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Foreword .....	3
Notes on Contributors .....	4
<b>ARTICLES</b>	
<b>András Inotai.</b> Impact of the Global Crisis on EU–China Relations: Facts, Opportunities and Potential Risks .....	7
<b>Andrea Élтетő.</b> Portugal and Spain: Causes and Effects of the Crisis .....	34
<b>Alina Christova.</b> The European Stability Mechanism: Progress or Missed Opportunity?.....	49
<b>Tiia Püss, Mare Viies, Reet Maldre.</b> Social Systems in the Baltic States and the European Social Model .....	59
<b>Helbe Põdder.</b> Employment of Mothers and Fathers: A Comparison of Welfare States in Scandinavia and Estonia.....	85
<b>Vlad Vernygora.</b> Prospects for New Zealand in the Baltic States: Theoretical, Structural and Operational Dimensions of Cooperation.....	103
<b>Tuuli Lähdesmäki.</b> Contested Identity Politics: Analysis of the EU Policy Objectives and the Local Reception of the European Capital of Culture Program .....	134
<b>Pawel Ladykowski.</b> The Emerging Polish–German Borderland: The Past and the Present .....	167
<b>Ants Kukrus, Raul Kartus.</b> Issues of the Legal Protection of Brand-Name Drugs in the European Union.....	192
<b>BOOK REVIEWS</b>	
<b>Tamás Szigetvári.</b> Fóti, G. & Ludvig, Zs. (eds.) <i>Economic Crisis and Political Turmoil in Ukraine</i> . East European Studies Series, No. 2, Budapest: Institute for World Economics of the Hungarian Academy of Sciences, 2010, 153 pp. ....	211
<b>Zsuzsa Ludvig.</b> Szigetvári, T. (ed.), <i>The European Union’s Eastern Partnership: Experiences, Efforts and Expectations</i> . East European Studies Series, No. 3, Budapest: Institute for World Economics of the Hungarian Academy of Sciences, 2011, 150 pp. ....	214



## Foreword

The issue you are currently reading is the second issue of the *Baltic Journal of European Studies* (BJES), the direct successor of the peer-reviewed journal *Proceedings of the Institute for European Studies, the Journal of Tallinn University of Technology* (IES Proceedings), published by the Department of International Relations of the Tallinn University of Technology until 2010.

The special issue of the *Baltic Journal of European Studies*, Vol. 1(2), as part of the regularly published periodical, has been prepared to celebrate a momentous step in the academic cooperation of Estonian and Hungarian scientists—the appointing of Dr András Inotai as Honorary Doctor in the field of international economics and Estonian–Hungarian scientific collaboration by the Tallinn University of Technology.

Academician András Inotai is one of the leading economic scientists in Europe and has successfully led the Institute for World Economics at the Hungarian Academy of Sciences for twenty years. He is a remarkably broad-minded scholar, an outstanding man, whose personal support and cooperation skills have strongly contributed to the popularization of the work and achievements of the younger generation of Estonian economists and sociologists in the entire Europe and have greatly facilitated the integration of Estonian scholars into the European scientific community.

The essential significance of the articles published in this issue lies in a new perspective given to the key issues in the field of economic policy of the European Union and introduction of new and exciting authors from Belgium, Finland, Hungary, Poland, etc. In sum, the fall issue of the journal offers the chance to significantly broaden the approach to scientific topics and, at the same time, focus on the characteristic features of the continuing process of economic and social, but also cultural, integration in the European Union.

*Aksel Kirch*  
*Editor of the special issue*

## Notes on Contributors

**Alina Christova** is a fully trained German lawyer specialising in European Union law, international law, and East European law. She has worked as political adviser for the Council of the European Union, as a legal expert for the OSCE Office for Democratic Institutions and Human Rights and for several university institutions in Berlin, Germany, including the Humboldt University, the European Centre for Comparative Government and Public Policy as well as the Institute for East European Studies. Currently, she is part of the E-Learning and Training Unit of the Institute for European Studies in Brussels, Belgium. Her most recent publications include the articles “Europe’s Quest for a Response to the Financial Crisis” and “Future Developments of E-Modules: The Role of Interactive Tools and Multimedia in Teaching European Studies Online”.

**Andrea Éltető**, PhD, has been senior research fellow at the Institute for World Economics of the Hungarian Academy of Sciences since 1992. Her main research fields are: Spain and Portugal in the EU, FDI and foreign trade of Hungary. Her graduate and postgraduate studies were undertaken at the Budapest University of Economic Sciences. She has participated in several international research projects and fellowships and received the Young Scientist Award from the Hungarian Academy of Sciences in 1999. Her publication list consists of several international and national issues, one book, twelve book chapters, over thirty articles in peer-reviewed journals and more than twenty studies.

**András Inotai**, DSc, General Director of the Institute for World Economics, Hungarian Academy of Sciences, visiting professor at the College of Europe Bruges (Belgium) and Natolin (Poland), master course at Zentrum für Europäische Integrationsforschung (Bonn), graduate and master course at European Online Academy (Berlin–Nice). His major fields of research are: globalisation and impact of the financial and macroeconomic crisis on global developments, theoretical issues of economic integration, European Union, policies and positions of new member countries of the EU, lessons from two decades of (economic) transformation, China’s economic development pattern and its growing role in global issues, the Western Balkans and its way to the European Union. He has authored over a dozen books and several hundreds of professional publications in English, German, Spanish, Bulgarian, Hungarian, etc. and delivers about twenty conference speeches/contributions each year in Hungary and abroad.

**Raul Kartus** received his master’s degree (MBA) from the Tallinn University of Technology in 2007. He also has MEng from the Tallinn University of Technology in 1972 and LLM (IP law) from the Moscow Patent Institute in 1978. Since 1992 he has been working as head of Patent Department, and since 2000 as counsellor at Estonian Patent Office. He is representative of Estonia in Patent Law Committee and Budget and Finance Committee of European Patent Organization and member of the IP Working Party (patents, trademarks) of the Council of the European Union. He is also member of the AIPPI Estonian National Group.

**Ants Kukrus**, PhD, is Professor of Business Law and head of the Chair of Business Law, Tallinn University of Technology, Estonia. From 1997 to 2007 he was visiting professor at the Institute of Law, University of Tartu. He has PhD from the Estonian Academy of Sciences (1975, Administrative Law) and has published a large number of books and articles on matters related to intellectual property law.

**Dr. Paweł Ładykowski** has been dealing with the issues of ethnicity and examining the social phenomena associated with political system transformations in the socio-cultural and ethnic dimension in post-socialist countries since the early 1990s. Between 1992 and 2008 he conducted a long-term field research with a particular emphasis on countries such as Estonia, Latvia, Lithuania, and Russia (Kaliningrad). Since 2008, he has worked on the analysis of social phenomena taking place in the Eastern areas of the former GDR. Currently he is conducting a long-term field research in the entire catchment area of the Szczecin Lagoon and especially the emerging multi-dimensional space of the Polish–German borderland.

**Tuuli Lähdesmäki**, PhD, is researcher at the Department of Art and Culture Studies, University of Finland. Her current research project ('Identity politics in Pécs, Tallinn and Turku as European Capitals of Culture') is funded by the Academy of Finland. Her major fields of research are identity politics and cultural identification, reception of art and culture, meaning-making processes in art, politics of public art, public space and city space, and cultural meanings of Europeaness. She has published two monographs in Finnish, and tens of scientific articles in Finnish and in English on these topics in scientific journals and anthologies, and given tens of scientific presentations on these topics at international conferences in various countries.

**Zsuzsa Ludvig**, PhD, is senior research fellow at the Institute for World Economics of the Hungarian Academy of Sciences where she has been working since 1993. The post-Soviet space constitutes her major research field with special regard to foreign aspects of Russian and Ukrainian economies. She is member of the research advisory board of the Institute for World Economics of HAS, secretary of the inter-academic Hungarian–Ukrainian Council on Social Sciences. She was recently elected to the presidium of the International Economics Section of the Hungarian Society on Economics.

**Reet Maldre** is specialist at the Centre for Economic Research, Tallinn University of Technology. Her main research interests include theoretical and applied econometrics, time series modelling, panel data methods. She is the co-author of several articles.

**Helbe Põdder**, MA, is doctoral student at the Tallinn University of Technology with a research focus on international relationships and European studies. She lectures on Child Welfare, Social Policy and Ethics at the Tallinn Pedagogical College. Her research interests include population and demographic policy, child protection and welfare, child and family policy. Her latest publication discusses aspects of child and family policies in the draft statutes of Estonian population policy (2009–2013) of the *Riigikogu* (Estonian parliament) in the period from 2007 to 2010 (*Tallinna Pedagoogilise Seminari Toimetised*, no. 6, 2010).

**Tiia Püss**, PhD, is senior researcher at the Centre for Economic Research, Tallinn University of Technology. Her areas of research are public sector economics, economic cycles in a small open economy, economic growth and convergence, social policy and modelling of the development of social sector. Her recent publications include a case study on social convergence and tax policy in the European Union.

**Tamás Szigetvári**, PhD, is senior research fellow at the Institute for World Economics of the Hungarian Academy of Sciences since 1996. His main research fields are the countries of the European Neighbourhood Policy and Turkey. His graduate and postgraduate studies were undertaken at the Budapest University of Economic Studies. He is associate professor at the Pázmány Péter Catholic University.

**Vlad Vernygora**, MA in European Studies and PhD Candidate (University of Canterbury, New Zealand); LLB, Ukrainian National Law Academy, Kharkiv; BA First Class Honours in European Studies, University of Canterbury, Christchurch, the Chairman of the Ukrainian Association of New Zealand (Northern Regions). His research interests include studies of Central-Eastern Europe, its interaction with the EU and New Zealand, constitutional law and European neo-regionalism.

**Mare Viies** is researcher at the Centre for Economic Research, Tallinn University of Technology. She is member of the European Economic and Social Committee and independent expert on poverty and social inclusion at the European Commission. Her areas of research are welfare and social policy, modelling of social system and social convergence, income distribution and redistribution, poverty and social inclusion. Her recent publications include a case study on social convergence and tax policy in the European Union.

# Impact of the Global Crisis on EU–China Relations: Facts, Opportunities and Potential Risks<sup>1</sup>

András Inotai

Institute for World Economics,  
Hungarian Academy of Sciences  
Országház 30,  
Budapest H-1014, Hungary  
e-mail:ainotai@vki.hu

**Abstract:** *The global crisis, its management and consequences have fundamentally upgraded economic relations between the European Union and China. The latter could consolidate its leading position as the most important supplier to the EU, while the EU could substantially increase its exports to China during the crisis. At the same time, a growing gap has been emerging among EU member countries, with a unique growth path between China and Germany. This factor has to be considered by all surveys elaborating on the traditional and new features of bilateral relations between the European integration and China.*

**Keywords:** *China, cooperation and areas of potential conflicts, European Union, global crisis, trade*

## Introductory remarks

The global financial, macroeconomic and still perceived social crisis has had several impacts on the future of EU–China relations. First, it elevated China to the status of one of the key global players. In fact, China became the first exporter in the world precisely in the year of the unprecedented collapse of global trade after the Second World War. Obviously, the export-oriented pattern of Chinese growth has been seriously hit by the rapidly shrinking international trade. However, the EU, both due to its higher exposure, less flexibility of the labour markets, market access barriers in key sectors of the internal market and

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<sup>1</sup> This article is based on a longer version of a paper prepared by the author, published under the title ‘Impact of the Global Crisis on EU–China Relations: Facts, Chances and Potential Risks’ (Inotai, 2011b).

“uneven” competitiveness was even more affected by the crisis. As a result, just in 2009, China became the world’s leading exporter, ahead of Germany. One year later, in 2010, China overcame Japan as the second largest national economy, according to GDP figures expressed in US dollars (concerning a comparison in purchasing power parity, this change took place several years before). Probably most importantly, China is holding at the moment one-third of the global foreign exchange reserves and is the biggest borrower not only to the heavily indebted United States, but increasingly also to other emerging countries and, as a most recent phenomenon, to some members of the eurozone.<sup>2</sup> Accompanied by the dramatic change in real economic power relations are the more gradual shifts in the architecture of international institutions, including voting rights in the IMF and the World Bank and their growing influence in many global and regional agencies.

Second, the crisis strengthened the member country (national) reactions to the global crisis. Not only national crisis management programs have been designed and implemented but, as a first reaction, even the eurozone countries, having a common currency (and interest rate), focused on bailing out their respective national financial sectors. Only once the crisis started to hit the fundamentals of the euro, the necessity of common actions (but not that of common positions and instruments) has been recognized. Still, there was a rocky path from understanding the dangers to common actions crystallized in the birth of the European Economic Governance, a comprehensive coordination of (leading) member country policies in selected (but by far not in all relevant) areas.

As compared with previous periods, the last one year of the development of European integration proves a spectacular acceleration of community-level actions (but not yet implementation of initiatives and decisions). Probably the best description of this path is “from the impossible to the inevitable”. Nevertheless, the understanding of “inevitability” does not automatically lead to immediate common actions and, even less, to the quick implementation of binding community-level policies in critical areas of the integration (far beyond the rescue of the euro and of some eurozone members). As a result of the crisis, the EU has definitely gained an unprecedented impetus to speed up the deepening of the integration that had been on the agenda for the last 20 years, at least since the conceptualization of the single market program by Jacques Delors between 1986 and 1992. Still, understandably, this new quality of the integration has just started and the steps already made and to be expected are part of an “unfinished

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<sup>2</sup> In April 2011, China’s official reserves surpassed the level of USD 3,000 bn (China hält mehr Devisenreserven als jemals zuvor, 2011). Just for comparison: this amount is about 20 per cent of the GDP of the European Union and 20 times the Hungarian GDP.

business”. The outcome is likely to depend on many global and European factors. However, the most important issue seems to be how, in the next years, the EU and its key Member States will be addressing the immediate challenge of the “management of the costs of crisis management”. It has to be underlined that, following a longer period of stagnation, the European integration may break a vicious circle and comply with the basic priority of Chinese politics and become one of the strong and reliable building blocks of multipolarity, the (desired but not automatically anticipated) governance of global issues and developments.

Third, the global crisis and its management, in general, and their impact on bilateral relations between the EU and China, in particular, have had serious and statistically verifiable outcomes. They can be identified in several areas, such as trade, investments, relations with third countries and, not least, in financial, monetary and exchange rate issues. Some of the abovementioned fields will be addressed in further detail in other papers published in the volume. Therefore, the structure of this contribution, while making some notes on issues discussed in deeper form in other papers, will concentrate on recent developments in bilateral trade relations, the changing consideration and priorities of both parties concerning the future of bilateral relations and conflicts and cooperation in international organizations and in selected “priority” regions of the global economy. These chapters follow a short description of the history of EU–China relations.

## **Development of bilateral relations (1975–2011) and new conditions for future cooperation**

Diplomatic relations between the EU and China were established in 1975, years before China started its new economic policy of gradual opening, and almost 15 years before Central and Eastern European countries (excepting Yugoslavia and Romania) succeeded in making the same step. The Trade and Cooperation Agreement was signed a decade later, in 1985, already in the first period of opening up the Chinese economy. In fact, until today, this is *the* official agreement on which bilateral trade and economic relations are based. Of course, in the last decades, a large number of additional areas of cooperation were launched, starting from the bilateral political dialogue (1992) and human rights issues (1995), through two dozen bilateral agreements covering important fields of facilitating the development of bilateral but also multilateral contacts in economic, political, social and cultural issues, up to the institutionalization of the ‘strategic dialogue’ (2005) and the opening of EU–China High Level Economic and Trade Dialogue (2008). Simultaneously, the growing importance

of bilateral relations has been reflected in several official papers mainly prepared by the European Commission<sup>3</sup> but also one key document (policy paper) prepared by China (2003). Moreover, summit meetings between the EU and China started in 1998 and were held each year,<sup>4</sup> so that by the end of 2010 already 13 such meetings could be registered. Still, a new and comprehensive bilateral agreement replacing the trade and cooperation agreement of 1985 is in a preparatory stage. For several years, the EU has been working on a ‘strategic partnership’ document, similar to those already signed with some countries (for instance, Brazil and India) but certainly with much more relevance due to the outstanding importance of bilateral relations with China. It has to be added that China’s interest in a ‘strategic partnership’ has also been fluctuating in the last years because some doubts about the EU as a ‘strategic partner’ for China emerged and the meaning of ‘strategic’ and ‘partnership’ could not be sufficiently clarified.

Nevertheless, bilateral relations remained vivid during the period of the global crisis. Furthermore, in some areas a manifest strengthening of relations can be identified. In this context, one of the most important “breakthroughs” was the opening of the high level economic and trade dialogue, started in April 2008, about a year before a similar forum was established between China and the United States. However, the EU–China dialogue seems to be less concrete and focus less on global issues (as compared to the China–US dialogue). Another important step (or Chinese gesture) was the visit of a high-level Chinese delegation shortly after the failure of the 2008 summit meeting due to the French attitude and in the most difficult period of the global crisis to several EU member countries (mainly Germany) with Chinese orders in the amount of USD 14 bn and to the European Commission. In return, one of the first visits of the newly elected Commission (including its President) led to Beijing in April 2010. A sign of a stronger EU voice after the enforcement of the Lisbon Treaty (and the post-crisis situation) can be considered the appointment of an Ambassador from the EU to China (and Mongolia), namely Markus Ederer, as of January 2011.

<sup>3</sup> The first communication [*A Long-Term Policy for China–Europe Relations* (EC, 1995)] was published in 1995 and followed by a number of similar communications and strategy papers [*Building a Comprehensive Partnership with China* (EC, 1998), *EU Strategy towards China* (EC, 2001), *China: Country Strategy Paper for 2002–2006* (EC, 2002), *A Maturing Partnership: Shared Interests and Challenges in EU–China Relations* (EC, 2003), *EU–China: Closer Partners, Growing Responsibilities* (EC, 2006)].

<sup>4</sup> Except in 2008, due to Chinese boycott following the French President’s meeting with the Dalai Lama, but only two summit meetings in 2009.

There are several developments that seem to support the necessity of granting more attention to the EU–China relations in the new international environment, eventually even a qualitative upgrading of bilateral relations.

On the Chinese side, the first issue is the return to pre-crisis high growth.<sup>5</sup> Although the crisis temporarily moderated the growth rate, it still remained above the five-year plan figure. Not less importantly, the growth returned to the 10 per cent level in 2010 and is expected to be about 11 per cent in 2011, the first year of the new five-year plan. In addition, and despite serious and decade-long efforts and promises of the government, the growth remained on the previously successful path of export-orientation. The crisis seemed to give more impetus to an economic policy change towards increased domestic consumption and such a turn was favoured both by the anti-crisis package of the Chinese government and by the—temporary—collapse of international trade. However, as growth returned to its previous level, so did exports. Even if the annual current account surplus is likely to decline from its peak of USD 400 to 500 bn (2006–2008), it remains substantial with more than USD 200 bn annually between 2010 and 2012.<sup>6</sup> Consequently, the turn from export-oriented to domestic market-focused growth pattern is likely to be more time consuming than expected and, even more, than planned by the government.<sup>7</sup> Second, and connected to the remaining high current account surplus and unprecedented amount of foreign exchange reserves, China will become a more dynamic and active player in international capital markets, with a special emphasis on direct investments (both greenfield and mergers-acquisitions) in other parts of the world, including in several EU member countries. Third, China has started its new five-year plan covering the period between 2011 and 2015. It contains several new priorities, some of them offering opportunities for extensive bilateral cooperation (mainly in the field of climate policy, energy efficiency, renewable energy and low-carbon technologies). Fourth, China will have a new political leadership as of 2012 with which the EU will be cooperating for at least a medium-term period. Finally, EU–China relations cannot be decoupled from the very intensive and Siamese-twins-like relations between the USA and China.

New framework conditions for bilateral relations have already started to emerge in the European integration as well. First, the EU is deeply concerned about

<sup>5</sup> In fact, the last two five-year plans of China forecast an annual growth of about 7 per cent, a figure that was clearly outperformed during the entire decade, with 10 per cent of average (and an outstanding 14 per cent in the pre-crisis year of 2007) (China's seventh heaven, 2011).

<sup>6</sup> See *How China should rule the world*, 2011.

<sup>7</sup> For a comprehensive analysis see Inotai, 2011a, particularly pp. 71–86.

the “management of the costs of crisis management”. Although the most acute stage of the crisis (at least in financial and macro-economic, but not yet in social terms) seems to be over, sustainable (and quick) economic recovery is hindered by several factors, including the high level of budgetary deficit and public debt of most eurozone member countries. Second, simultaneously with the new five-year plan of China, the EU launched its Europe 2020 strategy, with the double priority of growth and jobs as its centrepiece. One of the novelties of this strategy consists in the broader view of the rapidly changing global economic environment and not just concentrating on how to deal and compete with the United States (as the Lisbon Strategy of 2000 did). Outstanding attention will be devoted to the emerging economies in general, and to China, in particular. Third, the impact of the crisis (but also of the internal contradictions of the monetary union) on the eurozone and the future of the common currency gave birth to an unprecedented action on Community level. Rules and institutions of a European Economic Governance (not yet Government!) were created and partly already enforced in a period of 15 months. In fact, most of these steps would have been considered impossible when the crisis broke out and even deepened. The trajectory from the emergence of the Greek crisis in January 2010 to the approval of the documents at the last summit in late March 2011 can be rightly characterized as a move “from the impossible to the inevitable”. Of course, “inevitability” does not imply successful and sustainable management of the situation, but the recognition of the mere fact is a substantial step forward. Although the “business” remains largely unfinished, it cannot be denied that, mainly as a result of external factors and unique pressure, the European integration abandoned its decade-long period of stagnation or paralysis and had to enter a new period of “uncharted waters”.<sup>8</sup>

These factors, both on the Chinese and on the European side, create new framework conditions and, at the same time, produce substantial challenges, both risks and opportunities for (strategic) cooperation in the second decade of the 21<sup>st</sup> century. Policy-oriented research of the next years should be focused on the development of new conditions, regarding their roots, driving forces and potential impacts.

<sup>8</sup> It has to be recognized that the last decade of the European integration produced two very important results, namely the Monetary Union (with all of its birth failures and functional, institutional, and legal problems) and the historic enlargement towards Central, Eastern and Southeastern Europe). However, the process of deepening did not make relevant progress, a precondition for strengthening the EU both internally and in the global framework.

## Impact of the crisis on bilateral trade<sup>9</sup>

The EU and China represent two indispensable anchors of international trade. Since external trade used to be a driver of economic growth in most countries (including China), there is a direct relationship between (sustainable) growth and (sustainable) export(-orientation). While the EU is by far the largest exporter and, as a result of the crisis, it became also the largest importer (as of 2008, ahead of the USA), China's exports and imports indicate the strongest growth dynamism. The share of EU exports in global exports dropped in 2008 but recovered in 2009, following the bottoming-out of the collapse in the first quarter of 2009, even if it did not reach the pre-crisis level. At the same time, China's share in global exports grew from 10.2 to 13.3 per cent between 2005 and 2009. Even the crisis year produced growing export share, due to the fact that Chinese exports were somewhat less hit by the crisis than those of other main exporters. Similar tendencies can be observed in imports. China's share grew from 7.6 in 2005 to almost 10 per cent in 2009, and mitigated the global decline. For the future of bilateral relations it may be even more important that, as of 2008, the EU became the leading importer, as the share of the USA dropped considerably between 2005 and 2009. Finally, remarkable imbalances developed in global trade between 2005 and 2009. The cumulative deficit of the USA reached almost 3,000 bn euros, while the EU deficit amounted to 876 bn euros. In turn, China reached a surplus of more than 1,000 bn euros (see Table 1).

*Table 1. Share of main trading countries in global trade  
(%, being global exports and imports = 100)*

Year	Extra EU-27	Exports USA	China	Extra EU-27	Imports USA	China
2005	18.0	12.1	10.2	19.0	22.0	7.6
2008	16.6	11.0	12.1	19.1	17.6	8.5
2009	17.2	11.7	13.3	18.0	16.9	9.8

Cumulative trade balance, 2005–2009 (bn euro)

EU- 27	– 875.6
United States	– 2,919.3
China	+ 1,013.3

*Source: Eurostat, 2011*

<sup>9</sup> The EU data presented here refer to extra-EU trade, if not otherwise specified. For statistics see Tables 1 to 9.

The EU exports fully recovered from the global crisis for they reached a 3 per cent higher value than in 2008 (after a collapse by more than 16 per cent in 2009). The outstanding driver of the positive development was China, the only major country to which EU exports did not decline even in the crisis year of 2009. Similarly, the Chinese market proved to be one of the most dynamic ones during the recovery (similar to Turkey and Brazil, but together less important than exports to China). As a result, EU exports to China grew by 44 per cent between 2008 and 2010, and made China the second largest extra-EU market, following the United States (ahead of Switzerland and Russia). While exports to China represented about one-third of exports to the USA in 2008, they grew to almost 50 per cent of exports to the USA by 2010 (Table 2a).

Table 2a. Recovery of EU trade from crisis, exports

Main export markets	2008	bn euro 2009	2010	2009/08	Change* 2010/09	2010/08
Extra EU-27	1309.9	1.097.1	1.348.5	83.8	122.9	102.9
USA	250.1	205.5	242.4	82.2	118.0	96.9
<b>China</b>	<b>78.4</b>	<b>82.4</b>	<b>113.1</b>	<b>105.1</b>	<b>137.3</b>	<b>144.3</b>
Switzerland	98.0	88.6	105.4	90.4	119.0	107.6
Russia	105.0	65.6	86.5	62.5	131.9	82.4
Turkey	54.1	44.1	61.2	81.5	138.8	113.1
Japan	42.3	36.0	43.7	85.1	121.4	103.3
Norway	43.8	37.5	41.8	85.6	111.5	95.4
India	31.6	27.6	34.8	87.3	126.1	110.1
Brazil	26.3	21.6	31.3	82.1	144.9	119.0
Korea	25.6	21.6	28.0	84.4	129.7	109.4

\* base year always 100

Source: Eurostat, 2011 (see Table 1) and own calculations

Also imports revealed clear signs of recovery but the 2010 figure did not yet reach that of 2008 (partly due to the lower energy prices and other price effects). Interestingly, imports by the EU from China also suffered from the crisis, but the decline was much smaller, although dramatic, than the decline of total imports (13.6 per cent and 23 per cent, respectively). In addition, the recovery proved more robust than the overall growth of EU imports, so that imports from China in 2010 surpassed imports in 2008 by 14 per cent, while global imports were still almost 5 per cent behind the 2008 level (and figures for the USA almost 10 and those for Russia 13 per cent lower than in 2008). As a result, China could further strengthen its position as the largest extra-EU import source. While in

2008 imports from China were 33 per cent higher than those from the USA, the gap widened by 2010 to 67 per cent (!)(Table 2b).

*Table 2b. Recovery of EU trade from crisis, imports*

Main import sources	2008	bn euro 2009	2010	2009/08	Change* 2010/09	2010/08
Extra EU-27	1.565.0	1.205.3	1.492.2	77.0	123.8	95.3
<b>China</b>	<b>247.9</b>	<b>214.1</b>	<b>282.0</b>	<b>86.4</b>	<b>131.7</b>	<b>113.8</b>
USA	186.8	159.2	169.3	85.2	106.3	90.6
Russia	177.8	117.3	154.9	66.0	132.1	87.1

\* base year always 100

Source: Eurostat, 2011 (see Table 1) and own calculations

The EU–China trade has been characterized both before and during the crisis by growing shares in total EU exports and imports. In the period between 2008 and 2010, covering both the crisis and the recovery, China’s share in total EU exports grew from 6 to 8.4 per cent, while in the EU imports the respective figures were 15.8 and 18.9 per cent (Table 3). Both sides of trade reveal an unprecedented dynamism and the strengthening of the “strategic” role of bilateral trade.

*Table 3. Share of China in total extra EU-27 trade (%)*

Year	Extra EU-27 exports	Extra EU-27 imports
<b>2006</b>	5.5	14.4
<b>2008</b>	6.0	15.8
<b>2009</b>	7.5	17.8
<b>2010</b>	8.4	18.9

Source: Eurostat, 2011 (see Table 1)

Although the US remained the largest trading partner of the EU despite the crisis, since the turnover of bilateral trade was still somewhat higher (412 bn euros) than that of EU–China trade (395 bn euros), the gap had been substantially narrowing in the last years. Just this year (2011) could be the year of change, so that EU–China trade could surpass that of the traditionally and unquestionably leading EU–USA.<sup>10</sup> However, it has to be noted that the rapidly growing turnover hides

<sup>10</sup> The most recent figures of January 2011 indicate similar levels of turnover (exports and imports) for the USA (34.8 bn euros) and China (37.5 bn euros). Source: Eurostat, 2011, see at the end of Tables.

the substantial imbalance of bilateral trade. In 2010, the EU's deficit that during the crisis year of 2009 had dropped from 169 bn euros to 131 bn euros, jumped back to the pre-crisis (2008) level (169 bn euros). In other words, while in bilateral trade both exports and imports indicated high growth rates, economic recovery immediately restored the previous level of imbalance. Thus, in 2010 the trade deficit of the EU with China was fully "responsible" for the total trade deficit of the EU, since it reached 117.5 per cent of the latter (169 bn euros and 144 bn euros, respectively) (Table 4).

Table 4. *Extra EU-27 trade by main destinations, 2010*

Country	Exports bn euro	Exports share %	Imports bn euro	Imports share %	Turnover bn euro	Turno- ver share %	Balance bn euro	coverage exports/ imports
Extra-EU total	1.348.5	100.0	1492.2	100.0	2.840.7	100.0	-143.7	90.4
USA	242.4	18.0	169.3	11.3	411.7	14.5	+ 73.1	143.2
China	113.1	8.4	282.0	18.9	395.1	13.9	-168.9	40.1
Russia	86.5	6.4	154.9	10.4	241.4	8.5	-68.4	55.8
Switzer- land	105.4	7.8	84.1	5.6	189.5	6.7	+ 21.3	125.3
Norway	41.8	3.1	79.1	5.3	120.9	4.3	-37.3	52.8
Japan	43.7	3.2	64.8	4.3	108.5	3.8	-21.1	67.4
Turkey	61.2	4.5	42.0	2.8	103.2	3.6	+ 19.2	145.7
India	34.8	2.6	33.0	2.2	67.8	2.4	+ 1.8	105.5
Korea	28.0	2.1	38.6	2.6	66.6	2.3	-10.6	72.5
Brazil	31.3	2.3	32.3	2.2	63.6	2.2	-1.0	969.9

Source: Eurostat, 2011 (see Table 1) and own calculations

A detailed statistical analysis of China's trade with the individual EU member countries reveals huge differences and hints at some "strategic alliances" within the EU-27. Here only the most important features will be shortly mentioned by using the most recent figures covering the full year of 2010. First, almost half of EU exports to China originate in Germany. The second largest exporter to China is France, with 16 per cent (!) of the respective German export figure. The cumulative share of the new member countries (EU-12) is less than 5 per cent, with Poland and Hungary surpassing the 1 billion euro margin. The relatively high export figure of Slovakia deserves some attention (ahead of the Czech Republic). Second, for three EU member countries, China's share in total extra-EU exports is higher than 10 per cent (Germany 14.1, Slovakia 12.7 and Finland 11.5 per cent, respectively). None of the other members reaches the

EU average of 8.4 per cent. Third, in total extra-EU imports Germany's leading position is evident but by far not as dominant as in exports. Other countries, such as the Netherlands, the United Kingdom and Italy report two-digit shares. The cumulative share of the new member countries reaches 10 per cent, or the double of the respective export data. Fourth, China plays a leading (or even dominant) role in total extra-EU imports of several member countries. Excepting the very special case of Luxembourg (more than 50 per cent), imports from China account for 30 per cent of Hungary's total extra-EU imports, and are in the 20 to 30 per cent margin for a number of other countries (the Czech Republic, Denmark, the Netherlands, Germany, Greece). Of course, statistical figures may be misleading, since imports from China regularly follow three main destinations: the (consumer) market of the given country, inputs to various sectors of export-oriented manufacturing output and direct re-exports to other EU member countries (or non-member countries). For instance, Luxembourg or the Netherlands but partly also some new member countries, including Hungary, can be considered as EU-wide or regional hubs for Chinese commodities.

Probably the most important and unique feature of the development of imports from China is the fact that in 2010 China became the largest supplier of Germany not only in extra-EU, but also in total EU trade, ahead of the Netherlands and France, both having been over decades the biggest partners. Taking together the already mentioned German export-orientation in China and China's role as the largest supplier to Germany can easily lead to the assumption that bilateral German–Chinese trade links represent a really strategic channel that can be located less and less in the “conventional” EU–China trade pattern. Fifth and finally, all EU member countries, except Finland, register different size of deficit in their bilateral trade with China. However, there are groups of countries that can be classified in different categories. A relatively balanced trade (exports covering more than two-thirds of imports) characterizes Germany, Ireland, Austria and Sweden. At the other end of the scale we can find a number of EU members with huge imbalances, with exports covering less than 20 per cent of imports from China. All Central and southeastern European new member countries, except Slovakia, belong to this category (Table 5).

Table 5. Trade of the EU-27 and member countries with China, 2010

Country	mn euro	Exports share %*	share %**	mn euro	Imports share %*	share %**	Balance mn euro	Coverage Exports in % of imports
EU-27	113.111	100.0	8.4	281.996	100.0	18.9	-168.885	40.1
Belgium	5.420	4.8	6.5	11.964	4.2	13.6	- 6.544	45.3
Bulgaria	189	0.2	3.1	493	0.2	6.2	- 304	38.3
Czech R.	918	0.8	5.7	6.929	2.5	28.9	- 6.011	13.2
Denmark	1.775	1.6	7.1	4.634	1.6	24.6	- 2.859	38.3
Germany	53.504	47.3	14.1	63.411	22.5	21.7	- 9.907	84.4
Estonia	113	0.1	4.1	336	0.1	17.9	- 223	33.6
Ireland	1.574	1.4	4.3	1.890	0.7	12.7	- 316	83.3
Greece	145	0.1	2.5	2.864	1.0	20.4	- 2.719	5.1
Spain	2.611	2.3	4.4	15.957	5.7	15.9	-13.346	16.4
France	11.054	9.8	7.2	23.233	8.2	16.0	-12.179	47.6
Italy	8.631	7.6	6.0	28.572	10.1	17.4	-19.941	30.2
Cyprus	16	0.0	4.4	340	0.1	17.5	- 324	4.7
Latvia	29	0.0	1.2	220	0.1	10.3	- 191	13.1
Lithuania	28	0.0	0.5	430	0.2	5.6	- 402	6.5
Luxem- bourg	133	0.1	5.6	1.739	0.6	50.8	- 1.606	7.6
Hungary	1.180	1.0	7.2	6.564	2.3	30.6	- 5.384	18.0
Malta	57	0.1	5.1	117	0.0	10.3	- 60	48.7
Nether- lands	5.552	4.9	5.6	49.029	17.4	23.6	-43.477	11.3
Austria	2.583	2.3	7.8	3.375	1.2	12.5	- 792	76.5
Poland	1.235	1.1	4.9	7.041	2.5	18.0	- 5.806	17.5
Portugal	235	0.2	2.6	1.576	0.6	11.4	- 1.341	14.9
Romania	308	0.3	3.0	2.551	0.9	19.9	- 2.243	12.1
Slovenia	106	0.1	1.7	934	0.3	12.8	- 828	11.3
Slovakia	971	0.9	12.7	2.014	0.7	14.6	- 1.043	48.2
Finland	2.687	2.4	11.5	2.292	0.8	12.4	+ 395	117.2
Sweden	3.738	3.3	7.3	5.586	2.0	15.2	- 1.848	66.9
UK	8.319	7.4	5.9	37.903	13.4	18.5	-29.584	21.9

\* share in total extra-EU exports and imports

\*\* share in total extra-EU exports and imports of the respective member country

Source: Eurostat, 2011 (see Table 1) and own calculations

In order to have a more comprehensive picture for comparison, the share of China has been calculated in total (intra and extra) trade of the EU and of the member countries. In this context, China's role is definitely less relevant, with

less than 3 per cent in total exports and with a little more than 7 per cent in total imports of the EU. In exports, Germany's 5.6 per cent and Finland's 5.1 per cent are much above the average, while in imports the Netherlands (12.6 per cent), Hungary (9.9 per cent), the United Kingdom (9 per cent) and a number of other members with higher than 7 per cent share (Germany, Italy, Greece, the Czech Republic, Denmark) can be mentioned. For eight EU members trade deficit with China could be overcompensated by surplus in other bilateral trade relations. In turn, 16 countries report deficit both in total and in China-related trade, the latter being a substantial part of (or even higher than) the total deficit. (Finland is the only country with surplus position both concerning total and China-related trade.) (Table 6)

*Table 6. Share of China in total (intra and extra) trade of the EU and member countries, 2010 (%)*

<b>Country</b>	<b>Exports to China</b>	<b>Imports from China</b>	<b>Trade balance total and China*</b>
EU-27	2.91	7.14	– 262.0
Belgium	1.74	4.06	+ / –
Bulgaria	1.21	2.57	– 15.1
Czech Republic	0.92	7.28	+ / –
Denmark	2.41	7.25	+ / –
Germany	5.59	7.88	+ / –
Estonia	1.29	3.63	– 44.6
Ireland	1.78	4.20	+ / –
Greece	0.92	7.48	– 12.1
Spain	1.41	6.73	– 25.8
France	2.81	5.08	– 19.0
Italy	2.55	7.82	– 73.1
Cyprus	1.51	5.38	– 6.2
Latvia	0.41	2.53	– 12.3
Lithuania	0.18	2.44	– 20.8
Luxembourg	0.90	9.57	– 47.5
Hungary	1.64	9.88	+ / –
Malta	3.00	3.71	– 4.8
Netherlands	1.28	12.58	+ / –
Austria	2.25	2.82	– 16.3
Poland	1.05	5.38	– 43.0
Portugal	0.64	2.78	– 6.7
Romania	0.83	5.45	– 23.6
Slovenia	0.48	4.12	– 184.0

Country	Exports to China	Imports from China	Trade balance total and China*
Slovakia	1.97	4.02	– 118.5
Finland	5.13	4.45	+ 47.6
Sweden	3.12	4.99	+ / –
UK	2.72	8.99	– 25.6

\* The figures indicate the share of surplus or deficit of trade with China in total trade surplus or deficit of the respective country. Figures higher than 100 mean that deficit of trade with China is higher than the total trade deficit of the given country. '+/–' indicate that total trade registers surplus, while trade with China reveals deficit.

Source: Eurostat, 2011 (see Table 1) and own calculations

The dynamism of trade development with China has produced meaningful changes in the relative position of the main partners of many EU countries. On the level of the EU-27, China has become the second largest export market for the EU and, since 2005 has firmly held the leading position in extra-EU imports. For a number of EU members, by 2010 China had become the second largest export market outside of the EU (Belgium, Germany, Slovakia and the United Kingdom).<sup>11</sup> More spectacular was the process of rearrangement (re-ranking) on the import side of the EU members. In 2010, not less than 13 countries reported China to be the largest extra-EU supplier. In the first post-crisis recovery year, China replaced as the main supplier the United States in imports to the United Kingdom and France, or Russia in imports to the Czech Republic, Hungary and Romania<sup>12</sup> (Table 7).

Table 7. Ranking of China in extra-EU exports and imports, 2010

Country	Extra-EU exports	Extra-EU imports
EU-27	2 (USA)	1
Belgium	3 (USA, India)	2 (USA)
Bulgaria	–	4 (Russia, Turkey, Ukraine)
Czech Republic	4 (Russia, USA, Switzerland)	1
Denmark	3 (USA, Norway)	1
Germany	2 (USA)	1
Estonia	–	2 (Russia)

<sup>11</sup> For Hungary, in 2010, China was the fifth largest export market behind Russia, the USA, the Ukraine and Turkey.

<sup>12</sup> Other countries ranking China the first in imports are Denmark, Germany, Greece, Spain, Italy, Luxembourg, the Netherlands and Portugal.

<b>Country</b>	<b>Extra-EU exports</b>	<b>Extra-EU imports</b>
Ireland	4 (USA, Switzerland, Japan)	2 (USA)
Greece	–	1
Spain	6 (USA, Turkey, Switzerland, Mexico, Morocco)	1
France	3 (USA, Switzerland)	1
Italy	3 (USA, Switzerland)	1
Cyprus	–	2 (Israel)
Latvia	–	2 (Russia)
Lithuania	–	2 (Russia)
Luxembourg	–	1
Hungary	5 (Russia, USA, Ukraine, Turkey)	1
Malta	–	2 (Singapore)
Netherlands	4 (USA, Russia, Switzerland)	1
Austria	4 (Switzerland, USA, Russia)	2 (Switzerland)
Poland	6 (Russia, USA, Ukraine, Turkey, Norway)	2 (Russia)
Portugal	–	1
Romania	5 (Turkey, Russia, USA, Ukraine)	1
Slovenia	–	2 (Croatia)
Slovakia	2 (Russia)	3 (Russia, Korea)
Finland	3 (Russia, USA)	2 (Russia)
Sweden	3 (Norway, USA)	2 (Norway)
UK	2 (USA)	1

*Source: Eurostat, 2011 (see Table 1) and own calculations*

Finally, it has to be underlined that EU–China trade is heavily concentrated on manufactured goods, first of all machinery and transport equipment (the latter still one-sided from the EU to China, but not for a long period any more). While the share of machinery and transport equipment amounts to 43 per cent in total extra-EU exports, its share in exports to China reaches 62 per cent. Similar concentration characterizes EU imports. While in total extra-EU imports the share of machinery reaches 30 per cent and that of other manufactured goods 24 per cent, imports from China reveal much higher shares, namely more than 50 per cent for machinery and more than 40 per cent for other manufactured

goods<sup>13</sup> (Table 8). The commodity composition clearly invalidates the still held common belief (perception) in several EU member countries that China is the supplier of cheap, low-quality, (unskilled) labour intensive goods every citizen can find on the so-called “Chinese markets”. The fact that more than 50 per cent of EU imports from China consist of machinery (and also part of the other manufactured goods imported from China are integral part of the vertical chain of intra-EU production and partly exports) clearly shows the rapid modernization and technological progress of China, certainly not separated from the expanding and deepening activities of foreign (transnational) companies originating not least in several EU member countries.

*Table 8. Commodity pattern of total extra-EU and EU-China trade, 2010  
(share of main commodity groups in % of total exports and imports)*

<b>Main commodity groups</b>	<b>Extra-EU exports total</b>	<b>EU exports to China</b>	<b>Extra-EU imports total</b>	<b>EU imports from China</b>
<b>Total</b>	100.0	100.0	100.0	100.0
<b>Food, drinks and tobacco (0+1)</b>	5.7	2.0	5.4	1.4
<b>Raw materials (2+4)</b>	2.8	6.8	4.7	1.0
<b>Energy products (3)</b>	5.6	0.7	25.0	0.1
<b>Chemicals (5)</b>	17.5	11.2	9.2	3.9
<b>Machinery and transport equipment (7)</b>	42.5	61.5	29.7	51.4
<b>Other manufactured goods (6+8)</b>	23.0	16.3	24.1	41.8

*Source: Eurostat, 2011 (see Table 1) and own calculations*

<sup>13</sup> The difference can be partly explained by the fact that in total EU imports 25 per cent is represented by energy products only, a practically non-existing item in imports from China.

## **European views on China, Chinese view(s) on the European integration**

One cannot speak of one (uniform) European assessment of China. Differences appear in political, economic, social and “value-related” issues. Similarly, different interest groups have developed different approaches. Moreover, even the institutions of the EU and the member countries are far from representing the same view and used to give priority to different evaluations. Official EU policy can be identified in two areas. First, the arms embargo introduced after the events at the Tiananmen Square more than two decades ago is still in force. Despite increasing criticism not only from China but also from some political circles within the EU, let alone from the potentially interested business,<sup>14</sup> according to which this embargo had lost its significance, until now no modification or elimination of this decision has been carried out. Second, the EU did not grant China the market economy status at the moment of China’s accession to the WTO (in December 2001).<sup>15</sup> On the one hand, the EU was an obvious supporter of China’s membership but, at the same time, feared large-scale imports (which, in fact, happened in the last decade) to be controlled with the well-known anti-dumping instruments. Market economy status, as granted to China by many developed and almost all developing countries belonging to the WTO (or even outside the organization, as Russia) would have seriously restricted the use of this instrument against many Chinese commodities. The abolition of this restriction is on the agenda of bilateral negotiations and it is expected to be lifted in the framework of the new ‘strategic partnership’ agreement. Such a step is a priority of the Chinese position to sign any kind of new and future-oriented agreement.

Political views on China have been dominated in the past decades or years by Tibet, the frequent visits of the Dalai Lama in different EU member countries, the status of Taiwan and broadly interpreted human rights issues. Several visits of the Dalai Lama and political statements or declarations around the situation in Tibet (and in the Uyghur region) were considered by the Chinese authorities as intervention into domestic affairs of China and regularly condemned. Sometimes China resorted to clear answers, such as the calling-off of the summit meeting during the French EU Presidency (or the demonstratively short visit of the

<sup>14</sup> In fact, several European companies (both from EU member countries and from Switzerland) have frequently, although mostly in small volumes, violated the embargo by selling China at least dual-use technologies and products with ambiguous utilization.

<sup>15</sup> The EU can keep its current position until 2016. However, many observers believe that the market economy status will be given to China earlier, probably already as soon as in 2012.

Chinese Prime Minister at the following summit in the spring of 2009 in Prague). Taiwan, where the Economic and Trade Office of the European Community was opened in March 2003, has largely lost its political flavour. All the EU member countries have recognized the One-China Principle and do not have diplomatic missions in Taiwan (except the Vatican). At the same time, China's relations with Taiwan have been experiencing a gradual but still spectacular improvement in the last decade, starting from large-scale business contacts<sup>16</sup> through substantially improved political and people-to-people relations up to the signing of a free trade agreement in 2010. Human rights issues used to be high on the agenda in different declarations of the European Parliament. In turn, the European Commission is much more cautious and is taking into account the obvious economic interests and the growing importance of cooperation with China in selected international issues. In addition, the member countries are rather divided. Some of them do not care about human rights, others apply a pragmatic approach, while some of them still consider this issue relevant. However, when it comes to "big business", ideological and "European value"-related questions have been regularly pushed into the background. In the recent period we can observe a change in the attitude of some EU member countries. Both the consequences of sensitive reactions from China and better economic and social contacts among businessmen and experts influencing political considerations and decisions have undermined the European "obsession" with exporting "European values" to China and teaching the Chinese party leadership and political decision-makers about democratic values, human rights, and other components of European democracies.

There is no question that the global crisis and its management in China have contributed to the changing image of China among many Europeans. First, China's rapidly increasing global role could not be left unobserved in Europe. Both bilateral meetings on different levels and the regular meetings in the framework of the G-20 have created many opportunities for personal discussions and helped perceive common priorities and the necessity of common actions. Second, China's behaviour during the crisis has strengthened the perception of China as a responsible and reliable member of the international community. Third, this enhanced responsibility became manifest in China's efforts to stimulate not only domestic growth but, in this way, also imports from different parts of the world, including its main trading partner, the EU. The fact already mentioned that during the crisis year of 2009 China was the only major trading

<sup>16</sup> At present, Taiwan is the largest "foreign" investor in China and, according to semi-official sources, at least about one million of Taiwanese people have settled down in the Mainland. Almost one-fourth of Taiwan's foreign trade is with the Mainland (as compared to less than 1 per cent two decades earlier).

partner of the EU to which EU exports continued to grow is a telling example. Finally, China's appearance in and growing involvement into the management of financial problems in some eurozone countries could be explained as a growing Chinese interest in the common currency of the eurozone (even if the motives of China's presence can be interpreted differently).

