. The reverse, is not caused by private external debt, but rather by the incidence of public external debt.

To summarize, it is clear that a considerable number of studies have analyzed the effect of the public debt on economic growth in developed countries. However, there are very few empirical studies addressing the relationship between public debt and economic growth in countries in transition, especially in countries of the Western Balkans. This paper will attempt to contribute to the issue, by investigating how growth of public debt, will affect the economic growth in the Western Balkan countries. This research will also attempt to determine the optimal threshold value, and to what level does the increase of public debt to GDP ratio affects positively the economic growth of the Western Balkan countries.

3. Research Methodology And Data

3.1. Research Methodology

The empirical analysis contains panel data over the time period from 1995 to 2017 (approximately 22 years) for Western Balkans countries. These countries are Albania, Kosovo, Montenegro, Serbia, Macedonia, Croatia, and Bosnia and Herzegovina. The dynamic panel model (GMM) are employed to test the relationships between debt to GDP and GDP per capita and other independent variables in the Western Balkans. We apply Arellano and Bond (1991), Blundell and Bond (1998), Blundell and Bond and Windmeijer (2000) GMM estimator as it is proper estimator. The GMM procedure also allows us to control for problem of endogeneity bias caused by reverse causality running from GDP per capita to debt to GDP and other explanatory variables. In order to deal with endogeneity problem we employ instrumental variable (IV) or two steps GMM estimators instrumental (IV). It is relatively common practice with macroeconomics data to use the lagged debt to GDP ratio and the lagged debt to GDP ratio squared as instruments with two lags. This instrument has the advantage of not havening a direct causation effect on the growth rate, if it is assumed that there are not spillover effects between debt levels in Western Balkans countries. The endogeneity problem is also avoided in our specification because independent variables are all lagged 1 or 2 years compared to the dependant variable. For the comparison purpose, we apply and OLS, fixed effect model and random effect model. The reliability of the GMM estimator depends on the validity of its instrument sets. To address this issue, we consider two specification tests suggested by Arellano and Bond (1991), Arellano and Bover (1995), and Blundell and Bond (1997). The first is the Sargan test that tests the null hypothesis of over-identification restrictions apply or instruments as group are exogenous.

This test proves or rejects the overall validity of instruments by analyzing the sample analog of moment conditions used in the estimation process. The second test examines the null hypothesis that autocorrelation does not exist, which means that the error terms are not serially correlated. In the difference regression, we test whether the differenced error term is in first order or in second-order serially uncorrelated.

The specification of dynamic panel data model (GMM) is as follows:

$$GDP_{it} = \mu + GDP_{(It-1)} + B_1 DEBT_{it} + B_2 DEBT\_SQUARE_{it} + B_3 FINANCIAL\_CONSUM_{it} + B_4 EXPORT_{it} + B_5 DEFICIT_{it} + B_6 BRUTO\_SAV_{it} + B_7 CURRENT_{it} + B_8 FINAL\_GOVERNMENT \gamma_i + \delta_i + \gamma_i + \varepsilon_{it}$$

The dependent variable is GDP per capita growth rate for each country i and t represents years, μ is term of constant; explanatory variables include $GDP_{(It-1)}$ is the first lag of dependent variable, $DEBT_{it}$ is debt and $DEBT\_SQUARE_{it}$ represents debt square assuming a non-linear relationship between government debt and economic growth. Based on the theoretical assumption that the relationships between public debt and economic growth is non-linear, we expect lower debt to have a positive effect and debt in square to have negative effect on economic growth. We also include and control variables in order to enhance the performance of model and to provide robust result. The control variables are selected based on the main determinants of economic growth (see Sala-i-Martin, 2004; Kumar and Woo, 2010; Checherita and Rother, 2010). The control variables are final consumption, exports, deficit budget, gross savings, current account and government expenditures.

The term δ_i is the country fixed effect that enables us to control for time-invariant unobservable factors that may affect economic growth which otherwise may lead to bias coefficients. The term γ_i is the common time effect that covers business cycle effect which otherwise may lead to spurious regression between dependent variable and explanatory variables. The term ε_{it} represent standard error.

3.2. Descriptive Statistics

We provide summary statistics for the paper in Table 1. The tables A1 and A2 contain information on data and data source.

Table 1. Statistical description of exogenous and endogenous variables

Variables	OBS	Std.Dev	Min	Max
Gdp	137	9.6838	-12.1466	88.9577
Gdplag	117	10.39864	-10.2	88.9577

Variables	OBS	Std.Dev	Min	Max
Debt	137	25.92949	18.71	202.807
Debt_Square	137	5472.188	350.0641	41130.68
Exsport	137	9.203267	9.85325	49.3784
Final_Consum	137	12.46817	76.6059	138.533
Budget_Deficit	121	26.46458	-240.777	8.84207
Bruto_Saving	137	19.00817	-9.99257	180.22
Current_Account	137	23.31612	-194.547	87.8242
Final_Goverment_ Expenditure	137	4.808863	6.48292	29.9406

Source: Authors' calculations

4. Empirical Results

Table 2 shows the estimation results from equation (1). The results show that all calculated dynamic panel models are well modeled, as the coefficients of lagged real GDP per capita are statistically significant. Furthermore, the Sargan -test for identification restrictions in the presence of heteroscedasticity with the associated p-value which examines the validity of the instrumental variables is accepted (obtained in the second steps result) as healthy instruments for all estimated equations. Therefore, the results from GMM estimator proves the hypothesis that instrumental variables are not correlated with the set of residuals. As a result, Arellano – Bond test AR(1) and AR(2) tests with associated p-values are rejected in the first order while, it is accepted in the second order, which confirms that there is no autocorrelation in the second order between the errors term (by construction, the differenced error term is first-order serially correlated even if the original error term is not).

Both are asymptotically normally distributed. The confidence intervals (CI) of the debt turning point are generated through bootstrapping based on a normal distribution. The bootstrap method is based on simulations used to derive the coefficients and calculate the turning points. Confidence intervals are subsequently calculated based on the resulting distribution of the turning points. The result shows that turning points or threshold value is ranged in the intervals between 47 and 62 % of GDP.

Table 2. Results from regression analysis

Variables	OLS Model 1	Fixed Effects Model 2	Random Effects Model 3	GMM Model 4
Gdp_Lag	0.0203***	-0.041**	0.013**	-0.0419*
Se	(0.00598)	(0.00286)	(0.0076)	(0.00295)

Debt Se	0.014* (0.00816)	0.0849** (0.00170)	0.0183* (0.0076)	0.0846** (0.00215)
Debt_Square Se	-0.02* (-0.0004)	-0.04*** (-0.0075)	-0.002* (-0.001)	-0.0004** (-0.0001)
Export Se	-0.0257** (-0.0011)	0.7009* (0.00323)	-0.02** (-0.007)	0.0794* (0.00310
Final_Consum Se	0.0951** (0.0050)	0.1212* (0.004)	0.09*** (0.037)	0.1264** (0.006)
Budget_Deficit Se	-0.057* (0.00326)	-0.0975** (0.0045)	-0.06** (-0.002)	-0.089* (-0.0083)
Bruto_Saving Se	0.254** (0.001)	0.2355*** (0.000)	0.247* (0.000)	0.252*** (0.000)
Current_Account Se	-0.1524*** (0.000)	-0.1083** (0.000)	-0.14** (0.000)	-0.1064* (0.000)
Final_Goverment_ Exp Se	0.1081* (0.00615_	0.0979*** (0.00554)	0.096** (0.0063)	0.1382** (0.0465)
Constant Se	-12.4185** (0.157)	-19.64** (0.026)	-12.29* (0.145)	-- --
Observation	102	102	102	83
Arellano - Bond test for AR (1)	--	(0.000)	--	(0.000)
Arellano - Bond test for AR (2)	--	(0.363)	--	(0.363)
Sargan Test	--	-	-	(24.543)
$X^{2(56)prob}$				(0.8123)
Turning Point 95% CI bootstrap - normal-based CI				**53,37** **(47;62)**

Source: Authors' calculations

Note: GDP Per capita (Economic Growth) is a dependent variable. In all GMM regression are used with robust standard error. Robust standard error in parenthesis, *, **, ***, denote significance at the 10%, 5% and 1% respectively. Sargan test shows the p-value for null hypothesis of the validity of instruments (obtained second steps result). The AR (1) and AR (2) are p-values for first and second order of auto correlated of errors term (obtained in the second order). The confidence intervals (CI) of the debt turning point are generated through bootstrapping based on a normal distribution.

Table 2, shows the regression results. Applying different econometric techniques, the regression results show that all the models have almost same results regarding the effect of debt to GDP on GDP per capita growth. The important part of this research is the turning point of the public debt that is determined. The results show that the turning point of the effect of public debt to GDP ranged from 47% to 62%, more specifically, the turning point is 53.37%. An increase of debt to GDP over this limit would have a negative effect on GDP per capita in the Western Balkans. From the results of the GMM estimator (table 2), one will argue that if the debt to GDP is lower than the turning point, it will have a positive effect on GDP per capita in Western Balkan countries. Furthermore, Debt Square (debt^2) to GDP provides a non-linear impact of debt to GDP on GDP per capita in the Western Balkan countries, this produces a concave (inverted U-shape) relationship between the public debt and the economic growth. The coefficient is statistically significant. The result is consistent with result of Checherita et, al. (2010)

Based on the result, we find out that the turning point is 53.37%, which means that an increase of public debt to GDP below to this level (turning point) will have a positive impact on economic growth in Western Balkan countries. As results, supports H1 which is consistent with Keynesian Theory which posits that low level of public debt can lead to economic growth, but may be negatively influenced by the high level of public *indebtedness* which can be characterized by tax increases, fall in investment, and increased consumption spending. Based on the results of this study, we can conclude that, if public debt grows in Western Balkan countries for long periods, the effects will be negative on economic growth. This could occur because those countries are still in development stage and are facing with economic and financial instability.

Each excessive increase of public debt may exacerbate the economic system as well as economic growth in general. Based on the results, it can be seen that the threshold value or limit of the growth of public debt to GDP ranged from 47% up to 62%. So, the turning point is 53.73%, which means that overcoming of this level would have a negative impact on economic growth. So, the result supports H2.

As seen from the Table 2, export has a positive impact on economic growth in the Western Balkans countries. An increase of export by 1% its effect will be positive by 0.0794% on economic growth. Furthermore, if the final consumption increases by 1%, it will have a positive effect of 0.1264% on the economic growth. The budget deficit has a negative impact on economic growth and the coefficient is statistically significant. An increased budget deficit by 1%, it will have a negative impact on the economic growth by 0.089% in the Western Balkans countries. Current account has a negative impact on economic growth, whereas the gross saving has a positive impact on economic growth. These results are consistent with the theory of Harrod and Solow growth theory, which highlighted the positive impact of the gross savings on economic growth in the long term. In addition, government expenditures has a positive coefficient estimated by GMM estimator. If the government expenditures increased by

1% it will have 0.1382%effect on economic growth and the coefficient is statistically significant. The result is consistent with result of (Adam and Bevan (2005), Cohen (1993), Elmendorf and Mankiw (1999).

5. Conclusions

Applying different econometric techniques, we examined the relationships between public debt and economic growth in seven Western Balkan countries (Kosovo, Albania, Macedonia, Montenegro, Serbia, Bosnia and Herzegovina, and Croatia). This investigation produces evidence of a non-linear impact of public debt on per-capita GDP growth rate in Western Balkan countries. It produces a concave (inverted U-shape) relationship between the public debt and the economic growth rate with the debt turning point at about 47-62% of GDP. This means that a higher public debt-to-GDP ratio is associated, on average, with lower long-term growth rates at debt levels above the range of 47-62% of GDP. *On the other hand, if public debt to GDP is below the range of 47-62% of GDP is associated on average with higher long term economic growth in Western Balkan countries.* The public debt threshold values of 47-62% of GDP is an average for all the countries in the Western Balkans. The results suggest that for many countries current debt levels already may have a negative impact on GDP growth, given that the average debt-to-GDP ratio (estimated 65.8%) is by now higher the threshold value of 53.37% of GDP. This study provides an additional warning signal to policy-makers.

In addition, government budget deficit and current account are found to be linearly and negatively associated with the economic growth. The evidence that the change in the debt and the budget deficit are linearly and negatively associated with growth (and with the long-term interest rates) may lead to a more negative effect of the public debt even below the threshold value. Hence, targeting a higher debt level to support growth is not a policy option. The other control variables such as *final consumption, export and saving are found to be associated positively with economic growth in the Western Balkans countries. All the coefficients are statistically significant.*

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Annexes

Table A1. The Western Balkan countries

Countries of the Western Balkans
Albania
Kosovo
Macedonia
Montenegro
Serbia
Bosnia and Herzegovina
Croatia

Table A2. Description of the variables

Variables	**Code**
Economic Growth (% of GDP)	Gdplag
Public Debt	Debt
Debt Square	debt_square
Export	Eksport
Final Consum	final_consup
Budget Deficits	Deficit
Bruto Saving	bruto_saving
Current_Account	current_account
Government Expenditure	final_goverment_expenditure

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PAPER

Globalisation and the funding sustainability of the OECD welfare state

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Abstract Without any doubt, the relationship globalisation has with the welfare state size is a very controversial topic, especially after the 80ties, when globalisation took the high road and started drastically changing the world economies, policies and industries. Opening the economies, means opening them up to external pressures, generally and when it comes to wages, taxes and social expenditures. In many OECD countries, the welfare state is perceived as a main cause for the ineffectiveness of the economies, and as a disabler of the postulate of free market. But, these points of view, do not decrease the important role the welfare state actually has. The only thing they can actually change, in this constant fight for higher profits, is to affect the size the welfare states have, both on the sides of the revenues and expenditures. In this article we detect a negative relationship among globalisation and two types of tax revenues: tax on property and tax on payroll in the OECD for the observed period from 1980 to 2017. On the expenditure side, we detect a negative relationship among globalisation and the health expenditures. We as well find a present convergence of the welfare state sizes on the sample of the OECD countries. That is why, in the last part of this article, we overview the convergence in the European Union and the rest of the OECD countries.

Keywords: welfare, government policy, taxation, national government expenditures, globalisation.

JEL Classification: I310, I380, H20, H50, F60

Introduction

The principle goal of this article is to focus on the effect globalisation has on the funding capacity and sustainability of the welfare state through examining the relationship globalisation has with the revenue and expenditure size of the welfare side. To be able to disentangle the very complex relationship among the variables, we initially define the welfare state, we conduct historical overview on the welfare states and their different

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historical trajectories. There are many different reasons why the welfare states started existing, such as industrialization, modernization, different social classes, especially after the Great Depression and the Second World War (hereinafter WW2). It is a fact that the welfare state lived its greatest expansion after WW2, and had a pivotal role in the renewal of the world. After the WW2, the world has drastically changed, especially after the technological revolution in the end of the XX century. To be able to assess the impacts globalisation had on the size of the welfare state, we overview the changes on the expenditure and revenue side of the welfare size by country.

Rudra (2002) finds globalisation is positively correlated with the welfare expenditure size in the developed countries, but negatively correlated to the welfare expenditure size in the developing or non-developed countries. Moreover, Brady et al. (2005) claim that globalisation leads to demise of the welfare state under the pressures of the interconnected economies. Rodrik (2015) points out on the challenges international trade imposes on the social insurance. He finds that globalisation is creating pressures on the social welfare mechanisms through the pressures on the corporations through the decreased tax bases and hence tax revenues. A major dilemma Rodrik (2015) pointed out on, is the political legitimacy of free trade even if it erodes the social security and the sustainability of the respective national welfare states. And that is one of the major national political and strategic concerns. On the other hand, Blackmon (2006) finds that the increasing economic interdependence is positively correlated to the increase of social security demand and hence increase of the revenue side of the social welfare. As we can see, literature shows different results about the relationship globalisation has with welfare revenues and welfare expenditures. That is why, in the central part of the article we conduct a panel data analysis of the welfare state size in the OECD countries.

The last part of the article focuses on the future perspectives of the welfare states, given that the economic globalisation is increasing in a faster pace, than the political globalisation. If the world continues being more globalised, it is expected that the welfare states will start looking more alike. From the citizen's perspective, higher taxes and social security contributions are never a popular political choice. But, on the other hand, when unpredictable events occur, such as the latest COVID-19 pandemic, the role of the state is increasingly important, and necessary to maintain the liquidity of the national economies. That is why, it is crucial to maintain stable funding of the welfare states in the times of prosperity, even at the cost of losing political points and popularity.

Defining the welfare state

The biggest expansion of the welfare state through social benefits and contributions occurred in the period from 1950-1970, mainly due to the high level of economic development and the political climates in the respective countries (social democratic governments or conservative centrist governments). Due to the different historical development of the welfare states, they oftentimes solve similar problems in a different way (Baldwin, 1996).

The most used theoretical classification of welfare states is defined by Espring-

Andersen (1990). The classification is based on the welfare state-regimes and incorporates the institutional schemes, political decisions and the historical differences among the states. It consists of the:

- Liberal (provide universal social transfers and modest social-insurance plans with the intention to help low income households),
- Corporatist (focus on maintenance of the different statuses in society, by only focusing on social insurance) and
- Social Democratic (focus on social equality for all, by introducing universal insurance scheme, but founding benefits on income differences) welfare state types.

In addition to these country groups, we detect the: hybrid type of welfare state (Liberal-Corporatist), Central and Eastern European type of welfare states, and Southern European type of welfare states among the OECD countries. The different historical and political features of the OECD welfare states, lead to different expectations about the future of the welfare state. These expectations change in time, due to the different economic circumstances and the global economic performance. Of course, this performance is interconnected to the political decisions within countries and the global political and economic influences.

Welfare state: role and size

The welfare state can be perceived as one big umbrella of social policies and programs whose aim is to decrease income inequality, reduce poverty and social exclusion of individuals. That goals are achieved by management of the countries' fiscal policy (government revenues and expenditures), and income redistribution. That being said, the income redistribution through the social expenditures is perceived through two lenses: 1) As a mechanism for providing public services and 2) As a mechanism for building societies that will be less dependent on social welfare in the future.

Taxes are the main source of governments' revenues and hence the funding of the welfare states and public services. That is why, the taxation policies were an important instrument in achieving the goals of the welfare states. The reforms in the taxation systems incorporated high marginal taxes and high amounts of investment stimulations to enforce the power of the expansive fiscal policies (Swank and Steinmo, 2002).

Tax revenues as % of GDP is an indicator of the size of the welfare state. On Table 1 below, we display the Tax revenues as % of GDP, to be able to detect which countries and which groups of countries have undergone biggest changes on the revenues side. The biggest change can be detected in the Southern group of countries, starting from Greece, where the tax revenue increased by 18 p.p., followed by the rest of the Southern European countries. This is a result of the improvement of the quality of their fiscal policy and control as a result of them joining the European Union. The biggest tax revenues decrease in the observed period occurred in Ireland, as a result of its "tax heaven" policies and strategy. Moreover, the biggest tax revenue as % of GDP in 2017 is detected in France, whereas the lowest is detected in Mexico, a country that fights to create a stable fiscal system based on Liberal premises. On the sample level, we calculate mean and standard deviation both for the first and last year of observation. The average tax revenues as % of GDP increased in the observed time, whereas the standard deviation decreased, signalling a convergence of the sizes of the welfare states in the OECD, when it comes to the revenues side.

Table 1. Changes in Tax revenues as % of GDP in OECD countries

Country	1980/ 1995[1]	2017	Changes
CEE	38.01	35.31	-2.69
Corporatist	37.75	41.52	3.77
Liberal	27.34	27.44	0.10
Liberal-Corporatist	26.80	34.44	7.64
Social Democratic	35.94	38.95	3.01
Southern European	21.10	35.10	14.00
Mean	**31.15**	**35.46**	
St. deviation	**6.43**	**4.37**	

Source: OECD data base.

[1] For the CEE group of countries, we use 1995 as a starting year, given that these countries were not independent in 1980.

The other side of the welfare state size is the side of the government expenditures as a % of GDP. Table 2 below, presents the changes among the total government expenditures on healthcare, pensions, public unemployment support, social benefits to households and social security from the 1980ties or 1995 to 2017.

Table 2. Changes in Government expenditures as % of GDP in the OECD countries

Countries	1980/1995	2017	Changes in p.p.
CEE	36.52	32.91	-3.61
Corporatist	27.27	36.64	9.38
Liberal	13.73	21.58	7.85
Liberal-Corporatist	15.79	34.17	18.39
Social Democratic	13.40	26.52	13.12
Southern European	18.21	32.11	13.90
Mean	**20.82**	**30.66**	
St. deviation	**8.42**	**5.08**	

Source: OECD data base.

The biggest changes in the government expenditures as well occurred in Greece and

Italy, as a result of the immense financial debt problems they had, during the recession of 2008. The big change in South Korea's expenditure by 18 p.p. is a signal of the shift in their fiscal policy. Namely, according to Kuhnle (2004) after the South-Asian financial crisis in 1997, started implementing reforms, which predictably can lead to a welfare state system similar to the social democratic system of the Nordic European countries. The biggest decrease in government expenditures within the observed period occurred in Poland, a transition economy where the social system went through structural changes. The Hungarian economy went through the same reforms and decreased its government expenditures by 7p.p. The countries with the highest amount of government expenditures as % of GDP are: France, United States, Germany, Finland, Italy and Slovenia.

According to an assessment conducted by the European Commission in 2015 about the quality of the welfare states and their capacity on implementing reforms, the French, German and Italian welfare states were graded among the most successful countries when it comes to implementing welfare reforms, and the sustainability of the welfare systems. Italy, on the other hand has a big welfare state expenditure, but its welfare state is characterised as fragmented and functionally biased, especially towards the senior age citizens. Despite the high expenditures, the Italian healthcare system has noted malfunctions in the universality of the system and in the selectivity to target the segments of society, which are in need for state help and low degree of service provision and overall income inequality.

On the whole sample level, we calculate the standard deviation and mean for the first and last observed year. We find that the standard deviation decreased in the case of expenses as well, signalling a welfare state convergence in the segment of welfare expenditures as well. The mean of the sample increased, signalling that the average welfare expenditure size increased as well.

