

Europe in the World

Claude Grasland, Clarisse Didelon, Bernard Corminboeuf, Marc Guerrien, Nicolas Lambert, Isabelle Salmon, Laurent Aujean, Gilles van Hamme, Pablo Medina, Christian Vandermotten, et al.

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ESPON
EUROPEAN SPATIAL PLANNING OBSERVATION NETWORK

ESPON project 3.4.1.

Europe in the World

Final Report – Vol.3: Case studies

Co-financed by the European Community through the Interreg III ESPON Programme

ESPON 3.4.1
Europe in the World

Final Report – Vol.3: Case studies

This report represents the final results of a research project conducted within the framework of the ESPON 2000-2006 programme, partly financed through the INTERREG programme.

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INTRODUCTION TO CASE STUDIES

This third volume of the final report is especially dedicated to the extensive presentation of 9 case studies. All of them are already shortly presented inside boxes, in order to complete and to make more concrete the synthetic presentations of the first volume. Almost all the case studies presented below were already provided by the second volume of the Second Interim Report but most of them had not reached the final stage of their elaboration.

Henceforth, the value added of the third volume lies in the possibility to read the entire texts of each case study, on the one hand, and to enjoy an impressive set of graphs, tables and maps which can not be introduced in the first one. All these case studies are directly connected to the themes developed in the four key questions. They shall provide the readers of the report with more precise information. In some cases, they shall also give them the opportunity to raise questions and to develop analyses which were not necessarily highlighted in the first volume.

The following case studies can be distributed in several groups according to the key question they are connected with. The more comprehensive one is a study of the representations of Europe and the World (page 19) which prevail among the experts of the ESPON program, who constitute the so-called ESPON community. This study was set up by the Team RIATE during the Luxembourg ESPON seminar in May 2005 and during meetings of several TPG groups, which were held since 2004.

Others are explicitly dedicated to the way that ESPON is embedded in the globalization. They point at the consequences of this process as an efficient factor of differentiations inside the ESPON territory, through three examples. Two of them have an explicit economic content. One aims to show the place and role of Italian firms in the globalization process and the consequences of this process

on the organization of the Italian economic space (page 60). What is the geographical orientation of the Italian firms? Which Italian regions take advantage from the internationalisation process? The second one aims to show the consequences of the growing openness of the European economy on the recent performances of three marshallian districts (page 74). The last one is indirectly connected to the economic issue and is more focused on demography (page 91). It aims at distinguishing various immigration patterns in several ESPON countries. It addresses the role of international migrations as a response to the growing problem of labour shortage in a rapidly ageing Europe.

Five other case studies are connected to the "neighbourhood" key question, and they follow a multiscalar method. They address, more or less explicitly, the relations of EU with various neighbour countries such as Russia, Belarus, former Yugoslavia, Morocco, Switzerland, and so on. In a more detailed way, they also point at the evolution of relations between those neighbours with certain EU members and eventually with regions of these EU members. Consequently, they give clues to understand the impact of the neighbourhood's evolutions on the ESPON territory at different levels through various issues such as trade, investments and migration flows, remittance flows, cross border cooperation, political relations, etc.

What are the main outcomes of these in-depth studies?

1. Some indicators show that the neighbourhood is more and more closely connected to the European space. Some others show that neighbour countries and regions more and more look like ESPON ones. Such conclusions should lead each European citizen to re-evaluate the relevance of the continental definition of Europe, characterized by would-be "once-for-all-defined" limits (Mediterranean, Urals, etc.). To this respect, the ESPON community is in the mainstream, showing opinions perfectly in line with the prevailing representation of Europe, as a closed and strictly limited continent. One can wonder what would happen if the outside (that is the neighbourhood) were more often taken into account for the conception and implementation of the European regional policy.
2. They all empirically confirm that ESPON and EU are not isolated or closed entities. They are totally embedded in the globalization. They not only play a role in the organization and the dynamics of the global space at various levels. They are opened to the outside: the spatial differentiations of their territory are partly conditioned by what happens outside.
3. There are conspicuous interactions between internal ESPON's and outside evolutions. Such interactions do not follow the same evolutions and do not necessarily have the same consequences at the macro-level (neighbourhood and EU relations), the meso-level (neighbour country and

ESPON member state relations) and the micro-level (neighbour regions and member states' regions relations).

4. There is an impressive variety of responses of ESPON's regions and states to outside evolutions and global processes. It is then hard to foresee their consequences and to use such evolutions and processes as means for the spatial planning and the local development in the ESPON states. The case of migrations flows is particularly relevant. It perfectly demonstrates that these flows can not be easily used to compensate labour shortage and worrying demographic trends in rural and peripheral parts of Europe.

We hope that these case studies will provide not only the readers of this report but also the partners of other ESPON projects with valuable inputs, especially the projects 3.2 (Scenarios) and 3.3 (Lisbon Strategy). We also hope that the main outcomes of this third volume will be eventually used by the members of the ESPON Monitoring Committee, independently from the results of the ESPON project "Europe in the World, The World in Europe".

Partie A

ESPON Survey on Europe and the World

1. SURVEY ON THE REPRESENTATION OF EUROPE AND THE WORLD OF THE ESPON COMMUNITY

Clarisse Didelon
UMS RIATE

Come, here's the map: shall we divide our right
According to our threefold order ta'en?
W. Shakespeare, Henri IV, Act 3, Scene1

1.1 Justification of the case studies and link to key question

This case study is integrated to the Key Question "*Delimitation of World Regions*". One of the aims of the "*Europe in the World*" project is to propose an efficient World division in regions. This regionalisation of the World is supposed to serve as a support to the European International policy, especially in the development of aid flows matters and neighbourhood policy. Therefore, it is interesting to determine which delimitation of World regions researchers, administrators and policy makers of the ESPON program have in their minds, in order to evaluate to which degree the delimitation that will be proposed by the project is a new one / not obvious one, and consequently how difficult it will be to make it accepted by policy makers. This survey aims also to determiner to which degree the mental map of the World of people is determine by their knowledge of different phenomenon like geographic, climatic, economic, historic, political ones.

The "*Survey on the vision of the World of the ESPON community*" was undertaken under the responsibility of UMS RIATE as a complement to the databases produced in the work package W.P.2.6. This work package aimed to gather and analyse official World divisions produced by International Organisations (ONU, UNDP, FAO and OECD), international Non Governmental Organisations (Care, Red Cross…) and private global companies. It comes also as a complement to the provisional system of regionalisation (World Unified Territorial System – WUTS) that intends to support empirical analysis and harmonise maps and statistical tables developed in the project.

1.2 Scale of the study. Clear indication of the space of study

The analyses undertaken in this case study are developed at three levels (cf. annex 01: the questionnaire).

- **World level**. The main part of the survey was the drawing of the limits of World regions on a World map established with polar projection. Taking the World as a whole the objective is to produce an "average" or "dominant" vision of the World division within the ESPON community.
- **European level**. The second level of analyse is the Europe one. It was asked to the surveyed people to draw the limits of Europe on an "Enlarged Europe" map.
- **Country level**. For specific countries analysis have been made at the national level in order to explain why they are put in Europe or not.

1.3 Hypothesis of the case study

1.3.1. Hypothesis about the drawings

- By drawing the limits of Europe or of World regions people reveal things that are not aware of coming from their primary education, their cultural background
- They can draw limits that they would not necessary agree if they were asked about it in language form
- Some limits, some parts of the World will be clearly identified other not. They represent either strong realities as considering Africa as a whole, the Mediterranean Sea as a limit… Others are blurred realities as the position of central Asia.

1.3.2. Hypothesis about the relation between individual attributes and drawing

The survey aims to determine what the dominant representations of the limits of Europe and of the regions of the World in the ESPON community are. More are they relations between those limits and regions and the individual attributes (gender, age, nationality, profession) or the criteria that people claimed to use (history, economy…)

- Is there a relation between frequency where a country is included in Europe and the number of people declaring to have visited it? The hypothesis could be that when a large number of people have visited a country, this country is better known. This knowledge could modify the previous perception on the proximity level of this country from European ones.

- Is their relation between the drawing of Europe and the age / nationality / country of birth of the members of the ESPON community? Those questions are

in relation with the fact people are born in Europe Union, live in an old or recent European Union country. For example: do people from the first six countries of Europe Union have a narrower of broader view of Europe than people from new member states?

1.4 Replicable methodology, problems, questions

1.4.1. Steps of the realisation of the survey

The survey has been realised in three stages:

- One on the ESPON project 3.4.1 members during the kick off meeting of the project in January 2005 in Paris (14 answers)
- One on the ESPON lead partner during the lead partners meeting in Brussels in February 2005 (21 answers)
- The last one during the ESPON seminar in Luxemburg in May 2005 (88 answers)

Unluckily all 123 answers can not be used because of some mistakes or some oversights that lead to a usable number of answer equal to:

- 117 for the individual attributes
- 116 for the limits of Europe
- 110 for the World divisions

1.4.2. The question of drawing limits

We asked to the ESPON community member to draw limits of Europe and of World regions on two specific maps. Concerning Europe it was the European Neighbourhood Template (cf. First Interim Report of the ESPON project 3.4.1.). Concerning the World it was a circular map with projection on North Pole. This then avoid putting Europe in the centre of the World. More, the map was non-oriented and people can handle it as they want as it was a dish of paper not attached with the rest of the survey.

To use a drawing on a map rather than a list of country raise a problem and even more when the name of the countries are not specified. That implicitly implies that people know to name the countries from a map and therefore where they are located. We are not sure that people know the location and the name of the countries in the World map and maybe neither in the Europe map.

However we deliberately chose this procedure because it is far more precise in the inclusion of a country in a region. A country can belong to a region as a whole. But the drawer can also split it in two or more parts and affect it to many

zones. This gives precious indications on transition zones between two World regions.

1.4.3. Building the databases

The building of the databases has been a very long process. Many problems have been faced during the building of the database for the Europe map as well as for the World one.

1.4.3.1. Specific problems for the Europe map

Concerning the Europe map the codification was rather simple. The answers to the questionnaire are codified as follow:

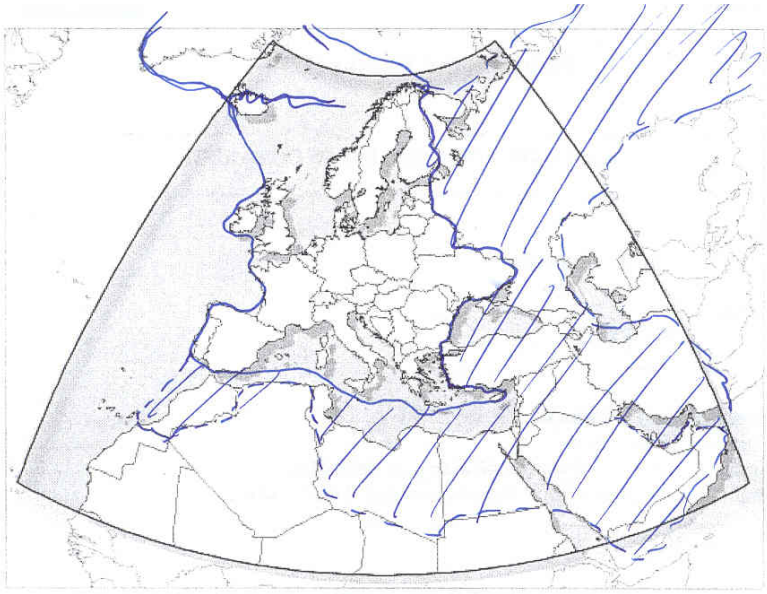
- "1" if the country belongs to Europe in a questionnaire
- "0" if the country does not belong to Europe.
- "0.5" if the country is cut in two part one of them belonging to Europe.

However, many problems have been faced during the codification, as some of people did not following the instructions and imagined creative unexpected solution…

First in some of the questionnaires two "European" delimitations have been proposed introducing a gradation in the belonging to Europe (figure 01). The question was more restrictive and it was assumed that the gradation in the intensity of belonging to Europe would be found thanks to the frequency of attribution of a country to Europe or if a country is cut in two parts. It has been then decided to take into account the larger zone as the delimitations of Europe. This problem has been found in 6 questionnaires.

Another problem was incoherence between the drawing of Europe and the written explanation in the part reserved for the criteria used to draw the limits. For example, many times the criterion "ESPON space" has been used to justify the drawing of Europe. But sometimes the drawings of the limits include the Balkans countries, i.e. Albania and the countries from the former Yugoslavia which are not actually ESPON members. In that case we used the map and therefore the drawing instead of the justification.

Figure 1 : gradation in the belonging to Europe



1.4.3.2. Specific problems for the World map

For the World each country has been affected to a region according to the answer of each participant. The fact that a country can be cut in two or more part raise therefore a new problem (figure 02): the multiplication of the spatial references. Then, if a country is divided, as much new spatial units as the number of parts are introduced in the table. A number has been attributed to the new country line: the larger zone gets the first number, the smaller one the last one. For example if Iran (figure 02 & table 01) is divided in three part, the larger one being "Central Asia", the second one "Oil countries", the smallest one being "India World" the codification will be :

Figure 2 : example of a problem of codification

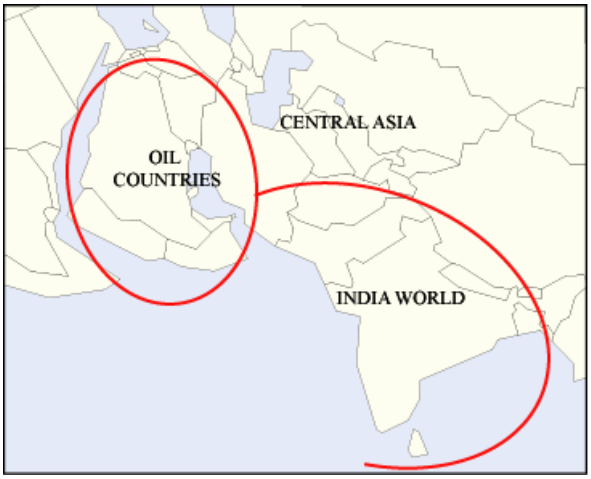


Table 1 : example of codification

Country name	Zone name
Iran_01	Central Asia
Iran_02	Oil countries
Iran_03	India World

After the first preliminary survey, it has been discovered that it was very difficult to deal with zones recovering each others (figure 03). It was then specified in the instructions of the following surveys that "one place should belong to only one region". However some people draw zones recovering each other. In order to take them into account in the statistical analysis it was then decided to draw a median line between the intersections points of two recovering zones. This new line is thus considered as the limit of both zones (figure 04)

A very problem was raised by the fact that some people from the ESPON community refused to divide the World. As we asked them to divide the World in at least two parts, few of them draw a small zone in the North Pole area and then considered the rest of the World as the second zone. This point of view is very interesting and has to be taken into account in the interpretation of the results. However it was not possible to include them in the statistical analysis because that kind of division was not suitable with the methodology used.
It was the same problem for survey proposing an original point of view in the division of the World but whose divisions was covering a too small part of the World. For example one questionnaire (figure 05), shows a World in three parts: 1: "my" vacations space, 2: "my" work space, 3: the rest of the World. Another questionnaire (figure 06), shows a World in two parts: 1: "my" house, 2: the rest of the universe. The inclusion of such original answers in the statistical analysis should have introduced too much bias. They have not included in the study but they will be taken into account in the interpretation of results.

Figure 3 : dealing with the recovering zones

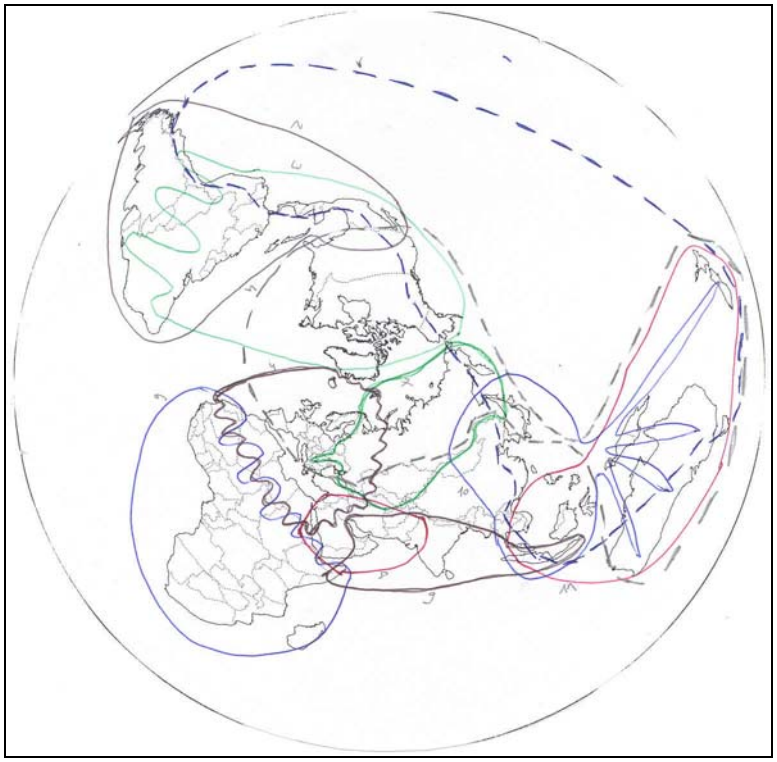


Figure 4 : solving the problem of recovering zones

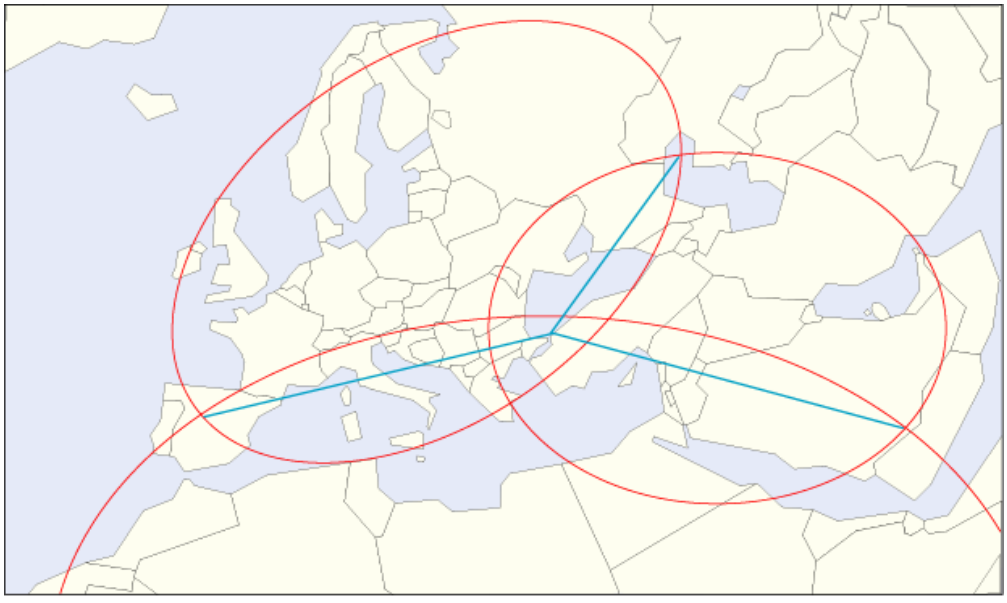


Figure 5 : A World map from the preliminary survey

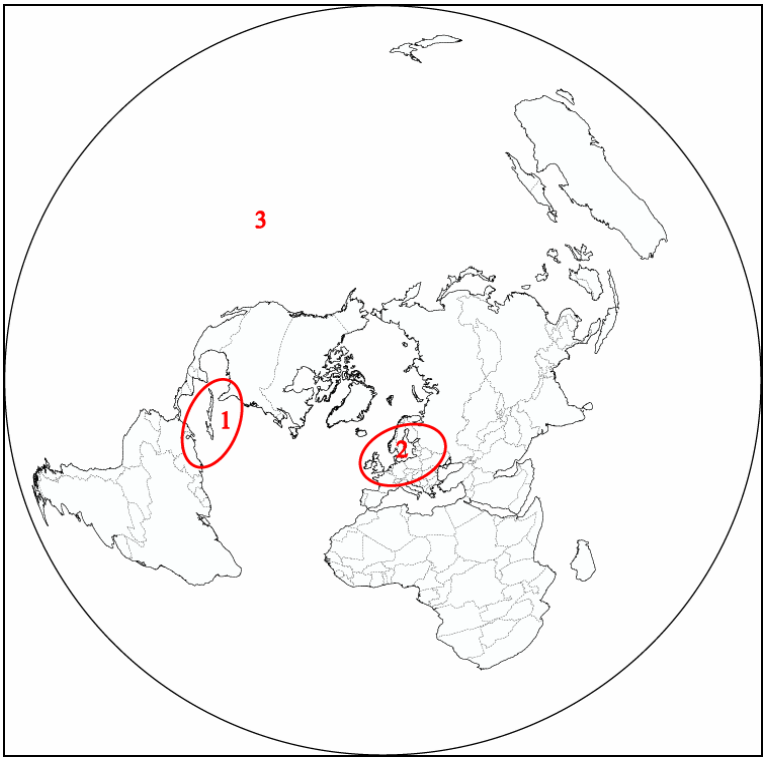
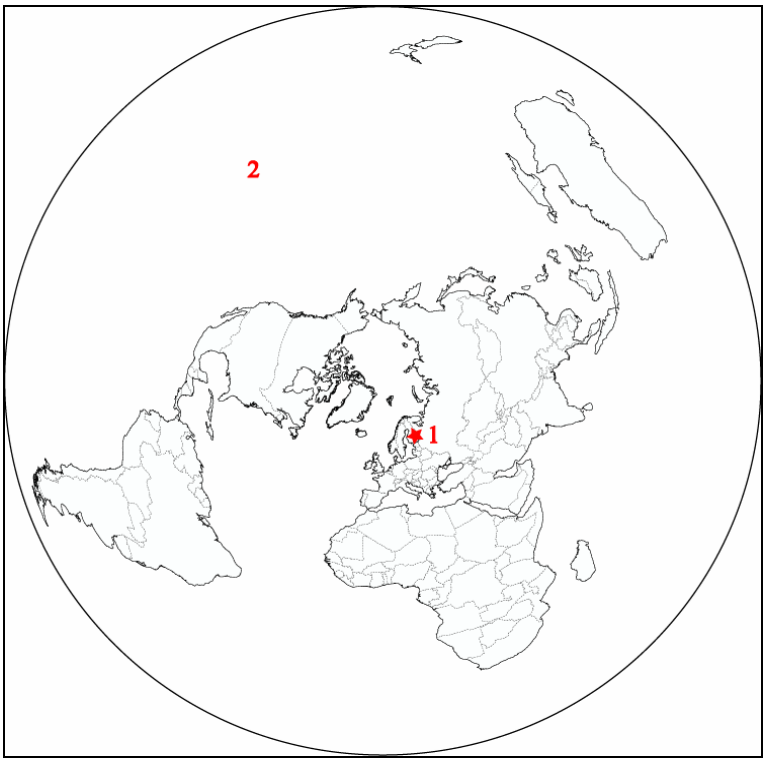