The European business community has developed an ambiguous attitude to China. On the one hand, it enjoys all opportunities to invest in this country and produce competitive goods, a large part of which used to be exported back to Europe. In addition, particularly the crisis-hit car industry could avoid major losses by the spectacular increase of car exports to China. Also, it is frequently forgotten that imports from China (and many times produced by European transnational companies in this country) helped stabilize (or even decrease) the price level in several commodity sectors and, thus, contributed to low inflation, a major support to large sectors of the population without real income growth in the last years. According to European calculations, imports from China accounted for a 0.2 to 0.3 per cent decline of consumer prices. In other words, a 1.4 per cent inflation would have been 1.6 to 1.7 per cent without large-scale importing of commodities from China. On the other hand, fears cannot be hidden either. A long list of issues forms part of EU claims on the WTO level or complaints in bilateral relations, such as intellectual property rights, public procurement, access to the Chinese service and financial market, technology transfer, etc.<sup>17</sup> Another concern is connected to the rapidly increasing Chinese competitiveness in those sectors that, until most recently, were characterized by one-way trade, namely EU exports to China without imports from this country. In this context, the future of the car industry and EU–China bilateral trade in cars deserves special attention. In fact, several European car companies, not least the German ones, proved to be the main beneficiaries of the rapidly growing Chinese demand for cars. However, in a few years, China is expected to appear as exporter also in one of the most important sectors of international trade, if we look at the rapid development of the domestic car industry, mostly in international cooperation (Japan, Korea, Germany, France) or by overtaking previously prestigious European car companies (Volvo, and most recently, perhaps, Saab). A car export offensive (including electric cars under development with Japanese companies) could not only increase the already existing trade imbalance but represent a real threat to a large part of the European car industry bailed out in the crisis by large support from the national budgets (practically with taxpayers' money).

The crisis has strengthened China's efforts to increase capital exports, including direct investments in other parts of the world. On the one hand, the efficient

<sup>17</sup> These issues are discussed in more detail in Szunomár, 2011.

utilization of the huge accumulated surplus drives this effort. On the other hand, the crisis has depreciated the shares of many companies on the world's stock exchanges and offered (and still does) a good opportunity for purchasing such shares, mainly in the framework of the process of mergers-acquisitions. Until the crisis, most EU member countries were rather reluctant and suspicious concerning investments from China, because they combined large-scale Chinese investment plans not only with business interests but also with political considerations and objectives of the Chinese government (particularly in case of the sovereign state funds). In the next years, investment flows between the EU and China are expected to get increasingly a two-way street character. This offers new areas of cooperation but also additional conflicts beyond the traditional area of commodity flows.

Interestingly, and in contrast with USA–China relations, the crisis did not put to the limelight the exchange rate issue between the euro and the yuan. This can partly be explained by the fact that the EU's trade deficit vis-à-vis China, although of the same magnitude as that of the USA's deficit, could largely be compensated by substantive surpluses in other bilateral relations (which, mostly, was not the case with the USA). Another explanation may be that for longer periods the euro and the yuan moved parallel to the US dollar (both were appreciated) so that the 'exchange rate gap' between the euro and the yuan did not change. Moreover, in some periods the yuan experienced a gradual (small) appreciation against the US dollar, while the euro's value against the dollar did not change or fall. In this case, the 'exchange rate gap' even narrowed.

It is too early to provide an overall assessment of the growing Chinese presence on the eurozone market.<sup>18</sup> However, it is obvious that China is definitely interested in diversifying the USD-dominated composition of its huge foreign exchange reserves. In this context, participation in the Eurobond market is a helpful (although limited) instrument. Less attention has been paid to the presence of China in special trade and investment deals in selected EU member countries. Just to mention two examples. Shortly after the agreement between Greece and the IMF (and ECB and European Commission) a high-level Chinese delegation visited Greece and signed more than a dozen protocols on bilateral trade, cooperation and investment issues. One of the most voluminous and short-term transactions is the export of Greek olive oil to China, the production of which is generously financed by the budget of the Common Agricultural Policy. In other words, EU budget is—indirectly—supporting Greek exports to China. Another case is the participation of Chinese companies in infrastructure development in Poland, even if with or without a shadow of corruption. In fact,

<sup>18</sup> For a detailed survey see Biedermann, 2011.

Chinese firms were the winners of public procurement process opened to non-EU countries as well, with financial support, again, from the EU budget.

Turning to the Chinese view(s) on the European integration, it has to be emphasized that one cannot find the same variety of views as on the European side. If there is a difference, it is not between or among different players and interest groups but between the Chinese (idealistic) position about a united Europe and the harsh reality of European integration. To be sure, China is still “admiring” (and envying) Europe for its per capita income, high-level social welfare system, strong legal background, developed physical infrastructure, consolidated market economy status, or regional cohesion. Also, it is aware of the cultural values of Europe, also in contrast to the USA. However, coming down to the level of political (and power-related) reality, the basic Chinese priority only exists on paper. Namely, it consists of having a strong and unanimously speaking European integration both concerning intra-EU developments and in key international arenas and issues. Such an EU would be supportive to the strategy of ‘multipolarity’ (not necessarily ‘multilateralism’!) of the Chinese leadership. Unfortunately, the pre-crisis period did not provide evidence of such a development. Just the opposite happened: the member countries followed different national policies, the European integration lacked any kind of common foreign and security policy, the deepening of the internal market did not make any meaningful progress, and, last but not least, institutional changes (including the approval of the Lisbon Treaty) failed to enhance the efficiency and accelerate the speed of decision-making on different levels of the integration.

In the first period of the crisis, the “tradition” of national special ways got additional impetus. The danger of the breakdown of the eurozone (and of the euro) called attention to the construction failures of the monetary system and the unchanged priority of short-term “national interests”, accompanied by political (fortunately, not economic) inward-looking to “satisfy” short-sighted or imminent desire or request of the respective voters. In addition, the manifest split of the eurozone (and partly of the EU as such) did not strengthen China’s desire for a more unified and unanimous Europe.

It is too early to draw any conclusions about the impact of recent common actions in the EU (and the eurozone) on the shaping of a new (?) Chinese attitude towards Europe. Obviously, if the ongoing European Economic Governance will prove successful and a new quality of economic policy (including fiscal) coordination can be achieved, with clear impact on the political cooperation, institutional development and decision-making process of the EU, China may reconsider its current view on the EU and boost hopes for the emergence of

a genuine global player in the context of a multipolar political and economic system. To be sure, China did not leave unnoticed the dramatic change in the EU as a result of the crisis, and, more importantly, of the post-crisis (?) management. However, Europe's long and probably bumpy way from "the impossible to the inevitable" is by far not finished and, at the moment, does not yet allow any major solutions for (re)shaping the Chinese strategy towards the European integration. Still, two new features can be highlighted. The first is the growing attention of China towards the new member countries of Central, Eastern and southeastern Europe, after about 15 years of negligence and considering them as "unilaterally dependent satellites" of the European Union. Second, after almost two decades of repeated protests against the conventional (post-colonial?) European attitude of Europe being "the teacher of China", China started a more offensive style of politics not only based on rejecting European "teaching" but also highlighting different, and not less important, values of Chinese civilization and the priorities emerging from different historical experience, the level of development, the successful management of the modernization and catching-up process and the priority of holding this large country geographically and ethnically together.

### **Some remarks on the future of EU–China relations: chances of cooperation and risks of conflicts**

Despite the still existing "supremacy" of the United States in some key issues of military power, 'hard security', but also the dominant role of the US dollar, the EU and China represent global powers with increasing interest implementation capacity in the unfolding global order of the 21<sup>st</sup> century. Similarly, despite the unique bilateral ties between the USA and China, mainly covering economic issues (at least, on the surface, but certainly not lacking key security considerations as well), the EU–China bilateral relations offer several opportunities of mutual benefit in the coming period. The backbone of such a future-oriented construction is rapidly developing trade relations that resulted in one of the largest turnovers in global comparison and can easily become *the* largest bilateral commodity flow in the very near future. Therefore, trade issues will not disappear from the agenda of EU–China relations, either on the bilateral or on the multilateral (WTO) level. It is remarkable that the third meeting of the EU–China High Level Economic and Trade Dialogue held in Brussels on 21 December 2010 addressed mainly trade-related issues, such as trade and investment cooperation, competition, intellectual property rights, innovation and customs cooperation (EC, 2010).<sup>19</sup> Although,

<sup>19</sup> It is interesting that exchange rate issues was not a priority of the discussions.

Chinese surplus will hardly decrease, at least not as a result of a less export-oriented development pattern and of fostering domestic consumption. At the same time, there are several opportunities for increasing EU exports to China.

Among the areas that have attracted special interest in the last months are high-quality agricultural exports and further focusing on the export of luxury goods. EU agricultural policy towards China aims at improving food safety standards in China, partly a short-term measure to constrain Chinese food exports to Europe. However, more important is that the EU has discovered China as a prospective and large market for EU food products, including high-quality goods with a special label (geographic indication granted to several agricultural goods originating in different EU member countries).<sup>20</sup>

Another field with good prospects is cooperation in environmental issues that includes the flow of commodities, services and technology (including expert staffs).

More intensive cooperation emphasized on both sides in the last period can be expected in large-scale infrastructure projects. It is likely that the EU will press China to liberalize its public procurement market, due to the big discrepancy between the degree of openness between the EU and China. While around 312 bn euros of EU public procurement is open to companies located in WTO member countries, competitors used to pursue a much more restrictive policy.<sup>21</sup> The reduction of the imbalance will be of special importance for EU trade policy, both on the bilateral and the multilateral level.

Another challenging field of cooperation could be the development of new transport routes between China and the EU. Partly the overcrowded maritime transport with its technical barriers (the Strait of Malacca) and security-related issues (international piracy), as well as overburdened ports require the exploration of new and reliable routes. Partly the dynamic development of bilateral trade needs new transport routes, such as the restoration of the traditional Silk Road and the sizeable expansion of the capacity of the Trans-Siberian Railway connecting China with the EU. In this context, for their geographic position, the new member countries could become an important hub and develop valuable intermediary services.

<sup>20</sup> Between 2005 and 2010, EU agricultural exports to China grew almost threefold, from 1.2 to almost 3.3 bn euros, without any setback in the crisis year. Chinese agricultural exports to the EU are still higher than imports from the EU, but in the second half of the last decade this surplus was halved (from 1.4 bn to 650 mn euros) (EC, 2011).

<sup>21</sup> In the USA, public procurement open to foreign bidders amounts to 34 bn euros and in Japan to 22 bn euros, see De Gucht, 2011. The corresponding figures for China are not known but the volume available to foreign companies is most likely even smaller.

In the last years, characterized by expanding contacts well beyond the strictly economic (or trade) issues, both sides have discovered the relevance of cooperation in such areas as science and technology, education, culture, civil society, with special attention to the young generation.<sup>22</sup> Indeed, 2011 has been declared the 'EU–China Year of Youth'. All the abovementioned fields can be combined in the framework of comprehensive agreements and support of tourism that is forecast to dispose of an inexhaustible capacity in China.

Cooperation and conflicts are likely to characterize the next years of EU–China relations in different geographic areas of the world, mainly in Africa with “vested European interests”, but also in Latin America, Central Asia and, not less importantly, in the Western Balkan countries. Conflicts may emerge among policies of energy supply security, food security, including the property rights of agricultural land, market access efforts for Chinese and European commodities in third countries, as well as due to differences in the official aid policy of China and the EU (and also of the member countries). Moreover, uncoordinated trade policies aimed at signing bilateral free trade agreements in order to overcome the paralysis (or stalemate situation) in the WTO may also generate conflicts. It is well known that considering the slow (if any) progress in the ‘Doha Round’ of negotiations, the EU has decided to upgrade the importance of bilateral free trade agreements. Several such agreements have already been concluded (the last one with Korea, one of the leading trading partners of China), and several others are in the process of preparation of negotiation. Similarly, China tries to improve its market access position by a variety of trade policy instruments (including long-term contracts, export credits, joint ventures, etc.).

There is an ample agenda of EU–China cooperation in global governance and in international organizations. Global stability and security, fight against international terrorism, non-proliferation of nuclear weapons, disarmament, nuclear security (certainly upgraded following the earthquake-imposed catastrophe in Japan) as well as joint interest in sustainable economic development may be among the issues of mutual interest. There is no question that the efficient and sustainable shaping of the new global order requires a high level of responsibility and readiness to cooperation from both key players. Certainly, improving bilateral relations and the solving of potential conflicts arising from different interests in third countries could fundamentally strengthen common efforts in managing key international challenges.

<sup>22</sup> The first cultural forum was held in October 2010, almost one year after the importance of “intercultural dialogue” had become an integral part of the high-level meetings between the USA and China.

It has to be underlined that EU–China relations underwent a radical change in the last decade. The post-crisis global environment and changing domestic conditions both in the EU and in China have to be taken into account when the strategic basis for cooperation is expected to be designed. The backbone of bilateral relations is the rapidly growing interdependence. During the crisis, both parties were fully aware of the level of interdependence in economic issues and, excepting some smaller cases, could avoid a major protectionist wave in bilateral trade. However, interdependence in the future will become manifest also in non-trade-related areas. One of these is closer monetary cooperation in order to prepare a smooth transition to a new and reliable global monetary system, probably with a basket of key currencies.<sup>23</sup> China is definitely interested in a strong euro not only as a major international currency and a possibility of diversifying China’s foreign exchange reserves but also because a strong euro (and a stable eurozone) is an inevitable precondition of a strong pillar of multipolarity, to be represented by the European integration.

China is in the long, and until now successful, process of transformation and modernization, including the development of its legal system, economic environment, institution-building and the securing of an improving social welfare system, a major condition of longer-term stability and regional cohesion. At the same time, the EU has multiple interests in a stable and predictable China. New and dynamic markets, increasing and improved investment opportunities and, not least, the stability of the international monetary system, including the position of the US dollar and the smooth transition towards a more reliable and balanced monetary order, are among the priorities of the European business (and hopefully also of influential politicians, parties and institutions as well) in a critical period of the European integration on the way from the “management of the costs of crisis management” towards the designing and construction of a modern global power with growing influence not only in trade-related issues but also in other areas of the international economy and global (and regional) politics. European values should not be given up but have to be embedded into an environment of growing interdependence and of taking into account various domestic developments in China.

Nobody in the world would be either pleased or, even less, benefitting from (uncontrollable) instability, for whatever reasons, in any part of the world. The least in countries with global power, influence and responsibility. Global governance has to be a common venture of all major powers, and it cannot miss the intensive cooperation between the European Union and China.

<sup>23</sup> It is a decade-long process and China can only ensure a full-fledged participation, if, in the next years, its national currency will become convertible and most (if not all) legal, institutional and other barriers to unrestricted convertibility can be abolished.

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# Portugal and Spain: Causes and Effects of the Crisis

Andrea Éltető

Institute for World Economics,  
Hungarian Academy of Sciences  
Országház 30,  
Budapest H-1014, Hungary  
e-mail: andelteto@gmail.com

**Abstract:** *Portugal and Spain belong to those countries in the eurozone who struggle with serious economic difficulties. In the past they had different economic development: Spain experienced a boom based on the construction sector, Portugal struggled with almost continuous excessive public deficit. Both countries accumulated structural problems which were aggravated by the international crisis. Portugal and Spain reacted first by demand stimulating measures, but as public deficit dramatically increased, restriction began to dominate the economic policy. Financing public debt became the most important problem in Portugal and extremely high unemployment is a major concern in Spain. Prospects of growth are weak in both countries, but export activity can give a slight hope.*

**Keywords:** *competitiveness, economic crisis, fiscal policy, JEL Classification: E24, E32, O11, Portugal, Spain, unemployment*

## Introduction

Following the events of the sovereign debt crisis in the eurozone, attention turned, among others, towards the economic situation of Portugal and Spain. Both countries had their own different development path on which they accumulated problems and structural imbalances. These were brought to the surface by the international crisis. Both governments tried to mitigate the negative effects of the crisis in similar ways and later in both countries several austerity measures were introduced according to similar patterns. Portugal finally had to ask for financial assistance from the EU and the IMF. As a result of the crisis and the restrictive measures, future growth prospects are equally gloomy in Portugal and Spain.

The first part of the article describes the pre-crisis period and the consequences of the crisis in the two countries. The second part analyses the crisis management of the governments, and the third part shows the most important economic problems in both countries. Finally, an outlook is given for the future.

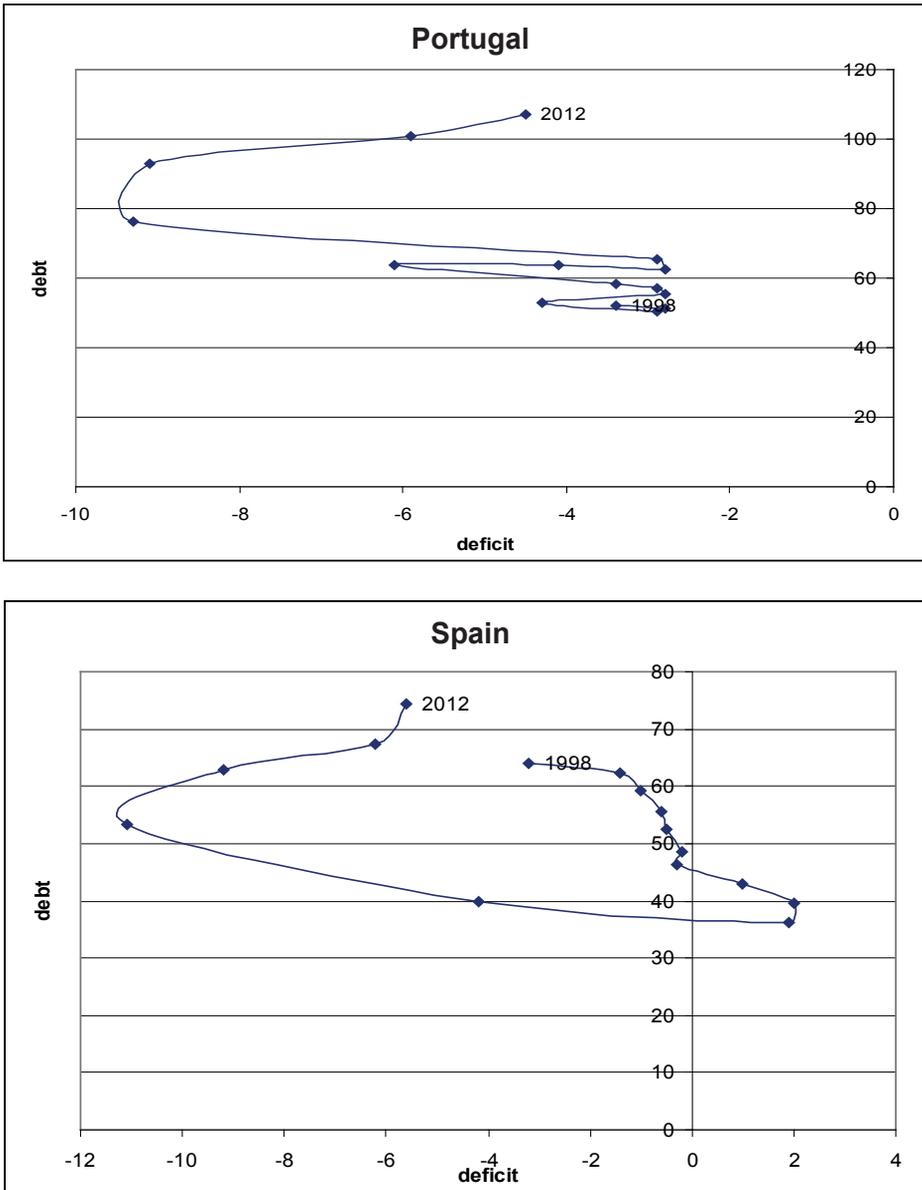
## **Economic situation before and after the crisis**

In the second half of the 1990s, *Portugal* showed impressive economic results. Its GDP per capita grew faster than the EU average and Portugal fulfilled the Maastricht criteria for the monetary union. Becoming a member of the eurozone was an important milestone in the development of the Portuguese economy within the European Union. EMU-membership brought economic growth, monetary stability, decreasing inflation and falling interest rates for some years. However, in early 2002, the economy entered recession. In that year Portugal was the first to breach the rules of the Stability and Growth Pact and to become a subject of the Excessive Deficit Procedure (EDP). Inflation has remained above the EU average, and household indebtedness increased significantly in the first few years of the century. The strong demand stemming from the sharp fall in interest rates was fuelled further by budgetary policy in the nineties and early this decade. Between 2002 and 2004, the budget deficit was kept below 3 per cent of GDP. But for 2005 the deficit reached more than 6 per cent and was again followed by an EDP procedure. This worsened the country's reputation. The government continuously took measures to decrease the deficit, but did not make permanent adjustments to the budget. It is illustrated by Figure 1, showing the development and prospects of public debt and deficit between 1998 and 2012. Portuguese budgetary balance remains in the negative field during the whole period.

In the meantime productivity remained low, and imports rose substantially, leading to high external deficits and debt. The share of medium and high-tech goods in Portuguese exports is low compared to other eurozone members (Blanchard, 2006). Table 1 shows some main macroeconomic indicators of Portugal and it can be seen that current account deficit has remained above 10 per cent since 2005, improving slightly only in 2010

In the first half of 2010, the torments of the eurozone reached also Portugal: the country was considered as a next possible candidate for a 'saving package' after Greece. The Portuguese government had denied negative speculations and emphasised the difference with Greece, but international agencies kept degrading the country's debt rating.

Figure 1. Fiscal “path” in the two countries



Source: Eurostat and national forecasts for 2011–2012

During the spring of 2011, a chain of events brought Portugal a decisive step forward. First, Portuguese bond yields increased to higher and higher levels. In order to calm international markets, on 11 March the minority government presented on the eurozone summit a new austerity package plan (without prior

domestic consultation). The Portuguese parliament rejected this package and, as a consequence, the government resigned on 23 March. In the following weeks it turned out that according to the rules of Eurostat, public deficit calculations of 2010 should be modified upwards. The international pressure did not relieve and financing debt became unsure. On the 6<sup>th</sup> of April, Portugal officially asked for EU's help to finance its debt.

Unlike Portugal, *Spain* experienced a spectacular period of fifteen years of economic growth until 2007. Public deficit kept decreasing and a surplus was even achieved between 2005 and 2007 (see Table 1 and Fig. 1). The traditionally high unemployment rate also decreased continuously to below ten per cent during the boom period. This coincided with a massive inflow of foreigners. The number of immigrants has increased five-fold: 5.7 million foreigners were living in Spain in 2010, constituting approximately 12.2 per cent of the population.<sup>1</sup> The labour market was able to absorb these people, the weight of immigrants in employment increased from 1 to 14.8 per cent between 2000 and 2008 (Éltető, 2011a). Foreigners found jobs in services, tourism, agriculture, households and—first of all—in the construction industry.

It is widely known that the Spanish growth was labour intensive and has relied mostly on services and the construction sector.<sup>2</sup> In 2003, the government liberalised the use of constructible land and afterwards the value of land increased significantly (Garriga, 2010). As a consequence, housing prices tripled in nominal terms and doubled in real terms between 1995 and 2008.<sup>3</sup> The construction boom was aided by bank loans. By the end of 2008, the stock of loans to real estate developers and builders reached the equivalent to 50 per cent of Spain's GDP (Cuñat & Garicano, 2010). After Spain joined the EMU and introduced the euro, interest rates declined significantly, thus via cheap loans indebtedness of the population increased.

During this boom period, however, there were worrying tendencies. Spain lost competitiveness with respect to the EU and OECD countries, because unit labour costs increased, mainly from 2003. The current account balance deteriorated. The deficit was 3.3 per cent of GDP in 2002, but in 2007 it had reached 10 per cent, a historically high level in Spain (see Table 1).

The international financial crisis burst the “bubble” in Spain. Between 2008 and 2010 macroeconomic indicators worsened considerably. The construction sector

<sup>1</sup> Data of the National Statistical Office, retrieved from <http://www.ine.es/prensa/np595.pdf>

<sup>2</sup> Two-thirds of the housing units built in Europe between 1999 and 2007 were built in Spain, see Cuñat & Garicano, 2010.

<sup>3</sup> Data on house prices by Ministerio de Fomento, <http://www.fomento.es>

had to be restructured. Unemployment again jumped to high levels (20 per cent). A number of young people lost their jobs (youth unemployment rate is around 45 per cent, being the highest in Europe), among them many immigrants.

Table 1. Macroeconomic indicators of Spain and Portugal

**Portugal**

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Inflation</b>	2.2	2.8	4.4	3.7	3.3	2.5	2.1	3	2.4	2.7	-0.9	2.3
<b>Public deficit/ GDP</b>	-2.8	-2.9	-4.3	-2.8	-2.9	-3.4	-6.1	-4.1	-2.8	-2.9	-9.3	-7
<b>Unemployment</b>	4.5	4	4.1	5.1	6.4	6.7	7.7	7.8	8.1	7.7	9.6	10.9
<b>GDP growth</b>	4.1	3.9	2	0.7	-0.9	1.6	0.8	1.4	2.4	0	-2.5	1.3
<b>Current account balance</b>	-8.2	-10.4	-10.3	-8.3	-6.5	-8.4	-10.4	-10.7	-10.1	-12.6	-10.3	-9.1
<b>Public debt/GDP</b>	51.4	50.5	52.9	55.6	56.9	58.3	63.6	63.9	62.7	65.3	76.1	82.8

**Spain**

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Inflation</b>	2.2	3.5	2.8	3.6	3.1	3.1	3.4	3.6	2.8	4.1	-0.2	1.8
<b>Public deficit/ GDP</b>	-1.4	-1	-0.6	-0.5	-0.2	-0.3	1	2	1.9	-4.2	-11.1	-9.24
<b>Unemployment</b>	12.5	11.1	10.3	11.1	11.1	10.6	9.2	8.5	8.3	11.3	18	20.1
<b>GDP growth</b>	4.7	5	3.6	2.7	3.1	3.3	3.6	4	3.6	0.9	-3.7	-0.1
<b>Current account balance</b>	-2.9	-4	-3.9	-3.3	-3.5	-5.3	-7.4	-9	-10	-9.7	-5.5	-5.2
<b>Public debt/GDP</b>	62.3	59.3	55.5	52.5	48.7	46.2	43	39.6	36.1	39.8	53.2	62.8

Source: Eurostat

Public debt in Spain increased to 62.8 per cent of the GDP in 2010 and according to IMF forecasts it will rise further to 76 per cent in 2016 (Hugh, 2011). The sovereign debt crisis of the eurozone affected also the Spanish economy, thus financing this debt on the international market became increasingly difficult.

Following the events of the sovereign crises, the Spanish government always communicated the difference of Spain from other countries in trouble. After some nervous reactions, international markets calmed but trust must be gained on the long term. Data of unemployment are especially worrying.

## Crisis management in two phases

The first reaction to the crisis was to stimulate demand. Both the Spanish and the Portuguese governments applied such measures in 2008 and 2009 (Table 2). However, this expenditure was a serious burden for the budget in both countries. Spain had even a budget surplus in 2007 and this turned into a deficit of 11.1 per cent of the GDP for the end of 2009. The public deficit of Portugal was just under 3 per cent of the GDP in 2007 and this increased to 9.3 per cent for the end of 2009.

Financial incentive packages for banks and enterprises, also tax allowances were common features. In both cases we find the promotion of the car industry which was explained by its important role in export. This was not a unique step—the bailout of the automotive sector took place also in France and Germany and in other countries.

Table 2. *Main stimulating measures of the Spanish and Portuguese government*

	Spain	Portugal
<b>Families</b>	Tax reductions and allowances, increase of minimum pension, etc. Total 14 billion euros	Exclusion of commuting expenses from the taxable income. Increase in the personal deduction allowance for disabled taxpayers
<b>Companies</b>	Allowances and new credit possibilities for SMEs, 31 billion euros	3 credit packages for SMEs (PME Investe I-III) for 3.15 billion euros altogether. Corporate tax reductions for SMEs.

	<b>Spain</b>	<b>Portugal</b>
<b>Employment</b>	Special funds to create local jobs, 11 billion euros	Investment and Employment Initiative (IIE) for 2.18 billion euros, state investments
<b>Financial system</b>	Raising capital of Deposit Guarantee Fund, establishing Financial Assets Acquisition Fund <sup>4</sup> to support bank lending of non-financial companies and individuals.	20 billion euro state guarantee to banks that struggle to meet their obligations and recapitalisation of banks for 4 billion euros, increase of deposit guarantees, takeover of Banco Português de Negócios.
<b>Automotive industry</b>	Integrated plan for the car industry for demand stimulation and investment, 4 billion euros	200 million euro credit line for auto and car parts exporters, 700 million euros for training, consolidation of the auto parts sector.
<b>Economic modernisation</b>	Reform of energy, telecom, transport and service sector	Within IIE: modernising schools, energy system, technology infrastructure

The sovereign debt crisis of Greece at the beginning of 2010 had a deep impact on the Iberian economies. In the second phase of crisis management, as a consequence of the rapidly growing public deficit and debt and as a reaction to the pressure of international financial markets, the Spanish and the Portuguese governments imposed restrictive measures. There were several austerity packages during 2010 in both countries (Table 3).

Restrictive measures concerned similar areas in both countries, like value added tax increase, wage restrictions in the public sector, cut in infrastructure expenditures, etc. (As a result, governments have rapidly lost popularity.)

*Table 3. Main restrictive measures of the Spanish and Portuguese government in 2010*

	<b>Spain</b>	<b>Portugal</b>
<b>VAT</b>	General rate increase from 16 to 18 and preferential rate from 7 to 8. since July 2010	Increase from 21 to 23 per cent in 2011.
<b>Tax</b>	Since January 2011 no 'baby-cheque' (2,500 euros at birth).	Special tax rate until 2013 (45 per cent) for extremely high incomes. Decreasing personal income tax allowances. New tax for financial sector.

	Spain	Portugal
<b>Infrastructure</b>	State infrastructure expenditures decreased by 6 billion euros until 2012.	Postponement of the rapid rail between Lisbon-Porto and Porto-Vigo, no new concessions. Introducing tolls to 7 motorways.
<b>Wages</b>	5 per cent decrease in wages for public employees in 2010 and freeze for 2011. Wage cut for government members is 15 per cent.	5 per cent decrease in wages for public employees and freeze.
<b>Pension</b>	Indexation of pensions abolished for 2011. Raise of retirement age from 65 to 67.	Portugal Telecom transfers its pension fund to the State (2.6 billion euros for 2010). Freezing pensions for 2011 and decreasing social expenditure by 25 per cent.
<b>Privatisation</b>	Speeding up partial privatisation of Aena (airport managing company) and state lottery system.	Plan: between 2010 and 2013 privatisation of companies of energy, defence, air, financial, telecom sector.

The crisis of the financial sector has to be managed in both countries. The effects of the crisis on the Spanish commercial banking system were less drastic than in other countries. Subprime credits were not popular and the reserve rates demanded by the Bank of Spain were high. The situation was worse in the case of the savings banks (*caja de ahorro*), which are regionally based institutions with more branches and employees than commercial banks. *Cajas* had financed local real-estate businesses in the past, and they were more exposed to the effects of the crisis than the banks.

For the restructuring of the *cajas* and banks, the government established the Bank-Restructuring Fund in 2009 (FROB, *Fondo de Reestructuración Ordenada Bancaria*) with a capital of 9 billion euros. FROB manages the mergers of the *cajas* and has the capacity to enhance the equity of credit institutions (Banco de España, 2011b).

2010 was the year of merger agreements between savings banks—of 45 *cajas*, 17 remained. The Royal Decree 2/2011 increased the core capital requirements of savings banks by September 2011 generally to 8 per cent of risk-weighted assets but to 10 per cent for those who depend on wholesale capital markets for more than a fifth of their funding or if less than a fifth of their shares are in private hands (Éltető, 2011b). The financial situation of the *cajas* means a risk for the Spanish economy. The true level of their exposure to losses is unknown.

Property prices have kept falling since December 2007 and unemployment keeps rising, and these influence mortgage default rates (Hugh, 2011). The severe contraction of the construction sector and the real-estate crisis left millions of houses unsold or unbuilt. According to estimates, Spain has 2.3 million potential excess of housing units (Vergés, 2011), and in order to treat this problem there is a huge need of further credits from the banks.

Similar to the situation in Spain, Portuguese banks' exposure to high risk and complex assets has been negligible before the crisis. Portuguese banks have also been developing their activities on the basis of a relatively traditional financial intermediation model. The main problem of the banks is that during the pre-crisis period savings rate were low, overall economic indebtedness increased, which resulted in a substantial deterioration of the international investment position (Banco de Portugal, 2011). As mentioned, in the first quarter of 2011 external financing conditions worsened significantly in a context of political instability and uncertainties. The rating agencies successively downgraded their ratings on Portugal, as well as those of the banks and several non-financial corporations.

## The most important problems

As a consequence of the crisis, financing public debt became the most important problem in Portugal. Then happened what De Grauwe (2011) describes as a self-fulfilling prophecy: investors withdrew their money, the interest rates of Portuguese bonds were pushed up, thus the liquidity crisis turned into a solvency crisis that justified the previous decision of investors. Thus Portugal officially asked for the financial assistance of the EU and the IMF in April 2011. The final sum of the loan agreed is 78 billion euros, 26 billion of that is given by the IMF. As a condition of this loan Portugal has to follow a strict stability program based on strengthening of the financial sector, fiscal adjustment and structural reforms. The financial assistance will be quarterly disbursed based on the reports of the government and reviews of conditionality.

Reinforcing the financial sector means that banking groups are required to have a minimum core capital ratio of nine per cent from the end of 2011 and ten per cent by the end of the following year at the latest. Banks are recommended to use private market solutions, although the program includes a recapitalisation support fund involving an overall amount of 12 billion euros to enable the banks to comply with core capital requirement. Lastly, the program also demands improved monitoring, regulation and supervision of the banking system.

Fiscal adjustment will be realised by a series of measures decreasing public expenditures and increasing revenues (see Table 4).

Table 4. Fiscal adjustment in Portugal

Decrease of expenditure	Increase of revenues
Reorganise central administration, reduce the number of civil servants, promote mobility	Reduce corporate and personal income tax deductions and benefits
Freeze wages in the government sector, reduce health benefit schemes for employees	Apply personal income taxes to all types of cash social transfers
Reduce costs in education by rationalising school network	Rationalisation of VAT system, reducing exemptions
Reduce pensions above 1,500 euros, freeze pensions	Increase excise taxes on tobacco, electricity, cars
Decrease unemployment benefits	Fight tax evasion, fraud and informal economy
Reduce transfers to local and regional authorities	Extending property taxation
Decrease costs in state owned enterprises	Privatisation (airport, energy sector, banks, telecommunications) for 5.5 billion euros
Reduce capital expenditure, postpone investments	

Source: IMF, 2011a

The stability program prescribes also structural reforms in detail in many areas. The most important fields are the following: public financial management and budgetary framework, state-owned enterprises, public private partnerships, privatisation, central administration, labour market, education, health care system, judicial system. The government is obliged to prepare detailed plan and report on the realisation of the reforms. However, as certain economists warn, in the document there is no discussion of the causes of this crisis and who was responsible for it. Portugal not only faces a sovereign debt crisis, but also a balance of payments crisis. Therefore the policy response measures may be inadequate (Cabral, 2011). Apart from that, the number of measures is so large that it would be impossible to evaluate their individual effectiveness.

According to the Portuguese Central Bank, the current external deficit is not sustainable and it is crucial to narrow significantly the gap between domestic demand and supply. It is essential to restore investor confidence in the sustainability of the Portuguese external debt and reopen international financial markets to national economic agents. In 2010, the slight improvement in the external deficit stemmed from a reduction in the investment rate and a

stabilisation of the domestic saving rate, standing both at historically low level (Banco de Portugal, 2010).

Regarding Spain, a remaining task for 2011 is the restructuring of the financial system. Significant capital is necessary to solve the situation of the *cajas* (Éltető, 2011b). But the most important problem is unemployment. In the spring of 2011, unemployment rate reached an extreme high level of 21.3 per cent (4.9 million people) and 45 per cent among young people (under 25 years of age).<sup>4</sup> Young people demonstrated on the streets and squares of Spanish cities in May stating that no party represents their interests. The young are mostly employed by fixed-term contracts. In Spain, around 30 per cent of the labour force works with temporary contracts, which is twice as much as the EU average. As a consequence of the crisis, the share of workers with fixed-term contracts decreased, because they were the easiest to send off. Workers with permanent contracts (usually older people) are difficult to lay off, as their dismissal is very costly because of high severance payments. Another important feature of the Spanish labour market is the institutional setting of collective bargaining at an intermediate level. Wage agreements are automatically extended to all firms of the province or sector even if they did not participate in the bargaining.

The duality of the labour market has not decreased in spite of the several reform attempts. In 2010, however, the serious recession made the Spanish government to prepare a bolder labour reform plan. Severance payments were decreased and the conditions of collective bargaining were simplified. Although this labour reform is an important step, analysts point out that it is incomplete, further reforms and clarifications are necessary, and the effectiveness of the measures depends on the practice (Mora-Sanguinetti & Wöflf, 2011; Conde-Ruiz *et al.*, 2011).

The reform agenda of Spain is reflected in the National Reform Program and the Stability Program published in April, 2011 (*Programa de Estabilidad...*, 2011; *Programa Nacional...*, 2011). Spain made short-term commitments under the Euro Plus Pact, concentrating on three areas: fostering competitiveness, fostering employment and enhancing the sustainability of public finances. The National Reform Program addresses long-term challenges to modernise the Spanish economy with national targets set in the fields of employment, R&D, education, energy and climate change and poverty reduction for 2014 and 2020. The Stability Program sets out the budgetary strategy to correct the excessive deficit by 2013 and make further progress with consolidation thereafter. However, as the assessment

<sup>4</sup> National Statistical Office data for the first quarter of the year, <http://www.ine.es/daco/daco42/daco4211/epa0111.pdf>

of the European Commission states, the success of these aims depends on the implementation and on the commitment of the government (EC, 2011).

## **Outlook**

On the general elections held on 5 June 2011 in Portugal, the Social Democratic Party (former opposition) won. The new Portuguese government declared to strictly follow the Stability Program of the IMF–EU, and even more. (Their first independent economic decision was to impose an extraordinary income tax to collect 800 million euros.) Credible application of the stability program will not be easy.<sup>5</sup> According to both domestic and external forecasts there will be a two per cent decrease of GDP in 2011–2012 and unemployment will increase to 13 per cent, a historically high level. Youth unemployment has also been rising fast. This will be accompanied by an unprecedented contraction in the real disposable income of households. In a gloomy scenario, given the sheer number of reform measures, the government will not be able to fully meet the aims of the stability program. If the government misses several targets this would call its competence into question with its European Union partners. In a more positive scenario, it can raise hope that the program requires a strong change in the existing institutional framework and a thorough reform in the functioning of goods and labour markets, as well as in the role of the State in the economy. The measures included in the program should lay the foundations for sustained economic growth in the medium term.

Further improvements in education, research and development may enhance growth, and renewable energy can also be one part of a sustainable growth strategy. Portugal has deliberately been focusing its efforts on this for some years. Its sunny, windy coastline provides excellent opportunities and the exploitation of water, wind and solar energy (Oster, 2008) has helped to decrease Portugal's import dependence and promote job creation. Currently, 45 per cent of electricity production already stems from renewable sources, compared to 17 per cent only five years ago.

In both countries fiscal stabilisation will be a priority in the following years. As it is shown in Figure 1 (see p. 36), although budget deficit is due to decrease, public debt will increase further. Although recession is not expected in Spain for

<sup>5</sup> Just after the new government took office, at the beginning of July 2011 the rating agency Moody's aggressively downgraded Portugal's debt, making the financing more difficult and forecasting a second bailout.

the forthcoming years, growth prospects are weak. The increase of the GDP will remain under two per cent until 2017 according to IMF forecasts (IMF, 2011c).

A probable pillar of recovery may be a rise in Portuguese exports. Export is important for revenue and growth also on regional level (Antunes-Soukiazis, 2011), mainly towards non-EU areas. Angola, for example, recently became Portugal's most important trade partner outside the EU. The cultural and language ties from the colonial times have been utilised by an increasing number of Portuguese companies. Asia and Latin-America also represent important emerging markets.

Tourism and exports can be the main basis of growth in Spain, too. The principal exported products of Spain are cars (usually around 20 per cent of total exports), chemicals, pharmaceuticals, food, textile and clothing. The technological content of Spanish exports is low in international comparison (the share of high-tech products in manufacturing was 5 per cent in 2008, while in Italy it was 7 per cent, in France 20 per cent, etc.) (World Bank, 2010). The bulk of the export is given by multinational companies, mainly in the automotive, steel, chemical and pharmaceutical sectors. The product structure is vulnerable to international conjunctural changes, this was manifested in the recent crisis; also, exports declined between 2008 and 2009 and recuperated afterwards. However, Spain did not lose market shares in the world during the last decade despite the high unit labour costs and loss of price-competitiveness (Banco de España, 2011a).

The majority of the Spanish exports are directed towards the EU: the main receptor countries are France, Germany, Italy and Portugal. The share of the non-EU direction is relatively low (it was 32.3 per cent in 2010) but increased in the past years (it was 26.6 per cent in 2000). There are regions to which the exports increased much more vigorously in the past decade than the average Spanish export increase. These are all non-EU countries—just as in the case of Portugal—the tendency is the most spectacular in the case of China, Russia and Algeria. It seems thus that outside the EU there are possibilities for Spanish exporters, too, that should be even more utilised.

Internationalisation of the traditionally small and medium-sized Spanish enterprises has indeed increased over the past twenty years, but still a lot could be done. Larger Spanish companies became successful multinationals. It is owing to them that Spain could maintain its export shares in the world. A considerable group of Spanish firms became competitive and they can be an important base for the future economic growth.

Thus, in both countries, well-performing companies and their international activities can provide a ray of hope for the difficult future.

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# The European Stability Mechanism: Progress or Missed Opportunity?

Alina Christova

Educational Development Unit,  
Institute for European Studies,  
Free University Brussels  
Pleinlaan 5,  
Brussels 1050, Belgium  
e-mail: [alina.christova@vub.ac.be](mailto:alina.christova@vub.ac.be)

**Abstract:** *This paper describes and analyzes the steps undertaken by the European Union to tackle the recent financial crisis, especially the adoption and main features of the rescue package in 2010 and the European Stability Mechanism in March 2011 by the European Council. It deals in depth with the procedure employed to pass the changes of the Treaty on the Functioning of the European Union, the legal basis for the rescue package and the permanent crisis mechanism, the institutional form, decision-making bodies and available instruments, the capital structure as well as private sector involvement and the collective action clauses. Last but not least, the paper takes into account and discusses critical assessments of the newly passed permanent European Stability Mechanism and suggestions for improvement.*

**Keywords:** *Collective Action Clauses, euro area's financial stability, European Stability Mechanism, European Union, eurozone, financial crisis, Greek crisis, rescue package, TFEU*

## Introduction

During the European Council meeting on 24/25 March 2011 in Brussels, the Heads of State or Government of the European Union agreed on amending the Treaty of Lisbon. The treaty came into force only recently, in December 2009, in order to establish the European Stability Mechanism, a permanent crisis management mechanism for the eurozone (EC, 2011), necessitated by the financial and euro crisis and the need to support the budgets of mostly South-European Member States, especially Greece, Portugal, Italy, Spain and Ireland.

The European Stability Mechanism will replace after June 2013 the emergency rescue package, adopted in May last year for the period of three years to bail out European Union Member States in the eurozone threatened by the “Greek crisis”. This paper takes a closer look at the two mechanisms put in place so far to tackle the financial crisis including a critical assessment of the components of the permanent European Stability Mechanism, especially private sector involvement and the Collective Action Clauses.

## The Rescue Package 2010

The rescue package, or the European Financial Stabilization Mechanism, was based on Article 122 (2) of the Treaty on the Functioning of the European Union (TFEU; EC, 2010a) and was created with the purpose to preserve the stability, unity and integrity of the European Union by providing assistance to any Member State which is experiencing or is seriously threatened by a severe economic or financial disturbance caused by exceptional occurrences beyond its control. That way, the European Union aimed at preventing further speculations on the financial markets about the bankruptcy of EU Member States and, thus, endangering the euro.

The Stabilization Mechanism consists of four pillars (EC, 2010b). First, an amount of up to 60 billion euros of loans or credit lines was foreseen from the EU budget. Second, the Stabilization Mechanism included further bilateral credit guarantees for the Member States of the euro group of up to 440 billion euros, if the amount of 60 billion turned out to be insufficient. To this end, the European Financial Stability Facility was agreed upon. The European Financial Stability is a vehicle which can issue bonds guaranteed by the Member States of the eurozone for the purposes of lending to Member States in difficulty. However, Article 125 of the TFEU sets out the no-bailout principle, according to which a Member State shall not be liable for or assume the commitments of another Member State. This provision has been used as an argument for a general prohibition of any kind of financial support within the eurozone (Vasconcelos, 2010; Frenz & Ehlenz, 2010; Ruffert in Von Jahn, 2010; Heß, 2010). Nevertheless, Article 125 of the TFEU only clarifies that there cannot be an obligation of a Member State to assume financial responsibility for another Member State, but it cannot be seen as a prohibition of taking over such responsibility on a voluntary basis (Herrmann, 2010; Faßbender, 2010).<sup>1</sup> A general

<sup>1</sup> An overview of the different assessments regarding the scope of Article 125 of the TFEU can be found in Rohleder, Zehnpfund & Sinn, 2010.

prohibition would mean that an EU Member State would be in a position to grant financial support to any country in the world except its partners in the eurozone, which cannot be the aim of the provision. Third, the International Monetary Fund guaranteed additional credit lines of up to 250 billion euros. Finally, the European Central Bank backed up the aid package with the purchase of government bonds of Member States of the eurozone. Article 123 (1) of the TFEU prohibits the direct purchase of debt instruments by the European Central Bank and, therefore, sets out a ban on financing the budgets of Member States through the European Central Bank. Because of this provision, the European Central Bank did not buy government bonds directly from the issuers on the capital market.<sup>2</sup> Critical voices have raised concerns regarding the question whether a country heavily in debt and incapable of meeting its current obligations can be tackled by granting additional credits and hereby increasing this debt; alternatively, the option of the so-called “haircut” was suggested, that is, cutting the debts through partial waivers by the creditors.

The rescue package was followed by a variety of legislative proposals of the European Commission to improve shortcomings of the current economic governance system of the EU and its instruments, including proposals for regulations on speeding up and clarifying the implementation of the excessive deficit procedure, on direct enforcement of budgetary surveillance in the eurozone, on the prevention and correction of macro-economic imbalances, etc.

## **The permanent European Stability Mechanism**

### **Treaty changes**

The European Council agreed that the permanent European Stability Mechanism will not be based anymore on Article 122 of the TFEU, but that a respective amendment of Article 136 of the TFEU according to the Simplified Revision Procedure set out in Article 48(6) of the TFEU should take place.<sup>3</sup> Therefore, the following paragraph will be added to Article 136 of the TFEU:

*The Member States whose currency is the euro may establish a stability mechanism to be activated if indispensable to safeguard the stability of the euro area as a whole. The granting of any required financial assistance under the mechanism will be made subject to strict conditionality.*

<sup>2</sup> For an assessment of the legality of such actions see Seidel, 2010, and Herrmann, 2010b.

<sup>3</sup> For additional information on the Simplified Revision Procedure see de Witte, 2011.

Crucial in this regard is the specification that the mechanism will “be activated only if indispensable” as an ‘ultima ratio’ measure if the stability of the eurozone is endangered.

The Simplified Revision Procedure allows changes of the treaties in a speeded up manner through unanimous decision of the Member States and a mere consultation of the European Parliament, the European Commission and the European Central Bank without the need to call in a constitutional convention or an intergovernmental conference. A consultation implies that the three above-mentioned institutions have to give their opinion on the envisaged changes, but their position is not binding in the decision-making process. However, the treaty revision would still need to be ratified by all 27 Member States in accordance with their constitutional requirements in order to become legally binding. The target date for the entry into force of the European Stability Mechanism is 1 January 2013.

### **Lending capacity and legal form**

The European Stability Mechanism will have an effective lending capacity of 500 billion euros with the possibility of being supplemented through IMF participation in financial assistance operations, and will be activated by unanimous decision of the Member States as a measure of last resort to safeguard the financial stability of the euro area as a whole. Moreover, the European Stability Mechanism will encompass a total subscribed capital of 700 billion euros, out of which 80 billion euros will be provided by the eurozone Member States and will be actually paid in. Additionally, the Member States will provide committed callable capital and guarantees of 620 billion euros. This means that the fund can ask shareholders to supply new capital if the existing capital gets wiped out (Münchau, 2011). The contribution of every Member State will be based on the paid-in capital key of the European Central Bank (EC, 2011, Annex II, p. 34). The European Stability Mechanism will be established by a treaty among the Member States of the eurozone as an intergovernmental organization under public international law and will be located in Luxembourg. The statute of the European Stability Mechanism will be set out in an annex to the treaty.