Globalisation and the welfare state size: hypothesis testing

Throughout empirical and theoretical researches we find three different approaches which define the relationship among globalisation and the welfare state:

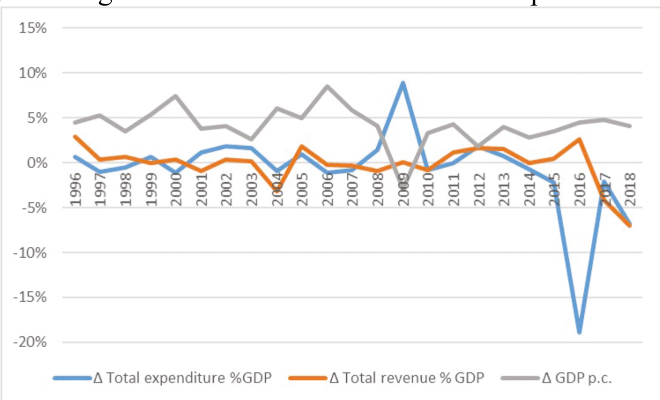
1. According to Scharpf (1994), globalisation changes the structures of the economies imposes pressure on the welfare state as a result of the increased international competition.
2. Garrett (1998) conducted a research on OECD countries in the 80ties and mid-90ties and found that even though globalism and economic interdependence among countries increased, the size of the welfare states did not decrease, which means that globalisation did not impose any pressure on the welfare state. He, as well finds that there was no race to the bottom (decreasing of taxes and other benefits) in the observed period and no impact from globalisation's side on the national fiscal policies.
3. In addition, the revisionist school (Rieger and Leibfried, 2003) claims that the problems with the welfare state are internally created, and that globalisation is a reaction and part of the solution to reform the existing ineffective welfare

states. Their study finds the claims that governments' power decreased with globalisation are not correct, as the importance of governments has increased as a result of the political and economic interdependence among countries.

Why are there concerns that globalisation pressures the welfare state's size? The welfare states redistribute income between generations (pensions) or within the income distribution (between the richer and poorer segments of society). The first challenge for this role is the tax competition (run to the bottom) in open economies. Why is this the case? Firstly, if the national companies are more taxed when working and investing at home, they will shift their production abroad, due to the capital mobility. Secondly, foreign companies will be de-stimulated to invest in countries, in which they will be highly taxed. So, the national economies do not have any additional option, but to decrease national taxes and hence have decreased tax revenues. The decreased tax revenues limit the welfare state in compensating the loosing parties of globalisation: the bottom income parts of the population, the unemployed, the uneducated, the sick, the retired.

Graph 1 demonstrates that the tax revenues and the government expenditures are in an inverse relationship, which is especially visible during the economic crisis in 2008, where there was a drastic increase of the economic expenditure to compensate the most vulnerable segments of society. When the OECD economies started stabilizing after 2013, the government expenditures drastically decreased. If we assume that the current COVID-19 crisis will greatly affect the fall of the GDP rate (estimated fall of global GDP by 2.4%), we can expect an even worse scenario in the tax revenues and their redistribution. Ironically, in the times when the demand for social welfare is biggest, the ability of the welfare state to provide supply of social services is limited.

Graph 1. Changes among the welfare state size and the GDP p.c.



Source: Own work.

To be able to analyse the relationship globalisation has with the welfare state size we set the following hypotheses:

H1: Globalisation is positively correlated to the revenues side of the welfare state;

H2: Globalisation is positively correlated to the expenditures side of the welfare state.

Based on the set hypotheses we develop the following models where i represents country and t represents year.

H1: KOF Globalisation index$_{i,t}$ = Tax Revenues $_{i,t}$ + Tax on Property$_{i,t}$ + Tax on Personal Income$_{i,t}$ + Tax on Payroll$_{i,t}$ + Tax on Corporate profit $_{i,t}$ + Social security $_{i,t}$ + Unemployment rate $_{i,t}$ + lnGDP p.c. $_{i,t}$ + error term$_{i,t}$..

Globalisation is measured through the Swiss Institute Globalisation index: KOF, which is a synthetically calculated index incorporating the social, political and economic aspects of globalisation. The KOF index is the dependent variable of the model. The tax types and the macroeconomic indicators GDP p.c. and Unemployment rate are independent, explanatory variables in the model.

From Table 4 and Graph 2, we find, that the independent variables explain globalisation by 87%. We apply panel data analysis and after conducting a Hausman test, we find that Random effects model is the suitable model to be used. To be able to test the direction of the Granger causality, we conduct a panel Granger causality test on bi-variable level.

There is a positive statistically significant correlation coefficient between the total tax revenues (proxy variable to the size of the welfare state). That means that the higher the total tax revenues, the more globalized the OECD economies are. For this relationship, the Granger causal relationship is from globalisation to the total tax revenues. This is consistent with Rodrik (1998) who finds that more open economies have bigger government sizes. We find a negative statistically significant relationship among globalisation and the taxes on property and payroll. This means that when the size of these taxes as % of GDP decreases, the globalisation increases. But, to be able to test the "race to the bottom" hypothesis, we must detect a causal (or in our case Granger causal) relationship among globalisation and the negatively correlated tax types directed from globalisation to the tax type. For the relationship among globalisation and tax on property, the direction of the Granger causality is from tax on property to globalisation. For the relationship among globalisation and the taxes on payroll, we find that the direction of the Granger causal relationship is from the taxes on payroll to globalisation.

Graph 2. Relationship among Globalisation and Total tax revenues as % of GDP.

Source: Own work.

Table 4. Results overview of the first hypothesis (Random effects, p value, standard error)

Variable	Random effects	$R^2 = 0.87$	
KOF Globalisation index	**Coefficient**	**P - value**	**St. Err.**
Tax revenues	0.221	0.001	0.06
Tax on property	-1.723	0.000	0.27
Tax on Personal Income	-0.301	0.734	0.09
Tax on Payroll	-0.854	0.003	0.28
Tax on Corporate profits	-0.006	0.959	0.12
Social security contributions	0.196	0.010	0.07
Unemployment rate	0.116	0.003	0.03
lnGDP per capita	14.1	0.000	0.25
Intercept	-72.6	0.000	2.69

Source: Own work.

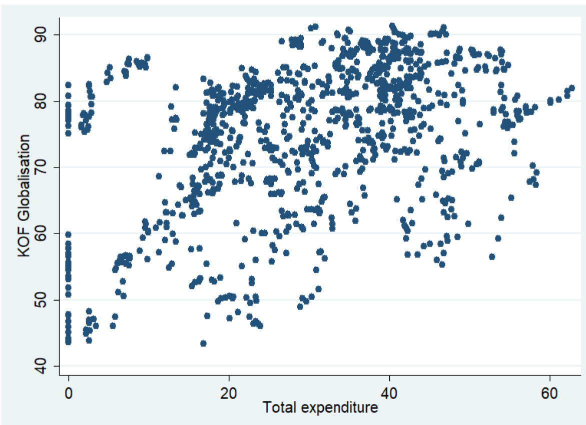
The other function of the welfare states is the redistributive role. In the model below, we test the relationship globalisation has with the expenditure side of the welfare state.

H2: KOF Globalisation index$_{i,t}$ = Health expenditure$_{i,t}$ + Pension spending$_{i,t}$ + Public unemployment support $_{i,t}$+ Social security$_{i,t}$ +ln GDPp.c.$_{i,t}$ + Unemployment rate$_{i,t+}$ error term$_{i,t}$.

We again choose the KOF Globalisation index as a dependent variable. On the side of the explanatory variables we use welfare expenditure variables.

On Graph 3, we display the relationship among Globalisation and the total welfare state expenditures as % of GDP. This relationship is as well positive, which means that the higher the welfare state expenditure are, the more globalised the countries are.

Graph 3. Relationship among Globalisation and Total welfare expenditure as % of GDP



Source: Own work.

We display the H2 model results in the table below. The relationship among Globalisation and the Health care expenditure is negative, and statistically significant. That means that when the health expenditure is decreasing, globalisation is increasing. For the relationship among globalisation and health expenditure, the direction of the Granger causality is from globalisation to health expenditure. This result is especially critical, if we take in consideration the COVID-19 crisis, which requires higher health expenditures. The already fragile and pressured health systems have been put on a test of their sustainability. The rest of the expenditure variables are statistically insignificant.

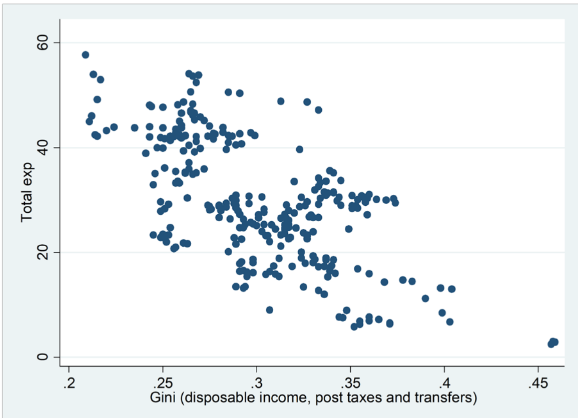
Table 5. Results overview of the second hypothesis (random effects, p-value and standard error)

Variable	Random effects	$R^2 = 0.87$	
KOF Globalisation index	**Coefficient**	**P - value**	**St. Err.**
Health expenditure	-0.833	0.000	0.14
Pension spending	0.106	0.430	0.13
Public Unemployment support	-0.095	0.622	0.19
Social security	0.022	0.847	0.15
lnGDP p.c	17.17	0.000	0.43
Unemployment rate	0.19	0.000	0.04
Intercept	-93	0.000	4.11

Source: Own work.

In addition, it is imperative to emphasize that the relationship among globalisation and the expenditure variables has one important perspective, and that is: how effective the implemented policies are, in reaching the most vulnerable segments of society and hence decrease of inequality. On Graph 4 below, we display the relationship among the total expenditures and the GINI index. We find a negative correlation, meaning that inequality decreases, and welfare expenditures increase at the same time.

Graph 4. Relationship among total expenditures as % of GDP and GINI index



Source: Own work.

From the hypotheses testing, we conclude that there is no general negative relationship among globalisation and taxation or expenditures. But, there is a negative relationship among globalisation and certain types of taxes and social welfare expenditures for the observed period. This behaviour of course, opens lots of questions about the future perspectives of the OECD welfare states, taking in consideration the different historical and structural circumstances and the unpredictable future events and development of the COVID-19 pandemic.

Future perspectives of the OECD welfare states policies

In addition to the historical differences among the welfare states of the OECD countries, political ideologies tend to create differences. According to Stiglitz (2008), the economic globalisation developed faster, then the political globalisation. The main question now is, will the political decisions follow the increased mutual economic interests, and if so, what will the welfare states look like in the future globalized world? Does it mean that they will start resembling a certain type of welfare state that already exists, or will they trace a new future path and form to be able to meet the needs of the citizens in need more efficiently and fairly?

Zaller and Feldman (1992) analyse the ideological responses to the welfare state and find that most American citizens are ambivalent, when it comes to the exactly what kind of welfare state they want and need. In one hand, there is a general support of small governments and liberal markets among the average American citizens, whereas on the other hand there is general solidarity for the people in need. The average American citizen is more likely to follow the liberal-conservative ideology, and the perception of market freedom. The welfare state's role among these voters is totally different, when compared to the roles of some of the European welfare states. Namely, in the Nordic social democratic group of countries, free health care is a basic human right, whereas among the average American voters, it is perceived as interference in the market and limiting the freedom of George (1998) analyses the complex relationship among political ideology, globalisation and the welfare futures in Europe by conducting a research in six countries which are classified in different welfare state types, by interviewing politicians from the main political parties. The main questions were based on the crucial elements of the welfare state: social services, taxes, unemployment and the inability of the states to effectively solve problems. They find that the left oriented governments have become more convergent towards the corporatist welfare state model, but yet, the differences among them and the right governments persist. In addition, the leftist governments are aware of the unpopularity of the tax increases and nowadays are justifying them only if they can find correlation with GDP growth. The general conclusion is that political ideologies and political decisions are converging. The ideological convergence results into actual convergence of the welfare state sizes. According to Schmitt and Starke (2011) the term convergence represents a course of action within which countries, companies and private individuals start resembling and in time the similarity among them increases. They find that there are three reasons for the increased welfare state conversion in the OECD: 1) the increased globalisation, 2) the European integration, especially after the former Southern dictatorships such as Spain (joined in the 80ties) and the Central and Eastern European former communist countries (joined in the 90ties), 3) the structure of the social programs that are being introduced in the OECD countries and 4) the demand for these policies as a result of the economic performance of the countries.

Starke et al. (2008) conducted an analysis of OECD countries for the period from 1980 to the early 2000s. They examined convergence by comparing the changes among policies in the beginning of the observation period and in the end of the observation period. They found a strong convergence impact in the expenditure side of the welfare state size, whereas there was no strong convergence impact on the revenue side of the welfare states.

When it comes to the European Union, the main convergence factor is the European integration. When it comes to the converge future of the European social welfare states, Diamond and Lodge (2013) conducted a survey on European citizens and found that Europeans still prefer the standard welfare systems- as systems that they are used to. The European Commission on the other hand, has introduced the "Social Investment Package "(hereinafter SIP) which has the goal to reorient EU members' strategy to invest where needed, in order to create sustainable welfare states, especially the European Social Fund (hereinafter ESF). According to Morel et al. (2012), this model is a reform to the post-war social systems which leave behind unmet social needs, inequality, working poor and unemployment. The European Commission's strategy was introduced after the crisis, and focuses on the: 1) Modernisation of the social policies as part of the Europe 2020 Strategy by implementing changes in their national social policies by investing in policies as child care, education, health services, labour market policies etc. 2) Simplification of the social systems. 3) Monitoring and support of the reforms. Moreover, to be more effective in achieving those goals, the European Commission persists into planning the EU funds (such as the European Structural and Investment funds) usage with the inclusion of the reforms which are ought to be undertaken. The main idea of these policies according to Palier et al. (2012) is to change the perspective that social policies are an expense, and not an investment into economic and employment growth.

In 2015, the European Commission conducted an assessment on how good member states are implementing these changes in their national economies, based on the regular reporting which is requested from them. The assessment found that EU member states can be grouped in three different clusters, based on their performance when it comes to reforming their welfare states and aligning them with the social investment model. The first cluster consisted of the Nordic countries joined by France, Germany, Austria, Slovenia and Belgium. These are countries already having a strong social investment approach, and it only needs to be further stimulated and reformed. The second cluster of countries are the countries which in general lack a social investment approach to their policies, but have taken on steps to introduce new social policies keeping the investment perspective in mind. This cluster includes: The Liberal countries, some of the southern countries, such as Spain, Portugal, Malta and some of the CEE countries such as Poland and Hungary. And the third cluster of countries consists of the countries which have not taken any steps in including the social investment approach into their political reforms. And this cluster of countries includes the newest countries to join the EU (Bulgaria, Romania and Croatia), the rest of the CEE group of countries, Greece and Italy. The future policy recommendations based on the analysis conducted by Munoz (2018) emphasized the importance of the cooperation among private and public sector, building of strategy to implement the social investment agenda, introducing new political reforms and regulations both for profit and non-profit sectors, introducing policy instruments such as Pay-by-Results, increasing transparency in policies and financial markets and enabling government's involvement continuously. The past of the European countries varies greatly among different country groups, but the Social Investment Package strives to create more converge and effective future social welfare states. Only by creating effective welfare states that are able to recognize even the most vulnerable segments of the society and by creating welfare states that are flexible to the global market changes countries can become "immune" to populism and anti-globalisation tendencies.

It is important to point out that we found traces of convergence in the section of this article, where we calculated the standard deviation of the welfare state size in the OECD countries. Namely, the standard deviation decreased both for the revenues' and the expenditures' in the observed period, signalling that the differences among the variables in the sample are decreasing and the welfare state sizes are becoming more similar with time.

Conclusions

This article focus on two main questions: 1) What is the relationship globalisation has with the social welfare revenues? and 2) What is the relationship globalisation has with the social welfare expenditures? When it comes to the role and size of the welfare states, we find that there is a trend of increase of the welfare states' sizes and at the same time a decrease in the sample standard deviation, displaying a convergence of the welfare states policies. The group with the highest tax revenues as % of GDP is the group of Social Democratic European countries, whereas the smallest tax revenues are noted in the group of non-European Southern economies such as Mexico and Turkey. Greece is the European country with the lowest tax revenues as % of GDP. In addition, when it comes to the expenditure side of the welfare states, there is no specific pattern of the country groups. France, as a corporatist country has the highest amount of welfare expenditures, whereas Mexico, a hybrid country, displays the lowest level of welfare expenditures as % of GDP.

The central part of this article focuses on a panel data analysis, which examines the two aspects of one of the most controversial questions in the literature and that is: Does globalisation impose pressures on the tax revenues ("race to the bottom") and hence the welfare states' expenditures in the form of social platforms and policies to the segments of society in need. We find that there is no race to the bottom of total taxes in the OECD countries and there is no pressure on the total social welfare expenditures. On the contrary, if we compare the revenues and the expenditures in the OECD countries at the beginning of the observation period and now, we find an increase of the welfare state size. This is consistent with Rudra (2002). There is though, a detected negative relationship between globalisation and specific tax types, such as the tax on property and the tax on payroll. Symptomatically, these decreased taxes are generally based on the labour market and hence the price (wage) on the labour market. From this decrease, we can detect another controversial globalisation phenomenon: the pressure on wages in the developed economies. In addition, the tax on property is based on the capital gains due to sales of properties and investments. Given that the OECD markets are open and liberal, and as previously stated in this article, there is an increased capital mobility, it is as well logical that globalisation decreases this specific tax type, to further stimulate the capital mobility. On the expenditure side, we find that globalisation Granger-causes the negative coefficient of the health expenditures as % of GDP.

The last part of this article focuses on the future challenges of the welfare state, and finds the strong convergence of policies which is present among the OECD countries (we empirically detect this by the decreased standard deviation of welfare state revenues and expenditures). We as well point out that the European Union implements the convergence through its Social Investment Program, which aims to totally change the perspectives of the welfare state from being an expense to being an investment for the future. And that is expected to lead to an actual decreased role of the welfare state in due time.

In addition, Milanovic (2019) points out on the pressures migrants impose on the well-developed welfare states' sustainability. He believes that the only solution for this problem in the future is to size down the welfare state's size by reducing taxes and equalisation of endowments. Piketty (2020) finds that the roots of inequality are based on institutions that help sustain the level of inequality. That roots can be easily changed by shocks such as wars and revolutions or in a peaceful manner, such as the one in Sweden. According to the author, if we do not structurally reform the welfare state and hence decrease inequality, populism will become even stronger and start destroying the networks of the global and interconnected economy. The solution he suggests is to introduce the so called participatory socialism, which will replace capitalism through progressive taxation of income and inherited wealth (60%-70%). The tax revenues are to be used as a basic income and capital endowment for every citizen. In the long term, the ownership of capital will be temporary. This solution seems un-implementable, but one thing is for sure: capitalism in its current state, especially after the COVID-19 health crisis is un-sustainable.

And last, nobody sees the importance of the welfare state role, until external circumstances and unforeseen events remind both the citizens and the policy makers of it. That is why it is crucial to build quality institutions, create transparent and goal-oriented social policies and measure their impact on their target groups.

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PAPER

Characteristics of Paper Industry in Vietnam and its Investment Orientations until 2030

Nguyen Hoang Nguyen*

Abstract The aim of this article is to examine the characteristics of paper industry in Vietnam, types of capital investment, trends and the effectiveness of the utilization of capital investment in this industry. This contributes to assessing the current state of investment, giving some suggestions to investors and supporting Vietnam's paper industry to become a strong competitive industry in the domestic and foreign markets.

Methodology: This article is based on the quantitative analysis method using data published by the Vietnam Pulp and Paper Association (VPPA), the General Statistics Office of Vietnam and the author's calculations.

Main Findings: It is realized that although the paper industry has a lot of strengths such as low depreciation and labor costs, available regional workers, the investment in this industry still has many weaknesses that need to be overcome and require some orientations on investment objectives and plans.

Application of this study: This article provides an overview of the investment in Vietnam's paper industry and some orientations for domestic and foreign investors.

Novelty/Originality of this study: We study the characteristics and investment status of the Vietnamese paper industry which has not been studied by many authors before.

Keywords: orientation, investment, Vietnam's paper industry, projects, packaging paper.

JEL Classification: E22, L69, L73, E22

Introduction

The paper industry in Vietnam is developing dramatically since manufacturers have been applying advanced technologies and strictly complying with the requirements of environmentally friendly products. In addition, Vietnam is an export country, and the growing export has led to a sharp increase in the demand for packaging paper. This is an auxiliary product for other industries, especially for those with a significant proportion of export. To be precise, according to the paper industry news of the Vietnam Pulp and Paper Association (VPPA News), the average growth rate of the paper industry is about 10 - 12% per year, and the figure for packaging paper is

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about 15 - 17% per year (VPPA News No.22). Many large-scale investment projects are being operated with a capacity of about 400,000 - 500,000 tons per year; Some manufacturers are planning to invest in projects with a capacity of over 1,000,000 tons of packaging paper per year (VPPA News No.23). The paper industry contributes about 1.5% of GDP and its export turnover is over 1 billion USD (Vietnam Socio-Economic Report, 2018.)

In Vietnam, the demand and supply of paper has been increasing continuously, anddemand exceeds supply in Vietnam. The average per capita paper consumption has increased from 3.2 kg in 1995 to 7 kg in 2002 (Subhes C. Bhattacharyya and Nguyen Thuy Hien, 2002), growed to 13 kg by 2010 and in 2018 the average per capita paper consumption has increased to 33,2 kg.

Characteristics of Vietnam's paper industry

The production capacity of Vietnam's paper industry is mainly distributed by the South and the North of Vietnam.