Figure 6 : A World map from the survey



The matrixes have been built with the same methodology used than for the study presented in the Key Question 01 on mental map. However additional matrixes have been built:

- The divided and forgotten countries matrix

This matrix aims to take into account the countries that have been divided between two regions. For each country it establishes the frequency of the division of a country in two, three or four part. More, some countries have been forgotten in the drawing of World regions and put in a so-called "rest of the World" implicit region. This matrix aims also to establish how many times a country has been forgotten.

- The links and discontinuities matrix

This matrix establishes for each couple of contiguous countries the intensity of the link or of the discontinuities between them.

1.4.3.3. Criteria

After the drawing of the limit of Europe a question were asking: "*Which criteria did you used for this delimitation?*" One hope was that the use of a particular criterion could explain the spatial extension of the drawn Europe or the inclusion of a country or not. Six questionnaires did not indicate which criteria were used in the drawing of Europe and in consequence could not be used in the following analyses.

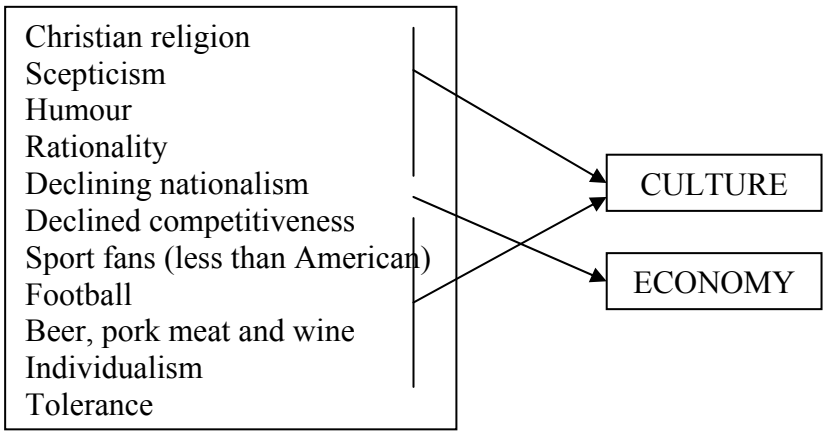
No precise criterion was proposed in this open question and therefore many criteria were quote. In order to make the analysis easier they have been grouped in 8 categories presented in the table 02. The most frequent criterion used is the geophysical / geographical one. This criterion is typically used by people who want to let know that Europe is fact that can be defined by objective factors. However as is as been shown in the First Interim Report of the ESPON project 3.4.1. and in the attempt to define Europe in the Second Interim Report, the physical criterion is in fact subjective one and more, often promote with a political purpose. The culture criteria, more often defined by religion, would join the Huntington point's of view on civilisations. The "politic" criterion was more often used in order to justify the drawing of the present delimitations of European Union. Last, the History criterion was used to gather countries that have a common past, even if this past is made both of confrontations and war as well as peaceful exchanges. That explains the ambiguity of Russia and Turkey status.

Table 2 : Frequency of use of criteria

Contiguity	4
Functional	9
Economy	13
Feeling / Personal	18
History	32
Politic	40
Culture	44
Physical / Geo	55

Making groups of criteria raise some difficulties, mainly concerning the interpretation of the criteria listed in the questionnaire as shown is the following figure 07. Religion has always been considered as "Culture". More, the interpretation of a criterion raises other problems. For example, does "economy" means that people gather countries because they have the same economic profile (homogeneity) or because it exist a strong economic relation between it and Europe or that an economic relation could be of some interest (complementarity)?

Figure 7 : criteria grouping



1.4.4. Methodology to analyse the survey

- Statistical univariate and multivariate have been applied to the whole database in order to reveal main trends related to attributes, frequency of belonging to Europe or of a specific area in the World.

- Specific tests have been made on specific countries (first bivariate analysis and then maybe a logistic model will be developed). The choice of countries is very sensitive but it is first determined by the frequency at which they have been included in Europe focussing on "in between area". If the number is too high or to small it will be not possible to make the analysis.

1.5 Empirical result of the case study

1.5.1. The Typical Espon seminar member

1.5.1.1. The ESPON "ideal-type"

An "ideal type" is a qualitative model constructed out of selected elements of reality which can maybe never be found as such in reality. It involves an accentuation of typical characteristics of a phenomenon.

It has been tried here to build an ideal type of the ESPON seminar member. To do so it has been decided to put the stress on the most frequent answer in some categories (for example age categories). The value of the more important frequency could be quite different from one variable to another one because categories are quite different. For example 28 categories have been made to the "country of birth" variable, and 2 only for the gender. That is why it could happen that some statements are contradictory (for the graphs related to each variable see the annex 02).

The typical ESPON seminar member is a **man**, **born between 1970 and 1979** (however the average date of birth is 1963) in **Germany** with actual German nationality. The two other more frequent nationalities are French and Italian and people from the 6 founder countries of European Union represent 46% of the ESPON Members. However about 60% of the participants were not born in the European Union, i.e. in a country that was belonging to European Union at the date of the birth. The Typical ESPON seminar member is a **researcher** who travels abroad more than once a year but less than once a month. In European Union he has already visited **18 countries** mainly Belgium, Italy, France, Luxembourg and Germany. Outside Europe he has visited an average of **4 countries** mainly Canada USA, Russia and Turkey.

1.5.1.2. Profiles from a multivariate analysis

A multivariate analysis on the individual attribute provides a more precise figure of the ESPON community. The first component (15 % of information) (table 03) underlines an opposition between older researchers not born in Europe and who travel a lot and younger people, born in Europe travelling less often. The second component (11 % of information) (table 04) introduces a differentiation according to the age, the gender and the date of adhesion of the country of residence or birth.

Figure 8 : ESPON members' profile

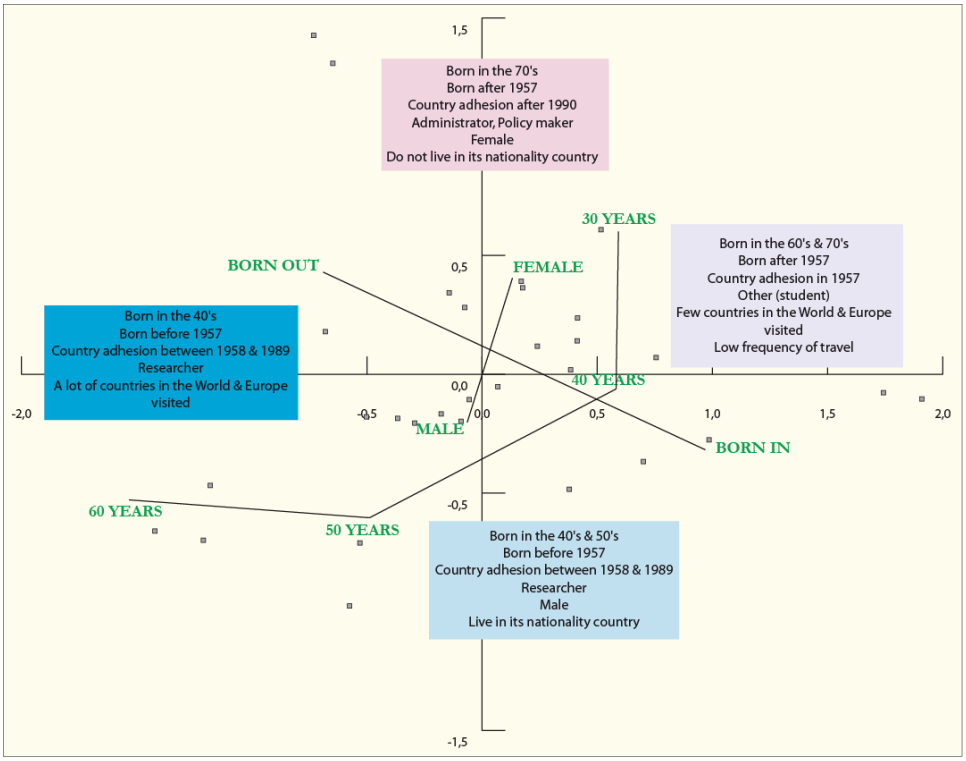


Table 3 : Oppositions in the first axis

Born in the forties	Born in the sixties or seventies
Born before the Roma Treaty and outside European Union	Born after the Roma Treaty and inside the European Union
Live in countries which adhesion occurs between 1958 and 1989	Live in one of the six first countries of European Union
Visited a lot of countries in Europe and in the World	Visited few countries in Europe and in the World.
Researcher	Other (students)
	Travel less than once a year or once a year

Table 4 : Oppositions in the second axis

Born in the forties or fifties	Born in seventies
Born before the Roma Treaty	Born after the Roma Treaty
Live in countries which adhesion occur from 1958 to 1989	Live in countries which adhesion occur after 1990
Researcher	Administrator
Male	Female
Live in the country corresponding to its nationality	Do not live in the country corresponding to its nationality

Those profiles underline some trends that seem significant:

- Researchers from the six founder countries are rather young (between 26 and 45 years old) and therefore born in Europe. Some of them are not even researchers yet as it is from their part that the category "other" (that represents mainly PhD or post PhD) can be found. But the younger are the people coming from the very new European countries (adhesion after 1990). They are mainly policy makers and administrators. The researchers coming from countries of the second enlargement (between 1958 and 1989, i.e. United Kingdom, Ireland, Denmark, Greece, Spain and Portugal) are older and therefore not born in European Union.
- The number of female is more important in the younger age. That can underline the feminization of the European research.
- The residential mobility of young researchers and administrators. That can be due to two different facts. First, the residential mobility of the younger can be due to the opportunity to find a job in another country when there is a lack of opportunity in their countries. As older researchers live in their countries of birth that could mean that they ever work in their country or that they are back after some years abroad. The second solution would underline the existence of a kind of cycle of the research activity with few years aboard and a return to the country. But this mobility of young researchers could be also due to the increasing number of opportunities to work and travel in Europe thank to European exchanges programs or research programs and to the willing to discover other European countries. The cause of the residential mobility of young researcher in Europe is probably a mix of the facts proposed above.
- Globally, the punctual mobility, for work or leisure is rather important among the ESPON community. It is true that they have to go to the ESPON seminar twice a year, to LP meeting if they are Lead partners and to transnational project group meetings…

1.6 ESPON seminar particiants' view of Europe

Concerning the delimitation of Europe, a clear definition has not been provided. It could be either the present "European Union" as much as a geographical Europe, historical one, a wish for the political construction of European Union or more an utopia of what should be Europe in a more or less far future.

1.6.1. Description

The first surprise has been to discover how large was the Europe drawn by the ESPON seminar participants in Luxembourg. With an average of 37.9 countries, it is far larger than the present European Union. In fact the more frequent numbers

of countries included in Europe are 37 & 38. That means that about 40% of the questionnaires add 12 or 13 countries to European Union and 61% between 11 and 14 countries. Only one questionnaire draws a Europe with the European Union countries and three have been influenced by the ESPON template and draw a 29 countries Europe.

Figure 9 : the size of Europe

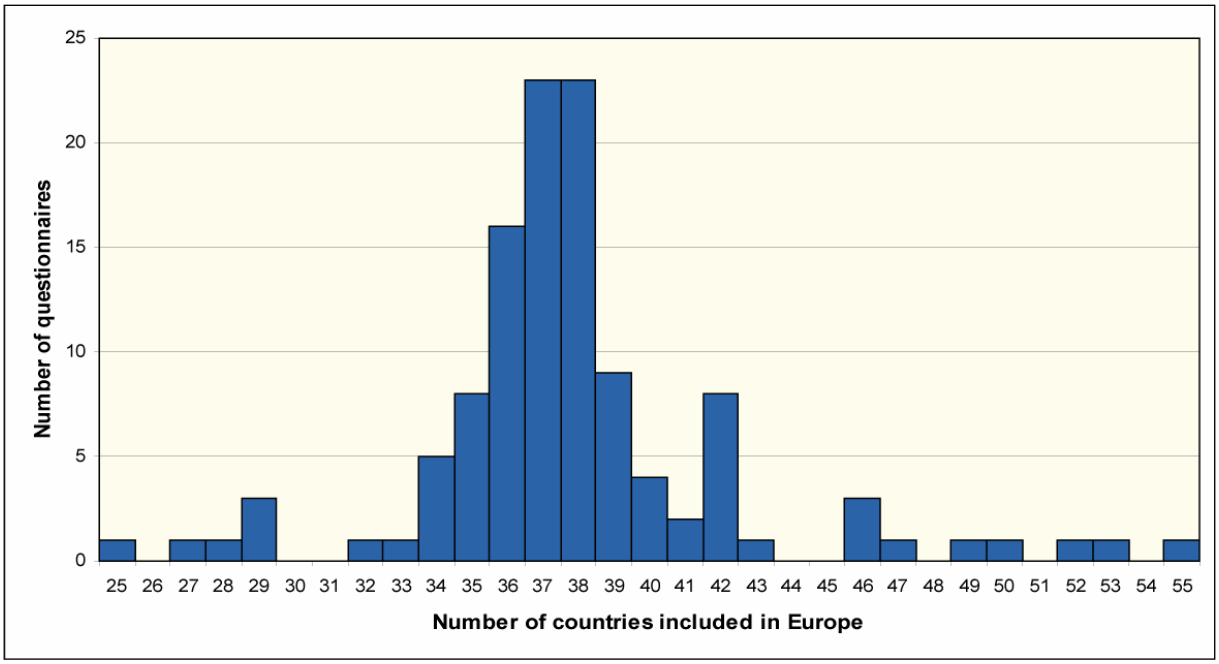


Table 5 : number of countries included in Europe

MIN	25
Median	37,00
Mode	37 & 38
Average	37,97
MAX	55

1.6.1.1. The Map of Europe: countries in, out or cut

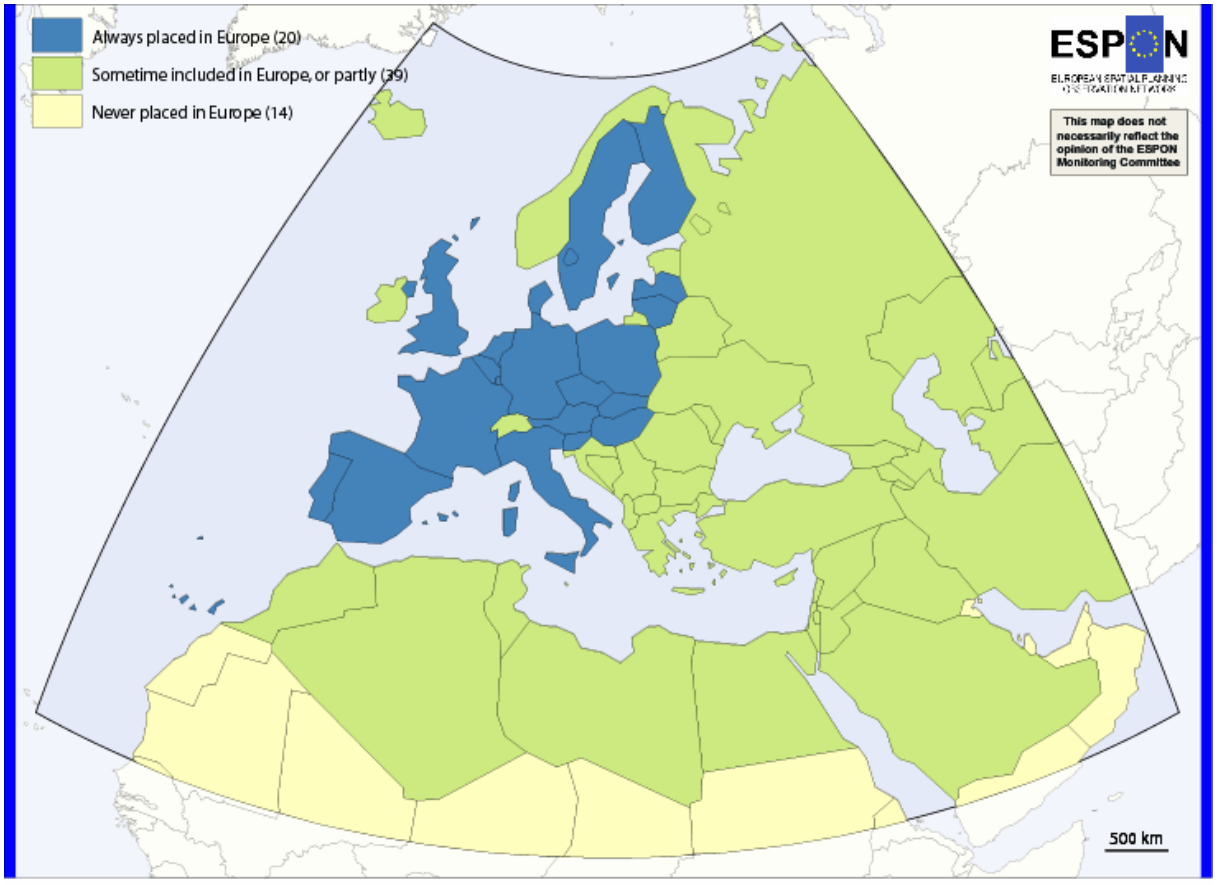
– "IN" countries are mainly always members of the European Union. The number of countries placed in Europe without being divided is 20 that is less that the number of countries actually being member of the European Union (25). They actually represent what could be called the core of Europe. We can notice that Greece, Ireland, Estonia, Cyprus and Malta have been "forgotten" by at less some participant to the survey.