### **Decision-making**

The highest decision-making body of the Stability Mechanism will be the Board of Governors consisting of the Ministers of Finance of the members of the eurozone. The European Commissioner for Economic and Monetary Affairs and the President of the European Central Bank will participate as observers. The

Board of Governors will make decisions on the granting of financial assistance, the terms and conditions of financial assistance, the lending capacity of the Stability Mechanism and any changes to the menu of instruments by mutual agreement. On all other matters not mentioned above, the Board of Governors would make decisions by qualified majority if no specifications on the voting were made. Qualified majority is reached with 80 per cent of the votes, and the voting weights are proportional to the subscriptions of Member States to the capital of the Stability Mechanism. In addition, the Stability Mechanism will have a Board of Directors carrying out tasks delegated by the Board of Governors.

## **Instruments**

The permanent Stability Mechanism will provide financial assistance through loans and may intervene as an exception in debt primary markets. It will have two instruments: the stability support and a primary market support facility. First, there is the possibility to grant short-term and medium-term stability support in the form of loans to a Member State of the eurozone experiencing severe financial problems on the basis of a macro-economic adjustment programme with adequate policy conditionality commensurate with the severity of the imbalances of the beneficiary. Second, a primary market support facility would allow the purchase of Member State's bonds on the primary market with the objective of maximizing the cost efficiency of the financial support.

## **Private sector involvement**

A crucial innovation of the permanent Stability Mechanism, in comparison to the Rescue Package 2010, is the introduction of private sector involvement—for example, banks or insurances, when financial assistance is received by a Member State. However, this involvement is not automatic, but will be determined on a case-by-case basis depending on the outcome of a debt sustainability analysis according to IMF practice and on potential implications for the financial stability of the euro area. If, on the basis of the sustainability analysis, the conclusion is made that the macro-economic programme cannot realistically restore the public debt to a sustainable path, the beneficiary state will have to carry out negotiations in good faith with its creditors to secure their involvement in restoring the debt sustainability. These negotiations will be subject to the principles of proportionality, transparency, fairness and cross-border coordination.

The principle of fairness requires special attention: it states that the Member State has to consult creditors regarding the rescheduling or restructuring of the

public debt in view of reaching a negotiated solution and that measures reducing the value of the debt will be considered only in the case that other options are unlikely to deliver the expected results. The commitment of a Member State to ensure adequate and proportionate private sector involvement together with the existence of a credible plan are important factors, which are going to be considered when granting financial assistance to a Member State. Central in this regard is that the obligation of Member States is limited to the engagement in active negotiations and the demonstration of commitment to ensure private sector involvement, but is not bound by results, which prompts the question what will happen if the negotiations are not successful. Will financial assistance be thus refused or nevertheless granted?

Starting from July 2013, so-called Collective Action Clauses will be included in all new government securities in the eurozone. In this regard, it is stressed that the introduction of Collective Action Clauses will not imply a higher probability of default or of debt restructuring relating to these bonds. The purpose of the Collective Action Clauses is to allow a Member State to find an agreement with the majority of its creditors on the restructuring of the debts without a minority of creditors being able to block this decision. The Collective Action Clauses used will be identical and standardized for all Member States of the eurozone in order to ensure a level playing field among them.

## **Critical assessment of the permanent European Stability Mechanism**

The permanent European Stability Mechanism in its current form has been severely criticized. The sustainability test is said to be just a “paper tiger” because the judgment that the public finances of a country are not sustainable after all would constitute an admission of defeat or, worse, the admission of an error in judgment and no official institution would ever do this (Gros, 2011). Gros (2011) gives as an example the sustainability of the Greek public debt: while the sustainability assessment of the IMF/EU/ECB is positive, most independent observers and investors assume that this is not the case.

The introduction of private creditor involvement to restore debt sustainability is a very welcome and necessary step in dealing with states experiencing economic or financial disturbances. Creditor involvement and partial waivers are standard practice in the insolvency procedures in the private sector, where there are two possibilities: liquidation or restructuring. In the case of liquidation, the creditors receive a quota of what is left in the insolvency estate, which generally

is considerably less than the original credit. In the case of restructuring, the insolvency administrator offers the creditors a quota which is better than the quota they would receive in the case of liquidation. The motivation of the creditors to accept the quota is the impending bigger (even complete) loss in the case of liquidation. However, with regard to the permanent European Stability Mechanism it is said that the Collective Action Clauses are not a convincing solution for the current acute problems because they make the bonds of concerned Member States unattractive for private creditors and they come too late (Schwarzer, 2011) since the introduction of such clauses in an intermediate phase would last probably until 2030, because these clauses are foreseen only for new euro area government securities/bonds with maturity above one year from July 2013 on (EC, 2011, p. 31). As far as the unattractiveness of bonds is concerned, it is only fair to involve the creditors and make them share the risk of making an investment for a profit in times of crisis; it is not viable to take the creditors completely out of the responsibility and make the European taxpayer step in to guarantee the profits. When a creditor lends money to a debtor making a wrong assessment of his creditworthiness, he must face the consequences in the form of a financial loss. Moreover, private sector involvement should also be introduced for current government bonds as an appropriate risk distribution.

As Micossi, Carmassi and Peirce (2011) point out, the moral hazard in the financial system of the eurozone has been the implicit promise that banks would be bailed out by governments; this promise was kept in the Greek and Irish rescue packages, which have exempted banks from all losses and have placed those losses squarely on the shoulders of the taxpayers. Furthermore, according to Micossi and others (2011), the discussion about private sector involvement in the costs of reckless borrowing by sovereign creditors is at the same time inevitably the discussion about making banks write off the losses on their portfolios with all consequences this would entail for bank capital. Granting additional credits to a debtor not capable of paying back his existing credit is not a solution to the problem of solvency, but just postponing it to the future and aggravating it.<sup>4</sup> Private sector involvement with partial waivers is an indispensable part in finding a way out of the precarious situation.

In addition, the Collective Action Clauses are seen as insufficient because the involvement of private creditors will be decided on a case-by-case basis (Projektgruppe Gemeinschaftsdiagnose, 2011). Emmanouilidis (2010) argues that a case-by-case involvement is justified because every case of sovereign

<sup>4</sup> There are certain narrow exceptions when additional credits are granted in order to allow the debtor to overcome temporary liquidity problems in view of expected profits in the future.

default is different, and, thus, the conditions attached to a potential restructuring would have to reflect the debt situation in the country concerned. He sees as an additional justification the fact that the markets would be tempted to attack the weakest eurozone members even if these countries do not face insolvency yet. As mentioned above, private sector involvement has to become standard practice in times of crisis. Nevertheless, according to the permanent Financial Stability Mechanism, private creditor involvement will be considered only when other options are unlikely to deliver the expected results (EC, 2011, p. 30), and, since there is no specification of what these expected results are, there is a danger that private creditors might never face a partial debt waiver.

The European Financial Stability Mechanism currently does not have a one-sided, automatic mechanism to impose partial waivers and is seen as an implicit guarantee for government securities; under these conditions creditors would rarely be ready to accept willingly a partial waiver and there are concerns that this measure would remain largely unused in practice (Projektgruppe Gemeinschaftsdiagnose, 2011). The motivation for private creditors to agree to partial debt waivers would only be created in view of an impending complete loss. However, in the current setting it would be easy for a Member State to justify that they have undertaken everything possible to foster an agreement with the private creditors, but without result; in such a case it would be difficult for the other Member States of the eurozone to deny financial assistance to the Member State in need (Holtemöller & Knedlik, 2011). In view of the abovesaid, there have been calls for the creation of a functioning insolvency mechanism for states, without which the emergency solutions in the form of bailouts, decided on a very short notice, will continue at the cost of European taxpayers.<sup>5</sup>

## Conclusion

The eurozone suffered several birth defects with its creation, one of them being that no thought was given to the question what measures should be taken in case a Member State experiences severe solvency problems and to the establishment of a crisis-resolution mechanism for such cases. This loophole had to be closed through emergency measures. The Member States of the eurozone must finally face reality and acknowledge the existing problem—namely, that a state insolvency exists. Once the problem is acknowledged, it is necessary to create a

<sup>5</sup> For further information on the concrete proposals see Sinn and Carstensen, 2010, and Holtemoeller and Knedlik, 2011.

procedural framework in order to solve it hereby making use of the knowledge from the private sector insolvency procedures, which have been field-tested in a long time. There are two main issues to be tackled: the high debts and the improvement of the competitiveness of the country concerned. The goal is the elimination of the debts of the Member State concerned and helping it to tackle the crisis in its own right. The goal cannot be to increase the existing debts by granting further credits and, thus, making the Member State dependent from external assistance in a long term. Crucial in this regard are clear rules introducing private sector involvement as standard practice and not on a voluntary basis. Banks cannot continue to rely on being bailed out by governments no matter how recklessly they borrow money. As the current escalation of the Greek crisis and the need for new measures show, the mechanism presently in place does not give the expected results. Despite an initial 110-billion-euro international bailout, Greece has not been in a position to handle its budget deficit. The option of restructuring the Greek bonds in the hands of private investors and hereby reducing the debt is back on the negotiating table. If this opportunity is not taken, the Greek debts will continue spiraling.

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# Social Systems in the Baltic States and the European Social Model

**Tiia Püss**  
**Mare Viies**  
**Reet Maldre**

Centre for Economic Research,  
Tallinn University of Technology  
Akadeemia tee 3,  
Tallinn 12618, Estonia  
e-mail: tiia.pyss@tseba.ttu.ee  
e-mail: mare.viies@tseba.ttu.ee  
e-mail: reet.maldre@tseba.ttu.ee

**Abstract:** *The paper discusses ways in which the social systems in the European Union Member States, especially in the Baltic States (Estonia, Latvia and Lithuania), fit in the European social model typology. The theoretical part of this paper analyses the European social model and its typology based on research findings by various authors. We compare the social outputs of countries grouped into different model types on the basis of different socio-economic indicators. In the empirical part, we carry out a cluster analysis for positioning the Baltic States into a mix of European social models. We concentrate on the most important aspects of social systems, and try to classify European Union countries according to their social policies. We use different clustering methods such as hierarchical and k-means clustering. The analysis is based on Eurostat data; clusters are formed on the basis of socio-economic indicators for EU-27 countries. Our results suggest that the Baltic countries' public policies are relatively similar, while the social situation in Estonia is somewhat better than in Latvia and Lithuania.*

**Keywords:** *Baltic States, cluster analysis, European social model, social policy, social systems, typology of welfare states*

## Introduction

The European social model is a vision of society that combines sustainable economic development with ever-improving living and working conditions. This implies good-quality jobs, equal opportunities, social protection for everybody, social inclusion and involving citizens in making the decisions that affect them. In recent years, the question of what is the future of the European social model has become increasingly relevant. Better understanding and consolidation of the European social model as a pillar of European society are of vital importance for stability and progress within the EU and the world as a whole, especially for people's wellbeing and sustainable economic development.

There are several different social models, used in Europe, which interpret the concepts of efficiency and equality differently. One of the first authors to work out a social model typology for countries (welfare regimes) was Gøsta Esping-Andersen. His research initially identified three different social model types in Europe (Esping-Andersen, 1990; 2000). As a result of later research, the fourth one was separately identified (Bonoli, 1997; Ferrera, 1996). As a rule, EU-15 countries today are grouped into the social model types using the Scandinavian socio-democratic model (Finland, Sweden and Denmark), the Anglo-Saxon liberal model (Ireland and United Kingdom), the continental-corporative model (Austria, Belgium, the Netherlands, Luxembourg, Germany and France) and the Mediterranean model (Greece, Italy, Portugal and Spain). All the four social models are very different. An in-depth analysis of providing efficiency and equality under the four social models enabled André Sapir (2005) to conclude that the Mediterranean model, which is characterised by a relatively low rate of employment and high poverty risk, provides neither efficiency nor equality. The continental-corporative and the Anglo-Saxon model represent a kind of compromise between efficiency and equality. And only the countries which use the Scandinavian model stake highest on social protection expenditure and provision of general welfare, which with its high rate of employment and low poverty risk combines both efficiency and equality.

The social models used by EU-15 Member States have been analysed quite thoroughly from all aspects, whereas those of the new EU states (EU-12) have not been discussed in greater detail. Esping-Andersen (1996) believed that 'post-communist regimes' would shift towards some of the main welfare regime types after 15 years of transition. By 2004 to 2006, this period was nearly over for the Baltic States. Whether these countries represent an independent social

type (types), or whether they can be part of the existing typology, is a question discussed in this paper.

The theoretical part of this paper deals with the European social model and its typology, based on various authors' research findings. We will compare social outputs of countries grouped into different model types on the basis of different socio-economic indicators. In the empirical part of the paper we will carry out a cluster analysis for positioning the Baltic countries in the mix of European social models. We will examine to what extent does the 'Baltic social model' fit into Esping-Andersen's typology and whether and what the differences are between Estonian, Latvian and Lithuanian social models. We will use different clustering methods such as hierarchical and *k*-means clustering. Our analysis is based on the latest Eurostat data. The clusters are formed on the basis of the 2008 socio-economic indicators for EU-27 countries, because all the data we need in this research are not yet available for more recent years.

## **Typology of European social models**

The issue whether it is possible to implement a common social model in EU countries and what it should be like has been a subject of debate for a long time already. The European social model is primarily the matter of certain key values such as social justice, social protection, equal opportunities, non-discrimination, the basic social and labour standards. EU Member States in principle share the same values and the same goal: to combine economic capacity and competitiveness with social justice. However, the countries have different opportunities and resources for the achievement of these objectives.

There is not one single European social model. European social model is more of a description of social realities throughout Europe based on a rich diversity of practice anchored in common core values and rights. It is also a vision for the future and tool for clarifying in which direction European societies can move forward together.

Within the framework of cooperation between the EU Member States, the common social targets and measures for achieving these objectives have been negotiated. Ground for this cooperation was laid already with the European Social Charter in 1961, which also provided the main principles of the so-called European social policy. One way to achieve these objectives is to work out a suitable social model for the countries. Despite the diversity in national systems,

there is a distinct European social model in that all national systems of the EU countries are marked by the consistency between efficiency and social progress. The European treaties both emphasise the common values underpinning the social model and insist on the importance of respecting national diversity. Enlargement of the EU has contributed in a very constructive way to the emerging identity of a European social model. Enlargement has enriched the EU with a large group of countries with a long history of cultural, social, economic and industrial achievements. It has firmly established the cultural dimension of the social model (Opinion ..., 2006).

At the EU Lisbon summit in March 2000, European countries agreed to use the open method of coordination in social policy. Although the method does not directly define social policies in EU Member States, it guides the Member States to work toward the common social policy goals, hence toward the harmonisation of social levels. Europe 2020, initiated by the European Commission in March 2010, sets out a vision of Europe's social market economy, which, in order to achieve common objectives, is based on Member States' coordinated activity on the basis of smart, sustainable and inclusive economic growth over the next ten years (EC, 2010).

There are several different social models used in European countries, which interpret the concepts of efficiency and equality differently, searching for a balance between economic and social values. Literature (Esping-Andersen, 1996; Sapir, 2006; Ferrera, 1996; 1998; Adnett & Hardy, 2005; Juhász, 2006; Hermann & Hofbauer, 2007; Chytilova & Mejstřík, 2007; etc.) distinguishes between four different models: the Nordic model which in the literature is also called the Scandinavian socio-democratic model (Esping-Andersen, 1990; 1996), the Anglo-Saxon model, the continental-corporative model and the Mediterranean model. The scholars have taken into consideration expenditure on social protection as well as target groups and scopes of social policies: whether the programs are universal or targeted at a specific group; how equal conditions are provided; and what is the quality, scope and effect of the benefits and services. One of the first authors of this typology, Esping-Andersen (1990; 2000), defines the welfare regimes (social models) on the basis of how responsibility for social risks is divided between three welfare pillars—market, state and family. For that he uses two important criteria: the levels of decommodification and stratification. The former implies to what extent is a person's welfare dependent not purely on market conditions and to what extent are social services guaranteed by the state. The second criterion is the degree of social stratification and solidarity in society regarding redistribution of social resources between different social strata.

The countries taking on general welfare use the Nordic model (Northern European countries such as Denmark, Finland, Sweden, and Norway, the latter not an EU Member State). In the Nordic model, the generous universal and highly distributive benefits do not depend on any individual contributions. These countries are characterised by high overall tax burden, high share of social protection expenditure in GDP, wide assortment, availability and high quality of social services, high significance of universal welfare provision to individuals.

The Anglo-Saxon liberal model (Ireland and the United Kingdom) is characterised mainly by that benefits in these countries are not universal but targeted mainly at people with low income, usually working-class state dependents. The state has a minimal responsibility for welfare provision. Welfare is provided by the market. The state supports it either passively, for example, by providing only minimal benefits, or actively, by subsidising the aid schemes provided by the private sector. The Anglo-Saxon model is characterised by low tax burden, moderate state expenditure on social protection and hence high personal responsibility and personal contribution rates to social protection and covering of the respective expenditure.

The continental-corporative model is used in Austria, Belgium, France, Germany, the Netherlands and Luxembourg, hence mainly in continental Europe. There is no dominant liberal attitude in these countries toward market failure as in the Anglo-Saxon model, and social justice is not guaranteed by the state as in the socio-democratic model either. The direct influence of the state is restricted to the provision of income maintenance benefits related to occupational status. In these countries the social rights are strictly dependent on personal work contribution, family relations and status. Insurance principle-based schemes and benefits are widely used there. Intergenerational solidarity is important. Despite diminishing membership, trade unions have retained their strength and essentially influence the labour market relations. Benefits are rather for those who are not in the labour market.

The Mediterranean model, which is used in Greece, Italy, Portugal and Spain, is most similar to the continental-corporative model but the distinct features are the lack of an articulated social minimum and a right to welfare. The focus is on family although the state covers only specific social risks against which families cannot protect themselves. In general, this model is most family focused. Unemployment insurance legislation is quite strict, while unemployment benefits are relatively low. These countries have a relatively low employment rate and high poverty risk. Expenditures on social protection are relatively low.

Hypotheses about the Baltic countries' position in the European Union social systems pattern are diverse. Generally, the social systems of Estonia, Latvia and Lithuania are considered being relatively similar. The Baltic countries may be relatively homogenous but so different compared with other countries that they form a distinct type of social model, the 'Baltic model'. It is also possible that the Baltic countries are relatively similar with some other EU-12 countries and we can distinct a new type of model. And finally, the Baltic countries can be incorporated into one of four European social models. Most frequently it has been discussed that the best choice for the Baltic countries is the Anglo-Saxon type of social model. It is also possible that the Baltic countries have chosen different ways to improve their social systems and they can be fitted into different social model types. The question whether the social protection system used in Estonia conforms better to the Nordic model or rather resembles the Anglo-Saxon model has been studied in our previous research (Püss *et al.*, 2009). Various aspects of Estonia's developments in the context of the European social model have been discussed also in papers by Estonian economists (Kerem & Pöder, 2009) and social scientists (Toots & Bachmann, 2010).

To analyse empirically the position of the Baltic countries' social systems in the EU social models' pattern we must first determine the concept of social model. We consider social model as the interaction between social situation and public policy and our selection of variables used in this analysis is based mainly on the definition of EU social model types by Boeri (2002) and sustainability analysis by Sapir (2005). This allows us to describe and estimate the performance of Estonian, Latvian and Lithuanian social systems compared to four EU social model types.

## Analytical background

Social protection expenditure in the EU increased over 1991–2008 in connection with the expanding needs for and a rise in the level of social protection. Average social protection expenditure in EU-15 in 1991 was 25.2 per cent of GDP, in 2008 26.9 per cent. EU-12 spent on social protection only 16.6 per cent of GDP in 2008, hence over 10 percentage points less than EU-15 countries. Comparing the EU-15 countries, France and Sweden had the highest social protection expenditure as a share in GDP, 29.3 per cent and 28.8 per cent, respectively, and Ireland had the lowest—20.8 per cent of GDP. The level of EU-12 countries is significantly lower, and the Baltic countries have the lowest expenditures on social protection: 12.4 per cent of GDP in Latvia and 14.9 per cent of GDP in Estonia.

Social protection expenditure per capita in the same period increased in EU-15 from 3,840 to 7,464 PPS, whereas the amount and change rate of the expenditure vary considerably from country to country. The EU-12 average remained on the level of 2,780 PPS in 2008.

In order to select an appropriate set of variables to describe the social model, it is important to understand how to define its boundaries and the linkages with other aspects of socio-economic development. Different authors have approached this question somewhat differently and there is no common and clear definition. There are hundreds of potential indicators and it is not realistic to take into account all possible features appropriated to the social models. We concentrate on two of the most important aspects of social systems: public policy which characterises the level of decommodification and social situation which best characterises social stratification.

The first strand of data, that of public policy, involved variables of social protection, labour market policy, while some other variables of public expenditures are available and seem to be relevant. According to Esping-Andersen we can, with some reservation, label these data, especially the first part of them related to social protection, as decommodification. According to Esping-Andersen (1990), decommodification is the degree to which social policy makes individuals independent of the market.

Social situation involved variables that described monetary poverty and inequality, access to the labour market and demographical situation as the key indicators of the different aspects of social well-being. This dataset, especially the first group of data, is generally comparable with stratification indicators of Esping-Andersen. Some other authors (Saint-Arnaud & Bernard, 2003; Fenger, 2005; and others) tackle these data, analogously to us, as part of the social situation indicators.

The primary purpose of Europe's common social policy is to provide welfare to as many citizens of European countries as possible. In order to evaluate the different social models, we compare the social models based on some output estimates recommended by the European Commission (Table 1). When comparing countries with different social models, the biggest social protection expenditure as a share in GDP was in the Nordic countries (on average 28.1 per cent of GDP) and the smallest in the Anglo-Saxon countries (on average 22.1 per cent of GDP); EU-12 countries spent on social protection on average 16.6 per cent of GDP in 2008. All the Baltic countries spend on social protection significantly less than other EU countries, compared to both EU-15 and EU-12

countries. The Baltic countries as a whole have the lowest social protection expenditure in the EU; Latvia has the smallest expenditures—only 12.4 per cent of GDP (1,769 PPS per capita). The breakdown by social protection functions as a share of total social protection expenditure (SPE) is identified to reflect differences in the SPE structure. The biggest share of expenditure in the Baltic countries as well as in EU-15 on average goes to pensions and health care. The biggest share of pension costs in the Baltic countries is in Lithuania (45.7 per cent of SPE) and expenditures on health care are the highest in Estonia (42.2 per cent of SPE). The biggest differences between the EU-15 average and the Baltic countries are in unemployment related expenditure (Table 1). The comparison of countries using different social models shows that unemployment expenditures as a share of SPE are the highest in countries which use the continental model and the smallest in countries which use the Anglo-Saxon model. The share of these expenditures is the smallest in Estonia.

*Table 1. Some indicators that characterise public policy according to different social models and in the Baltic States*

Indicator	Model type				Estonia	Latvia	Lithuania
	Nordic	Anglo-Saxon	Continental	Mediterranean			
Social protection expenditure as a share of GDP, %	28.1	22.1	27.0	24.2	14.9	12.4	15.7
Social protection expenditure per capita, PPS	8,346	6,821	9,100	5,721	2,518	1,769	2,442
Pension expenditures as a share of SPE, %	38.1	34.7	42.4	49.1	43.2	45.6	45.7
Health/sickness expenditures as a share of SPE, %	38.6	41.5	34.5	34.3	42.2	35.7	40.0
Unemployment expenditures as a share of SPE, %	5.2	4.7	6.5	5.6	1.1	3.2	1.8
Social contribution as a share of total receipts, %	44.0	43.8	63.6	56.2	81.5	65.9	61.4
Employers social contribution as a share of total receipts, %	29.9	31.0	37.7	38.9	81.1	48.7	55.2

Indicator	Model type				Estonia	Latvia	Lithuania
	Nordic	Anglo-Saxon	Continental	Mediterranean			
Social contribution paid by the protected persons as a share of total receipts, %	14.1	12.8	25.9	17.3	0.4	17.2	6.2

*Source: Eurostat, 2010 and authors' calculations based on the Eurostat database, 2010*

Social protection expenditures are financed from various sources. For financing social protection measures most of the countries use means collected through a special social tax. This tax rate and principles of taxation vary considerably across countries. Additionally, some social protection expenditures are also covered by the public sector from general tax receipts.

Our earlier analyses have demonstrated that in the long term the share of social tax contributions in the structure of financing has diminished and the state's share has increased in EU-15 on average (Püss *et al.*, 2009). When comparing the social model types and financing schemes used in EU countries, quite typical relations can be distinguished between them: a relatively high share of social contributions in financing in countries using the continental-corporative model, while the share of state financing is higher in countries which use the Nordic and the Anglo-Saxon model. The comparison of EU-15 and EU-12 countries indicated that in EU-12 countries financing from social tax contributions is dominating. The comparison of the Baltic countries with different social model types shows that while Latvia and Lithuania resemble in the structure of financing the continental and the Mediterranean model, respectively, then Estonia is substantially different from all the model types: a very small share of general government tax receipts is spent on social protection and the main sources for covering social expenditure in Estonia are social tax receipts, most of which are paid by employers. The biggest contribution of employees in social tax payment in the Baltic countries is in Latvia.

Table 2 shows some key indicators characterising social situation according to different social models, and for the Baltic States. Additionally to data in Tables 1 and 2 we have used in the cluster analysis various other indicators and the final selection of variables used in our analysis is given in Appendix 1.

To describe the overall inequality of income distribution we have selected two variables: the S80/S20 ratio and the Gini coefficient. While the S80/S20 ratio is only responsive to changes in top and bottom quintiles, the Gini coefficient allows taking into account the full distribution of income. The comparison of

social indicators on the basis of social model types implies that the biggest inequality (S80/S20 and Gini) is in the Mediterranean countries (in Portugal 6.6 and 0.37, respectively) and the smallest in the Nordic countries (in Sweden 3.4 and 0.23, respectively), which also spend the most on social protection. Comparing the Baltic countries to EU-15 countries we can see that on the basis of both S80/S20 and the Gini coefficient these resemble the Mediterranean model countries. Comparing the Baltic countries to each other we can detect the biggest inequality in Latvia (7.3 and 0.38, respectively).

Table 2. Some key social situation indicators according to different social models and for the Baltic States

Indicator	Model type				Estonia	Latvia	Lithuania
	Nordic	Anglo-Saxon	Continental	Mediterranean			
At-risk-of-poverty rate before social transfers, %	28.0	31.5	24.7	23.9	24.9	30.2	27.2
At-risk-of-poverty-rate after transfers, %	12.0	17.2	13.8	19.2	19.5	25.6	20.0
Gini coefficient	0.24	0.32	0.27	0.34	0.31	0.38	0.34
S80/S20	3.6	5.2	4.6	5.8	5.0	7.3	5.9
Employment rate (15–64 years)	74.5	69.6	68.5	63.3	69.8	68.6	64.3
Gender activity gap	7.0	15.3	12.4	19.0	8.2	8.1	5.9
Unemployment rate	4.8	6.0	6.2	8.4	5.5	7.5	5.8
Long-term unemployment rate	0.9	1.5	2.5	3.1	1.7	1.9	1.2
Gender pay gap	19.8	19.1	17.4	13.0	30.3	15.4	20.0
Average life expectancy at age 65	19.0	18.9	19.5	19.3	16.2	15.4	15.7
Old-age dependency ratio	24.2	20.1	25.5	27.1	25.3	24.9	23.0

Source: Eurostat, 2010 and authors' calculations based on the Eurostat database, 2010

An important purpose of social protection is to combat poverty. Poverty is a process where changes occur very slowly and national social policy measures are what should contribute to alleviation of poverty. The fact that social protection is more effective in Nordic and continental countries is verified also by the significant decrease in the share of population living in poverty as a result of social transfers (for example, the effect in Finland amounts to 16 percentage points). At the same time, the effect of social transfers in Mediterranean countries is only 4.5 percentage points (in Spain and Greece only 4 percentage points). The social

protection systems in EU-12 also have a smaller effect on poverty risk than in EU-15 on average. In 2008 and 2009, the percentage of the population living below the poverty line in Estonia was 19.5 and 19.7, respectively, in Lithuania 20 and 20.6, respectively, and in Latvia 25.6 and 25.7, respectively. The effect of social transfers in the Baltic countries is the smallest in Latvia (4.6 percentage points), and the biggest in Lithuania (7.2 percentage points). From the aspect of gender, social transfers, in general, help to reduce poverty more among females: for example, the effect for women in EU-15 on average is 10 percentage points, in Finland 16 percentage points. However, unlike in other countries, the effect in Estonia and Latvia has been bigger on men's poverty alleviation (6 and 7 percentage points, respectively). As a result of the economic crisis, the at-risk-of-poverty rate increased, in 2009, in all the Baltic countries; in Estonia particularly the children-at-risk-of-poverty rate grew from 17.1 per cent to 20.6 per cent. At the same time, the impact of social transfers on poverty alleviation increased in Estonia and Lithuania by approximately one percentage point.

A major source of welfare is high employment rate. For the achievement of cohesion, EU is contributing first and foremost to economic and employment growth. Similarly with other indicators, the Nordic countries stand out with high employment rates, both for males and females.<sup>1</sup> The Mediterranean countries stand out with their low employment rates, whereas the female employment rate is nearly 20 percentage points lower than that of male. EU-12 countries on average are characterised, compared to EU-15 countries on average, by lower employment rates, both for males and for females, as well as smaller impact of social transfers on poverty alleviation. The Mediterranean countries, again, stand out with high rates of long-term unemployment, whereas high long-term unemployment rates are characteristic of such countries of otherwise high welfare as Germany (3.8 per cent) and Belgium (3.3 per cent of active population). Estonia as well as Latvia achieved already by 2008 the employment target set out in EU by 2010 (according to the EU employment strategy, the employment rate in EU should have been 70 per cent in 2010, including 60 per cent for women). Moreover, both countries considerably exceeded the female employment rate target: Estonia 6.3 and Latvia 5.4 percentage points. At the same time, the unemployment rate in Latvia was relatively high—7.5 per cent—compared to the other Baltic countries. Unlike in most of the EU countries, female unemployment rate is lower than male's in all the Baltic countries. The same tendency can be observed in the UK and Ireland, that is, in the liberal Anglo-Saxon model countries. Employment and unemployment indicators have undergone major changes in the Baltic countries since 2009.

<sup>1</sup> Here attention should be paid to the period of analysis, since in the subsequent years, under the financial and economic crisis, the employment rate fell and unemployment rate rose in all EU countries.

Compared to 2008, unemployment increased by 8.3 percentage points in Estonia, 9.6 in Latvia, and 7.9 percentage points in Lithuania in 2009, whereas in EU-15 it increased by an average of 1.9 percentage points, where the biggest unemployment growth was in Spain (6.7 percentage points) and Ireland (5.6 percentage points).

Ageing of population is a common problem for European countries. Next to globalisation, this is one of the main factors that put sustainability of the current national social systems under pressure and led to essential changes in the current social model and perhaps, at least to some extent, to convergence according to the common European social model. The old-age dependency rate is above the EU average level (similarly to the continental model countries) in Estonia and Latvia and a little below in Lithuania. In the Baltic States the average life expectancy, especially for men, is still one of the shortest in EU.

## **Cluster analysis**

### **Research methodology**

To position the Baltic countries into the EU social model pattern we decided to use cluster analysis as one of the most appropriate approaches. Cluster analysis involves different classification algorithms and methods for grouping objects on the basis of certain criteria into relatively homogeneous groups in such a way that both similarities within groups and dissimilarities between groups are maximized. There is a large number of different clustering methods proposed in literature, from the largely heuristic to more formal ones based on statistical methods (Fraley & Raftery, 1998; 2002). Cluster analysis is a very popular and commonly used technique in different disciplines but not very often used in socio-economic analysis. However, we can find also a range of studies dealing with similar fields and using similar methodology as we are: Saint-Arnaud and Bernard (2003), Fenger (2005), Ferreira and Figueiredo (2005), Van Vliet and Kaeding (2007), Obinger and Wagschal (2001), among others.

There is plenty of literature available on clustering techniques, thus we give only a brief overview. Traditional methods of clustering can be divided into hierarchical and relocation methods. Hierarchical clustering methods can be either agglomerative or divisive. Agglomerative clustering starts by treating each object as a separate cluster; then the closest clusters in each stage are merged into larger clusters and, as the last step, all objects are joined together. Contrariwise, divisive clustering starts by treating all objects as a single large cluster and then splits the cluster into smaller and smaller clusters until every object forms a separate cluster. Relocation clustering method, such as *k*-means

clustering, needs an initial number of clusters and moves objects iteratively from one cluster to another starting from an initial partition until an optimal location is identified. We carried out a two-step analysis and used hierarchical and partitional clustering methods. The hierarchical cluster analysis helped us to get some idea about the optimal number of clusters, while partitional methods have proved more appropriate for actual formation of the clusters. Clustering techniques are based on a kind of similarity or dissimilarity measures. To eliminate the impact of different measurement units and magnitudes in our dataset, we have standardised the data by using  $z$ -scores computed as:

$$z_{ik} = (x_i - \mu)/\sigma \quad z_{ik} = (x_i - \mu)/\sigma$$

where  $\mu$  is the mean and  $\sigma$  the standard deviation of variable  $x$ . The distance matrix can be calculated in different ways, some of the more commonly used distance measures are Euclidean, squared Euclidean, Manhattan (city-block), Chebyshev and Canberra distances. The Manhattan, Euclidean and Chebyshev distances are the special cases of Minkowski metric defined as:

$$D_{ij} = \left( \sum_{k=1}^n (|x_{ki} - x_{kj}|)^p \right)^{1/p} \quad D_{ij} = \left( \sum_{k=1}^n (|x_{ki} - x_{kj}|)^p \right)^{1/p}$$

with  $p=1$ ,  $p=2$  and  $p = \infty$   $p = \infty$ , respectively. Squared Euclidean distance is computed by squaring simple Euclidean distance:

$$D_{ij} = \sum_{k=1}^n (x_{ik} - x_{jk})^2 \quad D_{ij} = \sum_{k=1}^n (x_{ik} - x_{jk})^2$$

The more appropriate for our cluster analysis seems to be the squared Euclidean distance, which places progressively greater weight on outliers to generate distance patterns. This method seems to be more appropriate assumed that countries' grouping should be based on a great deal of similarity across all variables and distinction mainly based on outliers. The main problem for selecting the measures is that Euclidean distance does not take into account the correlation and gives excess weight to such variables. One possible solution is to use the principal component analysis.

At each stage of hierarchical clustering, the agglomeration of clusters is selected to optimise some heuristic criteria. The more commonly used methods are single linkage, complete linkage, average linkage, centroid and Ward's methods. The distance between two clusters  $U$  and  $V$  is defined in the single linkage or nearest-neighbour clustering as the distance between two most similar objects:

$$D(U, V) = \min\{d(u, v) | u \in U, v \in V\} \quad D(U, V) = \min\{d(u, v) | u \in U, v \in V\}$$

in the complete linkage or farthest neighbour clustering as the distance between two most dissimilar objects:

$$D(U, V) = \max\{d(u, v) | u \in U, v \in V\} \quad D(U, V) = \max\{d(u, v) | u \in U, v \in V\},$$

in the average linkage or between groups clustering as average distance:

$$D(U, V) = (|U| \times |V|)^{-1} \sum_{u \in U, v \in V} d(u, v)$$

$$D(U, V) = (|U| \times |V|)^{-1} \sum_{u \in U, v \in V} d(u, v)$$

and in the centroid clustering as the difference between the centroids ( $c_U, c_V$ ):

$$D(U, V) = d(c_U, c_V) \quad D(U, V) = d(c_U, c_V).$$

In the Ward's method the within group sum of squares is used as a measure of homogeneity.

We used different clustering methods that allowed us to pick the more robust and better solutions for an optimal number of clusters as well as clusters' memberships. In this paper, only the results of Ward's and  $k$ -means clustering are reported; the other results are available upon request from the authors. We have used SPSS packages in our empirical analysis.

## Two aspects of social model: social situation and public policy

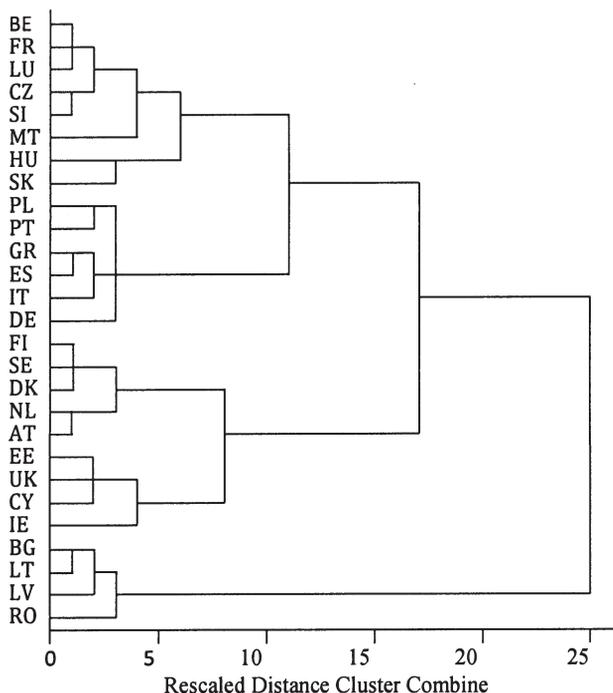
### Social situation

We begin our analysis by grouping countries according to their social situation. Hierarchical cluster analysis allows us to obtain some idea about possible number of different situation types; the results based on Ward's method are given as a dendrogram in Figure 1.

Looking at the length of nodes, a three-cluster solution seems more appropriate, but we can also distinguish between two or five different social situation types. A selection of more than five clusters will lead to very small clusters. In none of these cases can we detect a Baltic countries' cluster; the social situation in Latvia and Lithuania is so different from that of Estonia as well as from all other EU countries, with the exception of Bulgaria and Romania, that these four countries form a separate cluster. Separating five clusters, Estonia forms a distinct cluster with the Anglo-Saxon countries (the UK, Ireland and Cyprus). The five cluster solution appears to be the more appropriate and meaningful choice, it is also relatively robust according to the other clustering methods.

The cluster members according to the  $k$ -means' five-cluster solution do not differ from those of hierarchical analysis (Table 3: Clusters 1 to 5). We can discern four types of social situations analogous to the four types of social model with the addition of one 'new' cluster. As mentioned above, Latvia and Lithuania with Bulgaria and Romania form one cluster (Cluster 1). This cluster is more homogenous and we can conclude that the social situation in Latvia and Lithuania is very similar in the context of European social situation pattern, at least according to our dataset.

Figure 1. Dendrogram using Ward's linkage: social situation



Source: Authors' calculations

Table 3. Cluster membership, social situation

Cluster 1	Cluster 2	Cluster 3	Cluster 4	Cluster 5
BG	UK	FI	GR	BE
LT	EE	SE	ES	FR
LV	CY	DK	IT	LU
RO	IE	NL	PT	CZ
		AT	PL	SI
			DE	MT
				HU
				SK

We can label the remaining four clusters Anglo-Saxon, Nordic, Mediterranean and continental according to EU-15 membership. Estonia and Cyprus are joined with Anglo-Saxon countries (Cluster 2), so we can assume that at least in terms of social model output they have chosen more liberal policies. Members of the Nordic cluster (Cluster 3) correspond almost exactly to the Boeri's social model typology. Only Austria, generally known as the country with a continental type

social system, is joined in our analysis with Denmark, Sweden, Finland and the Netherlands. All four Mediterranean countries, Germany and Poland form the fourth, Mediterranean cluster (Cluster 4). Finally, the rest of the continental countries and five EU-12 countries not mentioned above form the fifth, continental cluster (Cluster 5).

According to the ANOVA F-test results (Table 4), almost all variables of social situation included in the cluster analysis are significant at the appropriate level ( $p < 0.05$ ). Only three variables, at-risk-of-poverty rate before social transfers from poverty/inequality indicators, gender employment gap from labour market indicators, and old-age dependency from population change indicators perform at the F-value lower than critical.

Table 4. Social situation, final cluster centres (z-scores) and ANOVA results

Variable	Final cluster centres					ANOVA					
	CL1	CL2	CL3	CL4	CL5	Cluster		Error		F	Sig
						MeanSq	df	MeanSq	df		
POVR	1.59	0.37	-0.92	0.53	-0.80	5.416	4	0.198	22	27.469	0.000
GINI	1.51	0.28	-0.86	0.66	-0.85	5.402	4	0.200	22	27.045	0.000
POVRB	0.93	0.52	0.05	-0.34	-0.50	1.811	4	0.853	22	2.125	0.112
POVRC	1.38	-0.12	-1.17	0.59	-0.34	4.367	4	0.388	22	11.260	0.000
POVRE	1.17	1.07	-0.46	-0.13	-0.73	3.887	4	0.475	22	8.182	0.000
POVRW	1.07	-0.20	-0.70	0.87	-0.65	3.772	4	0.496	22	7.607	0.001
ACTR	-0.40	0.60	1.38	-0.42	-0.64	3.988	4	0.457	22	8.732	0.000
EMPRO	0.36	0.98	0.82	-0.30	-0.96	3.905	4	0.472	22	8.279	0.000
ACTGG	-0.56	0.04	-0.78	0.50	0.37	1.711	4	0.871	22	1.965	0.135
UNER	-0.02	-0.54	-0.88	0.93	0.13	2.581	4	0.713	22	3.622	0.020
UNERLT	-0.13	-0.73	-1.04	0.63	0.61	3.241	4	0.593	22	5.470	0.003
GPG	-0.23	0.90	0.61	-0.43	-0.39	3.484	4	0.548	22	6.353	0.001
LWE	1.59	0.60	-1.05	0.04	-0.47	4.705	4	0.326	22	14.418	0.000
LIFE65	-1.68	0.09	0.69	0.43	0.04	3.751	4	0.506	22	7.336	0.001
CBR	-0.46	1.44	-0.02	-0.65	0.01	2.907	4	0.653	22	4.449	0.009
ODR	0.03	-0.71	0.28	0.77	-0.41	1.834	4	0.848	22	2.161	0.107

Source: Authors' calculations

From statistically significant variables the indicators of monetary poverty and inequality, especially those reflecting general situation (at-risk-of-poverty rate after social transfers and the Gini coefficient) have more power in forming and differentiating the clusters, differences between labour market and demographic changes are not so remarkable in this context. From labour market indicators the

clusters differ more in the level of inequality in wage distribution, overall activity rates and employment rates of older workers, the average living expectancy is a more important indicator of population changes.

Regarding the final cluster centres (Table 4) and relying on the results of post hoc tests we can describe the five social situation types as follows. The well-being cluster in terms of social situation is the Nordic cluster. Countries in this cluster have almost all poverty indicators at the lowest with the exception of elderly poverty rate and at-risk-of-poverty rate before social transfers. There are also the most effective labour market in respect to higher participation rate, the lowest unemployment rate, the lowest incidences of long-term unemployment and the smallest share of low-wage earners. Average life expectancy figures are also the best. The cluster consisting of Latvia and Lithuania exhibits worse performance both in terms of monetary poverty and inequality, the largest inequality in wage distribution and the lowest in average life expectancy. The overall as well as long-term unemployment rates in this cluster are on the average level, statistically significantly higher than in the Nordic and lower than in the Mediterranean clusters. The average share of part-time workers is very low, as is typical of all EU-12 as well as Mediterranean countries.

The cluster consisting of Estonia and the Anglo-Saxon cluster holds about an average position being significantly lower than the Nordic but better than the previously described cluster in respect to social situation. In terms of monetary poverty and inequality indicators it resembles rather the Mediterranean cluster; the overall labour market situation seems to be one of best only after the Nordic cluster. This cluster differs from all the others by better demographic situation with respect to population age structure, by higher birth rates and lower old-age dependency rates, higher labour participation rate for older people and the largest gender pay gap.

The main characteristics of the Mediterranean cluster which are different from others are low female participation rate, related narrow gender pay gap, high unemployment rates and share of long-term unemployment incidences, long average life expectancy for women and high old-age dependency rate. The continental cluster differs from the others by low at-risk-of-poverty rate before social transfers and lowest elderly-at-risk-of-poverty rates. The labour market participation rate is the lowest, especially the activity rate for the elderly.

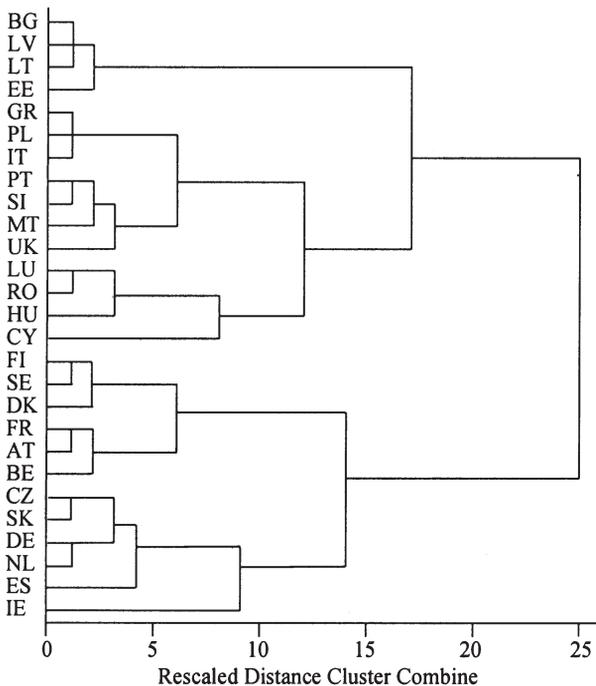
According to our cluster distribution, the social situation in Estonia is somewhat better than in Latvia and Lithuania, which appear to be more similar. Looking the individual data for Estonia, Latvia and Lithuania, we can see that almost

all social situation indicators of Estonia are at least slightly better than in the other Baltic countries. The hierarchical cluster analysis results for each of the three social situation dimensions separately generally support the differences of Estonia's social system; according to poverty and inequality as well as labour market indicators, Latvia and Lithuania, but not Estonia, are in the same cluster. Only according to the demographic situation three Baltic countries and the majority of other EU-12 countries form a separate cluster differing significantly from the rest of Europe.

### Public policy

The distribution of countries resulting from the hierarchical cluster analysis based on differences in public policy data is somewhat different from that of social situation (Fig. 2). Analogously to the social situation, a visual observation of the dendrogram does not provide one clearly preferred solution and we can distinguish between two, three or five cluster solutions; but countries are grouped now somewhat differently compared to the social situation.

Figure 2. Dendrogram using Ward's linkage: Public policy



Source: Authors' calculations

Public policies of the Baltic countries are similar to Bulgaria's; these four countries represent a clearly distinct sub-cluster in the two-cluster division and a separate cluster in case there are three or more clusters. So, despite the somewhat different social situation of Estonia, the three Baltic countries seem to implement close public policies at least in the context of European public policy systems mix. Looking at the agglomeration schedule, the Baltic countries' public policies are somewhat similar to those applied in most of the Mediterranean and other EU-12 countries; in the two cluster division they form one cluster. In a five cluster solution the cluster consisting of Baltic countries is the only purely EU-12 cluster, one cluster comprises all the Nordic and some continental countries and the other three are a mix of 'old' and 'new' EU members.

Comparing Ward's hierarchical cluster results with *k*-means clustering of public policy we can see that our results are not as robust as those for social situation. For the three-cluster solution the distribution of countries is in the same line for both clustering methods but the five-cluster results are somewhat different (Fig. 2, Table 5).

*Table 5. Cluster membership, public policy*

<b>Cluster 1</b>	<b>Cluster 2</b>	<b>Cluster 3</b>	<b>Cluster 4</b>	<b>Cluster 5</b>
LT	GR	SK	FI	IE
LV	PT	DE	SE	
BG	PL	CZ	NL	
EE	SI	HU	FR	
	MT	RO	AT	
	IT	LU	BE	
	CY	ES	DK	
			UK	

*Source: Authors' calculations*

Ward's method tends to give clusters of nearly equal size; the *k*-means method is more sensitive to exceptions. The public policy in Ireland is so different from that of other countries that it forms according to *k*-means clustering a one-member cluster, according to hierarchical clustering it has joined as an exception the last cluster. Adding one more cluster there is the second one-member cluster, i.e. Cyprus, and only the selection of a seven-cluster solution leads us to a more similar, though not the same, distribution as in the dendrogram. The hierarchical clustering based on other methods and distance measures supports more strongly the five-cluster solution, pointing out Ireland as an exception, and

also the theoretical analysis suggests that Ireland's public policy is different, for instance, due to different population structure. So we decided to describe only this solution; the other possible variants are a three-cluster version or a five-cluster version without Ireland and Cyprus, but they do not provide additional information about the Baltic countries' position, and in the latter case it is somewhat difficult to distinguish between clusters based on the significance tests. Also, the results are not robust either.