According to the aggregate data of the Vietnam Pulp and Paper Association (VPPA), as of 2018, the production capacity for packaging paper was 62% in the South and it was 36% in the North (General data of Vietnam packaging paper industry, 2018); the production capacity for printing and writing paper of the South accounted for 7% and the figure for the North accounted for 93% (General data of Vietnam printing and writing paper industry, 2018); the tissue production capacity of the South accounted for 42% and the figure for the North accounted for 56%. The production capacity of the Central region is low due to its climatic and geological characteristics (General data of Vietnam tissue industry, 2018)

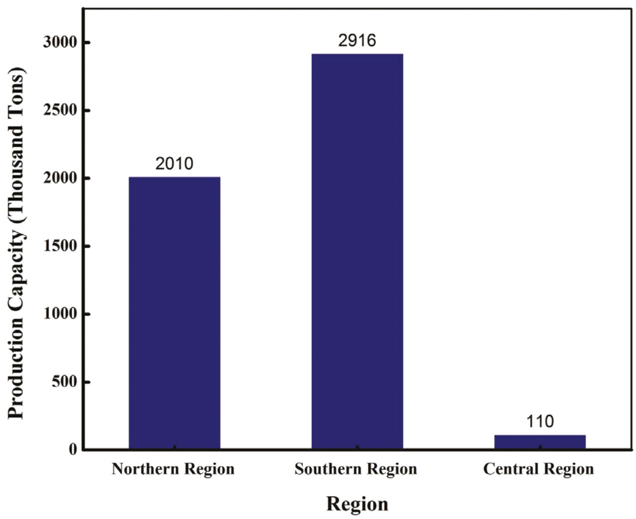

Figure 1. Production capacity structure by region in 2018 (thousand tons)

Source: Vietnam Pulp and Paper Association (VPPA)

Packaging paper is the main product in the structure of the paper industry

In terms of product structure based on production capacity, packaging paper accounts for 87%, printing paper and writing paper account for 6%, tissue paper accounts for 4%, and the rest is votive paper with 3% (Statistics of Vietnam paper industry, 2018).

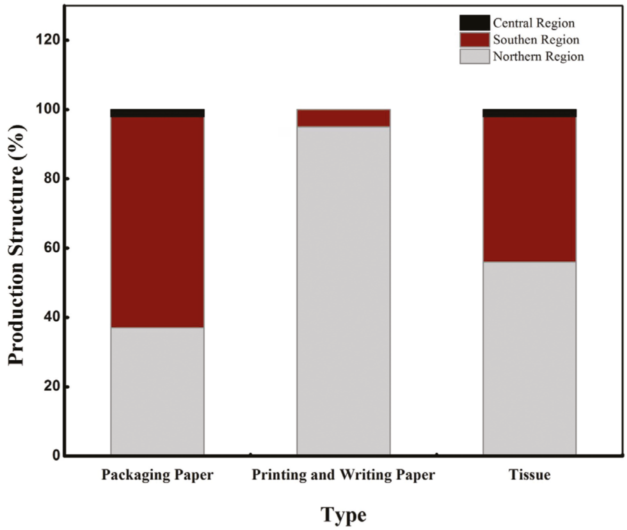

Figure 2. Production structure by region (percent)

Production structure of products by region in 2018

Since its economic reform known as “doi moi” in 1986, the Vietnamese economy have shown a remarkable performance as one of the fastest growing economies in the world with the average growth rate over 7 percent per annum. During its transition to a more market-based economy, rapid economic growth has taken place along side the expansion of FDI inflows and trade (Nguyen Ngoc Anh - 2008).

Vietnam has managed to attract a large inflow of inward foreign direct investment (FDI) during the last two decades, which together with trade liberalisation have contributed significantly to the economic growth of Vietnam (David Dollar - Aart Kraay – 2004).

Vietnam’s recent experience in attracting FDI and in achieving rapid economic growth has generated an increasing body of research literature. Earlier studies have just focused mostly on investigating the determinants of FDI in Vietnam (Nguyen and Nguyen – 2007), while more recent studies investigated the contribution of FDI to export (Henrik Schaumburg and Müller - 2003) and to economic growth (Phan Minh Ngoc and Eric Ramstetter - 2006). Several other authors have examined the contribution of FDI to poverty reduction (Nguyen - 2002), and FDI and job creation (Mirza Hafiz and Axele Giroud - 2004). This study focuses on projects in the Vietnamese paper industry that are funded by both FDI and domestic capital.

During the year 2018, FDI enterprises (enterprises with Foreign Direct Investment) accounted for 69%, nearly twice as much as the investment of Vietnamese enterprises which accounted for only 31% (General Statistics Office of Vietnam).

The investment of FDI enterprises in the paper industry is more than twice as much as that of Vietnamese enterprises.

Table 1. Investment projects in the paper industry in the period of 2015-2018

Corporation	Corporation type	Location	Capacity	Paper type
Vina Kraft	FDI	Binh Duong	258.000	Packaging paper
Lee & Man	FDI	Hau Giang	420.000	Packaging paper
Chanh Duong	FDI	Binh Duong	500.000	Packaging paper
ChengLong	FDI	Binh Duong	300.000	Packaging paper
Muc Son	Vietnam	Thanh Hoa	50.000	Packaging paper
Miza	Vietnam	Ha Noi	43.000	Packaging paper
Phu Giang	Vietnam	Bac Ninh	40.000	Packaging paper
Kim Cuong	Vietnam	Hung Yen	70.000	Packaging paper
Minh Hung	Vietnam	Binh Duong	60.000	Packaging paper
Thuan An	Vietnam	Binh Duong	200.000	Packaging paper
Others	Vietnam		200.000	Packaging paper
Total capacity			**2.141.000**	

Source: General Statistics Office

Investment orientations for Vietnam's paper industry in the period of 2019-2026

Investment in packaging paper is predicted to continue to grow sharply, with production capacity expected to nearly triple compared to that of the period 2015-2018 by 2026 and FDI enterprises continue to dominate investment in comparison with Vietnamese ones (Ministry of Industry and Trade of Vietnam). The total invested production capacity is expected to be 6.24 million tons by 2026, of which 6.7 million tons are being applied for investment license (Data of VPPA). Investment of FDI enterprises accounted for 63.6%, nearly 2 times higher than that of Vietnamese enterprises, accounting for only 36.4% (Report on foreign investment agency).

Table 2. Investment projects on packaging paper in the period of 2019 - 2030

Corporation	Corporation type	Location	Capacity/ year	Paper type
Lee & Man	FDI	Hau Giang	1,000,000	Packaging paper
ChengLong	FDI	Binh Dương	600,000	Packaging paper
YSY	FDI	Ha Nam	70,000	Packaging paper

Marubeni	FDI	Vung Tau	800,000	Packaging paper
Cuu Long	FDI	Other	1,500,000	Packaging paper
An Viet Phat	Vietnam	Vung Tau	1,000,000	Packaging paper
Giao Long	Vietnam	Ben Tre	180,000	Packaging paper
Rang Dong	Vietnam	Khanh Hoa	70,000	Packaging paper
Miza	Vietnam	Thanh Hoa	100,000	Packaging paper
Toan Cau	Vietnam	Hai Duong	70,000	Packaging paper
Hoang Ha	Vietnam	Hai Phong	100,000	Packaging paper
Hung Ha	Vietnam	Ha Noi	100,000	Packaging paper
Vạn Diem	Vietnam	Ha Noi	150,000	Packaging paper
Tan Mai	Vietnam	Dong Nai	450,000	Packaging paper
Others	Vietnam		400,000	Packaging paper
Total capacity			**6,240,000**	

Findings

Investment of Vietnamese paper enterprises has strengths such as flexibility in investment, production and supply (especially for packaging paper), low depreciation and labor costs, availability of local labor which leads to the convenience in traveling and high commitment to the corporation, and close-knit relationships with customers which leads to profound understanding of customers (report of Vietnam paper industry - 2018).

According to the author Pekka Leppänen - 2012,possible reasons for the poor innovation record ofpulp and paper industry are:

- Traditionally, pulp and paper mills had access tolow-cost raw materials and energy.
- Production units are very expensive so the risk tofail, when applying a new technology, is huge.
- Transformation of the paper industry into acommodities producer, due to self-limitation tocore business, and stopped horizontal or vertica lintegration.
- Paper is not a brand product to end users, excepttissue grades
- Paper qualities are more or less similar, consider-ing all suppliers, so that the only way to competeis cost cutting.
- Education of pulp and paper engineers isconcentrated in few universities and schools,which results in promotion of the uniformity inproblem perception and lack of individualism inthe generation of solutions.

In the pulp and paper industry, the time frame ofproject development can vary from one to severalyears, project implementation time is normally from18 to 30 months, and the production period of a millis normally from 15 years to several decades.

However, there exist weaknesses as follows:

1. There is no strategy to develop this sector; legal documents for investment

orientation and management are incomplete; legal procedures for project investment are complicated and overlapping.

2. The investment project's preparation is not well-organized; the investment strategy is unclear and seasonal. The research of product types, location, scale and time of investment is not appropriate and does not take into account comparative advantages among localities, regions, and countries, so high investment efficiency cannot be achieved.
3. Investment is fragmented and small-scale; equipment technology is out of date; operating costs are high (Lan Anh – 2019); product quality is low and unstable; therefore, the competitiveness of this sector is negligible.
4. Many investors are small and medium-sized enterprises, accounting for 90% of the quantity and 60% (VPPA) of the production capacity of the whole industry, so the financial capacity is limited and small in scale.
5. The management personnel are weak and do not have investment experience as they are usually the person who switch from production to investment. Furthermore, the competence of the design consulting, manufacturing and equipment maintaining units is limited.
6. The linkage between enterprises in the industry is weak, so large and specialized production enterprises cannot be established. The ability to unite, coordinate and support each other is limited.
7. Investment in supporting industries of this industry such as the supply of materials, additives, chemicals, spare parts, etc. is weak and insufficient.
8. The planning of developing material areas is only superficial, unrealistic, and has not fully promoted the vacant land area; the investment cost for trees – the major material – is high, and the exploitation is still manual.

Orientation for investment

1. Objectives

Given the current investment situation of the paper industry in the world in general and the strengths and limitations of the Vietnam's paper industry as analyzed above, the author believes that there should be specific goals in order to make the paper industry of Vietnam become a strong industry which is able to compete on domestic and international markets.

Firstly, domestic demand for the usual paper should be met, and pulp, packaging paper, and tissue should be exported.

Secondly, investment should focus at least 3 key paper material regions in the North, Central and Central Highlands regions to meet the demand for pulp production for domestic consumption and export. The collection of the used paper should be encouraged, boosting the recovery rate of used paper in the country from 40% in 2018 to over 55% (Data on recovered paper – VPPA).

Thirdly, investment should be allocated to at least 3 key paper industrial zones in the North, Central, and South where small and medium-sized enterprises are located to optimize investment costs, operating costs, and increase competitiveness.

Fourthly, 4-5 paper manufacturing enterprises with a scale of over 500,000 tons of paper per year and 2-3 large paper pulp manufacturing enterprises with a scale of over 300/000 thousand tons per year should be established.

Fifthly, from 2030 onwards, investment in projects on pulp, industrial packaging paper, printing paper, and writing paper, and tissue production with a scale of over 100,000 tons per year should be encouraged. New investment projects with a scale of 50,000 - 100,000 tons of products per year should only be allowed in specialized paper industrial zones.

Sixthly, enterprises should be restructured or merged, from 2030 onwards, small-scale chains should be stopped; for example, a chain with a capacity of under 20,000 tons per year for pulp, packaging paper, printing paper, and writing paper should be stopped and a chain with a capacity of under 5,000 tons per year for tissue paper should also be removed.

2. Orientation

2.1. Zoning

Priority should be given to projects in areas with favorable conditions in terms of raw materials, transport infrastructure, power and water supply, water discharge and other comparative advantages. Investment in projects should be restricted in areas where cultural heritage and tourism are being preserved and developed. The establishment of key industrial paper zones in 3 regions should be encouraged.

2.2. Technology and equipment

It is essential to use advanced technology with a high degree of automation and maximum savings of raw materials, fuel, and energy. Priority is given to projects that use waste and scrap from other industries, ensuring product quality and environmental protection norms as prescribed. Equipment should be carefully selected to ensure stable production, high quality, and reasonable prices.

2.3. Efficiency

The investment must ensure socio-economic efficiency and regional and international competitiveness. It is also necessary to create rational use of resources, protection of the ecological environment, cultural and historical relics, landscapes and assurance of national security and defense. Priority should be given to the development of investment projects to expand capacity and new projects of large scale and environmental protection.

Conclusion

The pulp and paper industry is one of the important industries in the world, having a great impact on the global economy and society. An indispensable trend that is becoming more and more popular globally as well as in Vietnam is sustainable developing and Vietnam's paper industry is not an exception. Paper production of high responsibility brings many benefits to the environment, people, local economy and the country. The important role of the paper industry is reflected in the significant contribution to Vietnam's economic development. This industry creates jobs for tens of thousands of workers and resonates to develop other economic sectors such as afforestation and logging, and processing industries, etc. At the same time, the paper industry provides many products for diverse purposes: social culture, education, production, and research, etc. The paper industry in Vietnam is growing remarkably as enterprises have been applying advanced technologies, strictly following requirements on environmentally friendly products. In addition, Vietnam is an export country, so the growing export has resulted in a sharp increase in the demand for packaging paper. This is an auxiliary product for other industries, especially for industries with a high export ratio. However, there are still some challenges that the paper industry is facing, thus it needs proper, methodical and key investment orientations to develop stably and sustainably.

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PAPER

On Vietnam's Foreign Strategic Space during Renewal (Doi Moi) Time, since 1986

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Abstract Since the renewal time (1986), the strategic space in general and the foreign space in particular of Vietnam have been gradually promoted and progressed in favour of the national construction and development. That fact results from the transformation from the approach which was mostly the politic ideology - class-based thought in association, alliance, organization and force gathering into multilateralizing and diversifying the relations, giving top priority to the national-fatherland interests and being active in international integration. However, Vietnam's diplomatic strategic space is facing the challenge mostly due to increase in strategic competition among the big countries, especially the geopolitic ambition of China and cyber-security. For this reason, Vietnam should reach more typical actions such as promoting the studies, planning the foreign strategies, enhancing the communication and diplometic affairs, combining the fights in all aspects, consisting of politic-economic, cultural and legal foreign affairs, attracting more resources, strengthening, intensifying and connecting the internal forces, including renewing the politic system and reinforcing the national defence power in order to protect and enlarge the foreign space for Vietnam's more favorable career of national construction and development in the current context.

Keywords: Strategic space, foreign policy, Vietnam, the Renewal (Doi Moi) time.

Introduction

There have been great deal of studies on Vietnam's foreign ties in general and the foreign strategies/policies in particular during the Renewal time. The typical studies may be mentioned as "Vietnam's diplomacy 1945 - 2000" (Bo Ngoai giao Viet Nam 2004), "Vietnam's renewal foreign policy (1986 - 2010)" (Pham Quang Minh 2012), "Vietnam's multilateral foreign affairs during time of active international integration" (Le Hoai Trung cb. 2017), "Vietnamese foreign policy in transition" (Thayer Carlyle A. , Amer Ramses (ed) 1999), "Changing worlds : Vietnam's transition from cold war to globalization" (Elliott W.P. David 2012), "Vietnam's foreign policy in an eva

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of rising Sino-US competition and increasing domestic political influence" (Thayer Carlyle A 2017) v.v.. Nevertheless, it is considered essential to keep assessing both success and limitations, identifying new opportunities and challenges related to Vietnam's foreign affairs, especially in the context where the US - Chinese relationship is put under the increasing tenseness and where the security is becoming more urgent. Moreover, the original document sources (official documents of the Party and the State of Việt Nam) and the geopolitic, geostrategic approaches and foreign policy, considering the movements of the strategic space under the influence of strategic thought and actions of the government in the international relations from time to time and during the different periods are widely used. Scholars argue that, precisely because of the variables of strategic thinking and time requires policy makers to always grasp the situation and innovate strategic thinking to take appropriate steps, mobilize resources, create a reasonable security and development space for our country. And the foreign policy of a country depends not only on its domestic factors, its position in the international system, but also the products of that system. The pressure or impact from the international system of both positive and negative directions on a country can help guide or adjust a national strategic action, including foreign policy. This forces national leaders to consider from many sides, factors, including space and time to formulate and implement policies (Strausz- Hupe Robert 1942), (Gideon Rose 1998: 144-172), (Le Dinh Tinh 2017: 7-35). The above are the basis for clarifying the movements of foreign policy in general, the strategic foreign space in particular of Vietnam from 1986 up to now.

1. Overview on Vietnam's foreign strategic space before the Renewal time (before 1986)

Since erstwhile, the Vietnamese got familiar with taking advantages of and combining "clement climate", "favourable terrain" and "concord among the people" in building and protecting the Fatherland. The schemes against the aggressors coming from the North, especially establishing the defence lines along with the Northern East border of the Fatherland, the actions of "Southward marches" for enlarging towards the South, "Eastward marches" or "Seaward marches" for exploiting and confirming the sovereignty over the Biên Dong (South China Sea), combining the firm against-aggressor military method with flexible foreign affairs, particularly the "diplomatic tribute" and "diplomatic marriage", are the geostrategic actions with the aim to lay out the foundation for the national development and security. However, being strongly influenced by the Confucianism, underestimating the private trading, overestimating the land over the sea, not considering the foreign trade, especially the sea trading, as the important path to enlarge the strategic space, Vietnam's feudal state became increasingly out-of-date, leading to being invaded and governed by the French for almost one century (Tran Khanh 2015: 3-12), (Thanh The Vy 1961 : 23-28).

After 1954, the French was removed from Vietnam, both regimes, which were

Democratic Republic of Vietnam (DRV)[1] and Republic of Vietnam (RV)[2], in spite of difference in terms of alliance, association and gathering of forces, showed the similarity which was taking full advantages or relying on the external resources in order to establish, reinforce and enlarge the strategic space, firstly with the aim to maintain the politic regime. Concurrently, both own good awareness of importance of the national sovereignty and integrity[3], wishing that Vietnam would become unified, powerful and active in international cooperation[4]. However, it was the influence of politic ideology - class-based thought and war-due damages that these two regimes in Vietnam did not understand fully “the game” of power between major countries (Ministry of Foreign Affairs 2008: 45-54). That fact prevented Vietnam from taking full advantages of geographic location and international opportunities for national renewal. Yet, during the war for national unification, the Democratic Republic of Vietnam established relatively perfect military and diplomatic strategic space by opening a lobby towards Laos and Cambodia, building the Ho Chi Minh paths on these two countries in order to dispatch the troops, provide logistics for the wars, also by setting up the border-connection with China, Soviet, attaining supports from the world peace-lovers through public diplomacy (Vietnam’s Ministry of Foreign Affairs 2004: 179-216), (Vu Duong Ninh 2014 : 149-261).

After 1975, the unified Vietnam started a more practical point of view on the national interest from the international relations, especially from the relations with China and ASEAN countries. Vietnam understood China’s geopolitic ambition, therefore showed the great determination in fighting for the territory sovereignty, fighting against the invasion from the South West and North of the Fatherland (Vietnam’s Ministry of Foreign Affairs 1979: 86). In tandem with that, Vietnam also made new efforts to improve the relations with ASEAN countries (Vietnam’s Ministry of Foreign Affairs 2004: 298-301). However, in this time, Vietnam not yet comprehended the geopolitic game between big powers, the tend of globalization and regionalization, especially, not yet understood the global role and power of United States, goal and nature of the relation between US - China as well as the crisis of the

[1] Democratic Republic of Vietnam was established on 02/09/1945. The country was renamed as Socialist Republic of Vietnam in 1976.

[2] The Republic of Vietnam regime was formed on 26/10/1955 and the election of independent national assembly was organized on 04/03/1956, then the Constitution of the First Republic was issued on 26/10/1956.

[3] The Republic of Vietnam regime performed the sovereignty over Hoang Sa (Paracel Islands) and Truong Sa (Spratly Islands) in accordance with Geneva Agreement 1954 such as dispatching the troops to protect the islands, assigning the delegations to survey and develop the economic projects, especially the oil projects, as well as institutionalizing the administration and fights through foreign affairs to protect these islands. However, Beijing has taken advantage of weakening of Republic of Vietnam to occupy Hoang Sa in mid January 1974. Previously (in 1956), Taiwan also made corrupt use of Vietnam’s South - North separation and the establishment of new government in Saigon to occupy Truong Sa’s Ba Binh island. In 1970, the Philippines also launched to occupy many islands of Truong Sa such as Song Tu Dong, Thi Tu, Loai Ta and so on.

[4] Saigon government was also active in joining the International organizations such as International Civil Aviation Organization -ICAO (1954), World Meteorological Organization –WMO (1955), World Bank - WB (1956), International Monetary Fund -IMF (1965, Asia Development Bank –ADB (1966), etc.

Socialist system (Tran Khanh 2014: 174-180). If only after first years of unification did Vietnam actively grasp the chances, establish the diplomatic ties with other countries, especially the America, Vietnam's strategic space would reach the quick height and the border wars in the North and South West launched by the enemies in late 1970s might be avoided, evenly, the isolation and embargo from the developed countries might also be limited (Vietnam's Ministry of Foreign Affairs 2004: 313-314), (Vu Duong Ninh 2014: 272-273).

2. Awareness renewal and strategic actions for enlarging of Vietnam's foreign space from 1986 to 2020

2. 1. Awareness renewal

Every renewal of foreign policies was based on the thought, understanding of the world situation and national demands, with thorough assessment of the world tendency being considered the most important. The sixth Party Congress dated 12/1986 of the Communist Party of Vietnam (CPV) marked the Vietnam's renewal of strategic thought, firstly in terms of awareness, evolutiation approach to times, which emphasizes on co-existence and cooperation during the peaceful time between the socialism system and the capitalist system (no thinking of "who win whom") and great development of science - technology and globalization (Communist Party of Vietnam 2010, Part I: 27-28). Since this time, Vietnam approached new viewpoint on the national security and understood that it was a must to prosecute the comprehensive security, where 1) the economy should be strong; 2) the national defence should be powerful; 3) The foreign fairs and cooperation should be enlarged, and concurrently it was requested to give priority to the policy of "more friends, less enemies", diversifying the international relations on basis of respecting the independence, sovereignty and mutual benefits. It was also penetrated by Vietnam that "no opposition should exist between the two groups of countries, there should be the comprehensive policies with the Southeast Asia, focusing on increasing cooperation with the regional countries" (Pham Quang Minh 2012: 60).

It should mention the key breakthrough in Vietnam's geostrategic awareness and actions during early 1990s. For the first time, the document of the Sixth Party Congress 1991 of the Communist Party of Vietnam underlined the international economic cooperation and considered it as the indispensable tendency as well as highlighted the geographical aspect as the foundation and resources of the foreign affairs policy[5]. At the same time, the Party also declared that "Vietnam wishes to make friend with all of countries" (Communist Party of Vietnam 2010, Part I: 403) and this spirit was repeated in the Document of the Eighth Congress (1996) (Communist Party of Vietnam 2010,

[5] In the Report "Strategy of socio-economic stabilization and development until 2000" declared in the Seventh Congress of the Communist Party of Vietnam, it was mentioned that "Vietnam was one of countries with the world most dynamic economic development located on the important international routes consisting of many easy paths to the sea (favourable for some regional countries and territories), in addition, our country was advantageous for developing the foreign economic relation, attracting foreign investments, promoting trading activities and services of aviation, marine, tourism and so on" (Communist Party of Vietnam (2010), *Document of Nationwide Delegate Congress in time of renewal* (6th, 7th, 8th, 9th and 10th Session), Part I, Hanoi: Publisher of National Politics, 2010, Page 429-430.

