

Bless the Strait: Draft an Agreement Establishing a Charter for All Chinese

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Abstract Compared to the ever rising tensions on the Korean Peninsular, between Japan and China and in the South China Sea, Taiwan Strait is relatively quiet since May 2008. The economic integration and even political contacts between Taiwan and the PRC never ceased to deepen and widen to the extent that Beijing began pressing Taiwan to negotiate political issues and some American scholars advocated either Finlandization or even abandonment of Taiwan. Under such circumstance, Taiwan seems to be a well-behaved player in the Strait without any strategy except in passive response to Beijing's demands and Washington's diplomacy. However, according to the author, this passiveness is dangerous and should be replaced by a pro-active diplomacy that advocates negotiating with Beijing a charter for all Chinese. Different from the Beijing-initiated political agreement, this Charter shall switch its focus from the cross-Strait peace to the future of the whole China and peace in the region and insist upon China's democratization in exchange of Taiwan's further integration with the Mainland. Such a strategy will not only strengthen Taiwan's position in the coming political negotiations with the PRC but would find certain echo among the Chinese elite on the Mainland and scale down worries of neighboring countries vis-à-vis the cross-Strait integration. It is also feasible because Taiwan will regard this Charter as an international treaty while Beijing could interpret it as a domestic document, the deliberate ambiguity dispensable to any political agreement between two sides. It should therefore be encouraged and supported by the US and international community.

Keywords Taiwan - China's diplomacy - Asian regionalism - Charter

I. Introduction

Though there has not been a general war in the past sixty years, the Taiwan Strait was once considered one of the most explosive regions of East Asia since the end of the Cold War.¹ The People's Republic of China (PRC) in mainland insists upon the one-China principle and regards Taiwan as a rebellious province, with which it needs to unify. The Republic of China (ROC) in Taiwan is trying its best to obtain membership of international organizations and reestablish official relationship with any third countries. In the past decades, large-scale wars were avoided principally owing to active intervention of the US in the Strait, which aims to keep "China out, America in and Taiwan down."² To keep America in, the US under Obama's leadership has adopted the 'rebalancing strategy', which switched American global focus from anti-terrorism war in the Middle East to the containment of rising PRC in Asia-Pacific. To keep China out, US continues to exclude the PRC from its military maneuvering, political alliance and economic engagement in East Asia. To keep Taiwan down, U.S. opposes to any unilateral provocative action from Taiwan, and even forced Taiwan to make concessions in case of any maritime territorial disputes with American allies in the region, such as Japan and the Philippines.

The cross Strait relationship entered into détente when Ma Ying-Jeou inaugurated as ROC president in May 2008; however, neither side is fully satisfied with the status quo. Accordingly, in parallel with accelerating economic integration, Beijing has been increasing its demand to start political negotiations on political issues with Taipei. In his political report to the 18th National Congress of Chinese Communist Party (CCP), the then secretary general of the CCP, Hu Jintao, made solemnly the following statements.

"The two sides of Taiwan Strait should work together to discuss their political relationship before the nation is finally unified. Such a discussion shall include the subjects of establishing mutual military confidence building and drafting a peace agreement."³

Until now, Taiwan continues to decline such proposals while neglecting the increasing pressure from Beijing. However, all political leaders and elite in Taiwan are aware that it is unavoidable to start direct negotiations with Beijing on political issues in the future. This paper is therefore presented as a Taiwanese tentative response to Beijing's most recent demands on this issue and concludes that the Charter approach will not only benefit the Taiwanese and be acceptable to Beijing, but will also in the interests of Asian neighboring countries and the US. I will firstly present a balance sheet of Ma's mainland policy since his inauguration in May 2008, followed by an analysis of mainstream opinions of the CCP, Kuomintang (KMT) and Democratic Progressive Party (DPP) vis-à-vis the coming political dialogues between Beijing and Taipei. Then I will explain the theoretical debate, based upon which this Charter approach has developed, and the feasibility of Charter approach in Taiwan Strait. In the end, I will draw into some conclusions inspired from the arguments and findings throughout the debate.

¹ For detailed analysis of this potential danger, please see Richard Bush, *Unchartered Strait: The Future of China-Taiwan Relationship*, Washington D.C.: Brookings Institution, 2013.

² Reformulated jargon borrowed from and used by Professor Hanrieder in his famous book entitled *Deutschland, Europa und Amerika: Die Aussenpolitik der Bundesrepublik Deutschland 1949-1994* (Paderborn: Schöningh, 1995).

³ Press release of Chinese Communist Party, http://www.china.org.cn/china/18th_cpc_congress/node_7167318.htm, accessed on June 1, 2013.

II. Détente in Taiwan Strait since 2008: achievements and limits

i. Success and achievement of Ma's Mainland Policy

Though now suffering low popularity,⁴ Ma's Mainland policy is deemed a success and is supported by a majority of Taiwanese.⁵

Since May 2008, tensions in the Strait never ceased to scale down. According to Ma, DPP confrontation policy between 2002 and 2008 put Taiwan in a very dangerous situation. In diplomacy, the US and the EU both opposed to Taiwan's provocative stance. In economy, Taiwan's dependency on the mainland was rising but its industrial upgrading made progress slowly. In domestic politics, the society was divided and bipolarized. For him, Taiwan's priority was to upgrade its industry and further develop its economy, to which détente in the Strait would be indispensable. However, to constitute such détente, Taiwan firstly needed firm support from the US. Only after being assured by the US, Ma launched détente with the PRC in all fronts.⁶ Since then, Taiwan and PRC have normalized nearly their commercial relationship particularly after the Economic Cooperation Framework Agreement (ECFA) entered into effect in October 2010. Eighteen agreements and three memoranda were signed between two sides during Ma's presidency⁷ and the number of visits from mainland to Taiwan rose from less than 100,000 per year in 2008 to 2.8 million per year in 2012.⁸ Liaison offices would soon be established in Taipei and Beijing before the end of 2014, for which the first formal minister-leveled meeting between PRC and Taiwan was held in Nanjing in February 2014.⁹

In diplomacy, a de facto diplomatic truce was silently established between Taipei and Beijing in their bilateral relationship with the third countries. Since May 2008, no country has ever switched its recognition between Taipei and Beijing though Gambia decided unilaterally to sever its diplomatic relationship with ROC in November 2013. Concerning Taiwan's quest for membership of international organizations, Ma decided to stop directly knocking the door of UN General Assembly, changed his focus to those specialized institutions of UN and demanded 'effective participation' in them.¹⁰ The WHO (World Health Organization), ICAO (International Civil Aviation Organization) and UNFCCC (United Nations Framework Convention on Climate Change) were selected by Taiwan as the top priority "because these three organizations are the most related to our future and accession to them are more workable".¹¹ Under his presidency, Taiwan participated in the WHA as an observer since 2009 and in the General Assembly of ICAO as a special guest since 2013, and signed FTA respectively with Singapore and New Zealand.

⁴ According to TVBS regular survey, Ma's popularity rate was 14% on May 16, 2013 while 70% of interviewees were unsatisfied with his performance. http://www1.tvbs.com.tw/FILE_DB/PCH/201305/14u8lutjzl.pdf, accessed on June 10, 2013.

⁵ According to regular surveys conducted by the Ministry of Mainland Affairs, since Ma's inauguration in May 2008, 38% - 48% of interviewees were generally satisfied with Ma's mainland policy while 30% - 37% criticized it as pro-Chinese and 13% - 20% wished that the cross-Strait rapprochement be faster. <http://www.mac.gov.tw/public/Attachment/332516213744.gif>, accessed on June 13, 2013.

⁶ Ma Yingjoeu, Interview by *American Voice* on June 26, 2008.

⁷ Mainland Affairs Council of ROC, Cross Strait Agreements, <http://www.mac.gov.tw/ct.asp?xItem=67145&CtNode=5710&mp=1>, accessed on March 14, 2014.

⁸ Tourism Bureau of Ministry of Transport and Communication of ROC, Visitor Arrival by Residence 2012, Taipei: Ministry of Transport and Communication, 2013. In 2012, 3.5 million nationals of PRC visited Taiwan, of which one million came from Hong Kong and Macau. <http://admin.taiwan.net.tw/statistics/year.aspx?no=134> (accessed on March 14, 2014)

⁹ 「陸委會主委王郁琦率團啟程訪大陸」聯合報，民103年2月11日。

¹⁰ 歐鴻鍊，立法院公報，第98卷15期，委員會紀錄，民98年4月，頁4143(389-445)。

¹¹ 史亞平，立法院公報，第101卷62期，委員會紀錄，民101年11月，頁3(1-76)；沈呂巡，立法院公報，第99卷23期，委員會紀錄，民99年4月，頁214(195-240)。

In particular, Ma successfully manipulated the détente in Taiwan Strait and launched its 'visa-waiver' diplomacy which had targeted to get visa-waiver treatment from one hundred countries or regions on the date of the 100th anniversary of ROC in October 2012. "One hundredth anniversary, One hundred visa waivers" was a slogan to highlight success of Ma's foreign and mainland policy during his first term of presidential office. Until 31 October 2013, 134 countries and regions have granted nationals of ROC visa-waiver or visa upon arrival, of which more than eighty, including the UK, Shengen Zone and the US, granted this treatment under Ma's presidency between 2008 and 2013. Interestingly, PRC government and its media kept silent on this issue. The PRC Diplomats even had to justify their silence by saying that they were pleased to learn "that our Taiwanese compatriots are now better treated in the world, which is not threatening to one China policy."¹² This compliment might be interpreted as an excuse for the PRC in its abortive attempt to prevent third countries from granting this treatment to Taiwanese. However, nearly all diplomats and scholars agree that such a visa-waiver treatment could not have been granted to Taiwan if tensions in the Strait continued to be rising. The episode of visa-waiver might have proved a probable positive correlation between détente in the Strait and Taiwan's external relationship, reconfirming value of Ma's strategy. According to it, rising détente in the Strait shall lead to strengthening linkages between Taiwan and international community. In brief, Ma's strategy aimed to break the vicious circle between cross Strait relationship and Taiwan's external relations. Détente with mainland shall enlarge Taiwan's maneuvering in its external relations, which itself would strengthen Taiwan's position vis-à-vis the PRC in return.¹³

i. Limits and challenges

However, if Ma's first term in office ended victoriously with entry into effect of ECFA and granting of visa-waiver by the EU and US, his grand strategy is facing serious challenge during his second term. In economic term, Taiwan failed to restore its fast economic growth and attract massive investment from abroad, both of which had been expected on the eve of signature of ECFA and particularly promoted by those who strongly supported Ma's détente with Mainland China. In 2012, Taiwan's trade volumes with US, Japan and EU were all decreasing, respectively suffering -5.5%, -11% and -7.4% compared to the precedent year. Though this reduction might have resulted from a global recession, they were all above the average reduction rate -3.4% and the reduction rate with Mainland, -4.2%.¹⁴ At the same time, only the FTA with New Zealand and Singapore were concluded. The US still refuses to bridge the talks with Taiwan on TIFA (Trade and Investment Framework Agreement) to the future participation of Taiwan into TPP (Trans Pacific Partnership). Washington even declines to 'institutionalize' the bilateral talks on TIFA while having forced Taiwan to import its beef and, in coming years, more pork. As regards the EU, it continues to exclude Taiwan from the priority list of negotiations on FTA in Asia explicitly due to political reasons. An EU office made it extremely clear that EU will not get closer to Taiwan at the price of its commercial relationship with the PRC.¹⁵ "Just one day after Taipei and Singapore had announced to restart negotiations on FTA in August 2010," said the former deputy Director General of former DG Relex, "the PRC ambassador came to my office and informed me that negotiations on FTA between Taipei and Singapore should not

¹² Interviewed with a former PRC ambassador in Beijing on January 11, 2013.

¹³ T. Y. Wang, W. C. Lee and C. H. Yu, "Taiwan's Expansion of International Space: opportunities and challenges", *Journal of Contemporary China*, 20(69), March 2011: 254-255 (249-267).

¹⁴ Bureau of Foreign Trade of Ministry of Economic Affairs, *Foreign Trade of ROC in 2012*, (Taipei: MOEA, 2013), p. 9.

¹⁵ Joao Aguiar Machado, Deputy Director General of DG Trade of European Commission, Speech at the Friendship Group with Taiwan in the European Parliament on June 30, 2011.

be ‘generalized’ as a principle.” Asked by his European counterpart if this meant that Beijing opposed to FTA negotiations between Brussels and Taipei, the PRC ambassador replied that “he would not deny it”.¹⁶ The day after the European Parliament adopted its resolution to push the EU to start negotiations on FTA with Taiwan in October 2013, the PRC government formally condemned it as an intervention of China’s domestic affairs.¹⁷

In its quest for membership of international organizations, Taiwan’s participation in WHO and ICAO was all based upon annual invitation of their directors general, which failed to constitute a formula facilitating Taiwan’s quest for membership of or participation in any other international organizations. Even on Taiwan’s participation in activities organized by non-governmental organizations, Mainland China’s or its officers’ attitude was not so softened as expected, as shown at the Film Festival in Tokyo in October 2010¹⁸ or vis-à-vis Taiwanese Ambassador’s presence at Japan’s Assembly in mourning those victims of tsunami on 31 March 2011.¹⁹ Taiwanese students were forbidden to use the term Taiwan in their delegation title when they were awarded in the World Model UN in New York in 2013. Taiwan’s participation in APEC (Asia Pacific Economic Cooperation), WTO and ADB (Asian Development Bank) was not really upgraded for ROC foreign minister was still rejected outdoors. To make matters worse, the détente and so-called diplomatic truce seem to weaken Taiwan’s discourse on its quest for membership of international organizations. More and more often, Taiwanese diplomats were asked by their counterparts in Europe and Asia to ‘negotiate directly with Beijing’ for they would accept with pleasure any arrangement on this issue reached between Beijing and Taipei.

Another challenge might come from Beijing’s increasing frustration vis-à-vis the détente in Taiwan Strait. On the one hand, increasing exchange in all fields has proved unable to strengthen Taiwanese support to Beijing-initiated unification project under the ‘one country, two systems’ formula. According to the regular and authentic survey of NCCU (National Cheng Chin University), people supporting future unification with the PRC has been stagnating in Taiwan since 2008. Even worse, the number of people adhering to the Chinese identity has continued to decrease in the same period. Since 2008, the percentage points of people adhering to the purely Taiwanese identity has increased from 48% to 54% while those adopting double identity has slightly shrunk from 43% to 38%. People regarding themselves as only Chinese represented no more than 4% in Taiwan.²⁰ Very confusingly, the survey conducted by Taiwan Competitiveness Forum (TCF) showed a totally different picture in February 2013. According to TCF, while only asked if you accept Chinese identity without forcing them to choose between Taiwanese identity and Chinese identity, 61% agreed that they were Chinese.²¹ Even so, pro-independence identity is particularly stronger among people under the age of thirty. More than 60% of people aged from 20 to 30 identify themselves as only Taiwanese, not Chinese. Accelerating economic and societal integration across the Strait since 2008 has evidently failed to attract a majority of Taiwanese to support Beijing’s policy in the Strait and to reconstruct their once lost Chinese identity. The most popular textbooks of History in Taiwanese high schools continue to focus on Taiwan’s History since the sixteenth century rather than the Chinese History since nearly five thousand years ago. The Japanese colonization was renamed as ‘Japanese governing period’ instead of ‘Japanese occupation period’ in the Chinese historical context.

¹⁶ Interview of Karel Kovanda, then Deputy Director General of DG Relex of European Commission in January 2010.

¹⁷ Xinhua News Agency, http://news.xinhuanet.com/world/2013-10/12/c_117690378.htm (accessed on 18 December 2013)

¹⁸ *United Daily News*, October 26, 2010.

¹⁹ *Central News Agency*, March 31, 2012.

²⁰ Election Studies Centre at NCCU, Changes in the Taiwanese/Chinese Identity in Taiwan, <http://esc.nccu.edu.tw/modules/tiny2/content/TaiwanChineseID.htm>, accessed on June 11, 2013.

²¹ *China Times*, February 28, 2013.

Beijing's frustration could have also resulted from its ambivalence vis-à-vis increasing unpopularity of Ma and his government in Taiwan. Though it is still arguable if the KMT's victory in parliamentary presidential elections in 2008 and 2012 did result from the general dissatisfaction with rising tensions in the Strait during the precedent DPP presidency, détente in Taiwan Strait is in general regarded as one of the most praiseworthy achievements of Ma and his government. The 'early harvest list' in ECFA was often cited by Beijing as its unilateral favor (讓利) given to Taiwanese and a deliberate action to support Ma's policy in the Strait. Détente in Strait is surely welcomed by a majority of Taiwanese, which unfortunately, could not be transformed into popularity of the party and its leader that Beijing favored.

Moreover, Ma and his KMT leaders continue to refuse any proposals from Beijing to start negotiations on 'political issues' across the Strait, including the peace agreement or *modus vivendi*, the confidence-building measures and political arrangement concerning Taiwan's participation in the international community. Though some former KMT leaders echoed Beijing's proposals and reiterated publicly the importance of starting political dialogues across Taiwan Strait, Ma and his government denied any attempt to start such a talk. Ma even made it clear in public that he will never send special envoys to meet with PRC leaders clandestinely or start any talks on so called track two. On his return from Beijing where he had met Xi Jinping in February 2013, Lien Chan, former vice president of ROC and former KMT president, suggested that Taiwan should rethink of starting direct dialogues on political issues with Beijing. The day after, Ma's office immediately issued press release stating that Lien's visit was an individual action without any mandate from the president.²² Even in its conflicts over territorial disputes with Japan and the Philippines, Taiwan under Ma's leadership deliberately refused to cooperate with Mainland China and declined any proposed joint action from Beijing. Abandoning bilateral cooperation with Mainland China in these disputed areas, Ma proposed the "East China Sea Peace Initiative", in which Mainland China was treated as one of the neighboring countries of Taiwan. The reshuffling of Ma's government in February 2013 was also interpreted as an attempt to slow down Taiwan's integration with the mainland China as the newly nominated head of FCSE (Foundation of Cross Strait Exchange) and minister of Mainland Affairs are not heavily important political figures. It is therefore out of imagination to grant them any mandate to start political talks. Disappointed and unsatisfied with Ma's attitude, some scholars on Mainland China suggested that Beijing should contact with DPP lest KMT abuse its privileged role in the Taiwan Strait. Nonetheless, as long as DPP refuses to abandon its pro-independence doctrine, Beijing can now receive some DPP political figures only as individuals, refusing any party-to-party contact. Beijing's worries are rising since DPP might win local elections in 2014 and return to power in 2016 as Ma's popularity never ceases to decrease.

Ma's détente policy in the Strait has successfully scaled down tensions and increased exchange between Mainland China and Taiwan, but its limits are evident. The need of a new approach is more than evident.

III. Current debate over the future of Taiwan Strait

i. Beijing

Since Ma's inauguration as president of the ROC in May 2008, Beijing has adopted new tactics in the Taiwan Strait though its insistence upon one China principle and the formula of "one country, two systems" remained unchanged. Before all, Beijing accepted the formula of "consensus 1992" initiated by Taiwan as the base of new détente in the Strait. This formula was

²² Presidential Office of ROC, Press release on February 26, 2013.

carefully formulated and later drafted by Su Chi in 2000 and 2001 after the DPP's Chen Shui-Bien had been elected as ROC president in May 2000. According to this consensus, Beijing and Taipei both adhere to one China, which is however interpreted differently. While this one China indicates the PRC for Beijing, it means ROC for Taipei.²³ This formula was firstly adopted as consensus between the CCP and KMT at the historical meeting of their presidents, Hu Jingtao and Lien Chan, in April 2005. In the joint communique released in the aftermath of the meeting, Hu and Lien agreed to adopt 'Consensus 1992' as a common understanding, based upon which Mainland China and Taiwan should start negotiations upon equal footing as soon as possible.²⁴ Though Beijing prefers to use the formula of "One China and Consensus 1992" and Taiwan likes to use only the "Consensus 1992", it is widely recognized that this agreement to disagree has constituted the very foundation of détente in Taiwan Strait since 2008. In order to consolidate this foundation, Beijing has deliberately reduced its repeat of 'One China Principle' in all talks involving Taiwan Strait and adopted the 'One China Framework' as official discourse in June 2013. Beijing has refrained from mentioning the "Anti-Secession Law" in any engagements with Taiwan since May 2008. Decreasing use of 'One China principle' and nearly disappearance of 'Anti-Secession Law' in any discourse on Strait relationship has well indicated Beijing's new tactic towards Taiwan.

Since the entry into effect of ECFA in October 2010, Taiwan and Mainland China have been reestablishing their trade and economic relationship in all fields. With the creation of the Economic Cooperation Committee in January 2011, the signature of Agreement on Investment Protection in August 2012 and the beginning of talks on future installation of representative offices to each other in January 2013, the ECFA will have achieved its goals. Under such circumstances, Beijing has started to prepare for future political negotiations. Though political negotiations had been presented as an integral part of its strategy towards Taiwan, Beijing seems to have deliberately left it aside between 2008 and 2012, giving its priority to negotiations and then implementation of ECFA. However, since the second half of year 2012, more and more think tanks and scholars in the PRC began advocating bilateral talks on political issues with Taiwan as soon as possible. At the 18th National Congress of CCP in November 2012, Beijing finally proposed tripartite political negotiations with Taipei.

According to Beijing, both sides of Taiwan Strait should immediately negotiate on establishment of mutual confidence-building measures (CBM) in order to avoid any miscalculation and military conflicts. The creation and implementation of CBM could then lead to negotiations and signature of modus vivendi or peace agreement in Taiwan Strait, formally putting an end to civil war between the CCP and KMT. At the final stage, both sides should start negotiations to identify this bilateral relationship and invent some creative arrangements before China is unified, surely including solutions to Taiwan's participation in international community. Since then, more and more scholars on Mainland China proposed solutions to cross Strait relationship. "Why not consider the ex-Soviet model in the UN," said Yan Xuetong in Taipei in April 2013, "to find a solution to Taiwan's participation in the UN? It is a model based upon 'one country and three seats'."²⁵

i. DPP and pan-Green

Defeated successively in nationwide elections in 2008 and 2012, frustrated by fast rise of PRC as well as increasing integration between Taiwan and Mainland China, and plagued by scandals

²³ 蘇起，一個中國各自表述共識的史實，台北：漢蘆圖書，2003年。

²⁴ 連戰，胡錦濤，「兩岸和平發展共同願景」，自由時報，民94年4月29日。

²⁵ "Can Taiwan and Mainland China Consider the Soviet 'One Country and Three Seats' in the UN to Find a Solution?", *United Daily News*, 4 April 2013. Yan is the dean of College of International Studies at Tsinghua University in Beijing.

related to the former president Chen, DPP and its elite had failed to think of any new approach to build a relationship with the PRC until one of its leaders, Hsieh Changting (謝長廷), paid a private but high profile visit to Mainland China in October 2012. During his visit, Hsieh reiterated his thesis of 'Consensus based upon constitutions of each side', which he had once presented throughout presidential campaign in 2011, to replace the current 'Consensus 1992'.²⁶ According to this consensus, Hsieh accepted the one China defined by Taiwan's current constitution. As former chairman of DPP, former prime minister and leader of one fraction of DPP, Hsieh's thesis provoked immediately a big debate over DPP's China policy in the future. In November 2012, DPP established its Committee on China Affairs composed of nine leading figures of the party, of which the party president, Su Jenchang (蘇貞昌), assumes the presidency. The newest round of debate over future cross-strait relationship and DPP's China policy was formally started. "The Resolution on Future of Taiwan adopted in 1999 has resolved relationship between Taiwan and ROC," concluded by a DPP legislator, "but it did not touch, let alone resolve, the relationship between Taiwan and the PRC."²⁷

In October 2012, Gu Kuenming (辜寬敏) and his think tank, Taiwan Brain Trust (新台灣國智庫) proposed to structure the cross-strait relationship as two states based upon brotherhood (兄弟之邦). "Taiwan can promise not to ally with any other powers threatening China and never vote against China-proposed resolutions in international organizations in exchange of China's recognition of Taiwan and Taiwan's accession to the UN." Gu even suggested that Taiwan should return to China all the treasure in Taipei Palace Museum that Chiang Kai-Shek had transported from Mainland in 1949.²⁸ Gu's approach is very similar to the so-called 'Finlandization' of Taiwan. In April 2013, 'Defend Taiwan's Democracy' (守護台灣民主平台), DTD), another pro-DPP think tank, released its proposal regulating the future cross-strait relationship, entitled 'A Freeman's Declaration: Reconstruct Relationship between Taiwan and China on the Basis of Charter on Human Rights'(自由人宣言). In its proposal, DTD insists upon the protection of human rights and adherence to constitutionalism as the starting point of negotiating future cross Strait relationship. According to it, neither of current constitutional orders on both sides of Taiwan Strait is fully legitimate for, even in Taiwan, 'the ghost of ROC coming from the Mainland China has severely constraint construction of Taiwan as a full and real democracy'. According to DTD, in the coming political negotiations, Taiwan should force PRC to ratify the Covenant on Political and Civil Rights and allow Taiwan to fully participate in the UN networking of protection of human rights. At its inauguration day on 9 May 2013, the DPP Committee on China Affairs adopted the 'Taiwan's China Agenda' (台灣的中國議程), drafted by Chen Mingtung (陳明通), a professor at National Taiwan University and former deputy minister of Mainland Affairs. At the National Congress on May 24, 2013, more than forty political figures aged between forty and fifty submitted their "Resolution on Human Rights in the Strait" (台海人權決議文), which proposed to start dialogue on human rights between two sides of Taiwan Strait and replace the "Consensus 1992" by "Consensus on Human Rights". It even proposed to establish direct contact and dialogue with those dissidents in the PRC fighting for protection of human rights. A general review of debate inside DPP and those pro-DPP think tanks has made it clear that DPP is inclined to highlight the normative dimension in the cross-strait relationship while adhering to its pro-independence thesis and refusing the 'Consensus 1992'.

²⁶ *Liberty Times*, November 15, 2011.

²⁷ *Liberty Times*, May 23, 2013.

²⁸ 新台灣國智庫 (Taiwan Brain Think Tank, TBT) · <http://www.braintrust.tw/article/1/3>, accessed on June 13, 2013.

i. KMT and pan-Blue

Compared to the rising debate over the future cross-Strait relationship in the DPP and pan-Green camp, the discussion inside the KMT is far less zealous. Ma and its team adhere to the thesis based upon three no's: "No use of force, no unification and no independence". Ma seems to have once intended to take a further step in developing this three no's thesis before and after presidential elections in January 2012. In October 2011, Ma announced at a press conference that, if elected, he would consider negotiating a peace agreement with Mainland China. This episodic talk was interpreted as the biggest mistake that Ma had committed during his presidential campaign throughout 2011.²⁹ Two months after he was reelected, he tried again to present a doctrine of mutual acceptance of governing power. "We do not recognize the sovereignty of the other side," said Ma, "but we can from now on refrain from denying the governing power of the other side. This could constitute the very beginning of future negotiations." Based upon this idea, Ma presented the formula of 'One Country, Two Regions' in March 2012. At his meeting with Hu Jintao on March 22, 2012, the honorable president of KMT, Wu Bohsiung, declared solemnly: "According to *our* constitution and laws, the cross Strait relationship is defined as region-to-region relationship under one China. It is a special relationship, of which our Ministry on Mainland Affairs instead of Foreign Ministry is in charge."³⁰ Wu's declaration was believed to have been endorsed by Ma, who even concluded that this "region-to-region relationship under one China has continued to exist since 1949". At the press conference, the then minister of mainland affairs added: "For us, the one China means the Republic of China, not the PRC."

Ma's new formulation around 'One China, Two Regions' was severely criticized by opposition. DPP equated Ma's formula of 'One Country, two Regions' with Beijing's 'One Country, Two Systems' and condemned it as a total surrender to the PRC. "Ma's proposal for a peace agreement with Beijing," declared Tsai Yingwen, DPP candidate for presidential elections in 2012, "will lead to the same tragedy that Tibet experienced in the 1950s after it had signed the agreement with Beijing on peaceful liberation of Tibet". Even James Song, President of People First Party and an ally of KMT, criticized Ma's proposal as irresponsible for he had not consulted any political leaders before presenting it. Even those pro-KMT media put into doubt the formulation of this new doctrine for it failed to explain well to the public its fundamental distinction from Beijing's 'One Country, Two Systems' as well as its strategic importance for the future cross Strait relationship. For its part, Washington expressed its dissatisfaction with Ma's formula of 'One Country, Two Regions'. "We did not fully understand," said the president of AIT (American Institute in Taiwan) in the D.C., "why the KMT presented such a doctrine at this moment and what it truly meant."³¹ Facing increasing criticism in Taiwan and even from inside the KMT, Ma and his government reformulated this thesis as 'region-to-region relationship under one ROC', according to which Mainland China and Taiwan are two political polities. At the same time, Ma repeatedly insisted upon the priority given to economic issues and those feasible exchange and cooperation. Asked if Taiwan will start negotiations on political issue with Mainland China, Ma replied that the majority of people in Taiwan are still reluctant to do so. The formula of 'One Country, Two Regions' was de facto abandoned in mid 2012.

It was until June 2013 that Ma presented his newest doctrine on Cross-strait relationship. On 13 June 2013, at his meeting with Xi Jing Ping in Beijing, head of KMT delegation modified Ma's earlier formula of 'One Country, Two Regions' and established a new tripartite formula of Ma's doctrine which is composed of 'one China framework, consensus of 1992

²⁹ *United Daily News*, October 17, 2011.

³⁰ *United Daily News*, March 23, 2012.

³¹ *Central Daily News*, April 18, 2012.

and opposition to Taiwan independence'.³² As Wu read the text integrally and Ma announced publicly that Wu had obtained his personal mandate, this tripartite formula was regarded as an alternative to the earlier three no's policy, which might develop into Ma's new doctrine in cross Strait relationship during the coming years.

i. A tentative review

However, none of the current three approaches to future cross-Strait relationship could be fruitful in the long run.

Firstly, Beijing's approach will never lead to peaceful unification that it has been expecting since 1979. According to all surveys, the ever closer economic integration and rising social exchange in the Strait have failed to increase support for unification among Taiwanese. To make matters worse, those who refuse their Chinese identity continue to increase in Taiwan, and Beijing's strategy to use economic integration as a leverage to enhance political unification has encountered unexpected difficulties. Economic integration did benefit some Taiwanese, whose influences were however decreasing as they were regarded as pro-Beijing interest groups and a lot of them resided more and more regularly on the Mainland. Those Taiwanese who reside on the Mainland for business interest could return to Taiwan with a very anti-Beijing attitude after they experience daily corruption and political dictatorship on the Mainland. Economic integration might help deter Taiwanese from pursuing *de jure* independence but it will never lead to political unification as Beijing has expected.

On the other extreme of the spectrum, DPP's pro-independence approach is in an impasse. Its feasibility is questionable as it never mentioned how to persuade Beijing, those mainland elite and even the Chinese dissidents to accept its doctrine. Adopting such an approach, Taiwan will not only risk of provoking overwhelming anti-Taiwan nationalism on the Mainland China but will also be immediately isolated in the international community. The US, Japan, the EU and ASEAN states all made it clear that they would not support Taiwan's independence. Even worse, this pro-independence movement could not be successful until it overthrows the current political, legal and social orders in Taiwan based upon the ROC constitution. That will lead to a revolution. In other words, once adopting this pro-independence approach, Taiwan will be in chaos and even civil war while entering into direct conflict with the Mainland China.

Ma's doctrine of three no's or his new tripartite formula might locate in between, which has successfully scaled down the rising tensions in the strait and established détente between Taipei and Beijing. Accordingly, Ma's policy was now praised by the West, accepted by Beijing and agreed upon by KMT electorate and even some pan Green supporters in Taiwan. However, this pro-status quo approach is now under fire on all fronts. Since Ma's reelection in 2012, Beijing authority has repeatedly advocated to start bilateral negotiations on political issues. Inside Taiwan, DPP and pan Green continues to condemn Ma's policy and has started the newest round of debate over the cross-Strait relationship with aim of finding an alternative to Ma's approach. In international community, though 134 countries and regions have granted nationals of ROC visa-waiver or visa on arrival, Taiwan failed to start negotiations on FTA with the US and the EU, the two largest economies. Except participation in the WHA and ICAO based upon an annual invitation of its secretary general, Taiwan under Ma's leadership has not obtained new membership of any international organizations. Compared to Taiwan's accession to APEC in 1991 during Lee's presidency and its accession to WTO in 2002 under Chen's presidency, Ma's detente policy in the Strait has not proportionately enlarged Taiwan's room in the international community as KMT had proclaimed.

³² *China Times*, June 17, 2013.

At the same time, Ma's pro-status approach has demoralized the KMT, its supporters and even ROC diplomats. While Beijing opened a new front on political dialogue and DPP restarted debate over its approach to the PRC, KMT has kept silent. Political leaders, elite and supporters of KMT have increasingly criticized Ma and his government in all fields, but none of them ever initiated any debate over future cross-Strait relationship. Compared to the unification-minded Beijing and insistence of independence of DPP, KMT's adherence to status-quo seems to have lost direction leading to the future. In its diplomatic actions, Taiwanese diplomats find it more and more difficult to persuade the third countries to promote their relationships with Taiwan and to strengthen their support in Taiwan's bid for membership of international organizations. Taiwanese diplomats are more and more frequently asked to consult Beijing in advance. "Our permanent delegation to this organization approached our Chinese counterpart for Taiwan's quest for membership [of international organizations]," said a Western diplomat, "and he immediately stopped him, replying that Taiwan should directly contact Beijing on this issue without any intervention from a third country."³³

Even worse, détente in the Strait has given rise to some misunderstandings in the West and particularly neighboring countries in Asia. Some began regarding this continuing détente in the Strait as a prelude to future unification of Taiwan with Mainland China while others feared that a threatening pan-Chinese front was emerging. Accordingly, several American scholars in think tanks began advocating a new strategy towards the Strait, in which some proposed to abandon Taiwan as a price to be paid for deeper rapprochement between US and the PRC³⁴ and others initiated Finlandization of Taiwan.³⁵ Some Japanese elite and political leaders were once deeply worried that the détente in the Strait would oblige Taipei and Beijing to organize a united front in their territorial disputes with Japan in the East China Sea. During the frictions between Taiwan and Philippines over Taiwanese fisher's assassination by Filipino Coast Guard in May 2013, some media in Manila criticized its president's carelessness in having unified Taipei's and Beijing's positions in their conflicts with Philippines, which would have been totally out of imagination just several years ago. Beijing's media also tried to promote the image of unified front across the Strait by reporting that 74% Taiwanese agreed to work together with the mainland in case of conflict with Philippines.³⁶

Evidently, the need of a new approach to the Strait is clearer now, which shall not only stabilize the Strait but also consolidate Taiwan's democracy, facilitate democratization on the Mainland and contribute effectively to peace-building in the region. In brief, it shall achieve the following objectives.

- It shall make those universal values, such as democracy and protection of fundamental rights, as common normative foundation of cross Strait relationship. This foundation shall lead to consolidation of democracy in Taiwan and facilitate democratization on Mainland China. In other words, cross-Strait integration shall be proportionate to democratization in China as a whole.
- It shall resolve the conflicting relationship between Mainland China and Taiwan bilaterally and shall not exclude any form of integration between two sides of Taiwan Strait, including a union, a confederation, a federation and unification, depending upon the collective wills expressed freely by people in Taiwan and on the Mainland China.
- It shall also find a general solution to Taiwan's participation in the international community. As both sides cannot represent each other in any international organizations and in any third

³³ Interview with a European ambassador in Taipei on 16 January 2013.

³⁴ John J. Mearsheimer, "Say Goodbye to Taiwan", *National Interest*, March-April 2014.

³⁵ Bruce Gilley, "Not so Dire Straits. How the Finlandization of Taiwan Benefits US Security", *Foreign Affairs*, Jan.-Feb 2010, 89 (1), pp. 44-59.

³⁶ CNTV survey on May 16, 2013, <http://news.cntv.cn/2013/05/16/ARTI1368662895610959.shtml>, accessed on June 13, 2013. However, this survey result was put into doubt by the majority of scholars in Taiwan.

countries, co-existence of Beijing and Taipei in international community to a certain degree is unavoidable.

- This integration across Taiwan Strait shall not provoke worry or even hostility of any neighboring countries in Asia. On the contrary, such integration shall constitute a paradigm of reconciliation between Asian peoples instead of stimulating nationalism in the neighborhood.

It was against this background that I proposed to begin discussing the drafting of a common Charter for all Chinese in Taiwan and on the Mainland. It shall be in the interest of Taiwanese, all Chinese and even China's neighboring countries.

IV. Rise of Constitutional Sovereignty and Charter Approach

i. Constitutional Sovereignty and the Charter

For DPP and pan Green, Taiwan's sovereignty belongs to all Taiwanese only. For Beijing, China's sovereignty must be in hand of all Chinese including those now residing in Taiwan. As regards KMT, it has adopted a more flexible as well as ambiguous position on this subject. On the one hand, it adheres to the ROC whose sovereignty shall nominally cover all Chinese on the Mainland and in Taiwan. On the other hand, since 1992, KMT has accepted the *fait accompli* that the ROC's governing power is now limited to Taiwan and its neighboring islets, implicitly recognizing the governance of PRC on the Mainland. "Sovereignty is inseparable," said Ma, "but it's not the case for governing powers."

But all these concepts on sovereignty are qualified as 'popular sovereignty' or 'national sovereignty'. According to the former, sovereignty belongs to the people of a fixed polity, who therefore enjoy supreme power to impose rules and to make any decisions. Based upon the latter, sovereignty belongs to a nation based upon a common cultural, social, political and even racial identity.

However, as the world has evolved into a post post-Cold War era, both popular sovereignty and national sovereignty are already out of date, leaving place to the constitutional sovereignty, domestically and internationally speaking. As alternative to national or popular sovereignty, constitutional sovereignty is based upon John Locke's political theory, according to which sovereignty was more of a tool than a final goal in protection of natural rights of individuals. In consequence, these 'fundamental rights' and 'constitutional norms' shall prevail over the sovereignty itself. The sovereignty should contribute to the strengthening of these norms and protection of those rights, which shall never be sacrificed in the name of national sovereignty or popular sovereignty. Therefore, constitution has become the protector of sovereignty and all the sovereign rights to the extent that sovereignty cannot exist alone without a constitution. Though people are holders of the sovereignty, their sovereign rights are protected and regulated by the constitution.³⁷

Constitutional sovereignty was firstly implemented in adoption of Bill of Rights by the British Parliament in 1689, which forbade any excessive bail and cruel punishment and guaranteed freedom of speech and petition. One century later, constitutional sovereignty was implemented in the drafting of American Constitution, which divided sovereign rights vertically between the federal government, states and citizens. Overshadowed by rising nationalism during the century in the aftermath of French revolution and Napoleon Wars, constitutional sovereignty reappeared in the interwar period when American President Wilson advocated the doctrine of 'peace through law' and League of Nations was created to maintain

³⁷ Hideaki Shinoda, *Re-examing Sovereignty : from Classical Theory to the Global Age*, London : Macmillan Press Ltd., 2000, pp. 24-35.

global order. But it was not until the end of Cold War that constitutional sovereignty rose to the center domestically and internationally. Domestically, constitutions of all countries share more and more common values and articles that guarantee the fundamental rights of their citizens and regulate basic structure of governments. Internationally, the rise of global governance with UN and WTO at the center and penetration of international law into domestic legal order was more than evident.³⁸ Sovereignty is legitimized and regulated by this international constitutional structure. In 1979, German political philosopher, Jürgen Habermas, presented the constitutional patriotism. According to him, a non-nation polity can be united by nothing else but its constitution. Its patriotic feelings were born only when its constitution is respected.³⁹ The rise of community law regulating inter-state relationship is the most evident in Europe with the European Union Law on the top. The EU Law is directly binding to all governments and their people of member states in the EU without transposition acts adopted by their parliaments. The EU Law in principle prevails over any acts adopted domestically in the member states in the EU. Even lacking common legislation in some fields, EU may apply principle of mutual recognition to achieve legal implementation between its member states, which are obliged to accept and recognize industrial norms, sanitary examination and even diplomas of any other member states in the EU. This community law has constituted a *sui generis* category in law, outside of international and domestic laws.