– "OUT" countries are those located on the South of the Sahara desert area and Southern and Eastern countries from the Arabic Peninsula excepted Saudi Arabia which northern part is sometime included in the drawing of Europe. It

seems that those countries are clearly excluded from the mental maps of Europe of the ESPON community.

– Other countries, in light green colour, belong sometime to Europe sometime not or they can be divided in too parts. Eastern and Southern countries could be consider as a transition area, were the probability to be part of Europe have to be more precisely evaluate. Indeed, their situations are quite different from one country to another one. Some of them like Ireland, Greece belong to European Union and are nearly always placed in Europe. Others, like Norway, Switzerland or Balkan countries are very often placed in Europe. And the situation is quite different for other countries: some of them being put in Europe in only one questionnaire.

Map 1 : Countries placed in / out Europe and those that are placed sometime in / sometime out or that are divided

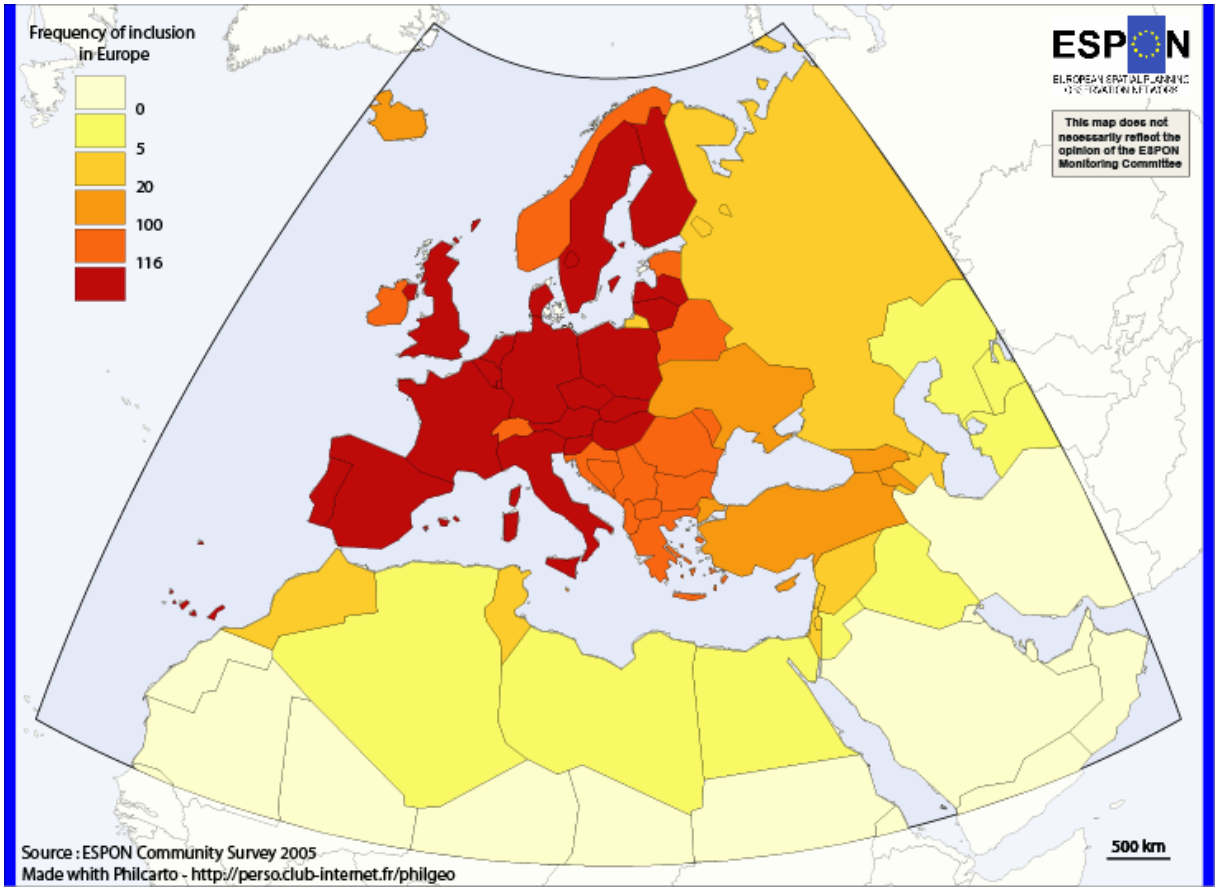


ESPON 3.4.1 (2005) - Clarisse Didelon
Origin of data : ESPON Community Survey 2005
Made whith Philcarto - http://perso.club-internet.fr/philgeo

1.6.1.2. Frequency of integration to Europe

Map 2 highlights the situation of countries that were placed sometime in Europe sometime not. A gradation from West to East is very clear showing that when one draws the limit of Europe on a map the proximity with the core of Europe makes it highly probable for a country to be included in Europe. The more impressive example is related to Albania and the countries from the former Yugoslavia. It is very rare when they are excluded from Europe mostly because they are located between the core of Europe, Greece and two candidate countries Bulgaria and Romania. Consequently maybe the drawer does not take time to ask himself if Serbia or Bosnia belong to Europe. If the question would have been posed rather than asking for a drawing it is likely that those countries would have not been so frequently included in Europe or would have been more differentiated (Croatia). The situation of Ukraine, Turkey, Georgia and Armenia is quite different as they have often been divided in two parts, one belonging to Europe, the other not. In consequence could those countries be considered as a first sign of a limit of Europe?

Map 2 : Frequency of inclusion of a country (as a whole) in Europe



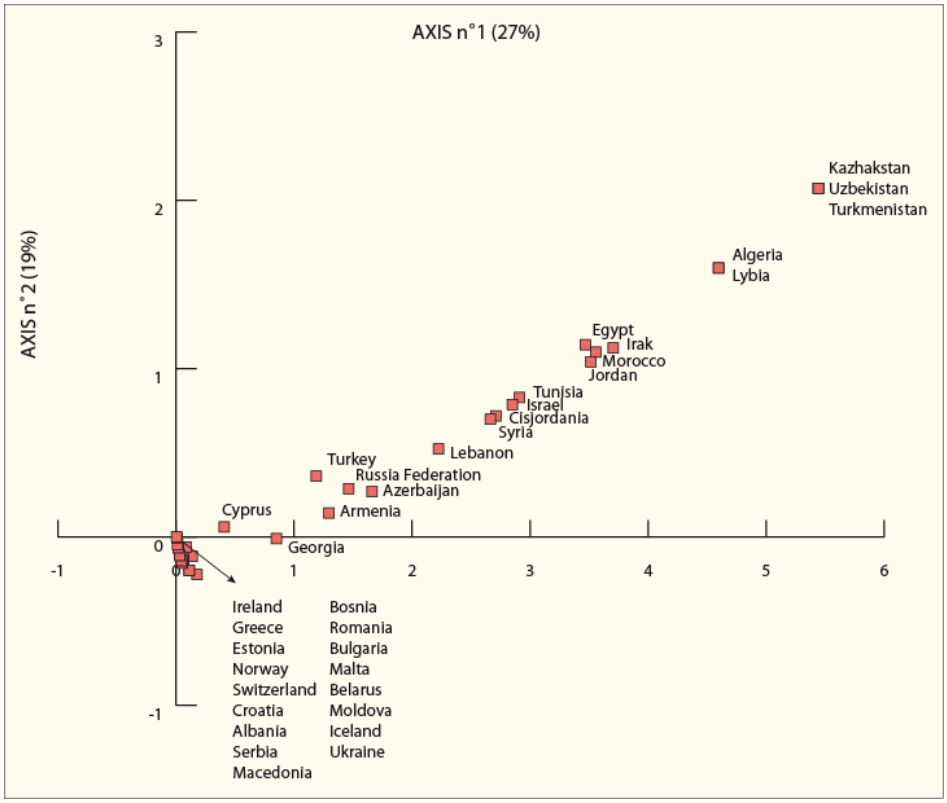
The inclusion of all Russia in Europe is a plunge that few questionnaires dare to take, maybe because the country is too large and because a big part of it is located in what people consider as Asia. Less than 17% of questionnaires placed it fully in Europe.
The Mediterranean Sea acts like a frontier between the core of Europe and other countries. There is no gradation like the one that could be observed in the East and the number of questionnaires that include them in Europe is small or very small.

1.6.1.3. In-depth analysis of margin

This analysis aims to go further than the simple description of the frequency by defining profile of inclusion of group of countries in Europe.

The first component of the multivariate analysis (graph n°02) presents a gradation of the frequency of inclusion of countries in Europe. A group of 19 countries are very often put in Europe. The second component globally makes an opposition between questionnaires that draw a Europe toward the East (Belarus, Serbia, Albania, Ukraine and Moldova) and those making it toward the South and Middle East.

Figure 10 : MCA on European countries.



The following map (03) presents a classification that allows to stress on two great trends in the inclusion of countries in Europe. First, the frequency of inclusion in Europe. The first group is composed of countries that are often or very often included in Europe (red & orange). The second group is composed of the countries that are not often included in Europe with different intensities (green, light greens) and the last one of Central Asia Countries (blue) that is only once included in Europe.
The second trend that can be observed is a regionalisation of countries. The red-orange cluster is clearly the drawing of Europe towards the East whereas green clusters concern Southern Mediterranean Sea countries and Middle East ones. This regionalisation is also visible in the subdivision of the green category as Iraq and Jordan (medium green) are close from Syria, Israel and West-Bank & Gaza in the classification even if the frequency of inclusion in Europe is equivalent to the one of Egypt, Libya and Algeria. The case of Tunisia and Morocco are specific as their smaller size allow people to put them in Europe as a whole without going too much to the south as it is the case for Algeria (that is very often cut).

1.6.2. Explanations

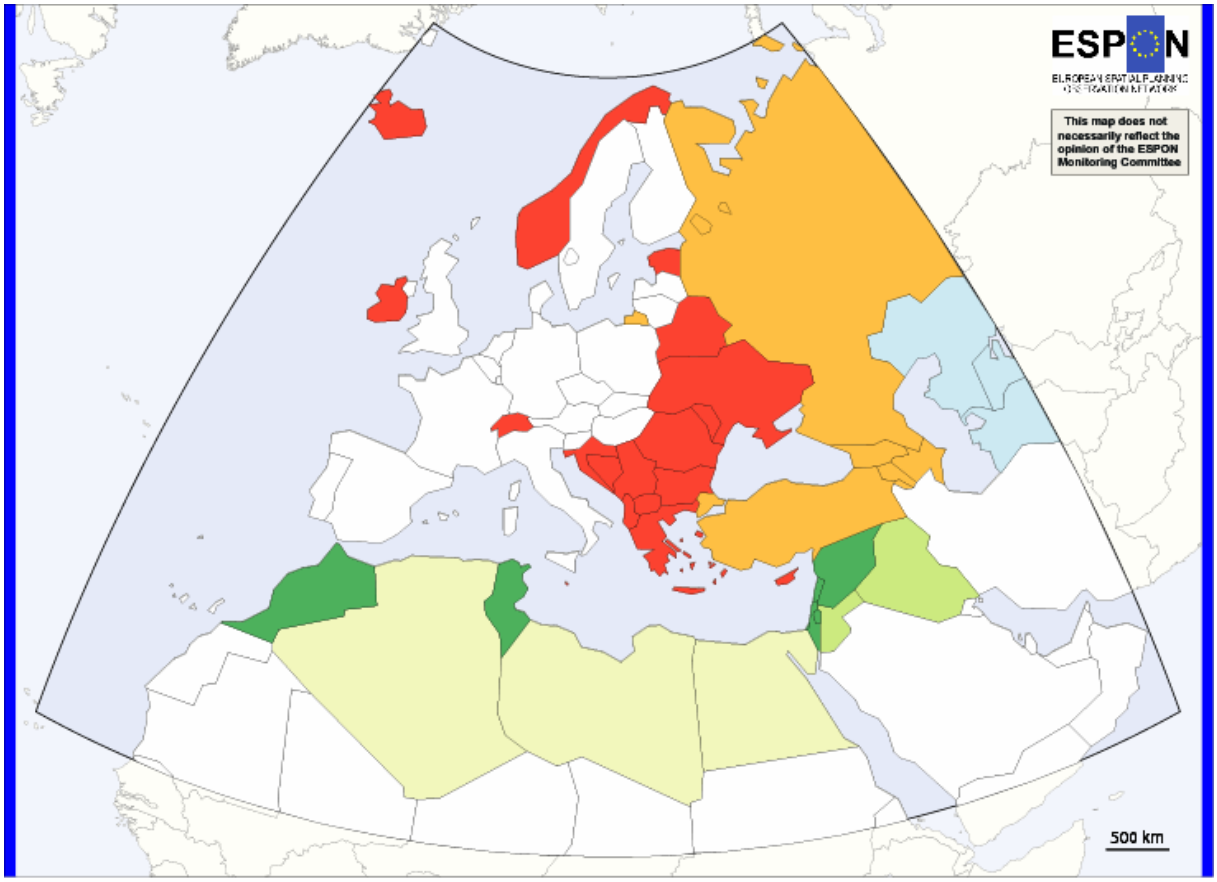
1.6.2.1. Criteria used to draw the limits Europe

Among all the criteria presented in table 02 only the "Physical / Geographical" criteria has a significant relation with the variation of the number of countries included in Europe. (Chi Square value is 6.9 and the "α" value is 0.032). The relation is the following one: people using the geographical criteria drawn a medium Europe (37 & 38 countries) and people not using it draw a small Europe (less than 36 countries).

Table 6 : Size of Europe and Physical geography criterion

	Do not use Phys / Geo	Use Phys / Geo	Total
Large	22,95	34,55	28,45
Medium	34,43	45,45	39,66
Small	42,62	20,00	31,90
Total	100	100	100

Map 3 : Typology of European margins according to how they are perceived in the survey



An analysis on criteria used could explain their use in relation with the drawing of Europe.

- The "Politic" criteria is significant but on the other side of the group significant variable describing the integration of different countries in Europe suggesting that to draw a large Europe the "Politic" criteria is not used.
- The physical criteria is used to included in Europe the Eastern countries and the political one by people including Southern Mediterranean countries and middle East that sounds strange according to the fact that the previous interpretation of this criteria as the "European politic construction".

- The "feeling" criteria is used by people considering Russian federation, Egypt, Algeria, Libya, Kazakhstan, Turkmenistan and Uzbekistan as being a part of Europe.
- Functional and economical criteria are used by people considering Estonia, Albania, Croatia, Iraq and Jordan as being a part of Europe.

1.6.2.2 .Could individual attributes explain the drawing of limits of Europe

The individual attributes we gathered are not only used to describe the typical ESPON seminar member, but also to try to find if there is a relation between them and the drawing of Europe i.e. the number of countries included in Europe.

Unfortunately, as it was the case previously concerning the criteria used, very few tests have significant result. Only one was very significant, but it is very difficult to interpret: the gender (significance level of 0.011). Men draw a larger Europe than women. The average number of countries included in Europe is 38.7 for men and 36.4 for women. This result seems actually very difficult to explain.

1.6.2.3. Turkey and Ukraine

Specific tests have been conducted for two countries that are in an intermediate position, both in the survey and in the geopolitical point of view: Turkey and Ukraine.
Turkey is now an official candidate country to be part of the European Union. Ukraine is in a sensitive position between its historical links with Russia Federation and the proximity of the European Union. More, both countries have sometimes been divided in two or more pieces in the survey (table 07).

Table 7 : Ukraine and Turkey in Europe

	In Europe	Outside Europe	Cut
Ukraine	**92**	**15**	**9**
Turkey	**25**	**41**	**50**

Source: Survey ESPON 3.4.1. Europe in the World

For both countries two different tests have been made: one using the three modalities (In & Out and Cut) and one other using two modalities (In & Out). For the second one, only 66 questionnaires were taken into account for Turkey and 107 for Ukraine.

Turkey in Europe

Absolutely none of the criteria used has a significant relation with the fact to included Turkey in Europe or not. However significant relations can be found when studying the personal attributes. Once again the gender is significant to explain the inclusion of Turkey (in both In & Out and Cut and In & Out tests). Women significantly put Turkey out of Europe and men in Europe. It is coherent with the test of the size of European Union but still very difficult to explain.
The two other variables that have significant relations are the number of countries visited in the World and in Europe.
Number of countries visited in the World has significant relation with the inclusion of Turkey in the In & Out and Cut test. But the test is not very significant and quite difficult to explain. People that have visited few countries in the World include Turkey in Europe… or exclude it. And people who travelled a lot in the World cut it in two pieces. Does that mean that people travelling a lot are more conscious of the internal differentiations of Turkey or that they are more likely to have a balanced point of view and not a clear-cut one?
The question can be raise also for people who visit Turkey: Are they more likely or not to include it in Europe? The relation is significant for both tests and show that people who have not visited Turkey are over represented among the people that exclude it from Europe and vice-versa. Would that mean that a better knowledge of Turkey lead to include it in Europe? But maybe that people that went to Turkey was previously more well-disposed toward Turkey.

Ukraine in Europe

Concerning Ukraine, again the same gender variable can significantly explain its belonging to Europe or not and again: women are more likely tempted to exclude it from Europe than men.
The new discovery for Ukraine is that some criteria have a significant relation with its inclusion in Europe and that for both tests. The first criterion to be very significant is the "politic" one. People who declare to use this criterion exclude Ukraine from Europe that is quite logical because Ukraine does not politically belong to European Union and remains clearly in the geopolitical influence of Russia from economic point of view (cf. recent gas crisis).

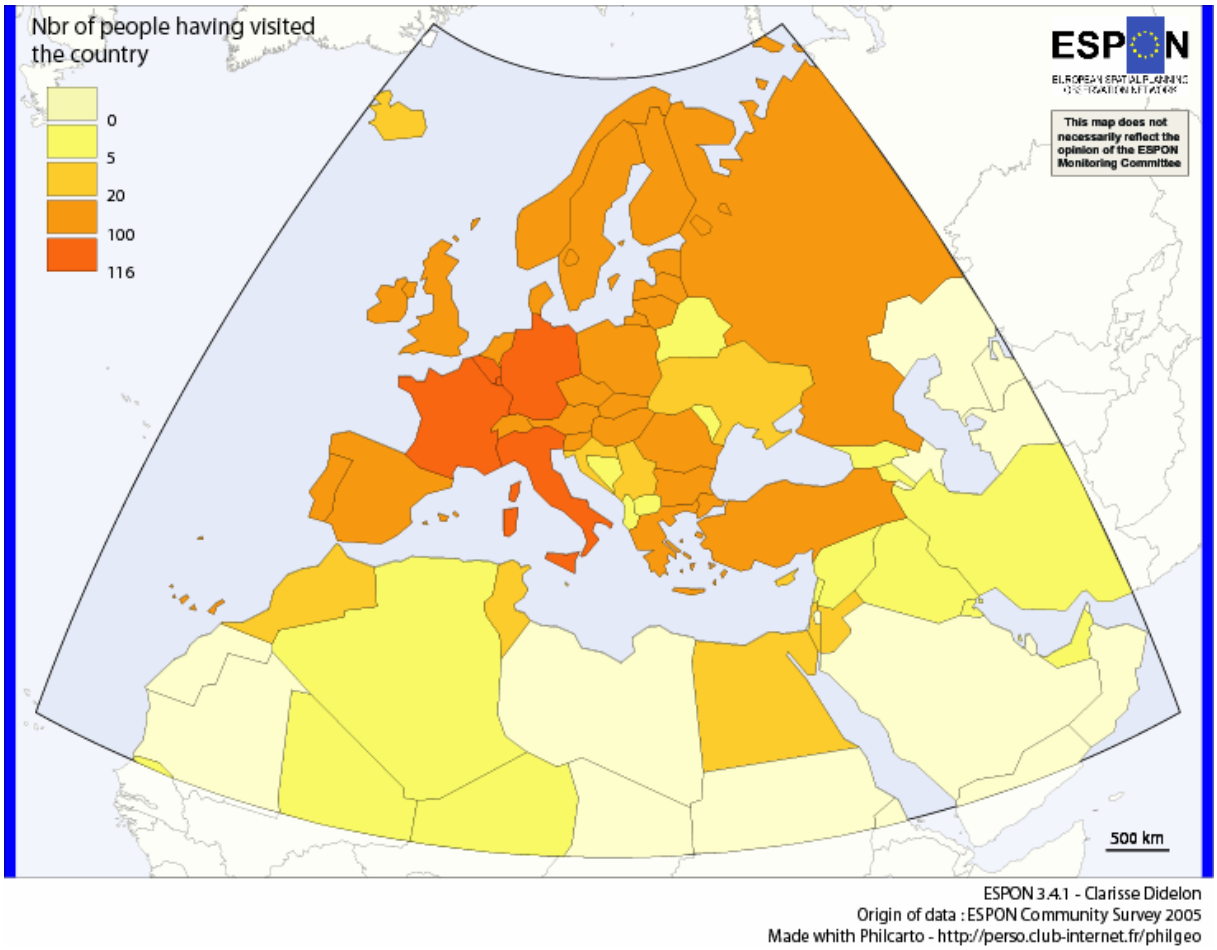
The other criterion to be significant is the "geographical" one. People who use the geographical criteria are more likely to include Ukraine in Europe. That seems quite logical too because, the physical criteria that is traditionally used to define the East frontier of Europe is the Ural Mountain one despite the lack of evidence of real physical frontier (c.f. dictionary of concepts).