Part I: 636, 701). By time of Ninth Congress (2001), the Party added that "Vietnam is willing to become friend of all countries in the world" and it was the first time when the term "integration" is not only used but also emphasized as "proactive in international economic integration" (Communist Party of Vietnam 2010, Part II: 34). The thought of foreign affairs and international integration was more clarified in the Tenth Congress (2006), indicating that "Vietnam is the trusted friend and partner of all countries and always actively joins the international and regional cooperation process" (Communist Party of Vietnam 2010, Part II: 312, 375). Under that spirit, by time of Eleventh Congress (2011), it was added to make it full that Vietnam was not only the trusted friend and partner, but also the "responsible member of the international community" (Communist Party of Vietnam 2011: 236).

It should be noticed that since the first decades of 21st century, Vietnam reached thorough understanding of the situation and thought that "The multi-polar world situation is increasingly specified, the tendency of democratization in international relations keeps going up but the powerful countries will still govern the international relations" (Communist Party of Vietnam 2011: 183) and "It is the highlight in present time that the countries with different social regimes and development levels are co-existing, both cooperating, fighting and competing hardly for the national interests" (Vietnamese Government 2011). Concurrently, the Party also identified the tendency, fluctuation speed and sophistication of the relations among the powerful countries, the world's centres of power, especially the influence of their strategic changes, that "the world situation under the multi-polar and multi-centre tendency is developing in faster manner. The powerful countries change the strategy in manner of both cooperating, negotiating and competing, limiting mutually, placing the big impact on the world and regional situation" (Communist Party of Vietnam 2016: 71).

In tandem with identifying features of the era, the approach to international economic integration, friends, enemies, ourselves, partners in international relations also goes with big changes. Firstly about international economic integration: Resolution 07-NQ/TW dated 27/11/2001 by the Ministry of Politics detailing the "International economic integration", highlighting that Vietnam should promote the process of world and regional integration by actively and proactively joining the bilateral and multilateral institutions, especially AFTA and WTO (Communist Party of Vietnam 2001).

In parallel with promoting the international economic integration, since this time, Vietnam kept launching the strategic renewals in relation to alliance, association and force gathering as well as the friend - enemy relation in international relations. The details were provided in the Resolution on "Strategy of Fatherland protection in the new situation" issued by the 8th National Meeting, 9th Session dated 12/07/2003, mentioning that "The countries respecting the independence, sovereignty, establishing and expanding the friendship, fair and mutual-benefit cooperation with Vietnam are our partners; And every force showing the plots against our goals in the career of Fatherland development and protection is our subject". At the same time, it was also indicated in the Resolution that "There should be the dialectic viewpoint: the subject (enemy) may show good things to cooperate; the partner may show difference and conflict with us. For this reason, it was requested to remove the equivocalness, neglectfulness or rigidity in awareness, policies and in dealing with specific issues" (Central Committee of Thought and Culture 2003). Next, Resolution 28 of the 11th Party 2013 on "Strategy of Fatherland protection in the new situation" inherited basic contents of 8th Central Resolution 2003, underlining further the strategic principles, flexibility in dealing with partners and subjects as well as overestimating the national unity and interest in international relations (Tran Dai Quang 2015). These thoughts were also mentioned in the Document of 12th Nationwide Party Congress 2016, that Vietnam "do not dependent on any country, always be flexible in dealing and active in promoting and nursing the relations with the partners, especially the strategic partners and powerful countries important for the national development and security with the aim to realize practically the confirmed relations" (Communist Party of Vietnam 2016: 155). Moreover, also during this time, it was Vietnam's policy to boost up the national defence affairs in the comprehensive manner. This was presented in the document of the Party Congress that "proactive in joining the multi-lateral mechanisms related to national defence, including cooperating further such as peace protection launched by the United Nations, non-traditional security rehearsal and other activities" (Communist Party of Vietnam 2016: 155). It could be said that the 8th Central Resolution, 9th Session dated 2003 as well as the addition and confirmation as detailed in the Document of 12th Party Congress 2016 was the big turning-point in terms of strategic thought for Vietnam to enlarge the strategic space, especially the economy, security and diplomatic defence.

One more noticeable thing was that Vietnam, since second decade of 21st century, renewed the awareness of national defence policies. While Vietnam's national defence White Book 2009 highlighted "three not" policy, which was not joining the military alliances, not permitting any country to build military base in Vietnam and not relying on this country to fight against the other", the White Book 2019 dated 25/11/2019 added one principle "not using any force or not threatening to use any force in international relations" (Ministry of National Defence 2019: 25) In addition, White Book 2019 also indicated that Vietnam was entitled to act and build military cooperation with other countries if necessary "depending on the practical developments and in the specific situations, Vietnam will consider building the appropriate national defence and military relations on basis of respecting the mutual independence, sovereignty, unification and integrity as well as the basic principles of the international laws, cooperating for mutual benefit and for shared interests of the region and international community" (Ministry of National Defence 2019: 25). Despite the said additional criteria and principles were normal in the international relations, in the context where Vietnam's sovereignty and security on East Sea (Bien Dong) were very challenging, this declaration was considered as to confirm the respect and compliance with international laws as well as Vietnam's self-defence right as mentioned in the Charter of the United Nations.

Furthermore, it was also publicly stated in Vietnam's National Defence White Book 2019 that "Vietnam will willingly welcome navy ships, sea police ships, border guard ships from the countries and international organizations for courtesy visits, normal visits, repairing, logistics, technique, natural disaster shelter" (Ministry of

National Defence 2019: 30). In the background where many countries were reluctant towards China and did not want to publicly support the marine freedom on the East Sea and while China desired to limit or remove the countries currently owning the sovereignty over this sea from the external cooperation, this declaration was one of the evidences to prove Vietnam's determination in national defence integration and sovereignty protection on the Bien Dong (East Sea).

In addition, since 1990s, new awareness of sea geostrategy was grasped. Also since this time, Vietnam started considering sea economic development as the cutting-edge sector and understood that sea economic development should go with reinforcing the security - national defence and international economic integration. This was specified in the Document of 7th Party Congress (1991) and in the Document No 03-NQ/TW dated 26/05/1993 detailing Some tasks of sea economic development in the years to come, Vietnam was "anchored to national strategy of sea exploitation and protection" (Communist Party of Vietnam 2010, Part I: 329). Since 8th Congress (1996), the document stressed exploiting full potentiality and advantage of the seas, developing and combining economic sectors as well as building the big economic centres and sea urban areas, focusing on the island economic development, controlling the water territories and continental shelf, proving the sovereignty over the special economic zones (Communist Party of Vietnam 2010, Part I :775-777).

It should be noticed that in 2007, Vietnam launched the by-2020 Vietnam Sea Strategy, emphasizing that Vietnam should become the powerful sea country (Communist Party of Vietnam 2007). The thought of making Vietnam a powerful sea country was detailed more in the Vietnam Sea Law approved in 2012 and particularly in Resolution 36, 8th Central Meeting, 12th Session dated 22/10/2018 on "Strategy of Vietnam Sea Economic Development by 2030 with vision by 2045", indicating that Vietnam "should become powerful in seas, rich from seas, attain the sustainable development, security and safety, and the sustainable economic development should be in parallel with stable national defence - security, independence, sovereignty, integrity, green growth, preservation of biodiversity and sea ecosystems and so on", and that "Vietnam is determined and patient in fighting to protect the legal sovereignty and interests over the seas, as well as actively and proactively solve the disputes and conflicts over the seas with the peaceful solutions in compliance with the international laws, especially the Convention of the United Nations on Sea Law 1982, preserving the peaceful, stable and cooperative environment for development." (Communist Party of Vietnam 2018).

2.2. Results of the strategic actions

It is the renewal of strategic thoughts that Vietnam together with related parties solved successfully and comprehensively the Cambodian issues and normalized the relation with China in 1991, set up diplomatic ties with EU in 1990, with US and joined ASEAN in 1995, established cooperative relationship with international financial, monetary organizations such as International Monetary Fund (IMF), World Bank (WB), Asia Development Bank (ADB), actively joined other global and regional cooperative organizations such as ASEM, APEC, WTO and so on. Until July 2020, Vietnam set up the official diplomatic ties with 186/193 member countries of the United Nations, placed the economic - commercial cooperation with 230 countries and territories, became the active member of more than 70 international and regional organizations and platforms, developed 17 strategic relationships and comprehensive strategic relationships with other countries, 04 of them were voteable members of the United Nations Security Council, consisting of Russia, China, United Kingdom and France[6]. It also should be remembered that Vietnam has been showing the fervency to the thorough international integration, firstly the ASEAN community, the Asia - Pacific Cooperation Forum, signing the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). In addition, Vietnam is approaching the multi-lateral cooperation in national defence, security, also joining the peace protection force of the United Nations, taking part in over-sea security - national defence rehearsals[7]. Especially, Vietnam has made spectacular progression in every aspects, from politic - foreign affairs, economic - trading, education - training to security - national defence with US. In a short period of time, the relation between these two former enemies has transformed into the comprehensive relation and increasingly reached the practical mutual benefits[8]. That has made an important addition for Vietnam to not only break the isolation but also improve the position and prestige in the world, making Vietnam further well-known, respected and cooperated by other countries.

It should be further emphasized that behaving in the manner that Vietnam is not only the trusted friend and partner but also the responsible member of the international community is the key factor to improve quickly Vietnam's position and prestige. This is partially proved by that Vietnam was chosen by US and North Korea as the destination for the second peace negotiation dated in early 2019 and was voted by the international community as the 2020 - 2021 non-standing Member of the United Nations Security

[6] Among them, there are 03 comprehensive strategic partners of Russia, China and India. Other 14 are the strategic relations, consisting of UK, France, Italy, Spain, Japan, South Korea, Australia, Germany, Newzeland and 5 ASEAN countries (Thailand, Singapore, Indonesia, Malaysia and the Philippines).

[7] In 2014, Vietnam marked the official membership of the United Nations' Green Berets functioned to protect the peace. Since 2018, Vietnam joined increasingly every companies. Year 2019 was also the year when Vietnam officially joined the shared military exercises between US and ASEAN countries.

[8] In 1995, the diplomatic tie between Vietnam and US was normalized. In 2000, both countries signed the Bilateral Trading Agreement (BTA) and in 2006, US provided Vietnam the normal trading policies and the Most Favoured Nation regulations. In 2008, both countries came to an agreement on the annual discussion on politics, security and national defence, and in 2010, the deputy-minister national defence strategic Discussion mechanism was developed. Both countries in 2011 signed the Memorandum of National Defence Cooperation and in 2013 established the comprehensive partnership. Year 2015 marked the event where the General Secretary of Communist Party of Vietnam Nguyen Phu Trong visited America, considered the "historic turning-point". In 2016, US declared fully removing the embargo of selling anti-personnel weapons to Vietnam, added Vietnam to Southeast Asia Marine Security Initiative and provided patrol-boats to Vietnam. While Vietnam - US bilateral trading in 1995 was recorded at USD 450 million only, the year 2019 reported an increase by 134 times, reaching the amount of USD 77 billion, and US became the third-largest trading partner (after China and South Korea) and the biggest surplus-export market of Vietnam. By 2019, Vietnam was ranked top of ASEAN and 6th of the countries with the most overseas students in US, about 30,000 students. Aboaut 1,200 US are studying in Vietnam.

Council with 192/193 for-votes. At the same time, that Vietnam is successful in winning the Covid-19 domestically and has shared the experience and medical facilities with many other countries as well as always active and proactive in raising the issue of epidemic prevention and fighting to the ASEAN agenda 2020 highly appreciated by the international community is also another proof for Vietnam's international success. That achievement paves the way for the relatively appropriate strategic space to maintain Vietnam's security, integration and development as well as enhance Vietnam's contribution to the world, laying out the foundation for new progression and higher position in the coming years.

2.3. Limitations and considerations

2.3.1. Limitations

Despite the Vietnam's foreign space has been enlarged, not yet profoundly and sustainably. The strategic partnership and comprehensive strategic partnership developed by Vietnam are the way to improve the foreign relations, national position and enlarge the strategic space for security and development (Pham Binh Minh 2014) but in fact, most of those relations do not create big influence on Vietnam's security and development, especially the protection of national sovereignty and security. For example, Vietnam has set up the comprehensive strategic relation with 3 countries of China, Russia and India but the strategic faith between Vietnam and China is going down. Whereas the economic relation between Vietnam and Russia & India has not yet matched with the reality. In addition, the "inflation" regarding the strategic and comprehensive strategic relation also causes much difficulty to Vietnam and the related parties in selecting, gathering the resources to promote the bilateral relations despite Vietnam has been very flexible and careful in identifying partners, friends and enemies in every international relations and always considers the national interests as the top priority. Moreover, the patience in being open, reforming and prosecuting the mutual benefits with the external partners has helped Vietnam gradually minimize the pressure of democracy and human right from America and Western countries, so that enlarging the strategic space internationally. However, the goal and principle "For a Vietnam of socialist" in tandem with the national interests are still prosecuted (Pham Binh Minh 2011). Concurrently, it is still confirmed by the Communist Party of Vietnam that this era is "transition to socialism", and that "on basis of the man's evolution of history, the socialism will be a must" (Vietnamese Government 2011). These things causes more or less challenges in gathering the forces, especially in calling supports from the capitalist-based countries.

There are many reasons for the above mention, partially persuaded by the Marxist ideology, partially Vietnam does not own the full understanding of the power "game" of the great countries as well as Vietnam's geopolitic position fluctuation in the changing of world's powerfull structure (Tran Khanh 2019: 199-224).

2.3.2. Considerations

From successes and limitations in building the foreign strategic space, many considerations should be raised, both theoretically and practically. Firstly, regarding the reasoning, it is required to study various approaches concerning the space, power, national interest and global interest in the international relations, including the theory on geopolitics, geostrategy and then referring them to the new international context where the fluctuation, complication and unpredictability are the challenges. This not only diversifies the objects, scientific approaches, but also provides the foundation, resources and instruments to plan, predict and carry out the national policies, immediately the foreign affairs.

Practically, in addition to keep prosecuting the policies of multilateralization, diversification, becoming friends of all countries, promoting international integration, Vietnam should pay special attention to "decode" the US - China relation, solve the disputes and bottle-neck related to the China and US relation, especially the democracy - human right with US, and at the same time the relationship of "comrade", "sibling", "mountain to mountain, river to river" with the neighbouring China who is very geopolitically ambitious. More importantly, it is necessary to enhance the economic, security and national defence relation with America, boost up the all-aspect relations with other developed and medium countries such as Japan, Russia, India, South Korea, Australia and other powerful countries included in the European Union such as Germany, United Kingdom, France and at the same time give hand to develop the shared house of ASEAN and set up the full connection with the Southeast Asia countries, including the military cooperation and multilateral cooperation. This is one of the most important foundations and external resources to help enhance the efficiency and enlarge the security space and strategic safety for Vietnam in response to the China's geopolitic pressure.

A big issue is that how Vietnam can "balance" and be always steadfast in response to the strategic calling and competition among the powerful countries in the region. The strategic competition among the powerful countries, especially the US - China relation, in this hand enhances Vietnam's geopolitic position but in the other hand limits Vietnam's strategic space to prosecute the "balanced diplomacy" in the relations with the powerful countries. To go through the "narrow door", firstly the narrow door in balancing the relations with US and China, Vietnam should both prosecute the multilateral and diversified relations, especially strengthening the relations with the powerful countries and the multilateral institutions, consisting of ASEAN, and improve the internal force, desire for independence and for a powerful Vietnam. It is said by President Ho Chi Minh that "Big power will make foreign affairs win. Power is the drum and diplomatics is the sound. The drum is big, the sound is also big"[9].

Vietnam is prosecuting the policy of "Four No"[10], consisting of no military alliance

[9] Ho Chi Minh (2000) *Full volume* (2000), Volume 4, Hanoi: Publisher of National Politics, Page 126.

[10] Before 2019, Vietnam applied the policy of Three Not, consisting of 1) not joining the military alliances; 2) not permitting any country to build military base in Vietnam and 3) not using and not threatening use of forces. Vietnam's National Defence White Book 2019 added one principle "not using or threatening use of forces in international relations".

with other countries and no use of forces. However, in the context where China is sparing no effort to monopolize the East Sea, damaging Vietnam's national security and sovereignty over this sea, Vietnam should prepare the spare solution such as setting up the strategic alliance with the powerful countries, particularly the US, so that Vietnam is always ready and well-prepared if China launches any war. This is the legitimate right of every nation and country recognized and admitted in the United Nations Charter. This is also reflected in Vietnam's National Defence White Book 2019 (Ministry of National Defence 2019: 25) .

In tandem with building and enlarging the strategic space around the country, Vietnam should enhance the strategic feature of the geographical location by creating the connection between lands, islands, seas and the air on basis of developing the technological and social infrastructure. This will rapidly enhance quality of the Vietnam's maritime frontage toward Western Pacific Ocean and facilitate the land-based connections through the border gates, especially the countries in mainland Southeast Asia, removing the disadvantages of Vietnam's narrow width. The consequential achievements of this process help create more "geopolitic resources" for Vietnam.

In parallel, it is advised for Vietnam to strengthen and activate further the national will, pride and indomitability, consisting of creating the connection between 96.2 million of Vietnamese people and more 4 million of overseas Vietnamese ones. Concurrently, Vietnam should show the ambition of quickly becoming the "medium powerful country" to walk abreast with other powerful ones. Vietnam has understood and kept prosecuting, however, the process is not synchronous, still slow and lacks the instruments and the levers.

In addition, it is also necessary to protect the space of security and development on the East Sea (Bien Dong) in all aspects, including the legal instruments, suing China to the international court, enhancing the task of communication and public foreign affairs as well as setting up the cooperative relationship for technology study and development, especially the technologies related to seas and cyber cecurity network. At the same time, Vietnam should pay attention to improving the military power, developing many plans to fight against the wars if any. The most important thing is to boost up the national solidarity so that every Vietnamese person, both domestic and overseas, may gain more profound awareness of the Fatherland's sovereignty. These are the solutions to develop the national combined power which are also feasible to protect and enlarge Vietnam's security and development space currently and in the coming decades.

Conclusion

Since the renewal time (1986), Vietnam has made great progression in renewing the strategic thought and actions towards developing and protecting the Fatherland, building and enlarging the foreign strategic space. Since this time, Vietnam also focuses on the policies of "more friends, less enemies", multilateralization and diversification of international relations. For this reason, Vietnam's security and development space is increasingly strengthened and enlarged. At present, Vietnam is being anchored to the tradition of mutual understanding and friendliness with neighbouring countries, "justice to win brutality, humanity to beat ruthlessness", combining the national power with tendency, power of the present era, strengthening the internal forces, taking full advantage of external forces, enlarging the strategic depth by keeping being open, integrating and joining actively the international events. However, it is constant that Vietnam always faces pressure in terms of security and development from powerful countries, especially the geopolitic ambition of China. Vietnam's living space is being challenged, particularly the seas and the cyber security network. For this reason, Vietnam should reach more typical actions such as promoting the studies, planning the strategies, enhancing the communication and foreign affairs, combining the fights in all aspects, consisting of politic-economic, cultural and legal foreign affairs, attracting more resources, strengthening, intensifying and connecting the internal forces, reinforcing the national defence power in order to protect and enlarge the foreign strategic space for Vietnam's more favorable career of national construction and development in the current context.

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PAPER

The Construction and Reconstruction of Global Health Governance System under Public Health Emergencies

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Abstract A series of public health crisis disrupted throughout the 21st Century, bringing global health governance under spotlight and consequently challenging its existing structure. Analysing based on Zürn's three layers of the global political system that consist of normative principles, political institutions and the interactions between authorities, the article highlights that the current global health governance structure is under pressure for restructuring and reforming. The article argues that the key to enhancing international cooperation in combating public health crisis, is to reform the global health governance from its existing monopolist power structure to a multilateral governance model; and the normative principles should be adapted for regulating measures for combating public health emergencies, and their enforcement capacity should be enhanced. The article proposes that the World Health Organisation (WHO) is in need of reshaping the organisation by reducing its image as a political authority, while strengthening its role as a professional and independent global health authority, competent to lead in combating global public health crisis. Actors, such as non-government organisations and private corporations should also be given legitimate and institutionalised roles to the largest extent in the global health governance.

Keywords: Public health emergencies, Global health governance, Global governance, the World Health Organisation, Reconstruction.

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Introduction

A series of public health crisis disrupted throughout the 21st century has brought modern public health governance under global spotlight. The recent Coronavirus disease 2019 (COVID-19) pandemic spreading across every corner of the world poses unprecedented threats to human life, and further underlines the importance of global public health governance and the needs to reassess its existing structure.

Following the 2003 Severe Acute Respiratory Syndrome (SARS) outbreak, amendments were made to the International Health Regulations (herein IHR) in 2005 as a remarkable first step to enhance the post-war global health structure, strengthen the role of the World Health Organisation (herein WHO) as the global health authority, and enhance measures to respond to public health emergencies. Despite these amendments, global health system continues to be dominated by a WHO-centred monopolist power structure, underprepared in face of the increasingly threatening global health crisis, such as influenza A virus subtype (H1N1), Zaire ebolavirus (Ebola) and COVID-19. The article therefore argues that the existing global health governance needs fundamental reforms and reconstruction to effectively respond to future global public health emergencies.

The article will first illustrate the history and setup of post-war global health system, and underline the systematic issues surrounding the WHO-centred monopolist power structure (section 1). Based on Zürn (2018)'s three layers of the global political system, the article will then evaluate the challenges brought by a series of significant public health emergencies to the existing global health governance structure (section 2). Through assessing the implementation of IHR from both international hard and soft law perspectives, the article will illuminate the key challenges to the governing legitimacy and authority of WHO (section 3). It will also analyse the limitations and complexities of WHO's interactions with other global entities including sovereign states, United Nations (UN) bodies, intergovernmental organisations and non-governmental actors (section 4), before eventually proposing to restructure the future global public health governance (section 5).