More important, EU Law is not a unique case. The Council of Europe has also established a reputed community law in protection of human rights in Europe and Central Asia. In 2004, League of Arab States adopted Arab Charter on Human Rights. In 2008, ten member states of ASEAN adopted its Charter, which entered into effect one year later. In 2012, the Eurasian Economic Community composed of Russia and some of its neighboring countries adopted a Charter. African Union adopted its Convention on Preventing and Combating Corruption in 2003 and African Charter on Democracy, Elections and Governance in 2007. Rise of Community law and more frequent use of charter approach are more evident in international politics.

i. Feasibility of Charter approach in the Strait

This Charter Approach will not only be feasible but shall contribute to institutionalizing the Strait, consolidating democracy and current constitutional order in Taiwan, indicating a smooth itinerary to democracy on the Mainland and scaling down worries of neighboring countries vis-à-vis the cross Strait integration and even unification.

Before all, it is in Taiwan's interest. To initiate drafting a charter for all Chinese will immediately switch the focus from cross-Strait bilateral relationship to the future of China as a whole. As the Mainland is fast rising, Taiwan will end as a miserable beggar or an angry clown in its future bilateral negotiations with Beijing if it still focuses upon the cross-Strait relationship without thinking of the future of China as a whole. Taiwan will soon become a beggar if it continues the current KMT approach with an aim of consolidating the status quo through bilateral détente for Beijing has now owned more diplomatic and economic leverages to play with Taipei. For example, on the subject of Taiwan's quest for membership of international organizations, Beijing could give a green light to one arrangement for the seat of an international organization at its negotiations with Taiwan each time.

Taiwan would become an angry clown if it adheres to the DPP doctrine. DPP has been heavily lobbying the world in vain for supporting its pro-independence policy, which will further divide Taiwan's society, antagonize the cross-Strait relationship and worsen Taiwanese collective frustration.

³⁸ See special issue on 'Legalization and World Politics', *International Organization*, 54(3), Summer 2000.

³⁹ Jan-Werner Müller, *Constitutional Patriotism*, Princeton (New Jersey) : Princeton University Press, 2007: 16.

Focusing on the future of China as a whole instead of the cross-Strait relationship in the bilateral negotiations between Beijing and Taipei, Taiwan can even obtain some understanding and supporting forces inside the Mainland to ally with. People dissatisfied with the systemic corruption, elite dreaming for democracy, and even intellectuals and journalists working to protect the civilian rights (維權人士) will then be Taiwan's potential allies.

At the same time, it is in the interest of Mainland China including its leaders and elite. The PRC government admitted that the export-driven high speed growth is over. With an average growth rate of 7% per year, the PRC will not accumulate its fortune as fast as in the past decade. In the aftermath of rise of wages, appreciation of its currency and more and more trade disputes with US and EU, the PRC can no more export massively those cheap industrial products to the world. According to the most popular economist on the Mainland, Harry H. P. Lang, Chinese economy is already on the brink of collapse as it has been suffering over-inflation, fast increasing deficit and debt, environmental disaster and weak domestic consumption. "If this happens one by one," concluded Lang, "it's still probable that we can resolve them all. If they all break out at the same time, our economy will collapse." The slowdown of economy was accompanied by fast rising unrest on the mainland, where the suicide bombing in Beijing in 2013 and terrorist attack in Kunming one year later deepened such worries. The only way to avoid collapse and upgrade Chinese economy is to establish "real rule of law", "make governmental decision-making transparent" and "bring citizens to participate in the governance".⁴⁰ As economist, Lang avoided wording this solution 'democracy'. Accepting a Charter in the Strait, the PRC can institutionalize the détente and integration across the Strait, constitute the first step toward its dreamed unification in a long run and start domestic democratization. Furthermore, in classical Chinese, Charter(憲章) means domestic norms and principles. The Magna Carter is translated as Great Charter (大憲章) in Chinese, which governed the England as a supreme domestic law.

For Taiwan, drafting a Charter regulating the Strait could be interpreted as to further strengthen Taiwan's identity in the international community. The KMT could present it as a counter-project to Beijing's proposal on political negotiations. DPP and pan Green can even regard this Charter as a quasi-international act, similar to Charters of ASEAN, Arab Charter and even UN Charter. Under such circumstances, each of the parties across the Strait can justify its position in accepting this Charter.

Last but not least, drafting a Charter for the Strait can liberate neighboring countries around China from their fears of a threatening pan-Chinese nationalism in the region. This Charter will not only organize the ongoing integration between Mainland and Taiwan but will also regulate the relationship between the ever integrated whole China and its Asian neighbors. For example, it shall stipulate in the Charter that both sides cannot constitute any military alliance that aims for territorial expansion or threatens their neighbors.

V. Conclusion

Taiwan should seriously consider initiating negotiating a Charter for all Chinese as a response to Beijing's proposal for negotiations on political issues. It will immediately redirect the focus from the cross-Strait relationship to the future of the whole China, permitting Taiwan to obtain more leverage in its future negotiations with Beijing. In order to obtain support of a majority of Taiwanese, Ma should announce simultaneously that the future Charter shall be voted in a referendum. In this Charter, it shall be reiterated that the future China must be a democracy based upon those universal values with implementation of UN covenants on human rights. It shall also establish principles to regulate cross-Strait relationship and find

⁴⁰ 郎咸平，中國經濟到了最危險的邊緣，台北：高寶，2012年10月。

a solution to Taiwan's diplomatic relationship in the international community. Then, it could lead to creation of a union or confederation between two sides in a long run. This roadmap toward drafting a common charter will not only be feasible but will be also in the interests of Taiwanese, all Chinese and even their neighboring countries. It should therefore be supported by the US and the EU.

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Innovation in Russian Health Care System Toward the Effective Mechanism in Resource Allocation

Andrea Garlatti • Irina Dokalskaya

Abstract Recently, the economic aspects of health care have gained greater attention. This is due primarily to the fact that health care costs in the countries with developed market economies have continued an upward trend: on average in OECD countries, they made 9.8% in 2010. Herewith, a situation when the growth rate of GDP in some countries (the OECD average in the 2000s, average annual growth in real GDP per capita was 2.2%, and health care - 4.2%) becomes a cause of a concern in the society. In Russia, the solution to the problems of health financing has now become one of the most important conditions for ensuring the health of its citizens, especially as the current state of the health system in the country is considered by many experts as critical. In such conditions, first primary is given to a search for the most effective mechanisms, on the one hand, of mobilization, and on the other – of the distribution of resources on public health. The aim of this paper is to examine these aspects, highlighting possible prerequisites of choice of one or another alternative of health care financing. The paper uses administrative data to gain into the characteristics of a specific distributive mechanism.

Keywords Health care systems - Russian health care reforms - Distributive mechanism - Resource allocation

JEL Classification H00 - H51 - H61 - I10 - I11 - P21

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Health Care Systems: possible options

Presence in one country or another of appropriate health care system depends on many circumstances and parameters, representing basic features of health system as well as its main economic characteristics. All depends on what is the basis of classifying a health system: whether it is a socio-political structure of society, the nature of relationships in health care, or even the legal characteristics of universal physician-patient relationship. At the same time, it is widely recognized, that there are certain limitations to the level of universal health care. Most countries fully extend the accessibility, but reduce the number of medical services included in the basic range of services, available to all. In this way the countries make health care affordable and even “free” (conditionally free since someone still pays for it). In this case we are talking about that which did not pay directly to the person who now consume medical services. Hence, there is an objective need for a balance between the costs and availability.

What’s being done in different countries in order to solve this problem, namely, on the one hand to keep costs within reasonable limits, and on the other – to ensure universal access? To do this in the world used a variety of strategies used by different health systems, and in general, all these systems exist in the so-called universal budget.

The British system (**public**, or Beveridge **system**) is a system that was taken as a sample by the Scandinavian countries, Denmark (1973), as well as southern European countries: Portugal (1979), Italy (1980), Greece (1983), Spain (1986)¹. A characteristic feature of this system is significant (or even exclusive) role of the state, which is the main purchaser and supplier of health care, providing satisfaction of most of the public health needs. Health financing is mainly provided from the state budget through taxes on enterprises, and the population. Except for a small range of health services, the population receives a free medical care.

The **second model** (*if done a certain scale between the decision to the state and the decision by the patient*) is a German model (Bismarck system), which is defined as social insurance system or a regulated health insurance. In this case we are talking about insurance system: money to doctors and hospitals is paid by insurance company. These are not directly a state-owned companies, mostly private, but they are state-controlled. They are organized on a sectorial basis, that is, there is a fund for transport, for agricultural workers, for the miners. This model of health care based on the principles of a mixed economy, combining the health care market with a developed system of state regulation and social security, access to health care for all segments of the population.

The **third model**, which can be distinguished, is a *system that in the first place tries to solve the problem of the costs* by leaving the state control over prices and *passing the decision to a final consumer*. Accordingly, the costs also passed on to the consumer. That part of the needs that are not met by the market (the poor, pensioners, unemployed) is assumed by the state through the development and financing of public health care programs. When the consumer pays more, he has the right to make decisions himself, therefore he will make decisions based on his own interests. One of these systems is a French one, although the most striking example is a system in the United States, where it is actually all private.

According to experts, *health care system in the Soviet Union* was, if not the most productive, one of the cheapest and most profitable for the state, the largest in the world in the number of doctors and hospital beds, and prefigured the national Health Service in the socialist state.

¹ This classification of models is provided by the health experts of the World Health Organization (S. Hakansson, B. Majnoni, D’Intignano, G.H. Mooney, J.L. Roberts, G.L. Stoddart, K.S. Johansen, H. Zollner) as the primary types of health systems.

Health care system laid by the first Soviet People's Commissar Nikolai Semashko (1874-1949) was based on a few ideas: common principles of organization and centralization of the health care system; equal access to health care for all citizens; priority to motherhood and childhood; unity of prevention and treatment, elimination of the social bases of disease; involving the public in the case of health care. All these ideas were developed by many leading physicians, both Russian and the world since the end of the XIX century, but the basis for public policy, they were first laid in Soviet Russia. In some details, the system created by Semashko preserved in Russia to this day, however, it is not fully conform to its original design.

Compulsory health insurance system of Bismarck is based on contributions of employees and employers, while William Beveridge system and Nikolai Semashko system are based on budgetary financing of health, although significantly differ in their internal structure. At the heart of both the compulsory health insurance and budget financing there are two principles that became the fundamentals of the modern welfare state: equity and solidarity. Under the equity in this context is understood the ability to access to health care resources, and appropriate allocation of the burden of financing the health system between different socio-economic groups (e.g., World Health Report 2000). The basis of this comprehension of equity is the category of demand, which implies that a person really needs help for medical reasons. It may exist in humans, but not to be identified and realized. So, the access essentially means the possibility of a citizen to obtain the desired set of health services according to need.

Thereby, we are talking about a certain ideal, the realization of which in different countries is managed to get closer to varying degrees. Nevertheless, almost all countries still do not know exactly how to solve the problem of rising health care costs, and, in a certain sense, the more effort is made to health development, the farther it seems achieving the ideal.

Main streams in Russian's health care financing reform

Protecting and promoting the health of the population is represent a multi-faceted system of public, social, socio-economic, and health care actions, which, on the one hand, are based on the preventive focus, unity of medical science and practice, the widespread use of scientific and technical progress. On the other hand, the most complete and effective combination of the needs of the population for health care, drug supply and sanitary-epidemiological service with economic resources to satisfy it can become possible due to the development and implementation of evidence-based system of the activities carried out by state and local governments.

Real health-related spending in the industrialized world has grown considerably faster than the real gross domestic product during the last decades, which is associated with a number of interrelated factors, from general inflation to different diseases structure and more intensive use of health care services (OECD, 2009). In addition to these "universal" problems, Russian health system faces serious difficulties which could be identified as follows (Tragakes&Lessof, 2003; Pidde, 2010):

- Lack of resource and financial support.
- Low effectiveness of the health care institutions.
- Inadequate quality of medical care in the presence of sufficient supply of the population with medical personnel and hospital beds.
- Inadequately low wages of health employees.

According to most researchers and practitioners, the current state of the Russian health care system can be rated as critical. Causes of the crisis are multi-layered. In part, this situation

was provoked by the transition of Russian economy to the principles of the market economy in terms of price liberalization. High inflation level and the budget deficit have aggravated the problem of survival of public health, supported by state funding. In these circumstances, the rational strategy of not only development, but also the functioning of health care involves advancing the quality parameters change from quantitative. In the other direction, funds invested in this area, do not give proper results. The way to overcome such situation scholars see the need for a comprehensive reform of the Russian health care. This reform should include a system of measures to modernize and diversify the economy of health in general and ensuring the efficiency and effectiveness of each agency in particular.

Health care reform in the Russian Federation began with the adoption in 1991 of the law on health insurance and it happened when the Soviet Union still remained. Thus, we can say that Russia was the first of the Soviet republics that began to reform health care (Tab. 1).

Table 1 The main steps of the Russian health care reforming process

Year	Legislative Act	Main Contents
1991	<i>The Law of the Russian Federation</i> "On Health Insurance in the Russian Federation" (from 28.06.1991 №1499-1)	Abolished the Ministry of Health of the USSR. Acted the Ministry of Health of the Russian Federation <ul style="list-style-type: none"> - planned to create a market mechanism of interaction between the subjects of health insurance with elements of competition. - assumed that health care providers and insurance companies will be economically interested in improving the quality of care and the effective use of funds
1992	<i>Order of the Ministry of Health</i> "On a phased transition to the organization of primary health care on the basis of a general practitioner (family doctor)" (from 26.08.1992 №237)	Adopted the concept of transition to a single responsible physician, which has to become a general practitioner (family doctor)
1993	<i>Federal Law</i> "Fundamentals of Russian legislation on health care" (from 22.07.1993 №5487-1) <i>Resolution of the Government</i> "Regulations on Medical Insurance Entities implementing mandatory health insurance" (from 11.10.1993 №1018)	Establishing the legal, organizational and economic principles in the field of public health protection <ul style="list-style-type: none"> - aimed at ensuring the constitutional rights of citizens to receive free medical care - supposed to create a fundamentally new model of health care financing via a specially organized structure of the state off-budget funds
1996	<i>Federal Target Program</i> "Family medicine" (developed by the College of Health Ministry)	The program was designed for 1997-2005 years and included three phases: <ul style="list-style-type: none"> - creation of a system of professional training, regulatory, logistical and organizational framework; - introduction of general medical practice in the outpatient chain of regions in accordance with target programs in health; - formation of a system of general medical practice throughout the Russian Federation
1997	<i>Resolution of the Government</i> "The concept of health development of medical science in the Russian Federation" (from 05.11.1997 №1387)	Among the priorities were identified: <ul style="list-style-type: none"> - provision of adequate financial resources to the volume of government guarantees; - development of the private sector in health; - increase people's interest in the preservation and strengthening of the health

Year	Legislative Act	Main Contents
1998	Resolution of the Government “On approval of the state guarantees of free health care to the citizens of the Russian Federation” (from 11.09.1998 №1096)	Was made an attempt in order to balance the obligations of the state and resource ensuring for their enforcement
2000	Order of the Government “The Concept of Health for 2001-2005” (from 31.08.2000 №1202-p)	The document notes the need for structural reforms in the health care system and change the functions of a number of medical services in order to strengthen measures to protect public health and disease prevention
2005	The National Project “Health” (from 21.12.2005 №2)	The main purposes of the project (strengthen primary health care, strengthening of preventative health care, meeting the needs of the population in costly types of medical care) correspond to previously announced major areas of health care reform
2008	Concept of Health care up to 2020 (from 05.11.2008)	The key areas highlighted in the Concept were two: - promotion of healthy lifestyles and - the guaranteed provision of quality health care to the population

It took more than twenty years, and it should be noted the changes occurred:

1. Today in Russia operating budget-insurance model of financing health care.
2. Not without problems implementing a program of state guarantees of free health care for citizens, adopted as one of the mechanisms for the implementation of the constitutional rights of citizens to free health care under the Concept of Health, adopted in 1997.
3. Developed and enacted mechanisms to ensure the additional drug supply.
4. A large amount of work carried out in accordance with the implementation of the priority national project “Health”.

However, in the financing and management of health care there are still many problems to be solved. In particular, they include:

- Dimensions of health funding from the budgets of all levels and at the expense of the compulsory health insurance does not provide the population with free medical services;
- Poorly developed competition in the market of medical services;
- Unresolved disunity of activity of agencies responsible for public health;
- Inadequacy of logistical basis of medical institutions.

At the same time, available financial and material resources are used inefficiently, increasing disparities in the provision of health care services. Meanwhile, it is known that the system of financing health care organizations determines the scope and nature of health care services delivered, as well as the hierarchical structure of the entire country’s health care, from primary care (health center, clinic, general practice), and federal institutions including clinics that provide high-tech medical care. In this regard, creation of a model of financial relations, adequate to the needs of the population and takes into account the characteristics and nature of the various medical organizations in the regions of Russia, becomes a challenge. Even more relevant it appears because a multichannel budget-insurance financing which is currently taking place, is likely does not meet the direction of development neither Russian nor a worldwide science and practice of formation of financial relations in the provision of health services to the population.

Issues of budget-insurance model of financing of health care organizations are widely discussed in the recent literature, offering a vast variety of options for reform of the model (Tab. 2). The material was evaluated in accordance to the classification context that allows to

identify the relevant issues and to interpret the results. Problem context approach which was used in this paper allows to classify the reviewed sources of literature, which can be derived deductively and inductively.

Nonetheless, these proposals tend to be fragmented, focusing on solving one part of the common problem (for example, reducing the burden of mortality from the leading causes to solve problems of legal regulation of relations in the health care system, to preventative medical practices, etc.). This causes the regions to develop and implement their own approaches to the modernization of regional health services.

Table 2 Main streams in the scientific literature dedicated to health care issues

The Main Streams	Authors
Emphasize the <i>need of the introduction of an alternative approach of the organization</i> , including consolidation of efforts of government, business and the public	M. Fotaki, Resident expert TACIS; O. Chirkunov, V. Ivanov, A. L. Pidde
Consider a <i>search of a balanced combination of the principles</i> of the old and the new public management as an integral part of the reform	L. M. Roshal, President of the National Medical Chamber; D. Egorenkov; P. Marquez, E. Freed, R. Atun, K. Chalkidou, V. De Geyndt, S. Salakhutdinova, J. Anderson, S. Shishkin, I. Sheiman, N. Lebedeva ¹
Believes that the modernization of the Russian health care <i>should be primarily aimed at increasing life expectancy</i>	U. M. Komarov, Academy of Medical Sciences
It is believed that successful implementation of reforms in the first place <i>require legal changes in health care</i> , including giving greater clarity to the organization of the system of compulsory health insurance	A. Akopyan, U. M. Komarov, I. A. Togunov, V. N. Rybin, Y. A. Stepkina, A. L. Pidde
Emphasize a <i>key importance of payment system</i> of medical care	L. E. Isakova, V. Z. Kucherenko, V. N. Denisov, E. A. Finchenko, I. M. Sheiman, O. Chirkunov
The basis for the modernization of the Russian health care should be the changes in the provision of out-patient care, particularly in <i>ensuring the quality and accessibility</i>	S. V. Shishkin, I. M. Sheyman, V. M. Chernyshev, L. E. Isakova, G. N. Tsarik, M. Fotaki, M. V. Zhukova, I. Nazarova, K. N. Borisov, V. A. Alekseev ²
Growing inequality of socio-economic development across the regions result in significant <i>differences in access and quality of health care</i>	A. N. Borisov, A. E. Chirikova, L. S. Shilova, A. P. Arhipov, S. V. Shishkin, V. I. Starodubov, U. M. Komarov, R. A. Halfin, I. M. Son, K. A. Chernikova, E. G. Potapchik, T. V. Kuznetsova, V. V. Kookueva
See <i>universal coverage of health services</i> as a protection of the population from financial problems	S. K. Mamedova, A. A. Zhadan, K. Kessler ³
The <i>introduction of a single-channel system of financing health care</i> is a direction that is supported by almost all Russian researchers	V. I. Starodubov, I. M. Son, A. V. Jurin, V. M. Chernyshev, S. V. Shishkin, N. B. Kanatova, S. V. Selezneva, V. A. Chernez, T. N. Makarova, T. V. Kuznetsova, D. V. Piven, P. E. Dudin, V. V. Kookueva, A. A. Kalininskaya

² Expert Group of the World Bank.

³ Emeritus professor of higher education in Russia.

⁴ Based on the World Health Organization (WHO) materials.

Despite such fragmentation of views on approaches to solving problems of the Russian health care system, the most topicality in this process of restructuring acquired an effective solution of the problem of resource allocation in order to improve the availability and quality of health care. This is also concern the issue of inconsistencies between the available sources of funding from the state and the implementation of guaranteed free medical assistance to the population, as well as the development of the insurance industry and the relevant regulatory framework.

Background of changes. Health care system from a position of goal achieving

For all its harmony, causing interest and many followers worldwide, health care system in the Soviet Union had certain negative sides. Being attached to a particular doctor and certain hospital, patients actually were deprived of choice, making it impossible a competition between medical facilities and, in turn, caused a lack of attention to the needs of patients. Main health care expenditures (around 80%) were invested in inpatient care (which was seen as a major weakness of the organizational model of the Soviet and then Russian medicine), despite the fact that the most widespread type of medical care is a pre-hospital care, where normally used to begin and end treatment of 80% of patients. Gradual reduction in outpatient clinics began in the early 1990s, and in the following years their number continued to decline (Tab. 3).

It is believed that one of the main problem of the Soviet public health care system was a persistent underfunding, which became more perceptible with the complexity of medicine and in rise in prices to it, whereupon, many modern therapies and medicines in the Soviet Union did not develop or were simply inaccessible for Soviet citizens.

As some authors point out (e.g., Nazarova, 2006), referring to official statistics⁵, it appears to be difficult to determine an exact volume of financing of health care (as a percentage of GDP) in the USSR, primarily due to the incompatibility of data. Likewise, it should be taken into consideration the complexity of capturing all the financial flows. Furthermore, if the expected results and volumes (and value) of services required to achieve these results are not described, the amount of funding requested cannot be reliably determined. Nevertheless, it cannot be denied, that if in the 1960-1970-ies health care funding was quite satisfactory, making about 8-8.5% of GDP, then in the last years of the USSR it was reduced to 3-3.5%. The average salary of employees in health care, calculated relatively to the level of wages in all sectors of the economy, fell from 82% in 1965 to 70% in 1985, despite the fact that the average level of education of employees in this sector was one of the highest among all sectors⁶.

Table 3 Dynamics of values of outpatient care

	1985	1989	1990	1992	1993	1994	1995	1996	1997	1998	1999
<i>Number of medical institutions providing outpatient care (in thousands)</i>											
All Dept.*	19,4	21,1	21,5	20,7	20,9	21,6	21,0	21,1	21,7	21,1	21,1
e.g., Ministry of Health system	17,1	-	18,9	19,0	19,0	18,8	18,8	18,6	18,2	18,0	17,8
<i>Average number of visits per 1 inhabitant</i>											
	11,1	10,0	9,5	9,0	9,2	9,2	9,1	9,1	9,1	9,1	9,3

Source: Goskomstat (State Committee on Statistics of Russian Federation).

*All Dept., i.e. including differentiated aid, such as departmental and sectoral medical care (for instance, for military forces, railway men etc.).

⁵ Social development of the USSR. The statistical data base, Moscow: Finance and statistics, 1990.

⁶ At 2.3 times higher than the average for all industries.

In scientific publications in recent years there are also common opinions on low priority of the Soviet health care as industry. It is assumed that this situation was a result of so-called residual funding, which means that health care and social services receive funds only after the priority sectors were provided with financing, which include defense, industrial development and other. Indeed, financial standards which served to determine health care expenditures (such as expenses for capital construction, maintenance of buildings and the purchase of other materials) were set at unrealistically low level (Davis, 1989), which has had an important consequence for strategic purposes⁷. However, the term “residual financing” in this case may be used in an inaccurate way, taking into consideration the fact that dynamics of the total public expenditures on health (inflation considering) suggests that public funding of the post-Soviet period had never reached the level of Soviet period. The same inaccuracy use concerns the assertion that the main weakness of the Soviet health care system was the neglect of the effectiveness as such.

The term “effectiveness” in the sense in which it is interpreted today, was absent. Rather, the effectiveness was replaced by the goal of the execution of a plan, where the percentage of its execution actually served to measure the performance. After 1945, the population in the USSR needed to be ensured in overall comprehensive health service, and the solution of this problem in conditions of deficit of hospital beds and doctors, was possible, first of all, due to the intensive capacity increase. That is, with the increasing of quantity, performance indicators tended to improved (there was an increase in fertility and decline in mortality). Subsequently, trend of increasing capacity is remained, that along with worsening economic situation was the cause of decline of health care performance.

Funds were allocated to medical facilities on the basis of their occupation, which actually caused the “distortions” of the interests of the medical facilities, compromising the quality of medical services. Specifically, this situation could be expressed as follows.

The main indicator of occupation in hospitals were patient days, and in outpatient clinics such indicator was outpatient visit. In turn, this contributed to the excess of medical staff and hospital beds. They used to “absorb” major part of health care budget, while the appropriate investment in improving of the effectiveness of health services was not made.

At the end of the year, each hospital reported the actual occupation of the beds in the past year, on the basis of which received funds for a next year. Ultimately, for the hospital was advantageous to use as many beds as possible, to occupy them as long as possible and spend herewith for the treatment of complex cases less effort. Thus, in the period from 1970 to 1985, the number of physicians has increased by 75%, and hospital beds – by 35%. The number of doctors increased from 1.5 doctors per 1,000 population in 1950 to 4.2 in 1991, the number of hospital beds increased from 5.6 to 13.1 per 1,000⁸. On the one hand, considering the immense territory of the state, the country was fairly evenly provided by physicians and hospital beds. At the same time, the quality and potential of medical care was far less uniform (see the example above with the geographical differentiation). Increasing of the number of health care facilities, personnel and medical services were in line with the extensive development strategy and supporting this strategy fiscal incentives.

As for the clinics, their funding depended on the number of outpatient visits, which encouraged physicians not to engage patients and refer them to the next level of medical care. Thereby, clinics are really treated with less than 50% of patients who applied to them (which

⁷ For example, in the early 1980s in the USSR standard pharmaceutical expenditures per patient day was 90 cents.

⁸ For comparison, in the United Kingdom, the number of physicians was 1.6 doctor in 1991; number of hospital beds - 5.4 beds per 1,000 population.

are then sent to the hospitals, where for the reasons mentioned above stayed for a long time, waiting for operations and medical examination). In the late 1980s, an average of one person had an average of 10 visits per year, the level of hospitalization was 20 admissions per 100 people, the average length of hospital stay was 19 days.

Consequently, the planning was based exclusively on the capacity of medical facilities, the funds were actually spent in vain and the quality of care suffered. Because of distorted interests of medical facilities, health care system was primarily a therapy-oriented, in which the principal place was occupied by hospitals, while the development of medical services was “unprofitable.” Moreover, the fact that medical employees used to receive a fixed wage regardless of the progress made and the charge, did not contribute in improving health care. Since the responsibility of the Ministry of Health did not include the collection of statistical data on the costs of individual diseases, the actual cost of medical services, flows of funds outside the administrative units, the consumption levels of individual medical services and others, results of health care functioning were not announced.

Therefore, the main weaknesses of the Soviet health care system reflected, firstly, the weaknesses in the process of planning and budgeting; secondly, the existence of incentives for unsustainable build capacity (“quantitative incentives”). In third, the lack of competition between health care providers and, finally, the declines caused by the unsatisfactory performance of deficit economy. The increase of quality and effectiveness of diagnostic and medical service was missed. All these aspects of health care system remained at a relatively low level in compare to Western European countries.

Nevertheless, according to experts, the Soviet method of financing of health care can be considered as a relatively fair, because funding of health industry was almost entirely public, functioning through general taxation or taxes on profits of enterprises, whereby in the USSR was achieved the goal of universal protection of the population from impoverishment due to illness.

Chronology of the national reform: from New Economic Mechanism to present health care financing

Since the early 1970s there was a gradual decline in budgetary funding of health care. A significant number of hospitals required rebuilding, equipment was physically and obsolescence out of use. Low wages of health employees provoked a spread of shadow business, such as the illegal payment of medical services by patients, speculation of rare medicines etc. The crisis in health care system was aggravated by the overall crisis of the economy⁹.

Funding of clinics was regulated by number of outpatient visits, and hospitals – by patient days. This led to the practice of increasing the number of visits by each patient in an outpatient care and to lengthen the period of treatment in hospitals. Medical facilities was characterized by the disproportionate development of the most asset-intensive and expensive medical technology. The existing order of funding did not contribute to the intensification and effectiveness of work of medical personnel.

All this, as well as the funding gap identified the need to reform the health care industry. By the beginning of reforms, the existing system has been criticized, and as a way out of the

⁹ This was due to the fact that up to 30% of health care facilities by the end of the 1980s contained by enterprises, organizations, collective farms and state farms, which are due to the economic crisis of 1993-1994, almost stopped to provide funding for these purposes.

crisis proposed the decentralization, which could increase the responsibility for the health of the population. The Ministry of Health was seen as a monopoly, and among the measures were offered a de-monopolization of health care facilities. Along with the development of private medicine, it was decided to introduce health insurance (both compulsory and voluntary), which meant the launch of market mechanisms.

First and rather modest attempt (in 1982-1986) to reform health care were *experiments to increase the intensity of use of hospital beds of medical facilities* by improving the diagnostic and treatment process. They were based on the empowerment of the rights of supervisors of medical facilities to change both the staffing ratios and the standards of workload and its financial incentives. For this purpose in medical facilities were created relevant funds. Increasing of intensity of hospital beds was carried out by material incentives of personnel without changing of financial and economic mechanism, so these innovations cannot be regarded as a prototype of health care reform. Under the experimental conditions the unit of payment become not the actual, but normative presence of patient in the hospital: a patient cured in a shorter period brought savings, on the contrary, his presence on the bed longer than the normative time was supposed to pay out of the fund. Hospital stay decreased by 1.5 days, bed turnover increased by more than 5%. In this situation, the question whether to hospitalize a patient, was not the main, and often hospital beds were occupied by “easy patients” - those who can be cured in a given period.

Next (1987-1991) was made a second, more serious step - introduced a *new economic mechanism* (NHM)¹⁰. It was then that for the first time was clearly expressed the need to pay not for a detailed chain of medical facilities, but the final results of the them. Transition to economic methods of management involves changing the system of performance of health services primarily to the transition to the estimates by the end results (preservation and promotion of health, resource efficiency, social satisfaction, etc.). Requirements for the performance of health facilities and their departments are expressed as normative values of final outcomes.

The idea of the NHM was to use economic methods of management so that to enable health authorities to actively search for internal reserves and the most rationally expend funds. At the same time emphasized that the application of cost accounting principles in health care should be directed primarily to better meet the needs of the population for health care and only then for additional income, and ultimately strengthen the role of primary health care.

Funding at the territorial level under NHM performed according to the standard per inhabitant per year, and health care facilities received funds per unit of volume of activity: hospital - 1 patient treated, clinics - one attached to the resident, ambulance service - at 1 call, etc. The magnitude of norm of budget funding for the territories had to be determined differentiated, taking into account the needs of the population in medical care.

Clinics and hospitals were separated, and the holder of the basic funds under the new conditions was the outpatient service, which was paying for other medical facilities for inpatient treatment, consultation, ambulance and other types of medical care.

In Kemerovo region clinic¹¹ began to receive funds based on per capita and acted as buyers of medical services for the people assigned to them. The budget of clinics considered costs for diagnostic tests, hospitalization, outpatient and emergency care. In hospitals and clinics set up independent medical associations who owned their own

¹⁰ New financing methods have been tried in St. Petersburg, Samara and Kemerovo regions.

¹¹ Located in the south of Western Siberia, has a population of 3.5 million people, a developed industrial region.

budget and were able to financially encourage their staff. To control the quality and methods of treatment have been established economic health standards designed to prevent cost savings by reducing the amount of necessary medical services. Salaries of medical personnel began to be affected by the labor participation rate, which takes into account the number of days of disability, delayed diagnosis, the amount of the vaccination, complications of disease, patients with claims and other indicators. The rate was used in order to compare the results of work within the team. Premium was also paid on the basis of the rate, although its calculation did not include the indicators of the quality of medical care.

Thus, the idea was to prevent the unnecessary hospitalizations. In such circumstances, clinic was interested in providing qualitative medical care to the maximum extent on their own. Primary health care facilities has obtained the opportunity to keep any saved funds. It was assumed that there should be a change of the structure of medical facilities with a primary development of pre-hospital forms of activity, as well as reduce of unnecessary referrals to specialists.

As the load on primary health care increased, the structure of specialized medical care changed. Departments of general surgery, children's and traumatological departments reduced the number of beds, and narrow-profiled departments, particularly cancer department - increased. In Samara region as a result of reforms, average length of hospitalization decreased by 7% and bed capacity - 5,500 beds.

Savings resulting in such cases were directed or for the creation of information systems and training, or for the purchase of new diagnostic equipment and personnel support.

Nevertheless, the procedure of financing of medical facilities wore quite controversial character: in new conditions funding of hospitals was practiced on the basis of cost per patient day and the average duration of hospital stay, calculated for different profiles of patients. Wherein, the cost of patient day was taken into account empirically, on the basis of available, but not required resources. At the same clinics have got hard a rigid motive not to refer patients to the hospitals that could cause a risk of the lack of medical care. Thus, by “appropriating” the financial resources from the hospitals, clinics shared them within ourselves, and not the fact that the distribution contributed to improve the quality of medical services. There was a need to move to **fundholding** not by clinics, **but general practitioners (family doctors)**, which was considered as one of the main objectives of the NHM in relation to the priority development of primary health care.

The choice of general practitioner had to become a real guarantee of quality medical service for a patient, and in case of dissatisfaction, he has the opportunity to move to another practitioner along with the insurance coverage. As Chirkunov (2011) points out, the problem in this situation is that a fund holder is primarily interested not in those patients which are constantly provided with his service, but the patients attached to him, those who never sought a medical care as they are healthy. Evidently, the consequences of the introduction of a tool such as “fundholding” it are too early to analyze today because of the relatively short period of its application. Most likely, they will be linked to the fact that the project “fundholding” is not based on actual cash flows, but on calculated models.

In health care, as generally in the USSR economy of that period, market mechanisms represented a main lever, which could be run during the implementation of the **compulsory**

health insurance (CHI)¹², where new market structure, such as insurance companies and health insurance funds, were independent of medical institutions intermediaries between doctors (medical services providers) and patients (buyers of medical services). The intention here was to make the intermediaries control spending by health care facilities, that should lead to the reconstruction of the health care system. Thus it was assumed that the insurance companies, by paying hospitals and clinics cost of provided medical assistance to the population, should be economically interested in protecting the interests of patients. It was hoped that there would be competition between insurance companies as in the fight for consumers, and the providers of medical services.

Since 1992, changing the order of formation of budgeting. Health care expenditures were mainly determined by the level of economic development of regions regardless the actual needs. Inequalities in regional health care financing automatically lead to the reduction of opportunities for alignment at the expenses of the Federal Mandatory Health Insurance Fund (FMHIF). In most regions, hospitals and clinics were funded from a variety of sources: local budgets and mandatory health insurance funds (MHIF) that complicated the whole process of control and organization.

The introduction of mandatory health insurance since the very beginning held in the situation of increasingly unbalancing between economic and social systems of society, which undoubtedly contributed to the reduction of the expected socio-economic impact¹³. On the one hand, was laid the real mechanism of reforming and state regulation of health care in the transition to the market economy, and on the other, all levels of management showed obvious problems and disadvantages of the legislative, organizational, technological and psychological nature which has become an obstacle of the reform process (Reshetnikov, 2001). There was a partial duplication of functions of CHI funds and health care authorities. Funds moved along the extended chain, which is not always contributed to bring them up fully to patients. Significant financial resources were dedicated to the maintenance insurance funds and insurance companies. Different principles of financing of health care facilities (from the budget and from the CHI funds) impeded planning of health care costs, eroded economic and legal responsibility for the provision of specific types of medical care to the population, and contributed to the financing of excessive capacity of health facilities, regardless of the actual amount of work.

Health Care Reform with the beginning of the 2000s, composed not only by economic but also social reforms. Currently, as main directions of reforming of health care industry were highlighted the improvement of regulatory and legal framework as well as financial and economic mechanism, scientific organization of medical care providing, including the use of evidence-based medicine, the formation of attitudes among the population in favor of a healthy lifestyle and perception of health as the most important value in life.

¹² Law “On Health Insurance in the Russian Federation” was released in 1991. The law was revised and 2 April 1993 replaced by a Federal Law, served as the basis for creating health insurance system. The law provided the introduction of two types of medical insurance: compulsory and voluntary.

¹³ Content analysis of medical literature of the period 1997-1998 shows a lot of conflicting opinions about the ways to reform health care system. In most cases, representatives of the public health system had a negative attitude to this innovation, and representatives of the mandatory health insurance tried to prove that this is the only way of salvation of health care sector (e.g., Ivanov, 2012).

Present mechanism of health care financing

A distinctive feature of health care facilities financing in Russia today is a high fragmentation of funding sources, which are: regional budget, mixed source consisting of both regional and federal budgets, mandatory health insurance funds and income from revenue activities. According to official statistics, Russian health care is mainly financed by the budget and insurance funds.

The relative role of these components in different regions of the Russian Federation is different. Insurance and budgetary resources in each region are involved in the financing of health care to a different extent, depending on local economic and political situation. So, local authorities in economically disadvantaged (“poor”) regions experiencing more difficulties. Until now, the attempts of the Federal CHI Fund to equalize the conditions of financing of health care in all Russian regions were not sufficient so as to cope with the very different state of regional health budgets, and eventually growing inequality¹⁴.

Percentage of each of the sources in the financing of health care in the period from 2000 to 2010 is as follows: federal expenditures averaged 0.7% (% of GDP) and the consolidated budgets of the Russian Federation subjects (regional level) - about 2%; budgets of territorial extra-budgetary funds (including compulsory health insurance fund) - 1.3%. It is assumed that the share of the compulsory health insurance in the structure of health care costs will be growing in the nearest three-four years; at the same time medical facilities will be funded on the basis of services rendered, i.e. “money will follow the patient” and the citizen can independently choose the insurance company, medical facility and doctor. As a result, medical facilities funding will depend on the number of patients.

Health expenditure in the federal budget for 2014 are expected to reach 462.1 billion rubles (10.5 billion euros), or 3.2 % of the total expenditures of the federal budget (0.6 % of GDP). For comparison, in 2013 health expenditures amounted to 503.9 billion rubles (11.5 billion euros). It is expected that expenditure on health in absolute terms in 2015 will not exceed 373.1 billion rubles (8.5 billion euros) and in 2016 their share will also decline. Despite the seemingly impressive on the absolute values of health expenditure, the share of total health expenditure from the budget (according to the Accounts Chamber of the Russian Federation) is an average of just over 4% of GDP, including the expense of the state which is about 3%, and by at the expense of the population more than 1%. So, for instance, in the U.S. health care system needs used to spend more than 17% of GDP, in Britain and other developed countries of Europe, on average 10% of GDP and slightly less than 7% in Eastern Europe and the Baltics (see Fig. 1).