1.4.2.4. A travel explanation?

A better knowledge about a specific country could lead people to more easily consider it as belonging to Europe or the contrary. So the following question is: is their a relation between the number of people that visit a country and the number of people considering this country belongs to Europe?

This map has to be compared with map 2 showing the frequency of inclusion of a country to Europe. There is no a strong tendency showing that more a country is visited more it is included in Europe. For example countries from former Yugoslavia are not very much visited but they are included in Europe in more than 85% of questionnaires. It is the same for countries like Belarus or Moldova. The trends of tourism flows can explain the cases of Egypt and Jordan that are more visited than the number of questionnaires that put them in Europe.

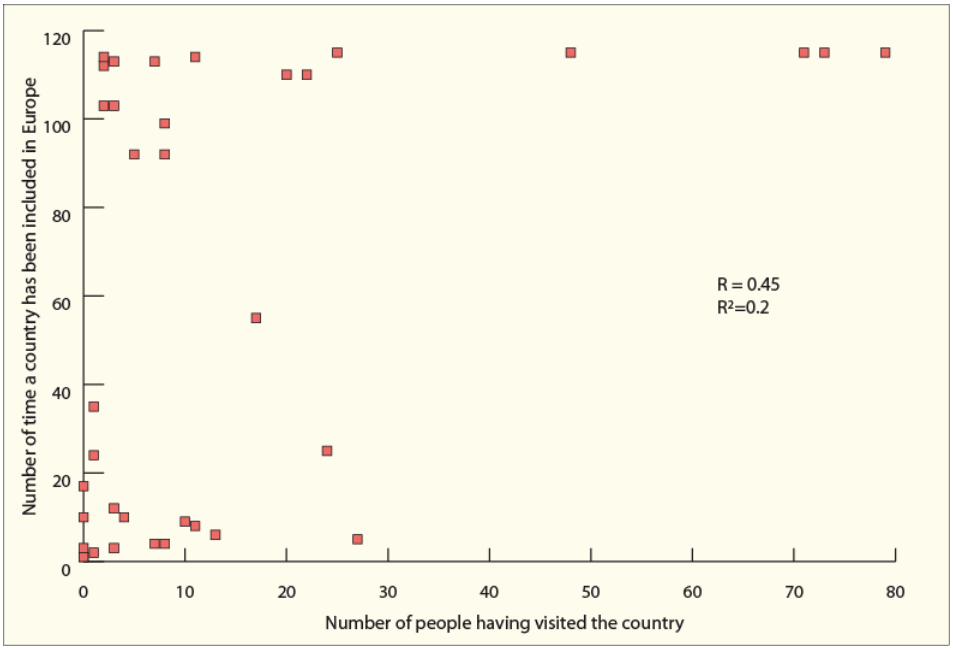
Map 4 : Number of people who give back a questionnaire who have visited the country



The existence of a relation can be easily checked with a simple correlation analysis. For this analysis only the intermediate countries (i.e. countries that are not always or never placed in Europe) are taken into account. The correlation

index in not high and the relation between the two variables could explain only 20% of the information. That could be a good beginning in the try to explain the fact that a country is included in Europe or not, but the pattern of the correlation plots shows that in fact there is no relation at all. In consequence, the frequency of visit of a country can **not** be consider as a way to explain the fact that people consider that country belonging or not to Europe.

Figure 11 : A relation between the visits of a country and the appreciation of its belonging to Europe?



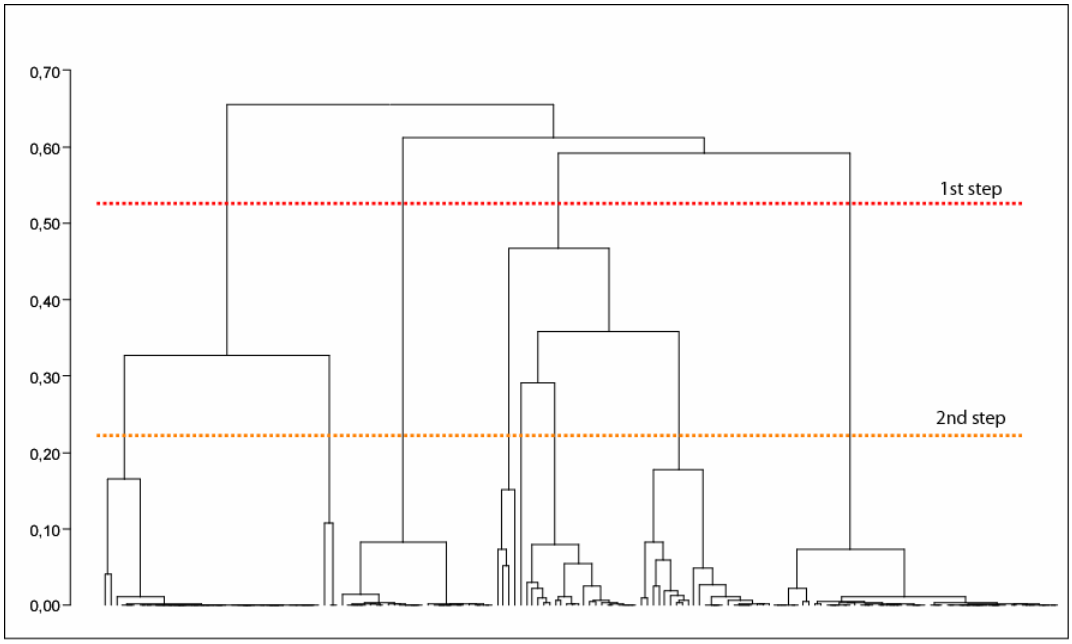
1.7 ESPON seminar view of the World

Our main objective when doing this survey at the World level was to define if the individual representation of the World regions of ESPON members could allow to identify strong groups of countries always put together in the same region. That would mean those countries are perceived as linked either by flows, similarity or accessibility. But then for which reason are they so perceived and could those countries be seen as a core group of countries that could be used in regionalisation process? One other question was to identify "blurred areas". By blurred area we mean areas that are put sometime with one group of countries sometime with another group. We should have then to define those areas. Are they transitions areas between two relatively homogeneous or integrated groups of country?

1.7.1. The significant steps in the division of the World.

We asked the ESPON members to draw on a round map the limits of 2 to 15 World regions according to them. The following maps were obtained thanks to a hierarchical ascendant classification[1]. This part is based on the comment of two more significant steps (cf. figure 08) as it was presented in the key question on the Mental Maps plus the last limit of fifteen zone because it was the maximum number of zones that it was allowed to draw.

Figure 12 : hierarchical tree of the classification



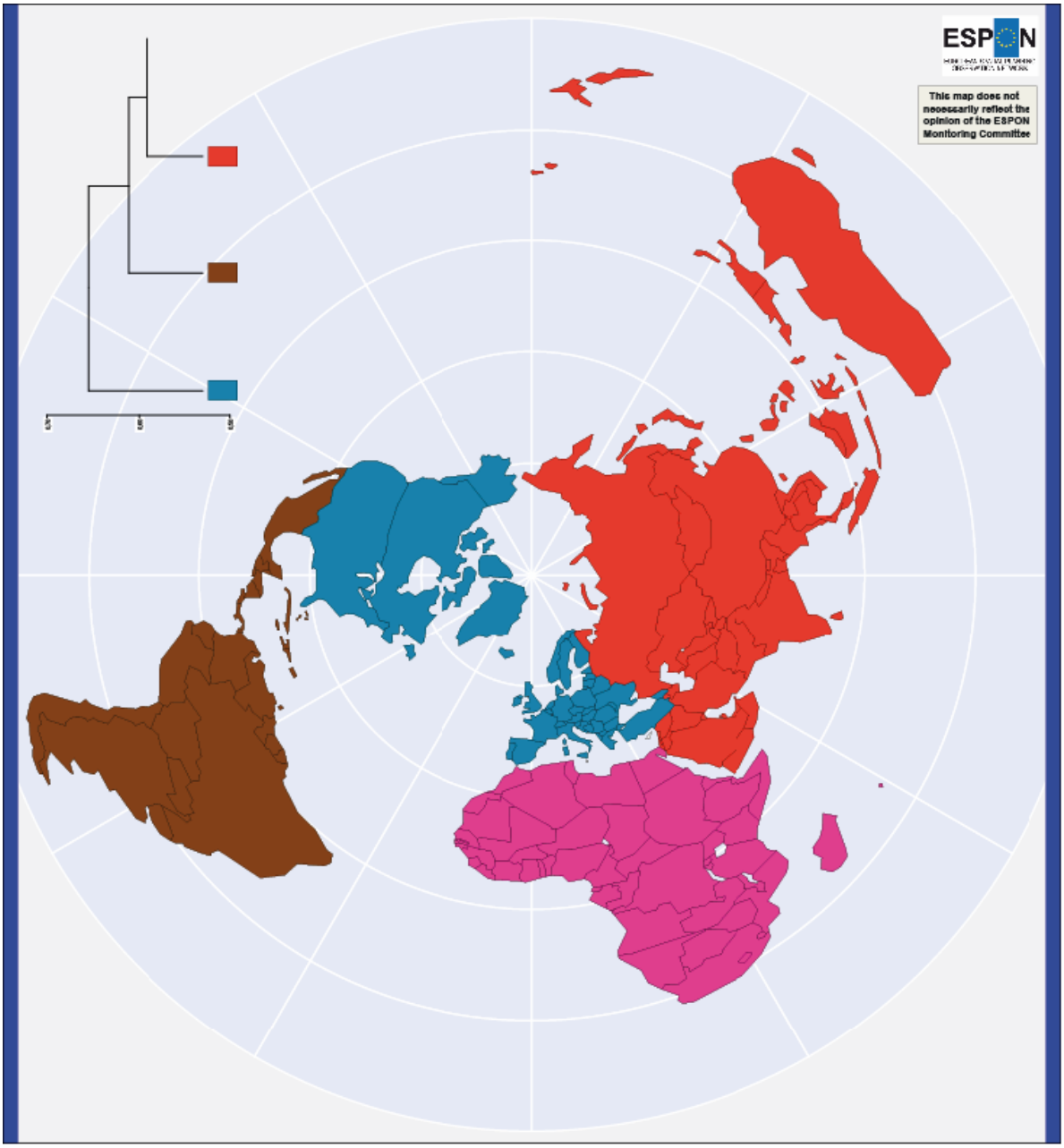
1.7.2. World in four regions

The first space to be clearly identified by the ESPON members is a World region formed by Europe plus the English speaking North America. Those two spaces are considered here as only one maybe on cultural criteria: this region look like the Huntington's Western civilization except the fact that Australia is not included and Europe is larger than Huntington's one because it includes Eastern Europe, Greece and Turkey that are not included by him. But it is also likely that this zone have been drawn by using wealth and development level criteria as they were often put in the same "north" or "developed" region in some questionnaires. More, this region is isolated and in the first step all the reminding countries belong to the same region "Rest of the World". This regionalisation reminds the strong tendency to Euro-centrist point of view of the World that is in the Key Question on mental maps of global actors.

[1] The methodology is detailed in the Key Study on the Division of the World in this report.

The second entity to be also clearly revealed is a large South America that includes Mexico and the Caribbean Islands. This region is associated to the continents point of view but it is mainly a cultural one with the extension of the region to Caribbean and Mexico that do not belong to the South American Plate. Mexico and some of the Caribbean belongs to the North American plate and other Caribbean Islands and Central America form a specific plate (See Figure 31 in the ESPON 3.4.1. First Interim Report).

Map 5 : The World in four regions



ESPON 3.4.1 - Clarisse Didelon
Origin of data: ESPON community survey
Made with Philcarto : http://perso.club-internet.fr/philgeo

Africa is also perceived with an evident continental existence and it is defined in the third step. This regionalisation follows very precisely the tectonic plate shape as Madagascar and Mauritius are nearly always included in this Africa region. At this stage a first significant step is reached in the partition The remaining countries form a very large contiguous region that can be considered as Asia, as it is mainly composed by Asiatic countries plus Russia Federation and Oceania. One should just notice that Turkey and Georgia are rather considered as European countries. Those four parts of the World can be considered as "strong realities". That means those spaces are the basic entities that are identified firstly by the majority of the ESPON Community and that will be further divided.

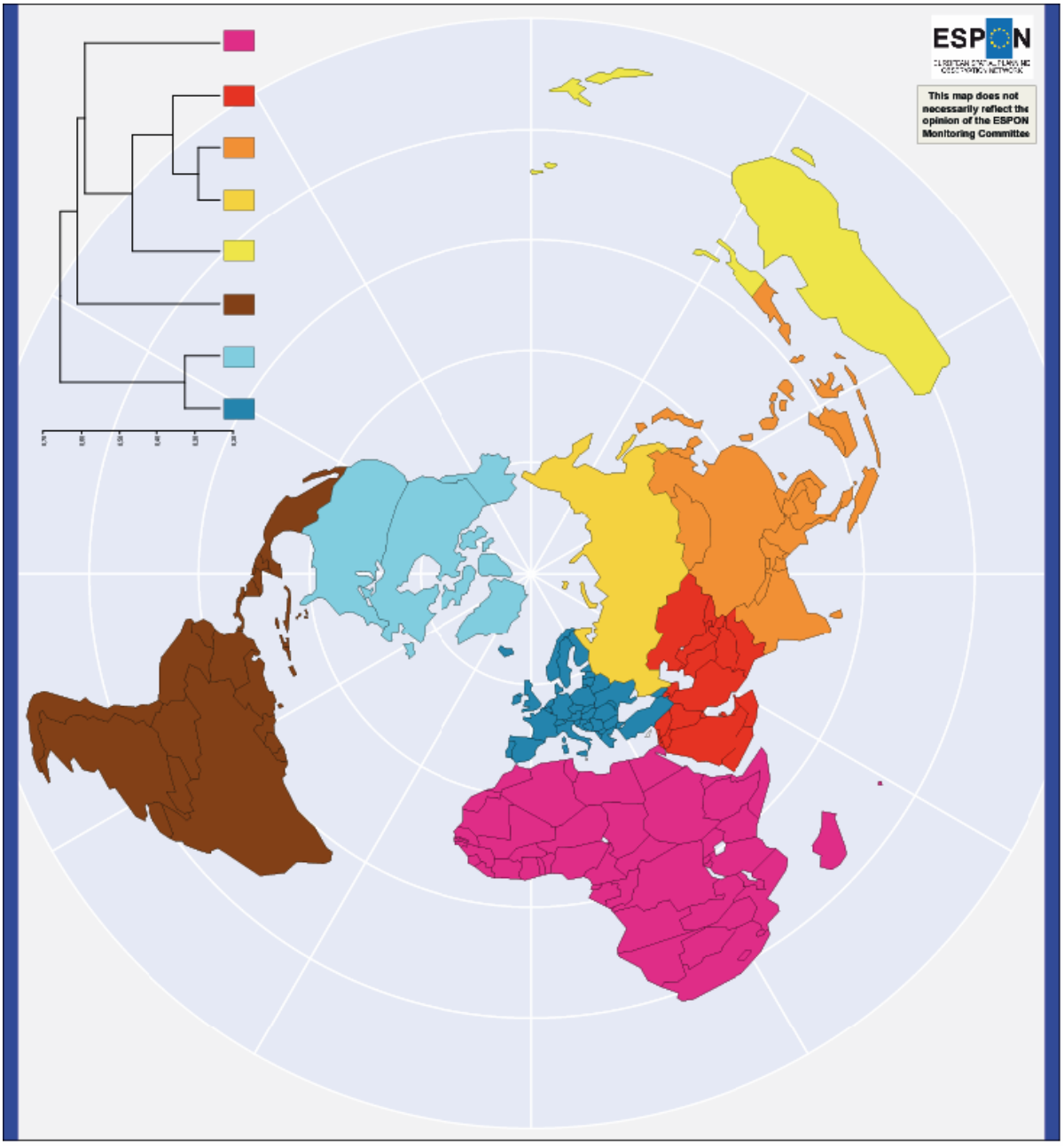
1.7.3. A World in eight regions

Turkey appears then, with Georgia, as a small transition zone between Europe and Middle East and the rest of Asia. Turkey is then placed in the peripheral of Europe but more to serve as a "buffer zone" vis-à-vis other Middle East countries of the region. That position of Turkey underlines that Turkey has been more often placed in Europe in the questionnaires than in Asia or another region. The next country to be isolated is the **Papua New Guinea**. Its level of development and the geographical share of an Island with Indonesia make it closer from it and Philippine. But it seems that Papua New Guinea is cultural more similar to Oceania countries and the former dependency toward Australia plays a great role when one put it in the same region as Australia. However the hesitation is strong and that is what it is underlined by this quite isolated position on the World map produced by the ESPON community. It is quite the same situation for **Greenland** that is divided between its proximity to North America, and mainly Canada, and its institutional belonging to the Denmark sovereignty. The two very small Caucasian countries of **Armenia and Azerbaijan** are then split between the Russian, Turkish and Persian influence. Finally the **Central America and Caribbean** split from the rest of South America, maybe because of specific cultural features of more likely to the geographical characteristics. The countries of the Central America peninsula are very small ones and the other are islands that distinguished clearly them from the large and continental countries present on the Southern America Peninsula like Brazil, Argentina and Peru…

The last step has no statistical meaning. We decided to stop to study the partition here only because it was asked to the ESPON seminar participant to divide the World in fifteen regions. The previous significant partition would have been in 11 regions that means before the identification of Greenland like a region. However the last step is an interesting one because it may mark that we reach a new stage where once more medium size regions are identified. The remaining Asia region is then divided in two large regions, one that comprise

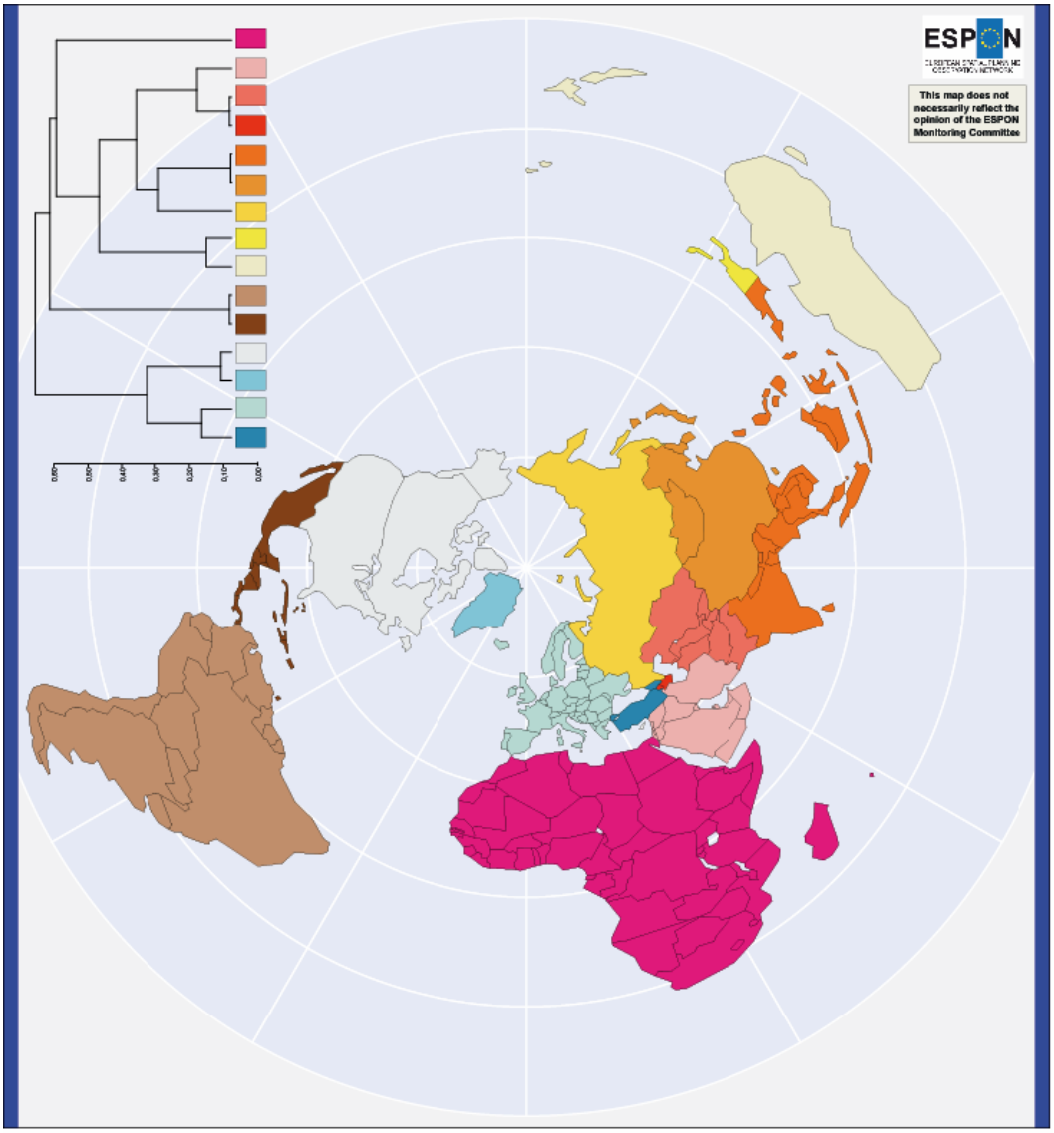
China, Japan, both Korea and Mongolia and the other one that comprise all the South Asia Countries (except Pakistan), and the South-eastern Asia Countries.