1. The Structure of Modern Public Health Governance

The modern global public health governance is constructed based on the Constitution of the World Health Organisation (herein the Constitution) in post-World War II (WWII). By integrating all pre-war international health institutions and unifying various public health normative principles into one, the global public health governance formed its present day WHO-centred monopolist power structure. While such a structure has improved the overall convenience and efficiency of global health governance, it led to a high degree of isolationism and bureaucracy limiting the system in its multilevel normative principles, governing authority and multilateral legitimacy in the decision-making process.

1.1 The Monopolist Structure of Global Public Health Governance

Zürn (2018) highlights three "distinct but interlinked layers" of the global governance system that inspires the analysis of this article. The first layer is a set of normative principles that "provide justification for the exercise of authority in the global governance" (p.7). The normative principles in forms of international authority are established for the overall purpose of preventing anarchy through achieving global common goods and individual rights; this justifies states and non-states actors' actions to fulfil their international duties even when that may compromise their own interests (p. 8); the second layer encompasses a set of international and transnational institutions that "exercise a form of authority" in different spheres (p. 8). According to Zürn (2018), many inter-and transnational institutions are in the form of "epistemic authorities". Sovereign states delegate the competence to these institutions to gather and interpret information and are expected to follow the guidance and recommendations given by the institutions (p. 9); The third layer of global governance is the interactions between different state and non-state actors like inter-and transnational authorities. These interactions make up "the most important systematic features of global governance" (p.10), yet highlight the many systematic shortcomings and legitimation problems challenging the existing global governance arrangements (p.10). Building on this analytical framework of global governance, the article will evaluate the existing global public health governance system. The post-war global health governance is essentially dominated by a monopolist governance structure centred around WHO. Firstly, the core of such a global public health governance system is formed by a set of multi-level normative principles constituting a range of international soft and hard laws. The first level of the principles is defined in the Constitution as the primary law of global public health. The Constitution sets out the basic principles, duties, organisational structure, legislative power, budget and expenditures of WHO. It also defines the rights and obligations of Member States as well as WHO's relations with other organisations. The second level is constituted by the secondary laws, and among which, the IHR is the only international agreement on public health events recognised and accepted by nearly all Member States. It defines the roles and responsibilities of WHO and Member States as well as sets out procedural requirements for all parties to work together. The IHR is consequently the most significant international law for safeguarding global public health security. The third level is constituted by Resolutions, Guidance, Advice and Standards issued by the WHO, covering a range of topics including disease controls, medications and environmental health standards.

The WHO moreover operates and serves as the global public health governance authority. By integrating three major pre-WWII public health institutions, it is the only public health governance authority, forming the monopolist power structure of today's global health governance. According to the Constitution, WHO has legislative power in public health in forms of Treaties, Agreements and Regulations. The Director-General of WHO as stated in the IHR (2005) "shall make every effort" to settle a dispute.

Lastly, the global public health governance is characterised by a range of interactions among institutions and authorities. Formed around WHO as its core, the global health governance system is essentially dominated by sovereign states and supported by non-official actors such as NGOs and private foundations. The WHO collaborates with Member States through its six regional offices and 149 stations worldwide, providing necessary preventive measures, treatments, and health services and advice.[1] The WHO's collaborations with non-official actors are only formally recognised and established through three procedures, that are setting up informal contacts, gaining permission and eventually being accepted to establish a formal relation with WHO.[2] Only through these procedures, non-states actors are given certain rights and responsibilities to legitimately work with the WHO.

1.2. The Shortcomings of the Monopolist Global Public Health Governance Structure Before 2005

Global public health security was significantly enhanced by the post-war public health governance, its structure had yet many underlying limitations. While the core of global public health governance was formed by a set of multilayer normative principles, each layer had failed to evolve and develop with the change of time. Firstly, as the primary law, the Constitution enabled the right to health as one of the basic constitutional rights. However safeguarding people's right to health was often in conflict with international free trade and with other basic human rights, including the rights to privacy and freedom of expression. This was particularly prevailing in face of disruptive public health emergencies. As the supreme law, the Constitution did not clarify ways to balance these rights in handling the emergencies. The second layer of the normative principles was made of several outdated secondary laws. Among all, the IHR (1969) had long been considered as "outdated, narrow, and ineffective" (Gong et al., 2011, p. 34). This was partially because the Regulations only focused on three traditional contagious diseases, namely cholera, plague and yellow fever. It failed to consider the potential danger of emerging or recurrent diseases spreading cross borders. The third layer was consisted of a set of soft laws, including Decisions, Advise, Guidance and Standards issued by WHO to guide the coordination of global public health affairs. The non-binding nature of these soft laws, however, allowed Member States to escape from their fulfilling duties and responsibilities, resulting in an ineffective global public health legal framework.

Secondly, as the sole global public health authority, WHO had but rarely exercised its legislative power as stated in the Constitution. The Organisation was disengaged in handling public health affairs that concern human rights and key global issues. Furthermore, although article 93 in IHR (1969) set out procedures for conflict resolutions, it did not legitimise the enforcement power of WHO's Director-General and its decision-making body to resolve these conflicts. Suspending the Member State's voting privileges and services it is entitled was the only measure WHO could take to punish a Member State failing to fulfil its financial obligations to the Organisation.[3] The Annual World Health Assembly possessed the authority to adopt

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[1] WHO, *Cooperation with countries,* available at: https://www.who.int/country-cooperation/en/ (accessed 2 May 2020)

[2] WHO, *Criteria and principles for secondments from nongovernmental organizations, philanthropic foundations and academic institutions (*WHO, April 2020), available at: https://www.who.int/about/collaborations-and-partnerships/who-s-engagement-with-non-state-actors (accessed April 2020)

[3] Constitution of the World Health Organisation (adopted 22 July 1946, entered into force 7 April 1948) 14 UNTS 185. Chapter III, Article 7 p.189

health-related technical regulations and standards, but yet addressing the potentially conflicting demands for disease containment and commercial free trade principles.[4] Without a strong enforcement power to mediate and settle disputes, WHO's authority was severely challenged.

Thirdly, one of the main features of the global governance system is constituted by the interactions among institutions. According to Habermas, only when such interactions form a power cycle, can the stability of existing global health governance structure be sustained. Unfortunately, within the global public health governance system, WHO had multiple difficulties interacting with its Member States, particularly when handling public health emergencies. For instance, concerned with being imposed unfounded travel and trade restrictions by other countries, many Member States hesitated to report outbreaks to the WHO. Heavily dependent on official reporting from its Member States, WHO was unable to obtain timely information regarding potential public health emergencies and failed to efficiently set up procedures to contain diseases from spreading internationally.

Lastly, legitimised participation of multilateral actors in the governance system was largely restrained. WHO and Member States formed a relatively exclusive governance system that limited the legitimacy of other global actors participating in the decision-making process. One of the main theses of the normative principles is to legitimise multilateral actors' involvement in global health governance. However, legitimate participation of non-official bodies like NGOs and multinational corporations in the decision-making process of global health governance remained rather rare. Before being officially recognised as WHO's partners, non-official actors must have had a minimum two-year established working relation with the WHO, meanwhile implementing a three-year working plan with the WHO's technical department.[5] However, few non-governmental actors were able to achieve such formal working relations with WHO, and most were neither able to participate in WHO-hosted conferences nor access the Organisation's official documentations. Although many non-governmental actors contributed greatly to WHO's projects, they were disqualified from further entering the key decision-making stage ultimately dominated by Member States and a selective few non-governmental actor (Grigorescu,2020, p. 98-99).

1.3 The Challenges of Public Health Emergencies to Global Public Health Governance and its Response

In the 21st Century, major international health crisis like SARS, HIN1, Ebola, and COVID-19 pushed for reforms of the global public health governance system. In response to SARS 2003, the post-war health governance structure revealed its major underlying problems, and the IHR (1969) were insufficient in leading the global combat against emerging public health crisis. The amendments of IHR in 2005 led to reforms in global public health governance

[4] Ibid., See Chapter IV, Article 21 p192-193

[5] WHO, *Criteria and principles for secondments from nongovernmental organizations, philanthropic foundations and academic institutions,* available at: https://www.who.int/about/collaborations-and-partnerships/who-s-engagement-with-non-state-actors (accessed 30 March 2020)

addressing public emergencies. Despite improvements brought by these reforms, the recent Ebola and COVID-19 crisis further exposed the fragility and underdevelopment of the current public health governance in handling global health events.

An effective public health governance system is constituted of key factors including a set of multi-layered normative principles, governing authorities, and interactions among the institutions (Zürn 2018). In the following section, the article will engage with these key factors to explore the challenges brought by major global health emergencies to the existing public health governance, pressuring for its reconstruction.

2. The Multi-layered Normative Principles of Global Health Governance

Globalisation has led to an increasing demand for interdependent norms, principles, and regulations for cross-border interactions (Zürn, 2018). A set of widely acknowledged and up-to-date normative principles are at the core of an effective governance system. Following the SARS outbreak in 2003, IHR reformed its vague regulations and introduced "Public Health emergency of International Concerns" (PHEIC). On this basis, the IHR (2005) developed a set of international soft law and enhanced its multi-layered normative principle in solving acute public health risks. Despite the improvements brought by the reforms, the increasingly threatening public health crisis in recent years continues to challenge the IHR as the core normative principles of goal health governance as well as its ability in solving global crisis.

2.1 Reforming the IHR in 2005

The overall purpose of IHR remains to "prevent, protect against, control, and provide a public health response to the international spread of disease in ways that are commensurate with and restricted to public health risks, and which avoid unnecessary interference with international traffic and trade".[6] On this basis, the IHR (2005) have made several reforms. Firstly, the IHR (2005) aim to enhance its implementation effectiveness, through reforming its focus on infectious diseases and its vague theoretical narratives on measures to be taken by Member States and the WHO in handling an infectious disease. The term "International Infectious Diseases of International Concerns" was moreover contested and tabooed by Member States where outbreaks originated. To address the issue, a concept named Public Health Emergencies of International Concerns (PHEIC) was introduced in the IHR (2005). A PHEIC is defined as "an extraordinary event … to constitute a public health risk to other States through the international spread of disease; and to potentially require a coordinated international response".[7] The focus of PHEIC on public health emergencies in need of global attention and action does not imply political, trade and socio-economic consequences feared by Member States, which ultimately enhances the implementation effectiveness of the IHR.

Secondly, the IHR (2005) define the roles and responsibilities of WHO, Member States, and relevant participatory bodies in handling a PHEIC, detailing measures of

[6] IHR, supra note 8 at Article 2.

[7] Ibid., Article 1.

monitoring, information sharing, alerts issuance, and response. Each Member State establishes an IHR National Focal Point (NFP) and WHO sets up an internal IHR Contact Point. The NFP network and WHO's IHR Contact Point maintain close interactions: all NFP centres are accessible for IHR-related communications with WHO and relevant sectors, and should report truthfully to the WHO regarding any potential PHEIC. Furthermore, to reduce all potential global public health risks, IHR (2005) extend the NFPs' monitoring areas, covering both existing and newly discovered diseases, as well as emergencies caused by non-infectious diseases.

Thirdly, the IHR (2005) appoint WHO as the sole authority in determining a PHEIC with a set of strict standards and procedures. Only the Director-General has the right to establish and chair an IHR Emergency Committee, making the final determination of a PHEIC and delivering Temporary Recommendations to address the situation.[8] The decisions are made based on "advice from the Emergency Committee, information provided by the State Parties, scientific experts, and an assessment of risks to human health, risk of international spread of disease and of risk of interference with international travel".[9] In efforts to further strengthening WHO's role as a public health authority, the Regulations state that after receiving information for a potential PHEIC, WHO as an impartial organisation with advanced technical resources and knowledge, can establish an extensive network to evaluate information, provide guidance for actions and measures, and give necessary technical supports following the development of the events.

Fourthly, the IHR (2005) reconstruct the monopolist power structure by providing more opportunities for non-official actors to legitimately participate in the public health governing process. Being able obtain information from informal sources to evaluate and determine a PHEIC, WHO has become less dependent on formal reports from Member States and to a certain extent improved its long-term bureaucratic working structure.[10] Moreover, representatives of non-official actors with formal working relations with the WHO are allowed to attend meetings and conferences hosted by the Emergency Committee, delivering memos, making speeches, or providing relevant information to the Director-General on the long-term constructive proposals initiated by the WHO's Review Committee.

Lastly, the IHR (2005) enhance the stability of global public health governance by considering the public health capabilities of Member States into the decision-making process. For instance, for the first time ever the global emergency response system evaluates Member States' public health resources and their governing capabilities in monitoring and responding to public health events as key factors, and incorporates these factors into the decision-making process. The comprehensive evaluation consequently strengthens the overall stability of the governance structure.

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[8] Ibid., Article 12.

[9] WHO, *International Health Regulations and Emergency Committees* (June 2016), available at: http://origin.who.int/features/qa/emergency-committees/en/ (accessed May 2020)

[10] IHR, supra note 8. Article 9.1: "WHO may take into account reports from sources other than notifications or consultations and shall assess these reports according to established epidemiological principles and then communicate information on the event to the State Party in whose territory the event is allegedly occurring."

2.2 The Ineffective Implementation of the Global Health Emergency Response Measures

Based on the IHR (2005), WHO establishes a set of international soft laws including guidelines for prevention, controlling, and response to prevent outbreaks from spreading internationally. The guidelines comprise the Health Emergency and Disaster Risk Management, the Sendai Framework for Disaster Risk Reduction 2015-2030, and WHO's Health Emergencies Programme. They aim to reduce disaster risks and prevent loss of life, livelihood and health (WHO, 2019a), to define a framework for Member States' strategic response and responsibilities, and eventually to introduce ways for global communities and institutions to join efforts.[11]

Following the H1N1 crisis, WHO's Executive Board further reforms the IHR by establishing an IHR Review Committee to conduct independent evaluations and give feedback to the operational process of the Regulations. In May 2011, the Committee examined WHO's work in handling H1N1 and its implementation of the IHR (2005). It concludes that despite the efforts of the Regulations in strengthening the prevention and global response to public health emergencies, the international community is still ill equipped for combating similar or more severe PHEICs in the future.[12] This conclusion projects the underprepared global community in face of COVID-19.

Following such a notion, the underlying issues faced by the existing global governance structure are not essentially caused by the lack of rules and regulations, but rather by their implementation effectiveness. Many public health emergencies in the 21st century reveal the weak enforcement of the IHR as the biggest challenge to public health governance. Without sufficient enforcement mechanisms, the IHR have never fully managed to compel its 196 Member States to comply with the rules. Relying mostly on peer pressure and public recognition to isolate or damage the international image of a country, the WHO does not have legitimate law enforcement power to punish Member States that fail to act in accordance with the Regulations. The non-binding international soft law nature has consequently turned the IHR into "a tiger with no teeth", leaving the global community fragile in face of COVID-19.

Overall, despite the reforms brought by the IHR (2005) in reconstructing the global public health system with a focus on combating PHEIC, the non-binding nature of the Regulations fall short in face of the ever more severe and threatening public health crisis.

3. WHO as a Global Public Health Authority

Managing a public health emergency demands efforts from a united global force under an effective leadership. According to Zürn, "inter-and transnational authority comes not only in the form of political authority … but most frequently in the form

[11] The Sendai Framework for Disaster Risk Reduction 2015-2030 (adopted 18 March 2015), UNISDR/GE/2015

[12] WHO, *Strengthening Response to Pandemics and Other Public-Health Emergencies - Report of the Review Committee on the Functioning of the International Health Regulations (2005) and on Pandemic Influenza (H1N1) 2009* (WHO 2009), available at: https://www.who.int/publications/i/item/strengthening-response-to-pandemics-and-other-public-health-emergencies (accessed March 2020)

of epistemic authorities …" (Zürn, 2018, p.8). In face of the different levels and kinds of challenges brought by major public health emergency outbreaks throughout the 21st century, the global community has expected WHO as an epistemic authority to play a vital role in all stages of handling a public health emergency, providing its advanced technical support and resources to predict, constrain, monitor and resolve the emergency, and eventually helping the society recover from the crisis; the global community further expects WHO as an international authority to safeguard people's rights to health without undermining other human rights and free trade. Unfortunately, in times of crisis, WHO fails to exhibit as a forceful epistemic authority, leaving the crisis management process to nations' "self-help" strategies. Constrained by its bureaucratic governance, limited legislative capacity, and inadequate coordinative power, WHO ultimately fails to act as an effective global public health authority.

3.1 WHO's Bureaucratic Structure

Following the long-term freeze on WHO's regular budget in the 1980s and a wave of criticism towards the Organisation's low efficiency in the 1990s, WHO had gradually lost its central position and influence over global public health governance in the late 20th Century. The health emergencies disrupted in the 21st century, however, compelled the WHO to rebuild and strengthen its role as a global authority in managing health events through providing technological support and public health resources. Following the outbreaks of SARS and Ebola, WHO established a wide range of expert communication networks to evaluate information and give advice. This has enabled the Organisation to give timely and adequate coordinative and technical support to manage a health crisis, and further enhanced its ability in handling public health emergencies. WHO has also acted swiftly in determining and alerting COVID-19 as a global emergency, sharing relevant information with the public and gathering scientists, sponsors, and medical providers to develop testing methods, vaccines, and medicines.

Nonetheless, despite WHO's efforts in rebuilding its role as an independent and professional public health authority, the Organisation's work has been largely undermined by its long-lasting bureaucratic structure. Due to its non-transparent and inefficient bureaucracy, WHO has had limited success in implementing the IHR (2005) to restructure and reform global public health governance. When Ebola was once considered the "emergency within emergency",[13] WHO was heavily criticised for its inefficient management and slow response to the crisis. The Emergency Committee had recognised the high risk of Ebola spreading regionally and its complexity and danger,[14] but only managed to determine Ebola as a PHEIC nine months later. Such a delay led to a widespread scepticism towards the transparency of the Committee's decision-making process (Eccleston-Turner & Kamradt-Scott, 2019) as well as towards

[13] WHO, *What this-the largest Ebola outbreak in history-tells the world*, (WHO May 2020), available at: https://www.who.int/csr/disease/ebola/ebola-6-months/lessons/en/ (accessed 25 May 2020)

[14] WHO, *IHR Emergency Committee on Ebola in the Democratic Republic of the Congo*, (WHO, 18 October 2019), available at: https://www.who.int/dg/speeches/detail/ihr-emergency-committee-on-ebola-in-the-democratic-republic-of-the-congo (accessed March 2020)

the list of selected Committee members published only after Ebola was determined as a PHEIC.[15] Many further question the Committee's unusual long working lengths. Following a range of revisions by the WHO Ebola Interim Assessment Panel, the conclusion indicates that organisational bureaucracy, information communication, and internal decision-making modules were among the main reasons contributing to the delay of its actions against Ebola (Ottersen et al., 2016).

3.2 WHO's Incapability in Balancing between Health Right, Human Rights and Economic Trade

The right to health was established as one of the basic rights when the Constitution was drafted (Sohn, 2012). Since then, the right to health remains a core value for global public health governance, but severely undermined under public health crisis. Measures to contain virus and safeguard people's right to health often come at a cost of slowing economic activities and limiting people's freedom of movement. Sometimes the measures could even imply to completely halt economic activities and breach other basic constitutional rights. When an outbreak happens in one country, Member States often overreact and take severe measures against this country, by imposing large-scale trade restrictions, installing excessive quarantine procedures, and using virus containment plans as an excuse for establishing inappropriate and unfair trade policies. The restrictions and policies installed during times of public health emergencies often lead to severe economic impact for countries and even the entire international community.

This means that public health emergencies impose risks to not only public health but also global travel and trade, violating the rights to privacy, freedom of movement, and other constitutional rights. One of the main mandates for global public health governance therefore is to protect people's right to health without harming global trade, economic development, and other constitutional rights. The IHR (2005) have given power to WHO and its Director-General to take on the task following the outbreak of SARS in 2003. The Regulations stipulate that when measures of isolation or quarantine limit personal freedom necessary to take place, States "shall treat travellers with respect for their dignity, human rights, and fundamental freedoms, and minimise any discomfort or distress associated with such measures",[16] and the fee of these measures should be charged according to relevant regulations. The IHR also state that countries implementing restrictions must inform WHO of the context, reasons, and evidence of restrictive measures within 48 hours, and prove that economic restrictions are reasonable.[17] Based on the actual situation, WHO and its Director-General evaluate the restrictive measures and their impact on international transportation, trade, and personal freedom, before determining these measures as reasonable to achieve an appropriate degree of health protection. On this basis, WHO and its Director announce

[15] M.C. Hardiman and World Health Organization Department of Global Capacities, Alert and Response, *World health organization perspective on implementation of International Health Regulations.* 18(7), Emerging infectious diseases (2012)

[16] IHR, supra note 8 at Article 32

[17] IHR, supra note 8 at Article 43

short- or long-term recommendations for travel and trade restrictions.[18]

In practice, however, the mediation power and rights given to the WHO and its Director-General are like a tiger's "fake teeth" in handling major public emergencies after SARS. During the outbreak of H1N1, many Member States had taken measures against international trades and none reported to WHO justifying their actions as demanded by the Regulations. Similarly, during the Ebola outbreak, more than 40 countries had taken measures resulting in disrupted international trades and traffic, and only a few reported to the WHO (Ottersen et al., 2016). In face of a potential global outbreak of COVID-19, WHO issued multiple alerts to Member States that restricting global movements is ineffective to contain the spread of the virus. Many countries around the world regardless issued travel and trade restrictions, without reporting and justifying their measures to WHO within the required 48 hours. With regrets, the WHO's Director-General concluded that "one of the biggest challenges the globe faces in combating the global epidemic is that too many countries affected by the disease failed to share data with the WHO" (Gebrekidan, 2020).

Measures such as imposing trade and transportation restrictions are often considered as a state's sovereign rights. Member States are unwilling to give up or transfer these rights to an international public health institution for collective actions. This ultimately limits the abilities of WHO Director-General and relevant bodies in effectively mediating disputes and conflicting interests. With the authority of WHO under attack, issues such as nationalism and diplomatic crisis begin to emerge as Member States take up their own response measures, leading to chaos in global public health governance.