Nonetheless, a simple comparison of the volumes of financing would not be enough, because in this case it is necessary to correlate the results as well. First, in order to achieve European life expectancy and mortality scale, domestic financing is clearly insufficient. Second, for achieving Russian health care indicators, the financing may even be redundant. Thirdly, the funding system can be relatively less expensive, providing relatively higher rates of health of population in general at a relatively lower cost¹⁵.

¹⁴ In 55 regions of the Russian Federation health care costs per capita are below the national average, in 33 regions - above. The minimum value of this parameter is more than five times less than the average, and the maximum - 2.5 times more (Takis, Review of Russian Health Care Finance System).

¹⁵ As an example, there could be given the UK and the U.S. cases. Comparison of health care financing and state of

International experience shows that it is necessary not only to increase spending on health care, but look for the most effective mechanisms, on the one hand, of mobilization, and on the other - the distribution of resources on public health. For Russia, despite the investments made in health, among the main concerns the problem of low efficiency severely limited resources. This raises the question of how to finance health care, where the main reallocation of the resources occurs between funding from public or private sources. In Russia, private expenditures usually include voluntary insurance, official fees (co-payments) and so-called payments in an “envelope”.

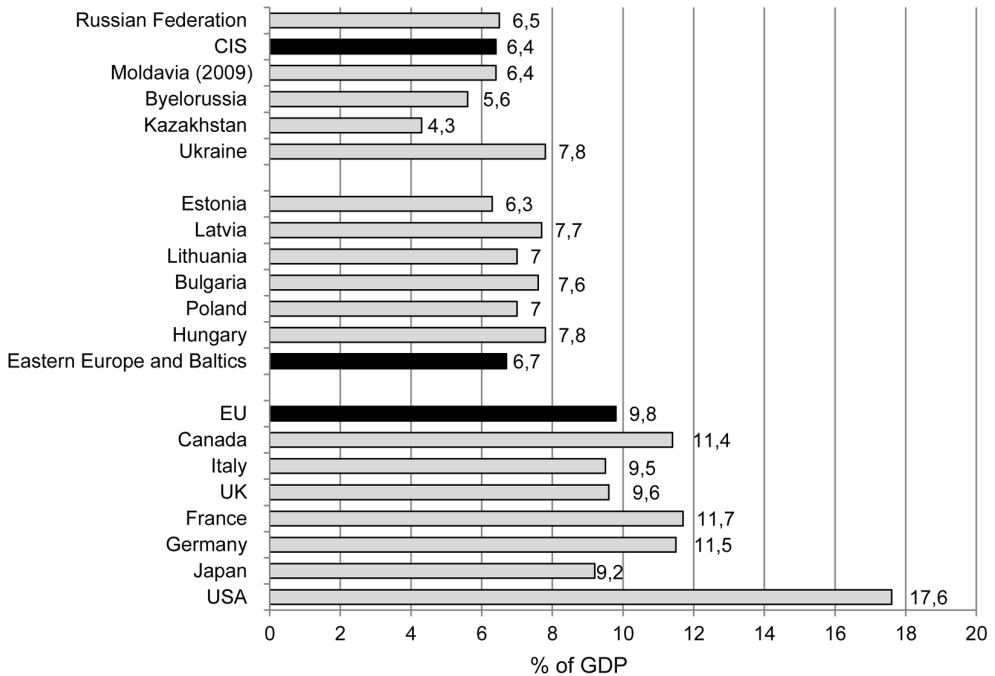


Fig. 1 Total health expenditure across selected countries as % of gross domestic product (GDP) in 2010, WHO estimates¹⁶.

Assessing of the scale of private expenditure varies over a wide range from 25 to 60 percent of total health spending. Some independent experts believe that during certain time periods means of the population, in particular for paid medical services, medicines and illegitimate payments accounted for about half of public spending. According to WHO data, the share of private spending accounts for more than 40% of total health expenditure (Tab. 4), and most of them - more than 80% in 2012, - are private expenditure¹⁷.

health in these countries shows that, although the United States spends on health care almost two times more than the UK with a significant proportion of private funding, health indicators in these countries are comparable, and some are even better than in the U.S.

¹⁶ The issue of exact volume of financing coming in Russian health care appears to be difficult, first of all, since not all financial flows can be registered. Second, the indicators used by official Russian statistics are different from those established by WHO. For this reason the share of total health expenditure from various data base may differ.

¹⁷ Despite this, a significant number of citizens do not have the ability to use paid medical services due to low income: according to recent sociological studies, about 30% of Russians cannot afford fee kinds of health services due to low credit, and this indicator may be increased by one-third, depending on place of residence.

Table 4 Health expenditure in Russian Federation

Health expenditure	2000	2003	2006	2008	2012
Total expenditure on health as % of gross domestic product	5,4	5,6	5,3	4,8	4,0
General government expenditure on health as % of total expenditure on health	59,9	59,9	63,2	64,3	58,7
Private expenditure on health as % of total expenditure on health	40,1	41,0	36,8	35,7	41,3
General government expenditure on health as % of total government expenditure	12,7	9,3	10,8	9,2	9,7
External resources for health as % of total expenditure on health	0,2	0,2	0,1	0	...
Social security expenditure on health as % of general government expenditure on health	40,3	43,7	42,3	38,7	44,6
Out-of-pocket expenditure as % of private expenditure on health	74,7	71,1	81,5	81,3	87,8
Private prepaid plans as % of private expenditure on health	8,1	6,6	10,2	10,6	7,1
Per capita total expenditure on health (PPP int.\$)	369	551	699	985	1277
Per capita government expenditure on health (PPP int.\$)	221	325	441	633	749

Source: World Health Statistics. WHO, 2013.

In this context, a problem of equity in relation to health care financing becomes evident. Fiscal medical system, with both advantages and disadvantages, has an important advantage which consists in the fact that public funding provides control over the funds (as opposed to insurance systems) and implementation of national priorities, the main of which is the access of the population to medical care. In addition, centralized management enables effectively inhibit the growth of medical costs. In this regard, the budget system of financing of health services seems to be more in line with the reasons of both economic efficiency and social equity, providing a balance between them (Mechanik, 2011; Chubarova, 2004). Wherein, in the modern civilized world is accepted as an axiom that health care resources should be distributed equitably.

Management of change: The open issues

Each country historically form and develop its own way to mobilize economic resources for health care, for preservation and promotion of public health. Quantity and quality of resources allocated by society, as well as their effective use in health care is determined by the complicated system of economic, political, and even moral and ethical and other relations, historically formed on the territory.

The main motive of the transition to a mixed model of health care financing in Russia in 1990th was a lack of public funds and the need to mobilize resources from other sources. The option of financing health care, selected under conditions of limited resources for health care, was initially expensive and led to the need of increase funding for health. Consequently, it is legitimate to suppose that today there should be selected such option of financing system, which would allow to transform allocated funds in to the effective system of providing quality health care, but not just to increase spending on health.

Mainstream of changes of the last decade, made to the budgetary allocations in health, were series of innovations aimed at transition from previous estimate and cost-allocation policy to program-target principle. Investigation on regulatory sources suggests that this process is still in the stage of transformation: documents reviewed are clothed in the traditional cost-estimate form but using program-target blocks (that can undoubtedly be attributed to a step forward), while “real” program formation, implying a modification of the budget classification, will begin with 2014. Wherein, sectorial ministries and departments were identified as responsible for the development and implementation of state programs. There is also specified composition of directions and routines included in the public health care development program, which shows that the areas of program development includes health developed and implemented in the previous period the federal target program, as well as the Priority National Projects. Thus, the composition of the new government long-term programs preserves the continuity of previously developed activities with a corresponding correction in the proposed implementation period.

Under the changing circumstances local authorities combine new and old principles of financing, and speed and success of the transition to new ways of working vary considerably in different regions of Russia. The materials of the WHO European Office notes that in some areas, a new method of funding is not used at all, in others it involved only a few areas, it is embedded in the third, but without the participation of insurance companies that are considered the CHI scheme of financing disadvantageous for themselves. Analyzing approaches used by different regions to modernize health care, there could be distinguished:

- introducing a mechanism of placement of municipal contracts (task-order) providing health care services;
- various embodiments of planning and coordination of health care volumes (e.g., by district principle; by the method of program-oriented planning of budgetary services; by the specification of types of visits – primary, recurrent, prevention, dispensary, home visits etc.; in terms of cases of completed treatment; by the implementation of the system of indicative planning of financial costs on the basis of uniform standards and norms of expenditures);
- testing of elements of single-channel financing of health care facilities through the CHI system.

Summing up, systemic health care reform at the present stage involves at least three mandatory components.

First, it is the financial and economic reform, including the restructuring of the health care industry.

Second, it is improving the quality of health care management on the basis of scientifically grounded management technologies.

And, finally, it is the development of medical practice based on the principles of evidence-based medicine and on the results of clinical and economic analysis.

In fact, the need for reform of the financial and economic system of health care, the essence of which is the **transition from cost management**, i.e. budget funds and mandatory health insurance funds to **results management**, comes to the foreground. Wherein, the basis of the forming of expenditure of funds supposed to become a clearly defined objectives and quantifiable results of operations, as well as planned and agreed by all stakeholders workloads of medical facilities.

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The Group of 20 (G-20) and its Role Changing Global Economic Governance

Beginda Pakpahan

Abstract This article argues that the G-20 is an informal economic arrangement which was not significant before the latest global economic crisis. It has become an important institution since 2008 in order to respond to the current global economic crisis. The G-20 is a coordinating body of global economic governance which has a crucial role to coordinate its members and international financial institutions and thereby provide them with strategic policies on political and economic issues. Furthermore, the G-20 represents a flexible framework on managing global economic governance and monitoring the international financial system. It is a manifestation of flexible multilateralism in international relationship. Hopefully, the G-20 can be a revision of the old-fashioned architecture of global governance in the contemporary era.

Keywords The G-20 - Global governance - Flexible multilateralism - Advisory committee a steering group and development issues

Jel Classification F00 – G01 – G30

At the end of 2008, the financial crisis hit the US of America which affected the banking system, real estate business and investment. The financial crisis spread globally to Europe, Asia and other parts of the world (Eckes, 2011:205-212). The financial crisis has pushed all governments around the world to bail out their banks and deliver funds into the market in order to avoid an economic recession (Pitzke, 2008:1). Trade and investment activities were declining at that time. The labour market and development were also significantly affected by this situation. This financial catastrophe has reduced economic activities in developed countries and created economic fragility in developing countries. This financial crisis transformed into a global economic crisis because of economic interdependence amongst countries around the globe.

Most countries responded to this financial crisis unilaterally and bailed out banks and insurance companies. They have done these actions in order to maintain a market and build trust for investors. Moreover, most countries attempted to improve their export and reduce their import in order to maintain their economic performance. More specifically, they have employed soft

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protectionism measures against external products thus securing national business and avoiding job losses. However, business sectors have reduced their activities and expenses which reduce the number of work opportunities. The customer demands have also declined because of this economic situation. Therefore, most countries have faced these economic challenges until today since the global economic crisis has continuously deepened (European Central Bank, 2014:1 and IMF, 2014:1).

The most powerful countries have faced significant economic challenges after the global economic crisis of 2008. Generally, the G 7/8 comprises the most wealthy economies that deal with important world challenges and their solutions (G-7/8, 2009:1). However, it could not respond effectively at that time because most of its members were hit by the global economic crisis. Therefore, there was a need to involve emerging economies and developing countries in order to confront and solve this economic crisis. The economic power of G 7/8 eroded due to the shifting of economic wealth distribution from industrialised countries to emerging economies. As a result of this development, the global economic landscape has also changed. The G-20 has been a potential forum for developed and developing countries to deal with the latest economic crisis.

This paper argues that the G-20 is an informal economic arrangement which was not significant before the latest global economic crisis. It has become an important institution since 2008 in order to respond to the current global economic crisis. The G-20 is a coordinating body of global economic governance which has a crucial role to coordinate its members and international financial institutions and thereby provide them with strategic policies on political and economic issues. Furthermore, the G-20 represents a flexible framework on managing global economic governance and monitoring the international financial system. Hopefully, the G-20 can be a revision of the old-fashioned architecture of global governance in the contemporary era.

I will divide this paper into three sections as follows. First, I will briefly discuss multilateralism as a theoretical approach to assess G-20. Second, I will give an overview of the G-20 in order to understand its historical background, its achievements and its shortcomings. Finally, I conclude with a discussion of the implications for G-20 to global governance.

Multilateralism and the G-20

Multilateralism has been developing since the beginning of 1940s and has focussed on the global order and the development of international organizations. The global economic crisis in 1930s had had a serious impact on various aspects of human life, political, economic and socio-cultural. Therefore, multilateralism was implemented by world leaders in order to build a new world order which dealt with political, economic and socio-cultural issues, such as the Bretton Woods institutions. The main reason as to why multilateralism was created by several countries was in order to reduce the negative impact of bilateralism before the Second World War. Moreover, multilateralism has developed and transformed during the intervening years into its new form in 1980s. The new multilateralism is an approach to see that the interconnected issues of trade, development and investment provide a structure and place for governments and international organizations to deal with these related issues (Camps and Diebold, 1986: 6-7).

After the Cold War, multilateralism had been altered by the US of America because it was the only superpower after the collapse of the Soviet Union. The most challenging events from the political to security and economic affairs were solved by the US of America with a unilateral approach from the 1990s to mid 2000s. Recently, the dominance of US of Amer-

ica has declined in the international political and economic spheres. The world system has shifted from a uni polar to a multi polar system comprising many significant actors beside the US of America in the global scene. As a result of this development, multilateralism has returned back to the global arena as an approach which has been employed by most of countries in the world.

Multilateralism can be defined as a collective institutional form established by countries based on common principles, rules and regulations governing their actions in international relations. Ruggie argues that multilateralism is a form of institution coordinating ties amongst countries based on common principles, rules and actions without regard to the specific interests of one country (Ruggie, 1993:11). Keohane adds that a multilateral framework consists of rules and regulations which shape the collective role and decide the common actions of its members (Keohane, 1994:48-49).

Recently, the global economic crisis has brought us to the turning point for a rethinking and remaking of a new type of multilateralism which might prevent an economic depression. Dominique Strauss-Kahn implied that multilateralism is an important solution in the current crisis and might avoid a similar crisis in the future (Strauss-Kahn, 2009:1). In the subject of the theory and practice of international relationship, multilateralism elaborates the changes in international decision-making and the necessity for a new focal point to be integrated into existing frameworks and systems (Kremenyuk, 2008:2).

The current political and economic challenges need to be tackled by inter-related policies. Therefore, the world needs governance in order to manage and respond to these challenges in effective ways. Karns and Mingst (2010:3-4) explained that “global governance is the multi-level collection of governance-related activities, rules and mechanisms, formal and informal, public and private, existing in the world today”. In my opinion, global governance is a collective group of public and private institutions providing structure, regulations, a scheme of works and actions based on common interests in a formal or informal way. Most countries, international/regional organizations and non-state actors have attempted to rethink and rebuild a new architecture of global governance in order to develop effective and reliable mechanisms in the face of the political and economic challenges.

Based on the explanation above, I argue that we need a flexible multilateralism in order to respond adequately to the current global economic crisis and to develop a new architecture for global governance. In my opinion, the G-20 can be a flexible arrangement which has as its main goal to coordinate and steer global macroeconomic policy. At the same time, the G-20 represents a new generation of global governance institutions in the contemporary world. In short, the G-20 is a manifestation of flexible multilateralism in international relations.

The G-20 is a forum for global economic development which aims to discuss important issues, political and economic, between developed and emerging economies (Eckes, 2011: 213-214). The main principle of G-20 is the stress on consensus decision-making, based on comments, recommendations and collective actions of its members. Every member can exercise its influence in order to convince other members formulate, develop collective commitments and actions and solve the problems (Pakpahan, 2012: 64). The G-20 reinforces the architecture of financial institutions and supports economic growth and development around the world. In practice, the G-20 arranges discussions on national policies, global co-operative actions and international economic institutions (G-20, 2014a:1).

The structure of G-20 is quite unique compared to other international organizations, such as The United Nations, the International Monetary Fund (IMF) and The World Bank. The G-20 chair is a coordinator for all members which holds its position for a year and rotates

between members from different regions. There is a system of troika within the G-20 leadership which consists of past, present and future chairs. The troika has responsibilities to maintain agendas and develop management of the Group. G-20 does not have a permanent secretariat and supporting staffs. Therefore, the G-20 chair is responsible for creating an ad hoc secretariat which manages works and organizes summit and related meetings within the G-20 (G-20, 2014b:1).

The G-20 consists of a group of important countries in the global economy. Based on statistical data in 2009, the G-20 represents 87.82 % of world GDP which is USD 50,882.82 billion. Total percentages of the G-20 voting rights in international financial institutions are 64.69 % for the IMF and 63.31 % for the International Bank for Reconstruction and Development (IBRD) or the World Bank Group (see table 1). Moreover, the total population of G-20 in 2014 is 4,951,500,000 or 68,4 % of the world population (7,238,184,000) (Destatis and Population Reference Bureau, 2014:1).

Table 1 Key Economic Facts of The G-20

Countries	GDP (\$billions)		Current Account (\$billions)		Unemployment Rate (%)		IMF Voting Rights (%)		IBRD Voting Rights (%)	
	2008	2009	2008	2009	2008	2009	2008	Current	2008	Current
Canada	1499.55	1336.43	7.61	-36.13	6.16	8.28	2.89	2.88	2.78	2.43
France	2866.83	2675.92	-64.78	-38.84	7.88	9.39	4.86	4.85	4.30	4.17
Germany	3673.11	3352.74	245.72	160.63	7.24	7.44	5.88	5.87	4.49	4.00
Italy	2307.43	2118.26	-78.87	-71.27	6.78	7.75	3.19	3.19	2.78	2.64
Japan	4886.96	5068.06	157.08	141.66	3.99	5.08	6.02	6.01	7.86	6.84
Russia	1660.01	1229.23	102.40	47.51	6.50	8.40	2.69	2.69	2.78	2.77
United Kingdom	2684.22	2183.61	-40.73	-28.84	5.55	7.46	4.86	4.85	4.30	3.75
United States	14441.43	14256.28	-706.07	-418.00	5.82	9.28	16.77	16.74	16.38	15.85
Argentina	328.56	310.07	4.99	8.65	7.30	8.40	0.97	0.96	1.12	1.12
Australia	1059.49	997.20	-46.68	-29.89	4.70	5.60	1.47	1.47	1.53	1.33
Brazil	1635.52	1574.04	-28.19	-24.33	9.80	6.80	1.38	1.38	2.07	2.24
China	4519.94	4908.98	426.11	297.10	6.10		3.66	3.65	2.78	4.42
India	1206.68	1235.98	-26.62	-27.49	7.20	9.50	1.89	1.88	2.78	2.91
Indonesia	511.49	539.38	0.13	10.58	9.70		0.95	0.95	0.94	0.98
Korea	931.41	832.51	-5.78	42.67	3.65	5.00	1.33	1.33	0.99	1.57
Mexico	1089.95	874.90	-15.89	-5.24	3.70	5.50	1.43	1.43	1.18	1.68
Saudi Arabia	475.73	369.97	132.50	20.48	13.00	11.80	3.16	3.16	2.78	2.77
South Africa	276.77	287.22	-20.50	-13.76	24.20	24.30	0.85	0.85	0.85	0.76
Turkey	730.32	615.33	-41.29	-13.85	9.70	14.10	0.55	0.55	0.53	1.08
G20 Total	53641.31	50882.82	-256.29	-49.85			64.80	64.69	63.22	63.31
G20 % of World	87.62	87.82					64.80	64.69	63.22	63.31
Global Total	61220.96	57937.46								

Source: The G8 Information Centre (2010:1).

Compiled by Shamir Tanna from G8 and G20 Research Groups on 18 June 2010.

* Cells shaded in grey are not official country numbers; they are estimates from IMF experts.

An overview of the G-20

The G-20 was formed by ministers and the governors of central banks in the late 1990s. I will explain a milestone in the development of the G-20 from the first meeting to the most recent summit. The first G-20 meeting was held in Berlin, Germany on 15 December 1999 (G-20, 1999:1-2). Its purpose was to create a venue for an informal discussion between ministers and the governors of central banks in the context of the Bretton Wood system and its related issues. The discussion referred to the important economic and financial issues in order to preserve and achieve economic growth for all members. They discussed the way to respond to the economic challenges affecting the global financial system. They encouraged the Bretton Wood institutions to formulate international codes and regulations to support domestic economies and the global financial system.

The second G-20 meeting was held in Montreal, Canada on 25 October 2000 (G-20, 2000:1-6). Members of G-20 discussed the decision-making process and transparency of cooperation amongst them. They also agreed to continue the adoption of codes and standards for market integrity and financial sector policy. Moreover, they committed themselves to fight financial abuse which might have an impact on national economies and international economy, for example corruption and money laundering. Then, they encouraged the international financial community to support emerging market economies by integrating them into the global financial system.

The third G-20 meeting was held in Ottawa, Canada on 16 – 17 November 2001 (G-20, 2001:1-4). The G-20 agreed to promote the adoption of international codes and standards for macro economic policies, corporate governance and so on. They supported the consultation process in the development international codes and standards in the private sector and other international institutions. Furthermore, the G-20 will apply the UN measures to fight terrorist financing and block their activities relating to the financial system of its members. The G-20 committed itself to work together with the International Financial Institutions, the Financial Action Task Force on Money Laundering and the Financial Stability Forum in order to combat terrorist financing and money laundering.

The fourth G-20 meeting was held in Delhi, India on 23 November 2002 (G-20, 2002:1-4). The members of G-20 agreed to strengthen International Financial Institutions and financial monitoring thereby supporting the global financial system. The G-20 recognised that the process of crisis resolution would help to reduce the social and economic costs of a financial crisis and to preserve a connection with global capital markets. The G-20 called for cooperation between developed and developing countries, based on the Monterrey and Johannesburg Conferences and the Millennium Development Goals (MDGs).

The fifth G-20 meeting was held in Morelia, Mexico between 26 and 27 October 2003 (G-20, 2003:1-3). The members of G-20 encouraged the IMF to identify any financial obstacles, such as currency problems, incorrect balances and other issues. The members of G-20 agreed to strengthen and enhance their capacity and further develop their policies in order to maintain a healthy financial climate, for example by exchanging fiscal, financial and customs information between themselves and preventing terrorist financing activities. They also called upon developed and developing countries to build a collective work in order to achieve the aims of MDGs.

The sixth G-20 meeting was held in Berlin, Germany between 20 and 21 November 2004 (G-20, 2004:1-3). The members of G-20 accepted that regional cooperation and integration are crucial ways for engaging with national economies and global economies through trade and financial flows. They recognized that there are some members of G-20 who have faced

demographic changes in these years. Therefore, the G-20 must apply fiscal consolidation and structural reforms in order to respond to this change. The members of G-20 exchanged their views and experiences on institution building in the financial sector, demographic challenge and regional economic initiatives.

The seventh G-20 meeting was held in Xianghe, China between 15 and 16 October 2005 (G-20, 2005:1-7). The G-20 recognized the improvement in the poverty rate among developing countries, the huge gap in economic development between developed and developing countries and the spread of protectionism around the globe. They also supported a review of the representations, programmes and strategies of the Bretton Woods Institutions. The G-20 also realised that there are a number of developing countries that may not reach MDGs based on the UN Millennium Review Summit.

The eighth G-20 meeting was held in Melbourne, Australia on 18 and 19 November 2006 (G-20, 2006:1-5). The G-20 attempted to preserve global growth and manage inflation with related policies, such as the shifts in monetary and fiscal policy, the flexibility of exchange rate and structural reform. The members of G-20 realized that there are increasing demands for energy and mineral commodities throughout the world. Therefore, the G-20 agreed that resource consumption, production, trade and investment in energy and mineral products should be carefully managed. The G-20 referred to the demographic changes around the world which have had a significant impact on labour migration and mobility of peoples. Finally, the G-20 agreed to improve the legitimacy of the IMF and the World Bank through a strategic policy review and governance reform within these financial institutions.

The ninth G-20 meeting was held in Kleinmond, South Africa between 17 and 18 November 2007 (G-20, 2007:1-5). The G-20 agreed to slow down global economic growth in order to reduce food prices, energy prices and related factors. The G-20 called for a careful assessment of inflation because of the constraint in commodity markets and negative impact on economic growth. Furthermore, the G-20 recognized that its members should attain a balance between their fiscal policies and ways of creating fiscal environment to finance social and economic development. Finally, the members of G-20 also committed themselves to the reformation of the Bretton Woods Institutions in order to give more weight, role and voice to emerging economies and governance reform within these institutions.

In the global economic crisis of 2008, the G-20 summit was held in Washington on 15 November 2008 (G-20, 2008:1-5). The leaders of G-20 countries improved the status of the G-20 from a forum of coordination for ministers and the governors of central banks to a forum of G-20 leaders in global economic cooperation. Since 2008, the G-20 Leaders' summit would be a premier decision-making forum to find effective solutions to global economic challenges and coordinate world economic agendas in advance. The meetings of finance ministers and central bank governors have been integrated as the preparatory and technical forum for formulating G-20's economic agendas for the G20 leaders' summits. The G-20 members agreed to take concrete action by stabilizing financial markets and recognizing monetary policy support, such as the employment of fiscal measures, assistance for developing countries to get financial aid, the empowerment of the World Bank and Multilateral Development Bank enabling them to play their development roles and creating finance for infrastructure and trade in developing countries. The G-20 members also committed themselves to common principles, as follows: first, they strengthened transparency and accountability within the financial market. Second, they reinforced their regulatory regime and prudent supervision as well as risk management for all financial markets. Third, they promoted financial integrity by protecting customers/investors and preventing illegal financing activities. Fourth, they wanted to strengthen international cooperation at every level in order to implement these financial

measures. Fifth, they agreed to reform the Bretton Woods Institutions by reflecting the current economic situation and improving the legitimacy of these institutions.

Furthermore, the eleventh G-20 Summit was held in London, the United Kingdom on 2 April 2009 (G-20, 2009a:1-9). The leaders of G-20 agreed to apply fiscal expansion in order to protect and create jobs. They wanted to ensure strong national regulatory systems. Then, they committed themselves to strengthen cooperation and maintain consistency between them in order to stabilize the global financial system. The G-20 also launched the Declaration of Strengthening the Financial System which deals with the establishment of a new Financial Stability Board (FSB), the coordination between FSB and the IMF and the oversight of financial institutions, markets and instruments. The G-20 agreed to improve additional funds through international financial institutions in order to support economic growth in emerging economies and developing countries. It aimed to support bank recapitalisation, counter-cyclical expenses, trade activities and infrastructure finance. The G-20 also attempted to avoid new barriers for trade and investment which might be counter-productive to export activities.

The G-20 summit was held in Pittsburgh, the US of America from 24 to 25 September 2009 (G-20, 2009b:1-4). The leaders of G-20 committed to correct the regulatory system, to reform international financial institutions and to decrease financial access. They published the Framework for Strong, Sustainable and Balanced Growth which aims to assess and evaluate their policies to reach the G-20's objectives. The IMF would assist the members of G-20 with technical analysis in order to fit and harmonize policies of the G-20's members with the G-20's objectives. The G-20 and the IMF agreed to work together on the G-20 Mutual Assessment Process (MAP) as a collective process of mutual assessment between the G-20 and the IMF by harmonising their policies and achieving the G-20's objectives (IMF, 2010:1). They wanted to strengthen bank and insurance regulations in order to be more transparent and accountable. They also agreed to provide access to food, funds and energy for the least developed countries which have been affected by the global economic crisis. They committed to eliminate fuel subsidies and support poor people who have experienced a significant impact because of this economic situation. Finally, they committed to fight protectionism which might decrease the flow of trade amongst countries.

The thirteenth G-20 summit was held in Toronto, Canada between 26 and 27 June 2010 (G-20, 2010a:1-9). The members of G-20 maintained their commitments to improve demand, to strengthen public finances and to implement a transparent financial system. They have had four main pillars for financial reform: first, they wanted to build a strong regulatory framework. Second, they agreed to improve the supervision of financial regulations. Third, they committed to build a new system which has the power and instruments to resolve financial problems in the time of crisis. Fourth, they agreed to apply a transparent international assessment. Furthermore, the G-20 supported the legitimacy, effectiveness and capacity of the IMF and the World Bank in order to be able to respond to an economic crisis. The G-20 also agreed upon other related issues, such as the conclusion of the WTO Doha Round negotiation and the efforts of the United Nations Framework Convention on Climate Change (UNFCCC) negotiations.

The fourteenth G-20 summit was held in Seoul, South Korea between 11 and 12 November 2010 (G-20, 2010b:1-9). The leaders of G-20 agreed to the Seoul Action Plan which covered short- and long-term programme of this group, as follows: first, they elected to employ fiscal consolidation and to improve the stability of the financial market, such as the implementation of the market determined exchange rate system. Second, they decided upon structural reforms in order to improve global demand, create more job-opportunities and develop economic growth. Third, they committed to reform of the IMF which would be a more effective and credible

financial institution for the future. Fourth, they agreed to a regulatory framework covering bank capital and standard of liquidity and effective measures for financial institutions. Fifth, they launched the Seoul Development Consensus for Shared Growth which aims to improve the capacity of developing and least developed countries to achieve their potential growth. Sixth, they reaffirmed the need for a reformation of international financial institutions, thus representing the importance of emerging economies in the current economic situation. Finally, they recognized the establishment of the Seoul G-20 Business Summit as a forum for the discussion and participation by private sectors.

The G-20 meeting of finance ministers and central bank governors was held in Washington DC, the US of America between 14 and 15 April 2011 (G-20, 2011a:1). They agreed to several crucial agendas, such as first, the G-20 concerns on the social unrest in Middle East and North African countries as well as the natural disaster in Japan which give rise to economic uncertainty and high energy prices. Second, there are important challenges such as the increase in commodity prices. This situation would lead to price volatility in agricultural and food products. Therefore, the G-20 called for transparency and supervision in cash and commodity derivatives markets in order to prevent abuses and manipulation in these markets. Finally, they agreed to deal with the implementation of an anticorruption action plan. At the same time, the G-20 assigned the World Bank, the IMF and other development banks to provide a comprehensive analysis on stimulating climate change financing from individuals, private sectors, countries and multilateral institutions based on the principles and arrangements of the UN Framework Convention on Climate Change.

The fifteenth G-20 summit was held in Cannes, France between 3 and 4 November 2011 (G-20, 2011b:1). The leaders of G-20 committed to support growth and create jobs in their countries in order to achieve fiscal consolidation. They welcomed the decisions of European leaders to assist Greece with its debts and to develop firewalls to avoid contagion from the Euro crisis. They also supported the reformation of the global financial system in order to benefit from financial integration and to increase the resilience from dynamic financial flows. They agreed to coordinate in tackling volatility of food prices and development of agriculture productivity. Finally, they agreed to maintain G-20 as an informal forum that cooperated with non-members and other international organizations.

The sixteenth G-20 summit was held in Los Cabos, Mexico from 18 to 19 June 2012 (G-20, 2012:1-14). The leaders of G-20 committed to create global growth and build confidence. G-20 members in Europe would take the necessary actions to stabilize the Eurozone area, to strengthen banks and to develop the function of the European financial market. All G-20 countries agreed to undertake structural reform in their countries in order to create jobs and foster global demand. More specifically, they acknowledged labour rights and social protection for their citizens in order to reduce poverty. They committed to open trade and counter protectionism in all forms by pursuing the development of a multilateral trading system at the WTO. They continued to foster the reformation of a global monetary system and financial architecture. They agreed to promote a green economy and sustainable development in order to protect the environment. They attempted to control volatile prices in foods and to promote agriculture.

The seventeenth G-20 summit was held in St Petersburg, Russia from 5-6 November 2013. The G-20 agreed to set our reform for reaching sustainable and balanced economic growth and to make an accountability assessment explaining progress created on previous commitments. The leaders of G-20 also committed not to create new trade and investment protectionist measures until 2016. They agreed to the St Petersburg Accountability Report on G20 Development Commitments which explains the progress achieved since the G-20 ratified

the 2010 Seoul Multi-Year Action Plan on Development. They endorsed the St Petersburg Development Outlook which elaborates the primary objectives, new initiatives and ongoing commitments for the G-20 development works. They also committed to identify and to implement collective or country-specific actions which may improve domestic investment environments. The G-20 reassured its commitment to implement agreed financial regulatory reforms and IMF reform (G-20, 2013a:3-27).

The eighteenth G-20 Summit will be held in Brisbane, Australia in November 2014. The G-20 officials prepare a G-20 agenda for growth and resilience in 2014 for the G-20 Leaders' Summit next month. The leaders of G-20 will discuss the above agenda. This agenda consists of G20 country growth strategies, for example: increasing quality investment in infrastructure, promoting competition, increasing employment and participation and eliminating trade barriers. G-20 has a primary role to build the resilience of the global economic through implementing financial regulation reforms, reforming international financial institutions, modernising global tax system and strengthening multilateral trading system (G-20, 2014c:1).

To some extent, these are achievements of the G-20, such as first, the G-20 has played an important role by responding to the global economic crisis and coordinating crucial measures and policies in order to stabilize national and world markets. Second, the G-20 has committed to develop a financial regulatory framework which will supervise the global financial system. Third, the G-20 showed their support for the reformation of international financial institutions (the IMF and the World Bank) by taking into consideration the importance and economic weight of emerging markets and developing countries in the current global economic landscape. Fourth, the G-20 has released its consensus on development for economic growth in its previous summit in Seoul. It is a good start to raise awareness amongst the G-20 members by including developmental affairs in their main economic agenda.

Despite these above achievements, there are also weaknesses of the G-20, they are as follows first, the G-20 is still a temporary arrangement which still quite weak in terms of cohesiveness and cohesion. Therefore, there is no clear mechanism within the G-20 for implementing the compliance of its agreement. Second, the G-20 does not have a permanent secretariat and supporting system to organize and manage its programmes, works and administration. This situation has impacted on the effectiveness of the G-20 in terms of realizing its committed agreements. Third, if we refer to the overview of the G-20 as explained earlier, the G-20 has agreed to reform the international financial institutions since 2000s. However, this commitment has become a priority agenda of the G-20 after strong pressure from developing to developed countries since the latest economic crisis. Fourth, the G-20 has committed to develop a regulatory framework for an international financial system. However, it is still an idea which has yet to be translated into an actual policy. Therefore, all members of the G-20 need to show their good will in order to execute its commitments.

The implications of the G-20 to the global governance

The G-20 has a significant role in global economic governance. The G-20 members have reflected the representativeness of different geographical areas throughout the world (Schenk, 2011:152-153). The G-20 comprises developed and developing countries which illustrates a balance within the current economic situation in the world. The G-20 covers a huge population and illustrates the significant economic weight of its members; this is demonstrated by the fact that the G-20 members represent two thirds of world population and 87.82 % of world economic weight based on GDP (G-20, 2014b:1).

Examining the changes in the G-20 and the need to revise global governance provides a constructive analysis of implications of the G-20 for global governance. The role of the G-20 can be that of a globally coordinating body for political and economic policies. In practice, the G-20 demonstrates its role as both an advisory committee and a steering group. More specifically, the G-20 is a group that gives advice to its members, international financial institutions and other related bodies in the realm of political economic affairs. Also, the G-20 is responsible for giving guidance on strategic decisions with regard to political and economic issues for its members, international financial institutions and special agencies. It also sets agendas, policy decisions and schedules of political and economic issues for its member states, international financial institutions and other related bodies. In short, the G-20 aims to be a crucial political and economy platform for reforming and strengthening global economic governance through effective policy coordination and compliance amongst their member countries and non member countries/institutions.

Furthermore, the G-20 needs functions and supports to demonstrate its effectiveness and credibility as an institution. The functions of the G-20 can be separated into four aims, such as first, the G-20 is gathering, analysing and spreading related information in order to respond to a crisis and to stabilize the economic situation. Second, the G-20 is a vehicle for coordination which can be used by its members to exchange ideas and decide upon policies/measures based on consensus. Third, the G-20 must actualise its commitment to establish a common regulatory framework to manage and supervise a global financial system, especially in the area of investment markets and private financial bodies (e.g. banks and insurance companies). Fourth, the G-20 can be a role model of flexible multilateralism for the revision and the development of the next generation of international institutions. An example would be that the G-20 provides guidance and strategic decisions for the reformation of international financial institutions.

With regard to its functions, the G-20 needs collective and concrete supports from its members in order to ensure that its role and functions operate effectively and can be well administered. The collective supports needed by the G-20, are as follows: first, the G-20 needs good will and concrete assistance from its members to get full support and translate their commitments into real works. Second, the G-20 may monitor and manage its crucial policy decisions by coordinating cooperative works with the FSB, international financial institutions (e.g. the IMF and the World Bank) and other global institutions, such as the G-20 that need full support and collective action in order to develop, implement and monitor a regulatory framework for a global financial system. Third, the G-20 countries chose to act as an informal forum which based their leadership on a Troika system (G-20, 2014b:1). The Troika system refers to the unified leadership with an equal position for the three entities or countries of the G-20. These countries or entities are responsible for the preparation and implementation of the G-20 summit and other related meetings. In the future, there is a possibility that the G-20 can establish a secretariat and supporting system to a solid coordination amongst its members and thereby implement its works.

Developments in the G-20 can have significant implications for global economic governance, they are as follows: first, the position of the G-20 is becoming the centre of a new global order. As a result of this development, the G-20 would be a revision of the existing global governance. The strategic position of the G-20 can improve the role of flexible multilateralism by responding to the current economic challenges, such as the need for financial stability, fluctuating food prices and a high unemployment rate and an economic inequality. The G-20 must strengthen its crucial role as an advisory committee and steering group of global governance to deal with political and macro economic policies.

Second, the G-20 has expanded its coverage of issues which need to be tackled. In the early stage of the G-20's establishment, it has mainly focussed on financial issues, such as exchange rate and balance of payments. Recently, the G-20 has enlarged its focus to take account of contemporary political and economic issues, such as development, trade and investment and the green economy. However, the G-20 must select crucial world problems to be tackled based on their global priority and its capability. In reality, the capacity and capability of the G-20 as a flexible multilateral group has limitations at the level of coordination among global institutions. The G-20 depends on its member states and global economic institutions in order to implement its initiatives and decisions. Examples of the G-20's capacity and capability are technical expertise, global policy harmonization and initiatives. This situation should be taken into account by the leaders of the G-20. The G-20 needs to match and bridge between its priorities and its competence and capacity. In short, there is a need for the G-20 to improve its capacity and capability to deal with contemporary world problems.

Third, the G-20 has opened a second track of its forum for the business community and private sectors in the latest Seoul Summit. Additionally, there has been recent progress in the G-20 because the Mexican and Russian presidencies of the G-20 have involved civil society in their consultations and preparations for the G-20 summits (G-20, 2011c and 2013b:1). This is a good sign of people participation in the decision-making process. However, this people participation should be expanded by the G-20 with the involvement of civil society organizations in the G-20. Therefore, the G-20 should also open a similar forum for civil society organizations and thus improve its popular legitimacy. The involvement of non-state actors will provide a representation of people in the dynamic interaction among actors in the G-20. In short, the G-20 summit and these additional forums can be done at the same time.

Fourth, the leaders of the G-20 should show their good will and demonstrate their credibility by redeveloping the international monetary system and by reforming the international financial institutions. In other words, the G-20 should translate its reform plan into real action. If the G-20 can maintain its spirit and decision to implement this plan, the credibility and effectiveness of the G-20 would be respected. The G-20 should apply capital controls and give emerging markets more authority to use their own measures but with international coordination in order to prevent a flood of foreign funds.