Map 6 : The World in eight regions



ESPON 3.4.1 - Clarisse Didelon
Origin of data : ESPON Community Survey 2005
Made whith Philcarto - http://perso.club-internet.fr/philgeo

Map 7 : the World in fifteen regions



Now that we have our fifteen regions some remarks can be done on the divisions that one could except and that did not appear in the study.

One can note than despite the disparities of development Japan is, in those stages, not separated from China neither North African countries from sub Saharan countries; neither North African countries from the rest of Africa. In both cases the mental map regionalisation is different of what has been proposed in WUTS (Cf. Vol 1) by using expert criteria and statistical analysis of flows and similarities. For Japan, maybe its particularity in term of development vis-à-vis the rest of the region would suggest to put it alone in a region, but its relative proximity with China in cultural term, and from a European point of view, lead to put it in the same region than China. Concerning North Africa, one can note than in fact none region has been identified within Africa. That underlines the fact that Africa is badly known in Europe and that the continental perception is dominant

to define African countries. It seems that few among us know Africa sufficiently to draw African sub regions even if the differences between African countries and populations are very numerous (see analysis on discontinuities).

To conclude one should notice that very large areas (like Africa our South America) coexist with very small spaces formed by only one country (Greenland, Papua New Guinea), a couple of countries (Turkey and Georgia, Azerbaijan and Armenia) and groups of countries (Europe, Central America and Central Asia). That underlines the existence of well defined regions among the ESPON community and the existence of transition areas for which the knowledge is more hesitant or that are the place of confrontation between two influences or more.

1.8 Limits of the case study

The analysis of the questionnaires allows to draw the limits of the regions, according to the number of questionnaires that draw that limit between contiguous countries. Moreover it is possible to draw the links according to the number of time two contiguous countries have been put in the same region. The following map 08 therefore shows the main limits (in blue) and the main links (orange) between two (terrestrial and extended) contiguous countries.

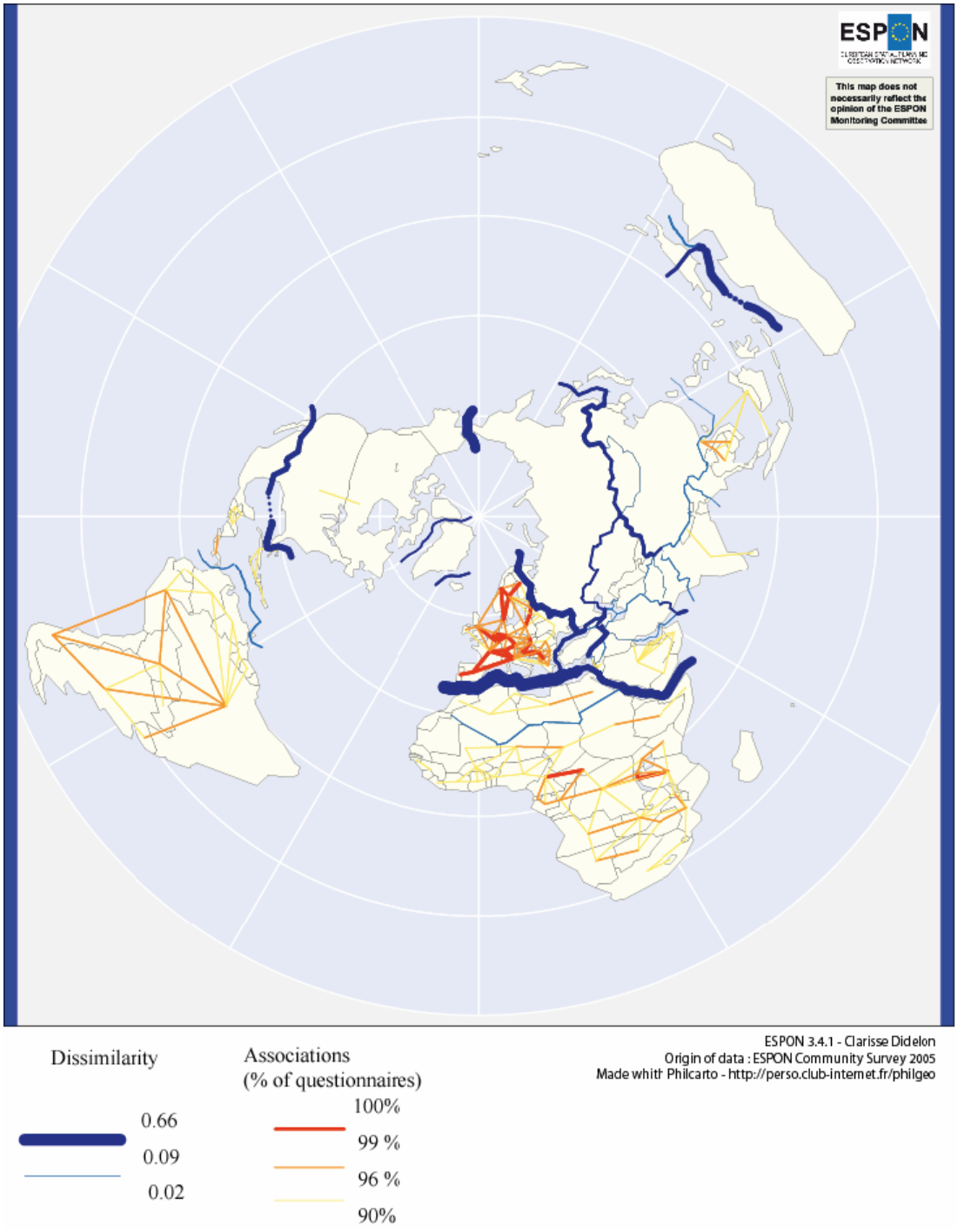
1.8.1. The frontier of Europe

One can observe that the strongest division of the World for the ESPON seminar participants is the one drawn through the Mediterranean Sea between Europe and North African countries. Would that means they feel that European countries are very much different from the North African ones? Could that mean that for the European researchers and policy makers that attend the seminar, the Mediterranean Sea should be considered as the more evident frontier of the World, and consequently the frontier of Europe? The terrestrial western frontier of Russia Federation is also a strong one. It could reveal, from the ESPON members point of view the Eastern frontier of Europe, meaning that for them Belarus, Moldova and Ukraine should be included in Europe. The limit is less strong between Turkey and Ukraine, Greece and the Balkan countries. It is even less strong than the frontier between Turkey and Iraq and Syria. The fact that Turkey is circled by two medium strong limits shows that there are great hesitation in the ESPON community to decide whether Turkey belong to Europe or not.

The strength of the limit around Europe and of the links between European countries clearly shows that this map has been drawn by European people. How strong the links between European countries are, comparing with the links with other countries in the World! Even if on the previous synthetic maps it appears that African is not split during the first 15 steps of dividing the World it is not as

coherent, according to the ESPON community, than Europe is. Europe, from France to Ukraine, and Norway to Malta is the better defined space in the World.

Map 8 : limits and links



1.8.2. Continentalisation and development

The second strongest division of the World is the one between Russia Federation and North America (Alaska). It also crosses a maritime strait and could be a remaining of the Cold War. However those two countries belong to two different continental bodies and in consequence this limits could be just considered as a continental limit. In fact, the mains limits proposed by the ESPON seminar participants are continental ones (even the one between Europe and Africa). That is the case for the limit between the Arabic peninsula and Africa and the South Eastern Asia / Oceania one. In that case the difference of development level that exists between Indonesia and Australia could also explain that limit. The limit between North America and Caribbean and Mexico is less due to continentalisation that the fact that despite the trade agreements, Mexico is not perceived as belonging to North America. The number of thin limits in the Iran, Afghanistan and Pakistan neighbourhood show of it is difficult, from our European point of view to define a coherent space in this region.

1.8.3. Correlations of discontinuities

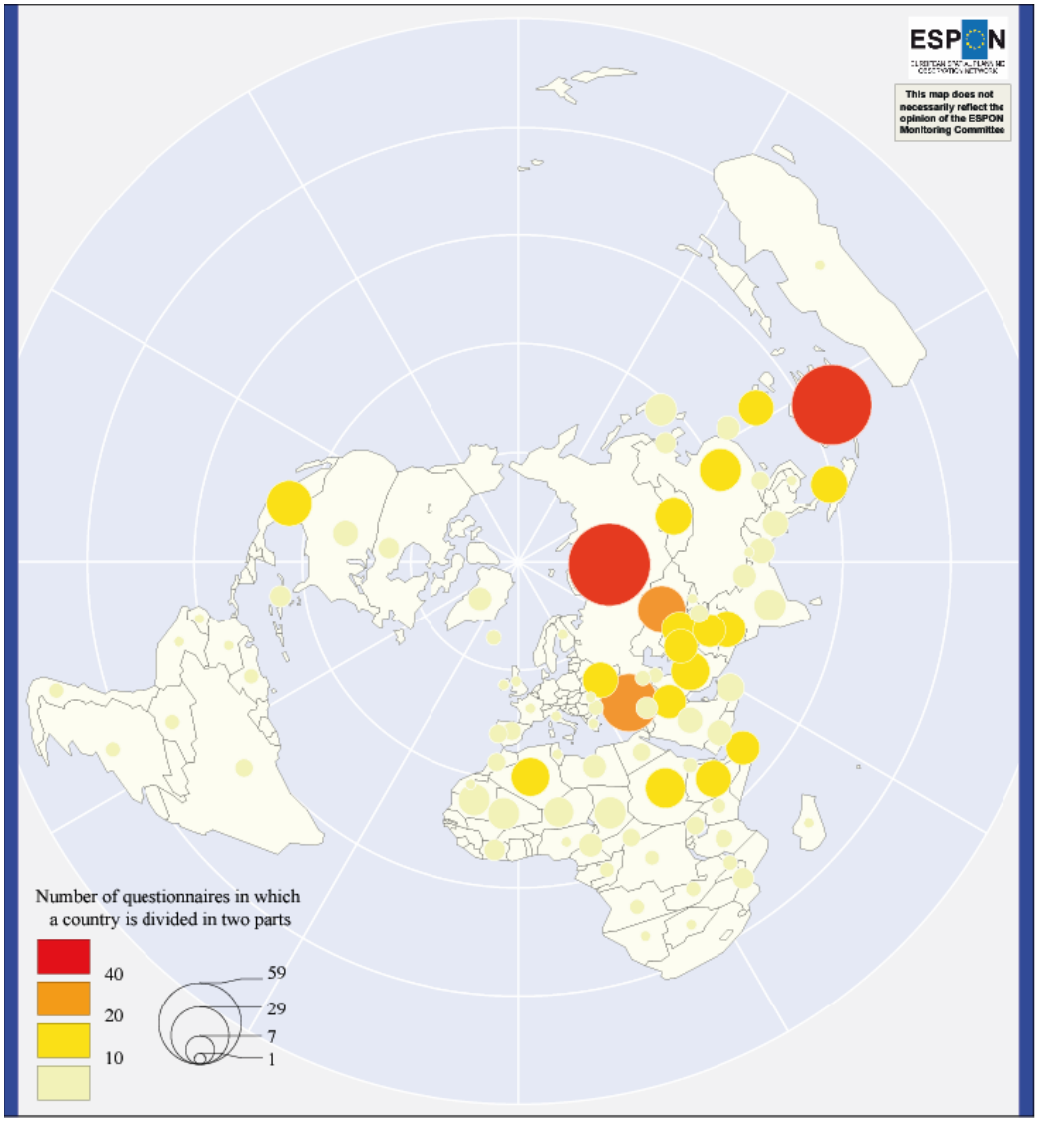
A correlation test has been made in order to understand the meaning of the discontinuities. Is there a relation between the values of the discontinuities and other indicators like economic or social ones?
The following table 08 shows that the most significant relation is between the value of the limit and the absolute value of GDP in 1986-90.
Then comes nearly all indicators related to the GDP either in absolute or relative terms. The Human Development Index in 2002 is also correlated with the value of discontinuities from the survey, but more than each of its components. Two things can been learned from this short analysis: first, it seems that the inertia of knowledge is such that we evaluate the countries on outdated data. So the limits drawn by the ESPON seminar participant are based on old data or knowledge. Second, we have more a global impression about the level of development of a country, than the knowledge of the different indexes that are used to evaluate this development. That could underline an ability to perceive a average situation of a country despite the fact that the details are not known.

One of the first factors of vulnerability is obviously the **size of a country** (Russia - China). When a country has a large size is more susceptible to be cut in different part as people have knowledge about the internal spatial differentiations. Thus large countries can belong to different cultural areas or at least their different parts can be under different cultural influences. The development disparities between spaces can also lead to cut a country, but in the case of this survey that never happens: surprisingly nobody makes a distinction between the eastern coast of China and the rest of the country.

Table 8 : Correlation Indexes

	VALDIS
Relative differences GDP in 56-60	0,17
Relative differences GDP in 66-70	0,22
Relative differences GDP in 76-80	0,25
Relative differences GDP in 86-90	0,30
Relative differences GDP in 96-2000	0,30
Absolute differences GDP in 56-60	0,05
Absolute differences GDP in 66-70	0,13
Absolute differences GDP in 76-80	0,25
Absolute differences GDP in 86-90	**0,41**
Absolute differences GDP in 96-2000	0,37
Human development Index in 2002	0,22
Life expectancy Index in 2002	0,17
Education Index in 2002	0,15
GDP Index in 2002	0,20

Map 9 : countries divided in two parts



The second factor of vulnerability could be attributed to **the shape** of the country. That is the case for Indonesia and Malaysia, Philippines. When a country is formed by more than one entity it is then likely to be more often cut in different parts, and even more when this country is an archipelago. Indonesia, that is the larger archipelago of the World (17 000 islands) is the second more often divided country in the questionnaires. Malaysia is also often divided even if its superficies is not so important but because it is formed by one peninsula and the northern part of the Borneo Island that are far one from each other.

Then a third factor could be the **geographical position** between two distinct zones that are different from a cultural or economical point of view. That is more precisely the case for Turkey, Ukraine, Mongolia and Mexico. People drawing the limits of the World regions hesitate to attribute them to one space or another one and find a solution in cutting them. One can note that, in addition to the countries named above, the main vulnerable countries in this situation are the countries of Central Asia from Kazakhstan to Pakistan and Iraq.

1.9 Conclusion

There are more analyses to do in order to exploit all the information get thanks to this questionnaire. For example, it would be interesting in the next step of the work to compare the size and the composition of Europe in the European map and in the World map of the questionnaires.
Analysis of the explanations of World regions by the individual attributes of respondents should also be further developed.
However this case study is wealthy in term of knowledge we get about the European researchers and policy makers vision of the World and vision of Europe. The analyses made here have been very helpful to the interpretation of the ones made in the Key Question 1 (Volume 1) on mental maps, because we get here information about the criteria that where used and that where not available on global actors websites.
In the final report, the results of this case study will be helpful to, because, as we know what the common representations of Europe and of the World in the ESPON community are, it will be easier to introduce our proposals on World regions. In a psychoanalytic sense, we can consider that further progress in the perception of reality can not be achieved as long that unconscious facts are not put to awareness of actors.

Annexe 01: the questionnaire

ESPON 3.4.1. « EUROPE IN THE WORLD »

SURVEY
REPRESENTATION OF THE WORLD OF THE ESPON COMMYNITY

I. INDIVIDUAL ATTRIBUTES

Sex: .....
Birth date: .....
Country of Birth: .....

Actual Nationality (ies): .....
Former Nationality (ies) if any: .....
Actual country of residence: .....
Former countries of residence (more than six months) if any: .....
.....

What is your higher degree level ? .....

Activity : - Researcher or teacher
- Administrator or policymaker
- Other : .....

Could you precise on which frequency you go abroad for your job or your vacations?

Less then once a year	Once a year	More than once a year	Once a month	More than once a month

Indicate in which following countries you've been and add those that are not listed.

Austria	Greece	Poland		
Belgium	Hungary	Portugal		
Bulgaria	Ireland	Romania		
Cyprus	Italia	Slovakia		
Czech Rep.	Latvia	Slovenia		
Denmark	Lithuania	Spain		
Estonia	Luxembourg	Sweden		
Finland	Malta	Switzerland		
France	Netherlands	United Kingdom		
Germany	Norway			

II. WHAT IS YOUR DELIMITATION OF EUROPE

A) Draw on the following map a line showing your delimitation of Europe.



B) Which criteria did you used for this delimitation?

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DIVIDE THE WORLD IN 2 TO 15 REGIONS

C) Draw on the following map lines showing your World divisions in 2 to 15 spaces. One place should belong to only one region but a country can be divided between two or more regions. If a country must be divided be sure you know why and explain it below.