3.3 WHO's Power Vacuum in Combating Global Health Emergencies

The UN Secretary-General Antonio Guterres declares that, "[COVID-19] is … a human crisis that calls for solidarity… Current responses at the country level will not address the global scale and complexity of the crisis".[19] The G20 also expresses that the damages of this pandemic can only be resolved through global cooperation.[20] With the increasing globalisation of public health management, traditional biomedical terminologies like hygiene and health have evolved into concepts concerning human rights, justice, gender, sustainable development, education, agriculture, and trades. WHO as the sole global public health authority is however in a state of power vacuum, failing to fulfil its responsibility in handling the unprecedented socio-economic complexities and consequences brought by a public health crisis like COVID-19. In other words, the existing WHO-oriented monopolist power structure of the global health system is in need of reconstruction to meet the global demands for a forceful

[18] Ibid.

[19] A. Guterres, *Secretary-General's opening remarks at virtual press encounter on COVID-19 Crisis*, (United Nations Secretary-General, 19 March 2020), available at: https://www.un.org/sg/en/content/sg/speeches/2020-03-19/remarks-virtual-press-encounter-covid-19-crisis (accessed March 2020)

[20] UN News, *G-20 Summit Provides Chance to Rally Strongly Against Coronavirus Threat: UN Chief*, (UN News, 20 March 2020), available at: https://news.un.org/en/story/2020/03/1060142, (accessed March 2020)

authority and procedures to mediate among Member States and global institutions in handling public health crisis.

4. The Interactions among Multilateral Institutions in Global Public Health Governance

One of the main compositions of global governance is the interactions among all institutions, including various global authorities and international regulation bodies (Zürn, 2018). Modern public health governance is essentially dominated by sovereign countries with support from intergovernmental organisations, multinational corporations, and other non-governmental actors. The overall governance structure is characterised by a high degree of exclusiveness with limited interactions among institutions. The disruptive public health crisis in recent years has to some extent forced open the system, by taking into considerations of the governing capabilities of Member States as one key factor in the decision-making process, and by giving non-governmental actors more opportunities to collaborate with WHO on a limited scale. As a double-edged sword, the sovereign-states-dominated global governance structure unfortunately does overall more harm than good to public health governance, continuously restricting non-state forces from joining the key decision-making process.

4.1 The Sovereign-State-Dominated Global Governance that does More Harm than Good

Sovereign states are a double-edged sword to the global governance system. On the one hand, sovereign states and especially the most powerful ones play an important role in global governance, promoting international collaborations and reaching agreements. On the other hand, states driven by self-interests are often in disputes with one another, which often jeopardises the global governance stability. Within the global public health system, for instance, sovereign states consented to the amendments of the IHR and the set of normative principles in global public health. But in face of emergencies, sovereign states prefer to act in their own interests, doing consequently more harm than good to overall health governance.

The IHR (2005) for instance define a range of detailed duties and responsibilities for WHO and Member States to handle a PHEIC at different stages. During major public health crisis, Member States are supposed to report the outbreak to the WHO; but “political incentives or fear of economic disruption means timely reporting does not always occur” (Jha, 2020). When a PHEIC concerns states’ sovereignty, WHO is caught in the power struggles among Member States and unable to take forceful financial or legal actions to compel these states to fulfil their obligations (Ao & Sun, 2019, p. 150-160). As a result, although regional or local WHO offices can detect a government’s non-transparent or failed actions in handling a health crisis, WHO has limited power in questioning the government and can hardly influence its public health policies (Kickbusch at al., 2020, p. 1336). The Organisation’s public health governing ability is severely challenged by such limitations.

4.2 A Forest without Trees: The Global Health Governance on its Own

Prior to SARS, the global public health governance system did not take into consideration individual Member States' public health governance capacities, making the system "a forest without trees". After SARS, Member States' public health governance capacities were incorporated in the IHR (2005) and in the global health governance system as an important factor in the decision-making process. But due to the drastic fall in social expenditures on housing, health care, and education, national public health is often the least prioritised and most underfunded compared to a country's overall socio-economic development (Galway et al., 2012, p. 38). The global financial crisis in 2008 has led to the further reduction of governments' funding to public health, following a series of economic reforms and privatisation. Many researches indicate the disastrous impacts of these reforms on national public health, hitting particularly hard on the world's poorest (Ottersen, 2014, p. 630-667). The consequences of the weakened public health capacities among Member States leads to overall ineffectiveness of global public health governance in safeguarding people's right to health and protecting people from health emergencies.

4.3 The Limited Opportunities of NGOs, Foundations and Corporations

According to Habermas (1989), discourse creates a right of socialisation that depends on mutual recognition. Although such socialisation cannot replace bureaucracy in a system, they can indirectly insert pressure over the decision-making process. In global health governance, non-governmental forces such as NGOs, private foundations, and corporations act as a form of power to indirectly influence the global public health governing structure.

Research indicates that the power of global governance has been gradually taken over by non-sovereign governing bodies (Sending & Neumann, 2006, p. 651-672). This also applies to global public health governance, where non-governmental actors had rarely been legitimised to take part in. However, since the 1990s, non-governmental actors have gradually obtained their recognition, inserting influences over the WHO and the UN mainly through communication and information. This means that the more professional knowledge and information a non -governmental actor provides, the better chances the organisation can interact with policy makers and further influence the political outcome. In other words, the ability to obtain information has given some non-governmental actors a certain degree of influence.

When handling a public health emergency, NGOs and other non-governmental forces have created an even more powerful "siege" over the global health governance system. As Habermas (2003) writes, most operations in political systems are routine based. In incidents of conflicts, these routines will be trumped by another mode of operation. The non-governmental forces in times of public health emergencies, not only play a role as "risk capitals" in influencing the financing and implementation of international health programmes, but also challenge the monopolist global health governance through their strong multinational networks, resources, professional knowledge, and capacities to mobilise public opinion. Despite the increasing influences of non-governmental actors, however, the legal procedures for these organisations to work with the WHO remain "non-official". During COVID-19, for instance, the foundation WHO established with non-governmental actors is rather an act of expediency than an effort to establish a formal institutionalised legal procedure for working with non-governmental actors.

4.4 The Isolated UN Entities in Face of a Global Crisis

The spread of COVID-19 has highlighted the limitations of modern global governance structure. According to Zürn (2018, p. 10), contemporary global governance is primarily constructed by functional systems that are sector-based: intergovernmental and multinational institutions are established based on specific areas and responsibilities, with limited dispute settlement mechanisms among each other. This consequently leads to the question of governing legitimacy when facing a global crisis.

Global public health governance also faces the same challenges. Prior to the IHR (2005), WHO was not legitimised to work with other UN bodies or intergovernmental organisations. After SARS 2003, the IHR (2005) incorporate provisions promoting cooperation among international organisations and creating legal channels for WHO to collaborate with other international entities.

Despite this effort, WHO and other UN bodies remain rather separated governing entities. This has become particularly obvious when all organisations needed to work together in face of a global public health crisis. During the early stage of COVID-19, different UN bodies including the International Monetary Fund (IMF) made statements and proposed solutions focusing on their own areas of concern, such as economy, agriculture, and labour, without addressing the pandemic as the root cause of all problems (Gostin, 2014, p. 134). With the growing impact of COVID-19 to global economy and society, UN entities gradually recognised the importance of collaborating with each other and issued rare joint statements. These collaborations however hardly depict the reality of overall global governance, where each international organisation focuses on the importance of its own area of work; and often the more powerful and resourceful ones would gain an upper hand in influencing the governing outcome. For instance, at a joint press conference with the WHO, IMF as a more resourceful organisation underlined the ultimate importance of saving livelihoods, despite WHO's emphasis on saving lives.[21]

5. A Rethinking on Global Public Health Governance Structure

Never in modern history has a public health crisis like COVID-19 brought as severe consequences on such a global scale. The pandemic urges us to rethink on the present-day global health governance, in order to gather and align full forces among Member States and UN bodies when handling the next potential crisis. To achieve this, the

[21] K. Georgieva, *Remarks by IMF Managing Director Kristalina Georgieva to G20 on Economic Impact of COVID-19,* (International Monetary Fund, 22 February 2020), available at: https://www.imf.org/en/News/Articles/2020/02/22/pr2061-remarks-by-kristalina-georgieva-to-g20-on-economic-impact-of-covid-19 (accessed March 2020)

WHO's monopolist power system should be reformed into a multilateral co-governance structure, and on which basis to improve the multilevel health emergency normative principles. A new international convention, namely the *Convention on Global Public Health Emergency Response* should be in place to reform global emergency measures and to strengthen WHO's enforcement power under the new structure. The WHO should further strengthen its role as an independent and professional global public health authority, leading the combat against global health crisis. Other actors such as NGOs and corporations should be allowed into the global public health governance given legitimacy and institutional power to a larger extent.

5.1 Global Public Health Emergency Measures and the Reconstruction of Global Public Emergency Response

Habermas (2003, p.442) points out that when a crisis occurs, people often first think of legal mediations, which entails a process of from emerging crisis awareness to growing public concern and eventually to searching for solutions. In other words, when a problem emerges … the public opinion pressures for an alternative way of problem solving, which is often likely to orient on legal mediations within the power cycles. When handling COVID-19, the IHR (2005) as legal measures in preventing and combating public health emergencies are not only weak in its enforcement mechanisms, but also too limited to take the lead in handling a public health emergency on such a global scale. While countries around the world declare and take measures against COVID-19 as a national emergency, the unprecedented public health crisis is also in need of an alternative overarching global solution. Therefore, as the world continues to reflect on lessons learnt from COVID-19, the *Convention on Global Public Health Emergency Response* with clearly defined regulations and collective responsibilities should be imminently established and adopted to protect the global community.

The primary goal of the *Convention on Global Public Health Emergency Response* as an alternative solution is to build an integrated platform for handling global public health emergencies. There has never been a common global health dialogue platform among International Organisations, sovereign states, and non-governmental actors (Gostin, 2014, p. 117); the UN and other multilateral organisations are inherently unprepared to respond to many interconnected challenges. As a result, the primary task for the *Convention on Global Public Health Emergency Response* is to build a platform for dialogues, which also serves as the basis for coordinated mediation measures. This will ultimately help resolve the governing chaos among UN bodies focusing only on their own areas of concerns. The WHO and other UN entities can further form alliances that will integrate all essential health equipment and public and private health resources to respond to the crisis, and eventually promote an aligned and unified global health governing body in action. Furthermore, in face of an international health crisis, especially when protecting the right to health conflicts with economic trades, WHO should overcome its usual submissiveness when working with "stronger" organisations like the WTO and IMF. Instead it should take a lead in enforcing measures handling global crisis caused by disruptive public health emergencies.

The secondary aim of the *Convention on Global Public Health Emergency Response* is to enhance the democratic representative system and accountability mechanism, which serves as a basis for reforming and strengthening the ability of the UN in handling large-scale global crisis. The UN Security Council (UNSC) is the only executive body with means of military intervention and economic sanctions in compelling states to comply with UN measures. The UNSC can take the most direct and important measures in declaring a health crisis as a threat to global peace and security. During the Ebola outbreak, the UNSC issued an alert with international legal effects. When facing a more severe global outbreak like COVID-19, UNSC should take further steps, authorising representatives from international organisations in forming a global emergency committee led by the WHO in coordinating necessary resources to respond to the emergency.

The third aim of the *Convention on Global Public Health Emergency Response is* to provide a public health fundraising framework based on realising people's right to health. Member States are obliged to fulfil their international responsibilities in ensuring sustainable financing for global public health. Under such a framework, Member States should follow a Quota Subscription scheme to contribute to funds for global health affairs and in situations of responding to public health emergencies.

5.2 Reconstructing WHO as the Global Public Health Authority

During COVID-19, WHO as a global public health authority has faced unprecedented challenges to its professional ability in testing, issuing alerts, gathering information, and setting global standards. A core proposition for the future of global public health governance is to strengthen WHO's role as a professional and independent global health authority, through diminishing its bureaucratic nature to prevent influences from powerful sovereign states and to ultimately strengthen its independence and professionalism free from political interference.

Firstly, the WHO should enhance its data, technical support, and financing to strengthen its professionalism and independence. Data wise, the Organisation's work is often constrained by relying on sovereign states' reporting on an outbreak, which is often manipulated, delayed, or not reported at all. This to a certain extent limits the reliability of the data in depicting the reality and prevents WHO from issuing timely and credible alerts. During COVID-19, data provided from John Hopkins University was considered more trustworthy and widely shared than from the WHO. As a result, in response to a public health crisis, the WHO should work with various data providers to enhance the reliability and credibility of its statistics. The WHO should further set virus testing and detecting standards to systematically assist countries in improving their technical capacities. And lastly, the WHO should be able to provide financial support when a Member State experiences financing difficulties in response to a public health emergency.

Secondly, while WHO should enhance the transparency of its Emergency Committee's work in handling a public health emergency, a permanent Emergency Committee should be in place instead of its current temporary setup. Introducing a middle category between PHEIC and non-PHEIC can further help define a clearer coordination and escalation mechanism (Ottersen et al., 2016, p. 356-392).

Thirdly, the WHO should promote better interactions with its Member States to strengthen its mediation and enforcement ability in dispute settlement. Jha proposes the public health system to learn from the global financial sector that also engages with epidemiological terms such as “contagion or surveillance” (Jha, 2020). For example, the WHO can do as the IMF to establish a testing mechanism that uses the IHR to test if countries can give comprehensive, timely and transparent reporting related to an outbreak. Jha further proposes that the WHO can establish a system that provides an “epidemic insurance” to countries with open and comprehensive health data systems, in order to encourage truthful reporting to the WHO.[22]

Lastly, the WHO should upgrade its many “international soft laws” that have no legal binding power to “international hard laws”. This will establish a strong enforcement mechanism in compelling its 196 member states to follow rules and regulations. When a Member State fails to comply, the WHO should not solely rely on “peer pressure” and “public recognition” to isolate the country or damage its international image. It should further emulate the WTO in establishing a strong and powerful Dispute Settlement Body, to reinforce its leadership in implementing case rulings concerning disputes between the right to health, economic trades, and other human rights.

5.3 Strengthening the Interactions within Global Public Health Governance

Zürn (2018, p. 6) argues that global governance should allow more legitimate participation of multinational corporations and institutions. Giving more legitimacy and easing the conditions for non-governmental actors to establish official working relations with the WHO will enable more actors to participate in the final decision making phase of global health governance (Gostin, 2014, p. 134). This will further allow the IHR to be better integrated with other emergency and humanitarian response frameworks and will ultimately widen financing means to WHO’s core functions. Moreover, multinational corporations have benefited tremendously from globalisation. In return, these corporations should be taking up more humanitarian and social responsibilities to assist the WHO in tackling global challenges and contributing to enhancing global public health governance. Many NGOs and grassroots organisations can also help implement solutions to global health issues. Organisations, such as the Global Health Workforce Alliance, Vaccine Alliance, and Global Fund, are able to give community feedback and their implementation experiences to the governance system, which will potentially improve the overall implementation effectiveness of global public health governance. On the other hand, WHO should address public concerns towards the accountability of NGOs and quality of their work, through reforming its monitoring procedures towards both local and international NGOs. This will enable the Organisation’s systematic evaluation and understanding of NGOs’ impact. Among many large international institutions, the Global Fund established in 2002 has been one of the main donor institutions for NGOs. WHO can establish a comprehensive data base by monitoring the Global Fund’s work and activities with NGOs worldwide (Galway, et al., 2012, p. 38).

[22] Ibid.

Conclusions

The current global health governance is characterised by the WHO-centred and sovereign states dominated monopolist power structure. One of the underlying issues of such a governance model has resulted in the unequal distribution of public health resources worldwide, profiting richer individuals and societies while leaving only 10% of public health research funds to resolve 90% of global diseases (Delisle, 2005, p. 3). The underlying cause is the unequal distribution of global power. Within the unequal system, global public health governance is under pressure to obtain adequate financial, technical and political support and resources, and unable to establish fair public health policies and to close the global health inequality gap (Kentikelenis & Rochford, 2019, p.70). The series of public health crisis in the 21st century has further worsened such inequalities; COVID-19 as an unprecedented public health crisis has led to chaos in global public health governance, and sent an alarming signal to the world that any seemingly insignificant public health events in one country can evolve into a global crisis deeply affecting our socio-economic life.

Firstly, it is important to strengthen the ability of the UN and other multilateral organisations in responding to global crisis, and to establish an overall multilateral global governance structure that promotes unified global health actions. This will provide opportunities to reform the existing global health governance structure characterised by self-interest-driven sovereign states and separated UN entities, and ultimately enhance global health protection.

Secondly, establishing sufficient legal reserves and enhancing multilevel normative principles are at the core of unifying global public health governance efforts. Therefore, a new international instrument, namely the *Convention on Global Public Health Emergency Response*, should be in place to protect human health in crisis and to provide as a foundation for global collaborations. When restructuring global public health emergency measures, the world needs a set of clear procedures strong and a forceful multilateral authority to mediate demands between health and economy and trade in face of a global crisis. WHO as the global health authority should establish and work towards the common goal of safeguarding public health without interference from sovereign states' political interests. And on this basis, the WHO can establish a strong dispute settlement mechanism and strengthen its authority in global health governance.

Lastly, the article argued that more multilateral actors should be allowed in the global health governance. With an enhanced evaluation and monitoring system for non-official actors and NGOs, an open and legitimised process enabling these actors in the health governance structure can help realise a true global governance.

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PAPER

Inflation Rate and Gross Written Premium (GWP) Influence on the Profitability of UAE Insurance Sector. A Post Financial Crises Analysis

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Abstract This study highlights how the profitability of insurance companies is affected by the gross written premium (GWP) and the inflation rate in the United Arabs Emirate (UAE). The sector of insurance globally has been affected due to the financial crises in 2007-2008. UAE insurance sector witnessed a shrink from 2008-2010. This research discovers the impact of the inflation rate and gross written premium (GWP) on the profitability of the United Arab Emirates (UAE) insurance sector from 2010 to 2019, and how the insurance sector improved during the post-financial crises. The UAE insurance market offers two types of insurance: the conventional insurance, that allows individuals to shift the burden of riskiness loss to the insurance firm, and the *Takaful* insurance that collects the premium by the members in order to ensure that there's no damage or loss against each other.

Islamically insurance is essentially an idea of mutual help; therefore, the difference between the two insurances should be cleared up. In developed countries, individuals may own a range of assets and have exposure to potential risks that demand some form of life and/or general insurance protection. They also desire to secure incomes for their own confiscation or family members in the event of their death. In developed countries, businesses also are more plausible to use insurance to lessen the financial impact of adverse events. Insurance sector in developing countries has shown an increase even if the level of development of this one remains low compared to developed countries since the developing countries have a lack of coverage. Insurance can help society to improve livelihoods, increase the country's productive capacity and secure prosperity.

Islamic insurance is a replacement model to conventional insurance, which is *haram* (forbidden) in Islam. It consists of some elements that are forbidden in Islam which are:

- *Riba* (usury)
- *Gharar* (ambiguity)
- *Maisir* (gambling)

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Islamic insurance is built on the base of assistance, protection, responsibility and assurance, mutually. Ideally, it is based on *tabarru* (donation), since Islamic values are the set of morals inspired by God, Islam, the Qur'an and the Sunnah that make up the fabric of the Islamic personality, and make it integral capable of living interaction with society, harmony with its members, and work for the sake of the soul, family and belief.

The alternative to conventional insurance, Takaful, is based on the concept of Ta'awun meaning mutual assistance. It is a form of good virtues by helping others who are in need or in hardship. It can also be further explained as participants mutually contribute, as a donation, for the purpose of mutual indemnity to other participants in cases of peril or harm. This concept pre-dates the Islamic era when the rough model of Takaful was practised by Arabic tribes, holding to the principle of pooled resources to help the needy on a voluntary and gratuitous basis. Among the examples of early Takaful, the merchant of Mecca were pooling funds for victims of natural disasters and assistance extended to families of murder victims.

In general**,** conventional insurance operates on a bilateral arrangement, where there are 'Gharar' elements where the premium collected is used to qualify the payout in the event of death (where death itself is uncertain). However, for a Takaful contract, based on the contract of *tabarru*' (donation), it becomes a unilateral arrangement where some degree of uncertainty is tolerated.

Over the past few years, the insurance sector all through the world was influenced by strengthening the impact of the budgeted emergency of 2007-2008. Along the lines of the overall worldwide pattern, despite the fact that the benefit of the UAE, the insurance sector saw a decay from 2008–2010, the goad in its improvement rates (10%) in 2012 and 2013 is astounding contrasted and the negative development rate in business sectors.

Along the lines of the worldwide pattern, although the gainfulness of the UAE, the Insurance Sector saw a decay from 2008–2010, the prod in its development rates (10%) in 2012 and 2013 is amazing compared with the negative development rate in created markets.

The study has made an attempt to analyse the factors that affect the profitability of the insurance sector in the United Arab Emirates during post worldwide monetary emergency. Inner components incorporate size, development in GWP, piece of the overall industry, influence, dissolvability edge, speculation proportion and misfortune proportion. The effect of influence, size and development in GWP on firm productivity is huge. Further, per capita GDP has a positive and critical effect on benefit while the impact of expansion is huge with a negative sign. The selected factors are growth in GWP and inflation rate. The inflation rate is macroeconomic, while growth in GWP is the internal firm-specific factor. The impact of the growth in GWP is studied to be significant with a probability of less than 5% which means that it is unlikely to have occurred by chance.

Keywords: assurance, monetary emergency, medical coverage, protection incomes, reinsurance organizations, liquidity.

Introduction

Human beings are exposed to the risk of damage, injury, accident, disability and so on. In other to face those risks, an individual need to anticipate loss and reduce the consequence of adverse conditions. The whole idea of a model of insurance is an agreement between two individuals for coverage of any future unexpected financial losses. Under the conventional insurance companies, the main goal is to minimize risk; an individual transfers a particular risk to the insurance company who restores to the party affected part, if not full, of the loss suffered. It guarantees a loss reduction if any accident or ill-starred situation happens. In this insurance structure, this agreement has no problem. But its acceptance to the Islamic rulings is debatable. If an insurance policy is being purchased the holder is guaranteed loss coverage by the insurance company, soon after the payment of premium is made. This may contravene the Islamic ruling that prohibits return on *riba*.

This industry has a primary job in encouraging national financial development because it offers fillip to different divisions of the economy, for example, wellbeing, engine, foundation, banking, and capital markets. Experimental examinations have featured a positive connection between's protection improvement and financial development (Enz, 2000; Arena, 2006). Subsequently, contemplates dissecting the presentations of the protection part have gotten impressive consideration from scientists in both developed and the developing economies.