Fifth, the G-20's policies must have a positive economic impact for farmers, labourers, fishermen and marginalized people in lesser developed and developing countries. The Seoul Development Consensus for Shared Growth and trade agenda of the G-20 should include the development aims of lesser developed and developing countries. This is a preliminary sign for bridging the gap between what the leaders of the G-20 decided in this premier forum for international economic development and the implications of those decisions for ordinary people in lesser developed and developing countries. Farmers, labourers, small traders and poor people should also understand and feel the impact of the decisions of the G-20 in their life. Nowadays, the majority of people in lesser developed and developing countries do not know and understand about the G-20 and its roles and decisions to coordinate global institutions for our international economic development. But, they are the biggest constituents who would be affected by the decisions of the G-20.

In reality, the decision of the G-20 regarding development issue should be translated into practical results which have a positive effect for farmers, labourers, small traders and poor people. Farmers, labourers and small traders should get access to funds and training in order to improve their capacities. The small and medium enterprises should be encouraged by the national governments of the G-20 to be their economic backbone because it is they who have struggled to support the national economies in the time of global economic crisis rather than

the large enterprises. Additionally, poor people in lesser developed and developing countries need access to food, health and education in order to reduce an income inequality between rich and poor and avoid civilian unrest. They do not have a social safety net and protection as most people in developed countries do.

Conclusion

The issues discussed above reflect the importance of the G-20 in the current period and for the future of global governance. I have identified important topics with regard to the G-20 and its related issues. I have elaborated on the overview of the G-20, its achievements and also its weakness thus far. The G-20 is still a young institution. However, there have been crucial developments in its role and works. More specifically, the G-20 can coordinate macroeconomic policies amongst its members by addressing the global economic crisis. The G-20 viewed its commitment to reform the international financial institutions (for instance; the IMF) in order to adjust to the new situation in the global economy and improve the legitimacy of these institutions. However, there are also shortcomings which have been faced by the G-20, such as the cohesiveness of the G-20 and the compliance of its members with the G-20's agreements. The G-20 has sometimes failed to implement its own commitments, such as its undertaking to reform international financial institutions and provide a regulatory framework for the global financial system. The G-20 might need a permanent secretariat and an appropriate supporting system in order to organize its meetings and to administer its management.

In response to the need for an approach to new global governance, I have examined the role, functions and support for the G-20. The role of the G-20 is a coordinating body for political and economic policies. It can be an advisory committee and a steering group for its members, international financial institutions and other related stakeholders. Moreover, the G-20 has several important functions, such as informational processing, an interactive forum for political and economic policies and a new model of flexible multilateralism. As a result of this situation, developments in the G-20 would affect global governance.

The implications of the G-20 for a new international order are as follows: first, the position of the G-20 becomes central in the new global governance especially with regard to current and future political and economic issues. Second, the coverage of issues within the G-20 is expanding as illustrated by the latest developments, such as in the areas of food prices, environmental financing, trade and investment financing. Third, the G-20 has opened a second track of its forum to the business community. I hope that G-20 will also increase the involvement of civil society into its decision-making consultations. Therefore, there is a multi-stakeholders' collaboration between the governments, civil society and the business community. Fourth, the G-20 needs to maintain its good will and translate its commitments into real programmes. Finally, the G-20 must ensure that its strategic decisions have a positive economic impact for farmers, labourers, fishermen and marginalized people in lesser developed and developing countries.

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Europe reaching US in World Power through “Non Statehood” Optimal Governance

Giorgio Dominese

Abstract The European Union was been shaped by the Treaty of Rome in 1957, thus more than half a century ago, as a “non Statehood”, then as a Union of States (now already 28 and with other 5 on the negotiation for membership status), after the catastrophe of the World War II. The attitude of the two world blocks at that time was grim. Both the two great powers at the time, US and Soviet Union, were sure of the failure of the take off of this apparently “outer space” entity without sovereignty reflecting the sceptical attitude reserved to Gustav Mahler when he presented his master concerts in the dodecaphonic notes, an outrage for the flat minded traditional school. An entity where some important testing countries refused in referendums to accept a Constitution aiming to develop a welfare state following the “Soziale Marktwirtschaft”, the social market economy of private entrepreneurs and public governance, founding its institutional base on the theories of “non Statehood”, as the Roman Empire and the Holy Roman Empire of the German Nation between XVI and XIX centuries. In 2014 EU has become the second world power, following the US and before China, even if in some non scientific statistics the Union is not yet considered a unique market, financial system, defence and security alliance, the highest technologic advanced international region, having the best the social and environmental living standards with the lowest inequality index, as shown by the excellence of the Zurich Polytechnic University in the KOF yearly indexing, Europe as a Global Power has become a reality overcoming the crises spread in 2008 from the US and is now in the recovery stage, with the Euro come down from its high, when the Dollar debacle came after 2008, but now pushing the real economic recovery for the next 2-3 years. A picture that is examined in this paper with a full horizon through the new theories of International Relations, of Growth and the fifth generation hybrid technologies, capable of benefiting from new revolutionary scientific discoveries in the military sector spreading to the most competitive and sophisticated industrial civil sectors worldwide. China is now facing a season of great political and structural economic reforms and for sure has in the EU the first and most reliable partner with many analogies with the EU founding history. Russia is missing the virtuous efforts of emerging countries becoming, day after day, more unpredictable

Keywords EU “non Statehood” - Europe Global Power - Dodecaphonic master piece Europe - Euro vs. US\$ now supporting real economy - China similarities processes - Russia in dangerous backwardness - Trans-Atlantic and Eastern Asia major players of the future
Russia is missing the virtuous efforts of emerging countries becoming, day after day, unpredictable

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Apparently obvious but in fact rather difficult to achieve, Global Governance encountered some setbacks in the last two years due to the international financial, economic and strategic crisis starting with the implosion of the deficit in the balance of payments and public debt in the US and its “seismic waves” spreading to the European Union, with the clamorous case of the Greek claps and the emergency in the financial and economic system of Italy, Spain, Portugal, Ireland and for some aspects also of France. Also Asia and China could not escape some relevant negative impacts of the global crisis, as well as Japan, India and even Australia, although in different magnitudes but all imposing monetary policies and international standing quite far from the past financial strategies and practices. The same applied to most of the growing emerging countries: Brazil, Turkey, Chile, Indonesia, Vietnam, South Africa, Mexico. A case apart is Russia that is mainly an exporter of oil and gas with a dedicated industrial sector for defence but nothing like the market economy and productive system we have seen at work in the last 20 years, as this vast country still follows previous patterns and governance of the FSU, even trying to resurrect it in some way as alternative to reforms and contemporary competitive models of great advancement and growth independently from ideologies and backwardness thought.

As in the case of China, the impressive success story of the last half century, for the first time the waves of the crises arrived, showing in some ways the collateral impact of openness and market economy drive, with a slowing down and the moderate decline of the main real domestic index in sectors of trade, investments, real estate and real income per capita in PPP, while the out flow of investments rose quickly, partially rebalancing the situation.

The policy of the People’s Central Bank had been very wise with regard to reserve manoeuvres and great financial markets operations so monetary policy was rather stable vis-à-vis the US/RMB exchange rate even if liquidity in the system of course was not as expected by the Chinese operators. The lesson learnt was clear: there is no way to escape the shocks of international crises in any sector of global governance.

But all eyes were focussed first of all on Europe, with a spreading sentiment of failure pictured by influential media and think tank alerting. In fact we can now say that results show that we are nowhere near the end of the Union.

In International Relations - as had happened with the New Theory of Growth for Economics and Global Governance -, Europe is mainly focused on new theoretical constructivist approaches rather than following the obsolete and financially incompatible realism or neo-realism assumptions and prescriptions. Even the Pentagon cannot follow this path. And facing soon the negotiation on Transatlantic TTIP investments and free trade with US, the Eurozone was driven firmly out of the thunderstorm and was even able to increase its shares as reserve currency, relevance in daily capitalisation in the main stock exchanges, currency trade and financial markets coming close to the mighty US Dollar. The “non - Statehood” European Union had passed the “stress test” and is entering the Union of Banking systems with an exit strategy that is very severe for the more unbalanced public deficit member countries but flexible enough and adequate to allow the single countries to adapt measures and make drastic cuts in public budgets without losing the welfare state.

All this in a Union of 28 Member countries (with 5 membership negotiations already start) and 23 official languages, where the devolution of powers to the Union has implemented and re-written all the main pillars of Jean Bodin’s “Theory of Sovereignty” of 500 years ago, introducing for the national and regional governments very effective brand new powers in environment, higher education, university standards, welfare system, innovation and technology applications, service sectors, quality standards, agro-industrial production, health, citizen voice and accountability, equal gender, immigration, biologic protection of human and nature and a long list of the future main powers for the high ranking national states.

A remarkable result that China might now observe and interpret with regard to its own many peculiarities, as it has represented the most successful case of exiting from the global governance crisis ever seen in the last two centuries worldwide. The future will show more and more as the interrelations of the factors bringing growth or declines in the main powers, suggesting now to review past theories and practices or policies too firmly based on “national interest”, since there is already an evidence that the optimal solutions mainly came from countries assuming a rather moderate or even openly low national profile in using economic, financial and institutional tools and exit policies from the crises but showing high attention, determination and involvement based on a global vision and coherent international relations options.

China would probably be now in the best position to capitalize on this evolution and shape its future global governance horizon and strategy with more consideration for the European experience especially when comparing the not brilliant parallel trends and results achieved by the US in the same “stress test”. It would be a fair competition on the theories, models, practice and tools of world affairs future management. But the unavoidable condition is to step on the third wave of structural reform of the former “dirigistic dogmas” era before Deng Xiao Ping but now proceeding ahead with courageous reforms on the domestic governance and welfare priority needs, as the past could not match with the deep change of the future.

The impact of the reshaped international relations new practices, with the strength imposed by the unbelievable advancement of technologies both in civil and military fields, had already change the balance of power in security and “mighty” while the concepts of “capability” in power is measured more and more by the new weaponry of the fifth generation. We are already on the eve of their introduction on the arsenal and they will nullify the huge traditional military budgets of the past. Pentagon has reviewed entirely the philosophy and strategies of the military security 2030, with a growing interest for the hybrid industrial high tech factories and a progressive dismissing or sold out of traditional weaponry. The combined effect of really futuristic weapons and impressive innovative technologies will modify politics and societies around the world. We are now posing the questions of how the humanity and societies would not lose their central role as the unique factor determining the drive and governance of a progress which character already allow many scientist to evocate a trans-human world coming one. This millenaristic worries are also diffusing in absence of an intellectual and philosophic thinking explaining how we can dominate the future and bridging the past with these new horizons. In fact, we need to consider also the great up-grade of the life sciences and the fall-out of research and development of new generation of pharma and treatment prolonging the life in condition of autonomy and better standing. In other words, the human being will benefit of a real increase in quality of life and societies will be obliged to affinate the political institution that are asked to drive the process and advance in absence of domestic and international disorder and great tensions or conflicts.

Antagonists, reactionaries, rhetoric of the past, utopian of impossible futures and failure past will be the obstacles to be overcome; buffering the passage from nowadays to the next world assessment already on the way would be the main task of governments and educational systems. The risk of unpredictable or instrumental outcomes must be kept on the agenda. Tensions and conflicts will be unavoidable but to keep them at a small scale of deflagration represents already a wide, convergent transnational enforcement and an intellectual public opinion commitment.

Political scientists, sociologists and public policy top decision-making protagonists, constitutionalists, internationalists thinkers, technocrats and institutional leaderships must be aware and ready since now to the metamorphosis and generational passage of power in all the po-

litical, economic and cultural social segments. The ones capable for knowledge and human capital endowment to govern in the new planetarian environment will become the leadership of the “renaissance” of the XXI century.

The process comes from very far. Until a few years ago, the theories of International Relations were simply an American intellectual and governance school of thinking showing the growing role of the US in the world, a kind of field of competence for the greatest new outstanding power in the global economic, political, strategic and innovative sectors. The British School was an island of the core American thinking and the rest of the world mostly absent. FSU has not made any relevant contribution to the various schools related to the IR theories and even the Marxist political scientists did not dedicate themselves specifically to this main research area. They were in fact convinced that first it was not a real “science” but a derivative outcome from Philosophy, Public Diplomacy and Political Science; secondly, because of the monopoly of the power in the hands of very oppressive dirigistic regime, where these issues were not left to the researchers and experts but only to the institutional and military leadership.

Soviet Union de facto found convenient to resume the realism doctrines, with modest attempts to accept the great changes that have occurred in international affairs, losing the chance to board the last train for a competitive power role and dynamic economic and social governance. The change was not only promised by the American, European and moderately also by China but urgently invoked by all the major international actors in view of the financial and economic crises: the world foreign policy has suddenly entered a new age not being yet prepared to govern globalization and its wide interdependence conditionality.

In the next twenty years the world will be completely reshaped by the present metamorphosis. China is emerging as a new great power capable to foster International Relations evolution pursuing different schools of thinking and mixing the best of the poliedric theoretical background and specifically of the most recent, mostly European developed new theories of “constructivism”. But still the domestic need of deep reforms and the external tensions are posing China in a dilemma: how to reform without too much conflicting with traditionalism and a power organization in some way already obsolete.

The political and institutional refitting would need to be done without unrest in economic and social system but this is really a severe challenge and at the end democracy as such is not a model that could be indicated as updated and efficient is not in the fundamental values of freedom and citizen sovereignty through elective institutions, a new format in some kind of viable transitional time compatible with the peculiarity of Asian and China cultures, habits and power organization behind the Communist Party ruling power and coming from very far in the history and predominant values and culture. This struggle is on the way and Europe is the most keen in understanding the complexity of the next reforms jump ahead of the Chinese giant.

The international scholars, experts and politicians who confuse the difficulty to proceed speedily in the reforms with restauration step back are showing a poor notion of the situation on the ground, of the tensions and more recently also of the growing terroristic activities in some part of the western and southern part of the Country. Also the disputes on marginal problems or single events as a sign of dangers or military external threaten, with a chain of reactions and counter measures too much voiced even if not practiced by neighboring countries and Asia Pacific other powers would at the end not help the process and might provoke a reason of political regression, as in the case of cyberspace and the approach to a proper balance of security and Internet openness.

In the last few years so many events have been changing the world “scenario” that all the concepts and assumptions of even only five years ago have to be at least reviewed if not abandoned. The change occurring around us is great. Politologists as well as economists and

internationalists are accused of not having been able to perceive what was going on at a global level, even if the announcements and winds of great, irreversible factors of reshape in the political, financial, economic, strategic governance were very clear and scientifically perceptible. Economists, political scientists, diplomats, strategists, banks and corporates indulged too much in simply imagining normal seasonal crises and setbacks but not a seismically wave of the dimension of the one start in the US in 2008, correlated to the questionable wars going on in Iraq and Afghanistan and the Middle East on fire.

This attitudes smell too much of instrumental and opportunistic attitudes by the leaderships of public and private sectors of the main advanced and relevant world players. Not only was the alert for incoming shocks given by only a few outstanding scholars and fellows - even if many of us also had been giving warnings during conferences, papers and public statements – but also the consequences had been underestimated in Europe, Asia and Latin America.

Just imagine that even the “soft” Basel 2 agreement on banking risk management, on more severe market rules and clear capital standards ratio to incorporate Market Risks and the treatment of Double Default Effects, five years ago had been announced and accepted but postponed by USA, Russia, China, Japan and partially even by UK, just to mention the main countries, until the arrival, two years ago, of Basel 3. Now Basel III has arrived and we are witnessing the same attitude: postponing, relaxing, wondering and guessing. Only Euro Zone had shown coherence and political will to perform properly the new financial and banking requirements, even if some countries were in recession, stagnation, high unemployment and astronomical public budgets deficits.

Eurozone enforced a tight monetary policy for the financial and banking sector at the high price of a temporary reduction of the real economy expansion and then the significant decrease of the GPP PPP per capita to negative annual percentages, in the highest public debt countries such as Greece, Italy, Spain, Portugal, Cyprus and Ireland but also in less voiced way to France, Slovenia, and the Baltic’s countries. The shocking decision of the EcoFin and the European Central Bank to “de facto” suspend for some years the sovereignty of Greece over financial and budget policy, nominating a “troika” of High Commissioner (ECB, EU and IMF) to ensure the appropriate governance of the Country had helped the other countries to avoid the breaking of the Maastricht rules and Basel 3 severe banking system regulatory provisions. I keep the focus on the experience of Italy, to avoid the uncomfortable feelings from being unilateral in my critical judgments. Italy started facing, two years ago, the stalemate by dismissing the incumbent Government of Premier Berlusconi and enforcing the situation through a technocratic and Euro-compatible policy of “blood, sweat and tears” to reestablish the lost credibility with the trustable Premier Mario Monti’s Government followed by the ones of Enrico Letta and now Matteo Renzi, who is the current President of the Council of the European Union, the top governing body of the EU. Now the job is not completed as the reforms encounter Italian parliamentary filibustering and public opinion rumoring. But even Italy is now starting again to strengthen competitiveness, jobs, social urgent policies, relaunching entrepreneurship reversing the race to disaster in which Italy was kept for ten years.

Of course also “Law and Order” have been imposed by Justice Courts and Security Corps with severe measures against corruption, grafting, rackets and widely diffused fiscal evasion. A thunderstorm that had found in the President of the Republic Giorgio Napolitano, in his constitutional power of both President of the Supreme Judges Council-CSM and the Republic’s Defense Council, the great guide and politically conductor. We cannot deny that the pressures coming from the EU, ECB and NATO were so urgent that Italy had to choose between staying with dignity in the Union or abandoning and ending up like Greece. And we cannot hide the fact that a large part of the political leadership of the ten previous years, apart from short

experiences of correction of the political situation, have been under severe investigations and many of them - belonging to all the political parties, without any distinction and tolerance - were arrested and also legally convicted.

The second push to finally demonstrate that the governance of the European Union and the European Central Bank was the one of a great power arrived when Cyprus, member of the EU and Euro, from the very beginning safe haven for money laundering and shadow capital previously from former Yugoslavia and after from Russia but not only, was facing its fatal destiny: in mid 2013, banks were closed for two weeks on the order of the EU and ECB, without any previous announcement, all the hundred millions of euro belonging to Russian individuals and companies - well investigated in the previous months and years, under the chapter of illegal trafficking, corruption, grafting and criminal acts -, were confiscated and used as partial coverage of the enormous Cyprus Public Debt under the control of the European Central Bank.

Hostility surrounding EU performances as global power is floating in media and some sectors of intellectual life both in Europe and at international scale, just because European Union is the irreducible antagonist of weak thinking and fake representation and diffused prejudices utilized in a wild, instrumental way by the real, dangerous main actors of the age we have seen in the last years all over the world, also in China of course, but even more in Russia and also in US. Corruption, grafting, drug trafficking, terrorism, weak rule of law, misgovernment is affecting even mature and experienced democracies as well as not democratic governance. Years to be forgotten in many senses and I have mentioned some of the reasons straight away. I simply wrote down a list of these events that any theory of International Relations has been in the condition to capture and connect in a frame of robust and scientifically convincing way. The economic and financial shocks were produced by the obsolescence of the traditional governance model, first of all by the lack of transnational rules and guidelines in the crucial area of the globalization impact on the key factors of monetary, banking and real economy patterns, aspects that had not even been questioned until the last few years.

Each school of new theories of growth and governance has been virtually blasted by the more wide conformist and traditionalist sectors of the leaderships, even in the academic community and political life, in the West as in the East. Now the new theories are governing the most advanced countries, *in primis* the European Union, and found citizenship worldwide. The same has happened with International Relations and many segments and disciplines of Social Science, not to talk of the astonishing upsurge of knowledge in the sciences of all kind.

The arrival of the “new” always met many hostile barriers and some millenarist attitudes. In the United States and in Europe there still are growing concerns about sharing the future strategy for managing global governance, specifically from the part of the society sectors that believed that, at the end, nothing would really have changed. The European leaders in Berlin and Chancellor Angela Merkel in Beijing in recent days left wide room to discuss the future rather than to celebrate the past, even if in 1989 there were such important turning point events, as the end of the FSU, the reunification of Germany, the sunset of bipolarism and the burial for the Jalta order already more than half a century old.

What is remaining is the United Nations obsolete but still unique common ground for a common political and social debate and really few concrete steps on the direction of global governance. The flourishing of G7 (former G 8 reduced to 7 after the expulsion of Russia, due to the annexation of Crimea and still pressuring for annexation of Donetsk Eastern region of Ukraine, events that have isolated Russia and created a widespread sentiments in the world of the dangerous strategy in EurAsia caressed by Moscow), G20 and many other sub groups of countries aiming to find the magic potion to give life to the world governance had to face the walls of the national interests and the veto of five countries in the Security Council.

The future will show how to overcome this lack of updated aims and scope of the United Nations and the solutions suitable for a more “equal inter pares” participation in the Security Council of the 5 plus ten 10 members, with a yearly rotation, not on the base of the well recognized and historical merits achieved in the second world war but for the more urgent and indispensable reasons of the future global governance, that can’t be left to any hegemonic approach as the same China President Xi’, in a recent statements on his Country foreign policy, as a great sign in a direction of international relations founding their reasons and scopes in the growth, development and peaceful resolution of controversies around the world, where the military multinational enforcement is really the ultimate option. Anyway, the present “status quo” is close to the end and it would be wise for the main powers to prepare alternative proposals before the events will create the alternative situations.

The wider Transatlantic system (that means Europe West and East - except Russia with Belarus - but including Ukraine, now closely associated with the EU, with the Deep and Comprehensive Free Trade Area-DCFTA, as well as Turkey with free customs agreement and also in the negotiation for membership (and the wide room left to partnership with Latin Americas countries through the bilateral Association Agreements), is a challenging negotiation to find a format, a pattern on how to reform the basic architecture of the economic Transatlantic, diversified system. But in fact would be also a good opportunity to review the “democratic” practices until now followed in a passive attitude - with consequences in the credibility and reciprocal confidence and trust between the two side of the Atlantic -, in order to face up to the “planetarian” developments and change, to quote Edgar Morin’s controversial but famous essay of ten years ago on “How to Govern the complexity of the future” (Morin, UNESCO 2000) but even better referring to the less politically compromised Al-Rodhan main text book of Oxford University Press later quoted (Al-Rodhan NRF -2011- The politics of emerging strategic technologies—implications for geopolitics human enhancement and human destiny. Palgrave Macmillan).

Apparently very few leaders paid attention to the “complexity” in the almost fifteen years of the third millennium. The so-called “East” has been lamenting for years that it was a victim of the invisible hands of the obscure powers beyond economic and financial globalization. But do not include in the East the Asiatic emerging countries, first of all China, India or Turkey or the really top ranking fully emerged Japan or even the Latin America Brazil and Chile, where similar fairy tales are not even taken into account. They are feeling day after day comfortable with globalization as many countries around the world and in Europe first of all.

But the two main powers of the Jalta table, US and Russia, seem to feel less comfortable, of course for different reasons. The growing share of international trade, foreign investments, highest innovative top ranking position, fifth generation technologies transforming the military and civil advanced sectors into completely different system and industrial complexes, due to the introductions in photonics, in alternative energies, outer space playground for systematic surveillance of any kind of last option strike, are giving to the US and Europa a kind of relief from external dangers and conditionality. I said only the two powers and not quoting China as I recently read President Xi’s very statement on the 60th anniversary of the Five Principle of Peaceful Coexistence on June 29, 2014: “ We should respect the right of a country to choose its own social system and model of development and oppose the attempt to legitimate government of a country trough illegal means seeking self-interest or imposing one’s view”. “ Flexing military muscle only reveals the lack of moral ground or vision rather than reflecting one’s strength “. “To uphold global peace and promote common development remains a daunting challenge facing mankind”. Cooperation generates strength while isolation only leads to weakness”. We should respect the diversity of civilizations and promote exchanges, dialogue and

peaceful and harmonious coexistence among different civilizations and nations”. “We should uphold fairness and justice to build up a new type of International Relations”. I have found this statement as quite illuminating the great distance between the political driving inspiration of China and the Russia attitudes, recently shown in practice.

When Dimitry Medvedev¹ was Russia’s President, he stated that during the Soviet Union times and until the last years there were horrible pages, not to forget the killing of millions people. I quote his comments, as I have found in his blog, to recognize his courage and the appreciation for “politically correct” judgment of past history. “We had, all over wider Europe and in large part of the world, a very shadow and dark night over half of the last century. We move on but we do not forget the mistakes made almost everywhere. Let me start remembering Europe as a particular case. Populism, demagoguery, nihilism, militarism, cult of personality, ethnic cleansing, racism, slavery, offences to human rights belong to the not-forgettable heritage of history, also of the history we are all committed not to repeat. Medvedev issued the toughest condemnation of Stalinism by a Russian leader in a decade. His rejection of attempts to “justify” repression raises questions about whether the Kremlin is taking a tougher line against partial rehabilitation of the dictator’s image.

President Medvedev’s video blog condemning Stalin appeared on October 30, 2009, a day of remembrance for victims of Soviet repression. His historic commentary also counters a number of recent attempts to present Stalin’s record in a positive light. Over the summer, Stalinist lyrics were restored in the Moscow metro, and textbooks calling Stalin “an efficient manager” were published. The Kremlin also launched a commission to study “historic falsification”, particularly regarding the Soviet Union’s conduct during Second World War; this led to speculation that the authorities were increasingly worried about how Russian history, and Stalin in particular, were being presented. “Let’s just think about it: millions of people died as a result of terror and false accusations – millions,” Medvedev wrote. “But even today you still hear voices claiming that those innumerable victims were justified for some higher national purpose. I believe no national progress, successes or ambitions can develop at the price of human misery and loss. There is no excuse for repression.” The Russian President in 2009 also focused was careful to draw a line between Russia’s incredible achievements during the period and Stalin’s crimes – attributing victory in the Second World War and industrial modernization to the people rather than to Stalin. “Stalin’s crimes cannot diminish the heroic deeds of the people who triumphed in the Great Patriotic War, who made our country a mighty industrial power, and who raised our industry, science and culture to leading world standards.”

More than this, Medvedev admitted that the oil- and gas-driven economy has no long-term future.² Modernization means to accept the challenges of globalization”. He stressed that Russia must achieve the status of global power on a fundamentally new basis. The country’s prestige and national well-being, he noted, cannot be determined by past achievements. At the cost of tremendous efforts Russia became one of the influential industrial powers of the 20th century; in the 21st century, Russia once again requires all-round modernisation: introduction of the latest medical, energy and information technologies; development of space and telecommunications systems, and dramatically improving energy efficiency”. The words are sounding close to the Gorbachev spring in the great reform of FSU through “perestroika” and “glasnost”. But we have seen in the following years a great change in the policies and strategies of Kremlin becoming unpredictable day after day.

¹ President of Russia Dimitry Medvedev: in the Remembrance Day of Victims of Political Repression.

² The oil- and gas-driven economy was hit hard as commodities prices plunged late last year.

The second problem is the energy interdependence of Europe. Ironically, this problem is currently a source of division between the EU and Russia, although it would seem, on the contrary, that it should help to unite them. In this sense, the implementation of the Nord Stream and South Stream projects should reverse this trend. A third obstacle to convergence is the difficulty in the movement of people, even worse now after the Ukraine events. Easy to promise, difficult to work out. Russian history has seen many other attempts to modernize and reform which all encountered fierce resistance of the “aparatchiki”. Medvedev and behind him his “mentor” Putin (as now it appears in clear way) never focus on the factors producing the modernization declared as the “priority” of the country.

Which are the factors producing introduction of the latest medical, energy and information technologies; development of space and telecommunications systems, and dramatically improving energy efficiency? Following the last political science and economics theories, they become now respectively human capital, structural reforms, market openness, international confidence, transparent business environment, absence of endemic corruption. A therapy Russia must adopt in concrete terms and not only in the official statements. Europe is the first in line waiting for this magic moment to become true.

A number of once marginal countries are assuming a great role of stabilization around the world as they have skipped almost one century of main errors of the “nation state” crude realism and its consequences, of the negative attitude to market economy and to openness. And they are not even attracted by neo-realism, nor liberal or neo-liberal, or constructivism and Marxian theories. In fact, the main turning point of new powers in Asia, the Middle East and recently Latin America is the abandoning of the consolidated dialectic between already obsolete or abstract theories - inspired by realism, neo-realism and the others already mentioned schools - with the assessment of differently called multilateral, multipolar or multipartnership regional approaches, aiming more or less at the same scope, that is still in progress but already playing a major role.

An extraordinary, great, pragmatic change that came within a relatively low conflict international environment, a result that appears to be the most precious “return on investments” for their goals of growth and competitiveness worldwide but also for the new drive of the foreign policy of the US and Russia. I do not mention Europe of the 28 again and many of the neighboring countries because Europe was the first laboratory of this alternative radical political, social, economic and security way of approaching the institutional building in the age of globalization.

As we read and hear in conferences and congresses, there are some voices celebrating the “nation state” as the protagonist of the future, in contrast to the supposed menaces of globalization, I simply would like to remind you that in the Statute of the ECB-European Central Bank, the word “state”, “nation” and “countries” have never even been mentioned, being the Euro Zone members simply “regions” belonging to the EMU. The Euro has been the successful conclusion of a convergence process started 30 years before, passing through the EMU and the Maastricht “criteria” and finally establishing the monetary Union and the Central Bank in Frankfurt. In the 12-month period to September 2009, combined direct and portfolio investment recorded cumulated net inflows of EUR 343 billion, compared with net inflows of EUR 82 billion in the preceding 12-month period.

This was mainly the result of a substantial rise in net inflows in portfolio investment (from EUR 185 billion to EUR 478 billion), largely reflecting higher net inflows in money market instruments (which increased from EUR 26 billion to EUR 237 billion). And in the current account, surpluses in goods (EUR 4.0 billion) and services (EUR 1.3 billion) soared again, with a recorded increase at the highest percentage in the last years, even in presence of a lagging

and weak GDP per capita. “Old Europe” is in fact a very “Young” and courageous Europe. The architecture of the European experience will be a main heritage to political scientists and the thinkers of governance and public policy in future decades. Even the Constitution does not represent a real priority and the “identity” headache is not a widely diffused syndrome in all the 27 plus the neighboring countries. The change is impressive and has taken place in less than twenty years.

The pragmatic approach to the world is looking like some of the best aspects of already known previous schools and theories of International Relations, but in fact are brand new and very much still in progress. In the future, the whole world will appreciate it and be grateful. Now we feel how far we already are from the “father” of the “realism” school of International Relations thought: Hans Morgenthau and his “Politics Among Nations” (1960), as well as from Kenneth Waltz’s neo-realism approaches, so fascinating in his “Theory of International Politics” (Waltz, 1979). They remain cornerstones of the intellectual heritage of the philosophic and political investigations but no longer suitable to be applied to the present and the future.

That is why we wonder whether International Relations is still a discipline or if it has already changed its nature, becoming the science of governing the complex systems of all sectors, fields and expression of the human organization and history. Policy, Philosophy and History cannot be absent in any process of integration and transnational build-up. Just to add a pertinent quotation: “The Chinese were probably influenced less by the example of the United States itself than by US-backed examples closer to home, such as Japan, South Korea, and – although they would not admit it – Taiwan”, wrote Philip Zelikow in the latest issue of Foreign Affairs (November/December 2009) dedicated to 1989 and the Fall of Communism, in a provocative article that begins from the title: “The suicide of the East?”

A counterbalancing answer to “Suicide of the West”, written almost fifty years before, in 1964, was given by James Burnham, who radically argued that modern liberalism had lost the fervor of classical liberalism. The modern variant treated peace and security as equal to or greater than the commitment to preserving freedom (Burnham, 1964). Since the focus on peace denigrated the use of power against a ruthless foe, Burnham predicted that the West was slowly committing suicide. A neo-cons last remembrance.

Now to my paper’s initial aims and scope, which was to draw attention to the growing improvements and diffusion of International Relations outside the cultural and political birth-place of the UK and then of the United States, the motherlands of this discipline that remain for sure a cornerstone of scientific and applied studies on war and peace among nations, on growth, development, failures and success around the world, after WW II. In fact, until a few years ago, the theories of International Relations were simply an American intellectual heritage and a government science, with direct implications and interconnections with the growing role of the US in the world. Until the Eighties only inside the US think tanks and universities was it possible to achieve a good command of the notions and crucial concepts of power and political use of military capabilities for the end of international order and hegemony.

The Former Soviet Union and other hegemonic powers preferred to focus on applied foreign policy as the real science of International Relations, in this way impeding the coexistence of any dialectic between the official foreign policy and the free scientific advancement of knowledge and competence of scientists and politologists on the main drivers of the relations between countries, societies and the related clashes. A kind of field of competence for the greatest power in the global economic, political, strategic and innovative sectors. The British School became, decade after decade, an island of the core American thinking while the rest of the world was sitting in the theater and mostly absent from any floor relevant performances. In other words, FSU has not given any really relevant contribution to the various schools of

thinking related to the IR theories and even the Marxist politologists have dedicated themselves only marginally to this main area of research. Internationalism was the flag of a much more complex discipline.

The reasons are many, as I mentioned above. First, because Russian scientists were mostly convinced that it was not a real “science” but a derivative offspring of Philosophy or Political Science; secondly because of the monopoly of the power in the hands of an autocratic regime, where these issues could not be left to researchers and experts but only to the institutional and military leadership. When 1989 arrived, Russia tried to make up lost time but in contradictory and confused ways, we have to admit. Until the recent international upturns waking up the entire world, even in the Nineties and in all the last ten years of the beginning of the third millennium, Russia found it more convenient to partially resume the realism doctrines of the past, with modest attempts to integrate the great changes in international affairs that have occurred in the last twenty years. The more critical international experts try to demonstrate that the Kremlin’s shifting back was favored largely by the George W. Bush doctrine of power and use of military force in international relations. Again the neo-cons and the “strong powers” of defense industries and oil inspired protagonists with them were conditioning the White House. A radical judgment that is anyhow backed by a robust series of good arguments. I recently had to buy Andrei Tsygankov’s “Russia’s Foreign Policy, Change and Continuity in National Identity” (Rowman & Littlefield Publishers) to better know the reality and the last decade’s events from a really Russian perspective and not through the intermediation of other political, personal views (Tsygankov, 2006).

The rich picturing of the undertaking and at the same time change and continuity went a little bit too far in compromising the needs of the historic reviewing of the FSU’s and Russia’s Foreign Policy with the main concepts of the International Relations theories and advanced studies. He explained he had utilized a dual methodology, as in Martin Wight’s conceptualization. The result is a scientifically rich update of Russian foreign affairs issues and a strong support for Putin’s new course in the political leadership of the Country. But fatally Tsygankov was not able to analyze the very latest changes in the international world order that have taken place after the book was published, starting with the Obama Presidency and the implications of the global scale of choices and policies of the new decision makers’ leadership. No utopian programs or idealistic Wilsonian wishes are on the floor, as some commentators argue, but a tangible, well perceived worldwide discontinuity in the American leadership and in the use of power.

We shall have to wait for a new edition to interpret his attitude toward this change. Iraq, Afghanistan, the Great Middle East, Pakistan, the ever-lasting Israeli-Palestinian conflict, Africa and Latin America, now the case of Iran’s irresistible attraction towards the nuclear option, the impressive affinity with the European Union strategies and with the leadership of the major protagonists’ countries have been completed with the attempt to propose non prejudicial relations with Russia based on mutual confidence. And Europe quickly found its tuning again with the other side of the Atlantic. Now the time has come, in these days, for the last but not the least chapter of the new US reshaped foreign policy agenda: Asia, China, Japan and the alliances in these crucial region reaching the Great Middle East, the Islam with which “America will never be at war”, but fighting terrorist and military organized fundamentalism, President Obama said in his first visit to Cairo six years ago.

There is no G2 on the horizon, as the China-US elective relations might suggest, as the European Union is the new entry, but the assessment and recognition of the real terms of political, economic, financial and military power characterizing the wide Asia Pacific region. Where Russia has an influential role at the condition of working out a brand new constructive strategy

of international relations for this crucial part of the world. Europe, by the way, it is making great efforts in this direction.

As I mentioned above, realism and liberalism, with their mild version of “neo”, were driving American theories and overall studies and research. Even the dialectics between different theories were almost a monopoly of the main, outstanding think-tanks and university institutes on the East Coast of the Atlantic Ocean. So neorealism and neoliberalism, positivism and pragmatism, constructivism and reflectivism, traditionalism and pluralism thinkers were diluting the too-radical views of the former over the latter, front runners: realism and liberalism. To those familiar with the discipline, as all of you are, with the academic sociology and political science implications, the title of this section of my paper sounds like questioning what had been an evergreen.

Echoing the headline of Stanley Hoffmann’s famous article “An American social science: International Relations” (1977), in the last ten years as many as three publications have been entitled ‘International Relations: still an American social science?’ (Kahler 1993; S. Smith 2000a; Crawford and Jarvis 2001). Since the 1950s, when Alfred Grosser posed the provocative question whether International Relations was becoming an ‘American specialty’ (1956), the classification of the discipline as an American social science has been accepted by an increasing majority of scholars all over the world (Grosser, 1956).

Of course, this did not prevent a critical minority of scholars from waging fierce emancipation struggles against what they perceived to be an intellectual American hegemony and American ethnocentrism (Booth 1979; Gareau 1981, 1982, 1983; Alker and Biersteker 1984; Krippendorff 1987). Others have criticized the idea of an American hegemony over the discipline as a distorting image which is part of the problem rather than part of the solution (S. Smith 1987; Jørgensen 2000; Groom and Mandaville 2001). In the face of these controversies, some scholars tried to expose the status of IRs as an American social science to empirical scrutiny (Holsti 1985; Goldmann 1995; Wæver 1998a), Then Rodrik “One Economy, many recipes (Rodrik, 2007) .

I quote from “European Approaches to International Relations Theory: A House with Many Mansions”, written by “the Independent German Historian” Jörg Friedrichs in 2004. The concept of “peripheries” and “centers” has been for a long time the accepted methodology - West and East - to interpret the IRs, a kind of revival of the “geopolitics” approach so tragically affirmed in the age of the imperials everlasting power in the world history. For almost 2,500 years. But since the last century and even more after 1989, geopolitics has become quite naïf and a new scenario has grown quickly, not even fully perceived by the protagonists themselves. The case of the European Union is emblematic. Before and obviously even more after German reunification, it started playing a role as global “soft” power in many areas and issues, utilizing new tools of governance never before seen in action by the nation-states. But the founder of the EU with the Treaty of Rome signed by the first six members in 1957 had no doubt to choose for the loyalty to “pacta sunt servanda”: “the transitional agreements and understanding must be fulfilled and no national sovereignty among the 28 countries member of the Union might be invoked”.

Could we conclude that this “soft” has been less effective than the traditional “hard” or “stark” showdowns of the great powers? The events are telling us how influential and effective the European decision making process is, and the Lisbon Treaty story is here to show the prevailing factors of convergence and interdependence of the member countries, as Ireland and Poland have learnt so openly and clearly. This might be considered also as the EU way to keep an appropriate distance from the pressures from “nation-states”. As I said above, a laboratory of global governance was at work far from the past theoretical schemes increasingly followed

by many researchers and specialists. Probably not really through free choice but rather because of the limits and permanent constraints of European institutional building, after the Treaty of Rome in 1957, European Studies started to become increasingly relevant to IRs.

Today the quotations and the bibliography of European thinkers and authors very frequently enter IR books and papers. The academic community is populated by growing numbers of specialist and distinguished scholars working in the main universities and think-tanks of the continent. Even some European regional experts, from Scandinavia and the Baltic countries, or from the Berlin-Paris-Rome triad are getting more followers and scientific respect around the world. Not to mention the three main players – Germany, France and of course the United Kingdom – but even Italy, where international disciplines are the most followed in the choices of postgraduates and doctoral students.

And China has become a producer of papers, articles and scientific literature in International Relations as demonstrated by the dynamic activity of the main universities and also by a Conference I was attending couple of months ago at UIBE in Beijing. These are the intellectual and scientific steps but are main steps as underlining that the Country would better do jumping ahead of the rebalancing a too much economic and trading China with the great power China, in need of scientific support to find the right direction in the studies of International Relations and in the applied outcomes.