Cluster 1 consists of all the three Baltic countries and Bulgaria—we have labelled it as the Baltic cluster. Regarding the distance from the cluster centre, Latvia and Lithuania are closer and Estonia the farthest from the centre. However, that cluster is most homogenous compared to others. The next cluster, Mediterranean (Cluster 2), covers geographically mainly the Mediterranean area with the exception of Spain and with addition of Poland and Slovenia. Cluster 3 is hard to label, it contains four CEE countries, Germany and Luxemburg from among the continental countries and Spain from the Mediterranean countries. Cluster 4, the Nordic-continental cluster includes all the four Nordic countries, a majority of continental countries and the UK. Finally, Ireland forms one-member Cluster 5. The comparison of distances between the final cluster centres suggests that the Baltic public policy type is more similar to the Mediterranean type and more different from that of Ireland.

According to the ANOVA F-test results (Table 6), almost all variables of public policy included in the cluster analysis are significant at the appropriate level ( $p < 0.05$ ). Only social contributions of employers, unemployment expenditures' share in SPE, labour tax rate and active labour market policy seem to be less important differing clusters, performing at less than the critical F-value. The social protection expenditure and general government expenditure as a share of GDP, pension expenditure as a share of SPE and mean equalised income of unemployment have more power in forming and differentiating the clusters. Differences in other public policy functions as well as other social protection are not so important in this context.

On the basis of analysis of the final cluster centres (Table 6) and the results of post hoc tests we can describe Cluster 1, 'the Baltic public policy type' as having the lowest general government expenditure, social protection and health care as a share of GDP; the highest share of social contributions by employers in total revenues and the lowest share of unemployment expenditure from social protection expenditure. Related to this also pensions and unemployment benefits are significantly lower compared to other clusters. Cluster 4 (Nordic-continental) spends more of GDP on general government expenditure as a

whole, also social protection and public education expenditure are the highest in comparison with the rest of Europe. They also have higher implicit labour tax rates. Cluster 2 (Mediterranean) differs from the others in the structure of social protection expenditure; the shares of health and child benefit expenditure are the lowest. The public policy of Ireland, the country more different from the rest of Europe partly due to the different population structure, differs from other policy types due to higher health expenditure, the lowest employers' social contribution and labour tax rates, lower share of pension expenditure and greater share of unemployment and child benefits.

*Table 6. Public policy, final cluster centres (z-scores) and ANOVA results*

Variable	Final cluster centres					ANOVA					
	CL1	CL2	CL3	CL4	CL5	Cluster		Error			
						MeanSq	df	MeanSq	df	F	Sig
GGE	-1.17	0.17	-0.66	1.06	-0.45	4.486	4	0.366	22	12.249	0.000
PEH	-0.87	-0.46	-0.27	0.91	1.31	3.344	4	0.574	22	5.829	0.002
PEE	-0.43	0.17	-0.89	0.87	-0.20	3.14	4	0.61	22	5.15	0.00
SPE	-1.44	-0.01	-0.35	1.09	-0.48	4.723	4	0.323	22	14.622	0.000
SCEMP	0.76	-0.35	0.36	-0.21	-1.43	1.622	4	0.887	22	1.829	0.159
ITRL	-0.55	-0.36	0.15	0.64	-1.48	1.941	4	0.829	22	2.342	0.087
HE	0.48	-0.81	0.16	0.10	1.86	2.289	4	0.766	22	2.990	0.041
PE	0.29	1.05	-0.34	-0.42	-2.79	4.508	4	0.362	22	12.455	0.000
CE	0.22	-0.85	0.61	-0.08	1.49	2.540	4	0.720	22	3.527	0.023
UE	-0.90	-0.42	0.21	0.49	1.10	1.985	4	0.821	22	2.417	0.079
MNIUE	-1.72	0.86	-0.22	0.27	0.25	4.503	4	0.363	22	12.399	0.000
MNIRE	-1.51	0.26	0.58	0.10	-0.62	3.116	4	0.615	22	5.066	0.005
ALMP	0.24	-0.26	-0.15	0.27	-1.89	0.381	4	1.112	22	0.343	0.846

*Source: Authors' calculations*

## Conclusions

In this paper we discussed the European social model and its typology. We compared the social outputs of countries grouped into different model types on the basis of different socio-economic indicators. We focused on two of the most important aspects of social systems: social situation that characterises the social stratification and public policy that best characterises the level of decommodification.

To determine the position of the Baltic countries in the EU social model pattern we decided to use cluster analysis (hierarchical and *k*-means clustering). Our analysis by grouping countries according to their social situation indicated that

- the indicators of monetary poverty and inequality, especially those reflecting general situation (at-risk-of-poverty rate after social transfers and the Gini coefficient) have more power in forming and differentiating the clusters;
- Latvia and Lithuania with Bulgaria and Romania form one cluster. This cluster is more homogenous and we can conclude that the social situation in Latvia and Lithuania is very similar in the context of the European social situation pattern, at least on the basis of our dataset. The cluster consisting of Latvia and Lithuania exhibits worse performance both in terms of monetary poverty and inequality (the largest inequality in wage distribution and the lowest average life expectancy);
- Estonia is joined with the Anglo-Saxon countries, so we can assume that at least in terms of social model output they have selected more liberal policies. The Anglo-Saxon cluster is described by higher labour participation rate of older people, higher than average activity rate as a whole and relatively low unemployment; the largest gender pay gap and relatively high share of low wage earners; better demographic situation with respect to above average birth rates;
- according to our cluster distribution, the social situation in Estonia is somewhat better than in Latvia and Lithuania, which appear to be more similar in that respect. The individual data of Estonia, Latvia and Lithuania demonstrates that almost all social situation indicators of Estonia are at least slightly better than in the other Baltic countries.

Our analysis by grouping countries according to their public policy indicated that

- social protection expenditure and general government expenditure as a share of GDP, pension expenditure as a share of SPE and mean equalised income of unemployment have more power in forming and differentiating the clusters. The distribution of countries resulting from the hierarchical cluster analysis based on differences in public policy data is somewhat different from that of social situation;
- Estonia, Latvia and Lithuania together with Bulgaria form a separate cluster. Despite the somewhat different social situation in Estonia, the three Baltic countries implement closer public policies at least in the context of European public policy mix;

- the cluster consisting of the Baltic States is characterised by the lowest general government expenditure, social protection and health care as a share of GDP; the highest share of social contributions by employers in total revenues and the lowest share of unemployment expenditure from social protection expenditure. Related to this, also pensions and unemployment benefits are significantly lower compared to other clusters.

How to justify the conclusion that Estonia's relatively similar public policy with the other Baltic countries involves a somewhat different and better social situation? One reason may be that social situation depends not only on public policies but also on various factors such as labour market policy and functioning, human capital level, etc. Moreover, public policy itself is highly multifaceted and we have taken into account only a small part of it, mainly the relation with social protection policy. So the results need to be analysed more profoundly in the future.

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## **Appendix 1. Description of variables used in empirical analysis**

### **SOCIAL SITUATION**

#### **Monetary poverty and inequality**

POVR	At-risk-of-poverty rate, %
GINI	Gini coefficient
POVRB	At-risk-of-poverty rate before social transfers (pensions excluded), %
POVRC	Children-at-risk-of-poverty rate, %
POVRE	Elderly-at-risk-of-poverty rate, %
POVRW	In work at-risk-of-poverty rate, %

#### **Labour market related**

ACTR	Activity rate (15 to 64 years), %
EMPRO	Employment rate of older workers, %
ACTGG	Gender activity gap, %
UNER	Unemployment rate, %
UNERLT	Long-term unemployment rate, %
GPG	Gender pay gap, %
LWE	Low wage earners as a share of full time employees, %

### **Population**

LIFE65	Average life expectancy at age 65
CBR	Crude birth rate, %
ODR	Old-age-dependency ratio, %

### **PUBLIC POLICY**

GGE	General government expenditure as a share of GDP, %
PEH	Public expenditures on health as a share of GDP, %
PEE	Public expenditures on education as a share of GDP, %
SPE	Social protection expenditures as a share of GDP, %
SCEMP	Social contribution, employers
ITRL	Implicit tax rate on labour
HE	Health/sickness expenditures as a share of SPE, %
PE	Pension expenditures as a share of SPE, %
CE	Family/children expenditures as a share of SPE, %
UE	Unemployment expenditures as a share of SPE, %
MNIUE	Median equalised net income: Unemployment/employment
MNIRE	Median equalised net income: Retired/employment
ALMP	Active labour market policy as a share of total, %

# Employment of Mothers and Fathers: A Comparison of Welfare States in Scandinavia and Estonia

Helbe Põdder

Tallinn Pedagogical College  
Räagu 49,  
Tallinn 11311, Estonia  
e-mail: helbe.helbe@gmail.com

**Abstract:** *This paper analyzes the different stages in the development of EU Member States as they have to solve the problem of the increasing need for employees in the context of the ageing European society. It is important to take actions in two aspects: the need for labour force (in order to maintain economic stability) and supporting of birth rate (to relieve the demographic situation). Two possible models are pointed out for the EU Member States—full employment and combination of work and family life. The article discusses the participation of women and men in family life and at paid work in EU Member States such as Denmark, Sweden, Finland and Estonia.*

*The article's subtopics reveal that the EU's social model—full employment, equal possibilities (above all, equality of men and women), combining of work and family life—is the concern of the Member States. The Member States are active supporters of the 'shared roles model' and while women and men seem to have positive attitudes towards the 'shared roles model', the real everyday life situation is more similar to the early version of a dual-earner family model.*

*After the Second World War there was a need for complementary labour force, so women found themselves actively engaged outside of home, and measures to support women's participation in work on the state level had to follow. At the third place there were changes in the attitudes towards the roles of women and men. Nowadays, women are more and more participating in work, governments support women's activities even before problems in time-sharing between home and work emerge, but the changes in these attitudes still occupy the third place.*

**Keywords:** *combining work and family life, full employment, gender equality, welfare state*

## Introduction

The EU Member States have to solve the problem of how to manage and survive in the context of an ageing society. It is important to take action in two aspects: the need for complementary labour force (to maintain economic stability) and supporting of birth rate (to relieve the demographic situation). Two possible models are pointed out for the EU Member States—full employment and combination of work and family life.

The need for additional labour force and problems with low birth rate are not new in Europe, which has faced the same problems since the end of the Second World War. A solution to these was found in the full-time engagement of women in the labour market, and part-time engagement of mothers with young children. Up to the 1970s, European policies mention only participation in the labour market, whereas from the 1970s onward, legislation in Europe already highlights both fathers and mothers as employees, for example, in connection with allowing them absence from work to carry out childcare responsibilities (Leira, 2010, pp. 11–12). Since the 1990s, the possibilities to combine work and family life through changing gender stereotypes have become a reality.

In the situation of the increasing need for employees and low birth rate, the EU Member States had to make a choice as to which models of work and family to support. In her very famous book *Working Parents and the Welfare State: Family Change and Policy Reform in Scandinavia*, Professor Arlaug Leira (2010) offers three models of family which can be adopted as a basis for political measures:

- 1) a specialization of the roles of the mother and the father (model family of industrialism), in which combining of work and family life are clear roles—“naturally” mothers are homemakers and carers, and fathers are economic providers;
- 2) the sequential employment of mothers—the domestication of women is denaturalized by the process of mothers taking more of the economic provider responsibilities during periods when paid work did not conflict with motherly duties, which is an early version of a dual-earner family model;
- 3) ‘shared roles model’—both mothers and fathers are employees and take care of children, which is dual-earner, care-sharing family (Leira, 2010, pp. 4–6).

The article will cover the participation of women and men in the EU Member States of Denmark, Sweden, Finland and Estonia. In the mentioned states the third of the family models proposed by Leira—the dual-earner, or the care

sharing model—predominates. There may be some discrepancies between different ethnicities in these countries, but these will not be discussed in this article. The basic questions are—how do mothers and fathers manage the double roles of combining work and family life and which are attitudes of the women and the men and employers towards the double roles in the increasing changes in the equality and stereotypes. There are four basic themes in the article discussing the employment of mothers and fathers:

- 1) the equality of women and men in combining work and family life in the EU as a political process;
- 2) the new motherhood and fatherhood conception in Scandinavia;
- 3) women and men at work in Scandinavia and Estonia;
- 4) employers' attitudes towards women and men at work in Scandinavia and Estonia.

### **EU's political aims and position towards the equality between women and men in combining working and family life**

Through its strategies, the EU has become aware of the problems to solve to be sustainable in the future. In EU documents the topics of gender equality include:

- 1) equal pay for equal work. Already since 1957 it has been a general principle in the Treaty of Rome, the basic EU treaty (Calers, 2008). Article 2 of the Treaty of Amsterdam (which entered into force in May 1999), pointed out that ensuring equality of women and men will be one of the principle aims of the EU (including the principle of equal pay for equal work or work of equal value) (Treaty of Amsterdam, 1997, pp. 18–30). The subject of equal wage was brought up again in March 2006 in EC roadmap for equality between women and men (EC, 2006).

Since 2000, the EU documents indicate concern about the demographic and economic situation (*Employment, Economic Reform...*, 2000) and point out new keywords:

- 2) full employment as the social model of EU;
- 3) economic growth through the participation of women in the labour market (the same theme as in EC, 2011);
- 4) deeper social connection and social solidarity;
- 5) possibilities to combine work and family life (including the improvement of child caring services) (see also EC, 2000; 2006, pp. 3–7);

- 6) changing gender stereotypes—equal possibilities (above all equality between men and women) (see also EC, 2006, pp. 3–7; Consolidated versions..., 2008, Art. 8, pp. 153, 157; EC, 2011b).

The Member States have to introduce measures for reconciling working and family life, and this points to the importance of policies on career breaks, parental leave and part-time work, for both men and women, as well as flexible working arrangements which serve the interests of both employers and employees, while maintaining the necessary balance between flexibility and safety (EC, 2000). Second, strategies (Europe 2020, 2010; EC, 2006; 2010) but responsibilities lay on Member States. Third—commissions (for example, NCEO, 2010). Fourth—pacts, for example Pact of Gender Equality in Europe (2006). Fifth—institutes, for example, the European Institute for Gender Equality (founded in December 2006, located in Vilnius).

Equality between women and men is a theme of European legislative texts—various treaty provisions and directives are concerned with equal access to employment, pay, as well as maternity protection, parental leave, social security and occupational social security, the burden of proof in discrimination cases, and self-employment (EC, 2011a). Strategies and aims on gender equality at the EU level are definitely a sign of good intentions, but, so far, they cannot reach the level of changes in family and labour market.

## **A new motherhood and fatherhood conception in Scandinavia**

Leira (2002, pp. 9–10) describes three interconnected processes to propose changes in relationships between welfare states, labour market and family—modernization of motherhood, collectivization of childcare (different forms of childcare) and familization of fatherhood (the working father's right to care for children). The childcare forms will not be discussed here, and the focus is more on the changes in motherhood/fatherhood and gender equality at work place.

Family life is a partnership in which two people are in an interdependent relationship and the decision to have a first or additional child is a collaborative one. The traditional interdependency of partners in family life, and relationships between women and men are in a process of regeneration. Changes in labour force needs and the growing number of women at paid work are one of the reasons behind the change in the meaning of traditional interdependency. It

is thus a case of forced equality in the sense that economic necessity is an instrument to achieve more job-orientation.

Since the mid-1990s, and especially at the beginning of the 21<sup>st</sup> century, there has developed, in addition to the model of father as a breadwinner, the model of a caring father in the Western world. The formation of the latter has been influenced by feminism, fathers' claims that they can manage raising children just as well as women, also various political powers, family sociologists and pedagogical researchers insisting that family welfare depends on the relationship between a father and a child. "Newcomer" fathers have become more active and take on more responsibilities in family life and caring for children.

On the other hand, female labour market participation is on the rise. Despite those two components women have not been freed from the so-called 'double burden' of household work and labour market participation (Mind the gap..., 2008, p. 7; OECD, 2011, p. 14; *Second European Quality of Life Survey*, 2009, pp. 26–30; Leira, 2010, p. 55).

In Estonia, the double role of a woman (especially the one of a married woman) as a breadwinner and caretaker has its roots in the Soviet period, when the primary duty of an adult was to participate in paid work. It was approved that both women and men had to participate in paid work, children were cared for in collective child care centres and household and childcare at home were women's responsibilities: the roles of men and women as mothers and fathers—caretakers—remained intact (Marling, 2010, p. 7; Maydell *et al.*, 2006; Lück & Hofäcker, 2003, pp. 11–14).

Even today, household and caring responsibilities in Estonia are still mostly the duty of employed women and it appears that in families with children, 64 per cent of women feel that they are overburdened with household duties (reported by 13 per cent of interviewed male respondents) and 16 per cent of women have never felt that taking care of household is too much of a burden (the same answer was given by 70 per cent of interviewed male respondents) (Järviste, 2006, pp. 4–5).

Stereotypical gender roles are the main hindrance to changes and are mostly preferred by men and individuals with lower education. Attitudes about participation in working and family life depend on social class, education, age of parents, the age and the number of children in the family, because children of different age need different care and devotion. In addition, these attitudes are affected by the model of the family of origin, type of residence (town, countryside) and the prevailing attitudes in the society towards the roles of women and men. At this point is interesting to note that according to Malle Järve

(2004, pp. 96–100) and Leeni Hansson (2001, pp. 35–53), in Estonia mothers do not want to lose the right to be at home with young children themselves, because it is customary and also a highly accepted part of motherhood, but this attitude is more common among the older generation than among the young people. The same is pointed out in “Dads aren’t Demons. Mums aren’t Madonnas...” by Ana Jordan (2009, pp. 419–433) about mothers in general throughout Europe.

For increasing inequality and supporting the changes in stereotypical roles—first, for them who have caring responsibilities—there are two separate measures that can be adopted: First, tying the child-caring process with insurance systems by equalizing it with paid work and the equality of women and men in paid and in unpaid work.

Second, individualizing social rights; guaranteeing equal rights for pension; and eliminating disincentives against women’s participation in working and social life, such as, for example, common taxation and social benefits to women who do not work but have caring responsibilities (*Assessment of the results...*, 2010, pp. 8–9).

Changes in traditional family model, the rising importance of dual-breadwinning model and the growing female participation in the labour market require changes in employment, family and poverty prevention policies. For example, through measures for supporting fatherhood it is possible to influence birth rate, gender equality, employment, welfare and the health of men and thus also the sustainability of population and economic growth. Family is a social system and so they look at their shared life-course with changing shared needs, duties, and chances.

In her *Working Parents and the Welfare State*, Leira (2010, pp. 67–68) argues that policy reforms which include fathers’ quota represent a remarkable attempt to “familize” fathers. Inequality in sharing home–work assignments and concentrating on success in social life and work is not “healthy” for men, either. First, they must be highly concerned with success at work, and second, they need rest and commitment in family life. Men’s “soft” needs are not satisfied, for that reason men are more adventuresome and in danger of early death (Marling, 2010, p. 8). For the men, these choices also affect the attitudes of their partners, as well as of their friends, colleagues and employer towards fatherhood and masculinity (Järviste, 2010, pp. 19–20). Besides, an important question is whether women are really ready to share equally their “natural” role.

The EU Member States contextualized in the article have taken action to implement some measures for breaking through the stereotypes in family life and for recognizing motherhood and fatherhood, for example paternity leave:

- In Denmark, fathers can take a paternity leave of 2 weeks within 14 weeks, after that both parents share a 32-week leave, which can be split up or postponed, but must be used before the child's 9<sup>th</sup> birthday.
- In Finland, fathers can take a leave for 18 weekdays; if the father uses at least 12 days of the parents' allowance then they are entitled to an additional 1–12 days.
- In Sweden, 10 days of leave can be used by fathers during the first 90 days after the child's birth and simultaneously with the mother.
- In Estonia, 10 days of leave can be used by fathers during the maternity leave or within two months after the birth of child (Brantner, 2010, pp. 4–5).

In real life, balancing work and family life is an important indicator of the quality of life for men and women, because most people in employment spend a considerable number of hours at work. Opportunities and being prepared, as well as resources of time and energy, are important moments in taking parental responsibilities. Absolute equality seems utopian: above all, it is the question of the quality of life and family values.

Scandinavian countries have been the “flagship” of full employment in the EU (even before the EU aims and strategies were called into existence), so they have also managed to break the gender stereotypes at work and introduce changes in sharing childcare responsibilities (Leira, 2010, pp. 11–12). In the Nordic countries (since the 1950s in Finland, and since the 1960s in other Nordic countries) marriage and family have become less important as economic provider institutions for women (Leira, 2010, pp. 22–23). In Estonia women's participation in the labour market has been high since the end of the Second World War, but the traditional attitudes towards motherhood/fatherhood are somewhat more stable than in the Nordic countries.

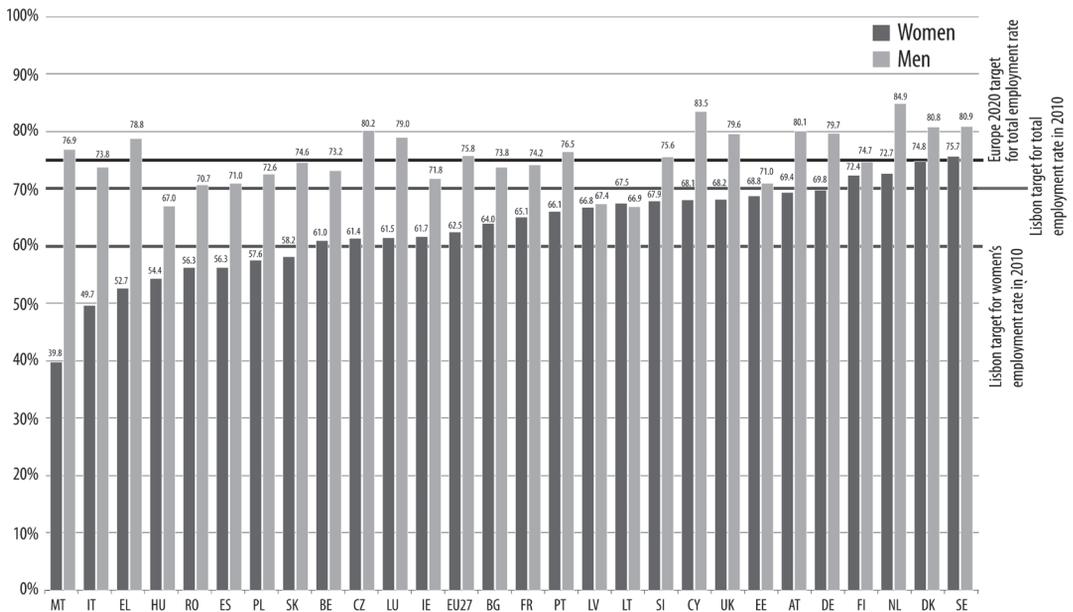
In the Nordic countries there are situations in which women can cope with childcare by themselves, with the help of the welfare state; Leira's (2010, pp. 23–36) keywords about the Nordic countries are “women-friendly; caring state; state feminism; people-friendly”). But in Estonia it is commonly held that women have more difficulties in coping with childcare without the supporting partnership.

Thus, in Scandinavia the welfare states strongly support the new conception of motherhood, according to which mothers are not the only carers of children, while fathers are too focused to participate in the childcare process; and fathers are not the only providers, but so are women with children, even with very young ones (under the age of 3).

## Women and men at work in Scandinavia and Estonia

The EU Member States form their family policy on their own account, at the level of EU, which suggests the aims and principles in policies rhetorically. The aims of the ageing societies are to regenerate human capital and at the same time retain high employment rate (Kutsar & Trumm, 2011). Interestingly, fertility rates are the highest in those countries where the proportion of women in the workforce is also the highest—in Denmark, Finland and Sweden—because public policies play a supporting and activating role (Thevenon, 2008, p. 166). In 2006, the rate of female employment in the EU was 57.1 per cent, compared against 64.3 per cent for the total population. The situation varied between the Member States—in 2009, the employment rate of women was the highest in Sweden (76 per cent) and in Denmark (75 per cent), then came Finland with 72 per cent and Estonia with 69 per cent (see Fig. 1; EC, 2010).

Figure 1. Employment rates (women and men aged 20–64) in EU Member States in 2009



Source: Eurostat, Labour Force Survey (LFS), annual averages, EC (2011b)

The equality in the participation of women and men in the labour market is connected with problems of wages, forms of working time, leaves, organization

of childcare and social guarantees. Laws and the general public opinion can help to balance work and family life, and also support and enable the competition of women and men with children in the labour market. The rate of women employment is connected with family values and attitudes in the society.

In the EU, the situation in the labour market is changing to ensure better education for women, women's participation in working life through the process of diversifying, increasing mobility and choosing more demanding work positions, globalization and minimizing the number of regulations in the field of working life. These changes in the labour market, especially within ordinary and traditional line of work and the decreasing number of steady job positions, influence the traditional breadwinners—men—the most. But despite women's accruing numbers at work and shifting gender balance of employment, the labour market as a social institution is still gendered (Leira, 2010, p. 51).

Among men in Europe (especially in poor and transitional societies, and less commonly in Western-European societies) the concept of working overtime, a distinctive phenomenon of the modern labour market, has become quite widespread. It is associated with companies and organizations trying to harness their employees to the maximum. Jobs demanding overtime hours are high-paid, while part-time jobs result in a lower salary. In Estonia, a full-time job and working overtime is often the only way to ensure an income that provides subsistence. (Järviste, 2008, pp. 16–17)

On the average, part-time workers in the EU Member States are women (OECD, 2011, p. 16), constituting 30 per cent (the share of men is 7 per cent). In Denmark 45 per cent of women and 9 per cent of men work as part-time workers, in Sweden the shares are 39 per cent and 10 per cent, respectively, in Finland—18 per cent and 7 per cent, respectively, and in Estonia—11 per cent and 4 per cent, respectively. Deborah Smeaton and Alan Marsh (2006, pp. 55–56) in their research “Maternity and Paternity...” pointed out that mothers make changes in their working lives upon returning to work after childbirth: in the first place they prefer to work for fewer hours, then—to work for fewer days, to work from home and choose a freelancing position.

But the male workers in Scandinavia, too, demand part-time work and equality in family life to balance working and family life, whilst the average number of weekly working hours is lower in Denmark and higher in the former communist countries (*Second European Quality of Life Survey*, 2010, pp. 41–42).

Implementing positive and endowing measures are necessary to support the return of men and women to their jobs after a period of raising children—the

policy of re-entering the labour market must be promoted in order to enable men and women regain financial independence. Leira (2010, pp. 34–36) mentions economic independence in the situation when, mostly in the case of divorce, a child/children stays with the mother. In the situation of economic independence a parent can carve out her own household, benefit from childcare services and participate in the labour market, so a single parent has a low risk of poverty (Child poverty..., 2010, p. 7).

## **Employers' attitudes towards women and men at work in Scandinavia and Estonia**

Europeans are encouraged to take a greater part in paid work, and as work takes up a considerable part of their life, the good quality of work is very important, and so is the balance between working and time for family. The changing organization of family life prompts employers to offer different contributing measures and possibilities.

The form of work (full-time, part-time or other forms) chosen by women and men participating in the labour market is connected with the attitude of the employers. Family and the labour market are constantly changing institutions, but changes at work are slow—thus women and men have had to make decisions that do not satisfy them (Järviste, 2008, p. 5).

A new career model in EU adapts “flexicurity” and could provide an individual’s designing career path with a better balance between flexibility and security, but this concept is polarised along gender lines. Men continue to have secure career pathways, women are overrepresented in labour market categories that are considered “flexible”; in such categories, flexibility is as likely to mean “marginal”, “non-standard”, “atypical” as it is to have any more positive meaning relating to control or choice over working time. (Mind the gap..., 2008, p. 5)

However, stereotypes can be changed very quickly, especially in some sectors. A good example here is the participation of Estonian women, compared to women in the other EU Member States and especially in Scandinavia, in fields of science. In Estonia women’s participation in fields of science in 2009 was 60 per cent and it has remained at the same level for several years (Eurostat, 2009, p. 44). For example, in 2005 the participation of women and men in fields of research and development was 47 per cent and 53 per cent, respectively. In 2009, the levels were 48 per cent and 52 per cent, respectively. During these

four years feminization of social and humanitarian sciences has taken place. While in 2005 there were 41 per cent of women in the fields mentioned above (641 scientists and engineers in total), then in 2009 the percentage of women in these fields was already 59 per cent (1,162 scientists and engineers in total, indicating a growth by half). This means that there has been a big turn in how stereotypes have evolved, because in Estonia women in the social sciences and the humanities have become leading scholars in their field. There has also been an increase in women's participation in medicine—in these years a sudden decrease (from 63 per cent to 33 per cent) in the participation of men has taken place, while women's participation grew just as suddenly (from 37 per cent to 66 per cent) (*Eesti statistika...*, 2006, p. 91; 2010, p. 351).

At the same time, if employees have children, there emerges a problem with a parent staying at home because of children (parental leave, added or sick leave). Employers appear to be more favourable towards mothers staying home with ill children than to fathers doing the same.

According to the 2010 fiscal year report of the Estonian Health Insurance Fund, the amount of care lists taken by fathers is 26 per cent. The instances of fathers staying home with children has increased by 5 per cent during both years of the report and the amount of care lists is predicted to increase. The average cost of a care day will increase, since care lists are used more by parents with higher income. This is especially true for men, whose average caring period's/day's income is nearly twice as high as that of a female caretaker (*Eesti Haigekassa...*, 2009, p. 64; 2011, p. 62).

In Sweden, too, most often it is women who take a leave from work when children are ill (Wehner & Abrahamson 2004, p. 16; Leira, 2010, p. 92). The problem is particularly topical in the private sector, whereas in the public sector, fathers are more likely to use leaves or absence because of children (Leira, 2010, pp. 92, 100).

One possible alternative to balance working and family life is distance working. The best example of distant working are teleworkers (Broughton, 2007), but it can be arranged for other kinds of jobs. It presupposes, of course, gradual changes in the attitudes of the employer—a good worker cannot perform efficient work only at a work place where he or she is closely attended to. Employees do not work hard only when watched by somebody. Also, the employers must have more trust in their employees.

Different forms of working and flexibility at work are more common in countries where the western-type of democracy (the highest number of workers at home, from the countries discussed in the article, are Denmark and Finland) has had

a chance to develop, but is not very welcomed by employers in the Eastern EU countries (Broughton, 2007).

In Sweden, the common practice (not a governmental policy program) is to allow working a few hours in the morning and/or in the afternoon; parents usually use their flexible schedule to shorten their children's days in childcare (Björnberg & Dahlgren, 2003, p. 16).

Furthermore, every company can develop their own practices, for example:

- The Danish company Novozymes offers its employees longer maternity leave than is required by the Danish legislation; the company has a flexible working hours' scheme (EWCO, 2005a, p. 5);
- In Finland, for example, there is a new autonomy model (Finnish municipal hospital Jorvi): work shifts are planned together with all employees and taking into account individual needs of different working times (EWCO, 2005c, p. 14);
- In Estonia the magazine *Pere ja Kodu* has been elected since 2001 the most family-friendly company with the following criteria: flexibility of working time as well as possibility to work partly at home; more than the legislative minimum should be paid to workers on childcare leave with children younger than 12 years old; parties are organized for children and families; other gatherings and occasions for workers and their families. One of the candidates for a family-friendly enterprise is also, for example, the company *AS Eesti Post* (EWCO, 2005b, p. 10).

## Conclusions

In order to determine the relation between the duties, responsibilities, rights and opportunities of mothers and fathers, it is necessary to have an overview of the quantitative indicators—working, relation between family and work life, difference in wages and usage of time.

The European Union's social and family policy which defines gender equality, or at least equal chances and equal participation in the labour market, has to be moderate and patient. For example, there are still many women who prefer the traditional division of labour and men who prefer to work for the most time at a paid job, rather than participate in family life. Thus, very slowly, the women's part in housework is changing. Women's participation in the labour market has increased the women's burden, while the men's duties have mainly remained

outside the family. Women work on lower-paying jobs, and on shortened time or part-time. The data varies from country to country, but they still further cement the “natural” opinion of the mother staying at home and the father working. The nature of motherhood and fatherhood is slowly changing.

Therefore, it is important to understand

- why the traditional stances on women (motherhood) and men (fatherhood) have stayed more or less the same throughout time, and what they are based on. The good examples of the shared time for caring and educating of children are Estonia and Sweden; Swedish media campaigns to support the new type of fatherhood; educating of parents (*vanemaharidus* in Estonia) and receiving support and assistance in case of family problems.
- the employers’ attitudes towards employees with small children (in cases of hiring, sick and care lists and additional leaves), part-time workers, shortened time workers and distance workers.
- that, in order to make changes in sharing time between home and work, declarations of aims is not enough, the aims must be implemented (paid paternal leave being the biggest change in this respect).
- that after the childbirth the quality of life of the family must stay on a stable level. A fine example is the paternity leave and cash payment (*vanemahüvitis*) arrangement in Estonia.

Changes in the society are interconnected: in their labour market behaviour, citizens are closely related with needs of the state. The aims of the EU are based on future concerns—namely, demographic situation and competitiveness (sustainability). But changes on the level of the people will take place in the following order:

- 1) The need for women to participate in the labour market.
- 2) Adaption of policy measures to the changes in the labour market.
- 3) Changes on the level of the people (by adding employers) which is the tardiest process of the named ones.

It is hard, even impossible, for the state to intervene in family arrangements, but the state can lay the ground and create an environment that would be propitious for the changes in family arrangements.

For Estonia and several other EU Member States, the Swedish and Scandinavian experience about family and demographic policies are definitely important. In his speech in Hamburg, the Swedish Prime Minister Fredrik Reinfeldt (2011) said that there is no one-size-fits-all remedy, each country has its own history

and preconditions that require special attention and measures, but the measures adopted by Sweden are a good example of how to ensure women and men equal opportunities.

Therefore, the aims of the EU regarding women's/men's participation in labour market are clear: full employment to support economic development, but at the same time supporting the family to go on. It is difficult to realize, especially at the time of the economic crisis and coming out of the crisis—but not really utopian. The EU is faced with a much more crucial problem—gender equality and balance in working and in family life because through equality the aims of the EU do not appear utopian. It is not only a question of laws and directives, this is also a problem with each individual's attitude. But the changes in balancing family life and working, and gender equality, are not only the problems of women any more, but of men as well. The changes in the society should not be the concern of men only, because of their fear of losing their power and privileges: the structural inequality between men and women is a democratic deficit that not only strikes women but men as well.

It can thus be concluded that, in their attitudes and strategies, the EU Member States are active supporters of the third model of Leira's family models—'the shared roles model', even though their strength and realization of policy measures vary among the states. Women and men in their labour market behaviour are shifting closer to the third model, but behaviour on the level of the family life indicates that the real situation resembles the second family type—the early version of a dual-earner family model. Leira (2010, pp. 66–67) argues that in the Nordic countries the third, 'dual-earner'/'shared roles model' is the predominant family form among the younger generation, but the 'familization' of fathers has had a slow effect, since even mothers have become more equal to fathers as providers. Gender equality has stopped at the families' front door (Leira, 2010, p. 94) and it possibly applies even better to the real-life situation in Estonia.

What the countries have in common is that choosing between work and family is still a feminine dilemma (Leira, 2010, pp. 72–74), especially in Estonia. However, among the younger generation in Estonia, too, changes in the stereotypical roles are taking place.

So, women, especially the younger generation (with the Nordic countries' strong support), had started the revolution (Esping-Andersen, 2009), but it is not over, mostly because men are now starting their own revolution.

Men are the slower party in the mentioned processes of change. Social equality exists in the legislations of the EU Member States and in the aims of strategies.

The attitudes towards motherhood and fatherhood are changing, especially among the younger generation. In real-life situations traditional gender roles still exist and it may be one of the reasons for the low birth rate, the ‘double burden’ of women and women’s wishes to make a secure career without destructive breaks, as men do.

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# Prospects for New Zealand in the Baltic States: Theoretical, Structural and Operational Dimensions of Cooperation

Vlad Vernygora

National Centre for Research on Europe,  
2<sup>nd</sup> Level Geography Building  
University of Canterbury  
Private Bag 4800,  
Christchurch 8140, New Zealand  
e-mail: vav13@student.canterbury.ac.nz

**Abstract:** *This paper is driven by a desire to improve the status quo in the area of New Zealand's political, business and person-to-person relations with the post-Soviet Baltic Republics of Estonia, Latvia and Lithuania, which by now represent an integral part of the European Union. The example of Estonia will be briefly tested as a possible 'gateway' for New Zealand trying to undertake its most recent endeavours towards discovering the Baltic region.*

*The article's response variable is outlined as 'New Zealand's multi-dimensional interactions with the post-Soviet Baltic Republics, particularly with the Republic of Estonia'. There will be an attempt to scrutinise the studied phenomenon from several angles ('theoretical', 'operational' and 'structural') and by answering the following research question: is it necessary for New Zealand to promote its image, business interests and scientific achievements in the Baltic region?*

*This paper is among the first attempts to address a deficit of scholarship studying New Zealand's interactions with the post-Soviet Baltic region. Its findings could be used by policy makers in the field of international relations in both New Zealand and the Baltics.*

**Keywords:** *functional capacity of cooperation, New Zealand's relations with the Baltic States*

## Preamble

For a geographically down-under New Zealand, a union of twenty-seven European states is arguably a difficult matter to approach. In 2005, Phil Goff, the then country's Minister of Foreign Affairs and Trade of the Labour-led government, stated that New Zealand "don't have, and couldn't have, established dialogues with all the EU members on every possible issue" (Goff, 2005). The undisputed fact that New Zealand has been known as a "distant outpost of the Western alliance" (Wilson, 2004, p. 193) has not always made it a lot easier for the South Pacific nation in the process of dealing with the EU. Moreover, the echo of the so called 'British enlargement' is very much alive in New Zealand—the country still remembers the large-scale economical shake-up, which followed the EU's first extension (Vernygora, 2007b).

Paradoxically, that particular enlargement gave New Zealand chances to complete a course of foundational studies on Europe and lose "some of dominion behavioural habits" (Vernygora, 2007b) based on what would be better and, to some extent, sarcastically described as "tidy trading relationships with the United Kingdom" (Clark, 2002). Tim Groser (2010), a key strategist behind New Zealand's contemporary trading policy, noted that the 1973 enlargement of the EU's historic predecessor taught his country a priceless lesson—it could no longer afford "to be complacent". Becoming "more self-confident" (Key, 2010), the South Pacific democracy had an opportunity to learn that the European continent "was never all about Britain" (Vernygora, 2007b). Nowadays, despite the fact that EU is New Zealand's third biggest trading partner after Australia and China, the debate about better ways to be interacting with the EU is not irrelevant in New Zealand. Moreover, a Britain-orientated vector still predominates among the other European vectors. A quantitative survey on public perceptions and media representation of the EU image in the Asia-Pacific region (finalised in 2005) showed that over 60 per cent of New Zealand respondents mentioned the UK as an EU Member State they have had "personal or professional connections with" (Chaban & Holland, 2005, pp. 42–43). The other EU Member States (excluding the Republic of Ireland and the founding EU members such as the Netherlands, Germany and France) were "largely unknown" to the respondents in New Zealand as well as in Australia.<sup>1</sup> Especially this image of being "unknown" was related to a lot of countries that acceded to the EU during its enlargement in 2004, that is Estonia, Latvia, Lithuania, Hungary, Slovakia, and others. Importantly, the spontaneous image of the EU

<sup>1</sup> The Republic of Ireland, the Netherlands, France and Germany were mentioned in the range between 18 and 21 per cent of respondents. See 'Chaban & Holland, 2005'.

in New Zealand was shown as overwhelmingly linked to such issues as ‘trade’ and ‘euro/common currency’ (Chaban & Holland, 2005, pp. 30–31).

Connecting the above findings in the simple logical chain and keeping in mind New Zealand’s current healthy and stable state of relationships with the EU Member States of the former EU-15, it is possible to suggest that New Zealand could increasingly benefit from strengthening and deepening its ties with the world’s largest political and economic union, provided that the country becomes aware of *the whole spectrum of different opportunities*, which the *enlarged* supranational power and different regions of the EU-27 are capable to offer.

In this context, the South Pacific country has already made a gigantic and notable step towards the new EU. In April 2005, responding to the necessity “to enhance [New Zealand’s] diplomatic reach into Central Europe” (Clark, 2004), New Zealand Government opened its Embassy in Warsaw with accreditation to the Baltic States. It was arguably a sign of New Zealand’s positive mood about future cooperation with the newer parts of the EU as the country had *de facto* recognised the relatively recent but dramatic changes that had occurred in almost every part of Europe in 25 years. Those changes gave the European continent a *new regional outlook* as well as a *new set of functional dimensions*.

### **New Zealand and the EU’s system of geo-political coordinates: the need to learn more about each other**

For countries like New Zealand, the continuing process of the European integration certainly helps to untangle some difficult issues in the area of political economy. However, the numerous integrative vectors within the EU as well as its permanent and heavily bureaucratised inclination towards “institutional engineering” (Zielonka, 2007) have not created a recognisable portrait of the EU even among the countries of its immediate neighbourhood, not to mention a group of the South Pacific states as well as Australia. For example, an Australian scholar Philomena Murray (2008, p. 179) noted that beyond her country’s governmental circles and apart from recognition of the EU’s “economic persona”, the supranational EU “remains largely invisible on the radar screens of Australian elites”. Literally, the EU’s role in the global economy is currently a lot more visible than its potential and capability shown by the EU on the stage of the international politics.

In the light of the adoption of the Lisbon Treaty and the following November 2009 elections of the President of the EU’s Council and High Representative for Foreign Affairs and Security Policy, the EU’s image is becoming more distinct.

But, if we are to generalise on the broader area of interactions, as suggested, it is noticeably easier for New Zealand at present to cooperate with the EU Member States, especially with the Union's newcomers, "in the context of dealing with those countries' historical regions" (Vernygora, 2007b). The fact of distinguishing Poland and the Baltic trio from the other newcomers to the EU had given an impression that the post-Cold War relationships-building process with Estonia, Latvia, Lithuania and Poland had not been launched by New Zealand in the inertial just-in-case framework.

In the last seven years there were several high-level visits to the Poland–Baltic States region made by New Zealand's governmental and parliamentary officials, including New Zealand Prime Minister's visit to Poland (in 2005), visits of the Minister of Foreign Affairs and Trade to Estonia, Latvia and Lithuania (2004), visits of New Zealand Parliament Speaker to Estonia and Latvia (2004) and to Poland, the Czech Republic and Hungary (2008) and visit of the Minister of Foreign Affairs to Estonia (2006). This kind of dynamics showed that New Zealand, driven by a desire to strengthen its presence in the area and/or gain some knowledge about the area, started searching for opportunities in the newer parts of the EU, including Poland and the Baltic States.

To some extent and to a certain point in history, the Baltic region of the collapsed communist political empire had been distinguished by New Zealand's foreign policy makers from the lot of the titular Soviet Republics. In 1940, the year when Estonia, Latvia and Lithuania were occupied by the USSR, the New Zealand's wartime Government condemned those countries' "forcible incorporation" (Wilson, 2004, p. 74) into the Soviet Union. Only thirty-four years later, New Zealand, desperately searching for new markets at a very difficult time and thus reflecting to the realistic need of maintaining "a growing trade relationship" (Wilson, 2004, p. 74) with the Soviet Moscow, officially recognised the Soviet Union's jurisdiction under the Baltic States and re-established its diplomatic representation in the Soviet capital (Oltarzhevsiy, 1999, p. 178).

This fact of New Zealand's long-term refusal to formally recognise the Soviet annexation of the Baltics can become a valuable starting point in building up relationships with Estonia, Latvia and Lithuania from self-re-introduction, but definitely not from the 'ground zero'.

Assuming that the European statehoods are generally opened or "positively exposed to New Zealand" (Lavery, 2007), too, the example of the Republic of Estonia will be briefly tested as a possible formal/informal gateway for New Zealand undertaking its most recent endeavours towards discovering the Baltics

in a comprehensive way.

Back in April 1979, for the then New Zealand Ambassador in the USSR, Jim Weir (1988, p. 265), Estonia appeared to be similar to Scandinavia; the New Zealand diplomat “encountered nothing so sophisticated anywhere else in the Soviet Union” as he saw in Estonia. According to O’Connor (2006, pp. 31–32), Estonia was also seen as “bulwark of stability and [...] the driving force behind the efforts of the Baltic countries to forge closer ties with European institutions”.

At present, as noted by Christine Spahn (2008) from New Zealand Trade and Enterprise, the Estonian state “is seen as the champion” among the Baltic trio. A New Zealand scholarly edition was entirely dedicated to Estonia and its economic success (Mayes, 2009). Since 1991, Estonia is indeed continuing to perform better than Latvia and Lithuania in many aspects of political, economic and social life.

Such and similar statements as well as this paper’s findings that could strongly argue in favour of the ‘Estonian hub’ for New Zealand do not undermine the possibilities and perspectives for Latvia and Lithuania to become one.

### **Methodological framework of the article**

In accordance to the above, this paper’s independent variable can be outlined as ‘New Zealand’s prospects to enhance multi-dimensional interactions with the post-Soviet Baltic Republics, particularly with the Republic of Estonia’. Such an approach will give a chance to scrutinise the phenomenon of interconnections from several angles (namely ‘theoretical’, ‘operational’ and ‘structural’), and by answering the following research question: *is it necessary for New Zealand to promote its image, business interests and scientific achievements in the less known region of the Baltic States?*

*Theoretical dimension* of analysis is employed to pick out a theoretical concept that is suggested to have direct relevance to this particular research work, and combine it in a larger framework where majority of interactions under study occur or may occur.

*Structural dimension* is understood here as a tool to take a snap-shot of the status quo. It is a dimension of static nature that allows scrutinising the settings, elements of political, business and social cultures, legal structure, proven qualities as well as visible potential to react in accordance to the rules.

*Operational dimension* has a definite nature of dynamics. Its ‘lenses’ are to be set up to see how well the paradigm under study realises its potential while

working within the static set of coordinates and responding to the paper’s research question. For example, a desire to cooperate may not be compatible to the existing (possibly immature) framework that may show some degree of operational immobility, lack of desire, negative attitude or even total incapability for further development.

Based on material gathered for one of the chapters of the author’s dissertation for the Degree of Master of Arts in European Studies, this paper’s data was obtained from multiple primary and secondary sources employing a variety of methods of data collection with an emphasis on conducting semi-structural (in person) and structural (by e-mail) interviews with key informants in New Zealand and the Baltic States, retaining the records of the interviews. Thoughts, personal opinions and ideas were expressed by interviewees representing the elite (politicians, businessmen, diplomats and scientists) and students who agreed to answer questions from standard questionnaires. The final number of interviewees (especially, from the student group) was not high enough to carry a standard degree of representativeness. However, the quality of the elite sample—it included ambassadors, a former Prime Minister, a former Minister of Foreign Affairs, a group of high-profile foreign policy makers, members of parliaments, business leaders and honorary consuls—was more than satisfactory. Additionally, the list of interviewees was initially created to reflect equal representation of the two geographical sides on the basis of mirroring a counterpart’s position/level/societal status whenever it was possible.

*Table 1. Number of interviewees by country and group type*

	<b>Estonia</b>	<b>Latvia</b>	<b>Lithuania</b>	<b>New Zealand</b>	<b>Total</b>
<b>Elites</b>	10	2	2	8	22
<b>Students</b>	6	4	12	11	33
<b>Total</b>	16	6	14	19	<b>55</b>

*Source: The following educational institutions agreed to participate in the survey and provided significant support: International University Audentes (Estonia), Tallinn University (Estonia), the Vidzeme University College (Latvia), the Mykolas Romeris University (Vilnius, Lithuania) and the University of Canterbury (New Zealand).*

Several institutions of higher education in the Baltics and New Zealand were asked to distribute the questionnaires among local students learning International Relations, or Political Science, or Area Studies, or Business, or

Public Administration. Table 1 indicates the number of people who responded to the questionnaire (separated by country and group type).

## **Is it necessary to be better known?**

For the South Pacific side, a set of new arrangements with the EU means a set of new opportunities in the less familiar parts of the vast European supranational establishment. It should go smoothly with New Zealand's focus on promoting its image, values and achievements in order to find new markets and new reliable partnerships. This statement is evidently supported by Gerald McGhie, a former New Zealand Ambassador to the Baltic States (1992–1994, based in Moscow), who, expressing his personal opinion, acknowledged New Zealand's ever-present intention to be "looking to develop new markets" (McGhie, 2008). The hardship of the post-1973 period is remembered in the country, but New Zealand, while overcoming its "invariably negative" (Gibbons, 2008, p. 10) attitude towards the EU's predecessor, had managed to remarkably diversify its politico-economical vectors since then. Proving the latter and underscoring his country's new vision on the post-Cold War Europe, Winston Peters (2008) stated that "the European market does not begin and end in Britain".