The GDP development, populace, and financing costs impact the extension and benefit of the protection area. These and other large scale financial factors it has proved to significantly affect the protection development of an economy (Beenstock et al., 1988; Browne and Kim, 1993; Fortune, 1973; Headen and Lee, 1974).

Worldwide protection division was affected by the gradually expanding influence of the money related emergency of 2007–2008, for example, the fall in the worldwide value markets, decrease in the loan costs and monetary log jam. Even though protection industry in the GCC has encountered relentless development in the most recent decade, delayed worldwide vulnerability has presented generous difficulties to it by making unpredictability in speculation esteems and returns. Be that as it may, the joined gross composed premium (GWP) in the area has developed at a CAGR of 11.8% since 2008 to 2012 (Swiss Re, 2010) fuelled by GDP development, necessary medical coverage in certain purviews and increment in the populace. UAE is the biggest protection advertise in the GCC with over $7.2 billion (Dh26.4 billion) protection incomes in 2013, which is around 45% of the premiums written in the GCC (Moody's Investor administration).

This sector performance is also influenced by a range of internal factors. There have been studies where factors such as company size, age, underwriting risk, solvency margin, and leverage were found to have a significant impact on company profitability (Batra, 1999; Ćurak et al., 2011; Ismail, 2013; Majumdar, 1997; Malik, 2011; Shiu, 2004;). However, few studies have analysed the financial performance of the UAE insurance sector after the financial crisis in 2007–2008. It is intriguing to take note that the spike in development rates accomplished in 2012 and 2013 is greatly contrasted with the negative development rates in two major markets in particular Japan (– 7%) and the US (– 6%). Notwithstanding the sound development rate, IMF and various rating organizations have considered UAE's protection industry stuffed which unfavourably affects the market's general execution. In 2013 protection authority has proposed a huge number of guidelines for combination and further fortifying of the division. In the light of the above talk, it might be noticed that 2009–2013 has been an intriguing period with a progression of advancements in the UAE protection segment concerning its money related execution and the macroeconomic condition in the nation. Subsequently, it is basic to dissect the components which have affected the gainfulness of the protection part in UAE.

Insurance is needed, just like any financial institution like the stock market and banking sectors, for the country to grow economically. Denial of insurance importance cannot be accepted because of its huge contribution to the economic outlook. Example insurance 6.23% is spending in the worlds GDP. For developing countries are about 2—4% and for developed countries is around 8-11%. The whole sector of insurance is very important to the country to improve economically.

Specifically, because it also boosts the other economic sector like health, motor, capital markets, banking and infrastructure. Studies have shown good collation existing in insurance development and the country's growth economically. Macroeconomic factors like interest rates, GDP, population influence the profitability of a country. The Return on Assets (ROA) of the UAE insurance sector is given below.

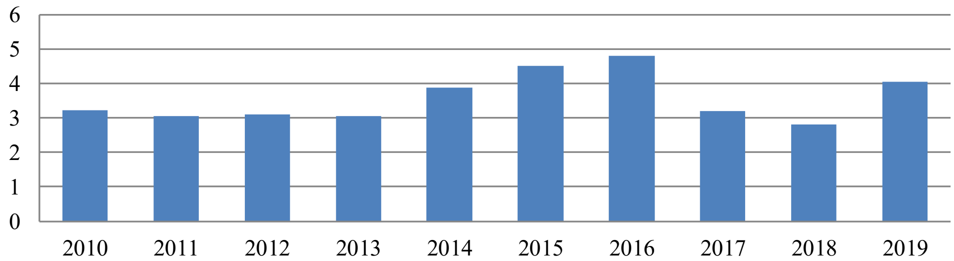

Figure 1. Average ROA of the UAE insurance sector, 2010-19

Source: Compiled from the Annual Reports on the activity of the Insurance Sector in the United Arab Emirates from 2010 to 2019

Research Objectives

The main aim of this research is to discover how the inflation rate and GWP affect the profitability of the United Arab Emirates (UAE) sector of insurance from 2010 to 2019. The inflation rate is the macroeconomic components chosen while the firms internal factors is GWP. ROA is indicated the profitability or financial performance.

Literature review

Based on the GWP United Arabs Emirate is ranked the 39th based on global GWP. It is a country that is very well diverse with a combination of different nationalities across the entire globe. The newly introduced regulations for the insurance companies and the amendments made really helped in the growth of the market. After a very strong increase in 2012-2015, the growth slowed down because of the economic condition. An expansion of 18.4 ppts has been made in the medical insurance section in between 2011 and 2015 to 47.8%. Accident, medical and the liability are 80 percent covering the lines of the non-insurance. The medical insurance business increased and encountered growth at a compound annual growth rate of over 20 percent. The emirates of Abu Dhabi introduced more than a decade ago a new rule of making it mandatory for individuals to have medical insurance which was later adopted by the other emirates, which will likely boost the overall performance of insurance companies of the country. The UAE market sector of insurance is highly competitive and disintegrated 61 insurance providers present in the insurance market, 34 local and 27 foreign companies out of which 11 offer takaful insurance. The global insurance sector is estimated to have a GWP of $4.4 trillion in 2017. There was an improvement of 9million in 2017 from 2016 which was based on the listed insurance company's profitability accounting for more than half of the country's GWP. The insurance sector of UAE accumulated a net profit of 245.5 million USD in 2016 compared to a previous loss of 51.5millionUSD in the previous year.

A policy was set by the government of new tariffs for 3rd party insurance, 40% raise in premium resulted by the new policy imposed by the government. The new tariff contributed to the expansion of the overall industry's gross written premium (GWP).

Budgetary execution of the protected area in the US, UK, and other created economies. The absolute most punctual examinations on the determinants of gainfulness of the protection part in the US was directed by Wright (1992) on the financial and administrative issues of the disaster protection organizations where he contended that genuine mortality experience, speculation procuring, capital additions, and misfortunes, the size of policyholder's profits and government and state charges influences the monetary exhibition of insurance agencies.

From there on, thinks about directed on the connection among gainfulness and market structure, creators found a noteworthy positive effect of fixation on benefit (Bajtelsmit and Bouzouita, 1998; Chidambaran et al., 1997; Choi and Weiss, 2005; Cole et al., 2015; Dafny et al., 2010). Anyway, the vast majority of them were not able to give proof on whether this positive relationship was because of a conspiracy among the backup plans or productive tasks. Studies identifying with the effect of firm-explicit factors on the budgetary presentation of protection part in the created economies incorporate the examination of Bermuda protection and reinsurance organizations during the period 1993–1997 where influence and friends type were seen as emphatically identified with organization execution while hazard and liquidity were contrarily related (Adams and Buckle, 2003).

General protection area in Poland during 2002–2009 utilizing the relapse model, the outcomes demonstrated that decrease in engine protection with a synchronous increment of different kinds of protection, development in net premium, working cost decrease, GDP development, and piece of the pie development for outside organizations positively affects gainfulness and cost-effectiveness though offering a too wide range of classes of protection has a negative effect (Kozak, 2011). Burca and Batrinca (2014) utilized fixed and arbitrary impacts model in their examination and indicated proof of the huge effect of development in net premium alongside different variables viz. influence, size, endorsing hazard, chance maintenance proportion, and dissolvability edge on the money related execution.

Charumathi (2012) examined the effect of six free factors on the budgetary exhibition of the Indian life back up plans and presumed that size and liquidity have a noteworthy and positive impact while influence, development of GWPs, and volume of value have a negative and huge impact. Comparable outcomes appeared concerning size and influence in an investigation on the Pakistan protection

The showcase which likewise found that volume of capital and misfortune proportion significantly affected the money-related execution (Malik, 2011). Conflicting to the above outcomes, in an investigation of Ethiopian protection segment execution by Mehari and Aemiro (2013) GWP and liquidity were seen as inconsequential while size, misfortune proportion, substance, and influence have appeared as noteworthy elements. Ismail (2013) directed an examination on the general Islamic and customary insurance agencies in Malaysia where venture yield is utilized as the proportion of money related execution.

Utilizing three models of board information estimation the creator found that size, retakaful is the Islamic alternative in contrast to the reinsurance business. In brief, a takaful organization pays premium to a retakaful organization so the retakaful organization accepts a part of the takaful organization's risks. In actuality, a takaful organization can't endure the entire risks of covering its members' claims. In the event that debacle strikes, the takaful fund might be exhausted rapidly and get bankrupt, in which case everybody — the members, the investors, and the takaful administrator — loses. Subsequently, they have the reinsurance business called retakaful. R*etakaful* / reinsurance reliance and dissolvability edge are measurably critical with the general Islamic insurance agencies. The previously mentioned factors alongside loan cost levels, liquidity, and premium development were critical for the budgetary exhibition of traditional insurance agencies. The Middle East protection showcase has been getting consideration from scientists in later occasions in case of the administrative and basic changes in these economies.

Almajali et al. (2012) broke down the insurance agencies recorded on the Amman Stock Exchange during 2002–2007 utilizing numerous relapses and found that liquidity, influence, organization size, and the executives' fitness list have a factual beneficial outcome on safety net providers. An investigation on determinants of money-related execution of the Tunisian disaster protection organizations inferred that tallness, age, and premium development are critical for execution estimated by ROA while influence, substantial-quality, liquidity, and hazard have no noteworthy effect (Derbali, 2014).

In an examination breaking down the effect of corporate administration instruments on monetary execution of Bahrain protection firms, Najjar (2012) saw that board size, firm size, and number of square holders significantly affect firm execution communicated by return on value (ROE). In UAE, Rao et al. (2010) dissected proficiency and profitable issues of protection area during the period 2000–2004.

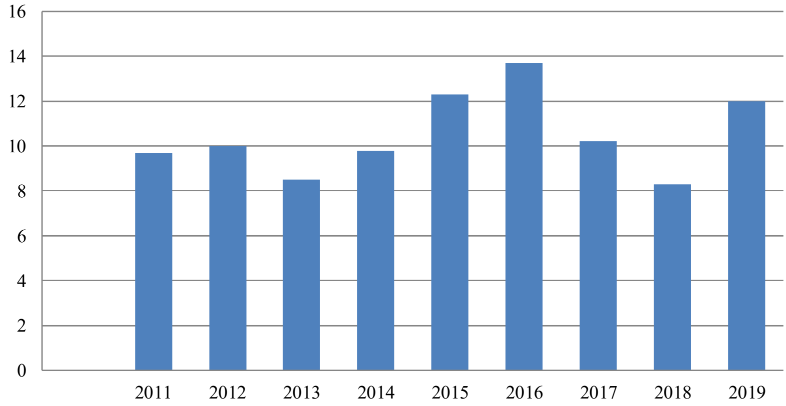

Figure 2. Growth in GWP in UAE, 2011-19

Source: Compiled from the Annual Reports on the activity of the Insurance Sector in the United Arab Emirates from 2011 to 2019

Inflation is also one of the most important factor as individual's are risk averse change in inflation being either high or low, will lead to people reducing their consumption of insurance products. Researchers have found mixed evidence that a negative relationship exists between the insurance company's profitability growth and the inflation rates, in China an opposite study was found. They explained that the greater the inflation rate in the country, the greater the growth of the economy of the country. The increase in the inflation rate only decreases the profitability of the insurance companies, as proven during the financial crises, the performance of the insurance sectors only declined and during the post financial crises the insurance sectors started improving on the part of their finances and operations which was caused by the rapid increase of the inflation rate in UAE during the financial crises.

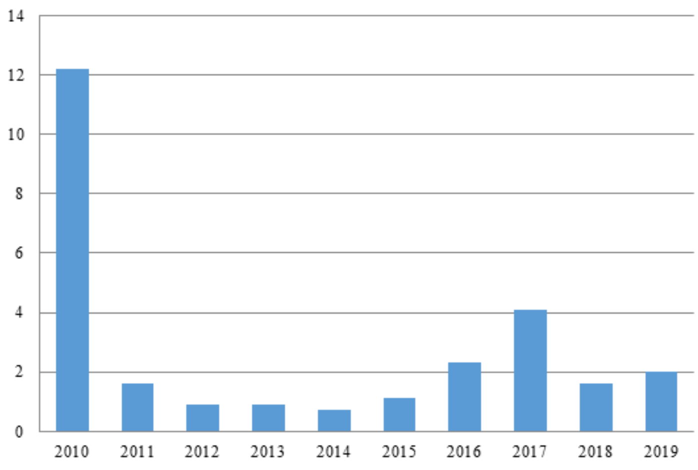

Figure 3. Inflation rates in UAE, 2010-19

Source: Compiled from the Annual Reports on the activity of the Insurance Sector in the United Arab Emirates from 2010 to 2019

Investment in insurance companies plays an important role, insurance sectors invest premiums in to generate revenue. They invest in bonds, stocks and so many other assets. The insurance companies literally have two main source of generating revenue which are return on investments (ROI) and premiums from underwriting activities. Rules and regulations for the insurance companies were declared by the insurance authority in order to protect the interest of the shareholders and the policy holders, and also protect the insurance company from being bankrupt. These regulations worldwide are in line best practice applicable. The regulations not only protect the rights of the shareholders and policyholders but also protect the insurance companies from potential risk they may encounter.

Limits of investment determined by the financial regulations the invested assets permitted for insurance companies.

Table 1. Limits of invested asset for insurance companies

Asset invested type	Limits
Real estate	30%
Equity instruments in UAE	30%
Equity instruments outside UAE	20%
Government securities	100%
Cash and deposits with banks in UAE	5% minimum
Loan secured by life policies issued by the company	30%
Financial derivatives used for hedging	1%
Loans that are secured.	30%
Other invested assets	10%

Source: The annual report of the Insurance Authority, UAE

Insurance Companies' Investments

The complete funds invested all different sectors in 2018 arrived at AED 63.6 billion, contrasted with AED 60.7 billion out of 2017 with an expansion of AED 2.9 billion and a level of 5%. The venture arrangement of organizations is described by expansion and dissemination of dangers in the various classes of investments. This is predictable with the Financial Regulations gave by the Authority, which manages all arrangements identifying with the guidelines, classifications and cutoff points of ventures. These speculations were circulated as follows:

Table 2. Insurance Companies' Investments and Their Invested Assets

Type of Invested Assets	Value in Billion Dirhams 2017	Value in Billion Dirhams 2018	Percent of Total of 2017	Percent of Total of 2018
Real Estate Investment	5.144	5.801	9%	9%
Equity & Debt securities	22.525	23.952	37%	38%
Cash & Deposits	16.041	17.848	26%	28%
Loans secured by Life Insurance policies	0.161	0.162	0%	0%
Loans, Deposits and other instruments that are rated A	4.968	3.884	8%	6%
Investment in Associates	0.502	0.682	1%	1%
Other invested assets	11.321	11.280	19%	18%
Total of Invested Assets	60.662	63.608	100%	100%

Source: The annual report of the Insurance Authority, UAE

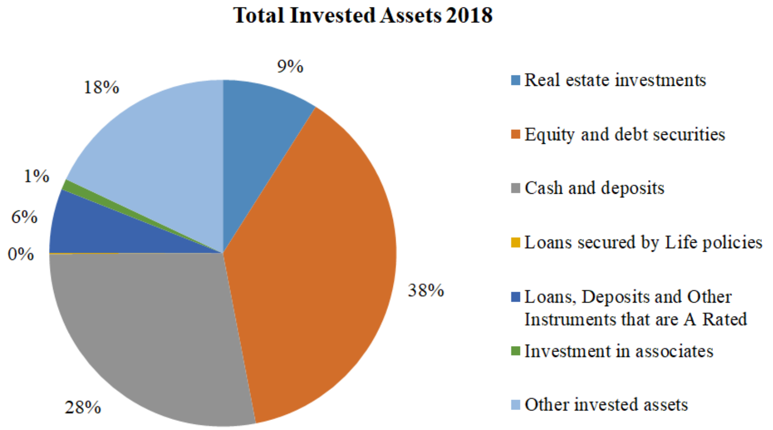

Figure 4. Insurance Companies' Investments and Their Invested Assets
Source: The annual report of the Insurance Authority, UAE

Methodology

This study reveals the performances of the insurance sector during post-financial crises period. It also studies the effect of microeconomic factors such as inflation rate, Gross written premium and insurance firm's specific factors the researcher set the following research objectives.

- To study the specific firm factors that affect profitability and growth of insurance sector (ROA).
- To compare the level of affected microeconomic variables based on the profitability of the insurance companies.
- To analyse the impact on profitability in the UAE' insurance sector regarding the macroeconomic factors and firm-specific factors during the selected years.

The researcher had collected data from the audited annual reports on the activity of the Insurance Sector in the United Arab Emirates from 2010 to 2019. Also gathered data from Milliman, Market monitor, UAE insurance industry report preliminary from the year 2010 to 2019. Further the researcher arranges the collected data and studies the relevant statistical tools. To find the results and validate the hypothesis the researcher employed the following statistical test. The employed tests were least square, Pairwise Granger causality test, Skewness and Kurtosis. Statistical Package for the Social Sciences was used to analyse the collected data. The following hypotheses were validated after analysing the collected data.

H_0: ROA does not have a significant relationship with the inflation rate
H_0: ROA does not have a significant relationship with GWP

Data Collection

The research is according to a secondary data collected from an audited yearly report for insurance companies in UAE. The data was secondarily collected from yearly reports of insurance company. Macroeconomic information was extracted from the central bank of UAE, Knoema Corporation, International Monetary Fund & World Bank. The main highlight of this research is to observe performance of the UAE`s insurance market sector after financial crises which is during the recession years 2009-2011 and to learn what factors that played an important role during and after the recovery period (2011-2019).

The variables such as return on asset, size, leverage, gross return premium, investment ratio, Market share, risk ratio, and loss ratio are the firm-specific variables that have been studied to determine the financial performance of insurers. These variables are described and defined in Table 3. Financial performance of insurers has been lightening by the dependent variable, the ROA. Some of the researchers in the past have considered various measures for company financial performance for their studies such as ROA, ROE, ROS, EVA. ROA has been the most widely used financial performance indicator in studies on insurance (Agiomirgiannakis et al., 2006; Ahmed et al., 2011; Burca and Batrinca, 2014; Chen et al., 2009; Ćurak et al., 2011; Liebenberg and Sommer, 2008). ROA is an indicator of the efficiency with which a firm uses its total assets, measuring net profit generated for each dirham of net assets.

The firm-specific and macroeconomic variables used in this study are selected based on the relevant theory and literature. Size, growth in GWP, market share, leverage, solvency margin, investment ratio, risk retention ratio and loss ratio are the firm-specific variables that have been in a vast number of studies on determinants of a financial performance of insurers (Almajali et al., 2012; Charumathi, 2012; Derbali, 2014; Mehari and Aemiro, 2013). GDP per capita is one of the macroeconomic factors included in this study and needs a special mention here. There are some studies which have included real GDP growth while a few other studies have considered the GDP per capita. Beck and Webb (2002) argued that countries with large GDP per capita have high life insurance consumption (Sen and Madheswaran, 2007). In another study by Bhatia and Jain (2013) GDP per capita was found to be highly correlated with insurance penetration, density and absolute amount of premium. In yet another study on the determinants of financial performance of insurers, the authors have included gross national income (GNI) per capita as one of the macroeconomic variables (Doumpos et al., 2012).

Descriptive statistics

A brief summary of the samples and the measures have done by this particular research study. Supposition of normality is required to be looked over before carrying out any statistical course of action. Given that about all the variables are asymmetrical and the kurtosis values are not normally distributed as shown in the data below. The skewness in inflation rate is high because it is greater than 1, for the ROA and growth in GWP the skewness is moderate.

Table 3. Supposition of normality of asymmetrical and the kurtosis

	Inflation	Growth	ROA
Mean	2.750000	10.43000	3.558750
Median	1.600000	9.900000	3.210000
Maximum	12.20000	13.70000	4.800000
Minimum	0.700000	8.300000	2.800000
Std. Dev.	3.463219	1.689214	0.696423
Skewness	2.306524	0.743865	0.684654
Kurtosis	6.889971	2.418694	1.994179
Jarque-Bera	15.17170	1.063024	1.202784
Profitability	0.000508	0.587716	0.548048
Sum	27.50000	104.3000	35.58750
Sum. Sq. Dev	107.9450	25.68100	4.365043
Observations	10	10	10

Source. Knoema 2018 and AMOSS Statistical Software

Table 4. Table showing the descriptive statistics of the specific variables

Variables	Mean	Median	Standard Deviation	Skewness	Kurtosis	Jarque-bera
ROA	3.3881	3.876	4.7233	-2.1691	10.5984	378.71102
Size	9.018	8.866	0.3.53	0.343	2.1334	7.345786
Leverage	37.999	28.107	31.9678	1.9756	6.8985	150.8987
Gwp Gr	0.0751	0.053	0.20012	0.0407	3.9846	5.159862
Investment Ratio	0.4274	0.406	0.2196	0.1475	2.2739	2.863570
Market share	3.879	3.001	5.2187	1.7625	4.6524	71.57835
Risk ratio	0.5132	.49820	0.2481	2.7841	10.9958	429.586
Loss ratio	0.4982	0.5134	0.2584	1.5624	10.00154	784.2566

Source: MOSS Statistical Software

Table 5. Pairwise Granger Causality Test on growth in GWP and ROA

Null Hypothesis	Obs	F-Statistic	Prob.
INFLATION RATE does not Ganger Cause ROA	8	0.19295	0.8340
ROA does not Ganger Cause INFLATION RATE		2.33046	0.2451
GROWTH IN GWP does not Ganger Cause ROA	8	3.68999	0.1554
ROA does not Ganger Cause GROWTH_IN_GWP		3.71518	0.1543
GROWTH_IN_GWP does not Granger Cause INFLATION_RATE	8	3.01187	0.1917
INFLATION RATE does not Granger Cause GROWTH IN GWP		0.61956	0.5923

Source: AMOSS Statistical Software

The probability of the analysis shows greater than 5%. Hence, all the null hypothesis were rejected and accepted the alternative hypothesis

Table 6. Least Square method to Inflation rate growth in GWP and ROA

Variable	Co-efficient	Std. Error	t-Statistics	Prob.
C INFLATION_ RATE GROWTH_ IN_GWP	-0.432922 -0.001104 0.383002	0.630852 0.028353 0.058129	-0.686249 -0.038923 6.588844	0.5146 0.9700 0.0003

R-squared	0.864770	Mean dependent var	3.558750
Adjusted R-squared	0.826133	S.D. dependent var	0.696423
S.E. of regression	0.290390	Akaike info criterion	0.608138
Sum squared reside	0.590283	Schwarz Criterion	0.689914
Long likelihood	-0.040690	Hannan-Quinn Criter	0.508228
F-statistic	22.38192	Durbin-Watson Stat	1.474797
Prob (F-Statistic)	0.000909		

Source: AMOSS Statistical Software

Depending on the results it is clear that the firm-specific factor chosen in this research which is the growth in gross written premium (GWP) has an effective impact on the profitability of insurance sector. A related result was found that a company's growth if not done with necessary supervision regarding the risk selection a pricing will be at risk. The affirmative impact of premium growth in UAE has been contributing in its underwriting activities. These findings indicate a well harmonized genuine pricing and extension by the UAE insurers.