Looking all around we couldn't imagine we are still in the era of the IRs purely an American science. We European share with the US a great intellectual confidence and reciprocal freedom of ideas. In fact, we believe our universities are very competitive and on the average even better than the American ones, as we are staying in the strict brackets of the Bologna Process, at the beginning a close standard for the EU members countries and now already with more than 50 countries adopting the same European university standard.

But what's about Russia? The international visibility of publications, journals and events in English by major Institutions show a clear sign of willingness to be part of the IRs debate with the appropriate tools. Who is accustomed to having difficulties in finding valuable sources of the Russian view on global policies and affairs, these collections of papers and articles have the same significance as in Europe with the widespread of IRs research and relevant contributions. That is why we can today affirm that International Relations are still a relevant American discipline, but no longer a purely American science, as we have already a worldwide distinguished and populated area of studies integrating and enlarging the appreciated contributions from the best known American institutions and publications. Still, we are dependent on the robustness and long-lasting intellectual heritage of our colleagues from there and this must be underlined not as a lack of alternative sources but as the prevailing of a dialectic on international relations and new advancements that is really starting, as never before, in the main, great think-tank of the US, encouraging a transnational dimension of the scientific and cooperative activities of all.

Also in this sense, we are in a new era of partnership overcoming already obsolete antagonisms. The developments and metamorphoses I am talking about are at the first stage of proof and, we must say, they are compatible both with the even stronger convergence between the two sides of the Atlantic – which has demonstrated again to be a real driver for getting out of the international crisis and instability – but also with other main actors, such as the new Asian powers, China, India and the already grown up from the war Japan.

Also the revival of outsiders such as the non-aligned movement must be taken into account. Those who in the beginning perceived the European emersion and dynamism in this discipline as a sign of declining of the US have to review their assumptions. We are simply redefining the factors determining the power capability of the major actors in the planetarian International

Relations. The power in future decades will be increasingly measured by indicators of human capital, welfare standard, applied research and development, tradable goods production, innovative technologies, alternative for energy, gender perspectives and roles, behavioral sciences, life science, climate and environment, human rights, migration flows, young generation leadership, new values and cultural sensibilities in the integration of the differences without losing the identities, a mission that in the past was the main task of the religions and their social and political relevance.

The OECD has already prepared the ground, offering a new dataset of indicators evaluated and weighted following the most advanced “pooling” quantitative analyses, officially presented in Busan (Korea) four years ago, a model of comparative approach to more than 200 social, political, economic, environmental, educational, defense, conflict, peace, ethnicity, genders, generation, productivity, competitiveness and regional variables, together with an informatics engine investigating the most relevant global choices and governance policies capable to navigate the stormy waters of the future complexity.

These phenomena will fatally rank in the future the real power countries and regions around the world more endowed with these strategic factors. By the way, the initiators of the New Theories of Growth, the so called post-neoclassic Solow assumptions, Romer, Mankiw and Weil have been very criticized until yesterday, at least until the moment when the Deutsche Bank Research Unit did not go further with the Formel-G model already consolidated and a point of reference for scholars and policy makers (Manikiw, Romer, Weil, 1992).

At the end of the day, the negative aspects of the unilateralist foreign policies and the reluctance of many European and worldwide major allied countries to fully share the ten years of US policies and choices from 200 to 2007, have much more endangered the American supremacy than the pluralism in the theories of IR.

It seems that the dialectic on these issues is healthy not only for foreign policy but even more for public budgets, for the real economy and for the soundness of the global financial situation. Before investing important shares in defense spending, all leaderships must evaluate the cost and benefits, the returns and positive “fallout” to innovation and civil industrial competitiveness of ambitious programs that – in the age of very sophisticated military technologies – might have a marginal relevance for the strategic balance of forces, but a high burden, negative for the tax payers and the citizens, a civil society not willing to be silenced by any political power. “No Man is an Island” is a very well-known title of a spiritual meditation by Thomas Merton (Merton, 1983). The US President seems to know well what the romance was intending. Apparently yes, during the last years something changed deeply and probably also the universal message he is giving, both to faithful believers and non. But did the Russian leadership refurbish the bookshelves at home, keeping it out for summer reading or at least start thinking intensively about what it means? After what happened in Ukraine in the last months we have the proof that they did not.

Completely different is the situation in the US. In only a few months, growing support and also vibrant opposition, at home more than abroad, was mounting seven years ago around the new American President on a vision and actions profoundly different from the ones of the past. But he has shown to be strongly pragmatic and not simply an idealist as many presumed at the beginning. He is a pragmatic, non realism minded leader very appropriate for the future global governance.

Probably also Vladimir Putin, so different in character and attitudes, would at the beginning have judged Obama as an idealist fighter of irresolvable problems rather than a tenacious fighter for change as now we have to admit he is. In fact, he appears a hard line, assertive pragmatic leader so able to talk to his citizens and to challenge the shadow powers contami-

nating the political systems, all over the world, without being an interventionist or a ready for military options leader. A position he continues to keep also in the worst conditions he might have wished to encounter in his first year.

In the paper “America and the world, Obama and the war”, published by Springer in Transition Studies Review at the beginning of 2009, before Obama formally assumed the Presidency at the White House, I wrote in the preface that *Errare humanum est, perseverare diabolicum*. Game over for the hypocrisy of those who see a kind of comforting joining line between the instrumental, populist, esoteric previous policy - which had enormous responsibilities in the financial and economic crisis that has seized the world - and the revival of great politics, credibility and constructive historical perspective of the US and the world. Multilateralism? No, better to call it multipartnership? Or interrelations, as the Chinese leaders described in Beijing?

Call it as you like, the horizon of international Relations driven mainly from the national point of view has already ended. Indeed, the finally global approach programme affirmed even at the fragile G20, the drastic change inherent in the planned agenda made by the excellent group of leading figures, special nominees and international experts that are governing the world now, on the one hand reveals the wrong way in which we embraced in the recent past; on the other, the path to recovery of a world role, albeit no longer hegemonic ruler as before. In fact, all five continents are involved, and the emerging countries as first, in a long term global policy of dialogue and cooperation. International vision, citizenship, common values, human rights, reducing inequalities, reforming and upgrading civil society are the priorities everywhere, without exceptions, if not in pathologic countries. A never-ending competition has started and the conclusion will reward the best performers. China, Russia, India, Brazil, Turkey, Japan, the main Islamic countries, after the European 28 and the neighbourhood club, have differently welcomed the new course: from enthusiastic comments of the great majority to explicit worries of a few on the dynamic determination to change and updating. The attractiveness of multilateralism and multi-partnership will help the world to abandon the isolation in the national already obsolete visions.

Global governance means common responsibilities but also interdependence, a bitter glass of medicine for those nostalgic of the past. Many expectations of change we were arguing about in very robust debate have been achieved but the long term will show if we are reaching the reformed governance at a “planetarian” scale or if we only create an expectation and a dangerous, deluded wish. No civil society will absolve this new leadership from the goals they chose anywhere in the world. Will the power, the institutional building, the public policy and the bureaucracy finally be affected? Oxana Gaman-Golutvina, Professor of Political Science at the Moscow Institute of Foreign Relations-MGIMO University and HSE-Higher School of Economics, wrote five years ago a very telling paper for the Journal of Communist Studies and Transition Politics on “The Changing Role of the State and State Bureaucracy in the Context of Public Administration Reforms: Russian and Foreign Experience”, where the structural reforms of the Russian system appeared in all their urgency (Gaman-Golutvina, 2008). Foreign Affairs, I have to quote again its last issue 2009, has dedicated a blaut but encouraging article by Dmitri Trenin, Director of the Carnegie Moscow Center, which title is a forecast-wishful-prediction article: Russia Reborn. “Adopting a new role after 500 years as an empire, 70 years as an ideological warrior, and over 40 years during the Cold War as a military superpower will be difficult. Russia’s post-Soviet comeback disproved forecasts that Russia was going to descend into irrelevance. Russia - he wrote - will certainly survive the present economic crisis. But it does have a long way to go before it becomes a modern state capable of pursuing a foreign policy that serves its needs, not its nostalgia”.

Peace and war again remain the *alfa* and *omega*, Scylla and Charybdis for the future international order. Reading in the past the comments of the US Ambassador in Kabul, former General Karl Eikenberry, on the military buildup still requested by the military commanders on the field, the one who reportedly sent two classified memos to Washington cautioning Obama against sending more US and NATO troops to All American Presidents have declared themselves to be bearers of the olive branch and lovers of peace. But then they have often had to fight. Sometimes reporting positive international value added, as with the “victory strategy” in the Balkans, bringing the entire region in the EU enlargement process; other times having to face downturns and growing tensions. The outcome was in fact different also in Iraq, with the Bush Presidency, as we are looking in these days of civil war. But Johnson and partially also Kennedy in Vietnam came out as losers, of course in a completely different situation. And the outcome is negative in Afghanistan if the policy choices do not prevail over the “one-way” military options. The costs of the two wars in Iraq and Afghanistan have reached the 8-9 trillion of US\$ following a moderate accountancy, a debt for the next 10 years of US economy and society.

IRs theories of the past could help very marginally to inspire new architecture for security and stabilization in the region. This leads to the classic problem of “war and peace among nations”, as I above called the International Relations paradigm. To avoid conflict, everything is implemented, but then historical, political, international conditions might make it necessary. Unless a value, a mission is found that enthral humanity and takes on a kind of “Homeric” mythical status. Homer’s work, in fact, comes to mind. As an Italian writer, Alessandro Baricco wrote a few years ago: “To be clear, I would like to say that the Iliad is a story of war, with no prudence or half measures. It was composed to sing of a war-like humanity, and to do in such a memorable manner as to last in eternity, continuing to sing the solemn beauties and the inevitable emotion that had been a time of war, and will always be so. At school it is perhaps told differently. But the crux of the matter is this. The Iliad is a monument to war. One of the surprising things about the Iliad is the power, I would say the compassion, with which the reasons of the vanquished are transmitted. It is a story written by the winners, and yet the human figures of the Trojans, remain in one’s memory. Priamus, Hector, Andromachus, even the lesser characters such as Pandarus or Sarpeden. This supernatural ability to be the voice of the whole of humanity, the memory of an obstinate love of peace (Baricco, 2004)”. It’s a good reading for the young generation of international relations students and researchers.

To conclude on this issue, a discontinuity that may give the US – although ready, with the allies, to defend supreme interests even with the use of force – the chance to really return to internationally agreed actions and solutions. It is also the way to consolidate the leadership of the *primus inter pares* with allies as well as with all the other major players in the global arena contributing to an enhancement of the International Relations theories. Let me close also with an attractive Baricco picture again: “As for atrocious sounds, it is necessary to recall that war is hell: but lovely. Men have forever thrown themselves into it like moths attracted by the mortal light of fire. There is no fear or horror of self that has been able to keep them away from the flame, because it is here that they have always found the only possible redemption from the shadows of life. Therefore, today, the task of real pacifism should not be to demonise the excess of war, but rather to understand that only when we are capable of another beauty will we be able to do without what war has always offered us”.

A very last point left. When lecturing abroad, out of Europe, many students asked me about the differences and peculiarities in Europe and in China. Being me from Venice, a capital of the former Republic of Venice, for 6-7 century the main power in the Mediterranean and in Near East, I tried to explain that the differences are not such great and we Europeans are living of

so many differences in languages, religions, cultures and traditions but belonging to the same Europe-Asia history. Of course the reference to Marco Polo and the Silk Road might be appearing a bit too cheap. And the students are not really convinced. I then took out a slide showing the Mongol Empire's maximal extension. I showed also to you, as Europe and Asia have crossed and shared for millennium the same fate, the same trade and the same main events as the Republic of Venice had demonstrated and as the Ottoman Empire as well showed so largely in Central Asia. But also China was so present in a large part of Europe, up to the Adriatic Sea, and in Hungary and down to the Balkans. Not to talk of the Habsburg Empire, with Charles V governing a kingdom where the sun where never at the sunset, referring to the short and also tragic Mexico inclusion on the Empire.

Why then are we so far from a proper reading also of International Relations? The gap is the lack of love for history or the forgiveness of history. I guess the second.

The title of my paper should have had a very intriguing question mark, as rarely we are accustomed to accepting in a paper. Is EurAsia one only continent? Too provocative but deeply true. Zeus in the mythology stories solved the daily quarrelling between two daughters asking him who was the most beautiful said for a long time that one was as pretty and nice as the other. But at the end he decided to call them Europe and Asia. In this case, remembering the deleted question mark was in some way appropriate because "work is in progress" around the world and no-one accepts a crystal ball. It is not a competition for hegemony, the real crucial topic of the contest among faculty and experts of International Relations in few, really influential endowed countries in this discipline. We are all trying to lay out global provisional governance, an interim and credible conceptual profile for more consolidated, robust international order architecture in the long term. Finally we are moving forward, after long immobile and standing negative situations.

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Intellectual Property Rights and Technology Transfer A Panel Study of Pakistan, India and Bangladesh

Ghulam Samad • Muhammad Nasir

Abstract In theory, the strong protection of Intellectual Property Protection (IPRs) would encourage technology transfer from North to South. This study examines the association between IPRs protection in developing countries like India, Pakistan and Bangladesh and technology transfers for the period 1990-2005. Using royalty and license fees as indicator for technology transfer, the study concludes that IPRs protection does encourage technology transfer to these countries. Furthermore, the results indicate positive impact of economic freedom and GDP on technology transfer. However, the impact of Diasporas on technology transfer is found negative in this study.

Keywords Intellectual Property Rights - Licensing fee - Technology transfer - Diasporas

JEL Classification O34 - F19 - L24

Introduction

The implication of the multilateral trade agreement on Trade Related Intellectual Property Rights (TRIPS) and its seven important components namely Patents, Trademarks, Copyrights, Geographical indications, Industrial designs, Layout designs and Basic principles has been exclusively discussed within the World Trade Organization (WTO) context. The Intellectual Property Rights (IPRs) regime is gaining strength in developing countries. The developed and developing countries have their own contrasting views regarding the stronger protection of IPRs. The advocates of stronger IPRs regime in developing countries argue that such regime would results in more exports, more foreign investment, technology transfer, and increase in innovation. The opponents are of the view that it is detrimental to the development process through the loss of jobs, creation of monopoly power, which ultimately leads to increase in prices, and most importantly to the technology needed for development.

The adequate enforcement of Intellectual Property Rights (IPRs) is strengthening in multilateral trade negotiations. It mostly remained one of the main concerns in North-South trade dialogues. It is hard to find the empirical literature on enforcement of IPRs and technology transfer, but theoretically this issued has been addressed. The enforcement of IPRs

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and technology transfer depends on the level of development and technological nature of economic activities. At early stage of economic development the stronger protection of IPRs would discourage the technology transfer and ultimately the industrialization (Kim, 2003, Falvey, 2006). The discourse of IPRs protection and technology transfers engender conflicting views in the context of developing countries, as is mentioned earlier, and therefore, requires empirical examination for specific developing region such as South Asia.

In addition, Diaspora is considered to be another source of technology transfer. It is argued that people settled in developed countries would invest in their home countries and thereby bring in new technology to these countries. Whether or not this is the case in South Asia has yet to be tested empirically and this paper serves this purpose as well. Likewise, remittance is also believed to invigorate technology transfer to developing world as remittances would enable people to pay the licensing and royalty fees. Once again, the matter requires empirical investigation for specific countries and region.

In light of above discussion about IPRs protection and technology transfer, this paper inspects the relationship between the IPRs and technology transfer in the presence of other control variables such as economic freedom of the world, GDP, Diasporas and remittances for a panel of three South Asian Countries namely, Pakistan, India and Bangladesh for the period 1990-2005. For this purpose, the panel Fixed Effect specification is used for analysis.

Rest of the paper is organized as follows: section 2 reviews the relevant literature; section 3 exhibits graphical representations. Data and variables and methodology are discussed in section 4. The results are presented and discussed in section 5 and conclusion and policy recommendations are provided in section 6.

1. Literature review

Technological development under the auspices of Trade Related Intellectual Property Rights (TRIPS) agreement is a contentious issue. The structure of the economy and its developmental level is the important for technology development and ultimately for technology transfers. Examining the impact of TRIPS agreement on building technology capabilities in East and South Asian economies [Rasiah (2002)] demonstrate Japan and to less extent Asian and China are will developed IPRs regime and can maintain technological development, while China is lacking the high-tech infrastructure to sustain the technological development. India, Pakistan, Sri Lanka and Vietnam overall infrastructure is too weak for technological development and weak to ensure TRIPS compliance.

Fink *et al* (2005) explains investment and licensing flows are not necessarily increases with the strengthening of IPR. Despite this fact, the developing countries with their low technical capabilities preferred global competition for capital and technology, they strengthen their IPRs regime. Branstetter *et al* (2006) examine for the US firm level data the royalty payments for technology transfer has been increase by 30% to the affiliate at the time of IPRs reforms in 16 countries. The stunning debate of North-South technology transfer and its welfare implications are still questionable. Sinha (2006) examines the weak protection of IPRs in South would flourish innovation in North, which would leads to more licensing contracts in North. This would result in more subsidiaries production or exports to South and ultimately the welfare would increase in South. Similarly, the strong patent protection in South may lead to enormous licensing and less subsidiaries production or exports.

The argument in favour of protecting the IPRs and technology transfer has been extending by Naghavi (2007), for his comprehensive analysis of welfare implication of protecting the IPR

in South through its impact on innovation, market structure and technology transfer. A strong IPR regime in South facilitates technology transfer by FDI in less R&D intensive industries. It further indigenizes innovation and deterring the Multinational Corporations (MNCs) in high technology sectors. In most of the economies the service sectors contribute enormously into the country GDP, with the growing importance of the service sectors in the economies, the protection of services sector is considerably becoming important. Maskus (2008) review the interrelationship of importance of service sectors (information technology, the internet, digital entertainment, and financial sectors) and protection of IPRs and suggest that protections of IPRs are of increasing importance in service sectors of the economies.

Wakasugi and Ito (2009) using firm level data for Japanese MNCs investigate theoretically and empirically that stronger protection of Intellectual Property Rights (IPRs) while controlling for both market specific factor in host countries as well as for parent subsidiary firm specific factors has positive effect on technology transfer from parents firm to its subsidiaries in foreign countries. Exploring the structure of the out-licensing of the Japanese firm for the destination countries [Nagaoka (2009)] examines the stronger patent protection in the recipient countries would decline the know-how licensing (pure or in bundled form) relative to that of pure patent licensing. The result visibly represents the minimal role of the patent protection in attracting the know-how licensing. In contrary, the strong patent protections in the recipient countries would declines the strength of ownership of licensor, indicating a facilitating role of technology transfer. Arshad and Samad (2010) empirical findings are optimistic about the stronger protection of IPRs increase FDI in production sector and in distribution networks. Further they emphasize that weaker institutions, corrupt bureaucracy, weaker capital concentration and employment protection are detrimental to FDI.

In contrary to the importance of IPRs protection and technological development, strengthening the IPR system for SMEs and technology transfer is ambiguous in practice. It is the business strategies of SMEs not the IPRs enforcement [Turpin and Macdonald (2007)]. Langinier and Crampes (2009) extend the argument that IPRs are legal constrains, which limit the entry in industries. It would stop the positive externalities of these new entrants for the incumbents. The IPRs protection is effective only in pharmaceutical industries and at some extent in chemical industries which represents only apart of the economy not the whole economy. Similarly, the copyrights are effective in audiovisual industry. It's not the TRIPS that widen the technology gap between the North and South but it's the absorptive capacity in the recipient countries. In nutshell [Archibugi *et al* (2010)] deter the IPR regime for technology transfer as a sufficient condition.

2. An overview of IPRs and technology transfer

In this section we give an overview of the IPR protection level and technology transfer over time in the three South Asian countries. To begin with, Figure 1 exhibits the Intellectual Property Rights (IPRs) index for the three countries for three different periods. The IPRs enforcement level index range from 0 to 5 where 5 is the maximum enforcement level. It is evident form the figure that India has a growth in IPRs index almost 66 % in 2005 which was 84 % in 2000. Pakistan growth rate is 9 % in 2005 and almost 60% in 2000. Bangladesh, however, has shown no growth.

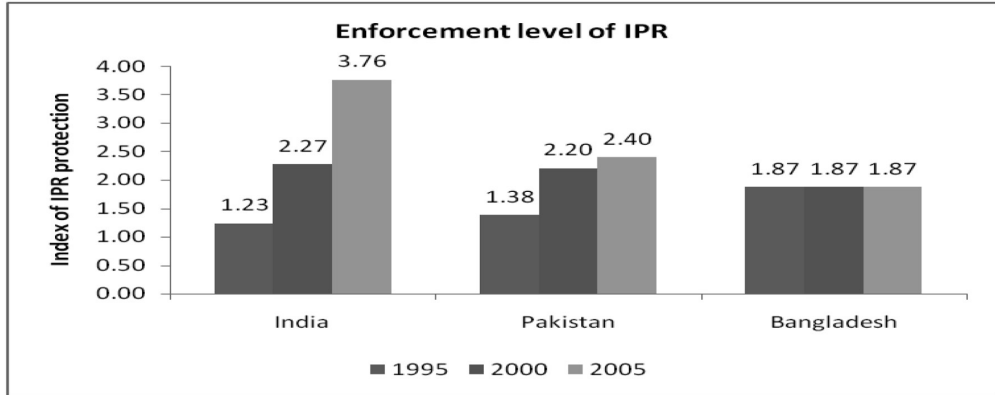


Fig. 1 Intellectual Property Rights (IPRs) Index: India, Pakistan and Bangladesh

Another important component to technology exposure is royalty and license fees. Figure 2 clearly demarcate that there has been a tremendous increase in royalty and licensing fee (technology transfer) in India over time. Similarly, Pakistan has also observed an increase in technology transfer although at a lower rate compared to India. Bangladesh growth in this regards has, nonetheless, been negligible. From these two figures, it can be seen that there is an apparent positive relationship between IPRs and technology transfer at least in Pakistan and India. Even the case of Bangladesh may be used to support this positive relationship in the sense that no increase in IPRs protection level restricts growth in technology transfer in Bangladesh.

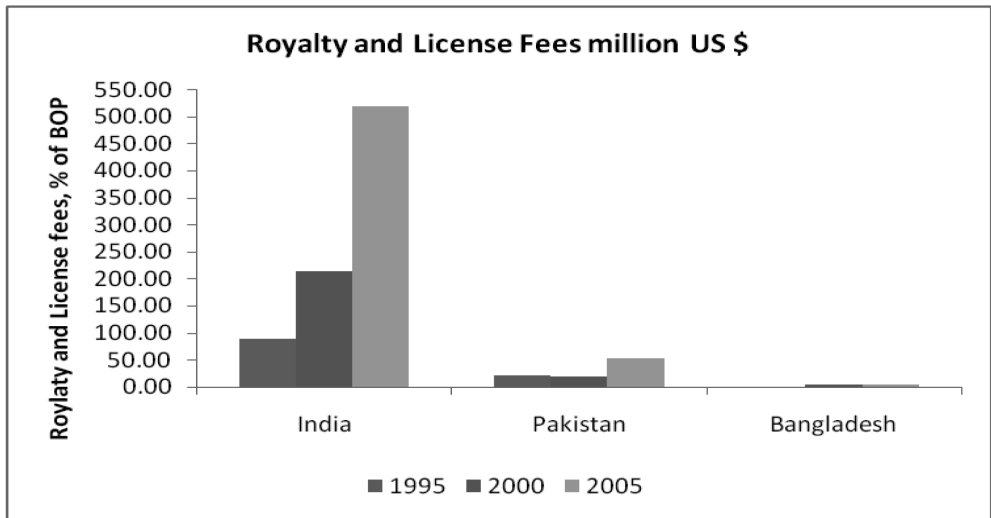


Fig. 2 Royalty and License Fees Payment: India, Pakistan and Bangladesh

3. Model specification, methodology and data

The technology progress in a country is achieved through its own technology creation or the adoption and adaption of technology created somewhere else. Technology creation and dissemination depends on the extent of a country exposition to foreign technologies by fostering foreign direct investment, imports of high technological products and intermediate including a country strong absorptive capacity in the form of macroeconomic stability and political environment and the existence of its Diasporas (Burns 2009).

Direct measuring of technological progress or achievements is difficult. Subsequently, the literature employs indirect methods such as Total Factor Productivity (TFP), scientific innovation and invention, penetration of older technologies, exposure to external technology for the measurement. The current study uses royalty and license fees payments to measure technological achievements. The remaining other three, which are imports of high-technology goods, imports of capital goods, and imports of intermediary goods are not incorporated in this paper. In order to find out the relationship between technological progress and IPRs, we estimate the following Fixed Effect Model of panel data for the three countries mention earlier.

$$RLF_{it} = \beta_0 + \beta_1 IPR_{it} + \beta_2 EFW_{it} + \beta_3 GDP_{it} + \beta_4 Diasporait + \beta_5 Re mit tan ces + V_{it} \dots (A)$$

Where $V_{it} = \mu_i + \epsilon_{it}$: μ_i is the unobservable individual country specific effects and ϵ_{it} represents other disturbances. In equation (A) RLF_{it} is the royalty and license fees used to show technological achievements; IPR is the intellectual property rights index indicating the respective enforcement level; Economic Freedom of World (EFW) depicts the economic scenarios like trade openness and economic regulations etc; GDP per capita demonstrate the absorptive capacity of the economy; Diasporas are the level of international out migration measured in number of migrated people and lastly remittances show the amount of foreign currency flown into the country.

This study uses panel data, which is useful in many ways. It controls for individual heterogeneity, give more informative data, study the dynamics of adjustment, bitterly able to indentify and measure the effects which are not simply measured in cross section and time series data (Baltagi 2005). The panel data is not the panacea for all the problems; it has certain shortcomings like designing and data collection, selectivity problems, short time series dimensions and cross section dependence. To examine the relationship between the technology transfer and IPRs enforcement level, this study applies the Pooled Least Square estimation technique to control for country specific effects.

This panel study includes three South Asian countries India, Pakistan and Bangladesh. The main reasons of this sample include the same structure of these economies, almost same developmental level, and existence of large Diasporas. The reason for excluding other countries of the region from this sample is the unavailability of data on some important variables for the same period of analysis used in this study. The five years average data is use to control the short term cyclical fluctuations and to embed the medium term economic policy era which is considered five years. The data on Royalty and License Fees Real GDP per capita and Remittances are taken form World Development Indicator (WDI, 2011). Furthermore, the data for IPRs index and Economic Freedom World (EFW) are obtained from Ginarte and Park (1997) index, which latter extended for the year (2005) and Gwartney *et al* (2010) respectively. Data on Diaspora is acquired from data bank of South Asia Migration Resource Network (SAMReN)¹ based in Bangladesh. The descriptive statistics of the variables are given in Table 1.

¹ <http://www.samren.net/>

Table 1 Panel Descriptive Statistics

	RLF	IPR	EFW	GDP	DP	REMT
Mean	94.38	1.84	5.49	422.58	0.10	3.15
Median	18.50	1.87	5.58	428.04	0.09	2.93
Maximum	672.00	3.76	6.68	594.76	0.21	7.15
Minimum	3.00	1.03	4.17	280.17	0.01	0.75
Std. Dev.	162.07	0.58	0.54	89.01	0.06	1.40
Skewness	2.28	1.15	-0.28	0.03	0.24	0.85
Kurtosis	7.47	4.63	3.09	1.83	1.75	3.60
Jarque-Bera	81.83	16.02	0.67	2.70	3.56	6.57
Probability	0.00	0.00	0.71	0.25	0.16	0.03
Sum	4530.26	88.48	263.97	20284.25	5.03	151.49
Sum Sq. Dev.	123460	16.19	13.84	372426.9	0.17	92.59
Observations	48	48	48	48	48	48
Cross sections	3	3	3	3	3	3

Note: RLF= Royalty and License Fee; IPR= Intellectual Property Rights; EFW= Economic Freedom of World; GDP= Gross Domestic Product; DP= Diaspora; REMT= Remittances

4. Empirical findings and discussion

We have estimated four models for the selected South Asian countries using the panel data Fixed Effect Model. The fixed effect model has been checked and corrected for Heteroscedasticity and cross section weights are applied to account for cross-section heterogeneity. The key purpose of this analysis is to check for association, if any, between IPRs protection and technology transfer in Pakistan, India and Bangladesh in the period 1990-2005. Furthermore, the study also intends to find out the nature of relationships between Diaspora and remittances, and technology transfer.

It can be observed from the first model that the coefficient of IPRs variable is positive and highly significant. This indicates that IPRs protection does encourage technology transfer to developing countries. The high significance of this variable may be interpreted in the sense that in developing countries, where IPRs enforcement is dreadfully weak, a small increase in IPRs enforcement works as a sign of encouragement to firms in developed countries and motivate them to invest in and bring technology to developing countries. Since cheap labor and low cost production are always there in developing countries to attract foreign firms, the threat of technology being plagiarized (low IPRs protection) is the only major concern for them. Hence, when they see a little improvement in IPRs enforcement, it induces to invest in these countries, which in turns become a source of technology transfer. This interpretation also validates from what we observe in section 3, which shows growth in IPRs enforcement in these countries as a whole.

The results in Table 2 further show that the economic freedom of the world is also important for technology transfer to developing world. The higher the economic freedom, the higher will be investment and trade between countries and the more will be technology transfer from

developed to developing countries. On the reverse side, if there restriction on investment in developing countries, it will reduce the transfer of technology even in the presence of intellectual property rights in these countries. Hence, economic freedom of the world is an important determinant of technology transfer.

Table 2 Estimation Results of Fixed Effect Models

Variables	Model 1	Model 2	Model 3	Model 4
Constant	-1205.60 (-17.70)***	-1250.87 (-18.71)***	-1255.687 (-15.96)***	-1268.25 (-16.91)***
IPRs	179.52 (13.47)***	183.61 (14.78)***	171.13 (12.90)***	179.70 (13.29)***
EFW	60.50 (2.30)**	91.94 (3.22)***	76.39 (2.48)**	96.00 (3.14)***
GDP	1.50 (4.67)***	1.27 (4.01)***	1.50 (4.73)***	1.29 (4.06)***
Diaspora	---	-376.28 (-2.61)**	---	-344.09 (-2.14)**
Remittances	---	---	-6.92 (-1.31)	-2.93 (-0.53)
Bangladesh	58.72***	76.26***	69.95***	79.52***
India	121.74***	86.13***	111.45***	84.81***
Pakistan	-180.47***	-162.39***	-181.40***	-164.34***
R²	0.98	0.98	0.98	0.98
F-Stats	195.37***	222.30***	191.05***	206.52***

Note: t-stats are given in parenthesis. ***, ** and * show significance at 10%, 5% and 1% levels respectively.

It is also evident from the result in model 1 that the coefficient of GDP is positive and highly significant. This insinuates that higher GDP attracts technology to these developing countries. This result can be justified on the grounds that GDP is also an indicator of income of a country. With higher income, there will be more amounts available for licensing fee. Similarly, higher GDP will enable a country to develop its infrastructure and other facilities to create conducive environment for foreign investment. This in turns will bring in investment and with it the technology to the respective country. Since, GDPs of these three South Asian countries has been on the rise in the period under analysis, the positive relationship between GDP and technology transfer in these countries should not be astonishing.

We have also included country dummies in the analysis. These country dummies represent country-specific effects, other than those included as explanatory variables in the model. It is observable that all these country dummies are statistically significant. The positive signs of the coefficients of Bangladesh and India suggest that other country specific characteristics are conducive for technology transfer. In case of Pakistan, however, these other features of the economy are not helpful in transfer of technology. We also tested for time dummies but almost all of them were insignificant and hence were not included due to space limitation. Both the R-square and F-stats demonstrate the overall of significance of the model.

Theoretically, it is believed that the presence of Diaspora of a country is beneficial for transfer of technology to respective country. In order to examine this empirically, we included this variable in our second model. One can see that the coefficients of all the three explanatory variables as well as those of the country dummies of the previous model are robust in terms of sign, significance and magnitude. The coefficient of Diaspora, although statistically significant, has negative sign contrary to the popular belief. This may not be surprising if one look at the

role of Diaspora in technology transfer. The people who come under the Diaspora definition are actually the people who can truly be called the brain-drain. These people who are skilled and wealthy enough to bring in technology to their respective country are settled in foreign countries. Had they been in their own countries, they would have been able to play role in technology transfer by using their wealth and skills to start business in their respective country. In this sense, they are the people who can potentially play a role in technology transfer but only when they reside in their own countries. Subsequently, their becoming a Diaspora is in fact detrimental for technology transfer and that is why the sign of coefficient of this variable is negative. The more people become Diaspora, the lesser are the chances of technology transfer to these countries. The importance of this variable in the model is evident from the F-stats whose value is higher compared to the previous model.

Although the presence of Diaspora is not beneficial in technology transfer directly, but their indirect role can still be of significance in transferring technology to their countries. This Diaspora sends remittances to their respective countries, which can be used to start business and then for paying licensing fee to transfer technology. This notion also required empirical investigation. Consequently, we included remittance as an explanatory variable in model 3. The robustness of other explanatory variables and country dummies is validated once more in model 3. Interestingly, the variable “remittances” is found insignificant in this model. Nonetheless, the result can be validated by looking at the use of remittance in these countries. Most of the remittances are used for consumption purpose including both non-durable consumption and durable consumption in the form of building houses. Likewise, they are also used for human capital accumulation through education [see, for example, Nasir *et al.* (2011)]. Although some people use these amounts for physical investment, however, these investments are largely in very small scale businesses which do not require technology transfer from other countries. Hence, the remittances received from foreign countries including those from Diaspora does not play significant role in transfer of technology as is evident from the result. The overall significance of the model is shown by F-stats. However, its value is less compare to the previous models which further imply the irrelevance of the variable “remittances”.

In order to further validate the robustness of these results, both Diaspora and remittances are included in model 4. The results of this model confirm the robustness of the previous models. The coefficients of all the variables including Diaspora and remittances as well as the country dummies are robust in terms of sign, significance and magnitude. Both R-square and F-stats authenticate the model fit. However, the value of F-stats is less than model 2. This is due to the inclusion of the variable “remittances”. If the F-stats criterion is used, then the best model 2 is the best model, which does not include remittances as explanatory variable. However, the reason for inclusion of this variable in model 4 is its value of t-stats in model 3 which is greater than 1. Nevertheless, putting together Diaspora and remittances in model 4 reduces the value of t-stats of remittances to less than 1. Hence, one can now safely conclude that model 2 is best model and remittance is an irrelevant variable.

5. Conclusion and policy implications

The main focus of this paper is to examine the impact of protection of intellectual property rights (IPRs) on technology transfer in selected South Asian countries namely, Pakistan, India and Bangladesh for the period 1990-2005. For this purpose, royalty and license fee payments has been used as proxy for technology transfer. The Fixed Effect Model results indicate that the enforcement level of IPRs in these developing countries encourages the royalty and license

fees and thereby technology transfers. Strong patent protection encourages licensing because it would reduce imitation risk, uncertainty and transaction cost. These results are also compatible with Javorcik (2005) findings that strong IPRs level of protection makes licensing a viable alternative to FDI.

The results further show that economic freedom of the world and greater GDP of the recipient countries also encourages transfer of technology. However, Diaspora discourages technology transfer while “remittances” has no impact on it at all. The country-specific features of Bangladesh and India are also conducive for technology transfer whereas those of Pakistan and not favorable for such transfer.

These results suggest that in order to encourage technology transfer, these developing countries will have to enforce and enhance the protection level of Intellectual Property Rights in order to give confidence to foreign firms to transfer the technology and not just do the investment. Secondly, these countries need to attract their wealthy and skilled Diaspora from the world to making them a source of transfer of technology. Thirdly, the governments should make policies and programs to educate and encourage people receiving foreign remittances to invest in businesses that could ultimately result in arriving of new technologies to these countries.

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Impacts of Aid for Trade on Trade with the EU The Role of Old and New Member States

Beáta Udvari

Abstract Aid for Trade (AfT) is a new international program supporting developing countries to adjust to the multilateral trading system and to benefit from the liberalization process, by granting them more focused development assistance. The European Union is the largest aid provider in the world, and the EU has also incorporated the principles of AfT in its development policy. Previous research has proved that AfT is able to expand trade between developing countries and the EU itself. However, it is not yet clear whether this trade expansion is only the result of the EU-15's activity or the new EU member states also contribute to it. Present research aims to investigate the impacts of the AfT assistance provided by the EU-15 on the trade between the EU-15 and the recipient countries, and on the trade between the new EU-members and the recipients, respectively. The results of the gravity model indicate that the EU-15 is a more attractive market to ACP countries than the new member states: AfT provided to ACP countries positively influences the exports to EU-15, while it has no significant impact on trade with the new member states.

Keywords Aid for Trade - EU's development policy - EU-15 - new member states - gravity model

JEL Classification F13 - F15 - F35

1. Introduction

Since 2005, Aid for Trade (AfT) initiative has been playing a significant role in international development cooperation. Its objective is to promote the exports of developing countries by improving supply-side capacity. Since its launch, a relatively wide literature has analysed its impacts on trade costs and export expansion. However, most of these analyses investigate the potential impacts in general without reflecting on donor-specific or recipient-specific aspects. For instance, the EU's activity has not been investigated very deeply, despite the EU being the largest aid provider in the world. Moreover, the EU has built up a special relationship with developing countries, and the closest relationship is realized with the African, Caribbean and Pacific (ACP) countries. As a result, ACP countries are the main

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beneficiaries of the EU's development policy and have been enjoying several – trade and economic – preferences and financial assistance granted by the European Union for decades. Although ACP countries' share of the EU's trade with third countries has decreased, the EU is still their most significant trade partner. Consequently, the EU can be a good example of how AfT may work in practice.

Some articles (see, for instance, Udvari 2011, 2013) analyse the potential impacts of AfT on total trade (total amount of imports and exports) between developing countries and the EU. These analyses investigate the total trade (aggregation of exports and imports) between some developing countries and the EU-27, with the EU-15 considered as a donor. Therefore, these results do not answer the question whether the assistance provided by the EU-15 contributes to the growing exports of developing countries only to the EU-15 or to the new member states, as well. Thus, *the research objective of present paper is to analyse empirically how Aid for Trade can contribute to the export expansion of ACP countries to the EU-15, and to the new member states (NMS)*. In order to obtain the most comprehensive results of the gravity model, the empirical analysis includes developing countries out of the ACP-block, too.

The structure of present article is as follows. Section 2 gives an insight into the role of Central and Eastern Europe in the EU's international development cooperation. This is followed by Section 3 emphasizing the features of EU-ACP relations after the Millennium, focusing on the Cotonou Partnership Agreement and the Economic Partnership Agreements as the basis for trade relations between the ACP group and the EU. Section 4 details the most recent research results on Aid for Trade. Section 5 covers the methodological issues of the empirical analysis as well as presents the results.

2. Central and Eastern Europe in the EU's development cooperation

Although the European Community became a member of the donor community in the 1970s, it was not until the Maastricht Treaty in 1992 that a legal framework to its development policy was provided (Degnbol-Martinussen and Engberg-Pedersen 2005). Therefore, countries accessing to the EU after the mid-90s had to accept these rules. However, countries joining the EU after the Millennium had another challenge: earlier they were recipients in international development cooperation, but with their EU-accession they were obliged to become donor countries (Migliorisi et al 2003, Lightfoot 2008). It was prescribed that the candidate countries should create an international development policy meeting the principles of the UN, the EU and the OECD's Development Assistance Committee (Jakab 2005). Since development cooperation was not subject to accession negotiations (Granell 2005), accessing countries had to accept all articles of the common regulations without derogation (Dauderstaedt 2002, Morgera and Durán 2004, Lightfoot 2008), including the Cotonou Partnership Agreement, the whole ACP relationship, the European consensus on development policy, the obligations of the 10th European Development Fund (EDF), the principles of increasing resources accepted at the Monterrey conference and strengthened by the European Council, the Mediterranean partnership, the Everything But Arms initiative, and many other related regulations.