D) Name your areas (please remind the number and report it on the map)

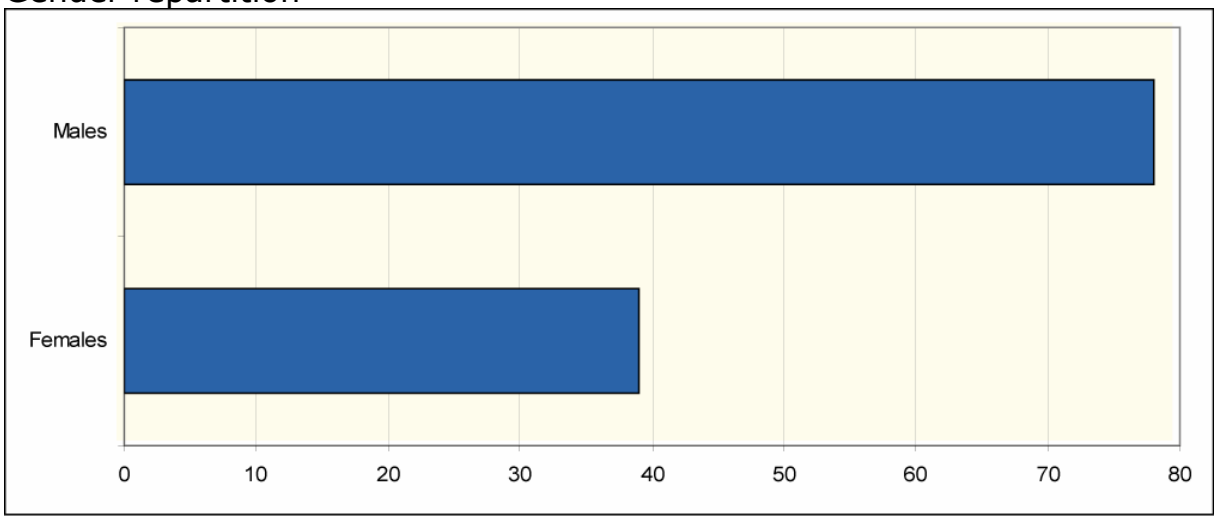
Name

E) Which criteria did you used for this delimitation?

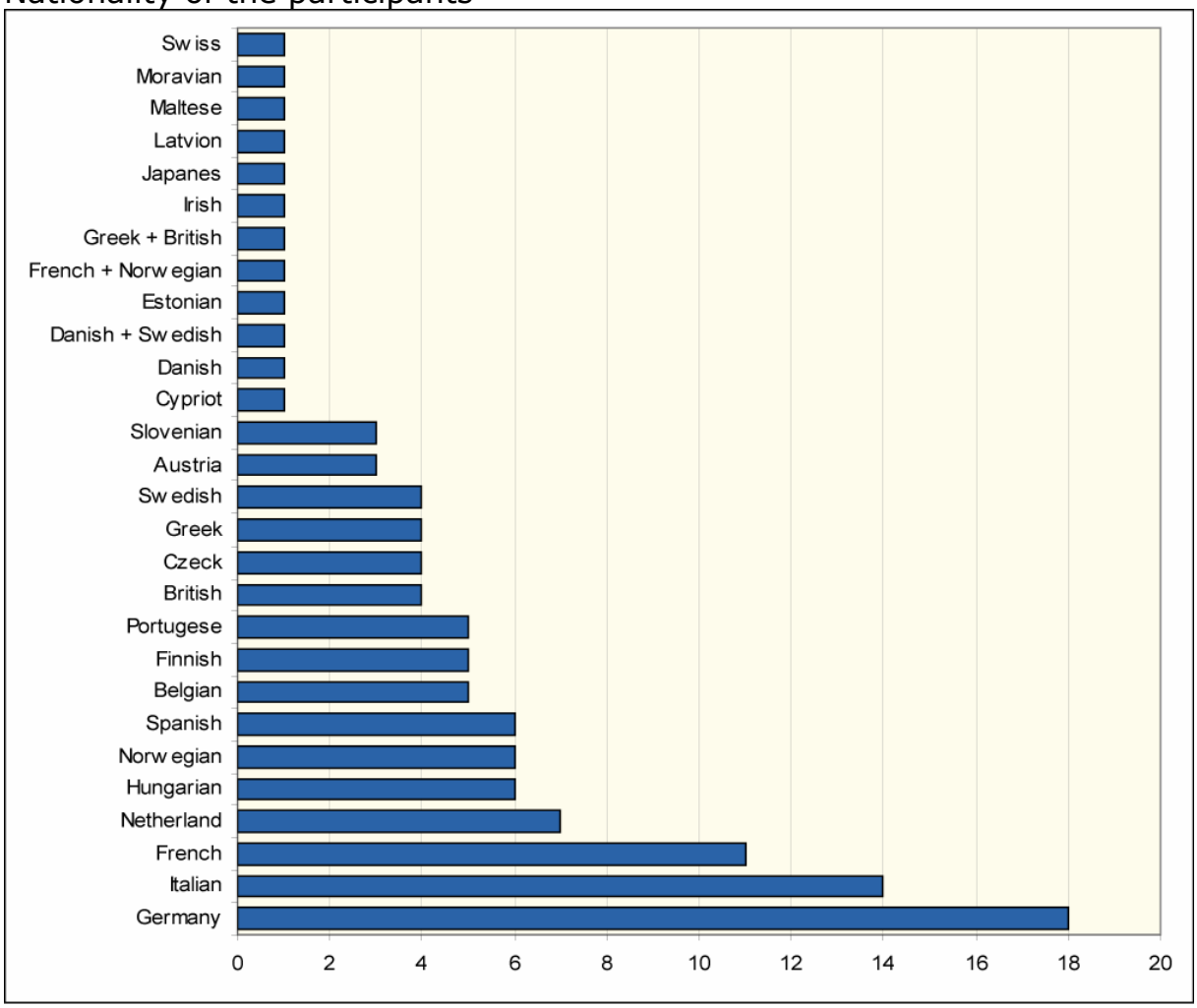
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ANNEX 02:
THE ESPON COMMUNITY MEMBERS

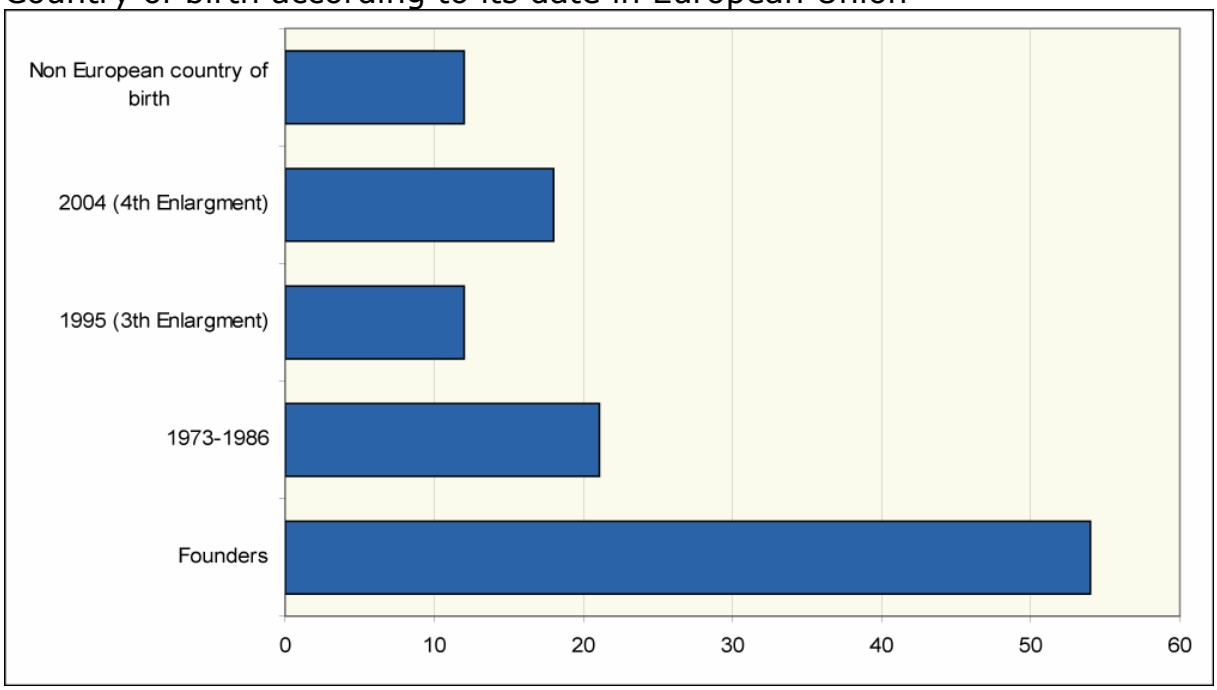
Gender repartition



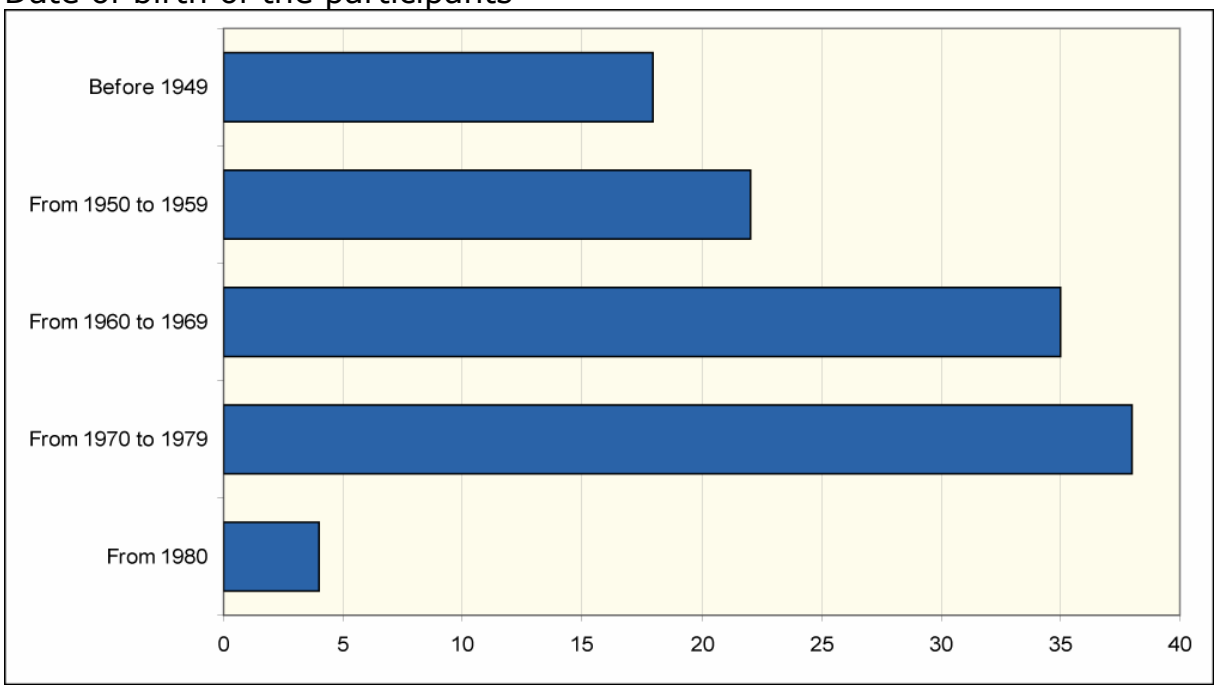
Nationality of the participants



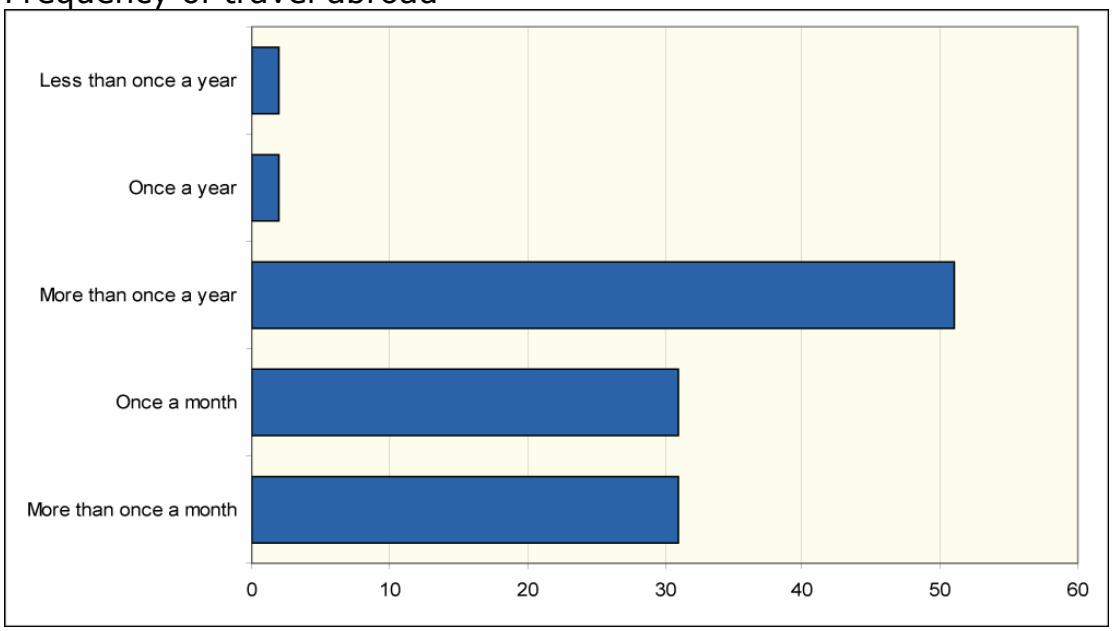
Country of birth according to its date in European Union



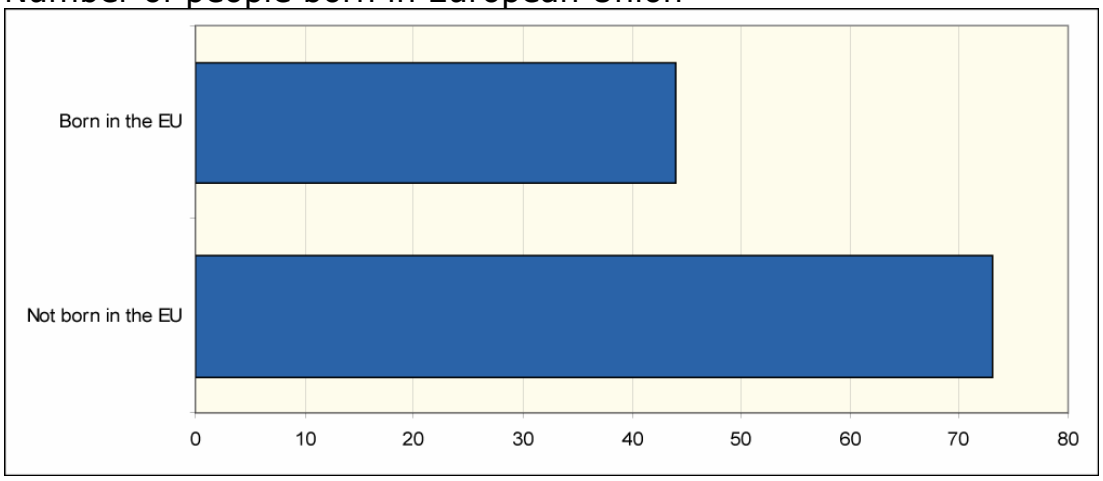
Date of birth of the participants



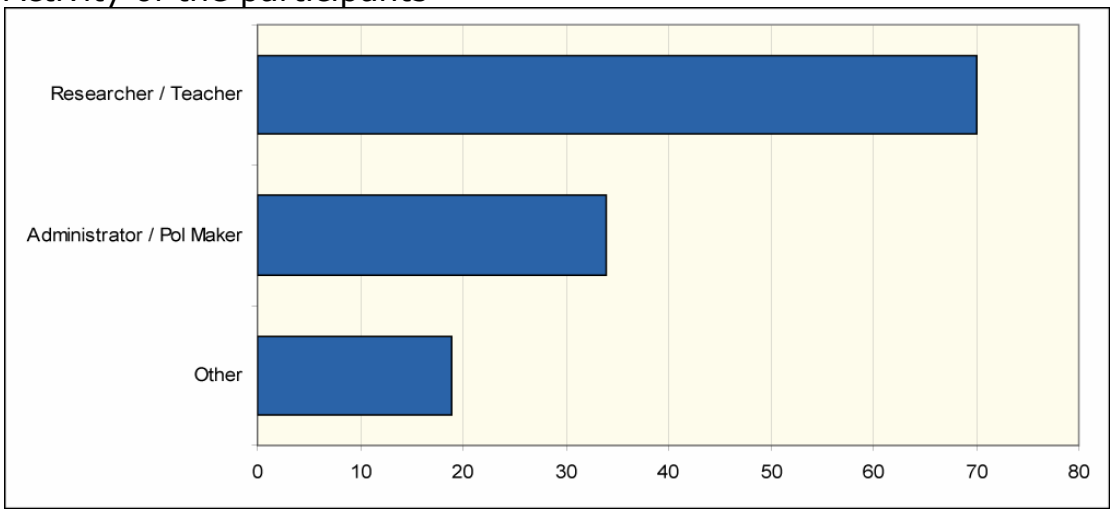
Frequency of travel abroad



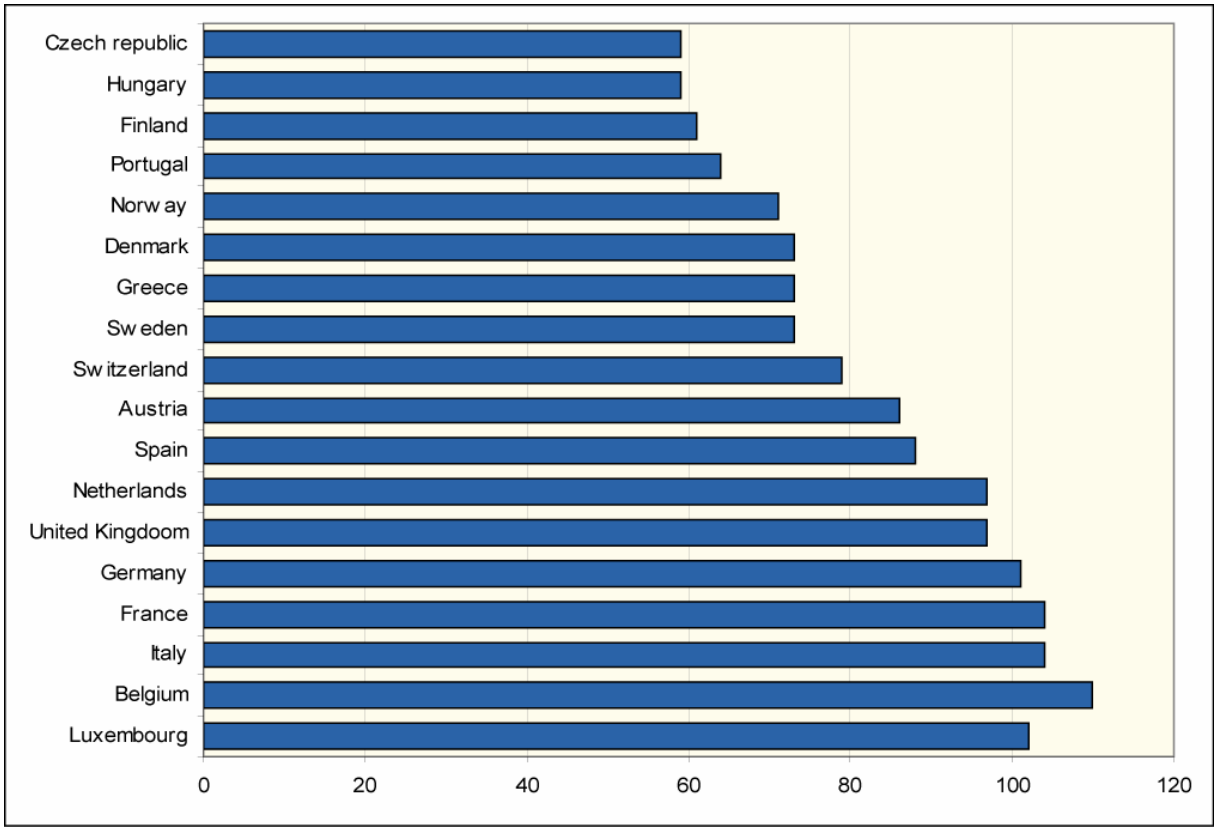
Number of people born in European Union



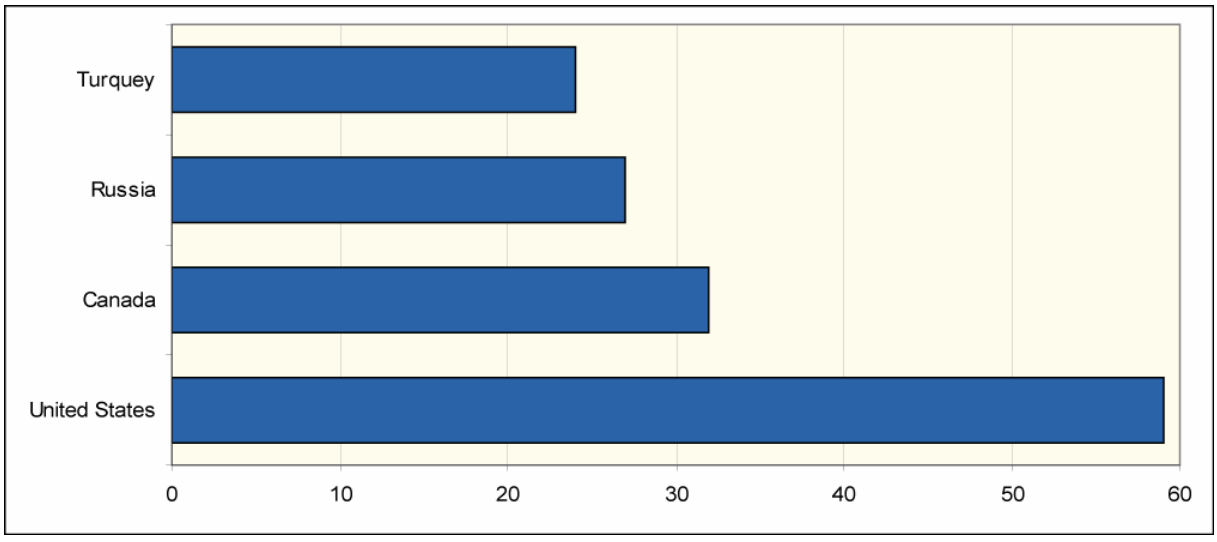
Activity of the participants



Number of participants having visited… in Europe



Number of participants having visited… in the World



Partie B

ESPON & Globalisation

2. THE GEOGRAPHY OF ITALIAN INTERNATIONALIZATION: RELATIONS WITH CENTRAL-EASTERN EUROPEAN AND SOUTH AND EASTERN MEDITERRANEAN COUNTRIES

Alberto Vanolo
Grupo Soges

2.1 Justification of the case studies and link to key questions

The case study refers to Italian economic internationalization – in terms of commercial flows and investments – with reference to Eastern European and South and Eastern Mediterranean countries. Using the classic "centre – periphery" geographical metaphor in order to describe the world economy, Italy is certainly a *central* country, while Eastern European and South Mediterranean countries belong to the *periphery* or *semi-periphery*. However, the situation is certainly not so simple, and plain metaphors such as "centre-periphery", "North and South", "developed and developing countries" hinder a number of different roles, positions and problems. This complex panorama is well represented in the case study: not only the situations of Eastern European countries and South and Eastern Mediterranean ones are quite different, showing two different ways of being "peripheral" in the global economic scenario, but also the "central" position of Italy is not free from problems and perils connected to the building up of a new division of labour and the constant fear of a progressive productive delocalization, moving more and more industrial plants to countries characterized by lower labour costs.