Considering the above, the question of a need for New Zealand to discover a strategically important group of the EU's newcomers—the Baltics—with intentions to make a proper introduction and experience the area first-hand might look for some policymakers as increasingly rhetorical and even academically naïve. In reality, a closer look at opportunities for New Zealand in the Baltics is still required. The general argument on the importance of interacting with an EU Member State can certainly switch New Zealand's engine of curiosity on and keep it going for some time, but it can hardly lead a Kiwi decision-maker any further. For him or her, the talk is not about the enlarged EU in general—its immense significance for New Zealand is never to be questioned—but about a region of the EU that is one of the least known to the South Pacific nation. With the change of government in New Zealand (the National Party-led government is in power from November 2008), the country's approach in foreign/trade policy is becoming even more 'thematic/regional' than it was in the Labour time. Is the accent still on the same regions?

Furthermore, as it was noted and framed by the media in New Zealand and some of the other Asia-Pacific countries, "the novelty and uniqueness of the 2004 EU enlargement" (Chaban *et al.*, 2008, p. 84) could not hide the ambivalent imagery of

the situation. The dominant feeling was that the EU's doors "were only half-opened and embraces half-hearted" for the Baltics and the other new members of the EU (Chaban *et al.*, 2008, p. 84). In the dramatically enlarged European supranational entity, the fear of uncertainty, "what might come" (Chaban *et al.*, 2008, p. 85) was mixed with the joy of celebration. At a point in time, New Zealand reporters on the 2004 EU's enlargement created predominantly a negatively-charged image of the process, using metaphors that could be conceptualised in the following groups: "too far too soon", "physical barriers", "fortress Europe", "problems in the neighbourhood", "poorer cousins and unhappy family", "poor health", and others (Chaban *et al.*, 2008, pp. 74–77). After such a critical "feedback" received from "within the new family" and the foreign spectators, the Baltics had a lot to prove. Elaborating on the same issue, Hiden and Salmon (1991, p. 44) ironically noted that, right before the collapse of the Soviet Union, the Baltics needed an informational office "to counter damaging misconceptions, among these the assumption that 'tiny' Baltic countries are unable to survive on their own".

Back in the 1920s, the newly independent Estonia, Latvia and Lithuania did not carry a lot of weight in the British foreign policy (Hinkkanen-Lievonen, 1984, p. 108), not to mention the foreign policies of the British dominions, including New Zealand. The legacy of the past has its traces in present. According to Loorpärg (2008), New Zealanders (elites included) often confuse 'the Baltic' with 'the Balkans'. Also, there is a problem of using the term of 'Baltics'/'Baltic States' being wrongly perceived as "some sort of union" (Loorpärg, 2008), repeating the same pattern as of the 1920s when the three Baltic States were treated by the British Foreign Office "as a whole" (Hinkkanen-Lievonen, 1984, p. 107).

In the 1950s, an Estonian immigrant in New Zealand had not only a new life to be built but a story to tell and a social task to accomplish. Tõnu Loorpärg, current Honorary Consul of Estonia in New Zealand (residing in the Wellington region), was in the very first group of Estonian post-Second World War refugees. Describing his personal experience of being an Estonian Kiwi, he noted:

*Most of my generation was brought up on an ethic, which focused on keeping the idea of Estonian independence alive despite the apparently overwhelming odds. In the context of living as an Estonian in New Zealand this has meant [...] a continued need to explain where Estonia is located geographically, to explain and differentiate Estonians from 'Russians/Soviets' and the need to create awareness among the New Zealand population about the dangers of Soviet totalitarian expansionism [...]. (Loorpärg, 2008)*

Estonian family names (some of them are extremely difficult to pronounce for a native English-speaker) never made life easier for their holders. Very often, they would lead to numerous confusions and even anecdotal situations. For example, Ortvin Sarapu, an Estonian post-Second World War refugee who later became New Zealand's greatest chess player, remembered that he was once called by an Australian newspaper as "New Zealand Maori" after winning the Australian Open Chess Championships back in 1957—the media source simply could not determine the national background of the gifted chess player's family name (Sarapu, 1993, p. 28).

### **Theoretical dimension: the wounded globalisation and the re-birth of classic functionalism**

There is a strong theoretical background that supports the manipulated variable of this study. The Baltic States have already started showing certain signs of classic *functionalist* strategy in the broader sense that is not only related to the European integration—by promoting and developing "shared identities" and getting involved into "cross state cooperation on a series of functional matters" (Herrmann & Brewer, 2004, p. 1). In this framework, New Zealand, one of the most stable Western-style democracies, is not likely to get engaged in a 'clash of civilizations' while dealing with the relatively inexperienced but undoubtedly transparent and free-market politics of the Baltic region (Vernygora, 2007a, p. 28). The latter statement has a solid normative basis—prior to joining the EU, the Baltics and the other seven newcomers had to formally meet the Copenhagen criteria and provide sufficient evidence that their state institutions were capable in guaranteeing democracy, rule of law, human rights, and respect for and protection of minorities (The 2003 Copenhagen Criteria). Additionally, not only did the Baltics successfully reach the goal of joining the EU, they also became full members of NATO and WTO where normative criteria are no less strict than in the EU. In case of Estonia, the country has already made a step further, having joined the OECD, a club of the world's most developed states.

Both New Zealand and the Baltic States are parts of the globalised world. Indeed, among the myriads of positive names, trends and brands, there are some that are distinctly associated with one of the four countries—Anchor butter and milk, Riga sprats, Skype, flat tax, Arvydas Sabonis, the Baltic amber, the Vilnius Conference, the kiwifruits, the All Blacks, the Singing Revolution, and others. Each of these examples is known globally, 1) successfully making the image of a locality of its origin, 2) formally or informally acting as a representative of a country, 3) helping to produce similar trends and brands elsewhere, and, in some

cases, 4) offering solutions to a problem. At the same time, the fundamental complexity of the present time is underscored by the argument that the globalised environment is not the only available framework to succeed in; otherwise the suggestion about the increasingly rising profile of “participatory alternatives within the global countermovement” (McMichael, 2005, p. 605) would have been baseless. The world’s most recent economic downturn that started in 2008 has arguably damaged the somewhat mythological image of the ever-successful globalisation.

Certainly, the formal definition of the globalisation can significantly vary, depending on how to treat the phenomenon—as “a process, an organising principle, an outcome, a conjuncture, or a project” (McMichael, 2005, p. 587). However, what was/is supposed to be tackled with a unified global response was/is getting fixed with the help of a number of disintegrated moves made by different countries, institutions and regions, enlightening us to the current situation all countries have to face. The diminishing role of the G-8—according to Joschka Fischer (2009, p. B7) it has already been “dismissed by history”—the “silence” of the UN, and the growing appearance of the G-20 are indicators of global coordination (or discoordination). In the vast Asia-Pacific region, New Zealand’s “home ground”, some observers already noted the APEC’s “credibility problem” that putting the organisation’s relevance “under question” (Armstrong, 2009, p. A2).

Apparently, the present situation is a good time for both scholars and practitioners to seek some non-standard approaches in analysing the present. In our case, it is possible to argue that the European–South-Pacific cooperation and its outcomes—at present and in the future, in the times of global success or global recession—are to be better understood, explained, forecasted and framed within the functions-driven process. This process can certainly be *globalised* in its nature, but *locally characterised* in its outcome. In this sense, *functionalism* could be found as a provider of necessary linkages to bring prospective interactions into existence and make the existing interactions stronger or successfully recovered. It could also establish a roadmap for the potentially long-term partnership between New Zealand and the Baltics, giving the process a needed ‘kick-off’. There is always life after crisis, and it is usually characterised by a stronger than ever desire to cooperate with a predictable partner.

In 2008, according to *The International Herald Tribune*, the Baltic States were experiencing “their first serious economic downturn” since restoring independence in 1990s (Dougherty, 2008). New Zealand’s economy is still officially in recession as well. But it is true, too, that the global financial crisis had made both New Zealand’s and the Baltics’ entrepreneurship a lot more

innovative and no less optimistic. Marje Josing, head of the Estonian Institute for Economic Research, argued that “[a] little real-life pressure won’t hurt” (Josing as quoted in Dougherty, 2008). A year later, the experts of the same institution concluded that the “deterioration of the economic that has continued for nine quarters in a row has come to an end” (Downtrend in Estonia..., 2009).

For New Zealand, due to the country’s geographical but not political, economical or ideological isolation from the EU, the emergence of the Baltics behind the EU’s “Golden Curtain” (Johnson, 1996, p. 284) is suggested to be noticed *firstly* (and primarily) in the global context and *secondly* in the European framework. In other words (this is part of the argument to be discussed further), the democratic and transparent Estonian, Latvian and Lithuanian “puzzle pieces” in the EU’s grand picture are logical and easy-to-deal-with partners for New Zealand. Presently, regardless of its diversification and relative stability in the sphere of economic cooperation with the rest of the world, New Zealand is interested in getting favourable attention outside of its traditional circle of well-known partners.

### **The global context**

Back in 1932, Mitrany argued that the process of transferring functions from the local field to the international level is generally faster than the “corresponding change in legal doctrine” (Mitrany, 1932, p. 96). This classic argument is nowadays as valid as ever. More specifically, the mechanisms of functional spillover, with their overwhelming emphasis on economic policies (Smith, 2004, p. 28), are naturally represented in foreign policies and on the broad societal level, too. Marko Mihkelson (2007), Chairman of the EU Affairs Committee of the Estonian parliament, stated the following:

*In our world, there are many dynamic issues we must react on, and in close cooperation with many countries. This is a natural part of our foreign policy agenda to be more global [to be able] to reach more countries and establish closer relations with nations whose views are similar to ours. (Mihkelson, 2007)*

Such a statement can lead to a suggestion that there is no real need for both New Zealand and the Baltics to have a great deal of ‘homework’ done prior to getting engaged by various cooperative links. Indeed, the initial steps towards each other could be made, according to Smith (2004, p. 18), without having “institutional structures, or even in the absence of deliberate efforts to coordinate policy”. This is where a potential partner’s reputable status plays its important role, and the issue of geographic isolation immediately becomes somewhat secondary.

New Zealand is arguably a well-respected country among the Baltic States. The following three examples are to illustrate such sentiments towards New Zealand expressed by high-ranked officials in each of the Baltic States. Talking on the subject, Mart Laar, former Prime Minister of Estonia, stated that New Zealand's reputation "is positive as one of the radical reformers in the world" (Laar, 2008). According to Indulis Bērziņš, former Foreign Minister of Latvia, his country sees New Zealand "as partner and expert in the [Pacific] region" (Bērziņš, 2007). Diana Mickevičienė, Director of the Asia Pacific Division of the Lithuanian Foreign Ministry, argued that "New Zealand's reputation in Lithuania is very high" adding that it is "considered a like-minded country, also very much respected for her successful agricultural policies" (2008). To sum up, it is empirically evident that the Baltic States would have welcomed *more of New Zealand's presence* in their region, should it want to become a lot more 'visible' for Estonia, Latvia and Lithuania.

As for New Zealand, historically, a potential partner's reliability is among the most important qualities it is searching for. The country takes certain pride in its long-term participation in the OECD. It is a typical working example of functionalism that, using Mitrany's (1975, p. 145) other classic expression, is trying to take care "of the common material needs" of members. Importantly, as suggested by Saar (2010, p. 61), the OECD as a "global advisory forum [...] cannot be biased".

Apart from a desire to make its own voice heard and to learn from different countries' experiences (Trade and economic relations, n.d.), New Zealand's relationships with the other members of the OECD are arguably highlighted by a degree of stability as well as general predictability. Therefore the green light that was given in December 2007 to Estonia for the start of accession talks with the OECD (2007)—a clear sign of the Baltic country's good perspectives on the global arena—could have become an additional strong signal for the official Wellington to go ahead with enhancing cooperation with official Tallinn and/or perhaps with the Baltics via Tallinn. The pre-accession debate was framed, according to Saar (2010, p. 60), by Estonia's declared intention to "not only learn from others, but [...] to share" also. On 10 May 2010, the process eventuated with the Estonian state (together with Slovenia and Israel) being officially invited to join the OECD (Accession..., 2010).

Generally, an OECD country is where business enjoys business-friendly regulations. As a top performer in world ranking on the ease of doing business, New Zealand entrepreneurship may have already noticed that the Baltic States would be constantly ranked among the countries with transparent and efficient business regulations, too (see Table 2).

Table 2. Ranking on the Ease of Doing Business

Year/country	2007	2008	2009	2010
New Zealand	2	2	2	2
Estonia	17	17	22	24
Latvia	24	22	29	27
Lithuania	16	26	28	26

Source: *Economy Rankings, 2011*

### **The Baltics in the EU–New Zealand framework—an addition to the existing geo-political vocabulary**

The current geo-political *status quo* represents the Baltics as an integral part of the EU. Thus New Zealand, interacting with the EU, directly and indirectly does so with the Baltic States as well. The contrary works in the identical way—New Zealand’s steps towards Estonia, Latvia or Lithuania are the steps towards the EU as a whole. Given the fact that the Baltics of the EU are operationally more capable and sophisticated than the Baltics on their own, this kind of a contemporary framework makes the process both simpler and a lot more complicated at the same time. In our particular case, this type of bilateralism appears to have a distinct dualistic nature as each of the Baltics is an independent state and the EU is an internationally recognised supranational body.

A factor that brings some complexity into New Zealand’s cooperation with the EU-27 is the actual size of the supranational entity. A high number of the Union’s newcomers made it challenging for New Zealand to keep up with the EU’s activities in order to “remain a relevant and attractive partner” (Goff, 2008). Moreover, New Zealand’s closest partner and neighbour Australia—regardless of its confident stance as well as economic and political might—pays extra attention to some of the unique features of the EU. The Australian government makes it explicitly clear for the country’s business circles to treat the EU as a *non-homogenous single market*, advising to always take into account “[n]ational characteristics, histories, cultures, languages, demographics and incomes [...] before doing business in the EU” (European Union, n.d.).

A period of time when New Zealand’s politicians making official trips to Europe had to face back-at-home-prepared accusations of wasting time and money (Holland & Gibbons, 2008, p. 109) is in the past now. Also, it is likely to be treated

as an ancient history, there were situations when Kiwis, according to some of the EU diplomats quoted by Holland and Gibbons (2008, p. 109), appeared “unable to mention the EU without immediately referring to (largely) historic disputes over butter quotas”. But while trying to take the most out of its 11 governmental agencies based at the country’s 10 European embassies (Goff, 2008)<sup>2</sup> it is still necessary for New Zealand to quickly make some additions to the country’s existing geo-political vocabulary and to get accustomed to the range of new actors in the European arena. New Zealand’s timely reaction on the emergence of those new European actors, especially in the constantly transforming EU of its latest version, is arguably helping the country in establishing a set of distinctive trajectories (a definite sign of functionalism) within the EU-related policies. Given the fact that New Zealand still has “relatively low tariff EU quota for cheese, butter, and beef and a large zero-tariff quota for sheep meat” (Saunders, 2008, p. 127), one of the goals could be to have a better access to what was described by Goff (2008) as “home to people with the highest amount of purchasing power”. Another goal could be framed by a desire to not make the same mistake over and over again, failing to recognise a potential partner’s functional capacity right in time. According to Peters, a generation ago, New Zealanders saw the Republic of Ireland and Spain as “impoverished”. There is a big question whether or not New Zealand was among the first nations to foresee those two countries’ remarkable improvements.

In July 2008, Peter Kennedy, New Zealand’s Ambassador to the EU, acting on behalf of New Zealand signed the Agreement on Scientific and Technological Cooperation between the EU and New Zealand (NZ Embassy portal). Having entered into force in January 2009, this important document is helping to significantly increase international cooperation between researchers from the two sides—for example, via the International Research Staff Exchange Scheme that is designed to support the EU-based institutions in their collaboration with colleagues elsewhere (NZ Embassy portal). According to the EU’s Lisbon Strategy (2000) adopted by the European Council, the supranational entity’s goal was “to make Europe the most dynamic and competitive, knowledge-based economy in the world” (Lennon & Valette, 2005, p. 5). In the light of this comprehensive policy and in spite of its evident implementation deficit, New Zealand will only be benefiting from collaboration with the EU.

It is suggested that cooperation-related functionalist efforts “can be narrow or comprehensive in scope” (Smith, 2004, p. 22). In case of the New Zealand–Baltics interaction, the functional logic and lack of historical experience dictate smaller steps to be made first. For example, declared by Estonia in 1993, the

<sup>2</sup> See also New Zealand Representatives overseas, n.d.

unilateral abolishment of the visa requirement for the New Zealand citizens would be described as a small but extremely positive sign in the relationship building process. These types of function-driven tactical elements usually lead to “an array of possible outcomes, from [...] sharing information to [...] pooling resources for joint actions” (Smith, 2004, p. 36).

Expressing his opinion on the subject, Mihkelson noted:

*I know that the student exchange process has been pretty much there for some years already, but we need to think in a sophisticated way on what sort of programmes the institutions, organizations or universities can offer for business people from both sides. Certainly, there is a big potential that is not used yet. (Mihkelson, 2007)*

Arguably, one of the best examples of steps forward is the establishment of the New Zealand Working Holiday Scheme (WHS) for the citizens of Estonia and Latvia (the programme for Lithuanians is yet to be finalised). Having been commenced in 2007, the WHS runs identically for both Estonian and Latvian nationals: New Zealand is announcing 200 places available annually to young citizens of Estonia and Latvia (100 places for each country) for a stay of 12 months (Estonia Working Holiday Scheme, n.d.; Latvia Working Holiday Scheme, n.d.). Apart from meeting certain character requirements, the WHS participants must not bring children with them, have a minimum of NZ\$ 4,200 available, be at least 18 and not more than 30 years old, and be coming to New Zealand to holiday (prime reason), with work being a secondary intention (Estonia Working Holiday Scheme; Latvia Working Holiday Scheme). Since its commencement, as confirmed by the Estonian Foreign Minister Urmas Paet, the WHS has been used by 2 New Zealanders and 67 Estonians (Foreign Minister Paet..., 2010).

## **Structural dimension: the Baltic States and New Zealand—where are they at?**

Keeping in mind its prime focus on trade, let us have a glance on New Zealand's trade figures with the Baltic States, so the status quo could be seen. Tables 3 and 4 represent New Zealand export and import merchandise trade with the Baltics for the period from their accession to the EU until now. The figures on trade with Finland and Poland are shown for comparative purposes.

Table 3. *New Zealand Total Export Merchandise Trade with the Baltic States, Finland and Poland – FOB NZ\$*

Year/country	2005	2006	2007	2008	2009
<b>Estonia</b>	2,416,249	3,009,840	2,185,126	3,295,227	1,257,080
<b>Latvia</b>	2,393,049	4,130,003	4,019,069	5,403,012	2,208,227
<b>Lithuania</b>	7,460,073	11,499,960	8,151,653	11,339,876	8,222,768
<b>Total Baltics</b>	12,269,371	18,639,803	14,355,848	20,038,115	11,688,075
<b>Finland</b>	20,957,746	25,301,895	25,097,480	28,463,677	18,164,192
<b>Poland</b>	15,484,734	13,983,104	19,092,507	20,848,029	11,249,806

Source: *Statistics NZ*

Commencing with the exporting side, one can note a highly sporadic nature of the process. In the period from 2008 to 2009, Poland alone took about as much of New Zealand goods as the Baltics all together. However, this fact does not necessarily mean that such a pattern is going to be repetitive in the future. The 2010 year to date export figures show that the three Baltics consumed more of New Zealand goods than Poland, with Lithuania being on the par with its big south-western neighbour. Arguably, the proper ‘homework’ on Poland (this country’s population is almost 12 times more than of Lithuania’s) is yet to be done by New Zealand exporters.

In 2009, New Zealand wool accounted to 53 per cent of the country’s export to Lithuania, 39 per cent to Latvia and 32 per cent to Estonia. The other noticeable export commodities were ‘Fish and crustaceans’ and ‘Fruit and nuts’ for Lithuania (correspondingly, 17 per cent and 6 per cent of its New Zealand-related figures), ‘Beverages and spirits’ for Latvia (45 per cent) and ‘Optical, photographic, cinematographic, measuring, checking, medical instruments’ for Estonia (18 per cent). In general, New Zealand export to the Baltics can be described as fairly small. But if it is compared to its export-related interactions with Finland, the Baltic States’ immediate neighbour with population smaller than of the trio’s total, throughout the last decade, New Zealand potential in the Baltics is far from being fully realised. One can argue that an Estonian would rather buy dairy produce from a local farmer rather than spending euros on Kiwi butter, but this particular item is not the only product New Zealand could offer

to the Baltics to make its ‘trading presence’ in the region more substantial. Wine, farming machinery and equipment, sheep breeding technologies, wool, king salmon and lamb—all these New Zealand’s trade-mark products, with a right marketing strategy, could find reliable clients in Estonia, Latvia and Lithuania.

*Table 4. New Zealand Total Import Merchandise Trade with the Baltic States, Finland and Poland – CIF NZ\$*

Year/country	2005	2006	2007	2008	2009
<b>Estonia</b>	1,195,050	2,713,031	653,006	1,821,630	3,285,404
<b>Latvia</b>	1,328,623	1,140,463	896,031	1,814,882	1,802,924
<b>Lithuania</b>	212,797	696,495	815,999	52,861,635	1,927,331
<b>Total Baltics</b>	2,736,470	4,549,989	2,365,036	56,498,147	7,015,659
<b>Finland</b>	183,649,290	163,562,015	147,113,489	177,395,749	167,623,837
<b>Poland</b>	35,938,485	24,415,618	30,612,083	40,414,463	43,040,529

*Source: Statistics NZ*

Evidently, the New Zealand import from the Baltics is currently even more sporadic than the export. For example, having imported goods from the Baltic States for less than NZ\$ 3 million in 2007, New Zealand suddenly purchased mineral fuel from Lithuania for NZ\$ 50 million a year later. In 2009, everything returned to a modest scale of things, even though the import from the Baltics tripled as compared to the 2007 indicators. As for imported commodities in 2009, the only sizable input arrived from Estonia with ‘Electrical machinery and equipment’—it was attributed to 80 per cent of the Baltic country’s goods sent to New Zealand (NZ\$ 2,655,000) and 37 per cent of the total import from the Baltic States. At present, the trade between New Zealand and the Baltics represents a positive “saldo” for the former, and it is likely to grow in New Zealand’s favour. On this background, the trading imbalance that New Zealand is experiencing with Finland deserves attention. Not only did the technologically advanced Finnish state send ‘Paper and paperboard’ (NZ\$ 30 million), ‘Boilers, machinery and mechanical appliances’ (NZ\$ 33 million) and ‘Electrical machinery and equipment’ (NZ\$ 30 million) to the South-Pacific nation in 2009, but New Zealand also spent NZ\$ 27,5 million to purchase ‘Meat and edible meat offal’ from Finland (it accounted to 16 per cent of its import from Finland and was more than New Zealand total import to that country).

Overall, this kind of dynamics, regardless of its certain degree of chaos, could

be better analysed closer to the end of the global economic recession as the export-import indicators have already picked up in the second half of 2010. It is suggested that for New Zealand, enhancing cooperation with the enlarged EU, is necessary to have “a wider relationship, one in which each partner can see benefit from contributing towards” (Larkindale, 2007). For the Baltics, the need to find reliable partners has always been vital as well. Getting back to the 1991–1992 period, Priit Pallum (2007) remembered his newly independent country’s “conscious decision” to quickly get into trading activity with the wider world. Moreover, a better level of New Zealand representation in the region (with the help of two embassies established in Warsaw and Stockholm) is firmly framing one of the newest strategic vectors in New Zealand’s foreign policy in Europe—it is directly pointing to the broader Baltic region that includes Estonia, Latvia and Lithuania. This approach should generate more knowledge about the Baltic States’ potential—during the Soviet times, New Zealand representatives in the area were rare guests in the Baltics for several reasons. Some of New Zealand Ambassadors to the Soviet Union never visited the Baltic trio.

### **Saaremaa–New Zealand connection**

In July 2007, both Pallum (2007) and Raie (2007) noted that some of New Zealand products had already entered the Estonian market, crediting global distribution for bringing quality Kiwi wine into the country. As a commodity, New Zealand wine has only recently started picking up its popularity in Europe. For New Zealand, it is now a NZ\$ 1.2 billion industry, and no longer a secondary segment of the country’s economy as it used to be ten years ago.

There are, however, some other items, of which New Zealand was known for decades. An Estonian company decided to bank on what has got global reputation of technological advancement, quality and reliability—New Zealand’s farming equipment. Saaremaa Ökoküla AS or Saaremaa Ecovillage (SE) is arguably one of the best examples of establishing highly successful ‘on-the-ground’ linkages between Estonian and New Zealand businesses.

Driven by a desire to “promote ecologically friendly and traditional [...] lifestyle” (Saaremaa Ecovillage, n.d.) on Estonia’s largest island Saaremaa, the SE’s owners found partners in New Zealand, a country that is known for its ‘clean and green’ image. From 1999, they managed to establish stable business connections with an impressive range of New Zealand’s companies such as Tru-Test Group, an internationally recognised New Zealand-originated and -based conglomerate that manufactures electronic livestock weighing systems and milk metering equipment. The SE became an official representative of

Prattley Industries Limited, a South Canterbury producer of high quality animal handling equipment, in the Baltic States. In April 2008, the SE together with Prattley's executive Graham Ward took part at the biggest regional agricultural expo Maamess. Hando Sutter, the SE's director, noted that "it was very useful for [his local] customers to get explanations directly from the manufacturer", adding that the New Zealand business partner "had a chance to better understand how [Baltic] farmers think" (Sutter, 2008).

In 2010, The New Zealand Pump Company became another addition to the list of the SE's partners from the South Pacific (Saaremaa Ecovillage).

## **Operational capacity of cooperation**

Interestingly enough, the EU's operational 'set-back', caused by the Irish rejection of the Lisbon Treaty in June 2008, echoed in New Zealand in the most unexpected way. The country's major business edition, *The National Business Review* (Gibson, 2008) ironically suggested that New Zealand should "push its case" to join the EU, if "the Irish are serious in wanting out". Elaborating a bit further and possibly entering the sphere of political 'science fiction', given that New Zealand could have easily fulfilled necessary requirements to become an EU member, the geographical isolation should not have been treated as a major obstacle.

On a serious note, aiming to collect both elite representatives' and students' views on the necessity for New Zealand to promote its image, business interests, scientific achievements and political values in the Baltic States, a small survey was conducted in the period from 2007 to 2009. Some of the main findings are as follows:

### **Question for respondents in New Zealand:**

*Is it necessary for New Zealand to promote its image, business interests, scientific achievements and political values in the Baltic States, one of the newest parts of the European Union?*

- 1) 79 per cent of respondents (17 people) answered positively.
- 2) Overwhelming majority of respondents (95 per cent or 18 individuals) decided to elaborate on the issue rather than give a simplistic 'yes/no' answer.
- 3) 100 per cent of elite representatives (8 in total) responded positively.

- 4) Out of the 11 students who agreed to take part in the survey, 2 (18 per cent) answered negatively to the question; one of the two answers was given in the form of “not really”.

A number of patterns were found in the answers. The ‘**small country**’ theme was mentioned by three elite representatives and four students (37 per cent of all respondents). In three of the seven answers, New Zealand and the Baltic States were mentioned together in the context of their size: “New Zealand and the Baltic countries are all small” (elite), “New Zealand as a country that is of a similar size [to the Baltics]” (elite), and “[...] important for New Zealand to maintain contact with other small countries” (student). The remaining four respondents opted to be one-sided in describing the entities’ sizes: “New Zealand seems to be a too small country to those Baltic States” (student), “[New Zealand] as a small state that has the potential to be isolated from global issues and interests” (student), “The Baltics States are too small to be important to New Zealand” (student), and “[W]ith around 7 million inhabitants the Baltics comprise a very small market” (elite).

Another pattern could be named as ‘**similar values**’. Four respondents (21 per cent) acknowledged a high level of similarity between New Zealand and the Baltics in terms of fundamental values. For example, “New Zealand and the EU have traditionally been aligned on global political issues” (student), “Baltic States [...] as three voices in the EU with many similar interests and policies to New Zealand” (elite), “New Zealand and the Baltic States share a number of fundamental values” (elite), and “[...] similarity of perspectives and values, based on importance of democracy and the rule of law” and “[...] working as likeminded countries on the international stage” (elite).

The **economic factors** in cooperation with the Baltics were of prime importance for Kiwi respondents. Ten of them (53 per cent), including six students and four elite representatives, prioritised economic/business indicators in their answers. A statement about New Zealand as an “open economy” (student) is reinforced by a note that the “image of New Zealand goes hand in hand with the marketability of New Zealand business” (student). In addition, the Baltics are seen as “more important partners as their economies have opened” (student). Emphasising the general importance of trade with the EU, a respondent specified that “obviously trade with new [Member] States will be important, too” (student). A student argued that “New Zealand has a very strong need to promote itself as a business and tourism location in parts of the world such as the Baltic States”. A note about “great potential benefit” (student) was indirectly reframed by several forward-looking statements regarding the ways to “work together to our mutual

advantages” (elite) and New Zealand’s permanent desire to “be looking to develop new markets” (elite). The same interviewee also commented that New Zealand should not forget about “the bottom-line value” as the key indicator of economic efficiency. Some of respondents were very specific, putting accent on the Baltic States’ interest “in New Zealand farming practice and how it can be applied in their own countries” (elite) or making emphasis that the Baltics “have their own characteristics both culturally but especially economically” with Estonia and Latvia being “more economically advanced than Lithuania” (elite).

Being indicated by four respondents (21 per cent), another pattern had a dichotomist nature and was arguably based on (or could be explained by) the ambiguous **format of the contemporary EU**. Should New Zealand forget about the fact that the EU’s Member States are still *de jure* sovereign countries and start concentrating on dealing with the EU’s supranational institutions only? Or should decision makers from New Zealand establish connections directly with the Member States as well? Indeed, the political environment where the EU’s Member States are still dominant but not the only actors (Pedersen, 1998, p. 14) seems highly innovative for New Zealand. In order to maintain the country’s wider interest in the EU, a respondent underscored the importance for New Zealand to “be able to engage separately with each country [of the EU]” (elite). In the line with the latter statement, a student stressed on the fact that “[p]eople think that Europe is just ‘the big three’ [Germany, the UK and France] and do not realise the untapped potential existing in the rest of Europe”. Another lot of opinions were based on the necessity to deal with the Baltics “predominantly in the context of the EU rather than for bilateral linkages” (elite) and that the Baltic States “are also new Member States of the EU and the EU is very important to New Zealand” (elite).

<b>Summary of patterns—New Zealand</b>
The ‘small country’ theme
Similarity of fundamental values that the Baltics and New Zealand share
Economic factors are of prime importance
Dealing with the EU or with the Member States separately?

**Question for respondents representing the Baltic States:**

*Would you think that New Zealand has chances to be welcomed by both elites and the general public in the Baltic region (particularly in Estonia or Latvia or Lithuania) as a potential high-scale partner of the Baltic States?*

- 1) 75 per cent of respondents (27 individuals) gave positive answers to this question.
- 2) 83 per cent (or 30 people) decided to explain why they had given a particular answer.
- 3) 100 per cent of respondents from Estonia (16 participants) who answered the question positively were accompanied by 50 per cent of the Latvian total (3) and 71 per cent of Lithuanians (10).
- 4) The question was misunderstood by three respondents (one student from Latvia and the other two were Lithuanian students); no signs of misunderstanding shown by the Estonian part of the group that was the largest of the three.

Before commencing with a number of patterns found in the answers, it would be worthwhile mentioning that the supposedly predictable lack of knowledge about New Zealand among the respondents from the Baltic States did not appear to be the case in this sample. On the contrary, many respondents (nine individuals or 25 per cent) were willing to give their thought or vision on the issues directly related to **New Zealand's international profile and the country's identity** or how they perceive it. A view that “[t]here is no public opinion about New Zealand at all” (student, Latvia), was not supported by the others. For example, New Zealand was described as “a cradle of social democracy” (student, Estonia) as well as “one of the oldest democracies in the world [...], a typically developed Western country” (student, Estonia). A respondent from the elite group noted that New Zealand’s “experiences were important for Estonia in transition process”. A similar comment had a future-pointing vector stating that the “ordinary Lithuanians do not view New Zealand just as a far-away country, but rather a very attractive and successful country, which could teach us a lot” (elite). The next individual underscored that “New Zealand is [a] more developed country than Lithuania” (student). There was also a statement that “New Zealand is perhaps perceived more ‘European’ by Estonians than many [of] European countries, especially in Southern Europe” (student). In addition, for the other respondent, the image of the distant South-Pacific country was associated with the taste of New Zealand lamb stake— “[i]t tastes more than delicious”—and a possibility to order it at a Tallinn restaurant (student, Estonia). At the same time, the knowledge about New Zealand and its European as well as Asia-Pacific roots sometimes led a respondent towards asking a problematic question on the “kind of identity New Zealand sees in the future [for itself]” (elite, Latvia). The latter view was partially supported by a commenter who argued that “New Zealand depends [on the] other region” (student, Latvia), with a possible meaning that the country became too attached to the area of its location to look for new partners elsewhere.

The next pattern—**similarity of values**—was distinctly framed by six respondents. New Zealand was seen as “a like-minded country” to Lithuania (elite). It was also argued that the Latvian state does “not have any kind of bilateral problems with New Zealand” (elite). The response from the Estonian side was very much in the same line: “we do not have big differences, there are quite a lot of values that we share” (elite) and “New Zealand and Estonia share the same values and beliefs on various matters” (elite). Moreover, there was a statement claiming that both New Zealand and Estonia “have appropriate conditions for doing business, such as effective market economy that ensures stable and reliable business climate [...] where corruption practically does not exist” (elite). Lastly for this pattern, a respondent noted that “mentally and psychologically [...] it is a very logical way to have more contacts” with New Zealand (elite, Estonia).

In continuation of the similarity pattern, there were three comments on **the size of New Zealand and the Baltics**. One respondent noted “a similarity of physical size and population between New Zealand and the Baltics States” (elite, Latvia). The other one wrote about the “comparative size of our countries” (elite, Estonia). There was also a statement made by an Estonian student that “certain views about life and attitudes should coincide with two of our countries both on macro and micro level”.

The issue of the **distance** between New Zealand and the Baltic States was brought up by seven respondents (19 per cent). In all of those comments, the ‘far away’ theme was described as a stumbling block on the way to a more enhanced cooperation. However, in most of the cases, the general connotation of distance was not entirely based on the pessimistic view—the survey participants simply decided to mention the undeniable fact. For example, a respondent claimed that to the Latvian people “New Zealand is far and exotic country” (student). A Lithuanian elite representative noted that “the economical and political communication [...] is skidding” because of “a big distance” between the two regions. The next commenter expressed his concern that “[i]t would be difficult to participate in projects because New Zealand is so far” (student, Lithuania). The question of “rational considering the distances” was underlined by an Estonian student with another one stating that New Zealand is “rather far away”. A respondent from the elite group, after describing the physical distance between New Zealand and the Baltics as “a handicap”, immediately noted that “the ease and proliferation of modern communication” could help in overcoming such a problem (Latvia). A similar commentary was received from an Estonian respondent who argued that “the distance is a problem, but nowadays it is not that substantial any more” (elite).

The answers collected under this particular segment of the survey outlined the **openness and the liberalist nature** of the Baltics. Nine respondents (25 per cent) opted to elaborate on the subject, giving short introductions of their countries and characterising the Baltic States as open and liberal. A participant from the elite group noted that Estonians “have no presumptions and are open to any interesting idea”. From the Lithuanian side, a student indicated that his country and the other Baltics “are searching for international partners in a wide range of different areas”. The other two respondents argued that “[Estonia’s] trade policy in general has been very open to the rest of the world” (elite) and “we are looking long way for establishing good relations with new partners” (elite, Estonia). The latter statements were in agreement with the following opinions, which came from the studentship: “Estonian economic scene is very open” and “[w]e are definitely open to all new interesting contacts in the field of politics as well as in economic affairs” (Estonia). The answer collected from the Latvian sub-group was featured by comments on Latvia’s “economic liberalism position” and the importance “to trade [...] to have more different goods in the market” (student). The Latvian state was also described as “a good place to start business not just in the Baltics but in the broader territory” (elite). Lastly for this pattern, an Estonian elite representative placed his answer directly in the context of the New Zealand–Estonia relations noting that “preparations are under way for deepening our contacts”.

<b>Summary of patterns—the Baltics</b>
New Zealand is known in the Baltics
Similarity of fundamental values that the Baltics and New Zealand share
Comparable sizes of the Baltic States and New Zealand
The ‘distance’ theme
The Baltic States are open and liberal countries

## Findings and conclusion

This research was carried out at a very specific time—the time of global economic recession that ruthlessly shook the postulates of globalisation. New Zealand, a developed country that represents the world’s fifth biggest exclusive economic zone (Clark, 2007), is still experiencing recessionary contractions. The Baltics were among the worst hit by the global economic downturn, with the Latvian economy having had to be bailed out. But paradoxically, the “doom and

gloom” moments reverted to a time of opportunities. Against this background, the question on whether or not New Zealand needs to be better introduced to the EU’s neophytes from the Baltic States is arguably becoming rhetorical. Pushed by the newest wave of functionalist vectors, the like-minded countries, including those that treasure values of liberalism, democracy and transparency, could easily challenge the difficult times with the common approach based on understanding the common needs. At the same time, the postulates of “theoretical logic” are certainly not the same as the factors of “historical and empirical probability” (Alexander, 1998, p. 33). In our case, the structural side of the need to enhance cooperation is noticeably sporadic. The Baltics are very much aware of New Zealand and what it can offer. New Zealand is still in the process of learning about the eastern fringe of the EU. It was suggested that the factors of Estonia joining the euro currency zone and the exclusive OECD club will play beneficial roles for the Baltics as a region—with immediate effect, the trio will likely get a more pronounced characterisation in New Zealand.

From the structural point of view New Zealand and the Baltics are very much ready to move onto the next level of cooperation. However, a number of realism-originated factors are re-adjusting strategic vectors. During the Prime Minister Clark’s era (1999–2008), New Zealand showed its proactive approach to the ever-present regionalism in Europe. Both Warsaw and Stockholm Embassies were established with a strong emphasis on learning about unique features of correspondingly Central-Eastern Europe and the Scandinavian world. With the change of government, the current Trade Minister Groser underscored that one of New Zealand’s focuses at present is to make “a contribution to economic growth and social prosperity in [its] Asian neighbours”. Thus it is not surprising to see no distinct European vector specified in the list of the New Zealand Government Priorities (shown in the *Statement of Intent: 2010–2013*, New Zealand Ministry of Foreign Affairs and Trade). Does it mean that New Zealand is already considering the EU’s market as a given? Or is it seriously counting on successful conclusion for the WTO “Doha Round” with the EU as part of it? In the context of this paper, these questions, with necessity, need to be answered sooner rather than later.

From the operational angle, the paradigm of cooperation between the Baltics and New Zealand is arguably lacking substance. The rather chaotic activity in trade receives no visible help from the educational (student exchange and scholarly collaboration), business development (New Zealand EXPO in the region) and public diplomacy sectors (twin cities). Moreover, for smaller countries like New Zealand, the question of “bottom line” is extremely important in the process of activation of interaction.

Evidently, the discovery of the Baltics via Estonia is a possibility for New Zealand. A promising indicator, in September 2010, Minister Paet issued an invitation to his New Zealand counterpart to visit Estonia. He noted:

*Estonia and New Zealand's soldiers are together on the mission in Afghanistan, so in addition to our bilateral relations we also have common goals internationally. [...] Estonia feels it is important to intensify relations between the European Union and New Zealand, as we partners who share the same values.* (Foreign Minister Paet..., 2010)

There are, however, other types of indicators that are questioning the whole concept of a New Zealand 'hub' in the Baltics. Primarily, Estonia is an integral part of the EU. Having adopted and implemented a high number of the supranational union's regulations, it will be harder and harder for the country to be seen on the intergovernmental stage for a longer period. For New Zealand, the main point of contact at the EU is extremely important—is it going to be shifting further towards Brussels or will New Zealand have to engage in discussions with all of the 27 Member States of the EU? New Zealand's closest neighbour and the main trading partner Australia, despite holding about a half of its international reserves in euros (Murray, 2008, p. 170), has "failed to take notice" that the EU "grew and evolved" (Murray, 2008, p.175). What about New Zealand?

Most definitely, the New Zealand's 'on-the-ground' embassy-type base in the Baltics is outside of the circle of possibilities at present. Thus the concept of a 'hub'—either formal or informal—should productively work as an alternative that could eventuate with bringing some substance into the popular rhetoric about cooperation and partnership in a strategically important region.

In general, the main methodological lesson learnt in the process of conducting this research work was the need of using realism-originated vectors in validating the paper's framework. Despite the fact that the concept of the New Zealand 'gateway' to the Baltic States has potential, the Baltics–New Zealand interactions are featuring the obvious lack of maturity at the moment. Ironically, every visit of a high-profile politician from the Baltic States to New Zealand makes it a super event. Back in February 2006, the then New Zealand Prime Minister Clark described the Lithuanian President Adamkus' visit to the country as "historic" (Lithuanian President ..., 2006). The same rhetoric was used during the visit of the Estonian Foreign Minister Paet (New Zealand Ministry of Foreign Affairs and Trade, 2009). It is also true that there is only a small capacity for the two sides to engage.

At the same time, as a potential partner, New Zealand is likely to have a fair chance to be welcomed by the local elites and the public in the region that covers Estonia, Latvia and Lithuania. The already established and internationally recognised frameworks that should have supposedly led to a significant increase in trading activity between New Zealand and the Baltics are yet to be realised in full—partially, due to the recessional economic factors, distance and the ambiguity of the EU's political form (where to go? who to talk?). Advantageously, however, according to the aforementioned results of the small survey, New Zealand is no longer an unknown territory for the majority of respondents from the Baltics States.

In the context of this article's research question, the 'top-down' strategic reasoning will have to overcome a number of stumbling blocks from the New Zealand side. Instead, the 'bottom-up' approach that could generate a high number of micro-successes should with necessity lead towards enhancing cooperation between the two parties, presenting the final result as a *fait accompli*.

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# Contested Identity Politics: Analysis of the EU Policy Objectives and the Local Reception of the European Capital of Culture Program

Tuuli Lähdesmäki

Department of Art and Culture Studies,  
Faculty of the Humanities,  
University of Jyväskylä  
P.O. box 35(JT)  
Jyväskylä FI 40014, Finland  
e-mail: tuuli.k.lahdesmaki@ju.fi

**Abstract:** *During the recent decades the European Union has set up various initiatives that aim to create a shared European culture, produce cultural integration to a European community, and strengthen a common European identity. Among the initiatives are the EU's cultural programs in which these aims are implemented in practice. Since 1985 the EU has nominated cities as European Cities of Culture—later as European Capitals of Culture (ECOC)—for one year at a time, which makes it the EU's longest running cultural program. The fundamental objective of the program is in the identity politics, which demands the nominated cities to organize cultural events which foster both local and regional cultural features and “Europeanness”. National identity is not evoked in the rhetoric of the program. The concepts of locality, regionality and Europeanness stay profoundly abstract and undefined in the EU policy. However, the nominated cities aim to make the EU's policy objectives concrete in their cultural events during the ECOC year. The article explores the role of the ECOC program in the cultural integration process of the EU both on the policy level and in practice. The article discusses how audiences of the ECOC events perceive the objectives which are emphasized in the EU policy. Even though the ECOC program is an EU policy instrument aiming to produce integration on the European level and create common European identity, the results of a questionnaire study implemented in Pécs2010 indicate that audiences consider national culture as a more important focus of the*

*ECOC events than locality, regionality or Europeanness, and stress nationality as an identity which the ECOC events should emphasize.*

**Keywords:** *cultural policy, the European Capital of Culture, European integration process, Europeanness, identity, locality, national culture, regionality*

## **The European Capital of Culture program—from policy to practice**

During the recent decades the European Union has set up various initiatives that aim to create a shared European culture, produce cultural integration to a European community, and strengthen a common European identity. Among the initiatives are the EU's cultural programs in which these aims are implemented in practice. The European Capital of Culture is the longest running cultural program of the European Union. Since 1985, the EU has nominated cities as European Cities of Culture in order to stress the role of culture in cities and Member States of the EU and in the EU policy itself. Since 1999 the nominated cities have been called the European Capitals of Culture (ECOC). The ECOC program started as an urban cultural festival, but along its history it has grown to a year-long series of events and festivals taking place in the city, its surroundings, and broader region. In its present form the nomination as an ECOC means years of preliminary work; organizing pre-festivals and pre-events, building cultural infrastructure, renovating buildings, monuments and public spaces, and promoting the continuity of organized events for years after the ECOC year.

The ECOC program has been a real success in its grown popularity among the applying cities with increased media attention, enlarged budgets, and extended variety of cultural events taking place in the nominated cities (Palmer, 2004a; Palmer & Richards, 2007; 2008). The program, which was initiated to increase the meaning of culture and the people's cultural awareness in Europe (Richards & Wilson, 2004, p. 1936; Richards, 2000, p. 160), has transformed to a significant economical factor in the local, national and EU policy (Herrero *et al.*, 2006). Various studies have emphasized the significant short-term economical impacts of the ECOC program in the nominated cities (Palmer, 2004a, pp. 146–151; Richards & Wilson, 2004, p. 1943; Richards, 2000, pp. 173–175, Richards & Rotariu, 2009; García, 2004). However, studies have also indicated how many of the cultural, social and economic initiatives taken in the ECOCs have proven not to be sustainable in the long term. The Palmer report demonstrates that it has been relatively rare that the ECOC program has been taken as an integral part of a city's long-term cultural development strategy and assimilated into

other facets of urban development (Palmer, 2004a, p. 146, 150; Palmer, 2004c). However, several studies have stressed the positive influence of the program on the activities and practices of the cultural sector (particularly cultural institutions) and cultural agents in the cities (Bergsgard & Vassenden, 2009; 2011). Besides the cultural and economical meanings, the ECOC program includes various political and social aims, which are explicitly or implicitly expressed in the EU policy. These policies have a straight effect on the planning, organizing, implementing and promoting the ECOC events in the nominated cities (Lähdesmäki, 2008).

The objectives of the ECOC program obey an ideological context of the EU's general cultural policy (Lähdesmäki, 2011a). Besides the economical impact, the EU's cultural policy stresses various social and political objectives, which are discussed in cultural terms—fostering social cohesion, increasing social interaction, and creating a feeling of belonging are converted to cultural questions. An active participation of citizens in culture is seen in the EU policy documents as a mean to increase positive interaction, cohesion and identification to Europe. These political and social objectives are also present in the ECOC program.

The latest decision on ECOC (EC, 2006) stresses 'the European dimension' as one of the two key criteria for the program. This dimension is explained to include the fostering of cultural co-operation between cultural agents from different member-states, and highlighting both the cultural diversity and the common aspects of European cultures. The stress on common cultural aspects indicates one of the underlining ideologies of the ECOC program—creating a shared European cultural identity. This ideology was formulated more explicitly in the previous ECOC decision. According to it, the "initiative is important both for strengthening local and regional identity and for fostering European integration" (EC, 1999). The ECOC program focuses on fostering local, regional and European identities—national identity is not evoked in it.

In addition to 'the European Dimension', participation and creation of a feeling of belonging are the core principles in the ECOC program. In fact, in the decision made in 2006, the whole program is divided into two sections: "the European dimension" and "city and citizens" (EC, 2006). The last section stresses the importance of activating people to participate in the production and use of culture. In general, these two sections are closely related—EU's aspiration seems to be to produce a European cultural identity through activating the people to participate in cultural events that represent 'European culture' in its various forms (Tsaliki, 2007).

The nominated ECOCs follow the ideology and the formative rhetoric of the EU policy in their promotional material. Thus the emphasis on local, regional and European culture(s) recurs on the local level of the ECOC program. Even though the *Guide for cities applying for the title of European Capital of Culture* (2009) gives some examples of how the local, regional and European dimensions could be understood and implemented in the ECOC events, the concepts related to locality, regionality and Europeanness stay profoundly abstract and undefined in the EU policy. The nominated cities aim to make these policies concrete in their cultural program during the ECOC year. However, audiences have various notions on how the cultural events in the ECOCs manifest and bring to the fore locality, regionality and Europeanness, and what kinds of identity politics the ECOC events should eventually focus on.