Adjusting to these conditions is not a simple task. Due to former political influence (including both political and military interests) and to a less independent development policy, these countries had to face many challenges during the creation of a development cooperation policy. The main challenge was that the aim of the EU's development policy – namely to decrease poverty – was included only in some countries' development policy, similarly,

the guidelines concerning the support of least-developed and African countries were also neglected in the development policy of some countries (Migliorisi et al. 2003, Lightfoot 2010, Lightfoot–Szent-Iványi 2014).

As for aid commitments, NMS are also contributors to the budget of the EDF, which provides assistance mainly to ACP countries, though NMS do not provide so many contributions as would increase the EDF-resources significantly (Lightfoot 2008). Only 0.4 percent of the total assistance provided by the EU to developing countries comes from NMS (Granell 2005). According to OECD data, aid from Central and Eastern European countries fluctuates between 0.08 and 0.13 percent of the countries' GNI (OECD 2012), but the aim is to reach 0.36 percent by 2015. These data refer to the fact that though the NMS started their activity as donors, it is not so significant for them to contribute to the community's and the EU-15's aid activity – at least in terms of the financial resources. All these show that the development policy of the EU is driven by the EU-15.

It is important to analyse the new member states' regional focus, too. The NMS were not colonising powers, thus, due to the lack of relations they provide assistance mainly to their neighbouring countries (former Yugoslav states, members of the Commonwealth of Independent States, or the Balkans) (Table 1). Consequently, other (e.g. African) developing countries are not favoured (Dauderstaedt 2002, Migliorisi et al. 2003, Morgera and Durán 2004, Granell 2005, Lightfoot 2008, Szent-Iványi 2009), though these areas officially form a part of the main priorities of the EU's development cooperation. The aim of the NMS is not to decrease poverty or handle the challenges of fragile states, but to preserve stability in neighbouring regions and to prevent conflicts from arising (Lightfoot 2008, Szent-Iványi 2009). To sum up, aid allocations of the NMS are not determined by the GDP per capita, by economic growth or by the quality of institutions (Szent-Iványi 2009). All these seem to highlight the fact that aid granted for the ACP countries depends only on EU-15 and not on NMS.

Table 1 Aid allocation of the new member states

	Cyprus	Czech Republic	Estonia	Poland	Lithuania	Hungary	Malta	Slovakia	Slovenia
Moldova, Ukraine, Belarus	2	1	1	1	1	1			
the Balkans	2	1	1	1	2	1		1	1
Central-Asia		2	2	2				1	
Middle-East	1	3							
Africa		3					1	3	
South-East Asia		3		3		3		3	
Latin-America		3					3	3	

Note: 1: strong relationship, 2: medium intensity, 3: weak relationship. There is no data for Latvia.

Source: own construction based on Migliorisi et al (2003), p. 21.

Although all official documents in the EU emphasize the special role of ACP countries, NMS are not obliged to provide development aid to these countries (Lightfoot 2010). As a result of weaker African and Caribbean relations and of the stronger neighbouring activities, the EU has paid greater attention to neighbourhood policy and to the support of candidate

countries (Lightfoot 2008). This can be accepted as a success of NMS, but the EU's focus has turned to other regions than the ACP countries.

Consequently, the following may be concluded in connection with the ACP countries: disposable financial resources have been extended, but not significantly. Furthermore, new member states have contributed to the changes of regional focus of the EU's development cooperation: neighbouring countries have become competitors to the ACP countries. Nevertheless, ACP countries are still in the foreground: most EU-documents emphasize their priority. Considering these, it is supposed that the EU-15 is more responsible for expanding trade with developing countries due to Aid for Trade than the new EU-members are.

3. EU-ACP relations since the Millennium

Meanwhile, the EU has built up economic relations with developing countries with changing intensity. The strongest relations are with the ACP countries. The EU-ACP relations have a long history: institutional cooperation started in 1975 with the first Lomé Convention, later followed by three other. These conventions provided ACP countries free access to European markets till 2000. Although they aimed to expand trade between partners, the ACP countries' share of the EU's external trade dramatically decreased, and, on the contrary, the EU became the most important trading partner of the ACP countries.¹ The Lomé Conventions formed a part of the EU's development policy, but the EU took other factors but poverty into consideration while allocating aid resources to ACP countries (Degnbol-Martinussen and Engberg-Pedersen 2005). The main reason for a closer relationship was to obtain natural resources and to increase the EU's international power as a regional integration. In the 1990s, other developing countries and the international community – mainly the USA – forced the EU to eliminate the non-reciprocal trade preferences of the Lomé Conventions to meet the obligations of the World Trade Organization (WTO). To comply with these challenges, the partner countries signed the Cotonou Partnership Agreement in 2000.

3.1 The Cotonou Partnership Agreement

The main focus and objective of the Cotonou Partnership Agreement is to promote economic, social and cultural development in ACP countries along with eradicating poverty (complying with the Millennium Development Goals) (Borrmann and Busse 2007, Nurse et al. 2008, EC 2010). This agreement is a milestone in the EU's development policy and has brought several changes in the international development cooperation regarding ACP states (EC 2010, Degnbol-Martinussen and Engberg-Pedersen 2005, Karingi et al. 2005, Szent-Iványi 2008):

- in the context of the new relationship, *partnership* became an important factor (as the official name of the agreement shows);
- *political conditionality* is introduced: countries hurting human rights will be excluded from the cooperation;
- broader *political dialogue* is ensured between the partner countries, concerning the fields of development cooperation, migration, arms trade and security;

¹ This paper does not analyse the Lomé Conventions. See, for example, Babarinde (1994) or Curran et al. (2008).

- involvement of non-governmental actors into the development processes is in focus;
- the overall objective is to decrease poverty, provide sustainable development and integrate developing countries into world trade;
- countries in most need are eligible for financial assistance, and the EU prefers *good performers*; and
- the two pillars of the EU's development cooperation continued to be trade and aid.

As a result, Cotonou Agreement requires providing aid for the most eligible countries and for those which can use these financial resources in the most efficient way. However, there is a risk that countries which are not in the direct interest of the EU will not obtain Community assistance. Altogether, laying down conditions and aiming at reducing poverty, the new agreement complies with the challenges of international development policy, however, there are fears that partner countries may suffer some losses. Ensuring a transition period, Lomé Conventions were in effect till the end of 2007, and during this period countries should have agreed on new types of partnership, called Economic Partnership Agreements, but they failed to do so (EC 2014).

3.2 Economic Partnership Agreements

From 2002 onwards, several negotiations started between the ACP and EU partners. The main aim is to negotiate with different ACP regions² in order to sign agreements which really contribute to their economic development and to foster their share in world trade (Vollmer et al. 2009, Ukpe 2010). Consequently, EPAs are not traditional trade agreements, but agreements that aim at real development through trade policy and by promoting regional integration of ACP countries³ (Szent-Iványi 2008, Vollmer et al. 2009). Its concept includes reciprocal trade preferences and free trade, though it may at the same time contain a large risk for ACP countries, as they have to ensure access for European companies to their own market – though only to a smaller extent (averagely 80 percent in 15 years) (Vollmer et al. 2009, EC 2014).

Negotiations are going forward, but several problems have occurred. As a result, though EPA negotiations should have been finished by the end of 2007, only Caribbean countries were able to conclude them (Nurse et al. 2008, Vollmer et al. 2009), while other regions signed only transition (interim) agreements aiming at gradual liberalization of merchandise up to 80-95 percent in the next 15-20 years, but the EU ensures ACP countries free access to European markets (Table 2) (Szent-Iványi 2008).

² The regions are West-African Economic and Monetary Union, Central-African Economic and Monetary Union, East African Community, South African Development Community, Caribbean Forum of African, Caribbean, Pacific States, group of Pacific States (Ukpe 2010).

³ In Africa the overlapping integration process hinders deep integration (Shams 2005).

Table 2 Rate of market opening and deadline in the ACP regions

Region	Type of agreement	Rate of market opening (%)	Deadline (within years)
Caribbean	final	61	10
		82.7	15
East African Community	interim EBA	64	2
		80	15
		82	25
Eastern and Southern Africa	interim EBA	differs among members from 80 to 97	
Southern Africa	interim EBA (Angola)	86	2
Pacific: Papua New Guinea, Fiji	interim EBA	88 (PNG)	15
		80 (Fiji)	15
Central Africa	bilateral (Cameroon) EBA	80	15
West Africa	bilateral (Ghana and Cote d'Ivoire) EBA	70 (CI)	15
		80 (Ghana)	

Note: EBA stands for Everything But Arms initiative

Source: author's own construction based on Vollmer et al. (2009)

Several reasons may be listed why the Economic Partnership Agreements could not be concluded in time. Szent-Iványi (2008) and Ukpe (2010) argue that the largest problem is the lack of confidence and growing scepticism towards the European Union: ACP countries do not trust the EU any more. But the main economic risks of EPAs for ACP countries are the following (Szent-Iványi 2008, Boysen and Matthews 2009, Vollmer et al 2009, Ukpe 2010):

- economic structure of ACP countries cannot adjust to the new circumstances on time because of the problematic supply side capacity;
- decreasing income from tariffs leads to the postponement of development projects;
- regional integrations have trade creating and trade diversion effects, consequently, countries may not gain the same results from a regional integration;
- the new competition that arises with the appearance of European products may deteriorate companies in ACP countries;
- interim agreements concluded so far may hinder the regional integration process between African countries;
- the significant agriculture subsidy in European agriculture may cause losses in the agricultural exporting countries (and they face unequal competition);
- referring to sanitary regulations, the EU may not let in ACP agricultural export;
- the six regions export mainly natural resources: diamond, mineral oil and palm oil, which account for more than 40 percent of the regions' exports;
- there are regulations which unambiguously serve the interests of the Community (for instance, the protection of intellectual property, trade in services, or investment).

There are many studies investigating the potential effects of EPAs on welfare and trade promotion, though their results are mixed because of the trade creation and trade diversion

effects (ODI 2006). Karingi et al. (2005) analysed the welfare impacts of EPAs on African countries. They found that the EU would gain the most on this business, and the expanded trade is the consequence of trade creation and trade diversion from the rest of the world, as well. Furthermore, African countries are likely to face a decrease in government revenues owing to tariff reduction (or elimination). This requires higher adjustment costs (tax reforms, administration changes) that African countries need to pay, on the one hand, and which jeopardizes African development, on the other hand.

Vollmer et al. (2009) – similarly to Karingi et al. (2005) – analysed the welfare effects of interim agreements on nine Sub-Saharan African countries. They claim that four of the nine countries enjoy positive effects of tariff reduction, while the remaining countries do not experience positive welfare changes. However, the authors argue that some loss of tariff reduction as a result does not mean that EPAs have negative impacts on African countries because they can gain more in this framework than under the simple GSP-scheme. Furthermore, lower tariffs result in lower government income (since the EU is the largest trade partner of the investigated countries) requiring lower market opening and longer transition period for African countries. The authors acknowledge that the European Union benefits the most from these agreements, but these extra profits should cover the EU's further development actions.

Busse and Grossman (2007) analysed the fiscal and trade impacts of EPAs in West African countries. Their empirical results indicate that tariff reduction due to free trade agreements may cause troubles for African countries, therefore the authors suggest similar ideas than Vollmer et al. (2009): complementary reforms should be implemented before EPAs come into force. Furthermore, Borrmann and Busse (2007) emphasize that only countries with a high quality institutional system can benefit from the economic changes arising during the EPA-era. Based on these statements, the authors conclude that African countries may become the largest losers of these free trade agreements.

Fontagné et al. (2008) empirically tested some scenarios of the EPAs. According to their results, ACP countries' loss will be large owing to tariff reduction, and the success depends on how the ACP-block can implement complementary reforms and how they can change their fiscal basis. Boysen and Matthews (2009) investigated the impacts of different EPA-scenarios on poverty in Uganda. Their results indicate that the extent of loss depends on the sensitivity of products involved into the negotiations, though the poorest people will lose the most after implementing the EPA.

Drawing on these (real) fears and risks, developing countries required additional financial resources for concluding and implementing such an agreement and for adjusting to the new circumstances. As a result, ACP countries asked the EU to use Aid for Trade to help them meet these requirements (Hinkle et al. 2005, Meyn 2008).

4. Potential impacts of Aid for Trade

Since many countries were unable to follow the liberalization process and to adjust to the new international trade environment, the WTO launched the Aid for Trade initiative in 2005. Aft may be essential for developing countries, since they would be the main losers if Doha Round fails (Abbott et al. 2009, Deardorff and Stern 2009).

The programme aims to help developing countries *expand* their exports, *participate* in the multilateral trade system more effectively, and *benefit* from liberalisation. In order to fulfil these goals, *six areas of financial assistance* were determined (WTO 2006): *trade policy and regulation; trade development; trade-related infrastructure; building productive capacity;*

trade-related adjustment; and other trade-related needs. As a result, the primary objective of AfT is to improve the supply-side capacity (Hallaert and Munro 2009), which may lead to the development of the business environment. A high quality business environment is essential to reach the positive effects of participating in international trade (Freund and Bolaky 2008, Dreger and Herzer 2011). However, the program has also been criticized sharply: though AfT aims to support the least developed countries, there are empirical evidences showing that in practice aid allocation does not follow this expectation (Udvari 2011, Uhrin and Schuszter 2013). For instance, the European Union has implemented more AfT projects in China (as one of the largest exporters in the world) than in Sub-Saharan Africa (Udvari 2013).

Although AfT belongs to the financial assistance group, its economic impacts seem to be more spectacular and persuasive than the effects of general development assistance. According to the official documents, it is not expected that AfT would behave as a tied aid, that is, recipient countries do not have to follow the conditions of donor countries. However, relevant literature analysing the potential impacts of AfT assumes this statement. Studies discussing these impacts can be grouped as follows: studies which analyse the impacts of AfT on export volumes regardless of donors (Cali and te Velde 2011, Pettersson and Johansson 2013); or studies which investigate the impacts of AfT provided by a donor on trade between the recipient and the donor (Bearce et al., 2013; Udvari, 2013; Uhrin and Schuszter, 2013). Furthermore, only few studies have dealt with the European Union's AfT-activity. Udvari (2013) showed with a gravity model that AfT provided by the EU might cause trade expansion between donors and recipients, though in her analysis total trade (sum of exports and imports) was the dependent variable. Consequently, these results may be distorting as her model does not answer the question whether AfT contributes to export or import expansion in developing countries, that is, which party (the EU or the developing countries) gain more.

Cali and te Velde (2011) analysed the export volume changes by involving 100 developing countries in the investigation. According to their econometric results, AfT assistance on the development of economic infrastructure results in growing exports. Pettersson and Johansson (2013) have similar results: assisting the development of trade infrastructure results in export growth, however, the authors do not give as large emphasis to AfT as Cali and te Velde (2011) did. Helble et al. (2009) found the assistance on trade policy as a significant factor: one percent growth in trade policy aid results in 818 million USD trade expansion worldwide. Bearce et al. (2013) narrowed their analysis to the aid activity of the USA. Their results indicate that one dollar growth in AfT results in 65 dollar trade expansion in the recipient country, but this impact may be higher in countries most in need (poorer, landlocked). Vijil and Wagner (2010) found that 10 percent growth in aid for improving trade infrastructure results in 1.22 percent growth of the recipient's export. Furthermore, Vijil (2013) analysed how AfT may contribute to economic integration. According to her results, AfT has positive effects on both South-South and North-South integrations. However, there is no answer to how AfT influences intra-trade within an integration. Udvari and Kis (2014) aimed to answer this question in their study: their empirical results proved that AfT provided to the member countries of the Economic Community of West African States (ECOWAS) does not have significant impact on expanding intra-regional trade.

Besides general and overall approaches, there are studies investigating the effects from a donor's perspective. These analyses may be more reliable since the good performing countries would not cover the less good performing countries' achievements (or vice versa). Brayz (2013) dealt with four donors (USA, Japan, Germany and Norway) in four recipient countries (Indonesia, Philippines, Timor-Leste and Vietnam). The author stated that the AfT had different impacts depending on the donor and the recipient. This statement refers to the fact that aid activities (including AfT) need to be analysed in a donor-specific way.

Some empirical analyses (Udvari 2013, Uhrin and Schusztter 2013) justify the claim that though AfT has several good objectives, economic, political and strategic interests are more important for donor countries than real needs. For example, Iraq and Afghanistan are among the most supported countries. Or in the USA's aid policy, the USA's own interests are the most important factor. All these may hinder the effectiveness of AfT.

Huchot-Bourdon et al. (2009) analysed these processes in another way. They analysed the relationship between FDI, trade and development, and they created groups of developing countries reflecting the different needs developing countries have and determining the priorities of recipient countries to help donors in their aid allocation. Their results indicate that trade-related needs, especially infrastructure development, are more highlighted in East and West Africa. Consequently, Aid for Trade may have significant effects in the region's development process, including the integration process, too.

This literature review shows that the EU has strong economic and trade relations with developing countries, especially with ACP countries, and the EU is the largest aid provider in the world. The Cotonou Agreement and the Economic Partnership Agreements try to strengthen the relationship between the EU and the ACP countries, however, it is also concerned that additional financial resources are needed. So that developing countries are able to improve their trade capacities, Aid for Trade offers a good opportunity and ACP countries asked the EU to involve this program into the EPA negotiations. Consequently, it is necessary to analyse whether AfT provided by the EU contributes to the trade expansion of ACP countries and whether it is the result of growing trade with EU-15 or with the new member states.

5. Role of Aid for Trade in trade relations: ACP countries and the European Union

This section details the methodology and the results of the empirical analysis concerning the trade expansion impacts of Aid for Trade provided by the EU. First, the process of selecting recipient and donor countries and indicators is detailed, including the measurement questions of Aid for Trade. Then, the gravity model is discussed followed by the analysis of the results.

5.1 Countries and indicators

As a first step, potential recipient and donor countries were selected. The goal was to involve into the analysis as many developing (recipient) countries as possible. Out of the 123 developing countries in the world⁴, *82 countries were involved – out of them 41 countries belong to the ACP group*. 33 countries are least developed countries⁵, and out of them 26 belong to the ACP block. The remaining developing countries were left out as there was no available data whether they received any AfT assistance from the EU between 2006 and 2012.

As for the donor countries, the OECD's Development Assistance Committee was the starting point. All old EU member states (EU-15) are members of this organization, and since 2013, three new member states (Czech Republic, Slovenia, Slovak Republic) have become members, too. Since the analysis covers the aid activity in the period between 2006 and 2012, the donor activity of the EU-15 was considered as the entire EU's donor activity. This cannot have a distorting

⁴ There are 144 low and middle income countries (generally developing countries), but some of them are the so called transition economies (see UN 2011). These countries were left out.

⁵ Least developed countries were determined according to the list of the United Nations (UN OHRLLS 2014).

effect, as the EU-15 has experience in development policy and has built up a widespread aid activity, while NMS have less relationship with developing countries.⁶ Furthermore, *Article 210* of the Lisbon Treaty also supports this approach, as it says that in order to establish a more effective development policy, member states and the community work together and harmonize their development activity in the scene of international organizations. As a result, the EU's donor activity is in fact the sum of the EU-15's activity and the aid data of EU Institutions.

In calculating current Aid for Trade trends, recommendations of Turner (2008) and OECD-CRS (2011) were followed. According to them, AfT amounts are equal to the sum of assistance on several sub-sectors on which the OECD collects data. Both commitments and disbursements were available to analyse, but disbursed aid was used as basis for calculation, as this amount covers already paid amounts. In this analysis, the following sectors appeared as the sum of AfT:

- *Trade related infrastructure* appears in the OECD database as *economic infrastructure* containing the subsectors of transport and storage; communications; and energy supply.
- The categories of *building productive capacity* and *trade development* appear in the OECD database as *building productive capacity* and consist of three subcategories: bank and financial services; business and other services; agriculture and industry.
- The category of *trade policy and regulations* is the same in the OECD database.⁷

A cross-sectional analysis was prepared because of the short (official) existence of Aid for Trade. Data were collected for the years between 2006 and 2013 (the official existence of Aid for Trade), but in order to handle the endogeneity problem (which will be discussed later), there was a one-year-lag in the case of independent variables. The trade and GDP data originated from the on-line database of UNCTAD Stat (UNCTAD 2014), the aid data from OECD-CRS (2014) and the distance data from CEPII (2011).

5.2 Methodology

The aim of the investigation is to analyse whether Aid for Trade significantly influences trade between the selected developing countries and the European Union as a whole, and between the developing countries and the EU-15 and NMS. For this purpose, a gravity model was calculated. Gravity models are appropriate methods to investigate a benchmark of trade flows (Carey et al. 2007), and assume that trade is positively affected by the income of the partner countries and negatively affected by their distance as the proxy of transport costs (Africano and Magelhães 2005). The specification in present paper was based on the work of Wagner (2003) and Africano and Magelhães (2005) with slight modifications:

$$\ln EXP_{i,eu} = \beta_0 + \beta_1 \ln(Y_i * Y_{eu}) + \beta_2 \ln(Y_{c_i} * Y_{c_{eu}}) + \beta_3 \ln Dist_{i,eu} + \beta_4 \ln AfT + \beta_5 Time + \beta_6 ACP + \beta_7 Oil + \beta_8 LDC + \varepsilon \quad (1)$$

- $EXP_{i,eu}$ denotes export from i developing country to the EU;
- Y_i, Y_{eu} are the total GDP in country i and in the EU. Their product refers to the market size;
- $Y_{c_i}, Y_{c_{eu}}$ denote the GDP per capita in country i and in the EU, and their product indicates the income level;

⁶ List of both the recipient and donor countries can be found in the Appendix.

⁷ Helble et al. (2009), Cali and te Velde (2011), Hoekman and Wilson (2010), and Vijil and Wagner (2010) have similar approach in their empirical investigation.

- $Dist_{i,eu}$ means the distance between country i and the European Union;
- $Time$ variable denotes the years (2006-2012) involved as dummy variables (where 1 indicates the certain year, otherwise 0);
- ACP, Oil, LDC are dummy variables for ACP-countries, oil exporting-countries and least developed countries, where zero means non-ACP countries and oil exporting countries, and 1 means the contrary. The same is true for the LDC dummy.

In order to analyse what kind of direct effects the Aid for Trade has in the different country groups (ACP, LDC, oil-exporting), equation (2) contains the following interactions: the coefficient of $\ln AfT * ACP$ shows how much impact the Aid for Trade has on the trade expansion if the recipient country belongs to the ACP group. The other interactions ($AfT * LDC$ and $AfT * Oil$) can be solved similarly.

$$\ln EXP_{i,eu} = \beta_0 + \beta_1 \ln(Y_i * Y_{eu}) + \beta_2 \ln(Y_c * Y_{c,eu}) + \beta_3 \ln Dist_{i,eu} + \beta_4 \ln AfT * ACP + \beta_5 \ln AfT * LDC + \beta_6 \ln AfT * Oil + \beta_7 Time + \beta_8 \ln AfT + \varepsilon \quad (2)$$

Although gravity models may contain other indicators, too, such as common language or colonial past (see for example the studies of Africano and Magelhães (2005), Carey et al. (2007) or Wagner (2003)), they were found not important since the EU as a whole can be imagined as a great economic power with several colonies. Almost all countries in the sample share a colonial past with some EU-member states; therefore investigating this aspect would not denote additional information in this approach. Similarly, common language is not relevant in this context in this model. Regarding *distance* as an independent variable, Germany was chosen as a reference country to determine the distance between country i and the EU. As in present analysis the EU is considered as an integrated whole, a fix point was needed to which the distance of sample countries could be related. The mean of the nearest and furthest points could have been another potential point of reference, but it resulted in different ‘capital’ for the EU, therefore this solution was rejected.

It was a great challenge how to handle the case if AfT was zero in a certain country in some of the investigated – but not in all – years. Wagner (2003) and Cali and te Velde (2011) mention a solution: if the aid is zero, one can calculate as $(1+aid)$, but they add that it may have distorting effects. To handle this situation, Wagner (2003) – who Cali and te Velde (2010) follow – recommends dummy variables (1 if aid is zero, and 0 if aid is above zero), which methodological device was partly accepted during this analysis. Consequently, calculating the logarithm of aid, the following specification was used as Wagner (2003) recommends: $\ln(\max(1, aid))$. But the dummy variables contained no more information, so they were left out. As a result, this calculation was able to keep aid level zero where it was that originally.

Aid-related regression models always raise the question of endogeneity, meaning that dependent variables highly correlate with the error term. In the present case it means that it is not sure whether aid results in increasing trade or better trade performance has an impact on aid allocation. Since it has a distorting effect, it is needed to be solved. A solution is to involve instrumental or proxy variables in the analysis (for instance, Angeles and Neanidis 2009, or Grange et al. 2009), though these instruments may describe the original variable incorrectly, this way causing further distortion (Younas 2008). In aid studies the most common tool for handling the endogeneity problem is to calculate with lagged independent variables (Younas 2008, Kimura et al. 2012). However, there is no consensus in this question. Cali and te Velde (2011) calculated with lagged aid data in their regression model, while Wagner (2003) analysed the aid effect on trade both lagged and not lagged. He concludes that current

(and not previous) year's development assistance contributes to the trade performance in the current year. According to these, in present analysis all independent variables are lagged by one year. Its economic sense is that earlier economic performance determines present trade performance, and AfT received in the previous year leads to trade expansion which appears in the following year's performance.

These calculations were prepared for the EU (itself), the EU-15 countries and the NMS. The models were tested whether they met the requirements of regression models (heteroskedasticity, multicollinearity, autocorrelation). When a problem occurred it was solved by suitable methods (for instance, the Cochrane Orcutt method for handling autocorrelation). The following chapters contain the final results.

5.3 The EU

Before detailing the old and new member states' trade with particular developing countries, the EU's performance need to be presented (Table 3). Model 1 includes the Aid for Trade as a variable and other dummy variables as well. AfT provided by the EU has no significant impact on the exports of developing countries to the EU. Instead, market size (paired GDP) determines the export: the larger the market is, the larger the export is. Furthermore, if the country belongs to the ACP group, export to the EU is higher, while in the case of least developed countries this process goes to the opposite direction. Consequently, ACP countries export more to the EU, while trade with least developed countries is decreasing.

Table 3 Coefficients (and p-values) – Partner: EU-27

Variable	Model 1	Model 2
Constant	-13.694 (0.000)	-14.266 (0.000)
Paired GDP (ln)	1.121 (0.000)	1.113 (0.000)
Paired GDP per capita (ln)	-0.021 (0.771)	0.013 (0.853)
Distance (ln)	-0.213 (0.039)	-0.181 (0.082)
2007 (0: no. 1: yes)	-0.176 (0.269)	-0.194 (0.230)
2008 (0: no. 1: yes)	-0.612 (0.000)	-0.631 (0.000)
2009 (0: no. 1: yes)	-0.325 (0.043)	-0.336 (0.039)
2010 (0: no. 1: yes)	-0.224 (0.166)	-0.236 (0.553)
2011 (0: no. 1: yes)	-0.528 (0.002)	-0.556 (0.001)
2012 (0: no. 1: yes)	-0.517 (0.002)	-0.538 (0.001)
Total Aid for Trade (ln)	0.000 (0.998)	-0.026 (0.570)
ACP-countries (0: no. 1: yes)	0.724 (0.000)	
Oil exporting countries (0: no. 1: yes)	0.179 (0.143)	
Least developed countries (0: no. 1: yes)	-0.662 (0.000)	
AfT*ACP		0.169 (0.000)
AfT*LDC		-0.141 (0.000)
AfT*Oil exporters		0.055 (0.076)
R ²	0.831	0.825
Adj. R ²	0.827	0.821
Observations	574	574
VIF max.	3.305	3.093
Durbin-Watson stat.	2.063	2.062

Source: own calculations

Model 2 includes the AfT*ACP interaction indicating the direct impacts of AfT on ACP countries. This interaction has significant impact on the exports. If the country belongs to the ACP group, one percent growth in AfT assistance results in 1.18 percent growth in exports. On the contrary, increasing AfT in the least developed countries will result in decreasing exports. The reason for this may be that the infrastructure of allocating and using aid is more underdeveloped in these countries, therefore, aid may counteract export performance.

5.4 Old member states

The same procedure was followed in the case of the old EU-members to analyse whether Aid for Trade provided by the EU contributes to the expanding exports of developing countries to the EU-15. The results are shown in Table 4. There are no great differences between the two models. There are only some significant variables: the market size (paired GDP) and the constants, and some years (with negative impacts). However, the coefficients are similar to those in the case of the EU-27.

Table 4 Coefficients (and p-values) – Partner: EU-15

Variable	Model 1	Model 2
Constant	-14.106 (0.000)	-14.719 (0.000)
Paired GDP (ln)	1.115 (0.000)	1.110 (0.000)
Paired GDP per capita (ln)	-0.009 (0.899)	0.028 (0.688)
Distance (ln)	-0.183 (0.075)	-0.156 (0.131)
2007 (0: no. 1: yes)	-0.182 (0.251)	-0.202 (0.210)
2008 (0: no. 1: yes)	-0.618 (0.000)	-0.640 (0.000)
2009 (0: no. 1: yes)	-0.332 (0.038)	-0.345 (0.034)
2010 (0: no. 1: yes)	-0.235 (0.144)	-0.250 (0.125)
2011 (0: no. 1: yes)	-0.555 (0.001)	-0.587 (0.000)
2012 (0: no. 1: yes)	-0.535 (0.001)	-0.558 (0.001)
Total Aid for Trade (ln)	0.008 (0.854)	-0.025 (0.596)
ACP-countries (0: no. 1: yes)	0.732 (0.000)	
Oil exporting countries (0: no. 1: yes)	0.216 (0.076)	
Least developed countries (0: no. 1: yes)	-0.647 (0.000)	
AfT*ACP		0.173 (0.000)
AfT*LDC		-0.134 (0.000)
AfT*Oil exporters		0.064 (0.038)
R²	0.832	0.826
Adj. R²	0.828	0.822
Observations	574	574
VIF max.	3.153	3.093
Durbin-Watson stat.	2.115	2.113

Source: own calculations

Aid for Trade is not significant in any case. That is, the Aid for Trade assistance provided by the EU-15 does not contribute to the increasing exports of the recipients to the EU-15. ACP and least developed countries show the same tendency as it was in the case of the EU-27. This

is true for the second model, too, where AfT to ACP countries results in growing exports, while the contrary is true for the least developed countries. Furthermore, in the case of the EU-15, AfT provided to oil exporting countries results in an increasing export of these developing countries to the EU-15. To sum up, if ACP countries receive AfT, it results in a favourable export growth towards the EU market.

5.5 New member states

The next phase of the analysis was to investigate the effects of Aid for Trade on exports of developing countries to the new EU-members. Table 5 contains the results of the regression models. These results totally differ from the results of the EU and the EU-15: neither year is significant in this case, while the proxy indicator of income (paired GDP per capita) is significant (it has not been significant so far). Consequently, in the case of NMS, income level determines the exports of developing countries: the richer the country is, the lower volume of exports goes to the NMS. Moreover, not only the least developed countries' but also the ACP countries' variable is significant, both of them have negative coefficients, meaning that if a certain country belongs to these groups, the export volume to the NMS will be lower. The same is true about oil exporting countries indicating that the NMS still have strong connections to Russia.

Table 5 Coefficients and (p-values) – Partner: NMS

Variable	Model 1	Model 2
Constant	-14.944 (0.000)	-20.446 (0.000)
Paired GDP (ln)	1.362 (0.000)	1.386 (0.000)
Paired GDP per capita (ln)	-0.617 (0.000)	-0.450 (0.001)
Distance (ln)	-0.044 (0.819)	0.087 (0.658)
2007 (0: no. 1: yes)	0.402 (0.269)	0.311 (0.393)
2008 (0: no. 1: yes)	0.460 (0.193)	0.313 (0.374)
2009 (0: no. 1: yes)	0.153 (0.663)	-0.176 (0.614)
2010 (0: no. 1: yes)	0.361 (0.306)	0.003 (0.992)
2011 (0: no. 1: yes)	0.206 (0.558)	0.196 (0.575)
2012 (0: no. 1: yes)	0.104 (0.768)	-0.115 (0.742)
Total Aid for Trade (ln)	0.082 (0.317)	0.245 (0.007)
ACP-countries (0: no. 1: yes)	-0.423 (0.037)	
Oil exporting countries (0: no. 1: yes)	-0.825 (0.000)	
Least developed countries (0: no. 1: yes)	-1.354 (0.000)	
AfT*ACP		-0.059 (0.266)
AfT*LDC		-0.249 (0.000)
AfT*Oil exporters		-0.165 (0.006)
R²	0.673	0.663
Adj. R²	0.665	0.655
Observations	574	574
VIF max.	3.305	3.093
Durbin-Watson stat.	2.044	2.032

Source: own calculations

Regarding Model 2, there are further differences from the statements mentioned above. On the one hand, AfT provided to developing countries has a significant impact on exports, however, AfT provided directly to ACP countries does not. On the other hand, AfT to the least developed and oil exporting countries negatively influences the exports of these countries to the markets of the new member states. These results prove that new member states do not have important economic relations with developing countries, and it seems that the new EU members do not tend to create the possibilities for turning this progress back.

6. Conclusions

The objective of present paper was to discuss whether Aid for Trade provided by the EU contributes to the export expansion of developing countries to the EU-15 or to the new EU-members. Gravity models were used to analyse this question.

The EU's new member states do not pay remarkable attention to the relations with developing (including ACP) countries, and the empirical results indicate the same. Although AfT provided by the EU itself does not have significant impact on exports of recipient countries neither to EU nor to the EU-15 or to the new member states, AfT provided to ACP countries has positive effects in terms of exports to the EU-27 and the EU-15. However, the negative and insignificant results in the case of the NMS prove that the EU-15's markets are more attractive to ACP countries. With reference to a study by Udvari (2013) in which the author proved empirically that AfT had a positive impact on total trade between the recipient developing countries and the new member states, now we can accept that this result was driven mainly by the growing exports of NMS to the recipient countries. Consequently, the EU-15 plays the most significant role not only in providing aid to developing countries, but also in ensuring markets for products exported by the ACP countries.

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Do Non-State Actors Enhance the Accountability of Global Governance? – The case of WTO Dispute Settlement

Michael Strange

Abstract The World Trade Organization’s dispute settlement body provides the teeth of the global trade regime – empowering it with substantial means to adjudicate in disagreements between Member-states over the implementation of WTO law. The WTO’s teeth have, however, also helped make the organisation controversial as part of a general critique from civil society groups concerned that global trade governance has become unaccountable to the societies it affects. Could the growing presence of NGOs and other non-state actors in WTO dispute settlement – empirically identified within a growing body of literature – solve this apparent accountability deficit? Drawing upon existing findings and new research, the article argues that non-state actors have significant consequences for the accountability of WTO dispute settlement, but to whom the system is accountable and whether these consequences are good or bad is not pre-determined. Rather, as the burgeoning literature on accountability shows, the term itself is multi-faceted. Only by engaging with specific cases, as is done here in the case of WTO dispute settlement, can research properly draw out the shape of accountability in global governance.

Keywords: Accountability - Non-state actors - World Trade Organization - WTO Dispute Settlement - Global governance

Introduction

The World Trade Organization’s (WTO) dispute settlement mechanism provides the global trade regime with enforcement powers far greater than any comparable international organisation. It has been described as the ‘jewel in the crown’ of the WTO – a uniquely ambitious institutional form that has seen far more cases than initially envisaged but with a respectably high compliance rate (Elsig 2007; Leitner and Lester 2011). It has also made the WTO controversial. Critics have accused WTO dispute settlement of being unaccountable – to both the societies it affects, and the interests of developing-country Member-states. At the same time, the range of actors active in WTO dispute settlement appears to have increased since its creation – a growing body of literature having identified an expanding role for non-state actors within the system (Shaffer, Rattón Sanchez and Rosenberg 2008; Reinisch and Irgel 2001). Does this apparent

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broadening of agency in WTO dispute settlement help ameliorate its alleged accountability deficit, or does it only add to the problem by making it even harder to understand who is deciding what? In exploring this question, the article develops current understandings of how accountability relations function in global politics to produce an analytical approach well-suited to exploring new forms of accountability in global governance.

In the era of representative democracy, governance must be seen to be accountable. The demand for accountability is repeated at the global level, expressed in calls for reform to the distribution of votes between countries in the World Bank, and greater access for civil society to the International Monetary Fund. Such prominent multilateral organisations are frequently criticised as unaccountable – to both the societies they affect, and the interests of weaker nation-states.

The article therefore asks: what implications do non-state actors have for the accountability of WTO dispute settlement. The enquiry is structured as follows. Section one introduces WTO dispute settlement as an intergovernmental system, before listing the range of non-state actors that the literature has identified as somehow active within that system. Section two operationalises the concept of accountability in relation to multilateral institutions, outlining its multi-faceted character. Section three combines existing literature with new empirical material, including interviews with practitioners, to explore what implications different non-state actors have had for the varied mechanisms through which WTO dispute settlement is held to account. The article shows that whilst non-state actors can ‘crowd-out’ existing accountability holders (i.e. Member-states), in practice they actually enhance the capacity of Member-states to hold WTO dispute settlement to account. Several non-state actors are specifically focused on also levelling the playing-field between Member-states by ensuring developing-countries are better equipped to understand WTO dispute settlement. At the same time, the material considered in this article shows that in a complex political environment such as WTO dispute settlement the practice of accountability is subject to change. What are introduced in this article as information and stakeholder accountability provide just two novel ways in which non-state actors are acquiring accountability over multilateral institutions such as WTO dispute settlement.

Non-state actors in WTO dispute settlement

Non-state actors are present in World Trade Organization (WTO) dispute settlement. Which non-state actors this includes and what character their presence takes will be outlined in this first section of the article. However, to begin, it is necessary to introduce the function of the dispute settlement system within the WTO.

WTO Dispute Settlement

The WTO is a political organisation tasked with facilitating collective debate, negotiation, monitoring and adjudication towards the standardisation of domestic trade regulations. Everyday decision-making occurs via the General Council, which consists of delegates representing all the WTO Member-states. In specific instances, the General Council may convene as either the Trade Policy Review Body (TPRB) or the Dispute Settlement Body (DSB). The TPRB provides the eyes and ears of the WTO to the extent that it collects data on new domestic trade regulations. However, there is no direct mechanism allowing the WTO to act on this data. Rather, it is in the DSB that the WTO serves an adjudication function between its member-states.

Member-states possess the exclusive right to be parties within the WTO dispute settlement system and so police WTO law. To launch a dispute, a Member-state must lodge a formal complaint with the DSB, accusing a fellow Member-state of engaging in trade practices that run in violation of WTO agreements (Kim 1999). Each stage of the process follows a legally-defined timetable, providing a degree of automaticity structuring how the actors interact with one another. The first stage is the *consultation*, at which the complainant and respondent – who are Member-states – are brought together by the Legal Affairs division of the WTO Secretariat. These consultation meetings include a mix of information-gathering and potential reconciliation, depending on the particular interests at play with respect to whether the parties are most concerned to produce an easy resolution or develop a stronger case to be carried onto the next stage of the process.

If the consultation stage fails to resolve the dispute, the complainant can request the establishment of an adjudicatory panel. The *panel* stage begins with the selection of three panelists to adjudicate the dispute (Shoyer). The complainant and respondent are presented with a sample of five to seven individuals – suggested by the Legal Affairs division of the WTO Secretariat for their expertise in law or economics. A party is able to propose its own nominees for the panel, though these are usually vetoed by the opposing party, hence why the Secretariat is active at this stage. The Secretariat will continue providing additional samples of potential panellists until the full table of three individuals is accepted by the parties. Once this occurs, the panel may start its work.