2.2 Spaces and scales of the study

The analysis refers to Italian flows directed towards Central and Eastern European countries and the South and Eastern Mediterranean rim.
The first group refers to Albania, Byelorussia, Bosnia and Herzegovina, Bulgaria, Czech Republic, Croatia, Estonia, ex-Macedonia, Latvia, Lithuania, Moldavia, Poland, Romania, Russia, Serbia and Montenegro, Slovakia, Slovenia, Ukraine and Hungary.
South and Eastern Mediterranean countries comprehend Cyprus, Malta, Turkey, Algeria, Libya, Morocco, Tunisia, Egypt, Jordan, Israel, Lebanon, Syria, Palestinian territories. This group refers to the countries signing the *EU-Mediterranean partnership*, with the sole addiction of Lebanon, with the status of mere observer.

2.3 Hypothesis, problems, questions

It is well known how the current economic scenario is becoming more and more *globalized*, and every enterprise, regardless its dimension, has to face international competition. This international dimension is emphasized by many interconnected socio-economic phenomena, such as a growing *new division of labour* (just to cite the famous Hymer's expression), the rise of *transnational corporations*, the geographical widening of the strategic horizons of firms, organizations, and economic actors in general. These phenomena are so complex and interconnected that it is difficult to built up an exhaustive and realistic interpretative scheme (or even a simple typology) in order to interpret and analyse economic internationalization.

Assuming a quite oversimplified theoretical framework, there are basically two ways a firm can deal with internationalization: *exporting* goods or services, or *becoming international* (i.e. a transnational corporation). In this sense, from an analytical point of view, trade and investments statistics (FDIs[2]) are two important measures (*proxies*) of economic internationalization.

Calling back the classic work of Dunning (1981, 1993) and his *OLI paradigm* (acronym of *Ownership, Localization e Internationalization*), there are essentially two reasons why an enterprise choose to become international: the first one deals with the desire to penetrate and "coming near" to a new local market; the second one refers to the search for low-cost inputs.

Investments directed towards new output markets for goods and services are usually called *horizontal FDIs*. These concerns typically the duplication of parts of the productive process by building or acquiring new industrial plants in order to furnish different geographical areas, and in this sense horizontal investments may be considered ideally as a substitute of commercial flows, in that firms replace exportations with local productions (Shatz and Venables, 2000). The advantages connected to this strategic choice refer both to the reduction of some sorts of costs, such as those of transportation or those linked to exportation tariffs, and to the pursue of particular strategic goals, such as the strengthen of the competitive position of one firm in a specific market.

Differently, investments driven by the search for low-cost inputs are *vertical FDIs*: these concern the division of the productive cycle by localizing some functions in geographical areas characterized by low-cost productive factors. This partition is based on the premise that different parts of the production process

[2] It is useful to mention that, according to UN (2004), foreign direct investment (FDI) is defined as an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate). FDI implies that the investor exerts a significant degree of influence on the management of the enterprise resident in the other economy. Such investment involves both the initial transaction between the two entities and all subsequent transactions between them and among foreign affiliates, both incorporated and unincorporated. However, FDI may refer to the building up of a *new* industrial plant: these are usually called *greenfield* investments.

need different inputs. Since the prices of the inputs differ strongly from one country to another, and particularly labour costs, it is convenient to implement a multinational structure: this is a simple interpretative scheme, formerly proposed in the famous *product cycle* model by Vernon (1966). This is probably the case of many Italian investments directed towards Eastern European countries. The search for low-cost inputs may concern, apart from labour costs, also basic materials, intermediate goods, but also economic advantages of quite different nature, such as a certain facility in bypassing environmental regulations and toxic wastage norms, a phenomenon denounced not only by environmentalists, but also by United Nations and World Trade Organization (UNCTAD, 2004; WTO, 2004).

Differently from horizontal FDIs, vertical ones support international commerce, in that imply the movements of intermediate goods between the various places involved in the productive process. This is the reason why about one third of total international trade happens *within* multinational enterprises, that is between plants localized in different countries, but belonging to the same company structure.

The case of horizontal FDIs shows how firms facing the possibility of an international expansion have to choice between producing in the new market (becoming a multinational enterprise) or exporting their own products or services. The opening of a new plant implies a variety of additional costs, for example in terms or bureaucratic or administrative difficulties, or costs connected to foreign legislative of fiscal systems. Some of these costs may be limited by cooperative agreements with other enterprises or by other juridical tools, which represent a sort of "third way" (after trade and multinational structures) in order to deal with internationalization (Grandinetti and Rullani, 1996). Among these, particularly relevant is the case of *acquisitions*, *joint ventures* and *strategic alliances*.

In a similar manner, the choice of substituting exportations with the construction of a new plant involves a number of advantages, such as the reduction of transport costs and the bypass of some commercial barriers. Moreover, in the case of some kinds of products, it has not to be underestimated the importance of the closeness to the destination markets, the reduction of supply times and a stronger flexibility in adapting to local needs and specificities of the local demand. Such choice, however, is also conditioned by the typology of production: in the case of massive *economies to scale*, for example, it is preferable to have a singular, huge, production plant, and therefore to choose the exportation option (for an exhaustive discussion concerning these topics, see Helpman e Krugman, 1985). And, of course, also non-economic factors play an important role: consider for example the cumulative aspect of investments: investors facing the uncertainties and the risks of the global market tend to observe and imitate well-known successful stories, causing the cumulative

growth of investments directed towards a few areas that have gained a certain reputation in the international scenario.

2.4 Methodology

The internationalization phenomenon has been estimated with simple data concerning trade and investment flows. Such data have been provided, at national level, by Unctad (2004) and Wto (2004). However, some integrations and focus have been proposed by referring to specific Italian sources, particularly the *Istituto Nazionale per il Commercio Estero* (Ice, 2004) and Mariotti and Mutinelli (2004).
Even if any exhaustive analysis of internationalization certainly requires deeper qualitative and quantitative investigations, these data provide useful information concerning the role and magnitude of economic integration between Italy and the considered geographical areas.
In the case of investments, only *active internationalization* has been considered, i.e. Italian investments directed towards the considered areas, since inward investments from these areas are almost absent. Differently, in the case of commerce, flows have been considered in both directions, since economic integration and international division of labour originates flows of finished or semi-finished goods both inward and outward.

2.5 Empirical results of the case study

General features of Italian internationalization

Concerning the involvement in international trade, in the years from 1995 to 2003 (with the sole exception of 1997), the number of exporting firms has grown. However, in the last years, the growing price of euro vis-à-vis other currencies has reduced this positive trend, above all in terms of the total *value* of the exportations. However, the widening of commercial internationalization is evident also from the geographical point of view, as shown by figures relative to the average number of foreign markets served by Italian exporters: 4,8 in 1995, and more than 5,4 in 2003. Such commercial openness is strongly based on the contribution of small and medium sized enterprises, the backbone of Italian industrial system: 90% of the exporters refers to enterprises employing less than 50 workers, contributing for 30% of the total value of Italian exportations; big enterprises' (more than 250 workers) contribution is 42%. However, considering the degree of commercial internationalization as the share of exporting firms on the total firms (for example in terms of the number of employees), this value tends to become higher with bigger enterprises.

Considering the geographical destinations, European Union is the most important market for small, medium and – above all – big enterprises. Outside the EU, Eastern European and South and Eastern Mediterranean Countries represent the most important destinations for enterprises employing less than 50 workers, while big ones tend to export more to North America.

In the field of internationalization through multinational structures – i.e. through FDIs – the aperture of the country has strongly grown during the 90s: if in 1995 the value of foreign investments as percentage of GDP was 8,8%, in 2002 such figure had almost doubled. However, compared to other OECD countries, Italy is still quite poor in terms of internationalization of production: in the same period, for example, French shares grown from 13,2% to 45,8%, while in Germany from 10,5% to 29% (UNCTAD, 2004). These Italian low performances may be partly explained by the well known accent on small and medium sized enterprises: the multinational choice implies the use of financial, informative and managerial resources not so easily available for small enterprises. However, it has to be noticed that other countries characterized by similar industrial structures show a stronger productive internationalization: this is the case, for example, of Spain (from 6,2% in 1995 to 33% in 2002) and Portugal (from 3% to 26,2%).
In 2003, Italian outgoing FDIs involved 14.104 foreign enterprises (2,1% more than 2002). From the geographical point of view, the most important destination is European Union (39,5%), and particularly France (1.426 firms), Germany (1.088) and UK (1.029). North America plays an important role with 11,4% (1.414 are located in USA). The concentration of the investments in few countries seems to confirm the importance of imitative and cumulative processes involving investors. Concerning the differentiations of the Italian space, firms located in Central and Northern Italy provide 96% of total foreign participation. This is partly due to the lack of seats of multinational enterprises in Southern Italy; the most active regions are Piedmont, Lombardy, Emilia Romagna and Lazio. Among the Southern regions, Puglia and Sardinia are showing quite positive trends, in the first case due to the geographical proximity to Balkans, in the second one mainly because of the expansion of the ICTs sector.
However, productive internationalization may concern also incoming foreign investments. Compared to other European countries, this aspect of internationalization is extremely poor: the contribution of foreign-owned enterprises (almost 6.000 in 2003) in terms of employment has been 7% in 2001, while the analogous figure in France in 1999 has been 14%. The panorama of foreign participated firms is dominated by big size enterprises: those employing more than 500 workers involve more than half of the employment of this typology of firms. These firms comes above all from other countries of the European Union (60% of the enterprises, 56% of the employees), followed by North America (almost one third of the employees in the case of USA). Within European Union, France and Germany are by far the most important investors.

Such firms locates almost exclusively in Central and Northern Italy (95%), and particularly in Piedmont, Lombardy and Lazio, confirming the importance of major urban centres in the attraction of investments and, more generally, global flows.

Internationalization towards Central and Eastern Europe

Central and Eastern Europe represents an important destination for Italian investors: data concerning 2004 shows the participation in 2.725 firms. In the same year, Italian participation in Western Europe (EU-15) has involved 5.921 firms, in North America 1.727, and in Asia 1.721. In terms o employees, shareholding in Central and Eastern Europe concerns 228.329 workers (20,6%). Investments towards this area are even more impressive considering that, before the 90s (i.e. before the collapse of the Berlin wall), they were almost absent: in 1986 they represented 0,6% of Italian investments, in 1996 reached 20,8%, and in 2004 surpassed 27%.
Table 1 present some data concerning investments (shareholdings) in 2003. Basically, most of the investments comes from Northern Italy (Lombardy accounts for almost 37%, followed by Veneto and Emilia Romagna) and refers to manufacture. Particularly, in the last years, the typical *made in Italy* sectors increased their incidence, as testified by the importance of the clothes, leather and textile sectors. Important firms like Benetton, Max Mara and Tollengo, for example, invested heavily in Hungary and Poland in recent years. It has to be noticed that the scarce presence of investments in high-tech sectors is a general problem of Italian investments, not only in Central and Eastern Europe.

Concerning destinations, Romania, Russia and Poland are by far the most relevant markets, followed by Hungary, Czech Republic and Bulgaria. It has to be noticed, from the geographical point of view, that many empirical analysis (such as that of Rey and Molinari, forthcoming) has emphasized that such investments are strongly polarized by a few metropolitan areas, basically the capital regions, while the vast majority of the areas are basically excluded from the phenomenon (Figure 1).

Table 9 : Number of inter-firm shareholdings in Central-Eastern Europe by geographical area and economic sector

Economic sector	Number of participated foreign firms					
	North-Western Italy	North-Eastern Italy	Central Italy	Southern Italy	Sicily and Sardinia	Total
Extractions	1	1	5	0	0	7
Manufacture	609	563	184	68	5	1.429
Food, beverage and tobacco	35	77	20	2	0	134
Clothes, leather, textile	193	209	79	33	1	515
Wood and furniture	27	91	27	13	0	158
Paper and publishing	32	9	9	1	0	51
Oil derived and fuel	1	0	2	1	0	4
Chemical	42	13	4	1	0	60
Rubber and plastic	28	23	7	1	1	60
Materials for constructions, glass, ceramics	31	28	6	7	0	72
Metal	88	54	11	5	2	160
Machinery	50	30	7	2	0	89
Electric machinery	42	24	12	2	1	81
Equipments for transports	40	5	0	0	0	45
Energy, gas, water	17	6	3	1	0	27
Constructions	31	33	24	16	1	105
Commerce	315	210	154	14	5	698
Logistic and transport	27	54	33	5	0	119
Information and communication	11	10	14	0	5	40
Other services	76	33	8	0	1	118
Total	1.087	910	425	104	17	2.543
Employment *Turnover (millions euro)*	133.335 8.923	45.600 3.282	30.014 4.913	11.206 305	1.174 77	221.329 17.500

Source: http://www.ice.gov (on May, 2005)

Figure 13 : Investments as percentage of GDP in Poland, Czech Republic, Slovakia, Slovenia, Hungary and Romania, Nuts 2 level, 2000



Note: Figures refers to total inward investments (not just from Italy)
Source: The Vienna Institute for International Economic Studies

At the same time, trade between Italy and Central-Eastern European countries has grown in recent years. This is probably due to phenomena of industrial relocalization by Italian firms; it is a fact that more than 10% of total Italian importations and exportations is centred on this area. Such growing phenomena is particularly focused on Italian exportations: during 2003, for example, exportations' growth has been 5,7%, while importations' 3,7%, producing a commercial credit balance, with respect to this area, of 2 billions euros. Italy is one of the most important European suppliers of the area – the second European country concerning the increase in the incidence of Italian products in this area during the period 1999-2003 (the first has been Spain). The eight EU countries of this area involve 6% of total Italian exportations, and such figure is showing positive dynamics. The most important country in terms of importations is Poland. However, particularly important is the position of Romania: in the last ten year its weight in terms of Italian exportations is basically doubled, and in

2003 the country has surpassed Russia, becoming the second most important importer of the area. Similarly, Czech Republic is becoming a more and more relevant commercial partner: during 2003, Italian exportation rose by 16,2%.
Considering the typology of products, Italian exportations concerns above all machinery, (5.947 millions of euro), followed by textile (2.692), leather (2.454), electric and optical machineries (2.416). Differently, importations refers above all to minerals and fuels (7.395 millions of euro), metals (3.643), motor vehicles (2.166) and leather products (2.103).
On the side of Italian importations, from a geographical point of view, the most important commercial supplier is Russia, providing more than 30% of total flows. Such trend is strongly growing (4,2% in 2003) – with the sole exception of year 2002.

Internationalization towards South and Eastern Mediterranean countries

Despite the growing importance of inward investments in most geographical regions, the South and Eastern Mediterranean area is basically characterized by scarce performances, both at world level and in the framework of developing countries (Salabé, 2001). While world inward FDIs between 1991 and 2000 growth from 159 to 1.271 billion dollars, in South and Eastern Mediterranean countries the increase has been much lower, passing from 2,3 to 9,8 billions. Moreover, considering such data in a different perspective, the weight of the area at global level has decreased from 1,4% to 0,8% of world inward flows.
It is a common discussion whether the construction of a free trade area between European Union and South and Eastern Mediterranean Countries, by enlarging the local market, will support an expansion of the investments directed toward this area. In facts, one of the most important aspects of the *Euro-Mediterranean Partnership* proposed in Barcelona in 1995 concerns the promotion of economic integration until 2010, both by encouraging cooperation and by removing normative (for example legal and fiscal) "brakes" for the free movement of financial and commercial flows. However, considering the progressive integration of the European Union in Central and Eastern European markets, the future for South and Eastern Mediterranean Countries probably deserves both opportunities and risks. Consider, for example, that one of the most evident reasons to invest in the Mediterranean area is certainly connected to the low labour costs. It has to be noticed that such "low" labour costs, however, is higher than in Central and Eastern European countries, not to mention Asian ones. Considering, in addiction to all this, the growing economic integration between Eastern and Western Europe, together with the political instability and scarce infrastructural endowment of the South and Eastern Mediterranean rim, the general framework behind this low attractiveness becomes more and more clear.
Data concerning Italy confirm these world trends. In 2003, the weight of Italian investments directed towards this area is a mere 1,9%. Moreover, Italian

investments are polarized by a few countries: Turkey and Lebanon get 63% of Italian investments, and the figure surpass 70% including Tunisia.
A strong polarization is evident also considering the regions of origin of the investments. Considering the number of foreign firms with an Italian participation in 2004, 718 out of 932 enterprises concerns North-Western Italian regions (Table 2). The role of Central Italy is far lower, with 111 firms, while North-Eastern regions contribute with 80. Southern Italy participates with 23 enterprises: despite the geographical proximity of the area, Southern Italy confirms poor performances in terms of industrial internationalization. It is therefore easily to understand the presence of strong patterns of specialization that reflects the economic orientation of Northern Italian industrial structure: 63% of the participations (67% in terms of sales, 89% in terms of employment), concerns manufacture, and particularly textile, leather and clothes productions; Veneto is the most important region regarding investments in these sectors. Lombardy and Piedmont tend to invest more in chemical and mechanical industries, while Lazio in extractive ones.