In this article I focus on identity politics in the ECOC program from an interdisciplinary cultural studies orientated point of view. I will discuss the role of the ECOC program in the EU and its integration process both on the abstract policy level and on the practical implementation level. The ECOC program creates an identity political frame for the urban cultural festival that directs not only the implementation but also the reception and experiences of the ECOC events. In the empirical part of the article I will focus more heavily on the reception of ECOC events in a case city. I will explore how locality, regionality, nationality, and Europeanness as area-based identity formations are perceived and defined among the audiences of the ECOC events. In this part of the article I will investigate whether the audiences perceive in the ECOC events those aims that are emphasized in the EU policy documents and in the local promotional rhetoric of the ECOC program. The empirical focus of the research is on Pécs, which was nominated as an ECOC for 2010 together with Essen and Istanbul.

The article proceeds from a background discussion on the political, ideological and economical motives of implementing the ECOC program to a more precise analysis of a questionnaire study conducted on the ECOC audiences in Pécs. The background discussion is based on previous studies on the ECOC program, close reading of various promotional materials of the previous and forthcoming ECOCs (including, e.g., Pécs, Essen, Istanbul, Tallinn, Turku, Pilsen, and Maribor), and conversations with various cultural agents involved in the management and production of the ECOC program in the previous, forthcoming, and candidate ECOCs.<sup>1</sup>

<sup>1</sup> The conversations took place in Pécs, Tallinn and Turku during my field work in the cities in 2010 and 2011, and at the conferences and seminars organized by the University Network of European Capitals of Culture in 2009 and 2010, and the European Cultural Parliament in 2010.

## Festivalizing Europeanness

In the promotional material of the ECOCs the nominated cities are introduced as ‘European’ in various terms. The promotional material produces an image of Europe which shares a common culture, heritage, history, and traditions. Through the ECOC program, the cultural integration process of Europe seems to be generated as a bottom-up process starting from the cities and their local and regional institutions and the citizens themselves. However, the direction of the process is the opposite. The aims for the European cultural integration are set up in the ECOC program and following these aims is the prerequisite for the cities to be nominated as an ECOC (Lähdesmäki, 2011a). The EU’s underlying strategy is to get the nominated cities to present themselves as a part of the common European cultural identity. *Guide for cities applying for the title of European Capital of Culture* (2009, p. 11) guides explicitly how the cities have to link local and European cultures as a base for the ECOC events:

*In other words, candidate cities must present the role they have played in European culture, their links with Europe, their place in it and their sense of belonging. They must also demonstrate their current participation in European artistic and cultural life, alongside their own specific features.*

The fundamental aim of the ECOC program seems to be in celebrating local, regional and European cultures and in getting both the local and non-local people (such as tourists) to participate in the celebration. In addition to identity politics, the ECOC program focuses on activating the engagement to culture. Increasing participation serves the EU’s objectives of producing the feeling of belonging and social cohesion, but also causing economic impact by encouraging people to consume cultural products and services.

The ECOC program, as the EU’s cultural policy in general, is closely intertwined with the sphere of economics with its emphasis on tourism, place promotion and the fostering of creative industries. In the ECOC events, the city image, and local, regional and European identities are being commercialized and commodified for tourists and investors. Thus, the ECOC program with its fundamental objectives can be explored as a part of the so-called ‘recreational turn’, which is characterized by investing in creative industries, transformations of industrial agglomerations to cultural spaces, urbanization of tourist resorts, and phenomena conceptualized as ‘touristification’, ‘heritageing’ and ‘festivalization’ (Stock, 2006). Various nominated ECOCs have aimed to transform their declining

industrial branches to creative industries and invested in the transformation of former industrial buildings to new cultural uses. Thus, the ECOC program has been particularly popular among such declining industrial cities, which have needed to shift the base of their economies from production to consumption and change their profile on the global scale (Richards, 2000, p. 164).

In the ECOCs, as in contemporary culture in general, tourism operates as a referent and an integrator of a whole range of social practices and discourses. ‘Touristification’ is closely intertwined with branding and image-constructing through the slogan of ‘cultural heritage’. Production of heritage sites is institutionalized both on national and global levels, and in addition to protecting and preserving the heritage, it includes various practices related to the increasing of tourist flows, the consuming of cultural products, and the building of various leisure activities. The ECOC program stresses the concept of heritage among its principle objectives. The chosen ECOCs are expected to foster the common cultural history and heritage by linking the city’s own cultural heritage to the common European narrative (EC, 1999). Even though the *Guide for cities applying for the title of European Capital of Culture* (2009) points out that the ECOC program should not only focus on “architectural heritage” or “the historical assets of the city”, the decisions on the ECOC and the guide itself explicate the expected elements of the ECOC program in the terms of cultural and historical heritage (Lähdesmäki, 2011a).

‘Touristification’ and ‘heritageing’ can be related to a process in which local, regional and national traditions, celebration dates and other cultural activities are transformed into festivals that are marketed both to local residents and tourists. ‘Festivalization’ represents symbolic transformation of the public space into a particular form of cultural consumption (van Elderen, 1997, p. 126). At the end of the 20<sup>th</sup> century, ‘festivalization’ of culture caused an explosion in the number of festivals thus increasing the use of cultural events as a means of stimulating economic development, investments and urban regeneration (Richards, 2000; Prentice & Andersen, 2003; Quinn, 2005; Fjell, 2007). The change of the principal goals of the ECOC program can be interpreted in the context of these cultural-economical developments and socio-cultural turns. The contemporary ECOC program is a broad cultural festival in which various aims of identity politics are intertwined with economic goals.

In general, festivals take on a variety of roles extending from means of generating local pride, identity and income to mechanisms for assuring the acceptance of a particular cultural discourse (Crespi-Vallbona & Richards, 2007, p. 103). According to the research of Crespi-Vallbona and Richards (2007, pp. 111–114)

on cultural festivals (in Catalonia), one of the main aims for all the stakeholders of cultural festivals was to foster identity and promote integration and social cohesion through cultural events. On the one hand the festivals are excellent opportunities to manifest local cultures and foster identities, but on the other hand they are also excellent examples of the selling of globalized culture. In fact, the ‘cultural’ content of festivals may be profoundly limited, and there is a fear that the more traditional culture of local communities is being replaced by a globalized ‘popular’ culture (Crespi-Vallbona & Richards, 2007, p. 103).

Similar trajectories have been noticed in the implementation of the ECOC program. Even though the program aims to foster local, regional and European cultures, various studies have indicated how the nominated ECOC cities have stressed various mega-events, global cultural products and international popular culture phenomena during their ECOC year (García, 2004, p. 114; Sassatelli, 2002, p. 444). The vague concept of ‘Europeanness’ or European identity seems to be particularly problematic in the implementation of the ECOC program. Various scholars have indicated that the ‘European dimension’ or Europeanness cannot be perceived in the contents of the ECOC events (Sassatelli, 2002, p. 444; García, 2004, p. 114; Myerscough, 1994; Palmer, 2004a, pp. 85–86; Richards, 2000, p. 162; Richards & Wilson, 2004, p. 1945). Similarly, the evaluation report on ECOC cities of 2007 and 2008, for example, suggests that this dimension was the least emphasized aim for the ECOCs (*Ex-Post Evaluation of 2007 and 2008 European Capitals of Culture*, 2009). In the program of the previous ECOCs the ‘European dimension’ has been present both on the practical level referring to the collaboration between artists and other cultural actors from different member-states, and on the contentual level in various European themes. However, the European themes were not always explicitly articulated as European—they were often discursively produced as such (Lähdesmäki, 2008).

## **ECOC program as a political instrument in the EU integration process**

The implementation of the ECOC program has radically changed during its 25-year history. In the 1980s, the emphasis of the program was mostly on the high culture events. The emphasis changed, particularly when Glasgow was nominated as the ECOC for the year 1990. Since then the various ECOCs have followed the example of Glasgow by using the program as a tool to revive the city by investing in various branches of culture and the creative industry. Declining industrial cities, in particular, have aimed to regenerate their economy

through large construction projects, developing and repairing public spaces in the city, and, in general, transforming the image of the city to be more dynamic, innovative, and inviting with the help of the ECOC brand (Oerters & Mittag, 2008; Richards, 2000). During the recent years, these aims have still characterized several smaller ECOC cities, especially in Eastern European countries. For example in Pécs, Vilnius (ECOC in 2009), and Sibiu (ECOC in 2007) the ECOC nomination meant a start to large building and renovation projects, which continued after the ECOC year: major museums were renovated, squares and parks were rebuilt, several new buildings for cultural use were constructed, old manors were renovated and put to a new cultural use, the facades of major buildings in the centre were restored, streets and roads were repaired, etc. In the bigger cities both in the Western and Eastern Europe, the ECOC program has been used in branding the city with new terms. For example, in Tallinn the presence of the Baltic Sea and the seashore has been taken as the main motive in the promotional material. The plans for the ECOC year of Tallinn stress the importance of reviving the unused areas by the seashore. Thus, for instance, a new walking path, the Cultural Kilometer, was built along the seashore. In addition, the main logo of Tallinn2011 refers to the sea, and in the program book the locations of the ECOC events are introduced with the distance of the event from the sea (European Capital of Culture Tallinn—Stories of the Seashore, 2010).

In the ECOCs, in which major regeneration processes and city branding efforts have already taken place before the nomination, the emphasis of the program has particularly been on the audiences of the cultural events. Even though the production of Europeanness and a common European cultural identity are the EU's aims for the ECOC events, today the implementation of the program in various cities stresses local starting points of culture: local agents, receivers, stories, histories, and environments. In the current ECOCs, such as in Turku, the grass-root level of culture is often focused on in the program (Lähdesmäki, 2011b). Various recent ECOCs have focused on lowering the threshold of producing and consuming culture, and encouraging the citizens to become a part of the cultural year. In addition, several ECOCs have followed the example of Lille2004, and recruited a number of volunteers to help in the implementation of the cultural events during the year (Oerters & Mittag, 2008). The activation of citizens is related to the current aim of broadening the cultural offerings and reflecting the interests of different audience groups in the ECOCs. Thus, the recent ECOCs aim to promote not only art institutions, institutionalized art forms, and established performers, but also the encountering of culture in everyday life and in everyday environment.

In spite of the changes in the implementation of the ECOC program, the program itself has maintained its symbolical value for the nominated cities, their host countries, and the EU. In fact, the value of the brand of the program seems to have increased during the years. Maintaining the ECOC program as a desired and competed brand serves the cultural political aims of the EU. The cultural programs of the EU are the European Commission's political instruments through which the Commission influences on various objectives, such as the unity of the union and economic growth. These particular objectives were brought into the focus of the ECOC program during the Eastern enlargement of the Union. Through the program the Commission aimed to influence the cultural unity in the renewed Union: the aim was to get the new Member States to bring to the fore their culture and to feel themselves as equals with the older Member States. Since 2009, the EU has nominated at least two ECOCs—one of the old Member States and one of the Member States that joined the Union after 2004 (EC, 2005). With this policy the EU started a process of Europeanization in the new Member States: the states were put into a situation in which they got a chance (or were forced) to compete for the ECOC nomination according to the criteria determined by the EU. Tens and tens of cities in the new Member States started to prepare applications and develop plans, in which the cities aimed to present themselves through their culture and city space as 'European'. The policy of selecting the cities among the old and the new Member States continues till 2019.

The ECOC program has had major influences on the nominated cities: it has changed the city space and the citizens' everyday life in various ways. Investments to the cultural infrastructure, improvements of the buildings and public spaces in the city, and implementing various cultural projects which reflect the current trends in cultural policy have recreated the cities with a modern look and up-to-date atmosphere. On the one hand, various cultural agents and citizens of the ECOCs have related these changes to 'Europeanness'. According to these views, 'European' is paralleled to modernization, welfare, and quality of environment. On the other hand, various cultural agents have criticized the ECOC program for unifying the cities in Europe by expecting them to produce culture with similar values and reconstruct the urban environment with similar kinds of ideals. Thus, the ECOC program has been considered as a policy tool, which eventually narrows the cultural richness in Europe by ignoring the already existing local and grass-root level cultural phenomena and by demanding development that follows current trends. Even though the EU's aims for the program is to bring to the fore the diversity of local and regional culture in Europe, it simultaneously homogenizes the cultural offerings due to the structure which forces the cities

to follow certain criteria, obey certain cultural values and trends, and compete against other cities for the nomination.

The competition for the ECOC title is tough: cities are using enormous amount of both time and expenses for planning cultural strategies and preparing the city to win the title in already selected Member States. The Art Director of the Pilsen2015 project describes these efforts and the passions related to them in the promotional leaflet of the city as follows:

*Pilsen won! The tears of passion as well as exhaustion contrasted with the disappointment of the rival. [...] To gain a victory in such a demanding joust is a lifetime award for all of us; it is an evaluation of hundreds of hours, dreamless nights, dutiful weekends; it is also satisfaction for the time-to-time attacks of skepticism accompanying this strictly secret concept for the drop scene. At the same time it is a big obligation for all Pilseners. (Pilsen, The European Capital of Culture 2015, 2010)*

Those cities that lose the competition usually aim to utilize the planning on a smaller scale. In some candidate cities, the preparatory work has included building new cultural infrastructure. For example, in Debrecen the application process was preceded by constructing a new museum and a conference centre and renewing the public spaces in the city. These developments have had an influence on the city's cultural life, even though the city lost the competition to Pécs. Thus, both the ECOCs and the tens and tens of candidate cities have developed, reorganized, and rebuilt the cultural scene and infrastructure according to the criteria determined by the EU. In this sense the ECOC program has a broad effect on the certain type of cultural integration of the cities and the Member States to Europe and to the EU.

Both the nominated and the candidate cities usually strongly stress their connections to Europe and to the EU in their promotional material, and thus participate in the EU integration process. However, the citizens in the ECOCs do not always interpret the changes in their cities as manifesting the Europeaness or the integration to the EU. Various changes in the urban environment and contents of the cultural offerings of the ECOC year can be considered as manifesting purely local, regional, or national identity. The questionnaire study from Pécs indicates that the role of the ECOC program may contradict the EU's aims among the audiences on the local level.

## **Interrelated multilayered identities**

The concepts of locality, regionality, national culture, and Europeaness are intertwined in the aims and implementation of the ECOC program. These concepts crisscross and construct each other in a complex way in the rhetoric of the EU and local policy, in the promotion of the ECOCs and in the reception of the ECOC events. Approaching these concepts in a discursive sense helps to understand why their meanings are transforming in different situations and uses, and opens interesting views on the meaning-making and use of identities, or identity politics, in the context of the ECOC program. In addition, the discursively transforming character of the concepts has an influence on various practices of identity politics on the local, regional, national, and European levels.

In recent discussions and practices of cultural policy the concepts of locality, regionality, and Europeaness, in particular, form an interrelated and inter-determined sphere of meanings. European cities and regions are often discursively formed and determined in relation to Europe, and similarly, Europe is being discursively constructed through different regions and localities (Martin, 2011). Several studies have referred to this process as the ‘localization of Europe’ or ‘Europeanization of the local’. Scholars have also used the concept of ‘the Europe of regions’ to describe the phenomena, where “the ‘European’ is becoming increasingly ‘localized’, and simultaneously, the ‘local’ is clearly being ‘Europeanized’” (Johler, 2002, p. 9). In this process, nations and nationalities seem to lose their previous position while regions are gaining new importance. The EU based funding for cities and regions (such as the ECOC program) have created new possibilities for local and regional agents. EU policy has established a situation, where regions and cities have to compare themselves not only with other national areas and cities, but also with other regions within the boundaries of other nation states (Hansen, 2002, p. 20; Perko, 2001, p. 44). The EU policy prioritizes the unification tendencies of the union by suppressing national ambitions and partly transferring regional politics to Brussels. Additionally, the policy benefits regions and cities by offering them the possibility to promote themselves on the European and international level. The ideas of ‘localization of Europe’ and ‘Europeanization of the local’ are reflected in the rhetoric and practices of the ECOC programs both on the EU and local level. The promotional material of the recent and forthcoming ECOCs obeys and applies the idea of the interplay between the regions and Europe in the construction of their cultural identities (Lähdesmäki, 2008; 2011a).

Even though the ECOC program enables cities to promote locality and regionality, it also paves the way for the cities to promote national culture and nationality.

In fact, the ECOCs readily present themselves as representatives of the nation. (Lähdesmäki, 2008) Although the promotion of locality and regionality is usually one of the main interests of the nominated cities, representing the nation in the program may be taken as a national responsibility, duty, and opportunity (Reme, 2002, p. 37; Lähdesmäki, 2008). In the promotional material, local and regional culture is often seen as naturally following the typical features and expressions of national culture. Besides Europeanness, local and regional identity is often understood in the promotional material in the frames of national identity. In general, national, regional and local culture and identity are expressed in the promotional material in a singular form, and as self-evident, permanent, and solid entities.

Nationalism as ideology has been intertwined with locality and regionality since the 19<sup>th</sup> century—strong local and regional identities have been seen as supporting the construction of the national identity and, respectively, national ideology has efficiently utilized regional alternation and regional characteristics (Paasi, 1996, pp. 144–145; Sevänen, 1998, pp. 298–299; Alasuutari, 1999, pp. 166–167). In many studies on nationalism the emotions of stressing locality and *Heimat* are seen as constitutive and necessary features in the construction process of a nation (Umbach, 2002, p. 46). Previous studies of nationalism have focused on explaining how national culture has changed local culture—the elite, modernism and nationalism formed and transformed locality. The previous research tended to show how people living in local cultures were ‘made’ into being the members of a nation. This kind of thinking has been replaced by views which stress how national imagery has utilized locality to express the speciality and originality of the nation and how the national home has been molded from the local (Confino & Skaria, 2002, p. 5). A similar process seems to be taking place in the case of Europeanness—a common European identity and culture is being constructed from localities and regionalities. Europe has replaced the concept of nation in views which follow the idea of the ‘Europe of regions’. Europe and Europeanness, such as other transnational and global spatial categories and their spatial identities, are constantly constituted in local settings through multiple and interactive physical, social, and cultural processes (see, e.g., Massey, 2005; 2007, pp. 10–16).

The discursive meanings of area-based concepts in the promotional material and in the reception of the ECOCs reflect an idea of a multilayered identity according to which people share various different identities, which activate in certain situations or circumstances. The same qualities and issues can be considered as identity markers of different identities in different situations or circumstances. The objective of the EU policy in the ECOC program is to

activate interpretations of Europeanness, in particular, in the nominated cities and their cultural offerings. This aim seems to succeed particularly on the level of local promotional material, but also partly on the level of local reception of the ECOC events, as the questionnaire data from Pécs indicates.

## **Reception of locality, regionality, national culture and Europeanness in the ECOC events**

The empirical case research on the ECOC audiences and their perceptions on identity politics in the ECOC program was implemented in Pécs, which is the fifth largest city in southern Hungary with a population of 157,000. The city, and the region around it, is known for its multiethnic population and multiphased history, which has left its marks on the architecture and traditions of the area. Nowadays Pécs is an active academic centre and the cultural and artistic meeting point of South Transdanubia, the way it used to be already during the Middle Ages.

The cultural profiles of the ECOC program have varied greatly among the selected cities. As the Palmer report indicates, the previous ECOCs have often aimed to raise the international profile of the city and its region to run cultural activities and arts events, to attract visitors, and to enhance pride and self-confidence. In addition, the ECOCs have emphasized expanding the local audience for culture, making improvements to cultural infrastructure, developing relationships with other European cities and regions, and promoting careers and talents of local artists. (Palmer, 2004a, p. 14) The cultural profile of Pécs2010 followed the same objectives. The application book (Takáts, 2005), various promotional materials and the official web page of Pécs2010 stressed the slogan of the Pécs2010—‘Pécs – The Borderless City’—and the main ideas related to it: multiculturalism, regionalism, multicultural historical heritage, innovation, and the city as a cultural gateway to the Balkans. However, the main cultural profiles of the ECOCs can be interpreted in various ways, and in the selected cities there have always been various views on what is or what should be the main cultural profile and core content of the program. Thus, the cultural management, cultural policy and promotion of the program have often become politicized in the selected ECOCs (Palmer, 2004a, p. 23). The severe political struggle characterized the planning and management of the ECOC events in Pécs as well. Changes in the local political scene and in the administration of the ECOC project caused discontinuity to the planning of the program and uncertainty of the possibilities of implementing the plans. In addition to private

and media discussions, the struggle brought along several published critical evaluations by local cultural agents (see, e. g., Takáts, 2011; Somlyódy, 2010).

In addition to the cultural profile, the financing of the program have caused tensions and contradictions in the previous ECOCs (Boyle & Hughes, 1990; Rommedvedt 2009, pp. 4–5). The EU's economic support for organizing the ECOOC event is relatively small in regard to the interest and competition that the ECOOC brand generates in the cities. In the years from 2000 to 2006, the sum earmarked for each ECOOC was 500,000 euros. According to the Palmer report (2004a, p. 181), the total amount of EU support for a ECOOC represented in average only 1.19 per cent of the total funding generated for ECOOCs in 1995–2004. Even though, in the new Culture Program launched in 2007, the amount of financial support for each ECOOC city has been increased to 1.5 million euros, the EU funding still only adds up to a fraction of the total budgets of the ECOOCs. In Pécs the expected total operating expenditure of the ECOOC program was 36.1 million euros (Takáts, 2005, p. 113). It corresponds with the average budget of ECOOCs in the past decades. The average total operation expenditures of the twenty ECOOCs between 1995 and 2004 were 37.66 million euros.<sup>2</sup> Besides the operating expenditure, the ECOOCs use varied amounts of money to various capital projects. In Pécs these key projects included: building a new Conference and Concert Centre, constructing the Zsolnay Cultural Quarter from the old ceramic factory, reconstructing the museum street and its various museums, building a new South Transdanubian Regional Library and Information Centre, and reviving public squares and parks in the city (Takáts, 2005, p. 119).

The cultural profile of the Pécs2010 program and the ECOOC brand in general created an ideological and political frame for the cultural festival that directed reception and experiences of the ECOOC events. The reception and experiences were explored through a questionnaire study, which focused on the concepts of locality, regionality, national culture and Europeaness. In the questionnaire the locality was specified as “the locality of Pécs” and regionality as “the regionality of South Transdanubia”. The regional focus was chosen according to the regional emphasis used in the promotional material of the city. South Transdanubia as a regional term recurs in the rhetoric of the promotional material even though in cultural terms it is more or less an abstract construction. To avoid confusing national cultural identity and nationality with citizenship, the concept of “Hungarian culture” was used in the questionnaire. The design of the questionnaire was based on the diverse and multifaceted meanings of the key concepts. The concepts were not explained or defined in the questions, which directed the respondents to concretize the concepts in response to open questions according to their own understanding.

<sup>2</sup> The calculations are based on budgets exposed in the Palmer report, 2004b.

The qualitative analysis of the responses aims to indicate how these concepts were seen to be manifested in the ECOC events in the urban space.

The data was collected in Pécs during 2010 with online (N=532) and paper (N=200) questionnaires, which were available in Hungarian and English.<sup>3</sup> The paper questionnaire data was collected in 23 events during April, May and October of 2010. The aim in the event selection was to include in the study an extensive range of the events, which would represent the variety of the whole cultural program of the Pécs2010. The selected events differed greatly in their size (mass events, small-scale events), location (indoors, public space, city center, suburbs), organization (free of charge, at a charge), target audience (age, gender, ethnic and language groups) and genre (classical, pop, rock, folk and jazz music, theatre, folk and modern dance, literature, film, traditional and contemporary visual art, performance and community art, photography, crafts and architecture). Some of the selected events were festivals or series of events including various types of performances. The respondents (aged 15 years and older) were selected during or after the chosen events. The selection was based on a focal sampling method (Mony & Heimlich, 2008; Yocco *et al.*, 2009): the data collectors divided, in advance, the event venue (public space or foyer) into three to five imaginary parts and aimed to collect from one to five responses from the people who happened to be in the middle of the imagined areas. The data collection was carried out through self-completion questionnaires. From three to twelve responses were collected from each event according to the size of the event. The aim of the method was to increase the randomness of the sample.

The aim of the online questionnaire was to reach the respondents who were particularly interested in the ECOC events, active consumers of culture, and well aware of the ECOC program in Pécs. The sampling of the online questionnaire was based on a combination of convenience, purposeful, and snowball sampling (Patton, 2002; Everett & Barrett, 2009). A notice of the online questionnaire was sent to contact persons of ten different cultural organizations or networks in Pécs. The organizations represented various cultural fields (literature, visual arts, performing arts, heritage, music). Contact persons were advised to inform their own staff and their stakeholders about the online questionnaire. The two data collection methods were chosen in order to provide an extensive overview of the reception of the ECOC events. The data includes responses based both on in-situ and ex-situ experiences, and responses of the both the people who just happened to participate in a particular ECOC event and the people who

<sup>3</sup> A part of the data collection and translations have been implemented with the help of volunteers of Pécs2010 and students of the Department of Sociology of the University of Pécs.

were more deeply involved in the cultural scene of the city as an active cultural consumers or producers in the cultural field.

The socio-demographic background of the respondents differed to some extent in the paper and online data groups. As planned, online questionnaire reached respondents who were in general more interested in the ECOC year, aware of its contents, and active consumers of culture than the people, who responded to the questionnaire in the ECOC events. Of the online respondents, 50.4 per cent used to participate in cultural events (such as festivals, concerts, exhibitions, theatre plays) at least 1–3 times a month. However, the paper respondents were nearly as active consumers of culture: 46.5 per cent of them used to participate in cultural events at least 1–3 times a month. On the other hand, the paper data included more passive consumers of culture: 16.5 per cent of the paper respondents replied participating in cultural events only once a year or less, whereas only 4.2 per cent of the online respondents were as passive.

The age of the respondents ranged in the paper data from 17 to 80 years, and in the online data from 16 to 80 years. In the online data, the respondents were relatively young: the mean age in the paper data was 38 and only 26 in the online data. The online sample design may have had an effect on the age variance: the online form of the questionnaire may have appealed more to younger respondents, who are more familiar with the Internet and more active in using means of electronic communication. A chance to participate in a lottery offered towards the end of the questionnaire may also have appealed to younger respondents. Several studies have indicated that middle-aged people are the typical audiences of various cultural activities (see, e.g., Safford & Tripp, 2000, p. 32). However, large-scale urban festivals may also attract younger visitors, such as students (Boyle, Joham & Abdullah, 2010). Pécs is an active university city and the students are important stakeholders of many cultural organizations of the city. Students participate in the cultural life of the city both as audiences and producers of art and culture. In the online data 72.4 per cent and in the paper data 58.0 per cent of the respondents were female. In general, women usually participate more actively in various cultural activities (Seaman, 2006; Stafford & Tripp, 2000, p. 32; Bihagen & Katz-Gerro, 2000). In the online data 1.1 per cent and in the paper data 1.5 per cent of the respondents were foreigners. In the online data 7.5 per cent and in the paper data 8.5 per cent of the respondents identified themselves with some national or ethnic minority. The most common minority identities were German, Roma and Croatian.

Various studies have indicated the influence of socio-economic background in cultural consumption: the audience of cultural products (particularly of high

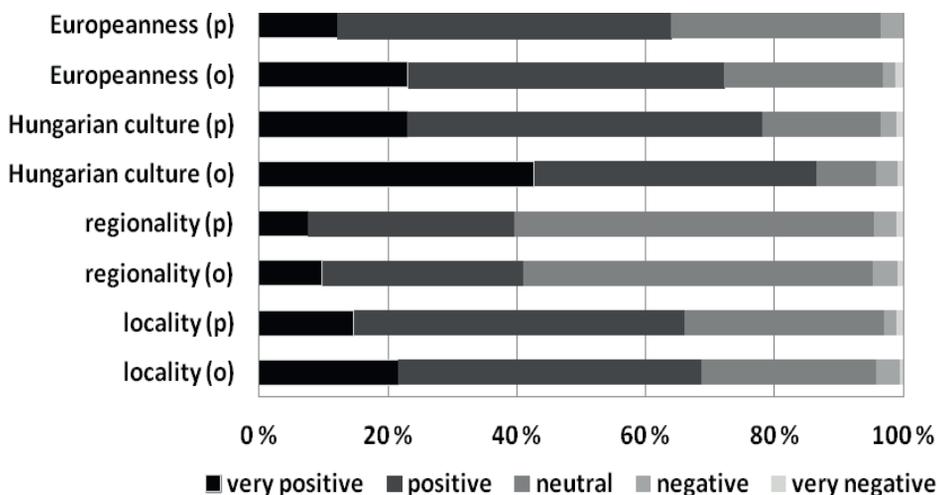
culture) usually has higher education and relatively high income (e.g., Bourdieu, 1984). In the online data 57.0 per cent and in the paper data 43.6 per cent of the respondents had either an academic or a higher vocational degree. Of the working online respondents, 52.4 per cent identified themselves as upper-level white-collar workers and 29.4 per cent as lower-level white-collar workers. The percentages in the paper data were 27.0 per cent and 15.5 per cent. According to both the online (44.4 per cent) and paper (30.5 per cent) data, the most common source of livelihood for working respondents was the education industry.

The questionnaire included three questions in which the respondents evaluated, on a Likert scale, what kinds of impressions the concepts of locality, regionality, national culture, and Europeanness invoked in them, and how they considered that these concepts were or should be represented in the ECOC events in Pécs. In the following analysis the responses are quantified in order to give an idea of the respondents' attitudes towards the concepts, and their opinions on the presence of the concepts in the framework of the ECOC program. Because of the sample composition these attitudes and opinions are not analyzed in relation to the socio-demographic factors of the respondents. Instead, the main focus of the analysis is on the investigation of the contents of these concepts and their multifaceted definitions in the frame of the ECOC program.

Even though the ECOC program enables and demands the cities to promote local, regional and European culture(s), the respondents in Pécs seemed to stress national culture as the main focus of the program. In general the concepts of locality of Pécs, regionality of South Transdanubia, Hungarian culture, and Europeanness invoked positive impressions among the respondents (Fig. 1). In the paper data 78.1 per cent and in the online data 86.5 per cent of the respondents considered that the concept of Hungarian culture invoked positive or very positive impressions. Locality of Pécs invoked positive or very positive impressions in 66.0 per cent of the respondents in the paper data and in 68.8 per cent in the online data. Europeanness invoked positive or very positive impressions in 64.0 per cent of the respondents in the paper data and in 72.2 per cent in the online data. Regionality of South Transdanubia invoked mostly neutral impressions: 55.8 per cent experienced it in a neutral way in the paper data and 54.1 per cent in the online data.

The results were similar when the respondents evaluated how the given concepts are being represented in the ECOC events in Pécs (Fig. 2, see p. 152). In both data the respondents considered that Hungarian culture was the most often represented concept in the ECOC events. Europeanness was considered as slightly less represented than Hungarian culture, and locality as less represented

Figure 1. Impressions on concepts of Europeanness, Hungarian culture, regionality of South Transdanubia and locality of Pécs in the paper (p) data (N=196–197) and the online (o) data (N=532).

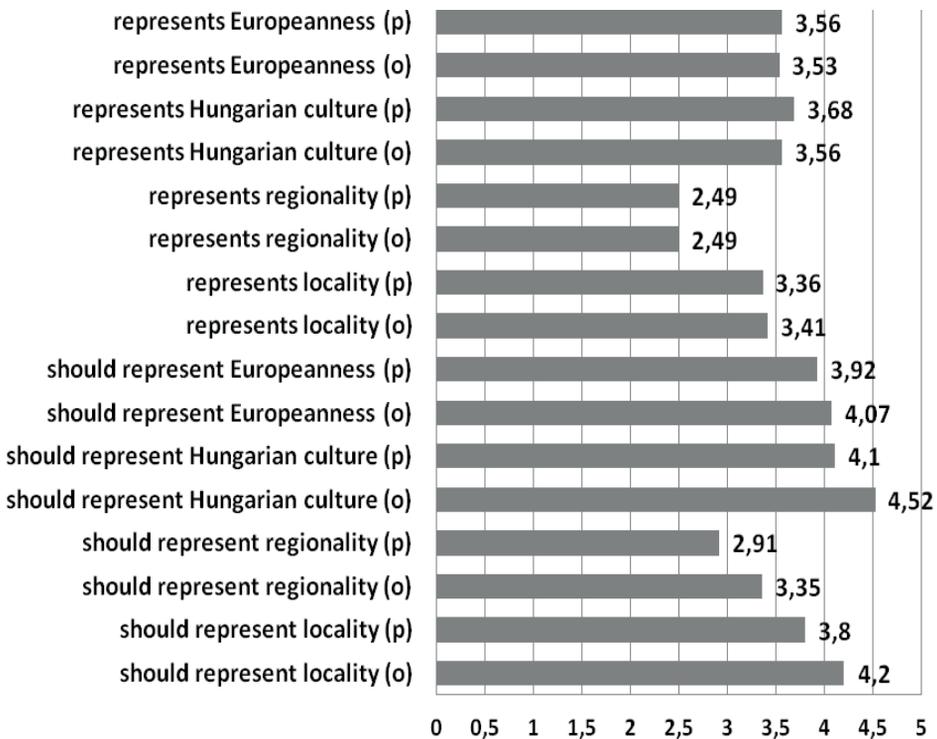


than Europeanness. Regionality of South Transdanubia was seen as the least represented concept in the ECOC events. When asked which of the given concepts the ECOC events should represent, the respondents again stressed the importance of Hungarian culture. In the online data the respondents considered that the ECOC events should represent more locality than Europeanness, whereas in the paper data the respondents considered representation of Europeanness more important than locality. In general, the respondents considered that all the given concepts should be more strongly represented than they currently were.

The responses indicate that national culture formed an identity frame which invoked the most positive impressions among the respondents and through which the ECOC events were most often interpreted and experienced. In spite of the abstract nature of the concept of Europeanness, it was, however, considered as a very positive concept and one strongly represented in the ECOC events. The relatively low results related to the regionality can be partly explained by the chosen regional concept—South Transdanubia. Even though the region includes various small towns and villages, which have a strong local identity, the chosen regional concept may not have invoked feelings of shared characteristics, communality, or an identity. The Pécs2010 organization promoted Pécs as the “city of regionalism” in various promotional materials and aimed to include the surrounding small towns and villages in South Transdanubia to the ECOC program (*Pécs is the city of regionalism*, 2009). However, the concrete borders of

regional sentiments are difficult to draw. In addition, in the preparation phase the Pécs2010 organization intended to gather the regional sentiments under a broader cultural concept—Southern Cultural Zone—“that presents the special cultural experience of the broader region that is very different from that of West and seeks to find a place and a mediating role for the city in a network of relations that span across national borders” (*Pécs is the city of regionalism*, 2009). However, in the ECOC program this regional concept was rarely brought to the fore and its content remained even more abstract than the regional concept of South Transdanubia.

Figure 2. Opinions on how the ECOC events represent or should represent the concepts of Europeanness, Hungarian culture, regionality of South Transdanubia and locality of Pécs in the paper (p) data (N=195–197) and in the online (o) data (N=532).



■ Mean in a scale 1 = not at all, 2 = a little, 3 = to some extent, 4 = a lot, 5 = very much

In general, the promotional material of Pécs stressed the ideas of local culture and local cultural agents as well as their links to broader European phases of history and cultural phenomena. In addition, the multicultural nature of the city and the region was often emphasized. Thus, the promotional material followed

the focus which the EU has set for the program. National culture was often discussed in the promotional material in relation to Pécs—either describing Pécs as a representative of it or as distinguishing from it. Despite of the promotional rhetoric the contents of the concrete cultural events can be interpreted in different ways. As the open questions in the data indicate, depending from the respondent the same events could be interpreted as representing locality, regionality, national culture, or Europeanness.

In the open questions the respondents were asked to describe how in their opinion the locality, regionality, Hungarian culture, and Europeanness are represented or should be represented in the ECOC events in Pécs. In order to discover how the respondents perceived and concretized these conceptual abstractions in relation to the ECOC events, the responses were investigated with qualitative thematic analysis (Taylor & Bogdan, 1984; Boyatzis, 1998; Seidman, 1998; Patton, 2002). In thematic analysis themes are defined as units derived from patterns such as “conversation topics, vocabulary, recurring activities, meanings, feelings, or folk sayings and proverbs” (Taylor & Bogdan, 1984, p. 131). A theme might be expressed in “a single word, a phrase, a sentence, a paragraph or an entire document” (Zhang & Wildemuth, 2009). When a theme is used as a coding unit, the focus of the study is on an expression of a certain idea (Minichiello *et al.*, 1990). In general, qualitative content analysis pays attention to unique themes that illustrate the range of the meanings rather than the statistical significance of the occurrence of particular texts or concepts. The analysis involves processing raw data into themes based on valid inference and interpretation. This process uses inductive reasoning, by which themes merge from the data through the researcher’s careful examination and constant comparison. (Zhang & Wildemuth, 2009) The qualitative content analysis contains different approaches based on the degree of inductive reasoning involved. In the approach of summative content analysis, the analysis starts with the counting of words or manifest content. The analysis is then extended to include latent meanings and themes. (Hsieh & Shannon, 2005) The approach seems quantitative in the early stages, but the goal is to explore the usage of the keywords or other indicators in an inductive manner.

The aim of the thematic analysis in the research in question was to structure the ‘polyphonic’ nature of the responses in order to understand the meanings of area-based identities within the reception of the ECOC program. A qualitative thematic analysis of the responses identified themes and recurrent response types, which were rearranged to matrixes. The identified themes were quantified in order to give an idea of their frequency. The paper and online data were analyzed and quantified separately, but the results are presented in the same tables. The responses to open questions varied greatly in length, point of view,

and mode of expression. In the online data the answers were usually longer and more deeply argued than in the paper data. The answering situation has probably partly influenced the length and argumentation of the responses. The most common themes of responses are presented in Tables 1 to 4. The themes in the tables inevitably include some overlappings. The aim of defining and describing the themes has been to follow the rhetoric and expressions of the data. The tables were not formed according to individual respondents but the contents of the responses. Thus a response from one respondent could comprise several ways to explain the representation of the given concepts (see, e.g., Tesch, 1990).

*Table 1. The most common descriptions on how the locality of Pécs was perceived as being represented in the ECOC events, the percentage of the given descriptions, and the percentage of the emergence of the same descriptions when the respondents described how the locality of Pécs should be presented in the ECOC events.*

	A) The locality of Pécs is represented in the ECOC events through...		B) The locality of Pécs should be represented in the ECOC events through...	
	Paper (N=66)	Online (N=212)	Paper (N=45)	Online (N=172)
local artists or performers.	42.4	22.2	26.7	20.3
heritage sites, monuments, statues or sights.	15.1	13.2	6.7	5.8
venues or the city itself as a venue.	13.6	15.6	8.8	8.7
The logo of Pécs2010, flag or coat of arms of the city.	13.6	0.5	4.4	1.2
advertisements, promotion or media.	10.6	5.2	11.1	1.7
local culture, cultural values or traditions.	10.6	15.0	6.7	19.2
the citizens, their participation or involvement.	9.1	10.8	15.6	16.9
restoration, renovation and regeneration of the city.	7.6	2.8	2.2	1.2
displaying history the city.	6.0	14.6	8.9	18.0
displaying characteristics or symbols of the city.	6.0	6.1	8.9	7.6
the city's atmosphere, spirit, or feeling of togetherness.	4.5	7.5	-	9.3
displaying multiculturalism, diversity or minorities.	3.0	8.5	4.4	5.8
A) various negative features, such as problems with schedules, neglect, dispute or wasting money.	-	7.1	-	-
B) avoiding negativity or conflicts, implementing unfinished plans, or using money in a better way.	-	-	2.2	6.4

The most common way to perceive locality in the ECOC events was to stress the role of local artists and performers (Table 1). It was also most often considered as the way the locality should be represented. The second common way in the online data and the third common way in the paper data to perceive locality in the ECOC events was to simply stress the city as the venue of the event. In general in the paper data the most common descriptions highlighted the profoundly concrete manifestations of locality: besides the local artists and the city as a venue, the respondents stressed material heritage, such as heritage sites, monuments, statues and other specific sights. Thus, the locality in the ECOC events was often described in regard to issues, such as local sights and monuments, which as such were not part to the ECOC events. Besides material heritage, the respondents associated the locality in the ECOC events with history: history as a concept is present in the local traditions, which was the third common description of the representation of locality in the online data and the fourth common in the paper data. In addition, the respondents in the online data stressed the display of history of the city in the construction of locality. It was also the third common way the respondents in the online data considered that locality should be represented. Contemporary culture or present day was mentioned in both data sets only a few times. In addition, the respondents stressed the role of citizens and the interaction of people as representations of locality in the events. In the paper data, locality was also quite often seen as being manifest in the reproduced symbols of the city, in the logo of the event, in the flag and the coat of arms of the city, and in various marketing materials and media texts.

When respondents described how locality should be represented in the ECOC events, the heritage sites or venues were not strongly emphasized. Besides local artists, the respondents in the paper data stressed the citizens and their involvement in the events. It was also often mentioned in the online data; however, even more often the respondents stressed the local cultural traditions and values and the display of history as a way the locality should be represented. In addition the responses in the online data reflected some dissatisfaction with the implementation of the ECOC events and the use of money in organization of the event.

As Table 2 indicates, regionalism was perceived in the ECOC events through varying venues in the region of South Transdanubia. Varying venues were also most often considered as the way how regionality should be represented in the ECOC events. In the online data, the respondents often stressed multiculturalism and the display of minority cultures as important elements of regionality in the events. It was, however, relatively less mentioned when

asked how regionality should be represented. In the online data, the respondents did not see regional artists or performers as important in terms of regionality; however, in the paper data it was the third common way to perceive regionality. It seems that regionality was strongly associated with intangible culture: the presence of cultural diversity, display of traditions and the performing of folklore. However, regional products, including food and typical objects, were also mentioned as representations of regionality. Besides the venues, regional traditions and products were often seen as a way that regionality should be represented. In the paper data, the respondents often stressed the importance of advertising, promotion and media as means through which regionality should be represented. Cultural heritage, specific sights, or landscapes as elements of regionality regarding the events were mentioned only in a few answers. The abstract concept of South Transdanubia may have influenced the low number of the answers related to regionality.

*Table 2. The most common descriptions on how the regionality of South Transdanubia was perceived as being represented in the ECOC events, the percentage of the given descriptions of all descriptions, and the percentage of the emergence of the same descriptions when the respondents described how the regionality of South Transdanubia should be presented in the ECOC events.*

	The regionality of South Transdanubia is represented in the ECOC events through...		The regionality of South Transdanubia should be represented in the ECOC events through...	
	Paper (N=31)	Online (N=93)	Paper (N=21)	Online (N=80)
venues located in the region.	32.3	29.0	28.6	15.0
displaying regional culture, cultural values or traditions.	25.8	14.0	14.3	11.3
regional artists or performers.	19.4	5.4	-	2.5
displaying regional products, gastronomy or wines.	16.1	15.1	9.5	10.0
displaying regional folklore.	9.7	7.5	4.8	2.5
displaying multiculturalism, diversity or minorities.	6.5	22.6	9.5	6.3
advertisements, promotion or media.	6.5	7.5	14.3	5.0

*Table 3. The most common descriptions of how Hungarian culture was perceived as being represented in the ECOC events, the percentage of the given descriptions of all descriptions, and the percentage of the emergence of the same descriptions when the respondents described how Hungarian culture should be presented in the ECOC events.*

	A) Hungarian culture is represented in the ECOC events through...		B) Hungarian culture should be represented in the ECOC events through...	
	Paper (N=77)	Online (N=177)	Paper (N=47)	Online (N=134)
Hungarian arts and exhibitions.	35.1	35.6	23.4	29.9
Hungarian artists and performers.	26.0	16.4	21.3	14.2
displaying folklore.	15.6	15.8	10.6	19.4
the event itself which is all about Hungarianness, and Pécs, which represents the whole country.	11.7	9.6	14.9	4.5
displaying Hungarian traditions, cultural values, and customs.	10.1	10.2	8.5	20.1
displaying Hungarian products, gastronomy or wines.	9.1	10.7	8.5	12.7
displaying multiculturalism, diversity and minorities.	5.2	7.9	4.3	9.7
national characteristics and symbols, such as the flag and the colors of the flag.	3.9	5.1	2.1	3.7
displaying history of the country.	2.6	7.9	14.9	12.7
A) various negative features, such as problems with schedules and financing, corruption or pessimism.	2.6	6.2	-	-
B) a more positive and stronger national identity and pride.	-	-	-	4.5

According to the data, national culture was seen in the ECOC events through Hungarian arts, such as music, literature, theatre plays or paintings, and exhibitions of Hungarian arts, or through Hungarian artists or performers whether they presented foreign or Hungarian works (Table 3). These were also the ways the respondents wished Hungarian culture to be represented in the ECOC events. The views, which stressed Hungarian arts and artists as representations of Hungarian culture, were often based on profound notions of high culture. In addition to the emphasis on high culture, the respondents brought up folklore and intangible heritage, such as the display of traditions and customs. Thus many of the responses also indicated a profoundly traditional understanding of culture. Displaying contemporary culture or the phenomena of everyday life were mentioned only a few times in the data. Similarly material heritage, architecture,

monuments or sights, and particular atmosphere or mentality, were mentioned only a few times. It seems that tangible heritage and sights were considered more important in the ECOC events on the local level, than on wider regional and national levels. Nature or landscapes were never mentioned in relation to representations of Hungarian culture in the events. However some characteristic material products and food were often brought up in the responses. In general, many of the responses indicated the national significance of the ECOC events: the event itself was considered as being all about Hungarianness, and Pécs was seen as representing the whole country. As in the case of locality, the responses in the online data reflect some dissatisfaction with the implementation of the ECOC events, which was interpreted as characterizing the concept in question.

*Table 4. The most common descriptions on how Europeanness was perceived as being represented in the ECOC events, the percentage of the given descriptions of all descriptions, and the percentage of the emergence of the same descriptions when the respondents described how Europeanness should be presented in the ECOC events.*

	Europeanness is represented in the ECOC events through...		Europeanness should be represented in the ECOC events through...	
	Paper (N=72)	Online (N=141)	Paper (N=36)	Online (N=103)
European or foreign artists or performers.	38.9	27.0	19.4	15.5
European or international arts, art projects or exhibitions.	20.8	12.1	19.4	8.7
foreign or European visitors.	15.3	9.2	2.3	5.8
displaying different European cultures or nationalities.	12.5	8.5	19.4	10.7
displaying multiculturalism, diversity and minorities.	4.2	14.9	2.3	8.7
cooperation or joint events with other ECOC or twin cities or foreign partners.	4.2	5.0	5.6	7.8
the EU sponsorship, the EU symbols, name of the event, or discussions on the EU.	4.2	6.4	2.3	3.9
binding Pécs and Hungary to Europe, stressing their relations or connections.	2.8	7.8	2.3	13.6
high quality or development up to European standards.	2.8	7.8	-	9.7
stressing international university life and foreign students.	1.4	8.5	-	3.9
Pécs, which itself represents Europe and Europeans.	1.4	5.7	5.6	2.9

The respondents considered Europeanness to be mostly represented in the ECOC events by non-Hungarian artists or performers (Table 4). The same description was also the most common or one of the most common ways to stress how Europeanness should be represented, even though it was less emphasized percentagewise. The artistic creation of non-Hungarian artists and performers were the second common description in the paper data and the third common in the online data. In the responses the concepts of European, foreign and international were often used as synonyms. In the online data the display of cultural diversity was the second common way to describe Europeanness in the ECOC events; however, it was much less mentioned in the paper data. Foreign visitors were the third and fourth common way to describe representation of Europeanness. However, particularly in the paper data, the respondents stressed it less as a way of how Europeanness should be represented. Besides non-Hungarian artists and arts, the respondents considered that Europeanness should be presented in the ECOC events through displaying different European cultures or nationalities. In addition, the respondents in the online data emphasized an idea of binding Pécs and Hungary to Europe and stressing their relations or connections.

Multiculturalism, minority cultures and cultural diversity was relatively often attached to all the given concepts in the online data. In general, Europeanness was often paralleled to the EU and described as being represented through various EU-related issues, such as the EU sponsorship of the event, the name of the event itself, or the use of the EU flag in the city. In addition, in the online data the respondents often associated Europeanness with the high quality of culture and the development into European standard levels, which were perceived as being higher than the current local, regional or national ones. Unlike in the case of locality and national culture, the display of history was not brought up in the answers. The respondents did not stress the common European heritage, culture or traditions as entities which would or should have been represented in the ECOC events. As Tables 1 and 3 indicate, some of the respondents stressed various negative features as representations of locality and Hungarian culture in the ECOC events. Respectively, 5.8 per cent of the respondents in the online data considered that Europeanness should be represented in the events through a positive European atmosphere or mentality which were seen as including, for example, helpfulness, openness, hospitality or tolerance.