The role of the panel is to consider both written submissions and evidence given in oral hearings by the parties to the dispute. The oral hearings are closed and confidential to all but the parties to a dispute. The panel produces a report which first just describes the dispute. The parties may then respond with respect to, in particular, any potential factual inaccuracies. This then feeds into an interim report, with another chance for feedback from the parties, and then a final report which states whether or not a violation of WTO law has occurred.

The parties have the right to appeal the findings. Appeals are lodged with the Secretariat of the Appellate Body – the special appeals procedure designed to limit the powers of the panel process. As with the panels process, the Appellate Body involves a table of 'experts' to whom the parties must provide both written submissions and oral statements. Unlike the panels process, however, the Appellate Body draws its members from a pool of individuals selected by all WTO Member-states meeting as the Dispute Settlement Body.

Unless every Member-state chooses to reject a report – which would include all parties to that dispute – it will be accepted on the basis that there is no negative consensus (McCall Smith 2003). The 'losing' respondent Member-state is then expected to comply with the ruling and its recommendations. It is the responsibility of the successful complainant to report any incidence of non-compliance – in which case, a new dispute is effectively launched. If non-compliance persists, the complainant may be granted the right to impose trade sanctions upon the non-complying party in accordance with the estimated cost of the ongoing violation.

To summarise, although WTO dispute settlement creates a formidable institutional mechanism designed to enforce WTO trade agreements upon the Member-states, the mechanism itself is not a police body. The policing function is carried out by the Member-states, who possess the exclusive right to bring cases as well as enforce compliance. Despite its formal intergovernmental character, however, ever since WTO dispute settlement first began functioning on 1st January 1995 research has increasingly identified the presence of additional agency – non-state actors – in the practise of WTO dispute settlement. The next part of this section considers the various shapes and forms in which such agency has been identified.

Types of non-state actors in WTO dispute settlement

There are at least seven different categories of non-state actors active in either facilitating or contesting WTO dispute settlement, with each their own particular role, which existing studies have identified as: 1) *amicus curiae* ('friends of the court') – where typically non-state actors may directly submit information for consideration in the legal process; 2) *private counsel* – where legal firms may directly represent Member-states; 3) the *Advisory Centre on WTO Law* (ACWL) – an intergovernmental organisation that provides legal advice and representation for developing-country Member-states; 4) *business* – which, for example, provide resources that help Member-states to initiate cases in WTO dispute settlement; and, 5) *NGOs* – that both publicly lobby WTO dispute settlement and, in some instances, facilitate network exchanges between Member-states and other non-state actors towards also aiding increased use of WTO dispute settlement.

The extent to which these actors exhibit agency which is distinct or perhaps in competition with that of the Member-states remains a highly contentious point within the WTO dispute settlement mechanism, whose legal authority formally rests on the sovereignty of its Member-states. Any claim that actors like the WTO Secretariat – which acts as a trustee of the Member-states – have acquired agency themselves potentially undermines the ability of Member-states to hold WTO dispute settlement to account. If NGOs are able to run public campaigns critical of WTO dispute settlement, this may likewise undermine the accountability relationship between the system and the WTO Member-states, but in the process create new mechanisms by which different publics may hold WTO dispute settlement to account. Combining existing literature with new research, including interviews with practitioners and fieldwork, the remainder of this section discusses in what way each of the non-state actors listed above may be said to have emerged as an agent within WTO dispute settlement.

1) *Amicus curiae*

First, non-states have acquired a legal identity within the WTO dispute settlement system wherever they may make submissions as *amicus curiae* ('friends of the court'). The *amicus curiae* principle was never originally envisaged within the legal text establishing WTO dispute settlement mechanisms – the Dispute Settlement Understanding (DSU) – but emerged through a series of rulings made by the Appellate Body in response to non-state actors demanding the right to submit documents independently of Member-states (Appleton 1999; 2000; Steger 2002; Reinisch and Irgel 2001, pp.136-143). This development occurred through some of the most politically controversial cases the mechanism has had to adjudicate, including US-Shrimp which featured in the Seattle protests. Environmental groups demanded that the panellists accept the submission of data they had collected which supported a ban placed by the United States on imports of shrimp caught with nets deemed as harmful to turtle populations. Although the ruling made by the Appellate Body favoured those disputing the ban on the grounds that US fishing fleets were not subject to the same high standards, the right of Member-states to discriminate on environmental grounds was upheld. Those environmental groups gained the right to submit information to panels and the Appellate Body independently of Member-states – meaning free of state-censure.

Since the US-Shrimp case there have been several other dispute settlement cases where the *amicus curiae* provision has been further outlined, although without any requirement that panellists or the Appellate Body take these submissions into consideration it is unclear whether or not they actually make a difference to proceedings. Support amongst the Member-states for the creation of the *amicus curiae* provision has largely come only from the United States. Other

Member-states have been highly critical, seeing it as a threat to their own ability to hold the system to account. Some have dismissed the *amicus curiae* provision as ‘much ado about nothing’ (Mavroidis 2001) for the reason that panels and the Appellate Body are not obliged to read these submissions and, further, no *amicus curiae* submission has yet been directly referenced as providing the basis for any rulings. However, some practitioners argue that it is unlikely that the submissions do not have at least a limited impact since they form part of the information before the panellist and Appellate Body members.¹

2) *Private counsel*

The *private counsel* provision created another new avenue through which non-state actors may be active in WTO dispute settlement. Not originally envisaged in the original text establishing the mechanism, in a number of cases developing-country Member-states argued that they should be able to be physically represented by private legal firms in oral hearings as a means to ameliorate their otherwise limited trade departments (Layton and Miranda 2003; Garnett and McCall Smith 2002; Shaffer 2003). Several developed-country Member-states, including the US, opposed giving access to private counsel on the grounds that external legal firms may experience a conflict of interest as well as difficulties maintaining client-confidentiality where they may work for multiple Member-states. However, since the provision was created, the United States has actually become one of the most active users of private counsel in WTO dispute settlement.

At the very least, private counsel adds a level of complexity to how research may trace what is a Member-state in WTO dispute settlement. Potentially much interesting information is lost if political analysis of the process is limited to accepting the Member-states as the sole agents where the individuals physically representing them are not tied to that Member-state beyond the particular case. The private counsel provision suggests greater agency on the part of international trade lawyers where they do not passively wait for clients but actively seek out new work by, for example, offering *pro bono* (unpaid) services to Member-states inexperienced with the system.

3) *ACWL*

The legal costs of engaging in WTO dispute settlement have been somewhat eased by the creation of the Advisory Centre on WTO Law (ACWL) in 2001. Though an intergovernmental body and funded by a mix of different WTO Member-states, it provides services exclusively to developing countries that are Members of the WTO (Van der Borgh 1999). Originally it was thought that the Legal Affairs division of the WTO Secretariat would be sufficient to provide the necessary technical resources for those Member-states least able to afford the expertise demanded by dispute settlement proceedings. However, this quickly created a conflict between the WTO Secretariat’s obligation to be impartial and the need of several Member-states for assistance in strengthening their representation in dispute processes.

The ACWL emerged as a separate institution to the WTO, equipped with its own team of lawyers available to assist developing countries in launching a dispute, as well as prosecuting and defending a case via preparing written submissions and offering representation in the oral hearings. Where the full scope of the ACWL’s services are requested, the ACWL gets to provide the physical representation of that Member-state within the dispute settlement proceedings.

¹ Based on practitioner interview.

4) *Business*

Businesses are not only present in WTO dispute settlement but, for some practitioners working in the system, they are the most important actors driving any one dispute.² This exceeds the role businesses may play as *amicus curiae*. For example, several Member-states – the United States and the European Community, in particular – have passed legislation that gives private firms an institutional avenue through which to demand the United States Trade Representative or the European Commissioner for Trade consider launching a particular dispute (Shaffer 2006; Garrett and McCall Smith 2002).³ Secondly, trade governance requires not only expertise in law and economics, but also knowledge of the specific field at stake. If Member-states are to make use of WTO dispute settlement – whether as complainants, respondents or third parties – then they require significant knowledge-based resources on which to stake their case.

Private firms, as mass producers and purchasers, have consequently acquired an important facilitating role in global trade governance via the resource requirements of WTO dispute settlement (Bown and Hoekman 2005; Shaffer 2003). This role stretches to include the actual dispute settlement proceedings to the extent that a private firm might provide input to a Member-states' written submission. This might be in the form of either an attached amendment explicitly produced by the private firm as evidence, or less visibly in the form of advice affecting what is formally the product of the Member-state represented. However, private firms are not formally allowed to be present during the oral hearings of either the panel or Appellate Body process. This becomes somewhat complicated with respect to a Member-states's right to choose who makes up its delegation. Although not formally present as representatives of private firms, in practice it does sometimes happen that individuals associated with private firms are present during hearings.⁴ Private firms are also active during the oral hearings where they have funded the private counsel sometimes employed to aid representation of a Member-state, though this remains equally non-transparent.⁵

5) *NGOs*

In addition to acting as *amicus curiae*, NGOs may request that a Member-state includes its information within a submission, as has happened in several cases. Where NGOs operate outside their national borders, they may also cooperate with Member-states other than the one in which they are based. For example, in EC-Sardines the UK Consumer's Association worked with the Peruvian delegation in supporting its case against the EC (Shaffer 2006b). The NGO *International Centre on Trade and Sustainable Development* (ICTSD) has gone further by producing research on WTO dispute settlement intended to improve the ability of particularly developing-country Member-states to utilize the system.

The ICTSD is a Geneva-based non-governmental organisation that, with respect to WTO dispute settlement, has set up a series of regular national and regional-level workshop-style meetings in parts of Latin America, Asia and Africa to which have been invited representatives of developing country governments, as well as academia, non-governmental organisa-

² Based on practitioner interviews.

³ In the United States, this is known as the 'Super 301' legislation. In the European Union, this is the 'Trade Barrier Regulation'.

⁴ Based on practitioner interviews.

⁵ Based on practitioner interviews.

tions, and the private sector. These dialogues exist to help encourage developing countries to become more active users of WTO dispute settlement by providing a meeting point between not only governmental civil servants, but also the private firms able to supply the necessary information with which a dispute may be launched. Private law firms are able to offer technical legal guidance and, where further services are promised on a pro bono basis, help prepare potential cases for launch. Although the ICTSD is unable to confirm that these dialogues have led to the launch of any specific case that might not have occurred otherwise, individuals who have helped put together successfully launched cases for developing countries have actively attended these dialogues, and certainly ICTSD believes its efforts have helped develop a number of cases currently moving towards formal launch.⁶ These dialogues are accompanied by research papers commissioned by ICTSD that promote particular proposals typically geared up to improving the participation of developing countries in WTO dispute settlement.

At other points, however, NGOs may actively campaign against WTO dispute settlement. Where the Appellate Body appears to have been sensitive to environmental NGOs' concerns in US-Shrimp, it would seem that their presence complicates the political terrain by adding more actors to the game and so crowding-out some weaker Member-states. To conclude this first section, non-state actors appear in a wide variety of shapes and forms in WTO dispute settlement. Yet, what do they mean for the accountability of that system? For example, does this apparent broadening of agency help re-connect WTO dispute settlement to some of the actors whom critics claim the system has become unaccountable, such as the societies it affects and developing-country Member-states? To provide a basis from which to explore these questions, the next section briefly outlines what the concept of accountability means in relation to a multilateral institution such as the WTO dispute settlement mechanism.

Accountability and multilateral institutions

In its simplest form, accountability means that those performing a particular action may be held to account via some form of sanction. Accountability functions as a relationship between a forum (*the accountability holders*) able to hold another actor (*the accountability holdee*) to account via the threat of sanction (see Bovens 2006; Bovens et al 2008). Accountability is distinct to power because it does not equate to direct control but rather rests on the threat of sanction. Beyond this basic definition, different forms of accountability vary greatly depending upon which actors perform the role of holder and holdee, as well as what form the sanction takes. Logically, those sanctions most able to harm the holdee will create stronger accountability relations, though the strength of any sanction depends upon factors particular to the actors and their relationship. For example, in some cases the strong sanction might be a material loss of funding, whereas in other cases the holdee is more dependent upon their reputation with the consequence that public criticism constitutes a strong sanction.

As a growing array of policy areas have shifted away from the exclusive domain of nation-states to be decided within a series of transnational political arenas – the WTO being but one example – a burgeoning literature has tried to map what this development means for accountability (Benner et al 2004; Bäckstrand 2008; Grant and Keohane 2005; Koenig-Archibugi 2010). In particular, who are the holders and holdees, and what is an effective sanction? Lacking any single overarching institutional structure to determine accountability relations, in global politics accountability is both multi-faceted and subject to tension where

⁶ Based on practitioner interviews.

often it is not just nation-states that demand the right to be accountability holders in global governance but also many others, including, for example: businesses; NGOs; and global social movements.

In the case of multilateral institutions, the legal agreements on which they are founded typically stipulate a series of accountability relations running between the secretariats responsible for everyday affairs and the nation-states who are members or contracting parties to the institution. In some cases, these texts may also define a series of relations running to non-state actors, such as other multilateral institutions or civil society. For example, the International Labour Organization (ILO) is formally responsible to the business sector and trade unions, as well as its member-states. In a few rare cases, non-state actors are the main principals with states only playing a peripheral role (Mattli and Büthe 2005).

Accountability acquires substance in multilateral institutions wherever the founding texts outline, for example, the policies for hiring and firing secretariat personnel, or where domestic courts should monitor the actions of the institution. Multilateral institutions are further subject to accountability relations where actors, typically nation-states, may threaten to withhold funding. In such cases, accountability works via a principal-agent relationship in which staff employed to administer the multilateral institution act within parameters defined by the members. How much flexibility secretariat officials are allowed depends on how the principal-agent relationship is defined, i.e. what powers have been delegated (Grant and Keohane 2005).

The question of who is an accountability holder in multilateral institutions cannot be answered by just looking at who/what has delegated it authority. Sometimes being a stakeholder – an actor affected by the actions of the agent – provides an important criteria for being an accountability holder. The right to exercise accountability over multilateral institutions is a frequent demand made by social movements protesting against, for example, what they see as an ‘anti-democratic’ tendency where governance shifts from nationally-elected politicians to distant supranational technocrats. What Grant and Keohane have described as the demand for ‘participation’ (2005, p.31) gives actors an effective means to sanction multilateral institutions wherever, for example, either their help is required to ensure implementation (e.g. the World Bank relies on NGOs with local knowledge) or a prevailing normative culture demands that particular actors are engaged (e.g. indigenous communities). However, how do we know who is affected by multilateral organisations? The range of actors potentially affected by multilateral organisations, and so staking a claim to be an accountability holder, includes a broad spectrum in which issue-groups (e.g. environmentalists) are joined by interest groups representing labour but also private capital and even religious communities. Likewise, the range of sanctions available to these accountability holders is potentially infinite depending upon the particular governance context and relationship between the holder and holdee.

In the case of WTO dispute settlement, the authority granted to the Secretariat staff as well as the panellists and Appellate Body members is delegated by the WTO Member-states (*qua* nation-states). However, as has been demonstrated, non-state actors have acquired some agency within WTO dispute settlement. In exploring what implications non-state actors have for the accountability of WTO dispute settlement, the article therefore focuses on two key issues: 1) whether they hinder or enhance existing accountability relations between the system and its Member-states based upon delegation; and, 2) if they signal the emergence of new accountability relations based upon participation.

Non-state actors and the accountability of WTO dispute settlement

As outlined above, the empirical analysis presented in this section understands WTO dispute settlement to be subject to a series of accountability relationships based upon both principal-rights and stakeholder demands. Principals are granted formal rights through delegating authority, but may not always have equal capacity to exercise these rights. Stakeholders demand rights to be accountability holders, but have to utilize more ambiguous relations like normative pressure. Existing literature and new material based on interviews with key practitioners conducted within a 2 year project is used to draw out what implications non-state actors have for the accountability of WTO dispute settlement.

The driving mechanism of any accountability relationship is the sanction available to the accountability holder, e.g. loss of authority, financial penalties, etc. The material presented below is disaggregated by what the article argues to be the seven core accountability mechanisms with potential relevance to WTO dispute settlement, each utilizing a distinct form of sanction, based upon: 1) the regime; 2) fiscal relations; 3) public reputation; 4) market force; 5) peer-pressure; 6) the need for information; or, 7) the demand for engagement with stakeholders. At this point it should be made clear that not all of these accountability mechanisms are equally effective in WTO dispute settlement, but are considered here as either direct or indirect means by which different actors may sanction how the system functions. The analysis is summarised in table 1 below.

Regime accountability

WTO dispute settlement is most clearly held to account via sanctions provided by the rules, practices and decision-making procedures constituting the institution. Drawing upon regime theory (Krasner 1983), what the article defines as regime accountability refers to the explicit (e.g. rules) and implicit (e.g. norms) principles through which actors are structured into accountability relations as holder and holdee. It includes legal frameworks through which, for example, nation-states and their national agencies may monitor and formally comment upon the function of WTO dispute settlement.⁷ Regular meetings of government ministers and heads-of-state assert a relationship based upon hierarchical supervision in which the institution is positioned as submissive to the sovereignty of its Member-states. Institutional chains-of-command – including the WTO’s Ministerial Conference where governmental ministers and heads-of-state are present – provide an important means of further regime accountability through which Member-states may collectively exercise sanctions over the Secretariat staff and so hold them to account via a hierarchical chain. Everyday accountability is enacted by the Member-state delegations based in Geneva. WTO dispute settlement’s rules, as laid out in the Dispute Settlement Understand and later ammended by the Appellate Body, provide a clear role through which the WTO Member-states are accountability holders.

⁷ Regime accountability is used instead of ‘legal accountability’ – a term commonly used to describe wherever legal instruments serve to enforce accountability – since certainly in the case of WTO dispute settlement there is a substantial amount of overlap between legal accountability and other mechanisms including hierarhical and supervisory accountability (e.g. Grant and Keohane 2005). Regime accountability serves as a meta-term covering all these lesser mechanisms based upon the rules, norms, and decision-making procedures contained within a particular multilateral institution. Regime accountability is also applicable to other forms of multilateral institution wherever implicit and explicit principles define a series of accountability relationships.

As discussed earlier, the Member-states may collectively reject the rulings made by panelists and the Appellate Body. Rejection of rulings requires a full consensus that includes those Member-states acting as complainant and respondent, making it a relatively weak and so far unused means by which to sanction WTO dispute settlement. However, the institutional body of the Dispute Settlement Body to which all Member-states have access has on several occasions allowed large numbers of Member-state delegations to collectively criticise rulings. Without consensus such criticism has not translated into formal rejection of rulings, but it does indicate a regime-based means through which Member-states may undermine the legitimacy of rulings.

In considering the role of the different non-state actors identified as present in WTO dispute settlement, it can be seen that they have *mixed consequences* for the ability of Member-states to exercise regime accountability in WTO dispute settlement – both hindering and enhancing their role as accountability holders. In addition, the creation of the *amicus curiae* and private counsel provisions signal a shift in regime accountability where non-state actors have acquired a limited role within the legal framework of WTO dispute settlement.

Many Member-states saw the creation of the *amicus curiae* provision as a threat to their sovereignty over WTO dispute settlement, undermining their own ability to utilize regime accountability. There was a fear that giving non-state actors the right to make submissions to panelists and the Appellate Body would side-step Member-states as the gatekeepers to the process. Member-states not directly party to a dispute settlement case as complainant or respondent may act as a Third party, but only with the permission of the disputing parties. Therefore, the *amicus curiae* provision, in principle, gives non-state actors a right not granted to Member-states. There is uncertainty, however, because there is no formal obligation that panelists and Appellate Body members take those submissions into consideration when writing rulings. Practitioners engaged with WTO dispute settlement have complained that this ambiguity makes it extremely difficult to make transparent what information is actually being used in making dispute settlement rulings.⁸ A lack of transparency further undermines regime accountability. Overall, the presence of non-state actors made possible via the *amicus curiae* provision may be said to hinder the ability of Member-states to utilize regime accountability mechanisms in WTO dispute settlement.

Employed directly by Member-states to strengthen their representation in oral hearings, *private counsel* have the potential to enhance the capacity of Member-states to utilize the highly complicated legal system and advance their interests. Since the multilateral trade regime first became established in 1948 with the General Agreement on Tariffs and Trade, the developing practice of dispute settlement has seen nation-states draw on the services of private lawyers in writing their submissions. The private counsel provision is significant because it gives these lawyers permission to be physically present in the actual hearings. Justified on the grounds that private counsel are needed to assist Member-states who rarely use the system and so cannot afford full-time international trade lawyers, the provision was framed as favouring the developed-country Member-states. Private counsel might then level the playing field, strengthening the ability of those weaker Member-states to hold the system to account via being equipped with the necessary technical expertise. In practice, however, it is the developed-country WTO Member-states who have made most use of private counsel in bolstering their already comparatively well-resource delegations. Therefore, whilst private counsel enhance the regime accountability of WTO dispute settlement to the Member-states, this favours those Member-

⁸ Based on practitioner interview.

states already well-equipped to hold the system to account. Some practitioners have noted that whilst private counsel represent Member-states, their funding and other resources (e.g. data) may come from non-state actors such as private business who may also employ them for other services.⁹ There is then the potential that private counsel help establish new avenues through which non-state actors may utilize regime accountability mechanisms, complicating how research understands which actors can exercise this particular accountability mechanism in WTO dispute settlement. However, this point should not be over-exaggerated since all lawyers acting as private counsel are bound by their bar associations to represent the interests of the Member-states by which they are employed, and who observe their actions closely.

Where private counsel may be employed by any Member-state, the role of the *Advisory Centre on WTO Law* (ACWL) in providing legal services exclusively to those developing-country WTO Member-states who subscribe to its organisation has greater promise to level the playing field where the vast majority of cases are dominated by developed-country Member-states. Therefore, it has the potential to not only enhance the ability of Member-states to utilize regime accountability mechanisms in holding WTO dispute settlement to account, but to also ensure that access to this mechanism is more evenly distributed amongst the Member-states.

Business actors are able to provide Member-states with resources (e.g. data) essential if they are to win and defend cases in WTO dispute settlement – giving them the capacity to exercise the various rules, norms, and decision-making procedures present in WTO dispute settlement to enforce their role as accountability holders. Business actors may themselves exercise regime accountability mechanisms over WTO dispute settlement to the extent they act as *amicus curiae*. Where Member-states provide institutional mechanisms by which businesses may effectively initiate the launch of dispute settlement cases, business actors acquire what can be seen as a secondary order of a regime accountability mechanism. In this respect, business actors enhance the abilities of both Member-states and non-state commercial interests to utilize regime accountability mechanisms over WTO dispute settlement.

Likewise, *NGOs* may also exercise regime accountability if acting as *amicus curiae*. However, as has been shown already, this may also hinder the Member-states' own ability to use this mechanism. In US-Shrimp as well as EC-Sardines, for examples, NGOs have been able to assist Member-states in preparing submissions and so may also enhance Member-states' use of regime accountability. Overall, then, NGOs have mixed consequences for WTO dispute settlement's exposure to regime accountability mechanisms.

Fiscal accountability

Member-states may potentially sanction WTO dispute settlement by withholding the financial dues they pay to the WTO Secretariat as members, based upon their share of world trade. Fiscal accountability provides an effective threat of sanction where a multilateral institution is dependent upon member-states for its finances (Chan 2003; Grant and Keohane 2005, p.36). In addition, programmes such as technical-capacity building for developing-country member-states are based, as with the case of the WTO, on irregular donations provided by individual member-states. Such donations provide an extra avenue by which fiscal accountability may then be exercised. The distribution of access to fiscal accountability mechanisms varies greatly

⁹ Based on practitioner interviews.

between member-states in respect to their individual capacity to provide or decline finance, emphasising that accountability is not about equality but who holds who to account. Fiscal accountability may strengthen regime accountability where it supports the organisational structure – whether defined by rules or norms. However, fiscal accountability may also undermine regime accountability where, for examples, the explicit chain of command between officials and member-states runs in opposition to the way member-states independently choose to fund the multilateral organisation. Where non-state actors provide finance to multilateral institutions – such as donations by philanthropists, access to fiscal accountability mechanisms is not exclusive to member-states.

However, a scenario in which Member-states even made the threat of such a sanction seems highly unlikely given the likely repercussions within the broader context of WTO trade agreements and nation-states' dependence upon global trade flows. Therefore, fiscal accountability functions as a means of last resort, only loosely framing the function of WTO dispute settlement.

Non-state actors have *no discernible effect* upon the capacity of Member-states to use fiscal accountability. The WTO is not financed by non-state actors. None of the non-state actors identified in this article can be said to exercise fiscal accountability over WTO dispute settlement. However, where businesses fund private counsel, they could be seen as acquiring in-direct access to fiscal accountability via the Member-states. Any sanction this might grant business actors could only be directly used against the Member-state in question. Therefore, business actors may be said to indirectly broaden the range of actors able to utilize fiscal accountability over WTO dispute settlement.

Public reputation accountability

This third accountability mechanism is relevant where the operation of WTO dispute settlement is affected by its public reputation. Public reputation accountability offers an avenue through which actors lacking any form of regime or material hold over WTO dispute settlement may still exercise accountability (Bernstein and Cashore 2007, p.353). Public reputation matters when there remains a significant gap between what the institution is tasked to do and their material resources – where their power is determined by the extent to which other actors are willing to implement the rules they host. Relevant here is the question of which reputation matters, being that multilateral institutions may well be perceived differently amongst national publics.

Public reputation accountability rests on the existence of an accountability relationship between WTO dispute settlement and a public. Member-states are bypassed as the gatekeepers to WTO dispute settlement where the system becomes somehow sensitive to the opinion of either national publics or a transnational public. Both national and transnational publics have at various times been mobilised in criticism of WTO dispute settlement. Some of those marching against the WTO in the landmark Seattle protests in 1999 dressed as turtles – a direct reference to a highly contentious dispute settlement ruling against the United States' particular use of environmental safeguards to restrict the import of shrimps caught with nets deemed as lethal for turtle populations (Appleton 1999). Public reputation matters to the WTO dispute settlement indirectly via influencing how Member-states utilize the system, but also more directly if those producing rulings choose to be sensitive to such publics.

Some commentators see the Appellate Body as sensitive to its public reputation (Appleton 1999; Smith 2004), with the *amicus curiae* provision cited as a significant concession made to

environmental concerns voiced by the broader public. In creating the *amicus curiae* provision, the Appellate Body arguably *enhanced* the WTO dispute settlement's exposure to public reputational accountability mechanisms. Which public may exercise this mechanism is less clear, although the general impression is that it is publics based in those Member-states dominant in the WTO – the United States and the European Community.

By campaigning to different publics, *NGOs* have a clear role in both utilizing and *enhancing* mechanisms of public reputational accountability, although the problem remains that access to this mechanism is not equally distributed. For public accountability to function, the 'public' – however defined – must be sufficiently aware to have an opinion on WTO dispute settlement. NGO campaigning around, for example, a case in which the United States used WTO dispute settlement to challenge the European Union's policy on imports of genetically-modified foodstuffs greatly broadened the scope of public attention given to what remains an otherwise highly abstract institution due to its legal-technical nature.

Market accountability

Market accountability may be exercised by both private firms and *NGOs*, but in different ways. Private firms able to relocate facilities to alternative territories are able to threaten national governments with the threat of disinvestment (Benner et al 2004, p.199). This option is strengthened for firms based in multiple territories, such that they may effectively hold multilateral organisations to account via influencing the representation of several member-states at once. Advocacy groups may likewise campaign to consumers, whose collective purchasing power provides a similar market-based mechanism for holding multilateral organisations to account (e.g. threatening to boycott production within countries that abuse human rights).

WTO dispute settlement is vulnerable to sanctions imposed via market accountability mechanisms but only indirectly through the Member-states, where economic actors may threaten to shift their resources to other territories. Businesses are the most obvious actor able to impact upon the system's exposure to market accountability mechanisms. For practitioners involved in the system, often cases are known not by their formal title of the respondent Member-state and the trade in question but, rather, the firms respectively driving the case on either side of the dispute.¹⁰ By lobbying different publics, *NGOs* may also exercise market accountability via the Member-states through influencing consumer preferences. In summary, however, market accountability mechanisms cannot be directly applied to WTO dispute settlement.

Peer accountability

Peer accountability is relevant where multilateral organisations may be sanctioned by like-actors, and so only occurs where other multilateral organisations may hold them to account through, for example, the threat of non-cooperation (Bäckstrand 2008, p.81). Multilateral organisations do not operate in isolation from one another but, rather, have a series of both formal and informal relations ranging from formal observer status at one another's meetings to joint press statements and publications.

The only actors able to exercise any form of peer accountability over WTO dispute settlement

¹⁰ Based on practitioner interviews.

are fellow multilateral organisations, which would include the Advisory Centre on WTO Law. However, the ACWL has not exercised this mechanism. Overall, the non-state actors identified as present in WTO dispute settlement do not appear to have had any effect upon its exposure to peer accountability mechanisms.

Information accountability

As the scope of multilateral organisations has increased, impacting upon an ever-broader array of domestic issues, so too has their need for specialist local-knowledge to facilitate both policy formation and implementation. It is for this reason that the article introduces the term ‘information accountability’. Informational accountability occurs wherever non-state actors may sanction multilateral organisations via withholding information (e.g. World Bank programmes in which locally-collected demographic data is crucial).

The practise of WTO dispute settlement is dependent upon legal and factual information, which is needed for both the Member-states to advance their interests but also so that the panellists and Appellate Body may produce their rulings. Business actors are most able to offer information required by the system, the threat of not providing information giving them the possibility to exercise informational accountability. The same, but reduced, possibility exists for NGOs who may be asked to provide information on the non-trade aspects of cases. However, there is no evidence of non-state actors exercising this sanction and so the value of informational accountability in the case of WTO dispute settlement seems low. By serving as information providers, however, whether as *amicus curiae* or supporting Member-state submissions, NGOs and business may be said to enhance what little informational accountability can be exercised over WTO dispute settlement.

Stakeholder accountability

A final mechanism sometimes available to non-state actors occurs wherever multilateral organisations must be seen as engaged with particular ‘stakeholders’ (e.g. representatives of indigenous communities) – what the article argues should be defined as ‘stakeholder accountability’. In addition to material resources, a key factor determining the scope of a multilateral organisation’s governance is the degree of legitimacy they have within the particular territories they operate. Where the demand for legitimacy is that the multilateral organisation considers, for example, local interests, it becomes important that Secretariat officials are seen to be talking with representatives of those interests (e.g. International Monetary Fund structural adjustment programmes). Furthermore, where a range of non-state actors are seen as having agency distinct from nation-states in global politics, it has become common that multilateral organisations are seen to develop regular relations with these actors (e.g. the United Nations’ Global Compact with business; or, the WTO’s annual Public Forum at which NGOs otherwise critical of the organisation may organise panels with Secretariat staff and member-state delegations present). In such cases, the non-state actors designated as relevant stakeholders acquire a certain capacity to hold the organisation to account by threatening to reject such contacts, and so enact stakeholder accountability.

WTO dispute settlement is exposed to stakeholder accountability mechanisms where the legitimacy of its governance hinges on the inclusion of particular interests. Where non-state actors (typically NGOs and business) may make *amicus curiae* submissions, the accountability

of WTO dispute settlement should be improved to those non-state actors with a stake in the rulings. In practice, however, it has been little used by non-state actors with the consequence that it does not offer a meaningful opportunity by which they might exercise stakeholder accountability over WTO dispute settlement.

Business actors and NGOs, where active in publicly lobbying in support or against WTO dispute cases, have strengthened their own credibility as stakeholders and so enhanced their capacity to exercise stakeholder accountability over the system.

Table 1 The implications of non-state actors for the accountability of WTO dispute settlement

	Amicus curiae	Private counsel	ACWL	Business	NGOs
Do they hinder of enhance member-states as accountability holders?	Hinder	Enhance	Enhance	Mixed	Mixed
Do they broaden accountability relationships?	Expand regime accountability to non-state actors, though weak Enhance public reputational accountability	Expand fiscal accountability to business, though weak	Expand peer accountability Enable some NGOs like the ICTSD to utilize stakeholder accountability	Exercise indirect fiscal accountability via private counsel. Most effective via informational accountability	Expand public reputational accountability

Conclusion – Not all accountability mechanisms are equal, nor complementary

As stated in the introduction, critics of WTO dispute settlement have accused it of being unaccountable on two fronts – to the interests of the developing country Member-states; and, to the broader societies its rulings affect. At the same time, WTO dispute settlement appears to have shifted away from its formal intergovernmental basis to include a growing role for non-state actors. The puzzle, then, was to explore what implications non-state actors have for WTO dispute settlement. In particular, the article set out to ask: 1) do non-state actors enhance or hinder the capacity of the WTO Member-states to sanction WTO dispute settlement?; and, 2) do non-state actors create new relations through which WTO dispute settlement may be held to account?

In respect to the first question, the article concludes that non-state actors mainly enhance the capacity of WTO Member-states to act as accountability holders. Several of the non-state actors also specifically enhance the capacity of developing-country WTO Member-states to utilize regime accountability mechanisms. Although regime accountability is based on normative power, ironically the capacity to utilize rules, norms and decision-making procedures to one’s advantage requires technical expertise which, for Member-states, comes down to material resources. Non-state actors such as the Advisory Centre on WTO Law (ACWL) or the International Centre for Trade and Sustainable Development (ICTSD) then play a vital role in, however minimally, ameliorating these imbalances in the accountability of WTO dispute settlement. Non-state actors may threaten the WTO Member-states as accountability holders, such as where they offer a competing source of credible accountability demands. However, examples such as the amicus curiae provision which potentially gives non-state actors regime accountability over WTO dispute settlement are important to note but, in practice, are weak at best.

In answering the second question, the article has shown that non-state actors do create new relations through which WTO dispute settlement may be held to account, thus broadening the range of actors able to act as accountability holders. The capacity of businesses to utilize information accountability and NGOs to mobilize public reputation accountability demonstrates accountability to be a multi-faceted and adaptive concept.

In reaching these general conclusions, the article has approached accountability as a multi-faceted and potentially contradictory concept. Accountability only has meaning to the extent that accountability holders may credibly threaten sanctions against behaviour they deem as unacceptable. These sanctions take many forms – including both material and normative. Seven central accountability mechanisms are shown in this article to be relevant in the case of WTO dispute settlement, though their effectiveness varies greatly. Three of these mechanisms are newly defined within the context of the article, though all the mechanisms discussed draw upon the rapidly increasing body of literature on accountability in global politics.

Non-state actors have broadened the range of holders able to utilize different accountability mechanisms, with some being relatively ineffective (e.g. the regime accountability available to non-state actors as *amicus curiae*) and others promising more impact (e.g. businesses able to exercise information accountability). Not all forms of accountability are equal, as becomes evident when comparing the different accountability mechanisms in relation to WTO dispute settlement. Regime accountability appears as the most apparent mechanism through which, typically Member-states, may act as accountability holders. However, not all Member-states have equal access to regime accountability.

The effectiveness of the accountability mechanisms defined here is context-dependent as well as being determined by the relative resources of the actor enacting them, typically giving Member-states a distinct advantage over non-state actors. Accountability cannot be pre-defined since it can take multiple forms utilizing very different types of sanctions. As said, accountability does not require that all actors are equally capable as accountability holders. To ‘get things done’ often requires that those actors most able to influence the outcome of global decision-making are given first-row seats as the primacy accountability holders (Koppell, 2011).

Multilateral institutions face a stark decision between which form of accountability they should help facilitate, where there is a tension between the member-states’ accountability relationship and that claimed by other actors (Grant and Keohane 2005). Sometimes, as critics of WTO dispute settlement point out, this tension also falls between different WTO Member-states. Accountability is not a homogenous concept but, as shown here, takes many forms which can undermine one another (Papadopoulos 2007, p.482). For example, the public reputation accountability exercised by advocacy groups may challenge the ability of WTO Member-states to enact regime accountability over WTO dispute settlement. This is particularly likely where those advocacy groups are active within the more dominant Member-states and the other Member-states seeking to maintain their regime-based hold over the institution are comparatively weak.

Overall, those wishing to enhance the accountability of WTO dispute settlement need to acknowledge not only the variety of different accountability mechanisms, but also how they interact. As this article has shown, in practice there is no obvious tension between the role of non-state actors in WTO dispute settlement and the capacity of the Member-states to act as accountability holders. On the contrary, non-state actors actually strengthen Member-states as accountability holders, as well as easing tensions caused by imbalances in the capacity of individual Member-states. If WTO dispute settlement becomes more sensitive to its public reputation by producing rulings influenced by societal discussions, the intergovernmental basis of

the institution would be undermined. Such a shift would undermine regime accountability, with negative results for the ability of Member-states to hold the system to account. Given the current dominance of regime and fiscal forms of accountability in WTO dispute settlement, it seems unlikely that the Member-states – as accountability holders – would allow such a development to occur. Rather, the search for accountability in WTO dispute settlement is most profitably pursued if focused on the Member-states themselves, with non-state actors aiding such a quest by balancing out the distribution of access to accountability mechanisms amongst those states whilst also ensuring the Member-states are accountable to their own national societies.

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Public Attitudes and International Relations Analysis of China-ROK Relations under the Model of Public Diplomacy

Zihan Wang

Abstract As one of the important bilateral relationships in East Asia, a positive and stable China-ROK relationship is of great importance for safeguarding peace and stability in East Asia, and Northeast Asia in particular. In the past 20 years, China and the ROK have ended their confrontational relations formed during the cold war and moved their relations to a “fast track of development”. In particular, with the establishment of a “strategic and cooperative partnership” between the two countries in 2008, exchanges between the two countries have further deepened in economic, scientific, cultural and other fields. However, the impression of the two peoples of each other has not improved in line with the development of bilateral relations. The negative impression of each other has become a negative factor for the further development of bilateral relations. Given this, the paper aims to look back at the evolution of bilateral relations, trace the negative factors that affect the perception of each other, and improve the channels causing the negative attitude of the people through public diplomacy and promote the further development of bilateral relations between China and the ROK.

Keywords China-ROK Relations - Public Diplomacy - Public Attitudes - Nationalism

As countries in Northeast Asia, China and the ROK have exchanges dating back to ancient times and similar history and culture. Since the establishment of diplomatic relations in 1992, the relations between China and the ROK have developed greatly on the basis of friendly cooperation, with growing cooperation in economic, political, military, scientific, cultural and various other areas. In the political and economic pattern in Northeast Asia, the two countries have played a crucial role in safeguarding peace and stability and in enhancing economic cooperation and trade. However, differences in historical attitudes of the people have affected bilateral relations and hurt the feelings of the people. With friendly relations between the two governments as the backdrop, the paper aims to discuss the reluctance of public opinion to interpret the issues of history, to analyze how to defuse conflicts of public opinion through the model of public diplomacy and to come up with proposals and measures.

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I. Friendly relations between China and the ROK in the past 20 years

1.1 Political communication to safeguard peace and stability in Northeast Asia

The nuclear issue on the Korean peninsula, undoubtedly, is the most important problem that China and the ROK have to face in political relations. The nuclear issue and the issue of reunification of the Korean peninsula are both legacies of the Cold War. The persistent development of nuclear weapons by the DPRK is a serious threat for peace and stability in China and the ROK. China and the ROK have conducted in-depth cooperation and made great efforts in solving the nuclear issue peacefully and in formulating policies on the DPRK. The two countries have maintained cooperation under the framework of the Six-Party Talks to try to revive the talks and solve the nuclear issue. Since the second nuclear crisis on the Korean Peninsula in 2002, the Chinese government has actively carried out a “shuttle diplomacy” and brought about the first Six-Party Talks in Beijing in August 2003.¹ The ROK has always been an active participant of the talks ever since. By the announcement of the DPRK to walk out of the talks in 2009, China, as a third party, has played lots of mediation. On October 28th, Hwang Joon-kook, head of the ROK delegation to the Six-Party Talks, visited China, the second visit in four months, to discuss the revival of the talks and the nuclear issue.² China has maintained communication and contact with the ROK and has played a crucial role in solving the nuclear crisis and easing the tensions in the peninsula.