The inflation rate is the macroeconomic factor negatively affecting the growth and profitability of sectors in insurance. The previous study has found that inflation rate negatively affects financial performance. It is noticed that during the post-financial crises the decrease in inflation rate has boosted financial performance of whole insurance sectors.

The UAE insurance sector's profitability has been increasing for a third continuous year with a general increment alongside premium development in 2019. In view of the primer revelations (22 organizations) and evaluated reports (8 organizations) of the UAE insurance agencies recorded on the Abu Dhabi Securities Exchange (ADX) and Dubai Financial Market (DFM), the Gross Written Premium (GWP) developed by 8.3% to AED 23.7b during 2019 after a little increment in 2018. The expansion in premium was essentially because of developments among recorded and non-recorded safety net providers.

The Gross Written Premium, Net Profit and the Shareholder's Equity for the 30 recorded insurance agencies are appeared.

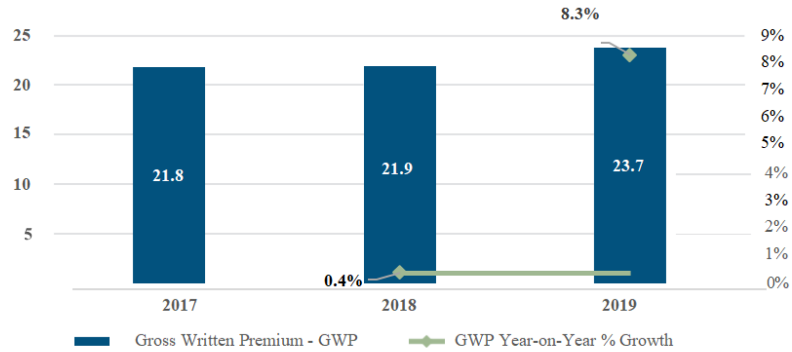

Figure 5. UAE Gross Written Premium (GWP), 3-years trend
Source: Milliman, Market monitor- UAE, UAE insurance industry report preliminary 2019

18 of the 30 organizations indicated an expansion in GWP in 2019 more than in 2018. Arrange Insurance Company and Abu Dhabi National Insurance Company both developed to outperform Oman Insurance Company to take the best two spots as far as GWP as the last encountered a decrease in premium contrasted with 2018.

On a net profit premise, the industry kept on improving for the third year straight accomplishing a net profit of AED 1,612m for 2019, contrasted with a net profit of AED 1,320m in 2018, an expansion of 22.1%. The expansion was principally because of organizations concentrating on high yielding ventures in this manner accomplishing more significant yields on their speculations portfolio. These speculation returns were conceivable because of business sectors performing better in 2019 in any case; this is definitely not an economical profitability procedure as higher yielding ventures likewise convey high hazard and unpredictability.

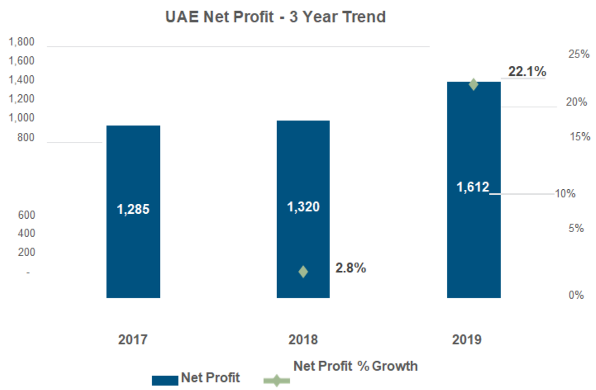

Figure 6. UAE Gross Written Premium (GWP), 3 year trend
Source: Milliman Market monitor UAE, UAE insurance industry report preliminary 2019

Takaful organizations saw a development in their top line in 2019 of 5.8% in contrast with 8.8% increase for the traditional players. All out GWP for Takaful administrators currently remains at AED 3.9b contrasted with AED 19.8b for customary companies. The Shareholder's Equity had an expansion of 6.1% in 2019 contrasted with a negligible change in 2018. The complete Shareholder's Equity for the 30 organizations developed from AED 16.5b in 2018 to AED 17.5b at year-end 2019.

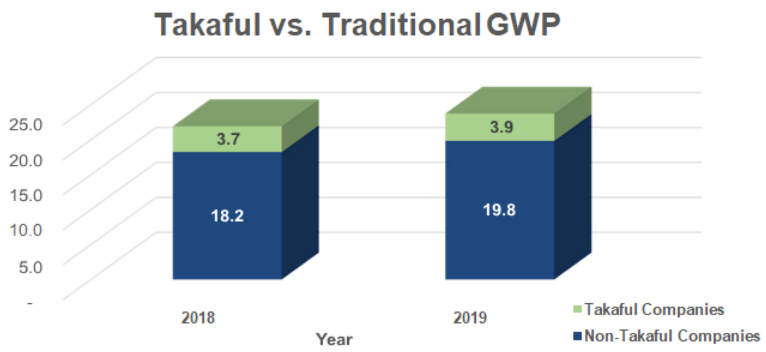

Figure 7. Shareholder's Equity (AED billions)
Source: Milliman, Market monitor- UAE, UAE insurance industry report preliminary 2019

Table 7. Premium Ranks by Company on GWP, Net Profit and Shareholder's Equity (AED Millions)

	GWP		GWP %		Net Profit		Net profit %		Share holders' Equity		Share holders' Equity %		Market Share Rank	
Insurance Company	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019.**	**2018**	**2019**	**2018**	**2019**	**2018**	**2018**	**2019**
Orient Insurance (Audited)	3,881	3,678	16.36	16.79	425	401	26.36	30.38	3,074	2,759	17.61	16.76	1	2
Abu Dhabi National Insurance Company (Audited)	3,756	2,909	15.83	13.28	284	236	17.62	17.88	2,296	2,102	13.15	12.77	2	3
Oman Insurance Company (Audited)	3,545	3,699	14.94	16.88	191	10	11.85	0.76	1,893	1,650	10.84	10.02	3	1
Al Ain Al Ahlia Insurance Company	1,154	1,514	4.86	6.91	58	30	3.60	2.27	1,203	1,144	6.89	6.95	4	4
Emirates Insurance Company	1,137	1,043	4.79	4.76	140	114	8.68	8.64	1,189	1,123	6.81	6.82	5	6

	GWP		GWP %		Net Profit		Net profit %		Share holders' Equity		Share holders' Equity %		Market Share Rank	
Insurance Company	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019.**	**2018**	**2019**	**2018**	**2019**	**2018**	**2018**	**2019**
Islamic Arab Insurance Company	1,130	1,063	4.76	4.85	59	0	3.66	0.00	771	724	4.42	4.40	6	5
Dubai Insurance Company (Audited)	971	532	4.09	2.43	76	51	4.71	3.86	541	471	3.10	2.86	7	10
Union Insurance Company	927	952	3.91	4.35	21	6	1.30	0.45	326	300	1.87	1.82	8	7
Al Buhaira National Insurance Company	867	487	3.65	2.22	22	35	1.36	2.65	656	635	3.76	3.86	9	11
Takaful Emarat	606	599	2.55	2.73	-38	14	-2.36	1.06	118	165	0.68	1.00	10	8
Ras Al Khaimah National Insurance Company	582	482	2.45	2.20	4	19	0.25	1.44	190	195	1.09	1.18	11	12
National General Insurance Company (Audited)	536	551	2.26	2.51	17	31	1.05	2.35	457	464	2.62	2.82	12	9
Abu Dhabi National Takaful Company (Audited)	489	384	2.06	1.75	73	68	4.53	5.15	396	340	2.27	2.07	13	13
Al Sagr National Insurance Company	407	356	1.72	1.62	-3	22	-0.19	1.67	344	453	1.97	2.75	14	15
Dar Al Takaful	403	291	1.70	1.33	4	7	0.25	0.53	127	123	0.73	0.75	15	21
Dubai National Insurance & Reinsurance Company (Audited)	381	351	1.61	1.60	58	53	3.60	4.02	569	541	3.26	3.29	16	16
National Takaful Company	345	300	1.45	1.37	13	12	0.81	0.91	100	96	0.57	0.58	17	19
Al Dhafra Insurance Company	324	334	1.37	1.52	79	55	4.90	4.17	392	350	2.25	2.13	18	17

	GWP		GWP %		Net Profit		Net profit %		Share holders' Equity		Share holders' Equity %		Market Share Rank	
Insurance Company	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019.**	**2018**	**2019**	**2018**	**2019**	**2018**	**2018**	**2019**
Alliance Insurance	285	291	1.20	1.33	49	51	3.04	3.86	515	497	2.95	3.02	19	20
Methaq Takaful Insurance Company	283	317	1.19	1.45	2	15	0.12	1.14	82	84	0.47	0.51	20	18
Al Fujairah National Insurance Company	275	267	1.16	1.22	31	31	1.92	2.35	284	246	1.63	1.49	21	23
Orient UNB Takaful	255	190	1.07	0.87	1	-9	0.06	-0.68	187	186	1.07	1.13	22	25
Al Wathba National Insurance Company (Audited)	250	271	1.05	1.24	23	43	1.43	3.26	783	851	4.48	5.17	23	22
Dubai Islamic Insurance & Reinsurance Co.	250	376	1.05	1.72	10	1	0.62	0.08	75	64	0.43	0.39	24	14
Insurance House	236	211	0.99	0.96	16	11	0.99	0.83	132	99	0.76	0.60	25	24
United Fidelity Insurance Company	221	146	0.93	0.67	1	-9	0.06	-0.68	76	70	0.44	0.43	26	27
Arabian Scandanavian National Insurance Company	141	168	0.59	0.77	-5	21	-0.31	1.59	290	311	1.66	1.89	27	26
Axa Green Crescent Insurance Company	46	40	0.19	0.18	0	-2	0.00	-0.15	121	118	0.69	0.72	28	30
Sharjah Insurance Company	44	53	0.19	0.24	15	16	0.93	1.21	195	195	1.12	1.18	29	28
Al Khazna Insurance	0	53	0.00	0.24	-14	-14	-0.87	-1.06	74	105	0.42	0.64	30	29
Total	23,726	21,909	100.00	100.00	1,612	1,320	100.00	100.00	17,459	16,462	100.00	100.00		

Source: Compiled from the the annual report of the Insurance Authority, UAE

Table 6 reveals the Gross Written premium, Net profit, Shareholders Equity and the market share ranking of different insurance companies in UAE. While comparing the past years GWP 8 percent has increased. Profit ratio was increasing by 22 percent when compare the previous year .2018. Share holders equity also rose from 16,462 million to 17459. It shows the positive growth of GWP and profitability of insurance sector in UAE.

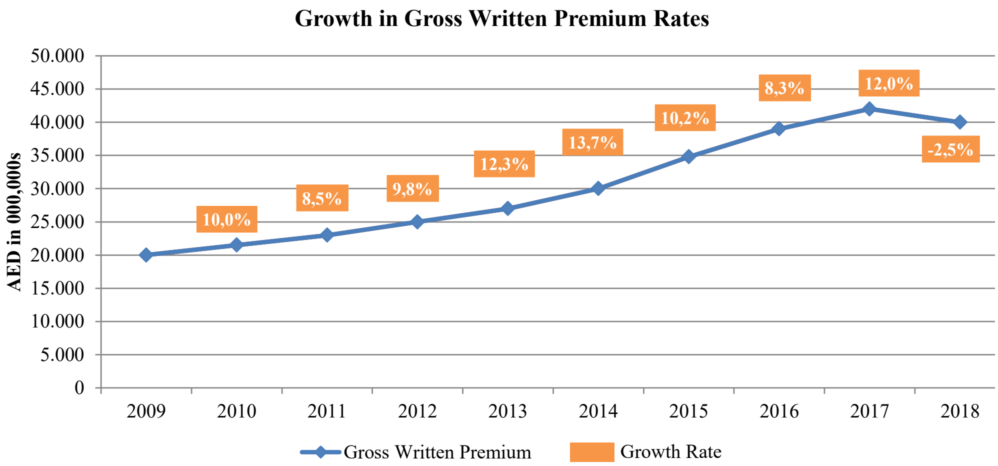

Figure 8. Growth in Gross Written Premium Rate
Source: The annual report of the Insurance Authority, UAE

Findings and Discussions

Both interior and full-scale monetary factors have been remembered for the examination. The macroeconomic variables chose are GDP per capita, expansion and financial exchange general list. Inner components incorporate, size, development in GWP, piece of the overall industry, influence, dissolvability edge, speculation proportion and misfortune proportion. The effect of influence, size and development in GWP on firm productivity is huge. Further, per capita GDP has a positive and critical effect on benefit while the impact of expansion is huge with a negative sign. Hazard maintenance proportion and misfortune proportion are inconsequential in clarifying money related execution of UAE protection part. The UAE protection firms should concentrate on the above inner elements for improving their money related execution. Volume of advantages ought not to be expanded further attributable to the unfavourable effect of size on benefit. Firms need to keep up sufficient and proper specialized stores as per the idea of their potential liabilities. This requires the appraisal ought to be finished by experts, for example, a statistician.

Further, organizations should concentrate on improving their advantage quality by constraining their interest in hazardous resource classes and incorporate greater government protections, money and stores in their venture blend. It is additionally proposed that the base capital necessity of Dhs100 million might be expanded which will urge the safety net providers to hold the premium and lessen the reinsurance reliance. In accordance with the global accepted procedures, the protection authority (IA) has given guidelines in February 2015 for institutionalizing the way toward computing the specialized arrangements which incorporates the organizations necessitating that the appraisals be finished by statisticians and furthermore set points of confinement for introduction to value, subordinates and land. When these guidelines are actualized over the organizations, it will add to the power of the protection segment which thus will improve the commitment of the division

Recommendation and Conclusion

This research's main purpose is studying factors that affect profitability of the insurance sector in United Arab Emirates. The selected factors are growth in GWP and inflation rate. Inflation rate is the macroeconomic while growth in GWP is the internal firm-specific factor. The impact of the growth in GWP is studied to be significant with a probability less than 5% which means that it is unlikely to have occurred by chance. The United Arab Emirates insurance sector need to focus on their internal specific firm's factors that boost the financial performance/profitability (ROA/ROE), where and how to invest the premiums in order to maintain the firm's profitability and avoid any risky asset classes and focus more on less risky ones like government securities which the insurance companies will get benefit.

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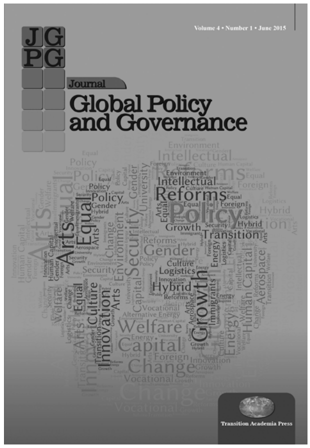

Aims and scope

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 one hundred 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 international powers and players.

How can we manage this complex of various relations and how the outcome 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, simply playing on the major emergencies and conflicts. Because, just to mention first the obsolete veto system that would be at least extended to all the 15 countries of the Security Council, both 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 a world that is not existing anymore, dissolved in the passage to the third millennium but with UN moving as in the previous century.

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 but even so assuming quite often a global political relevance that transforms them into a global issue and the connected challenges. The solution might be then achieved in national or regional groups of States but very often they escalate to continental or global international relevance. We need to sort out which solutions are the best for the problems or conflicts. We need to identify who should be the persons of good will taking the challenge and adding their political, intellectual, scientific capabilities and mighty for the reasons of the an ordinate human destiny.

The international community have to take an action worldwide to reshape the UN and its political and operative roles. The so-called global issues are definitely the ones requesting a global governance, interdependence of International Relations with finance, economy, technology, research, peace and conflicts in the new scenario with advanced knowledge until a few years ago unimaginable, new military mighty 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, researches and working papers.

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 and the real antagonist of utopian return to nationalism, sovranism and the theories dominant before the treaty of Rome in 1956 and the European Union from the founders to the EU 27. Middle East, Black Sea, Eurasia, Ukraine, Baltic, Turkey have the capability to reshape the future.

But why looking globally, the event of the last 50 years development and raising growth and international roles of China, India and even before Japan impose a new approach to leading players as US, European Union and new emerging countries in Latin America and Africa, where similar problems we have encountered in our complex transition seasons during the last previous century of the Eurasian continental emersion, with a relevance both for Transatlantic relations and the Asian contemporary competitive reality while the problematic Middle East still remains a factor of permanent instability and danger as we are in part still acing nowadays. The needs of evolutions and political solutions to reforming and giving voice and accountability to all the emerging countries emerged with their billions of inhabitants.

We really have to rethink the International Relations and the theories of Global Governance and Policy choices, accepting the pluralism of institutional architectures and ways to give voice and accountability to their citizens. The European Union represents a "non-Statehood" institutional governance, without even a traditional Constitution and with the sovereignty belonging to the member countries.

This absence of typical institutional factors that characterized the international relations of the traditional powers of the last previous century had not impeded to European Union to adopt an architecture established by the Treaty of Rome, in front of which the rest of the world was mainly sceptic until the reunification of Germany and the collapse of URSS. The illusion of the antagonists of the different European strategies and policies adopted even more with the successful the unique currency Euro and the high welfare and technologic standards already achieved by European countries. Even now, in presence of the pandemic virus hitting progressively since 2019 almost European Union countries had shown the best governance and control of the COVID-19 while all the continents, To add a valuable contribution to this scientific debate is our very aim and scope.

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Editor in-chief: Prof. Dr. Giorgio Dominese - Curriculum

Giorgio Dominese is the founder of CEEUN-Central Eastern European University Network and President of Transition Studies Research Network, being also Editor of Transition Studies Review and of the Journal of Global Policy and Governance, all of them published by Transition Academia Press.

After lecturing at Ca' Foscari Venice University (1973-1975), he was Professor of Transitions Economics at Udine University from 2002 to 2008. On 2007 he start lecturing at the Course of European Economy and Financial Governance in full English at Rome Tor Vergata University until 2012. He was for twenty-six years professor at Roma LUISS University as Chair of Economic and Policy of Transitions, then International Relations and from 2011 to 2014 was Chair of Geopolitics at the Master of Science in International Relations.

Professor Dominese has been visiting professor in Beijing at the CFAU-China Foreign Affairs University in the second semester 2012 and lecturing from 2012 to 2014 at UIBE University Beijing. He has been delivering lectures at Renmin University of China, CIIS and Tianjin University. Visiting professor at the Vietnam National University, both in Hanoi and Ho Chi Minh City in 2012 and 2013.

He had been visiting professor at Fudan University in Shanghai, at the School of International Relations, from 2008 to 2010 and lecturing at the School of International Management in 2006-2007.

He had been lecturing as well at Beijing University, at the Viet Nam National University, visiting professor at Bahia Blanca University, Argentina and at the Astana ENU-Eurasian National University in Kazakhstan, lecturing as well at George Washington University USA, EMUNI University Slovenia, MGIMO, HSE and Academy of Science-European Institute in Moscow, Latvia University Riga. Visiting lecturer at National Vietnam University, at the Singapore Economic Review conferences in cooperation with Nanyang Technological University on 2013, 2015 and this year on July-August 2019. He was presenting a main paper and seminar on Law, Economics and Growth at Chulalongkorn University Bangkok in 2015.

In 2009 he became full member of the European Academy of Sciences and Arts in Salzburg. From 2007 to 2012 he was professor at the University Tor Vergata Rome at the School of Economics as Chair of the courses in full English in Economics and Finance and from 2011 to 2013 as Delegate of the Rector and Special Coordinator for the Program Rome World University-RWU. He was Program Coordinator of the second YICGG Research Competition "Global Governance: Growth and Innovation 2020", organized in Rome in August 2008, involving young doctoral, postgraduates and graduate students, as well as Joint-Coordinator of the third edition 2009 of this event at Ilia State University in Tbilisi, Georgia, while he had been in the Judging Commission of YICGG 2013 at Fudan University. Consultant and advisor both for Italian Government and UN system Organizations, as well for multinational companies and banks, he had three years experience in international programs for Development in African and Asian countries. He was Visiting Fellow in U.S. and is Member of the IISS International Institute for Strategic Studies London; AEA-American Economic Association-USA; DGAP-Deutsche Gesellschaft für Auswärtige Politik, Berlin; DOC-Research Centre, Berlin; IPSA-International Political Science Association, Montreal; CeSPI- Centre for Politics and International Studies, Rome; IDM- Institute for the Danube Region and Central Europe, Vienna. He is Member of the Advisory Board at Taras Shevchenko University Kyiv IIR Global Sustainable Development.

Member of the IDM (Institut für den Donauraum und Mitteleuropa) in Vienna and for many years of the Scientific Boards of WiFo (Austrian Institute of Economic Research); he was expert in the follow ups of the Stability Pact for Southeast Europe and still active in several other European and Asian international research Institutions; Consul of Chile (Hon) in Venice, he had been appointed by Special Award and Paul Harris Fellowship by Rotary International for his international programs and activities.

A professional journalist up to now, he was for almost 20 years special envoy for newspapers and magazines, author of investigative journalism, main reports, comments and articles on topics and events. political issues, international relations, strategic studies, economics, finance, society and global governance. In the professional long-lasting experience, he had been advisor and consultant of main Companies and Institutions as Caffaro, SNIA, Zoppas Industries, Banca Intesa San Paolo, Elecxtrolux-Zanussi Grandi Impianti, COGEFAR-FIAT, San Benedetto, as well as Regione del Veneto, Advisor at Minister of Transport and Regione Friuli Venezia-Giulia.

Venice, July 2020

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