## Conclusions: nationalizing the European agenda

Even though the decisions on the ECOC program stress bringing to the fore the local, regional and European cultures, and highlighting the local culture as a part of a common European culture, the results of the questionnaire research indicate that the audience in Pécs considered the national culture more important and as an identity, which the ECOC events should focus on. Various scholars and evaluation reports of the ECOCs have indicated that the ‘European dimension’ or Europeanness cannot be perceived in the contents of the ECOC events. However, the questionnaire research in Pécs indicates that the audiences perceived Europeanness in the contents of the ECOC events. However, depending on the receiver the same cultural phenomena could be interpreted as local, regional, national, European or even global. In general, the national culture, locality and Europeanness were perceived as profoundly positive entities and important ones to represent in the ECOC events.

The national emphasis in the reception of the ECOC events in Pécs contrasted with the main aims of the EU for the ECOC program. The national emphasis can be interpreted in the context of the current political climate in Hungary, and even more in general in Europe. Debates on nationalism were very timely in Hungary during the research period because of the parliament election in the spring 2010. The election was preceded by active political campaigns in which right wing parties with their conservative and nationalistic rhetoric received strong media attention. The tension caused by the election and the victory of the right wing parties was also reflected in the reception of the ECOC events in Pécs: political points of view and nationalistic rhetoric were present in several responses to the questionnaire.

In addition, the reception of the ECOC events in Pécs can be interpreted in a context of wider local and national political strivings which are intertwined with the ECOC program. The ECOC program creates political dynamics between applying cities in the host country. In Hungary, as in many other EU Member States, the major cultural life is concentrated in the capital. The competition for the role of the ‘second important city’ is often between several cities much smaller in terms of population, cultural infrastructure and cultural budgets. The ECOC nomination is a concrete mean to gain credibility in the competition. These dynamics may have an effect on the reception of the ECOC events. Thus, the responses which stressed local culture and the city as a representative of the country and its culture can be interpreted in the contexts of stressing the importance of Pécs in the national hierarchy of cities.

During the past decades, various scholars, such as Zygmunt Bauman (1992), have argued that the phenomena discussed under the concepts of ‘post-modern’ and ‘globalization’ will diminish the significance of nationality as an identity marker. The nation-states have been predicted to lose their previous position as producers and maintainers of identities, while nationality has been believed to increase its meaning as a private project of individuals among other private identity projects (Bauman, 1990, p. 167). At the same time other cultural ties, above and beneath the nation-state level, such as religious and ethnic identities, regional strivings, and global and supranational projects, such as the EU, have been predicted to strengthen (McCormick, 2010). On the other hand, several scholars have stressed how nationalism and national identity will maintain its significance despite of the change in the society under the pressure of global and postmodern influences (Smith, 1995, pp. 2–6, Wimmer & Glick Schiller, 2002, pp. 322–424). Global trends and macro-level cultural projects, such as the construction of Europeanness in the EU policy, generate both cultural pluralism and homogenization of cultures. Both processes may cause feelings of insecurity and lack of control, which drives people to reach for sustainability and security through traditional communities, such as nationality, regionality, or locality (Hall, 2008).

National culture and identity is still a significant category with which people identify themselves more easily than with the abstract and multifaceted category of Europeanness. The research indicates that even though the ECOC program is an EU policy instrument aiming to produce integration on the European level and create a common European identity, the fundamental meaning of the program among the audiences can still be strengthening the cultural and social communality on the national level, and uplifting the self-esteem of cultural consumers as citizens of a nation.

The implementation and impacts of the ECOC program has often been researched by analyzing one particular case city (which often is the home city of the scholars). Comparative studies are few in numbers and they are usually based on an analysis of “factual information” gathered from the past ECOCs (see Palmer, 2004a; Myerscough, 1994). Long-term studies on the impacts of the ECOC programs are even fewer. Will the projects, networks, contacts, practices, experiences, and motivation to cooperate and innovate obtained during the ECOC year carry on to the future? These questions present challenges for long-term research projects. The impact of the ECOC program to the identification of the audiences and local citizens has not been much of an interest to the academia. Besides the economical, administrative, political, and institutional impacts, the ECOC program has, however, various effects on individual notions and private experiences, such as on the identification of people on the local,

regional, national, and European levels. A long-term analysis of the impacts of the ECOC program on the changing identities of the audiences and citizens, and a comparative study of these impacts among different ECOCs, form a challenging starting point for further research.

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# The Emerging Polish–German Borderland: The Past and the Present <sup>1</sup>

Paweł Ładykowski

Department of Ethnology and  
Cultural Anthropology,  
University of Szczecin  
Krakowska 71–79,  
Szczecin 71-017, Poland  
e-mail: ladykowski@yahoo.pl

**Abstract:** *The aim of this text is to outline the ongoing process of the changing relations between neighbours in the emerging German–Polish borderland. The basic impulses which in recent years have caused the process of local ethnic migration are—as it seems—the effects of a socio-political transformation on both sides of the border, a response to which was a need to improve personal economic conditions. Existing shortages of goods and services in the neighbouring markets enforce local cross-border traffic and, in extreme cases, decisions to change the place of residence. The process of resettlement and the related intensity of the ‘daily migration’ (commuting or travelling from home to work) has its historical precedent. The Polish–German borderland formula seemed to have been reconstructing itself in the following periods: since the end of the Second World War until 1947, in the 1960s (on a small scale), until the period between 1 January 1972 and 20 October 1980 (when the development of Polish and East-German contacts was the most dynamic). Economic differences which manifest themselves, for example, in objectively existing deficiencies of certain products and services on the market are noticed faster by the neighbouring communities, and more efficiently compensated by them by means of migration. This type of migration is the first step towards a permanent change of the local social and ethnic structure, as it can be witnessed now by residents of Szczecin and its environs.*

**Keywords:** *German–Polish borderland, local social and ethnic structure, migration*

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<sup>1</sup> This text is a form of recapitulation of the experience gained from the research conducted jointly with Dr. Łukasz Kaczmarek, and a group of students of Department of Ethnology and Cultural Anthropology at the University of Szczecin under the project ‘The Renaissance of the German–Polish border in the East German district of Uecker-Randow’. The article also contains references to our joint public presentations that have taken place at numerous anthropological and multidisciplinary conferences, both in Poland and Germany.

## Introduction

The process of creating a German–Polish borderland in the area immediately adjacent to the agglomeration of Szczecin is of an unprecedented nature. In particular, three East German border districts—Uecker-Randow, Ostvorpommern, and Ueckermark—have become a particularly attractive destination for Poles looking for a new abode. It seems not accidental that it is precisely in this area where the most dynamic linking of the Polish and the German reality takes place in the borderland model. However, it should be noted that despite its numerous historical references the phenomenon has never occurred in this area. Thus when writing about the borderland ‘reconstruction’ I mean the phenomenon itself and not its particular place. Therefore, in describing and analysing the complex phenomena accompanying the formation of the borderland two facts should be considered: *reconstruction* in the collective consciousness of the concept of *historical borderland* and the *creation of a borderland in a new place, which lacks the historical precedent of ethnic contact*. This distinction is necessary since it highlights the uniqueness of the phenomenon, for which it is difficult to find parallels in Polish history. However, it should also be noted that the borderland will be analysed here not only in relation to a specific location on a map, but also in reference to many phenomena of a temporary character. I am referring here to the phenomenon of intensified private Polish–German contacts within the border area, resulting not in physically sharing residence but only in a temporary stay in the neighbour’s area. The high frequency of personal contacts created an environment conducive to picturing the possibility of a borderland, creating the Polish-German borderlands in a mental sphere, so to speak. It was a kind of borderland of nomads: private “expeditions” beyond the neighbourhood border reminded of the practices of nomads who by staying temporarily in the territory of its neighbours were acquiring an intuitive and unconscious borderland competence.<sup>2</sup> They understood and accepted the different culture of the neighbouring communities. Although they always returned to their homes, it is through these short periods of life—spent in a foreign culture and language—that they became, willingly or not, borderland inhabitants. Referring to Benedict Anderson (1991) one would have thought that it was an imagined community which appeared only when its members moved freely within the Polish and

<sup>2</sup> This prompts the association with a traditional way of living of the Roma community, whose nomadic lifestyle on the one hand necessitated a territoriality, on the other consolidated this wandering group. Hence the territory itself is less important than the constantly moving community, within which a specific system of relations is created. Thus the borderland community is ‘born’ in the imaginary area of a border (cf. Nowicka, 2007, pp. 235–248).

German borderlands.<sup>3</sup> Through these contacts, neighbouring Poles and Germans could begin the process of altering a negative mutual otherness. Therefore the daily life ruled out the government demand presented in April 1947: “[...] from our point of view it must be accepted that the new frontier should profoundly divide the two countries and two nations and the border awareness must be imprinted in the minds of the German population” (Kochanowski, 2008, p. 42).

## Concepts

In order to navigate fairly precisely in the maze of phenomena and their notions, it is worth organising and defining the scope of the concepts used for this purpose. The issues concerning borderlands belong to the canons of anthropological interest, hence the multitude of analytical concepts and definitions. Considering borderlands the very notion of the border should be clarified. It is indeed used very often

*in our daily discourse when we talk about the limits of time, patience, endurance, good taste, as well as the limitations, such as individual rights, freedom of expression, movement. [...] [But what is considered first of all – addition by the author] is the border in territorial and spatial sense, but also ethnic and national. The link is not a coincidence, since a significant part of the modern world political history is determining the country borders, often understood in national terms. According to the European tradition, understanding of borders has become a paradigm for all the lands except for Antarctica. Thus when discussing the border, it is this specific, political dimension that we have in mind in the first place. (Buchowski, 2004, p. 7)<sup>4</sup>*

The wide range of terms relating to the concept of ‘border’ demands from us a knowledge of the concepts. In anthropology, it is important to know the nuances, their contexts and meanings hidden in such terms as

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<sup>3</sup> “[...] we can refer to borderlands in non-territorial, psychological or cultural-symbolic sense, where the social space in which the ethnic-cultural groups encounter is not necessarily linked to the historical areas of residence of these communities, as the boundaries and borderline between groups are often symbolic. [...] Considering this issue from a broad anthropological perspective that allows [us] to call it simply a way of life of people, we can then discuss the border as the symbolic space for inter-cultural contacts.” (Rusek, 2010, p. 161)

<sup>4</sup> Citations hereinafter translated by Macieja Małyszko.

[...] 'limit', 'border', 'boundary', 'frontier'. Typically, 'boundary' should be a line, while the 'border'—the zone around this line [...]. It's possible [...] to make a distinction between a boundary, a border and a borderland. The first category, borderline, the equivalent of [...] 'boundary', and so the political line designated in the field, in fact invisible, though tangible through natural signs and symbols. The notion of 'border' would indicate the zone around the boundary. It spreads over the area in which the presence of a demarcation line has a direct impact on the daily economy, social and cultural relations of the residents living in the border areas. Borderland would mean a wider area than the border area, and would include the long-term phenomena characteristic of such zones, as for instance bilingualism, intermingling of cultures, in this case understood as ethnic or national cultures, adoption of customs. (Buchowski, 2004, p. 9)

This understanding of borderland in my analysis is just a point of departure. The currently emerging German–Polish borderland is based on rather different grounds than the one cited above. Borderland is thus interpreted here not only as a unique geographical area inhabited by 'different' people but as a place of intensified activities of its inhabitants. Also, the analysed cross-border exchange of goods in shortage will be one of the elements which at different times of the Polish–German neighbourhood contributed to the phenomenon of borderland. A special feature of this space is the ability to quickly recognise the niche (which can be filled up only in cooperation with the neighbour from behind the near border), possessed by the inhabitants on both sides of the border. Strategies chosen for that purpose by local communities create a real network forming a modern space of the Polish–German borderland. The sum of all the activities undertaken by the local communities and their spontaneous leaders forms an appropriate borderland space.<sup>5</sup>

The people who live in the borderlands, creating on a daily basis their types, models and variants, constitute a leading object of this anthropological reflection. From the perspective of the discipline, people populating the borderland are a new reality, which is not the same as in other larger homogeneous areas. As noted by Michał Buchowski:

<sup>5</sup> According to Halina Rusek, in the ongoing globalisation process, “[b]orders are becoming more open—some more, some less, which makes the daily crossing of the residents of borderland regions a characteristic feature of such regions. Especially the younger generation consider a search for a job, a flat or business partners on the other side of the border as natural. Marriages of mixed ethnicity or nationality also no longer raise objections.” (Rusek, 2010, p. 170)

*communities living near the border and in the borderland—if only they are not ethnic minorities—speak the same language, share a number of customs and everyday practices with their kinsmen from the inner parts of the country, which they identify with and consider their own. So we can say that in this sense, they do not differ in any special aspect. However, their personality is determined by several characteristics, which cannot be found in the centre, the conditions that elsewhere do not appear. It is a relationship which lies in the periphery of their own area, while in contact with the adjacent area. It is also the cultural dynamics resulting from interactions at the border and in borderland. (Buchowski, 2004, p. 9)*

Hence, the borderland inhabitants always possess some features of diversity. This diversity can be often perceived as a mixture of characteristics of two or more national cultures, religions, languages and races. Therefore, the borderland as a specific laboratory is so desired by ethnologists' area of research. For it is a place

*where culture is above formal political divisions, creating a zone different from other areas. Although we may say that the whole world is a system of osmotic cultures (and it is particularly striking in the era of transnationalism and multiculturalism); however, borders form very specific areas and this of their features, next to very likely tensions reinforced by nationalisms, makes them of particular interest. (Buchowski, 2004, p. 9)*

Another tool helpful in the analysis of phenomena accompanying the formation of the discussed borderland is the concept of transnationalism. Its appearance is associated with noticeable anachronism of already existing theories that do not keep up with the new forms of social phenomena. As Izabela Kołbon (2006) writes,

*existing categories of research, making a clear distinction between those who migrate and those who remain in their homeland, do not describe adequately the observed social reality. It revealed an urgent demand to develop a new analytical tool that would help formulate a theoretical framework for experiences of immigrants living as if in two communities at the same time. (Kołbon, 2006, p. 204)*

Elsa Chaney (1979), Linda Basch, Nina Glick Schiller and Cristina Szanton Blanc (1994) have drawn attention to the social process, during which migrants create a social space that exceeds geographical, political, and cultural limits. This observation led to the formulation of 'transnationalism', defined as

*processes by which immigrants forge and sustain multi-stranded social relations that link together their societies of origin and settlement.[...] Transmigrants take actions, make decisions, and develop subjectivities and identities embedded in networks of relationships that connect them simultaneously to two or more nation-states. (Basch et al., 1994, p. 7)*

The formula that includes transmigrants seems to be fairly flexible and thus extremely broad and at the same time accurate in describing both the phenomenon of the emerging borderland as well as a human type that is being ‘modelled’ in its space. Moreover, it seems that the phenomenon of globalisation only increases the attractiveness of the transnationalism paradigm. For, as Halina Rusek says,

*In borderlands a new type—the ‘third’ culture—is formed in the process of continuous inter-cultural and multi-ethnic contact, and it is a conglomeration of cultural patterns on both sides of the border. These cultures absorb ‘foreign’ elements, adapting them to their own and restructure as a result of absorption of new elements. This leads to the formation of syncretic cultural patterns [...]. (Rusek, 2010, p. 163)*

Thus the construction of identity of the ‘new borderland people’ differs from the one used previously in history. Transmigrants can in fact be

*those among them who maintain close ties with relatives and friends living in the country, as well as those who invest there, or take action to influence the political situation in their homeland. Transmigrant is the one who in the country of settlement scrupulously fulfils obligations arising from his or her religious beliefs, the beliefs which are an important part of his habitus as developed in the country of origin. [...] Immigrants through practices that can be described as a transnational associated with various spheres of social life create the so-called transnational social space. This ‘transnational social space’ is created also by non-immigrants and all those who are somehow suspended in the network of these relationships and activities. (Kolbon, 2006, pp. 205–207)*

The emerging Polish–German borderland will be interpreted here as a transnational social space characterised by “phenomena associated with the continual movement, diversity, ambiguity and blurred borders of the identification” (Kolbon, 2006, p. 207). In conjunction with the previously cited and discussed notions of border, borderland and imaginary community, it will constitute a theoretical framework for this discussion.

## **Postwar Polish and East-German reality**

The decision to demarcate a brand-new line of the Polish–German border, arrived at the Potsdam Conference, sealed the fate of both Poles and Germans. Above all, it concerned those Poles who lived in the so-called eastern borderland of the Second Polish Republic, and those Germans who lived in the former eastern territories of the Reich. From this moment on, that is since 1945, in the light of the international arrangements, the Polish State has become the host of Silesia, Lubusz Land, Pomerania, Warmia and Masuria. The meridional line of two rivers, the Lusatian Neisse and the Oder, began to mark the Western Polish border. Since then, in Polish propaganda of that period, the Polish ‘Regained Territories’ designated the newly connected territories. This concept was to justify the reinstatement of the Polish State in former German territories and explain the forced migration of nations (Poles and Germans) from the east to the west.

Of course, the date of the Potsdam agreements does not determine the beginning of the migration of Poles and Germans. It must not be forgotten that a large population of people living in the war zones and the occupied countries were banished from their historic habitats when the war started. The Potsdam Agreement only started the last chapter of the drama of forced expulsions, which after all was going on continuously since September 1939. This constant migration, insecurity, lack of “anchorage” in stable government (at any level) meant that the new settlers arriving from the Eastern Polish borderland at the Western Territories lived in a constant sense of temporality.<sup>6</sup> The phenomenon of migration became a special feature of their way of living, which as a result strongly determined the perception of space, that is, their attitude to a new place of residence. The new Western Territories presented in the diaries of the immigrants as well as the archival government documentation regarding that period clearly show this was the area of concern subjected to colonisation by people who, being so uncertain of their future, led a nomadic lifestyle. They considered the new places of residence in the former German villages, towns and cities only as the next stop on an endless journey. Often the situation forced

<sup>6</sup> “C.O.: It was a great cultural mosaic: immigrants from beyond the Bug River and central Poland, repatriates, local natives and—since 1947—a group of 150 thousand Ukrainians from the Operation Vistula. W.S.: I think this is the determining factor of what happened in the Western and Northern lands. First of all, there was a radical change in conditions, hence in the whole context. [...] The new processes began—which were absolutely not predicable—associated with the formation of the new society and benefiting from the old patterns, preserving a certain historical memory enriched with new elements which were passed from other groups. The process of creating a new society effected in what we could have observed in the 80s.” (Polak, 2005, p. 20)

them to share a house, an apartment with the Germans, who had not yet been able to repatriate to Germany. All these experiences during the first several years after the war strongly influenced the attitudes of the newly settled residents. The predominant temporary state then constituted part of everyday life and it left a strong imprint on the Polish settlers and the first generations born in the lands already joined to Poland. It was perfectly captured by Maciej Malicki and Tadeusz Żychniewicz, two journalists from Kraków who in 1957 went on a tour of the Western Lands. Their tour resulted in three articles written in a form of a diary published by the Krakowian *Tygodnik Powszechny* ('The General Weekly'). These can now be regarded as complementary historical material, very helpful in understanding the previous (but also contemporary) migration phenomena in the emerging Polish–German borderland. The observations and reflections noted in the articles demonstrate the erstwhile ignorance of the Polish society regarding the former German areas.

*While our assumption is that it is the “Zgorzelec–Szczecin line material, as near the border as possible” but this section has to provide us with some conclusions to generalise the whole Western Territories, so that we cannot travel to Zgorzelec with our eyes closed. From the west it is straightforward; the edge sets the state boundary. But from the east? For instance, no one would think of classifying Gliwice, Bytom or Zabrze as part of the Western Lands. Similarly, Wrocław and Szczecin are some specific enclaves in the mind of an average Pole, “equally ranked” with other voivodeship cities. However, Opole, Jelenia Góra, Koszalin are “as if” somewhat different. There is a different perspective on the Western Lands adjacent to our former Polish border and those situated by the Oder River. (Malicki & Żychniewicz, 1957)*

Since it was not clear for the Krakowian intellectuals where the Western Territories begin, it could not be clear for an average Polish citizen either. This certain lack of familiarity<sup>7</sup> with the new territorial acquisitions and toponymy in social consciousness, that can be observed twelve years after the war, will last for decades. The project of confluence of Poland in a coherent body

<sup>7</sup> “The characteristic feature of a society forming there was a widespread sense of insecurity experienced by newcomers, including uncertainty about the near future, also with the eventuality of another global conflict. Soon after, the Cold War began. The feeling of temporariness remained. Another issue was the construction and reconstruction of the economic infrastructure by the consecutive socialist economic plans. And, finally, the state policy towards the newly formed society, which was initially highly atomised. People who arrived here were really very different, uprooted.” (Polak, 2005, p. 20)

combining all of the lands was experienced not just by the first but by several generations of settlers. The Western Lands area, officially called in propaganda the ‘Recovered Territories’, was, by far, different from the rest of the Polish state. The place was in constant motion as masses of people continuously sought for new places to settle in. By necessity, nomadism has become the lifestyle of millions of people, and this had consequences in the lack of roots and utilitarian treatment of goods entrusted to these people.<sup>8</sup> The Polish administration only partially prevailed on these phenomena, therefore the term ‘Regained Land’ quickly gave way to another—‘the Wild West’ (*Dziki Zachód*). It was a feeling of both freedom and conscious impunity. Sparsely populated territories in the west suffered from demographic collapse, which, in turn, prevented the normal inclusion in the economic system of the country, unifying after the turmoil of war. The proverbial “wildness” reflected the nature of the relationship and the accompanying emotions among people migrating there. ‘The Wild West’ was a place where “civilisation” (understood here as a state with its numerous prerogatives based on law) returned with high resistance. The factors that hindered the objective ordering of the land inherited from the German state were: a prevailing continuous migratory movement to the Western Territories and back to central Poland (the so-called looting), the still remaining relatively large German population<sup>9</sup> and—something that was to play a major role in the future—the line of the newly drawn Polish–German border.

<sup>8</sup> “B.P.: When considering the cultural differences or civilisation, it is also a problem of aesthetics, views of completely different cities, churches. If someone arrives with the historical memory of the family home, which was made of wood, stood in the middle of an orchard, had whitewashed walls, and is here to live in damp old post-German house, it was a shock. [...] C.O.: But the basic differences resulted from the centuries-old affiliation of the area with the German state. It was consistent with the German spirit in every aspect—infrastructure, buildings, equipment space, roads and material culture. It consisted of the specificity of the area. Even the administrative division of the Recovered Territories retained after the war was quite different from the rest of Poland. Adding to that a huge number of Polish and Soviet troops. [...] And also the vast multitude of post-German property, everywhere—post-German cemeteries, post-German factories. W.S.: The overwhelming feeling that you are not at home.” (Polak, 2005, p. 21)

<sup>9</sup> Report on the situation in the Western Lands (from 15 May to 15 June 1945) contained in a document from the AAN, the Government Delegate to the RP, 202/III/36, k. 151-210, Part E - k. 205-210: “[...] V. Recent information from the Western Pomerania [...] The present state of the Polish–German population is as follows (due to the lack of statistical data a rough percentage is presented): in the borderland districts in the belt between the West and the Silesia voivodeship there is 30 per cent of Poles, 70 per cent of Germans, in a belt from the Baltic to the Poznań voivodeship 20 per cent of Poles, 80 per cent of Germans and Silesian belt 15 per cent of Poles and 85 per cent of Germans. In various cities, according to data roughly quantified, there are 40,000 Germans and 1,500 Poles in Szczecin; 20,000 Germans and 3,000 Poles in Gorzów (Landsberg);

## The Polish–German borderland in Poland

The process of formation of a new Polish–German border caused many misunderstandings in the mutual relations, on the grounds of the radically different expectations of either party. The German side had to reverse the unfavourable trend resulting in an irretrievable loss of the lands on the east of the Oder River and the Lusatian Neisse (see Kochanowski, 2008, pp. 31–32), while the Poles postulated determination to cross that line to the west (see Kochanowski, 2008, p. 35), suggesting that not only Szczecin but also Rügen are needed to defend the country (see Kochanowski, 2008, p. 34). The Polish dream that both sides of the Oder were in the territory of the Polish state, remained a sensitive issue in relations with the USSR and East Germany for a long time. Immediately after the Potsdam Conference, the Polish Foreign Ministry tried to negotiate a new course of the border line so that the Szczecin Lagoon as a whole would come into the possession of Poland, and even demanded the Oder, “The whole of the Oder River, with all its three delta beds, must be in the hands of one state, and that is Poland.” (Kochanowski, 2008, p. 36) Poland also endeavoured to introduce the public opinion of the world their expectations, as reflected in the directives sent to the Polish delegation at the session of the UN in New York in mid-November 1946: “Not leaving the Oder River in the hands of one [...] will spark constant disputes in Europe and border conflicts.” The whole island of Usedom and Szczecin Lagoon were claimed together with the complete and exclusive possession of the Oder River with all its ports and devices (usually located on its west bank). An effective military defence of the Oder–Neisse line, to prevent surprise attacks, could be provided by the extension of the approaches to the area of Świnoujście, Szczecin, Frankfurt, Görlitz and Gubin. In case of the latter cities it was tantamount to the re-unification—this time within the Republic of Poland. Considering the divided cities, pragmatic and economic arguments were presented—both industry and the most important components of urban infrastructure remained on the German side (Kochanowski, 2008, pp. 38–39).

However, despite the Polish demands, the border was finally set on the Lusatian Neisse and the Oder (excluding the area of Szczecin, Szczecin Lagoon and the

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2,000 Germans and 1,500 Poles in Skwierzyn (Schwerin); 10,000 Germans and 2,000 Poles in Legnica; 25,000 Germans and 1,800 Poles(?) in Wrocław; 2,000 Germans and 800 Poles in Świebodzin; 1,500 Germans and 400 Poles in Gryfino; 1,800 Germans and 600 Poles in Zagórze. Figures for other towns for the time being are not recognised. It follows that the Poles are in the overwhelming minority.” (Pietrowicz, 2005, p. 125)

Western outskirts of Świnoujście on the Usedom Island<sup>10</sup>). The border set on the river, which was clearly dividing the two reluctant nations, became—probably contrary to the intentions of its creators—a place of the forced (by objective factors) German–Polish relations, first after the war. The Polish concerns that the suburbs of cities like Guben, Frankfurt, Görlitz, remaining in Poland, on the east bank of the Oder and the Lusatian Neisse would be cut off from its own infrastructure became a reality. The less urbanised and economically struggling eastern parts of these Polish cities have lost their ability to exist independently. To remedy this problem, people (leaving aside war animosities) spontaneously began establishing relationships with the local residents living on the other side of the river. The interest turned out to be mutual as very often the part of the urban infrastructure essential for the functioning of the city was on the Polish side. Germany faced a similar problem—namely, the necessity to cooperate with the Poles. Only a coordinated Polish–German cross-border cooperation would be capable of stopping people in the Polish and German borderlands.

It should also be noted that the atmosphere of expectation, the suspension and uncertainty accompanied the wandering people on both sides of the border river. The ‘nomadic’ experience was also characteristic of German refugees.<sup>11</sup> The German refugees were waiting for the signal to return safely to their family homes located on the east of the Oder–Lusatian Neisse:

*Despite the devastation, unemployment, housing shortages, terrible supplies situation, a significant proportion of the exiles wished to remain as close to the new border as possible, believing—as reported in February 1946 in Guben—that “one fine day they will cross the*

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<sup>10</sup> For contemporary implications of the failure to retain the borderline on the river Oder near Szczecin see below in the text.

<sup>11</sup> “The fact that the exiles were a serious problem for the Soviet Occupation Zone [SBZ: *Sowjetische Besatzungszone* - ed. MM] and later the German Democratic Republic, is confirmed by figures. In the years 1949–1950 in the SBZ / GDR area there were about 4.5 million expellees, while in the much larger West Germany (the Federal Republic of Germany) there were just under 8 million. The concept of ‘expellees’ also implied that these people were hurt and might hope to return to their homes. Thus expellees were named ‘the displaced’, later also ‘new citizens’ (*Neubürger*) to shatter any hope for a return to the former eastern territories of Germany. Such action, however, could not resolve the problem of integration of this group with the rest of the society. Determining final decisions to leave the exiles within the young GDR became the following: signing the border treaty in Görlitz in 1950, land reform by which many expellees were allocated their own land, and pacified uprising of 17 June 1953, during which the issue of revision of the eastern border of Germany was also raised.” (Urban, 2009, p. 43)

*Neisse again". It was hoped that this will happen not later than after the peace conference. For this reason, some refugees did not take any steps into settlement, remaining in passive expectation (Kochanowski, 2008, p. 31).*

However, the state of temporariness was stalled indefinitely:

*At the end of 1947, the German exiles now living along the left bank of the Oder and the Neisse increasingly kept losing hope for return, while allowing for the possibility to move more Poles to the west. In January 1948, many rumours (as, for example, that the Poles would take over the station in Guben) were so common that many German families left the border region. They were not far from unfounded fears. In Poland, the public demanded significant revisions of the border and even moving it further to the west. (Kochanowski, 2008, p. 34)*

The overcrowded German border areas and the abandoned Polish "Wild West"<sup>12</sup> required immediate action, which would help to restore normal life in the cities across the river. The border was not an impassable barrier, and, despite some obvious signs from the new Polish authority, it was possible to cross it without major problems. Both nations benefited from the fact, but especially the Germans who sought part-time jobs allowing survival.<sup>13</sup> Also, the food supply on the Polish side was significantly better. The whole industry left behind on the east of the Oder required not only a host, but also qualified and skilled workers, who could competently manage and operate the infrastructure. Power plants, sewage treatment plants, drinking water supply pumps, and other facilities had to be operated by German specialists. The appearance of the Germans on the Polish side of the border became a visible sign of the borderland model in the area already subject to the Polish jurisdiction. The local markets and the prevailing inequalities forced (initially against the intentions of the Polish Government) the movements of Germans onto the Polish part. The main factor that contributed to the process of creating a border was above all the already mentioned difference in

<sup>12</sup> "The population of borderland counties on the Polish side for many years constituted only a small part of their former state. For example, in Gubin there lived about 3,500 people in December 1945, in March 1948 their number was 4,940, in August 1949—just over 5,000 people (that was one fifth of the city's capacity). Meanwhile, on the other side of the river, overcrowding (and unemployment) was the state as permanent as the Polish depopulation and chronic lack of manpower." (Kochanowski, 2008, pp. 42–43)

<sup>13</sup> "As late as in 1947, half of the over 1,000 miners in the coal mine Turow would come from Germany every day." (Kochanowski, 2008, p. 43)

demographics expressed in overcrowding on the German side and a catastrophic void on the Polish rail stops. The consequence of overcrowding on the German side was a rapid growth of unemployment and the gradual impoverishment of the already afflicted German refugees, also the spectre of starvation. The shortage of people to work on the Polish side and the relatively stable food supply were, for them, rather attractive factors.<sup>14</sup> However, the Germans still migrated to the west, and the Polish authorities initially tried to stop the professionals needed to maintain the industry with some administrative regulations:

*it was decided to keep or turn back, where it was possible, the number of circa 250 German experts necessary for the functioning of industrial plants. The Germans, however, were afraid to dwell on the Polish side, which at the beginning of July 1945, made the Polish authorities in Zgorzelec to force “the party workers to cross daily the border bridge to each individual plant”.* (Kochanowski, 2008, p. 42)

Historical materials confirm that this was an important moment which started a new type of operation within border areas. It was based on being in constant motion. The border had to be crossed on a daily basis, sometimes a few times a day so that both communities could function normally. The itinerant model of functioning in the close distance to the border necessitated the establishment of numerous inter-ethnic interactions. The awareness of the necessity of everyday contact with representatives of another nation was then a natural state, and it was accepted by both the Germans and the Poles. In this relatively small area (mainly in the divided city), the borderland model was being reconstructed every day. A mutually negatively assessed ‘alienation’ was gradually blunting and being replaced with ‘a homely presence’. As previously mentioned, the primary reason for establishing a relationship of borderland type were disparities in access to goods and services and mitigating and periodic levelling were only possible with the involvement of constantly moving groups. The group that became to serve as a “flywheel” in the creation of borderland was the desperate German community. Contrary to the intentions of the creators of great politics, both the

<sup>14</sup> Kochanowski also confirms: “Therefore, taking over the eastern parts of the towns by the Poles prompted the need for a close cooperation with the Germans and finding a reasonable consensus and ensuring smooth operation. Also, a certain Polish–German agreement was being formed here. [...] Apart from the ‘divided’ urban infrastructure, mentioned above, commissioning and maintenance of its own facilities or factories required professional workforce. It could be only the Germans, the locals, or workers brought on a daily basis from abroad. In Zgorzelec in early June 1945, it was proposed that German specialists settled there.” (Kochanowski, 2008, p. 42)

place and the way the new demarcation of the boundary not only failed to block the possibility of contacts between Poles and Germans, but also provided a strong incentive to develop the Polish–German borderland on the lands granted to Poland. It should not be forgotten that this borderline was different from the common Polish-German heritage, known previously, recorded and fostered throughout centuries; also, the post-war reality was radically different. After all, there prevailed a strong mutual resentment, prejudice, fear, hatred; however, as it turned out, they did not constitute a sufficiently strong barrier to socialisation. Both ethnic communities, closely cooperating with each other, gave each other a chance to survive together.<sup>15</sup> Although the borderland was being created “out of convenience” rather than “out of love”, it should be noted that at the same time the first Polish–German relationships, both formal and informal, started to appear.

Over several years, from 1948 onwards, the existence of the Polish–German borderland became gradually reduced by the Polish side. The decisive dismantling of the borderland occurred at the signing of the border treaty with the German Democratic Republic, which was founded in 1949 after the transformation of the Soviet Occupation Zone.

### **Emptiness at the dismantled borderland in the “Wild West”**

Closing of the border in 1950 was associated directly with the liquidation of the Polish–German borderland. The border rivers became natural barriers, which both physically and in the collective imagination began to form a “border wall”:

*At the time when the GDR was formed, the border on the Oder and the Neisse rivers was already practically “dysfunctional” and so it remained until January 1972, with infrequent artificial ‘reanimation’, usually on the occasion of state or party celebration. Ironically, since there was no agreement on the local border traffic, the delegations of*

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<sup>15</sup> “Somewhere in the middle there were those who came to live along the new border. They were just as afflicted by the war, hated the Germans, but living near the border, particularly in the divided cities—Ślubice, Gubin, Zgorzelec, which were dependent on others across the border in Frankfurt, Guben, Görlitz—had to coexist with the Germans, finding a possible *modus vivendi*. There is no doubt that the border on the Oder and the Neisse in 1945–1949 was more natural and vivid than later, during the declared ‘brotherhood’, an already interstate friendship. Since a considerable proportion of the population were Polish exiles, this fact must have influenced the perception of Germans in the border region. On the one hand they could understand the Germans who had to leave, but on the other—they themselves did not have anywhere else to go.” (Kochanowski, 2008, p. 14)

*the local party, youth or union organisations, were forced to meet in the middle of the border bridges.* (Kochanowski, 2008, p. 48)

The absence of a functioning borderland, which would regulate in the years 1945–1948/50 the circulation and exchange of goods and services to the mutual benefit of its Polish and German population, led to the collapse of the entire socio-economic infrastructures on the Polish side of the border. The image of overwhelming emptiness of these lands, contrasting with the problems of overcrowding in the central parts of the country was thoroughly documented<sup>16</sup> in the weekly newspaper *Tygodnik Powszechny* in 1957. It was possible to notice that the borderland people became part of two different worlds. On the German side, the space was subject to systematic renewal to quickly cover up and fill out the consequences of the war destructions, whereas on the Polish side there was no desire, no idea or no motivation to take similar action. The post-war emptiness of the Wild West still remained void. People still led a nomadic way of life, uncertain of the future, moving from place to place within the Western Lands. The state of constant instability and uncertainty of the future accompanied all the Polish newcomers to these lands from after the war until the mid-1970s, even though the state authority continued to proclaim the success of the unification of all the Piast lands within safe lands of the People's Republic of Poland and a new friendship with the western neighbour, the GDR. This friendship was meant to be maintained by the “bridges of friendship” across the border river, the site of occasional propaganda celebrations. These “bridges of friendship” were to suggest the public opinion that there was an area of borderland cooperation that was safely channelled through these traffic arteries hanging over the rivers. However, the borderland reality when viewed in detail, completely denied the image drawn by the officials. It was disclosed to the public in a series of reports in *Tygodnik Powszechny* in 1957, sent directly from the “Wild West”. The deconstruction of the imaginary happy reality of the Western Lands presented in the texts was confronted both with the rest of the country and neighbouring East Germany:

*Zgorzelec became famous for practising the Polish–German friendship. [...] The central object in Zgorzelec—and of course the subject of our special interest—is this famous bridge over the*

<sup>16</sup> ‘Here is how the Krakow reporters traversing the Western Lands in 1957 presented the situation there: “Where there is work—there is no housing. And where there is housing—there is no work.” It is probably true. But finding the solutions to these anomalies is not impossible. We have seen on the way a lot of empty, unoccupied houses. And we remember the hopeless crowd in the Krakow job office.’ (Malicki & Żychiewicz, 1957)

*Lusatian Neisse, honoured so many times with the visits of all sorts of personages, from prime ministers, to cyclists of the Peace Race. The sight of the bridge completely surprised us. From the main street of a very short, steep descent to the left and— that’s it. We leave the car behind the corner and approach the border. Funny to admit—despite our identity cards and full legitimacy, we feel a little uncomfortable. The “taboo-ish” respect for the borderland area, so carefully instilled over the years, apparently has not quite disappeared. A WOP [Border Defence Army] soldier on duty stops us by raising his hand. We present him with our letter of credit and ask for permission to walk to the other side. When called, the second guard appears, a sergeant. He rigorously examines our documents, and then moves away to seek information in headquarters on the telephone before giving us the answer. We look at the opposite bank of the river. We see on the horizon a green city park, wide panorama along the banks, the majestic cathedral dominating the city. At the exit of the bridge a small crowd of people turned back to us. It seems that they are watching motorcycle racing. Is the bridge sometimes used for unofficial purposes, such as by tourists, or for family visits? No. Is it allowed to take pictures? No, of course not. The sentinel puts us off with monosyllables to answer our questions. The German guard moves away from his end of the bridge and slowly, mechanically approaches us. In one third of the distance he returns, and just as slowly he recedes. The middle part of the bridge, here “the no man’s land”, is violated by a human foot only on the occasion of the official celebrations. What are the Polish–German relations today? This question is in front of us when we look at the border. (Malicki & Żychiewicz, 1957)*

## **Restoration of a common German–Polish space**

In 1971, the local border traffic with an identification card was restored for the citizens of both the GDR and PRL, resulting in a real avalanche of visits on both sides of the border: “As a result of that decision in the years 1972–1979 over 100 million citizens of the People’s Republic and the Eastern Germany benefited from the tourist exchange, most of who decided mainly on short-term stays in the border regions and towns of the neighbouring country” (Osekowski, 2009, p. 148). The residents living in the close proximity to the border, which had been

closed until now, became special beneficiaries of the restored cross-border traffic. Borderland regions recorded a highest degree of tourist exploration visitors from the other bank of the bordering Oder and Neisse. Thanks to this the process of ‘domesticating the neighbourhood’ started again. Taking into consideration the consciousness of the inhabitants of the Western Lands of the temporariness of the Polish settlement and all the fears and resentment associated with the experience of war, contact with the newcomers from the East Germany proved to be the long-awaited safety valve. For the first time, the former German residents of these lands could meet up and begin to establish a dialogue with the Polish settlers.<sup>17</sup> Allowing the border traffic was not only for the purposes of propaganda, but it was soon filled with the private and purely personal relationships, though very often full of justified resentment.<sup>18</sup> The tourist border traffic from the sentimental journey of the Germans and the Polish desire to familiarise with the neighbour’s country very quickly turned into a project of purely economic nature, responding to demands created by specific shortages in local markets. The situation began to resemble that of the years 1945–1948/50: immediate defining of the niche markets in the supply of goods and services resulted in a growing grassroot cross-border import and export. While the state prevailed over the systemic regulation of employment, it turned out to be helpless in the field of local cross-border trade and movement of goods. When travelling to the neighbours’ country, people could evaluate by themselves the scale of the existing imbalances in the trade offer, and through

<sup>17</sup> Cf. “The opening of the border on 1<sup>st</sup> of January 1972 for a visa-free and passport-free travel was a great opportunity for the borderland, as it opened up the possibility of direct contacts and breaking the barriers. [...] Also, at this time the residents of the German borderland decided to undertake trips to their places of origin. My respondents highlight that the Poles living in their homes asked them each time, with fear in their voice, whether they wanted to return. The houses were mostly unkempt, dirty, and—what surprised them most—unchanged for many years. The Germans could find there not only the same furniture, but also cups standing in the same cupboard or reference books on the same shelves. After the ice is broken, the German respondents highlight Polish hospitality, which was often associated with excessive alcohol consumption. Some of the respondents pointed out that they did not go there ‘empty-handed’— they brought chocolate, and other things that were happily accepted by the Poles.” (Opilowska, 2009, p. 167)

<sup>18</sup> “After the border was opened, the Germans travelled directly to the villages to visit their family homes and apartments, which they were forced to leave after the war. Those were the so-called sentimental journeys. They also visited the cemeteries where they had buried their loved ones. What they saw caused sorrow and bitterness in most of them. Their former homes were generally unkempt and largely devastated, and the cemeteries overgrown with bushes and weeds. This situation negatively affected the relationship between the Poles and Germans, and caused new prejudices. Since the mid-1970s, the Polish authorities decided on the liquidation of the German cemeteries, which caused even greater resentment among the outraged former citizens of the so-called Recovered Territories.” (Osękowski, 2009, p. 150)

purchases complement the deficiencies in the domestic market, letting the goods onto the market; and the state did not have any control over its distribution and price. This meant, however, that understood in this sense, the “tourist traffic”, although it complemented deficiencies in the domestic market, was also clearly damaging to the neighbours’ market. For in planned economy, the quantity of goods in the market was shaped not by demand, but by the calculation of technocrats. The “tourist traffic” then exposed the failure of the socialist planned economy and showed the true extent of the consumption needs of the two neighbouring communities.<sup>19</sup> Thus,

*[a] shopping tourism was both a mechanism to compensate for shortages in the domestic market and to acquire items which were not offered locally as well as a kind of a manifestation of the market which was a relatively free play of supply and demand. [...] the market mechanisms developed impetuously, and the price difference between the two outlets (the famous “trump”) was one of the main motives for crossing the border. [This contributed to—addition by the author] the intensified cross-border exchange of goods and adjacent culture of consumption began to interpenetrate. (Mazurek, 2010, pp. 108–1/9)*

The communities located closest to the borderland areas became the first and main beneficiaries of the new developments of cross-border character,

*[t]he decision of the People’s Republic and the GDR authorities to open the border was particularly important for the people of the borderland and for further development of this area. The attractiveness of the border and borderland towns and villages increased immediately, there was an influx of highly qualified personnel, the economy, housing, culture and, above all, tourism revived. The borderland population was given an opportunity to use economic and cultural infrastructure of the cities on the neighbour’s side and a better supply of food and industrial products, due to the significant expansion of the commercial market. (Osękowski, 2009, pp. 148–149)*

It is worth noting that the frequency of visits to a neighbouring country (especially short overnight stays), restored in the minds of the local Polish community the natural presence of the Germans. Until then this reality would have been

<sup>19</sup> “A new phenomenon of this period in contacts between the borderland communities, except from the political sphere, predominant in previous years, was a growing substantial platform of contacts, including those of a private nature. It is worth noting that in the years 1972–1974 about 900 business units started collaborating in the borderlands.” (Osękowski, 2009, p. 156)

unthinkable. Again a kind of ‘imagined community’ began to reconstruct itself, in which two ethnic communities—the Poles and Germans—mix together on a daily basis. At the same time the conflicts of evaluation in this emerging common area, as in a “real” borderland, must not be ignored. They resulted from the different meanings of shortages that the mixing Poles and Germans experienced. If we assume that transboundary is not only a category of space, but rather a confrontation of cultural values, the question arises of how the cross-border distribution conflicts (i.e. conflicts regarding supplies) were different from those of native ones (Mazurek, 2010, p. 108). The tourist traffic of transboundary features described here emerged as a result a cultural conflict, which was based on a chronic problem of competition for access to goods:

*While in capitalist economies distribution conflicts were (and still are) based on the competition for jobs, causing waves of anti-immigrant and racist attitudes, then in socialist economies xenophobia was combined with competition for a limited pool of scarce goods (Mazurek, 2010, pp. 116–117).*

The unanticipated expense of the avalanche of market penetration by the Poles became the hostility of the East German population of the GDR.

## **Transboundary Szczecin in the emerging Polish–German borderland**

Contemporary Szczecin is a special city—located directly at the Polish–German border. It is the only urban centre which, although historically located on the west bank of the Oder, has belonged to Poland since 1945. Unlike the cities such as Frankfurt, Guben and Görlitz, Szczecin has entirely (and not just the right bank and eastern suburbs) belonged to Poland. It is so unusual—as is the “tradition” of the entire Polish-German border—that location is frequently a cause of surprise for visitors from other parts of the country. Incorporated after the war to Poland, Szczecin has undergone a strong process of domestication, further strengthened by the appropriate propaganda rhetoric. For the post-war generations of Poles, Szczecin entered the circulation of images as the proto-Slavic town and at the same time a Piast stronghold. Similarly, the propaganda treatment presenting Szczecin as a Polish seaport (it should be noted here that the distance from Szczecin to the Baltic Sea in a straight line is 65 km!) was encased in numerous maritime staffage, including the establishment of the Maritime College (now the Maritime University) and the organisation of the Days of the Sea, celebrated spectacularly since 1947 with no fail.

However, since 1989, when Poland underwent changes in the socio-political system, the role of Szczecin also started to change. Its peripheral location (being thus perceived as a provincial town from the perspective of the centre) began to be more appreciated. Since the Polish accession to the Schengen Area (2007) the areas of East Mecklenburg-Western Pomerania, North-East Brandenburg and the western areas of West Pomerania became the scene of the intensified formation process of the Polish–German borderland culture. Because of the close proximity to Szczecin, the areas located on the German side have become a place of exceptional settlement and economic activity infiltration of the Polish population. It is accompanied by a parallel phenomenon of the increasing activity of German citizens on the Polish (particularly Szczecin) labour market. Therefore Szczecin grows to the level of transnational labour market, which has an important role in relation to the whole area of the historical Pomerania (and not limited only to its Polish part). To some extent the consequence of its rapidly growing status is the continuously growing metropolitan area. The growth of the suburbs of Szczecin has a direct impact on the changing the ethnic composition directly behind the western border of the Polish state. Depopulating East German villages and towns adopt new residents who resettle in Szczecin and in its immediate environs, in search of more affordable places of residence. The Polish–German borderlands (which do not have here any historical prototype) is the result of not only the opening of the borders of the neighbouring countries, but mainly the economic space which very quickly found a convenient niche for the new residents.

It is worth noting that the new Polish–German borderland area, being the result of the local Polish migration, is spreading into the area which is ethnically German. This phenomenon reveals the demographic expansion of Szczecin, which slowly takes over more and more distant suburbs, regardless of their recent geopolitical position. In other words, with the Polish new owners of the formerly German property, who still maintain their jobs in Szczecin, the city is expanding its circle of influence. Thus, Szczecin, absorbing the currently emerging Polish–German borderland, is becoming a cross-border and transnational city.

An important complement to the description of this emerging borderland is the fact that the citizens of Szczecin settling there only rarely have any other than perfunctory, acceptable, and correct neighbourly relations with the German fellow-townsmen. The language barrier, the generation gaps, a specific style of life (work in Szczecin, accommodation in the East German village), and class differences arising from the place of origin (Polish town / German village), these all make the communication exceptionally difficult. Simultaneously, the economic advantage of Szczecin contributes to the strengthening of the economic status of the Polish language in this region, which is an unprecedented

phenomenon. The young Germans coming from these areas who wish to increase their chances of employment now learn the Polish language, as despite the close proximity to Berlin, it seems that it is Szczecin that offers the biggest job market in the area.