Secondly, the identical position toward Japan has also deepened friendly relations between the two governments. Both China and the ROK suffered from Japanese aggression during the Second World War. Both have territorial disputes with Japan. Besides, Shinzo Abe, during his second term in office, has stuck to a rightwing route, denied crimes committed by Japan in World War II, amended the “Peace Constitution”, visited the Yasukuni Shrine, and adopted tough diplomatic policies towards China and the ROK, which further undermined its relations with its neighbors in Northeast Asia and affected peace and stability in the region. There is wide basis and necessity for China and the ROK to cooperate when it comes to relations with Japan. During the Chinese President’s visit to the ROK in July 2014, the two heads of state released a joint statement. It was said in the appendix of the statement that relevant agencies of the two countries would conduct cooperation on the issue of comfort women including joint research, copy and donation of evidence, etc.³ The Chinese side also proposed during the meetings that the two countries jointly celebrate the 70th anniversary of the victory of the Chinese People’s War against the Japanese aggression and the end of Japanese colonial rule on the Korean Peninsula in the year 2015. Although it was opposed by the Japanese foreign secretary Fumio Kishida⁴, it was obvious that a similar position and cooperation between China and the ROK has made Japan nervous and brought bilateral relations between China and the ROK even closer.

Finally, the “trust diplomacy⁵” by President Park Geun-hye has uplifted China-ROK relations to a new level. In June 2013 President Park Geun-hye led the “largest trade delegation” to China on what she called “a trip of confidence”. Through the trip, with increased mutual understanding, the two countries planned to conduct cooperation in the political and security arena, which marked the change from “hot economic relations but cold political relations” to “hot economic

¹ Yuanhua, Shi 2005 “The Mechanism of the Six-Party Talk”, International Review. D81(A)

² <http://news.163.com/14/1028/10/A9KV0HG300014JB6.html>

³ Xinhuanet News, 2007, http://news.xinhuanet.com/world/2014-07/03/c_1111449615.ht

⁴ People.cn 2014, <http://world.people.com.cn/n/2014/0904/c1002-25603904.html>

⁵ Luhui, Yang 2014, “The new partnership between China and Korea and the trust diplomacy by Park”, Theoretical Horizon, D8223.3(A)

as well as political relations”. In May 2014 Chinese foreign minister Wang Yi visited the ROK and stated the bilateral relations had never been better. ⁶In July 2014, President Xi Jinping returned the visit to the ROK with his wife. The two heads of state released a “Joint Statement” and reached important consensus. It can be expected that relations between China and the ROK will be closer with more contribution to peace and stability in Northeast Asia.

1.2 Economic Reciprocity and Win-win Cooperation

First of all, China and the ROK have close trade ties with a huge scale and rapid growth. Economic cooperation between the two countries has developed very fast with rapidly increasing the bilateral trade volume. China has become the largest trading partner for the ROK. The ROK is the third largest trading partner, third largest export market and second largest source of import. The two countries enjoy close and booming trade relations.

Balance Payment for Year			
	(Unit : USD 1000)		
YEAR	EXPORT	IMPORT	BAL_PAY
1992	2,654,166	3,724,941	-1,070,774
1993	5,152,143	3,928,740	1,223,403
1994	6,211,655	5,462,849	748,806
1995	9,160,865	7,401,196	1,759,668
1996	11,394,118	8,538,568	2,855,550
1997	13,572,463	10,116,860	3,455,602
1998	11,943,960	6,483,957	5,460,032
1999	13,684,599	8,866,666	4,817,932
2000	18,454,539	12,798,727	5,655,812
2001	18,190,189	13,302,675	4,887,514
2002	23,753,585	17,399,778	6,353,806
2003	35,109,715	21,909,126	13,200,588
2004	49,763,175	29,584,874	20,178,301
2005	61,914,983	38,648,188	23,266,794
2006	69,459,178	48,556,674	20,902,503
2007	81,985,182	63,027,801	18,957,380
2008	91,388,900	76,930,271	14,458,628
2009	86,703,245	54,246,055	32,457,189
2010	116,837,833	71,573,602	45,264,230
2011	134,185,008	86,432,237	47,752,771
2012	134,322,564	80,784,595	53,537,968
2013	145,869,498	83,052,876	62,816,621
2014	106,084,625	65,653,323	40,431,302

China-ROK Trade Volume⁷

⁶ <http://www.chinanews.com/gn/2014/05-27/6218508.shtml>

⁷ The statistics are from Korea Customs Service, <http://www.customs.go.kr/kcshome/trade/TradeCountryView.do?layoutMenuNo=21031&year=2014&nation=China&nationCd=CN>

Secondly, the development of the China-ROK FTA is another important step in the further development of trade relations between the two countries. It was planned long ago. In 2005, when Premier Wen Jiabao met with then Prime Minister of the ROK, he proposed to launch negotiations on the FTA between the two countries as soon as possible. At the 20th anniversary of diplomatic relations between the two countries in May 2012, China and the ROK formally launched negotiations on the FTA. “Joint Statement” of the two countries in 2014 stated that the FTA Agreement could be expected to be reached by the end of 2014.⁸ It will further improve economic and trade relations between the two countries. At the same time, the two countries also have close cooperation under the “10+3” framework of ASEAN, making important contribution to the East Asian economy.

1.3 Close cultural exchanges with popular “Korean Wave” and “Han Wind”

Good relations between China and the ROK cannot be separated from ever deepening cultural exchanges and cooperation. Cultural exchanges and cooperation between the two countries have developed by leaps and bounds, constituting an important area and social foundation for expanding mutually beneficial and win-win cooperation and deepening the strategic partnership. The “Korean wave” in the form of Korean TV series, films, K-POP, video games and dresses has spread widely in China with great popularity. At the same time, the Chinese culture also has wide and far-reaching impact in South Korea.⁹ “Chinese language fever” and “Chinese culture fever” have come quietly in fashion. Currently, over 300000 Koreans are learning Chinese. 131 institutions of higher learning in South Korea have set up department of Chinese language. Close cultural ties have made contribution to friendly relations between the two countries.

II. Negative factors affecting image construction of the two peoples

2.1 Controversy on the relationship between Goguryeo and Goryeo

There is huge gap in the understanding of the two peoples concerning the historical origin of the ROK. The ROK and China are closely linked geographically and historically. The author does not want to dwell on the historical origin of the ROK, instead, comparison will be made between different public attitudes of the two peoples on the relationship between Goguryeo and Goryeo. Goguryeo originated from 37 AD and was overthrown by the Tang Dynasty in 668. The Kingdom of Goryeo was established in 918, and was brought down by the North Korean ruler of Lee in 1392.

The Chinese public attitude and academic view is that Goguryeo and Goryeo are two unrelated dynasties. The general view is that Goguryeo was a political entity in the border area established by ethnic minorities in China and was unified by the Tang Dynasty, while Goryeo was a state established by ethnic groups of North Korea. For the purpose of research, the academic community of China started a project on the history and status quo of China’s North-

⁸ http://news.xinhuanet.com/world/2013-06/27/c_116319763.htm

⁹ Sheng, Wang 2007, “15 Years Diplomatic Ties China and ROK: Miracle in The Diplomacy History, Example of Peaceful Coexistence”, *Northeast Asia Forum*, D829.312.6(A)

eastern frontier in 2002, with the short name of Northeast Project¹⁰, which was a large-scale academic project by the Chinese Academy of Social Sciences, and relevant academic institutions and universities in the three Northeastern provinces of China. The aim was to conduct in-depth research into the history of China's Northeast and prove Goguryeo and Goryeo were not related.

On the contrary, the public attitude and academic view of the ROK is that Goryeo succeeded Goguryeo, so Goguryeo is consistent with today's Korea. On December 9th 2003, 17 Korean academic associations including the Korean Association of Ancient History, the Korean Archaeological Association and the Korean Association of Modern History issued a joint statement in the Museum of History in Seoul to demand China to stop including the history of Goguryeo in its history books. Section 18 of New York Times on February 11 2008 ran an advertisement by Yonhap New Agency with the title "Goguryeo", attached to which was a map of the Korean Peninsula when Goguryeo occupied Manchuria in 412, with the words "undoubtedly Goguryeo was part of the Korean history.¹¹ The Chinese government must recognize the fact."

2.2 "Historical sentimentalism" and "China threat theory"

The negative perception of each other also comes from long-existing "historical sentimentalism" and the "China threat theory" played up by the Korean media. Historical sentimentalism is irrational collective memory about the tragic events and insults happening to a nation in history. ROK has always been a small country in terms of size, hence the deep impact on it of big powers. Historical sentimentalism of Korea derives from its special historical relations with China and its colonization by Japan in modern times. In a modern period of transformation, historical sentimentalism tends to demonstrate its power with an irrational face, in particular, irrational features in terms of identity and the most intense nationalism in political arena. At the same time, with China's rising political and economic power, the "China threat theory" has gained currency among many Korean people. All these factors increase mistrust among the people and undermines the construction of positive image between the two countries.

2.3 Contention over cultural heritage and public opinion

ROK attaches great attention to the protection and publicity of culture. It has a ministry of culture, sports and sight-seeing, which is responsible for the cultural strategy of the country. With the goal of "building culturally rich lives and a happy Korea", the ministry is carrying out the strategy of "promoting cultural prosperity on four fronts". ROK pays equal attention to the protection of "intangible cultural heritage". By 2013, it has successfully applied for 16 "intangible cultural heritages".¹² However, among the heritages, "kimchi" and "Jiangling Duanwu Festival" have caused opposition by the Chinese people. Kimchi is common in the daily diet of the Chinese people and originates from China, hence the opposition. Similarly, "Jiangling Duanwu Festival" also originates from "Duanwu Festival" in China, which is also called

¹⁰ Huizhi, Zhang 2013, "China-rok relations 20 years: achievements and problems", Contemporary International Relations

¹¹ YONHAP NEWS AGENCY 2008 http://chinese.yonhapnews.co.kr/n_society/2008/02/12/8200000000ACK20080212001200881.HTML

¹² UNESCO <http://en.unesco.org>

“Dragon Boat Festival”. Although the “Jiangling Duanwu Festival” is different from the festival in China in some specific areas, it has its root in China. That’s why it has met with strong opposition even indignation from Chinese internet users. Several other issues followed, such as the issue of Goguryeo and Goryeo. Internet users of the two countries began to scold or even insult each other. China and the ROK have similar cultures, both being the representatives of oriental culture. With the rising power of the ROK, it has been trying to get rid of its cultural ties with China and the Chinese culture and create a Korean culture that totally belongs to itself. In the process it has caused great conflict of attitudes. The contention over intangible cultural heritage has seriously undermined the attitude and impression of the peoples of each other, constituting an important factor for the construction of negative images of each other¹³.

III. Let historical attitudes serve friendly relations between the two countries through public diplomacy.

1. Where the problems lie

The term “public diplomacy” was coined by Edmund Gullion of Tufts University in 1965.¹⁴ He defined the purpose of public diplomacy as “to deal with the influence of public attitudes on the formation and execution of foreign policies. It encompasses dimensions of international relations beyond traditional diplomacy, including the cultivation by governments of public opinion in other countries, the interaction of private groups and interests in one country with those of another, and the contact between diplomats and foreign journalists, etc. Compared with traditional diplomacy between governments, public diplomacy is indirect, which, to a large degree, can change the political landscape of another country and the formulation of policies of that country favorable to oneself.

As a matter of fact, public diplomacy refers to the fact that the government, by its own efforts or through the mobilization of non-governmental forces, tries to communicate and exchange with the public of foreign countries to realize its foreign policy objectives and improve its national image. At the same time, public diplomacy, in essence, is public activities of two-way communication, equal exchanges and the seeking of consensus, which is also called people’s diplomacy. Although the relations at the state level are good between China and the ROK, there is much antagonism and aversion between the people. Given this, the Chinese government should adopt measures of public diplomacy to reduce estrangement between the people.

First of all, the model of public diplomacy should be used to analyze where the problems lie. Governmental relations between the two countries have never been better since the establishment of diplomatic relations 20 years ago. In contrast, public attitude of the people of each other has been quite negative. Therefore, the people-to-people relations need to be improved. At the same time, the negative impression of the Chinese people about the ROK could affect its foreign policy on the ROK, and vice versa. The relations at the governmental level and at the people-to-people level can be demonstrated in the chart. Green arrows indicate positive impact on bilateral relations, while the red arrows indicate negative impact.

¹³ Jie,Luo, 2009 “Do Chinese people and Korean people dislike each other?”, World Affairs

¹⁴ Fei,Gao 2005,“Public Diplomacy: Definition, Formative conditions and its Functions”, Foreign Affairs Review, D80(A)

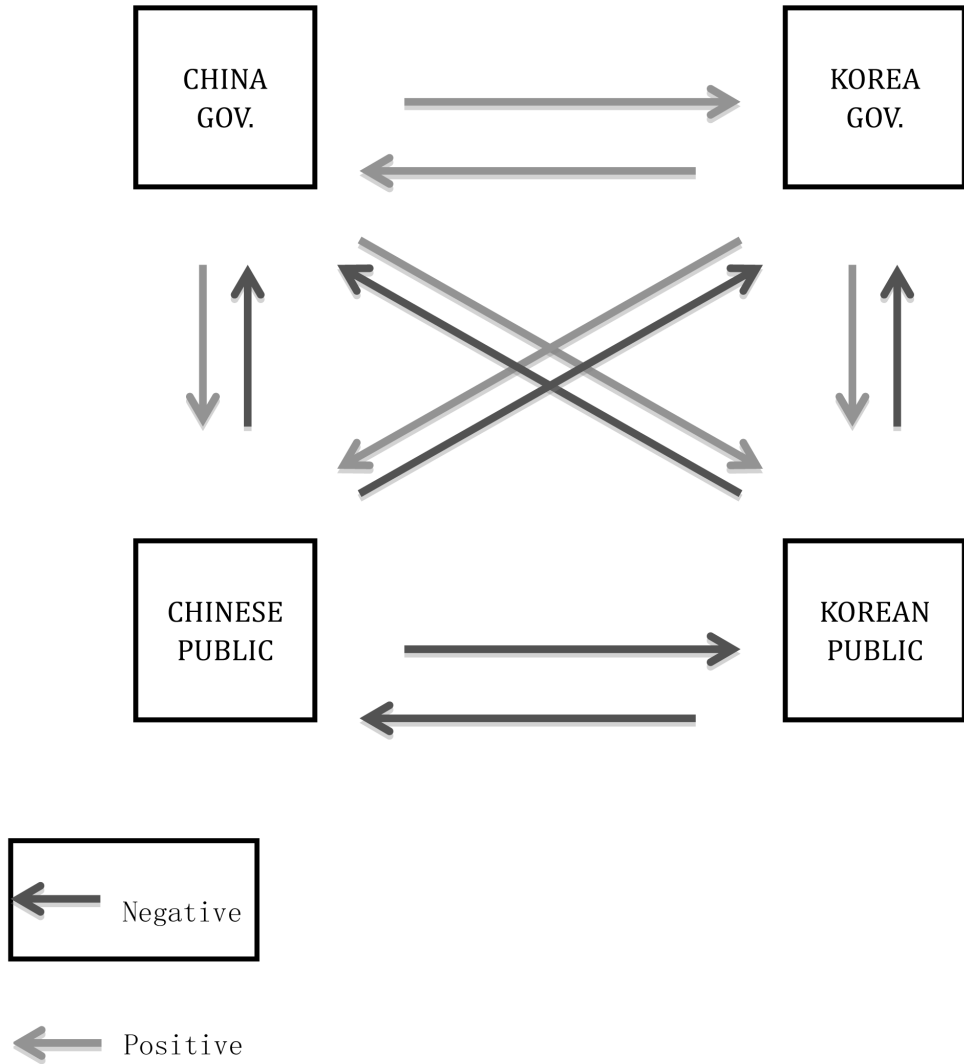


Chart on China-ROK Relations at the Governmental and People-to-People Level¹⁵

As shown in the chart, the red area indicates factors undermining bilateral relations, which cause aversion and antagonism against each other’s country and government. The negative factors first affect relations between the people which may also upgrade into public opinion, and negative public opinion may force the government to take negative policies detrimental to bilateral relations. When contentions ran high concerning historical issues between the two countries in 2004, the two governments did not issue a timely statement. They were forced to adopt the line that “scholars should adhere to the principle of separating academic studies from politics, and reality from history so as to correctly understand and handle disputes to avoid

¹⁵ Author made.

hurting bilateral relations.” It is obvious that public opinion cannot be ignored in the handling of bilateral relations.

It is drawn from analysis that public attitude of the people is an important factor affecting bilateral relations. Given the antagonism and aversion existing between the people, it is highly significant to guide public attitude. Therefore, the Chinese government should adopt public diplomacy measures to guide and rely on non-governmental forces to improve public attitude of the ROK on the image of China, and to reduce factors of disharmony so that relations between the two countries would be “at the best level” at both the governmental and people-to-people dimensions.

2 Route to solve the problem

First, mutual trust and understanding between the two peoples should be enhanced. The “trust diplomacy” of the two heads of state in 2014 shows that it is understood at the governmental level that mutual understanding and trust is highly important and that earnest efforts should be made to understand each other and to reach the best results. Therefore, from the perspective of public diplomacy, the government should guide the people in learning about, understanding, and trusting each other. 1) Cultural exchanges between the two countries should be expanded with emphasis on the quality of exchanges. Both countries attach great importance to cultural exchanges and have stressed on cultural exchanges on many occasions in the joint statements and communiqués and during summits of the leaders. Positive results have been produced in such activities as “China-ROK Exchange Year”, “Visit China Year”, “Visit Korea Year”, etc. The public nature of cultural exchanges has been improved. 2) Authentic and objective nature of information must be ensured and supervision on the media enhanced. In order to grab attention, some media of the two countries have engaged in false reporting and the exaggeration of facts by tarnishing each other’s country and people and instigating national sentiments, which is detrimental to bilateral relations.¹⁶ Therefore, the government should call upon the media to adhere to their professional ethics, conduct fact-based reporting, advocate the friendly feelings and in-depth exchanges between the people and create a foundation for the two peoples to change impression of each other from the perspective of the media.

Secondly, non-governmental cooperation should be strengthened with government support. To change negative impression of each other and uplift bilateral relations is for the benefit of both countries. Therefore, the two sides should jointly take public diplomacy measures to improve public attitude of each other. With the support of the two governments, there have been many academic forums and seminars, providing a platform of exchanges for scholars of the two countries in various fields. It is also helpful for historians to discuss differences on historical issues and to find mutually acceptable solutions.¹⁷ Scholars of the two sides have also had a lot of cooperation on Japan’s misrepresentation of history. The two countries can also cooperate in the cultural industry, such as TV series, films and TV programmes. For example, the two countries cooperated in the shooting of “The War Fire”, a TV series about anti-Japanese aggression. The cooperation greatly boosted bonds of the two peoples.¹⁸

Thirdly, a good image about the country and people should be established. Public diplomacy should start from the change of one’s own image. To strengthen the image of China and the

¹⁶ Zhongjin Piao 2012 “South Korean’s Negative Opinions about the Image of China and Public Diplomacy Channels of China toward South Korea”, *Contemporary Korea*

¹⁷ Zhongjin Piao 2012 “South Korean’s Negative Opinions about the Image of China and Public Diplomacy Channels of China toward South Korea”, *Contemporary Korea*

¹⁸ <http://ent.sina.com.cn/x/2006-05-25/11431096519.html>

Chinese people will go a long way to improve other people's attitude of China. To safeguard national image and the image of the people is an organic and systematic project. It calls for the fundamental improvement of the quality of the people and cultivation and education of the people by the government. It is a general consensus both home and abroad that the quality of the Chinese people needs improving. It cannot be changed overnight. Therefore, efforts should be started from national education to realize the goal step by step. At the same time, to establish a good image requires China to establish a system of discourse,¹⁹ to let people of the other country to know about the politics, economy and society of China, and to let it be understood that they can benefit from China's peaceful rise and development. China should also shoulder more international responsibilities and act as a responsible power.

IV. Conclusion

The relationship between China and the ROK has played a more and more important role in the pattern of international relations in Northeast Asia. Sound relationship between the two countries is crucial for solving the nuclear issue and safeguarding peace and stability on the Korean Peninsula. The two countries also make tremendous contribution to economic development and prosperity in East Asia. In response to the problem of antagonism between the two peoples, the Chinese government should carry out in-depth public diplomacy, improve mutual attitudes, increase understanding and trust, improve the quality of its people, set up a sound national image, and let public attitude serve diplomacy to fundamentally bring the two countries closer.

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¹⁹ Yuanping, Qiu 2010, "Peaceful development and public diplomacy of China", *International Studies* D820 A

A Strategy to Overcome Great Pressure for Graduates Employment in China

Lu Yi

Abstract The great employment pressure on Chinese graduates is rooted in a variety of factors: the imbalances of supply and demand in the labor market, problems of unreasonable setting in the curriculum system leading to structural unemployment, as well as graduate's wishes regarding jobs. It is necessary for the government and universities to innovate the systems of the enrollment, curriculum and employment, in order to solve graduates' employment difficulties.

Keywords Employment - Economic system – Graduates - Curriculum reform - Innovation

The fast increase of popularization of higher education in China brings a great employment pressure for graduates. Since this problem is becoming more serious year by year, it has attracted a lot of attention from the Central Committee of the Party and the state council. The central government has introduced a number of policies to promote the employment of graduates. On November 29, 2013 the Ministry of education published a document on its website¹. In that document, it pointed out that the party's eighteenth plenary session clearly put forward the slogans "improve the promotion of employment and entrepreneurship mechanism" to upgrade and to focus on college graduates of the youth employment", and set a comprehensive plan for job opportunities for graduates. At present, the employment pressure on ordinary university graduates and structural contradictions are still prominent, and the employment situation is complicated and grim. In order to carry out the spirit of the party's eighteenth plenary session fully, we should deepen the reform.

In addition, college graduates employment is a system engineering. Since there are not only the government's factors that affect the employment of graduates, but also some other even more important factors, such as psychological factors of graduates and their parents, huge gaps between textbooks, practice and teaching standards. So it is not scientific to think that we might solve the employment problem only through government's policies.

The Ministry of education should pay more attention to the unemployment rate of graduates. Colleges should improve the professional curriculums adapting them to the society, and the government should carry out a policy strengthening students' employment motivation. However, to promote the employment of university students, we need the help from government, society, colleges and students.²

¹ Document of the Ministry of Education. From the website: <http://www.moe.edu.cn/>

² Liu Yan, Li Shumin. The college students' employment structural contradictions analysis [J]. Taiyuan Journal of <University of science and technology: Social Science Edition>2008(2):27.

Currently, there are three major difficulties for the employment of Chinese college graduates: the first one is the supply of graduates in excess compared to demand; the second one is the unreasonable setting in the curriculum system that leads to structural contradictions between supply and social demand; the third is a part of the graduates who would rather stay unemployed than accept the non-ideal job. These three employment predicaments need innovation in terms of recruitment, training and employment, in order to overcome the current employment problems.

1. Lower enrollment to university could solve the contradiction of too many graduates for real valuable job opportunities

The development scale, structure and speed of the higher education must adapt to the development of economic and social needs, which is the guarantee for the continuous development and health of higher education. At present, China's employee market is characterized by a situation where complete disequilibrium and structural imbalances exist at the same time. Thus the employment problem is very severe. On the one hand, the basic pattern of the oversupply of labor will not disappear in the future, labor supply exceeds by far the labor demand produced by economic growth, which leads to an unemployment disequilibrium in total. On the other hand, in the process of reforming the economic system and the adjustment of industrial structures, workers' quality and skills cannot meet the needs of the society, which leads to the emergence of a large number of jobs vacancy. There is a shortage of skilled labor in many areas and enterprises, which is called structural unemployment, leading to the rise of the natural unemployment rate.

After 15 years of Chinese higher education expansion, in 2014, the total number of higher education graduates reached 7.270.000, hitting an all-time high, with a relative ranking far exceeding the demand of developed Society.

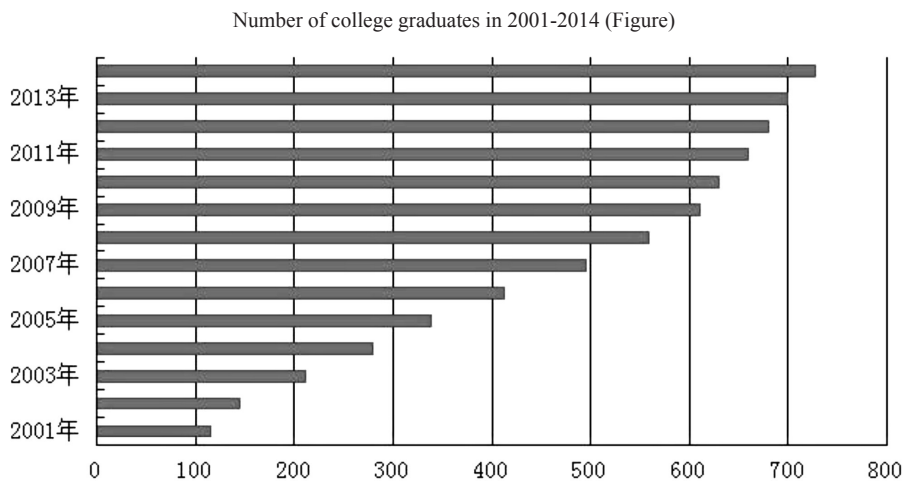


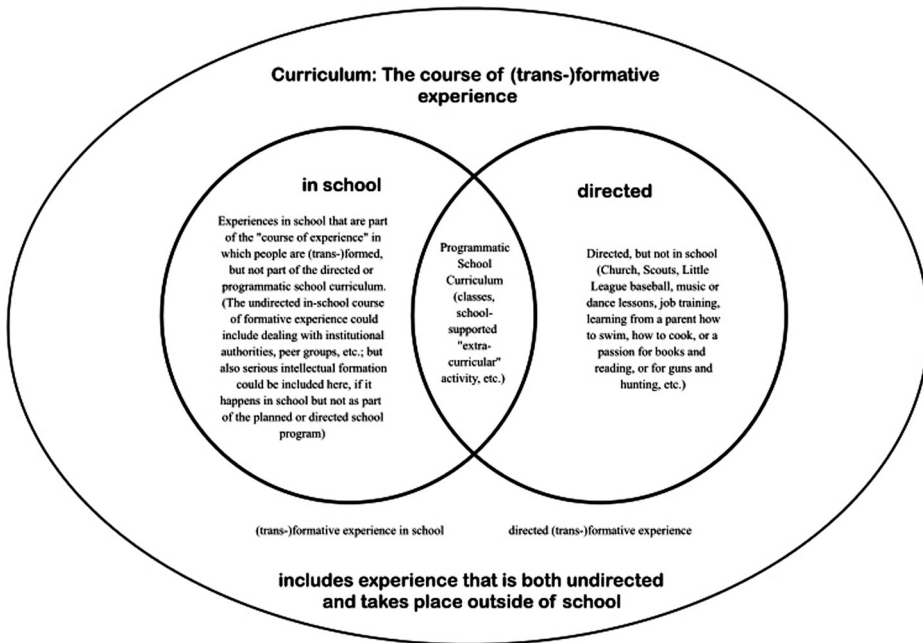
Figure 1: Number of college graduates in 2001-2014. (From website: *China Education Online*³)

According to the forecast, during the “Twelfth Five Year Plan” period, the average annual supply of urban labor force is about 25.000.000 people, while the average annual urban

³ China Education Online: http://career.eol.cn/kuai_xun_4343/20131210/t20131210_1050496.shtml

vacancies can provide only about 12.000.000 jobs. Hence, the annual unemployment is about 13.000.000. According to the high, middle, low level of talents with structure about 1:3:6 in, suitable senior and intermediate positions for university graduates are only 4.800.000 a year, so the employment gap is about 2.000.000⁴. Therefore, solutions to solve the excess of supply of college graduates are based on two points: one is to speed up economic development in order to increase employment opportunities; the second is to reduce the scale of enrollment in universities in order to reduce the supply of College graduates. As far as the Ministry of education is concerned, it should reduce the scale of enrollment of universities and improve the quality of higher education.

2. Guidance of the reform in curriculums——solve the structural contradiction of employment



Note: "Curriculum Vitae" means "the curriculum of (a) life" -- not just those threads of life experience that are planned and happen as part of programs within schools.

Figura 2: Curriculum Concept by James Anthony Whitson - Own work

A structural contradiction exists between the supply of College graduates and actual social demand. It is necessary for the Government to bring out new policy timely to guide and upgrade this situation. The Ministry of education’s compulsory administrative interference is not desirable, because this is not only against the autonomy of universities, but also against the rules in the development of education. Education, including higher education, has the characteristics of long period, lack of benefits in the short term, which leads to changes of the need of profession. Therefore, we should not determine the professional training goal of the future in terms of three years of professional demand. The Ministry of education, responsible for coordination of the

⁴ “The 4 one stone arouses 1000 billow enrollment and employment rate linked hot lead” [EB/OL]. [2012-06-19]. From website: <http://edu.people.com.cn/h/2011/1209/c227696-1417397299.html>.

development of education, needs to deal with three kinds relationship: 1. between the present and the future demand; 2. long-term and short-term professions; 3. elite and mass education. These three aspects represent the rules of development of the college education.

1. The need for the present and future

The Ministry of education needs to coordinate closely with the strategy of the national development, invite experts in the preparation of personnel training mode matching with the cultural and national development strategy. Encourage colleges to apply for special talents learning and training mode (with its own characteristics and advantages of discipline culture experiment project), setting up special funds and appropriate incentives. Integration of existing high school education resources should promote the adjustment of professional background conditions for talent training, avoiding the situation where teachers and teaching resources remain in the traditional professional scheme, and guiding the university resources to respond to the current and future needs.

2. The long-term and short-term professions

Then Ministry of education needs to adjust the present policies and introduce an event limited to support. In general, long-term profession is related to the premise and the foundation of short-term profession's development, so it cannot be forbidden. The excess kind of long-term profession and the waste of resources should be adjusted; the long-term profession with inferior discipline power should be conducted with recruitment limitation, need long-term professional control to limit the supply, and solve the structural contradictions in talent supply and demand. For the specialties which were originally scarce but now in excess of the demand, the Ministry of education should apply a policy of enrollment restriction, trying to guide the integration of resources, to set up a fan of major options, to cultivate new talents, leading development into the social labour environment.

3. The treatment of elite education and mass education

The Ministry of education can set the "985 Project" of first-class universities, as elite educational institutions, focusing on training quality and scientific research level power to protect and supervise personnel training mode and reducing the commitment to support the "inflationary" higher education trends. Instead of making efforts in basic science, the focus would be oriented on applied, a innovative research and basic disciplinary theories, to training promising talents, who have both ability and real attitudes. At the same time, there is the need to expand the scale of training and pay attention to the growing knowledge of talents. Mass education institutions should be based on specialized knowledge and on the teaching for occupation knowledge skills, cultivating application-oriented and practical technical talents. Different universities should be in different locations coordinating their developments through appropriate choices. All these policies imply different standard strategies by the Ministry of education, through the evaluation of personnel training quality reflecting, advantages and characteristics, kind and levels of training, guiding the different talents, caring of the social division of labor required, reducing the present too deep homogeneity of the Graduate Education and supply and demand and the implication of the structural contradictions.

3. Improvement of the employment policy——strengthen the positive employment intention of graduates

The graduates who would rather stay unemployed instead of accepting a job which does not met their expectations is an important factor to influence the employment market. The vice director of Chinese talent market in the south canal appointment Wang Shihua pointed out: “not for the wages that are not high enough, not for the places far away from their home, not for the post which don’t have files, not for the unpleasant name of posts.”⁵These “four refuses” is a reflection of the college graduates employment expectations.

There is a time when the employment post is helpless to social mobility. Graduates who are full of high expectations do not choose their jobs at random, but continue to seek the posts which can change their social status.

However, the popularization of high education makes a large part of learning result in the situation where children of upper middle class families who have low scores can also enter the university and obtain a high education diploma too. What’s more, they will use their social capital from the family to get salary and good jobs. Despite the high quality of lower middle class children having the same high education diploma, it is difficult for them to find work even in the industry and sector due to the lack of strong social capital support. The effects of the economic phenomenon that bad money drives out the good⁶ happens also in high education with regard to the employment market. This not only lets down the students who were born in poor areas, but also spreads quickly to the family with the same class, let the parents and the children of poor families develop negative thoughts of education as useless. Education is not helpful – in itself – to change students future and their family’s fate; even traditional universities might lead to more poor students condition and overall social poverty. This shows how the higher education mechanism to promote changes in the social pyramid may turn out to have failed, with the consolidation of social status phenomena becoming more and more obvious. This will be harmful for the sustainable development of the Chinese harmonious society construction and of both economy and society.

Expected salary and expected employment location of Beijing’s graduates in 2014 (figures)

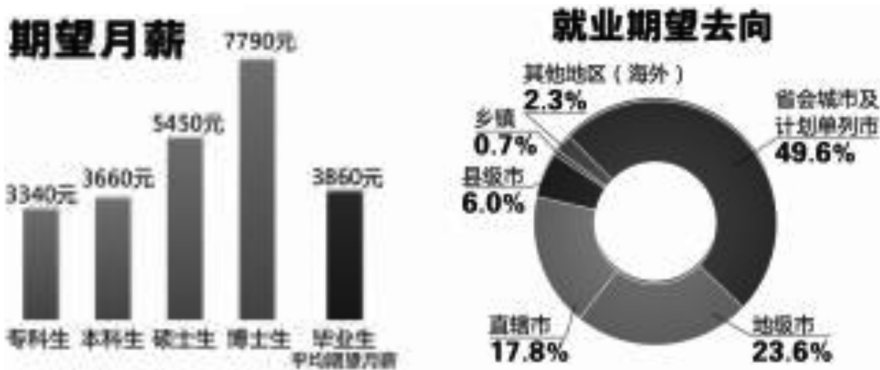


Figure 3: Expected salary and expected employment location of Beijing’s graduates in 2014. From *Jinghua electronic newspaper* (2014-05-28)

⁵ [America] Pete Blau inequality and heterogeneity of [M]. Chinese Social Science Publishing House, 1977

⁶ Gresham’s law is an economic principle that states: “When a government overvalues one type of money and undervalues another, the undervalued money will leave the country or disappear from circulation into hoards, while the overvalued money will flood into circulation.”It is commonly stated as: “Bad money drives out good”.

“For a society that wants to progress, we must have some way to humble origin and intellect people to replace those of noble rich birth but having poor talent and even less learning capabilities”. The competition mechanism of survival of the fittest can⁷ make the society more prosperous, but the competition is not to rely on congenital factors but self induced factors. At present, the higher education and social mobility dysfunction leads to full of dreams and expectations of school graduates reluctant to employment. To solve it, the Ministry of education should publish relevant policy, to improve the recruitment system, steering capability standard recruitment system from diploma, leading to employment paradigm, to eliminate the interference of paradigm by social capital on employment outcomes, to let the graduates with the knowledge and expertise results such as self induced factors become an important basis for employment and the recovery of social mobility.

In short, the great employment pressure on graduates facing today result from the contradiction of enrollment, training and employment in China. In order to fundamentally solve the employment problems of graduates, the key lies in the policy innovation with comprehensive systems thinking of government and universities. It should not only from one aspect, making overall plan for a fundamental transformation.

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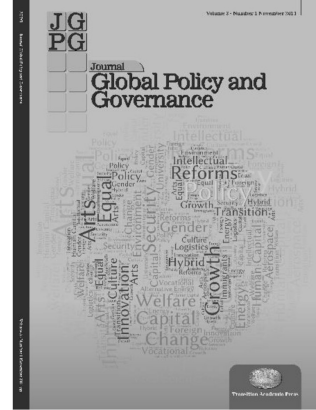
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Journal of Global Policy and Governance *Aims and scope*

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

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

There is no simple way and framework for global governance. Global governance is a general term which means to think globally and act globally. It is complicated because problems might be local. It is complicated because problems might be also global. It is complicated because the solution of problems might be local but also in a global framework global. That is why we need to check issues case by case carefully. We need to sort out what solution is the best choice for the problem. We need to identify who should be the persons of good will taking the challenge and adding their intellectual and scientific capabilities to the human destiny. We have to take an action worldwide.

Global issues are definitely the subjects of global governance. Meanwhile, global governance takes care of issues with local reasons and local solution because we believe the experience might be helpful for people living in other parts of the world.

Interdependence of International Relations with finance, economy, technology, research and advanced knowledge until a few years ago unimaginable, new military might introduced by innovation must be some of the crucial challenges, where also our Journal Global Policy and Governance intends to contribute opening its pages, issue after issue, to faculty, experts, testi-

monies, articles and relevant review of books, junior researches working papers. But we know also that traditional conflicts would not have any perspective in the medium term and will bring to the defeat of the ones who are imagining a return to the past.

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

Middle East, Black Sea, Eurasia, Ukraine, Baltic, Turkey have the capability to reshape the future. Even if they are now in the middle of the fire, soon the devastations and impressive mass killings will be overcome and reconstruction taking the lead in many of these countries. But why not underline the successful 30 years development and growth of China, a unique case in the last 500 years. China is the third world power, after European Union and USA, and has now similar problems we have encountered and are still facing nowadays, needs to find a political solution to reforming and giving voice to an accountability to its almost 1 billion 500 million inhabitants.

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

To add a valuable contribution to this scientific debate is our very aim and scope

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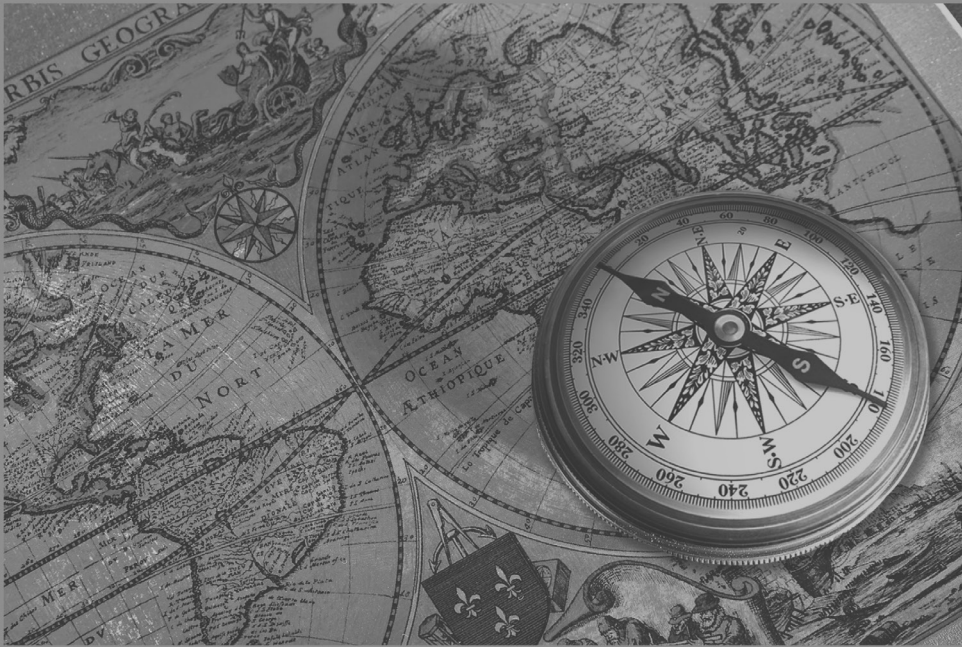
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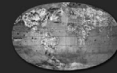
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