### **East German village—a small homeland in the emerging Polish–German borderland**

The first element of the East German countryside, which is striking for contemporary Polish newcomers, is its “ubiquitous” order, cleanliness and tidiness. And while the pre-war buildings on either side of the border were created at the same time and involved the same builders, the post-war immigrants took care of their seized property in a very different way. The problems repeatedly examined on the former German lands and associated with the phenomenon of domestication of space and especially the process of settling down in a new location by the post-war newcomers, clearly expose the difficulties that the first generations of newcomers encounter. What can be observed today is the still-existing different attitude in the social space in regard to the place of residence, which translates into a concern for a clean neighbourhood.

Aesthetic attractiveness of the area lying just behind the borderline, that is, on the German side, is one of several elements that create a friendly climate for new Polish inhabitants. Following this phenomenon another process rapidly occurs—a kind of “rerooting” through a reconstruction of the borderland, which is natural in the history of the Polish–German relations. New Polish residents of the eastern German villages, in association with the Germans living there, more or less consciously reconstruct the local culture of the borderland in their everyday life. Or, perhaps, a distinction should be made here—they build from scratch the local culture of the borderland. Hence, the border landscape forming its context has recently become a subject of a dynamic metamorphosis. It has started to undergo far-reaching changes and modifications in the social, cultural and economic life. On the example of the Krakowian anthropologist Grażyna Kubica, it can be said, “[a] landscape becomes the basis for a new localness, and its beauty—a cultural capital” (Kubica, 2008, p. 134).

The first signal that the mutual acceptance and domestication have entered into a new phase of development is the slowly noticeable creation of a transnational localness within the common space inhabited by Polish and German neighbours. This research on the border revealed that the Poles more or less consciously

imitate the local forms and rules of neighbourly coexistence. The most visible form of acceptance and even active demonstrations of familiarising themselves with the borderland's socio-cultural landscape is the participation of the Polish inhabitants of the east German regions in preserving the appearances of the settlements. It is also a full acceptance of the rules that govern the rhythm of everyday life of the village and the elaborate cordial neighbourly ways of communication. An extremely important concept that takes on right here on the emerging borderland is the 'Small Homeland' or *Heimat*.

The idea of *Heimat*, understood by Poles as working for the local community, becomes the first step on the way of accepting the local German distinctness. A declared willingness to take the trouble of learning a practical dimension of German cultural heritage slowly but surely domesticates the different culture, making it more familiar and homely. This is the kind of experience that has never been a part of lives of the Polish inhabitants of these lands, because contacts with the living people or the creators of this culture had ceased almost entirely after 1945.<sup>20</sup> Occasional post-war contacts, and even their intensity in the years from 1972 to 1980, were still not able to fill the emptiness resulting from the German residents abandoning these territories. Only now, in the emerging borderland space, through the mutual residence in the same settlements there is a possible conscious absorption of the German cultural heritage.

To conclude, it is worth noting that today's emerging borderland in the environs of Szczecin is a unique and unprecedented event, even if some mechanisms

<sup>20</sup> It should be noted here that when examining and analysing the phenomenon of the emerging Polish–German borderland, what must be remembered is the unique socio-cultural character of what was created over the past several dozen years in the area known as the Western Lands. The currently occurring phenomenon of the Polish migration to the eastern border villages seems to be inextricably linked with the regional social context which was shaped on the lands attached to Poland after the Second World War. This original context of the “Wild West” is present both in West Pomerania, Lubusz Land and in large areas of the former German Silesia. This is illustrated by sociological and anthropological research in one of the Silesian towns: “One of the key issues which must be taken into account when explaining the present Lubomierz (and the entire so-called Western Territories) is to understand the recent history which until 1989 was heavily politicised and ideologically laden. Until now some aspects of settlement and development processes of Lower Silesia by the Poles after 1945 are a burden for present-day Lubomierz’ residents, because a variety of associated phenomena determined the social consciousness, and set out the framework for the collective and individual identity of residents. Assigned a special role in this case, the migration accompanying the sense of being uprooted, alienation, requiring a new definition of postmigration reality. A reconstruction of the identity of migrants in their new location is necessary in order to explain contemporary attitudes and behaviour [...]” (Górny & Marczyk, 2009, p. 124).

resemble the current situation in other parts of German–Polish border.<sup>21</sup> It should never be forgotten that the residents of this place on both sides of the border were burdened with a similar fate. It should also be remembered that the experiences of the GDR and the People’s Republic also affected today’s Polish–German relations in the local Pomeranian context. As Elżbieta Opiłowska states, the specificity of the Polish–German border was that people on both sides of the border had not yet had any experience in the neighbourhood, did not speak the language, there were no mixed marriages, no interpenetration of cultures. Another aspect which requires attention is the large number of displaced people on both sides of the border, and thus the trauma associated with the compulsory leaving of the homeland. The matter of the lost homeland was prohibited and removed from public discourse in both societies in the name of the Polish–German socialist friendship. (Opiłowska, 2009, p. 161)

## **Conclusion**

This text attempted to describe the phenomenon of the emerging Polish–German borderland that has been taken place since Poland’s accession to the European Union and signing the Schengen Agreement. I have tried to show how economic differences motivate people’s decisions of migration and discussed various types of migration as well as their implications for the change of the local social and ethnic structure of Szczecin and its environs. Moreover, I have discussed how these conditions help to create a transnational community and the local borderland culture, showing the historical precedents of the patterns underlying the Polish–German borderland. In a long historical perspective, the Polish–German ethnic contacts resulted in creating of a cultural borderland that ceased to exist only after the end of the Second World War. Despite this fact some properties of the borderland model seemed to have been reconstructing themselves in the following periods: since the end of the Second World War until 1947, in the 1960s (on a smaller scale), until the period between 1 January 1972 and 20 October 1980. The article discussed how these historical properties influence current processes of the reconstruction of the Polish–German borderland. However, the article also shows that the borderland model has never concerned the particular area of Szczecin and its environs, and asks questions as to how the borderland is created under such conditions.

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<sup>21</sup> Further about the economic role of Szczecin for the emerging Polish–German borderland see Lundén, 2011, p. 58.

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# Issues of the Legal Protection of Brand-Name Drugs in the European Union

**Ants Kukrus**

Chair of Business Law,  
Department of Public Economy,  
Tallinn School of Economics and Business Administration,  
Tallinn University of Technology  
Akadeemia tee 3,  
Tallinn 12316, Estonia  
e-mail: ants.kukrus@tseba.ttu.ee

**Raul Kartus**

Estonian Patent Office  
Toompuiestee 7,  
Tallinn 15041, Estonia  
e-mail: raul.kartus@epa.ee

**Abstract:** *The manufacturing of pharmaceutical products is divided between two main groups of manufacturers—the ones manufacturing so-called brand-name drugs or original drugs, i.e. new research-based drugs protected by patent, and the ones manufacturing old traditional drugs or generic drugs after the expiration of the term of patent protection. In the European Union the research-based pharmaceutical industry is one of the few remaining leading high technology industries, amounting to 17 per cent of the EU business R&D investments and about 3.5 per cent of the total EU manufacturing value added. The cost of developing new pharmaceutical products is very high compared to the comparatively low cost of manufacturing of generic drugs. The price of generic drugs is usually 30–80 per cent lower than that of brand-name drugs. Therefore, competition between the companies manufacturing brand-name drugs and firms manufacturing generics is extremely fierce. This article describes the system of legal protection of the brand-name drugs in the European Union. Besides the main legal instrument for the protection of drugs—the patent, also the other legal means for manufacturers to extend the monopoly state of the drug on the market have been dealt. Supplementary Protection Certificate (SPC) is the primary*

*means to extend the monopoly position on the market. The problems concerning the issuing of the supplementary protection certificates (SPCs) and granting paediatric extensions have been particularly highlighted.*

**Keywords:** *'Bolar' provision, brand-name drugs, data exclusivity, disclosure test, ECJ, generic drugs, infringement test, orphan medicines, paediatric extensions, patent, pharmaceutical product, sitagliptin, SPC, zero-term SPC*

## **Introduction**

In today's global economy, pharmaceutical industry is one of the most modern and innovative high-tech sectors in the world. In the European Union the research based pharmaceutical industry is one of the few remaining leading high technology industries, amounting to 17 per cent of the EU business R&D investments and about 3.5 per cent of the total EU manufacturing value added. European pharmaceutical industry was for many years the world's leading inventor of new medicines and as a leading manufacturing location ahead of the US and Japan. However, the latest data show that the United States has now become the leading discoverer of new molecules (EFPIA, 2010, p. 1).

Nowadays, the manufacturing of pharmaceutical products is divided between two main groups of manufacturers—the ones manufacturing brand-name drugs or original drugs, i.e. new drugs protected by patent, and the ones manufacturing old traditional drugs or generic drugs after expiration of the term of patent protection of the brand-name drugs or in the states, where the brand-name drugs do not have patent protection.

The cost of developing new pharmaceutical products is very high compared to the comparatively low cost of manufacturing of generic drugs. Recent research suggest that average cost of researching and developing a new chemical or biological entity makes about 1,059 million euros and takes approximately 10 to 15 years. The price of generic drugs is usually 30–80 per cent lower than that of brand-name drugs. (Snow, 2007, p. 28) Generic medicines account for 78 per cent of all prescriptions dispensed in the United States (Gatyas, 2011) and taking Europe as a whole, close to 50 per cent of all medicines (EGA, 2011, p. 1). Around the world, emerging markets of generics are on the move. From Brazil, Russia and India to China, Turkey, Mexico and South Korea, experts predict that emerging markets will represent 70 per cent of industry growth rates by 2013

(PMR, 2010). Furthermore, pharmaceutical industry faces the peak years of patent expiries for innovative drugs introduced 10–15 years ago and subsequent entry of lower-cost generic alternatives. Therefore the legal protection of new products in pharmaceutical industry is especially acute and in many cases it is of greater importance than in the other high technology industries. As a rule, firms working out and manufacturing new medicinal products patent all the products and keep their patents valid until maximum term of validity of 20 years to compensate their expenditures. Furthermore, in case of medicinal products additional legal instruments enabling to continue the term of validity of the exclusive right of marketing the new drug are used in Europe and other countries. In several states patent term restoration or supplementary protection of drugs has been established as besides gaining patent protection it enables to earn additional profit for some time. Thus, next to using supplementary protection, brand-name drugs are also protected by protection of clinical trials (testing) and other data required for registration (so-called data exclusivity) established in the framework of the system of drug registration and grant of market authorisation.

The goal of the present article is to highlight the possibilities of legal protection of brand-name drugs and to draw attention to the problems which may arise in putting these rights into practice. Recently, disputes on supplementary protection of the combination products have emerged. The reason for the disputes is different interpretation of the European law by the applicants for supplementary protection and the National Patent Offices (NPOs) and the courts of the Member States as well as the drug firms owning the patents and the rivalling drug firms who do not own any patents. Consequently, several requests with the same or similar content for a preliminary ruling have been filed with the European Court of Justice (ECJ). The aim of the present article is also to point out the reasons causing different interpretation of the European legal acts by the stakeholders and what should be taken into account in order to guarantee the harmonised interpretation of the European law.

## **Pharmaceutical patent term restoration and introduction of supplementary protection certificates**

Nowadays, a requirement of market authorisation has been established in the majority of countries at launching pharmaceutical products on the market. As a rule, working out a marketable pharmaceutical product and testing it in order to get a market authorisation takes years. Taking this fact into account, patent term

restoration has been enabled as an exception to the pharmaceutical products and plant protection products, which can be marketed by authorisation in the majority of countries. In some countries, it has been arranged by patent term restoration, in others by a special kind of protection—by issuing a Supplementary Protection Certificate (SPC). Drug Price Competition and Patent Term Restoration Act (Hatch-Waxman Act) was passed in the USA in 1984 (FindLaw, 1999). This special act was a basis for the introduction of the provision 35 U.S.C. 156 concerning the extension of the patent term in the Patent Act (USPTO, 2006) to compensate for the delay in obtaining Food and Drug Administration's (FDA) approval. The possibility to extend the patent term was introduced in the Patent Act of Japan in 1987. It proceeded directly from the need to protect it from the influences of the USA due to the pharmaceutical patent term restoration (Tamai, 2001).

Supplementary protection of pharmaceutical products was established in the European Union by (EC, 1992) by starting to make use of the Supplementary Protection Certificate (SPC). The need to compensate the effective patent protection time lost on applying for the market authorisation and to decrease the danger of relocation of the scientific medical research centres in the Member States, which could offer better protection, including longer term of protection, caused the adoption of the Regulation. Japan was also afraid of this danger.

According to an acknowledged principle, supplementary protection is granted so that the term of effective patent protection would be fifteen years, whereas supplementary protection cannot exceed five years. The 868 SPCs filed in 2008 in Europe and published at the end of June 2009 cover about 100 different products: active ingredients, combinations of active ingredients, or formulations (Katzka, 2009). By the way, 34 SPCs have been granted in Estonia as of 2010. Supplementary protection has also been introduced in Australia, Israel, Taiwan, South Korea and Switzerland.

Besides the described SPC system, there are several other possibilities for the protection of brand drugs, enabling to increase the competitiveness of the manufacturers. The first possibility concerns drugs prescribed to be used by children. In case of children the drug regulations of the countries require carrying out supplementary research at applying for a market authorisation. In order to compensate the time spent on supplementary research it is necessary to extend supplementary protection pursuant to the SPC system. Regulation (EC) No 1901/2006 of the European Parliament and the Council of 12 December 2006 on medicinal products for paediatric use amending Regulation (EEC) No 1768/92 concerning Supplementary Protection Certificates have been adopted in the

European Union (EU, 2006). According to Article 36 of the named Regulation, where an application for marketing authorisation includes the results of all studies conducted in compliance with an agreed Paediatric Investigation Plan (PIP), the holder of the patent or SPC shall be entitled to a six-month extension of the duration of the SPC under the articles 13(1) and 13(2) of Regulation (EEC) No 1768/92 (EC, 1992). It also applies to cases in which completion of the agreed paediatric investigation plan fails to lead to the authorisation of a paediatric indication, but the results of the studies conducted are reflected in the summary of product characteristics and, if appropriate, in the package leaflet of the medicinal product concerned. In 2009, the European Parliament and the Council approved Regulation (EC) No 469/2009 of 6 May 2009 concerning the supplementary protection certificate for medicinal products, which is the codified version of Regulation (EEC) No 1768/92.

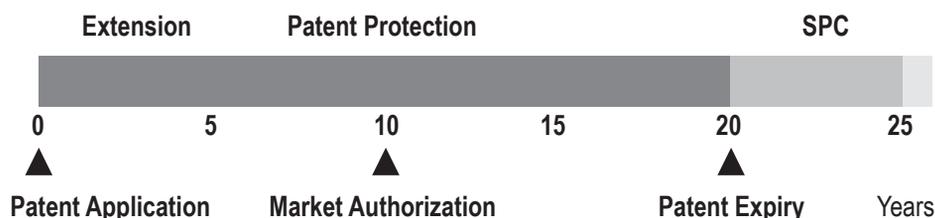
The term of an SPC depends on the date of the first authorisation to place the medicinal product on the market (the first marketing authorisation [MA]) within the EEA and is determined under Article 13 by the following equation:

$$\text{Duration of the SPC} = (\text{date of the first MA} - \text{date of filing of basic patent}) - 5 \text{ years}$$

No SPC is available if less than five years have elapsed between the date of filing of the application for a basic patent and the date of issuance of the first MA in the EEA. The duration of the certificate may not exceed five years from the date on which it takes effect. It means that if the first MA is issued more than ten years after the date of filing of the application for a basic patent, SPC may be granted for a five-year term only.

Taking into account both supplementary protection and paediatric extension, the maximum marketing monopoly of the new drug could be up to 25.5 years starting from the filing of the patent application (Fig.1).

Figure 1. Maximum duration of the market monopoly for brand-name drugs



SPC shall be granted if, in the Member State at the date of filing of SPC application, the medicinal product is protected by a basic patent in force and a valid authorisation to place the product on the market as a medicinal product has been granted. The marketing authorisations for a medicinal product may be granted by the competent authorities of a Member States or by the European Agency for the Evaluation of Medicinal Products (EMA) under the centralised procedure of Council Regulation (EEC) No 2309/93, and these are simultaneously granted in all the EU Member States. An SPC application should be filed within six months of the date of authorisation to place the product on the market or, if the authorisation was granted before the grant of the basic patent, within six months of the date of publication of the granting of the patent. Although the SPC regulation (EC) No 469/2009 is unitary EU law, patent offices of the Member States are appointed to grant SPCs. Also, the appeals, validity and enforcement of SPCs can be dealt with by national courts. When a national court so requests, the European Court of Justice (ECJ) gives preliminary rulings in legal issues relating to SPCs.

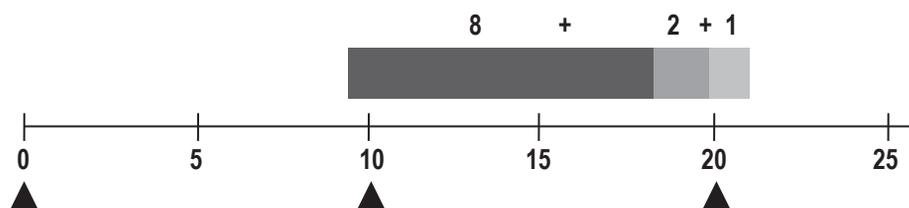
## **Data Exclusivity and Market Protection of Pharmaceuticals**

Besides supplementary protection based on patent protection, also protection based on registration of medicinal products has been created in order to protect brand name drugs. Article 39.3 of the TRIPS Agreement (WTO, 1994) provides that WTO member states are required, as a condition, approval to market pharmaceutical products which utilise new chemical entities, the submission of undisclosed tests or other data, the origination of which involves a considerable effort. Such data shall be protected against unfair commercial use.

In the EU pursuant to Article 10 of Directive 2001/83/EC (EC, 2003), amended by the European Parliament resolution of 17 December 2003 (EP, 2003), a medicinal product gets, together with the first market authorisation for eight years, also an exclusive market authorisation for data exclusivity filed at the application and ten years of market exclusivity. If a new indication is found for the medicinal product, it is possible to extend protection up to 11 years (so-called 'compromise package', known as 8+2+1 formula, see Fig. 2). Submission of generic applications is possible only after expiry of the 11-year period of data exclusivity.

Data exclusivity extends the brand-name drug company's market monopoly over a generic product by not allowing the health authorities to process an application for marketing authorisation of generics.

Figure 2. Market protection for patented brand-name drugs (example)



### The ‘Bolar’ provision

The so-called ‘Bolar’ provision (exemption) is a policy that allows generic manufacturers to prepare production and regulatory procedures of generic product before patents expire, so that products can be ready for sale as soon as the patent ends, rather than starting the lengthy preparatory process only after the patent period is over. For years, Bolar has been a common feature of patent law in many countries such as Canada and the USA (USPTO, 2001, 1). The Bolar provision is in line with WTO rules on TRIPS.

The Bolar provision was introduced by the pharmaceutical review in the EU. European pharmaceutical regulatory Directive 2004/27/EC of 11 March 2004 (EC, 2004) concludes that conducting the necessary studies and trials with a view to the application for marketing authorisation shall not be regarded as contrary to patent rights or to supplementary protection certificates for medicinal products. The Bolar provision has not been independently implemented into the Estonian Law in the same form as is provided in Directive 2004/27/EC. Section 3 of Article 16 of the Patents Act provides that the use of the patented invention in testing related to the invention itself included in the case of clinical trials do not constitute infringement of the exclusive right of the proprietor of a patent and basically covers the content of the EU directive.

### Market exclusivity for orphan medicines

Market exclusivity granted to orphan medicinal products is also known. The Orphan Drug Act was adopted in the USA in 1983 in order to protect orphan drugs (USFDA, 1983). In the USA a disease is considered a rare disease if it affects fewer than 200,000 people. The manufacturer who starts manufacturing pharmaceutical products for the treatment of these diseases gets a monopoly for marketing them for seven years. EU Regulation (EC) No 141/2000 (EC, 1999) was also adopted in order to protect orphan drugs. Monopoly marketing right of

orphan drugs is valid for ten years in the European Union. Relevant acts were adopted in Singapore in 1991, in Japan in 1993 and in Australia in 1997. Market exclusivity is considered to be the main incentive given to companies for the development of orphan medicines.

In the global society there are a lot of situations in which new pharmaceutical products are urgently needed. The need can be caused either by the outbreak of new diseases and epidemics or epidemics which may re-occur (for example, highly pathogenic influenza) as well as by the resistance to the old medicinal products. In cases of urgency or emergency placing new medicinal products on the market is required even at a certain risk for the benefit of public health. Taking this into account the European Commission established in Commission Regulation (EC) No 507/2006 (EC, 2006a) conditioning authorisation for those medicinal products for which there is an urgent need and which can be placed on the market without long-term clinical testing, taking into account their features and other risk factors. These medicinal products include medicines and medical products needed for fighting against seriously debilitating or life-threatening diseases, medicines prescribed by the WHO or the EU to be used in case of emergency situations as well as orphan medicinal products. One year marketing authorisation may be renewed annually.

## **Economic issues relating to the legal protection of brand-name drugs in the European Union**

From the above-given considerations, it can be concluded that competition between the firms manufacturing brand-name drugs and firms manufacturing generics becomes stronger, particularly taking into account emerging of drug markets. In this competition there is also an essential fact that the validity of legal protection of pharmaceutical products which have enjoyed patent protection and supplementary protection until now is expiring soon. Therefore the firms manufacturing generics inevitably get a possibility to launch their products on the market. Simultaneously with working out new pharmaceutical products, the pharmaceutical firms have dealt with the development and improvement of the treatment efficiency of pharmaceuticals on the market. A characteristic example of the development of the known pharmaceutical products is combination of different active ingredients into one medicinal product—either to combine several pharmaceuticals (HIV/AIDS drugs) making it convenient for the patient at the treatment of the particular disease or to form a drug, which has simultaneous effect on several diseases or protects against a highly variable disease (influenza vaccines) and also specific

dosage forms for different age groups, including children. From the patients' point of view, such improvement of pharmaceutical products is extremely thankworthy. While in the case of the interest of pharmaceutical firms and need for the continuity of legal protection it is economically understandable, from the standpoint of novelty and inventive step these improved pharmaceutical products are difficult to be given patent protection. Besides that it is also complicated to apply for supplementary protection for them. Despite the fact, brand-name drugs and their developments are being tried to be protected by making use of all legal instruments until maximum term of validity. Thereby several issues have arisen causing disputes with almost all national patent offices, drug registration and market authorities or other competent authorities over the world.

Today there is no unitary patent granting system in the Member States of the EU yet and SPC regulation enables to apply some mainly procedural differences proceeding from the laws of the Member States. Thereby national courts are competent in solving disputable issues both in case of patents and SPCs (EC, 2009, p. 5).

## **Problems relating to patent protection**

Problems related to patent protection may be either indirect or direct. The latter are predominantly connected with the interpretation of patent claims and scope of protection. Indirect problems become evident, for example, in cases of relatively greater interest in filing divisional application in field of pharmaceuticals compared to other fields.

As it could be seen above, a pharmaceutical product gets a market authorisation and would be therefore ready to be marketed on the average in 5 to 10 years after filing the patent application. Therefore the drug defined in the initial edition of the patent claims does not very often correspond to the one released into the market. In order to ensure patent protection and subsequent supplementary protection, it is quite often necessary to change the claims during the examination of patent application. Changing the claims is actually related to limitations. When it is discovered that the initial patent application cannot be used for protection of a real drug, it may be possible to compile on the basis of the subject matter disclosed in the initial patent application a divisional patent application that protects the real drug and is eligible for the grant of an SPC.

From the viewpoint of national patent offices (NPO), massive filing of divisional

applications in the late stage of examination of the initial applications disturbs also the examination of other patent applications and extends generally the terms of examinations, for example, divisional applications against late filing Rule 36 of the EPC was amended (EPC, 2011). According to the amendments voluntary divisional applications need to be filed within 24 months from the first examination report. As it could be expected the European Generic Medicines Association (EGA) welcomes amended EPC rules that limit opportunities of filing divisional applications (EGA, 2010, p. 2).

## **Problems relating to the SPCs**

The main problems concerning the legal protection of pharmaceutical products in the European Union are still related to the supplementary protection of pharmaceutical products, especially to interpretation of the provisions of Regulation (EC) No 469/2009. In some cases the provisions of the Regulation are associated with the provisions of the patent laws of some Member States, which actually have not been finally harmonised.

It can be said to the characterisation of Regulation (EC) No 469/2009 and its predecessor Regulation (EEC) No 1768/92 that after medicinal products under supplementary protection have already acted in the EU on the basis of them, during working out of the Regulation it was not foreseen in full scope which drug variations and specialities should have in practice be regulated already during working out and the time after that. It concerns particularly products with combination of two or more active ingredients and also problems in connection with paediatric regulation, especially negative and zero term of SPC.

First of all, there are problems concerning SPCs covering combination products. According to Article 1(b) Regulation (EC) No 469/2009 (hereinafter: Regulation) “product” means *an active ingredient or a combination of active ingredients* of a medicinal product. Under the article 1(c) “basic patent” means a patent which protects a *product as such*. Under the Article 3 there are four basic requirements:

- (a) the product is protected by a basic patent in force;
- (b) a valid authorisation to place the product on the market as a medicinal product has been granted;
- (c) the product has not already been the subject of a certificate;
- (d) the authorisation referred to in (b) is the first authorisation to place the product on the market as a medicinal product.

According to Article 4 within the limits of the protection conferred by the basic patent, the protection conferred by a certificate shall extend only to the product covered by the authorisation to place the corresponding medicinal product on the market and for any use of the product as a medicinal product that has been authorised before the expiry of the certificate. Article 5 defines that certificate shall confer the same rights as conferred by the basic patent and shall be subject to the same limitations and the same obligations.

The above-given provisions highlight the main idea of the Regulation that legal protection proceeding from the SPC should act in the same way as legal protection provided by the basic patent during its validity. There is no reason for any change in legal protection due to SPC validation. But in practice at the application for the grant of SPC there are still disputes and, finally, the ECJ has to be turned to in order to find a solution.

There are two kinds of typical disputes concerning combination products. In one case a basic patent has been granted to a drug containing a combination of two or more active ingredients. Market authorisation on the basis of which SPC is applied is issued for a drug containing only one of these active ingredients, for example ECJ Case C-518/10 (ECJ, 2010a). In the other case the situation is vice versa, where there is only one active ingredient in the patent, but the product which has valid authorisation contains several active ingredients, for example in case of ECJ Case C-630/10 (ECJ, 2010b).

In the first case the question referred to ECJ for preliminary ruling in Case C-518/10 was as follows:

*If the criteria for deciding whether a product is “protected by a basic patent in force” under Article 3(a) of the Regulation include or consist of an assessment of whether the supply of the product would infringe the basic patent, does it make any difference to the analysis if infringement is by way of indirect or contributory infringement based on Article 26 of the Community Patent Convention, enacted as in Section 60(2) of the Patents Act 1977 in the UK, and the corresponding provisions in the laws of other Member States of the Community?*

Pharmaceutical firms have a firm wish to get SPC. Therefore the mentioned Regulation and national patent laws are being tried to be interpreted in the way favourable to them. In this particular case the dispute is focused on the interpretation of the words “protected by a basic patent” in Article 3(a) of the Regulation making use of the corresponding provisions of the UK Patents Act. It

is known that patent protection is defined by patent claims. Section 14 (5) of the UK Patents Act defines: “[t]he claim or claims shall (a) define the matter for which the applicant seeks protection...” Presumably proceeding from the fact that the mentioned norm has been included in Section 14 ‘Making of application’, this essential provision is interpreted as a formal requirement and solely its literal meaning in the wording of Article 3(a) of the Regulation—“is protected”—is made use of. On the basis of that it is stated that so-called infringement test should be used in order to determine the product’s compliance to the basic patent. In this case an authorised product is opposed to a basic patent as if it were a product infringing the patent and it is checked by using the infringement ascertaining methodology whether the product would infringe the patent. If there were an infringement it would mean that the product would correspond to the basic patent and Article 3(a) of the Regulation would be fulfilled. Actually making use of the infringement test the patent claim is interpreted in a broader sense as a matter for which the applicant seeks protection. In case of infringement the terms of ‘direct infringement’ and ‘indirect infringement’ are used. In both cases the claims are interpreted in a broader sense. In the first case it is possible to use the so-called “doctrine of equivalents”, which means that some of the ingredients of the product are not the same as given in the claims, but have been replaced by equivalents. In this case it is not necessary to answer the question of literal infringement, but consider infringement by way of equivalence. In case of indirect infringement the use of some essential elements of the patented product is considered infringement. This provision is included in the UK Patents Act Article 60(2) (corresponding Article 26(1) CPC), according to which “a person (other than the proprietor of the patent) also infringes a patent for an invention if he supplies or offers to supply with any of the means, relating to an essential element of the invention, for putting the invention into effect...”.

Proceeding from the recently stated, it is possible to consider the sales of the product consisting of one component infringement of the basic patent making use of ‘infringement test or approach’. Subsequently, Article 3 (a) of the Regulation can be considered fulfilled and SPC can be granted.

In the authors’ opinion, making use of the infringement test or approach is in contradiction with the idea of the Regulation. The disclosure test or approach should be used instead.

In case of disclosure test, it is necessary to consider whether the medicine’s active ingredient is both disclosed and claimed in the basic patent. Pursuant to Article 84 of the EPC: “The claims shall define the matter for which protection is sought. They shall be clear and concise and be supported by the description.”

Article 14(5) of the UK Patent Law corresponds precisely to the afore-mentioned provision. Pursuant to Article 14 of the German Patent Law: “The extent of the protection conferred by a patent or a patent application shall be determined by the terms of the claims. Nevertheless, the description and drawings shall be used to interpret the claims.” Pursuant to article L612-6 of the French Intellectual Property Code: “The claims shall define the matter for which protection is sought. They shall be clear and concise and be supported by the description.” The provisions including the same content are in Sections 1 and 2 of Article 10 of the Estonian Patent Act.

The main reasons for the preference of the disclosure test or approach are as follows:

- 1) In case of SPC it is the grant of legal protection equivalent to the basic patent which actually corresponds to the renewal of the validity of the basic patent. Therefore the protected subject matter and its extent of protection should correspond precisely to what the applicant seeks at the application for a basic patent. Therefore the product authorised to be placed on the market has to correspond to the claims of the basic patent and be described in the description.
- 2) It should be taken into account that SPCs are granted by the NPOs of the Member States. Patent offices deal with the grant of legal protection for the inventions making use of the appropriate methodology which here principally corresponds to the mentioned disclosure approach. Patent offices do not deal with looking for the cases of the infringement of rights. Therefore the patent offices do not use the consequent methodology. The use of infringement test belongs into the competence of the courts, the customs and the police.
- 3) The term ‘patent claims’ has been sufficiently harmonised in the patent laws of the Member States so that application of the disclosure test would provide a similar result.

## **Problems relating to the paediatric extensions**

In improving regulations introducing paediatric extensions for the SPCs was unpredictable as in practice a problem of negative or zero term of SPC could arise. In this case it is unknown whether in working out the Regulation (EC) No 1901/2006 the possible negative or zero term of SPC was deliberately not taken into account or the possibility of its occurrence was just unnoticed. In practice it soon became evident that in case the negative or zero term of SPC, then

theoretically it would be possible by adding the 6-month paediatric extension to the SPC the so-called negative term of validity to get in total a little extension of the term of real protection. There was a case in which a pharmaceutical company filed an application for a SPC with negative term in the EU Member States. It was a pharmaceutical product 'Januvia' (*Sitagliptin*) manufactured by Merck & Co Inc. SPC with negative term was granted by the UK and the Netherlands, and rejected by Portugal, Slovenia and Germany. SPC with zero term was granted by the Greece IPO. In order to solve the problem, a request for a preliminary ruling from the ECJ (2010c) was issued by the Federal Patent Court of Germany (*Bundespatentgericht*). The question asked by the ECJ sounded as follows: "Can a supplementary protection certificate for medicinal products be granted if the period of time between the filing of the application for the basic patent and the date of the first authorisation for marketing in the Community is shorter than five years?"

The case considered for the negative term could be the fact that duration of the SPC is determined by the formulation of mathematical equation in Article 13(1) of the Regulation. Proceeding from the abovegiven, the result could also be negative value. The case against negative term is the fact that in the majority of states, including Estonia, the SPC is granted in the form of a paper document. It seems totally unacceptable that a date earlier than the date of starting of the validity is noted as the expiry date on the document. The Estonian Patent Office waits for getting a preliminary ruling made by the ECJ before making the final decision on the SPC application. In the authors' opinion, despite of the decisions made by the ECJ in this case and the other cases mentioned before the European Parliament and the European Council should revise the SPC Regulation.

## **Conclusion**

The article describes the system of legal protection of brand-name drugs in the European Union. The article started with a brief characterisation of the structure of the pharmaceutical industry. Manufacturing of pharmaceutical products is divided between two main groups of manufacturers—the ones manufacturing brand-name drugs or original drugs, that is, new drugs protected by patent, and the ones manufacturing old traditional drugs or generic drugs after the expiration of the term of patent protection of the brand-name drugs. The cost of working out new pharmaceutical products is very high compared to the comparatively low cost of manufacturing of generic drugs. Recent research suggests that the average cost of researching and developing a new chemical or a biological entity

makes about 1,059 million euros and takes approximately 10 to 15 years. The price of generic drugs is usually 30–80 per cent lower than that of brand-name drugs. Generic medicines account for 78 per cent of all prescriptions dispensed in the United States and taking Europe as a whole, close to 50 per cent of all medicines. Around the world, emerging markets of generics are on the move. From Brazil, Russia and India to China, Turkey, Mexico and South Korea, experts predict that emerging markets will represent 70 per cent of industry growth rates by 2013. Furthermore, pharmaceutical industry faces the peak years of patent expiries for innovative drugs introduced 10 to 15 years ago and a subsequent entry of lower-cost generic alternatives. Therefore, legal protection of the new products in pharmaceutical industry is especially acute and in many cases it is of greater importance than in other high technology industries.

The main instrument for legal protection of innovations is a patent. However, in case of medicinal products, the system of additional legal instruments such as pharmaceutical patent term restoration, introduction of supplementary protection certificates, paediatric extensions, data exclusivity, the Bolar exemption, and market exclusivity for orphan medicines described in this article are in use.

Patent term restoration and introduction of supplementary protection certificates are instruments that enable to continue the term of validity of the exclusive right of marketing the new drug and are used in Europe and other countries. In the European Union, supplementary protection of pharmaceutical products was introduced by Council Regulation (EEC) No 1768/92 in 1993. In 2009, the European Parliament and the Council approved of Regulation (EC) No 469/2009 of 6 May 2009 concerning the supplementary protection certificate for medicinal products introducing additionally paediatric extensions. The main problems concerning the legal protection of pharmaceutical products in the European Union are still related to the supplementary protection of pharmaceutical products, especially to the interpretation of the provisions of Regulation (EC) No 469/2009. In some cases the provisions of the Regulation are associated with the provisions of the patent laws of the Member States, which actually have not been finally harmonised.

There are two kinds of typical disputes concerning combination products. In one case a basic patent has been granted to a drug containing a combination of two or more active ingredients. Market authorisation, on the basis of which SPC is applied, is issued for a drug containing only one of these active ingredients. In the other case the situation is vice versa. In these particular cases the dispute is focused on the interpretation of the words “protected by a basic patent” in Article 3(a) of Regulation (EC) No 469/2009. Actually, two competing tests—the so-

called ‘infringement test’ and the ‘disclosure test’—are applied to determine whether the invention is protected by a patent.

In the authors’ opinion the main idea of Regulation (EC) No 469/2009 is that legal protection proceeding from the SPC should act in the same way as legal protection provided by the basic patent during its validity. There is no reason for any change in legal protection due to SPC validation. Therefore, we prefer the disclosure test.

The main advantage of the disclosure test is that the product authorised to be placed on the market has to correspond to the claims of the basic patent and be described in the description. Furthermore, patent offices dealing with the grant of patents use the methodology which principally corresponds to the mentioned disclosure test. The term “patent claims” has also been sufficiently harmonised in the patent laws of the EU member states so that application of the disclosure test would provide a similar result.

In improving Regulation (EC) No 469/2009 introducing paediatric extensions for the SPCs was unpredictable as in practice a problem of negative or zero term of SPC could arise. In order to solve the problem a request for a preliminary ruling from the ECJ was issued by the Federal Patent Court of Germany.

The case against negative term is the fact that in the majority of states, including Estonia, the SPC is granted in the form of paper document. It seems totally unacceptable that a date earlier than the date of starting of the validity is noted as an expiry date on the document. In the authors’ opinion, despite of the decisions made by the ECJ in this case and the other cases mentioned in this article the European Parliament and the European Council should revise the SPC regulations.

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## BOOK REVIEWS:

**Tamás Szigetvári**

**Fóti, G. & Ludvig, Zs. (eds.) *Economic Crisis and Political Turmoil in Ukraine.*<sup>1</sup> East European Studies Series, No. 2, Budapest: Institute for World Economics of the Hungarian Academy of Sciences, 2010, 153 pp.**

Since the Orange Revolution in Ukraine has been an interesting topic. There had been a permanent political crisis in the country causing serious impacts in on all spheres of the society and leading to a situation in which social issues had become a central element of any, and in Ukraine frequently changing, governmental considerations and actions. Surprisingly, the Ukrainian economy performed rather well even under these circumstances, profiting from favourable world market tendencies, for example of steel products, for years. Business actors seemed to have accustomed to the permanently changing and consequently instable political environment. However, some crucial threats and structural imbalances were hidden in the background on macro level, especially regarding budgetary field. The situation was made extremely complicated by the evolving world economic crisis during 2008, when the Ukrainian economy was among the strongest affected even in European comparison. This was not by chance: Ukraine lacked a political leadership capable of following through a consequent anti-crisis policy. Instead, different political forces continued their fight for power.

The second volume of the ‘East European Studies’ published by the Institute for World Economics of the Hungarian Academy of Sciences is devoted to the challenging topic of the impacts of global economic crisis on the Ukrainian economy and the lasting political turmoil caused in managing the crisis. The volume edited by Zsuzsa Ludvig and Gábor Fóti treats the two phenomena in parallel, at the same time searching for their interdependences. It also gives an insight into some crucial social consequences. Although the world economic crisis might be said to be over and one could not see dramatic turning points on the Ukrainian political landscape recently either, those fundamental problems that the volume examines are still actual.

The first study written by the Ukrainian academician Valery Heyets guides the reader to the true substance of the Ukrainian economic crisis focusing on its financial issues. As it is widely known, Ukraine was one of the most hardly hit

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<sup>1</sup> Studies of this volume are available at the following link: [http://www.cisproject.hu/index.php?data\[mid\]=4](http://www.cisproject.hu/index.php?data[mid]=4)

economy by the global crisis even in broad international comparison. However, in the pre-crisis period, taking advantage of the favorable foreign economic conjuncture and the capacities released as a result of the previous transformational decline of 1992–1997, and having a reserve of price competitiveness, Ukraine's economy started a period of growth with rates exceeding 7 per cent in annual terms. This ended in the middle of 2008, although, in different phases of this period the causes of the economic growth were quite distinct. According to the author, those causes appeared to be the factors determining the very acute character of the 2008–2009 crisis. Heyets gives a comprehensive explanation why this should and could happen. He analyses previous fiscal and monetary policies and their relationship with domestic political developments which all together led to the extremist deepness of the Ukrainian economic crisis.

The second work by Tetyana Yefimenko deals with the challenging issue of crisis management in Ukraine, how state, private and international actors could and should co-operate in it. It also draws some predictions concerning the future of PPPs, that is public private partnerships in Ukraine. The author also argues that it is an objective development trend nowadays worldwide that new institutions emerge to promote interactions between government authorities and private businesses. International experiences show that PPP-based interactions boost the efficiency of society's essential systems and divide the risks between the state and the private sector in a rational manner. The author draws the consequences from this theory for Ukraine.

The third study already closely connects the problems of the economic crisis and the issue of domestic political landscape with special attention to the Ukrainian oligarchs. Oligarchic structures are present in almost each post-Soviet state, although their role and position may alter from country to country. Their influence on the everyday life of ordinary Ukrainian people is without doubt. Contrary to their Russian colleagues, Ukrainian oligarchs need to spread out their business activities on almost all sectors of the economy due to the scarcity of natural resources. One major thesis of the Hungarian analyst, István Szabó, is that the economic crisis has amplified the scope for change in the regular political elite, creating an effect not yet experienced in the political and economic life of Ukraine. Political elites came and went, Ukrainian oligarchs learned to survive during the last two decades almost, but this time they faced a much more dreadful enemy, one which was not easy to tackle. While drawing the professional pictures of the five most outstanding Ukrainian oligarchs and their business empires, the study gives a detailed picture on all these changes.

The second block of studies contains two prominent studies on Ukrainian economic issues, firstly, the state and prospects of the agrarian sector and secondly,

the processes of Ukrainian migration. The study written by Dávid Karácsonyi, a Hungarian expert on Ukrainian rural development gives a most wide picture on the pre-crisis state of Ukrainian agriculture. Ukraine possesses agro-ecological conditions which are unique not only in Europe, but also worldwide. But the very question is whether it is an inexhaustible source of wealth or not. The study analyses the history of agrarian transformation during the past almost two decades with focusing on product structures and production dynamics in regional approach, the issues of agricultural employment, ownership and production efficiency. It also analyses Ukrainian participation in global agricultural markets. Finally, Karácsonyi highlights the impacts of global economic crisis on the Ukrainian agrarian sector. Traditionally, agrarian and food sectors are among those branches of an economy that normally do not suffer from right the beginning of an economic crisis, but the lack of investment resources may lead to problems in the future. This is also true in the Ukrainian case.

The closing study written by an excellent Ukrainian expert, Ella Libanova leads the reader to the exciting issue of Ukrainian migration also in the light of the global economic crisis. According to the author, migration is one of the most precise characteristics of any given population's attitude to the quality and level of its life, assessments and expectations of possible changes in the region of permanent residence and in other places, accessible for removal. So after the exhaustion of all those "migratory reserves" of mostly ethnic character that were due to the collapse of the Soviet Union, the positive net migration in Ukraine had been changed to negative one for a decade. However, Ukraine, often seen as a 'threat' for European labour markets, has a positive migratory balance since 2005. Libanova also highlights that Russia is a major geographic destination for Ukrainian migrants. The paper provides a rich statistical database on these processes while trying to give answers to basic motivations as well.

Most authors are experts from a set of partner institutions of the Institute for World Economics of the Hungarian Academy of Sciences in Ukraine. For this reason, the volume provides the reader with relevant pieces of information on Ukrainian reality. Two studies were written by young Hungarian authors being among the most distinguished Hungarian experts on Ukraine. All the research work has been done under the basic agreement between the Hungarian Academy of Sciences and the former Hungarian Prime Minister's Office for conducting strategic research on the CIS space. Studies were finalised by the early summer of 2010.

Evidently, the volume is a great contribution to the understanding of current Ukraine. Readers from the academic and education fields, the administrative sphere or business circles dealing with Ukraine may equally find this volume valuable and useful to their work.

## Zsuzsa Ludvig

**Szigetvári, T. (ed.), *The European Union's Eastern Partnership: Experiences, Efforts and Expectations*. East European Studies Series, No. 3, 2011, Budapest: Institute for World Economics of the Hungarian Academy of Sciences, 150 pp.**

The Institute for World Economics of the Hungarian Academy of Sciences published the third issue of its 'East European Studies' series in May 2011. The volume edited by Tamás Szigetvári (Institute for World Economics of the Hungarian Academy of Sciences) deals with the Eastern Partnership of the EU from various aspects.

The first part of the volume consists of the proceedings presented at the international conference held in the Institute for World Economics in December 2010. As part of a series of international conferences on the Hungarian EU Presidency (January–June 2011), the Institute organised the conference 'EU Eastern Partnership—Experiences, Efforts, Expectations' with participants from each of the six Eastern partner countries. The conference addressed two major issues: (i) the experiences of the partner countries with the Eastern Partnership, and (ii) their priorities and expectations regarding the Hungarian EU Presidency.

The first study is by one of the keynote speakers of the conference, Cornelius Ochmann (Bertelsmann Stiftung), who presented a short but a very challenging review on the Eastern Partnership seen from a German perspective. Berlin is concerned with maintaining good relations with Russia. For this reason, Germany always supported a balanced EU Eastern policy and a pragmatic policy on Russia pursued by other Member States, especially Poland, as well. The study concluded with a statement that the current low level of interest does not signify the end of the Eastern Partnership that will be able to provide support for the transformation process in the societies of the EU's eastern neighbours.

The partner countries were represented by Gevorg Ter-Gabrielian (Eurasia Partnership Foundation, Armenia), Zaur Shiriev (Centre for Strategic Studies under the President of Azerbaijan), Leila Alieva (Centre for National and International Studies, Azerbaijan), Dzianis Melyantsou (Belarusian Institute for Strategic Studies), Merab Kakulia (Georgian Foundation for Strategic and International Studies), Tamar Beruchashvili (Chief Adviser of State Chancellery, Georgia), Stanislav Secieru (Centre for East-European and Asian Studies, Romania), Volodymyr Sidenko (Institute for Economics and Forecasting of the

National Academy of Sciences of Ukraine) and Oleksiy Kolomiets (Centre for European and Transatlantic Studies, Ukraine).

Although there was a serious debate over the potential content and outcomes of the Eastern Partnership Initiative, the contributors of the volume agreed on the importance of the whole Partnership. Despite the existence of many other pressing issues, the question of visa liberalisation appeared to be one of the central issues of the debates. Most of the Eastern Partnership countries are considering the substantial simplification of travel to the EU as an important symbol of closer relationship. Especially experts from the Ukraine and Georgia underlined the importance of the Deep and Comprehensive Free Trade Agreement that consists of basic elements of the single market. The representatives of civil organisations from the region emphasised the importance of the third sector in the Partnership: instead of government institutions it is rather the civil society that might be the future engine of the process.

The potential role of the European Union in solving of the “frozen” conflicts (between Armenia and Azerbaijan on Nagorno-Karabakh, between Georgia and Russia, and in Transnistria) was also discussed. The possibilities of the EU are strongly limited by the interests of Russia, and the whole Eastern Partnership initiative very much depends on the developments of EU–Russia relations.

As it was repeatedly stated, the political and economic conditions and interests of the partner countries and their relations to the EU are substantially different. While Armenia, Azerbaijan and Belarus can be classified as authoritarian regimes, Georgia, Moldova and the Ukraine have more or less functioning democratic institutions. Concerning the economic conditions, unlike the other five countries, Azerbaijan—due to its oil revenues—hardly needs any financial support from the EU. It is more the EU that depends on Azerbaijan as a potential partner in European energy-diversification plans. Therefore, European efforts to foster democratisation in Azerbaijan have encountered serious obstacles.

Based on their experiences with the Eastern Partnership the participants of the conference formulated the expectations for the future, concentrated on the second Eastern Partnership (EaP) summit that was to be held under the Hungarian Presidency. While the first Prague summit was characterised by declarative statements, a more pragmatic approach with tangible actions is expected from the second EaP summit. In the partner countries’ opinion, the financial support of the EU committed to the region should be brought in line with the EU’s political goals. Most of the Eastern countries count on an active European presence in regional security issues and in conflict resolution. Also,

more attention should be given to the civil society, which may increase the transparency of bilateral relations as well. Although the Eastern Partnership conference was finally postponed to the Polish presidency in the second half of 2011, the experiences and expectations of the Partnership countries are still unchanged, and are worth to be considered by European decision-makers.

The second part of the volume consists of two studies relating closely to the Eastern Partnership issue. The study by András Rácz (Hungarian Institute of International Affairs) tries to give an evaluation of the efficiency of EU policies towards Belarus, the politically most isolated country in Europe: how effective have the human-rights based European conditionality proved to be, and whether there are other options available. The hypothesis the author tries to prove is that instead of human rights, economy is the field on which the EU can actually have an effect on Belarus. Therefore, economy-related policies are the ones on which the EU should focus when dealing with the Lukashenko-regime.

The study written by Zsuzsa Ludvig (Institute for World Economics) examines the troublesome triangle of Russia, the European Union, and the Eastern Partnership countries. The author argues that rivalry and competition for the EaP countries is the worst option for both “the great powers” and also for the EaP countries, sometimes forced to make impossible decisions.

The volume gives a good overview of the various aspects concerning the Eastern Partnership and greatly contributes to the better understanding of this complex issue.