The situation is quite different in the case of commercial flows. Southern and Eastern Mediterranean countries represent important destinations for Italian commerce. First of all, it has to be noticed that the Mediterranean area in general represent, for Italy, the pivot of trade flows, absorbing in 2003 more than 30% of exportations and providing 25% of importations. Though most of these figures refers to the European rim (referring to 24% of exportations and 18% of importations), it has to be noticed that the importance of the Southern and Eastern side has grown during the 90s, particularly due to the rising role of Algeria, Lebanon, Turkey, Syria and Israel. The penetration of Italian products in the area is quite higher than in the case of other European countries, like France and Germany. Currently, the most important Italian partners are Tunisia and Lebanon – absorbing more than half of the commercial flows directed towards Mediterranean Africa – while, on the East side, Turkey and Israel. The Italian exportation profile includes some high-value products, particularly machinery, but is above all focused on many semi-fished products of the clothes and leather industry. In this framework, in 2003 Italy has been the most important commercial partner for Algeria and Lebanon, the second for Tunisia (the first is France), the third for Egypt, Morocco and Turkey, the fourth for Jordan, Israel and Syria. Exportations comes basically from Northern Italy, and particularly from North-Western regions, accounting for 44%. Considering the various regions, Lombardy is the most important (31%), followed by Veneto (11%), Emilia Romagna (10%) and Tuscany (7%).

Table 10 : Number of inter-firm shareholdings in Southern and Eastern Mediterranean Countries by geographical area and economic sector

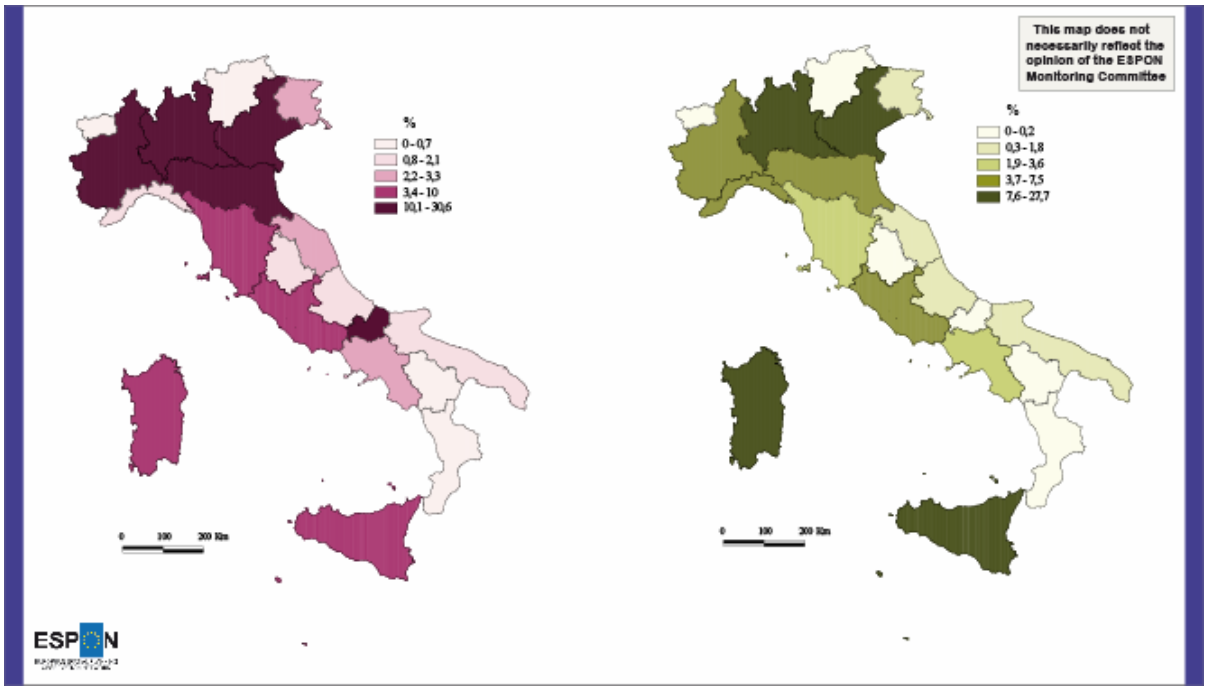
Economic sector	Number of participated foreign firms					
	North-Western Italy	North-Eastern Italy	Central Italy	Southern Italy	Sicily and Sardinia	Total
Extractions	12	0	6	0	0	18
Manufacture	499	36	43	4	2	584
Food, beverage and tobacco	25	4	4	2	1	36
Clothes, leather, textile	276	15	7	0	0	298
Wood and furniture	20	2	4	0	0	26
Paper and publishing	13	0	0	0	0	13
Oil derived and fuel	7	0	2	0	0	9
Chemical	17	0	3	0	0	20
Rubber and plastic	22	1	1	1	0	25
Materials for constructions, glass, ceramics	27	3	10	0	0	40
Metal	20	1	2	0	0	23
Machinery	19	4	5	0	0	28
Electric machinery	34	4	3	0	1	42
Equipments for transports	19	2	2	1	0	24
Energy, gas, water	3	0	0	0	0	3
Constructions	28	7	21	4	0	60
Commerce	87	22	15	1	2	127
Logistic and transport	36	9	13	1	6	65
Information and communication	21	2	4	0	1	28
Other services	32	4	9	1	1	47
Total	718	80	111	11	12	932
Employment	73.161	5.788	10.704	342	92	90.087
Turnover (millions euro)	6.443	508	2.641	33	19	9.644

Source: http://www.ice.gov (on May, 2005)

Concerning importations, the most important areas are Lebanon and Algeria, providing with their oil and methane 80% of the value of the importations from South Mediterranean countries. The importation of these products is so relevant that the commercial balance between Italy and the African rim is negative (while it is positive in the case of the Asian one). It has to be noticed that such figures are quite lower that a decade ago, due to an Italian policy of diversification in the energetic supply (in favour of Venezuela and ex-URSS territories). The second typology of importations concern clothes and leather, due to the discussed process of relocalization of parts of the product cycle in the area, particularly

towards Morocco and Tunisia. Differently from the exportations, importations are not only focused on Northern Italian regions, but also on some Southern territories, particularly Sicily (28%) and Sardinia (9,6%), due to the acquisition of crude oil (Sicily presents a certain specialization in chemical productions). Among the Northern regions, Lombardy is the most significant, providing 20% of the importations (Fig. 1)

Figure 14 : Exportations (on the left) and importations (on the right) from the South and Eastern Mediterranean countries, per region, 2003



Source: Società Geografica Italiana (2005)

2.6 Conclusion

This brief analysis emphasizes a certain differentiation in the patterns of the Italian internationalization in the considered areas. First of all, the Italian weaknesses in terms of internationalization are evident: not only the investments are scarce, but quite limited to labour intensive sectors: such an emphasis on vertical investments testify a scarce orientation towards technology, strategic alliances, foreign market penetration. Moreover, it is evident that such kind of investments reveal some perils of labour-loss in the home country, a phenomenon often debated in Italy with the progressive closure (and relocalization) of labour-intensive industrial plants. This is certainly a problem that every developed country has to face nowadays, but the progressive erosion of Italian competitiveness, declared by international organizations such as OECD and *World Economic Forum*, emphasize the need for more (and maybe different) internationalization.

Concerning the two considered areas of destination of Italian internationalization, it is possible to conjecture the presence of two rather different roles in front of globalization processes. Central and Eastern European countries confirm their nature of *transition economies*: they show a strong capability to attract investments. Even if the investments are concentrated on a few sectors, the investment profile is more various than in the South and Eastern Mediterranean case. Moreover, the import and export orientations are slightly different: Italy buys, besides minerals and oils, finished or semi-finished motor vehicles and clothes, probably as a consequence of multinational relocalization of Italian production chains. At the same time, Italy sells machinery and production tools of different nature, as a further evidence of a certain division of labour concerning high value sectors.

In the case of Southern and Eastern Mediterranean Countries, such internationalization patterns are quite weaker, not only in quantitative terms, but also in qualitative ones. The economic relations between Italy and this rim assume the classical form of those between *developed* and *developing* areas, concerning the mere acquisition of inputs and the relocalization of low value added and low technology industries, notably leather and textile productions. The exportation of machinery, production tools and *technology* in general is, in this case, quite scarce. In terms of globalization typologies, the situation of Central and Eastern Europe seems to be that of a somehow *active* and *increasing* role in globalization processes; on the contrary, South and Eastern Mediterranean role is more *passive* and functionally dependent. This situation in even more severe if we consider the strong polarization of internationalization processes: few countries plays a relevant role, while the lack of infrastructures and political stability put other countries of the area in a position of functional and economic periphery. Such narrative on polarization, however, is not absent in Italy, where, at a different geographical scale, the peripherality of the Southern regions is, still today, an evident reality – being external to many forms of international economic integration.

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3. THE IMPACT OF DELOCALISATION ON THE POSITION OF EUROPEAN REGIONS IN VALUE CHAINS

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3.1 The example of textile value chain in three marshallian district.

3.1.1. Justification of the case study and links to key question

This case study comes within the scope of the key question about the internal differentiation of Europe. Globalization is supposed to have important impacts on Europe and, as a hypothesis, to its internal differentiation. One can discuss about this too general concept of globalization but the fact is that Europe becomes more and more open to the rest of the world because of the openness of economic boundaries.

The general idea is that this growing economic openness of Europe will have different impacts at regional level regarding to the vulnerability or strength in the international competition. Textile industry is a perfect example when one is trying to link European regions to the rest of the world. General agreements on trade have more and more diminished the protection of European textile, and this sector is subject to an intense competition with the low labour cost countries. The reactions of textile regions to this growing competition is the main question we will focus on through the examples of three marshallian districts in Belgium, Denmark, and Italy.

3.1.2. Scale of the study

Our study will focus on three cases of regions very specialized in the textile industry. These three areas could be considered as industrial or marshallian districts since they built a coherent network of small and medium interconnected enterprises mainly specialized in the textile industry, and often considered as the origin of good economic performances.

These three industrial districts, located in the map 10, are:

- Courtraisis, inside the Western Flanders ;
- Prato, inside the Toscana (Third Italy);

- Herning-Ikast, inside the Ringkoebing County of western Jutland.

The table 11 gives a general idea of the importance of these three areas. As one can observed, the scale of these three examples is not the same, especially the Danish area covered is a much more restricted one, even if the dynamics we will put into the fore on this area concern a larger area. But in all cases the population of these areas are relatively small.

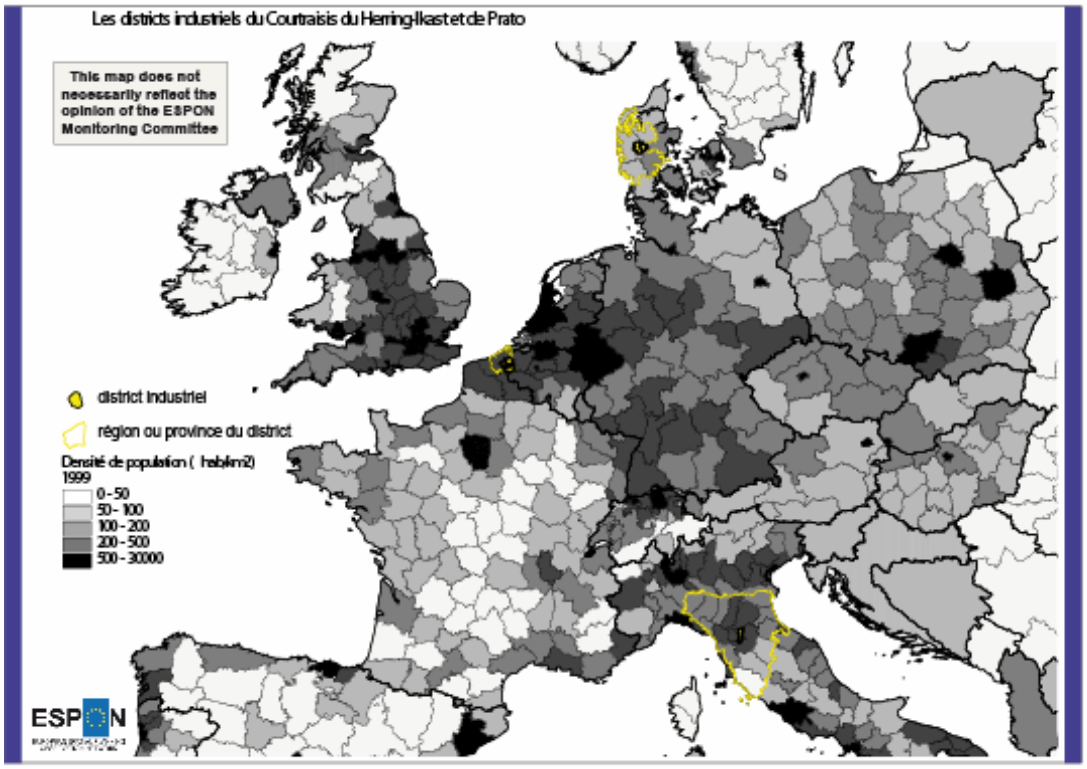
Another spectacular difference is the local specialization in the textile industry: whereas Prato is a nearly mono-industrial region, the Courtraisis in Belgium and the Herning-Ikast municipalities in Denmark have a much more diversified economic structure. Finally, let's notice the "Courtraisis" area represents nearly 37,8% of the national textile (for 5 % of the population), the Herning-Ikast district 26% of the very limited Danish textile industry, while this part is about 6% of Italian textile for the Prato province (only 0,4% of the national population).

Table 11 : Scale of the regional case studies around 2002

	NUTS areas	Population in 2003	Share of the national population	Textile employment in 2002	Share of national textile employment	Part of the local employment in textile industry
South of western Flanders	Three nuts 3 areas (arron-dissement)	506900	4,9	19466	37,8	8,2
Herning-Ikast districts	2 nuts 5 areas (municipalities)	82303	1,5	3803	26,0	7,8
Prato district	1 nuts 3 area (province)	232300	0,4	37017	6,1	40,4

Sources: http://www.istat.it/ pour l'Italie
- O.N.S.S. et I.N.A.S.T.I pour la Belgique
- http://www.dst.dk/

Map 10 : location of marshallian industrial districts considered in this case study.



3.2 Context of case study

3.2.1 The concept of Marshallian districts and the conditions of their emergence

Marshallian districts are very dynamic territorial system characterized by a dense network of interconnected and very specialized small and medium enterprises, generally oriented in light industry (Colli A., 1998). They emerged in very specific historical contexts.

In most of the marshallian districts in Europe, we can identify from the literature several common characteristics which could explain the emergence of such specific local industrial network.

Firstly, most of these districts have a long tradition in the textile industry, clearly anterior to the industrial revolution. Regions like interior Flanders, Cholet, Central Italy had an important homework industry from at least the eighteen century. This activity was a complement to agricultural production in very dense overpopulated areas and was dominated by a merchant class residing in the very dense urban regional network (Houssel J.P., 1995). This specific organization

leaded to a social and economic crisis in the nineteenth century as they miss the train of the industrial revolution, but often more or less survived until the beginning of the twentieth century. Slowly, a local modern entrepreneurship emerged from the crisis. Nevertheless, the real expansion came after the Second World War with a complete renewal of the industrial infrastructure. It is interesting to notice that this expansion occurred in sectors of light industry completely abandoned by the big fordist industry. These activities never really interested the fordist transnational firms and the fordism-taylorism system has never been easily applicable in these sectors with the result that these specific flexible local networks have been able to concentrate some of these light industries. This dynamism has been prolonged after the crisis of the seventies, since the productive system of the marshallian districts were very adapted to the requirements of a post fordist flexible economy. We could say that they have been flexible before the flexible capitalism even emerged.

Secondly, as we noticed briefly, these regions have built a dense network of small and medium interconnected enterprises using subcontracting and constituting strong informal relations. These enterprises are thus fully engaged in a complex dialectical process of cooperation and competition. This very flexible organization is able to answer quickly to the changeable demand of the market.

Thirdly, these districts have been able to strengthen their initial success thanks to a process of rising in the technological value chain of textile industry, with innovations that could disperse through the entire regional industrial network. They could consequently evolve to the most promising segments of the textile, or even diversify to other sectors strongly linked to the textile value chain, such as metal production often developed on the basis of textile machinery (Scherrer F., Vanier M., 1995).

Finally, we observe in most of these areas specific social features, notably what we could call an interclassist "common agreement". It means concretely that from the worker to the manager, there is the same social and ideological framework. For example, the "Courtraisis" (south of Western Flanders) is dominated by what we could call the social-Christian pillar, while in Toscana, the communist hegemony guarantees the social cohesion even in business.

3.2.2 The international context

The general context of these case studies is related to the so called globalization, which induces three main evolutions in our field.

Firstly, there is a growing competition in the textile industry. This growing competition that Europe has to face is linked to the W.T.O. rules, notably the suppression of all limits of imports which came into force the 1.1.2005, and to the enlargement to the East and Central European countries.

Secondly, related to this competition but mainly to gains in productivity, there has been a dramatic drop in the textile employment as you can notice from the table 12. On the same period of time (1984-1999), the production has significantly grown, except for Denmark, whose production is relatively marginal. These general evolutions don't tell us about the evolution of the districts covered by this study but gives us the general context of crisis which they have to face.

Table 12 : Textiles output and employment in Belgium, Denmark and Italy, 1984-1999

	Output (ECU million in constant 1990 prices)			Change	Employment			Change
	1984	**1994**	**1999**	**1984-99**	**1984**	**1994**	**1999**	**1984-99**
Belgium	5112	5243	5612	9.8	61312	45326	41417	-27.8
Denmark	1375	1041	1069	-22.2	17395	12549	9941	-36.6
Italy	27861	32507	31874	14.4	434967	364324	338823	-22.4
EU12	101713	96809	90287	-11.2	1817611	1323711	1149535	-38.3

Source: DUNFORD M. (2004), The changing profile and map of EU textile and clothing industry

Finally, if we consider the impacts of globalization on regional level, one has to consider the re-metropolisation process. This process describes the economic recovery of the big metropolitan areas in the context of a post fordist flexible capitalism. In this new economic context, the old vertical firm is replaced by enterprises limited to their core activities, with a growing tendency of subcontracting the rest of their tasks. Metropolises are supposed to be better placed to answer this reorganization since they can offer a range of diversified service activities and sometimes strong connections between them. In this new context, the place of marshallian districts has to be discussed in a deeper way.

3.3 General hypothesis

As a general hypothesis, we can suppose two kinds of reaction of the textile industrial districts regarding to the context of crisis and globalization they have to face, especially the growing competition with low wages countries of Central and Eastern Europe or eastern Asia. In one hand, these evolutions could produce a general crisis due to their specialization in a declining sector. But, on the other hand, the economic structure of interconnected small and medium enterprises is sufficiently strong to diversify and improves the economic activity. In this hypothesis, several ways are possible to face the crisis: diversification of the structure for example to other light industries, rising in the value chain with the production of textile machinery or chemical products, restructuring in favour of

specific segments of high quality and added value. Our three case studies will perfectly illustrate these different possibilities.

More generally, it is interesting to discuss the place of the marshallian districts in the new flexible capitalism, described here over, but also in this knowledge-based economy, where research and development, on one hand, and information, on the other hand, are supposed to be the key for the future growth. This structural change could have both positive and negative impacts on the marshallian districts. On one side, these regions are characterized by their flexibility and could be able to benefit of this new flexible economy, because of their capacity to adapt quickly to a very unstable market. On the other side, the insufficient diversification and the reduced size of the enterprises could be disadvantages in a knowledge-based economy, notably because of a relatively low qualified labour or the insufficient level of Research and Development. So, the future technological progress could be limited by the insufficient levels of education of the workforce, often trained from a very young age inside the enterprises, and by an insufficient access to research and development, as illustrated by their low level of patent.

3.4 Replicable methodology, problems, questions

Our methodology will be followed in three steps:

1. To analyze the general response at both UE and national scales to the globalization and the textile crisis. Except the global indicators of output and employment in the textile sector, we will particularly focus on the structure of imports and exports flows at national level, drawn from the ITCS data base (trade on 7000 commodities between the OECD countries and all the other countries). Through these data, we could observe the evolution of the European countries in the international division of work in textile and clothing industry. Are these exports collapsing or do we observe a restructuring towards more technological segments of the value chain? More globally, this analysis could allow us to draw a general picture of the international division of labour in this industry and especially the place of Europe in it.
2. To search for the specific answers of the marshallian districts covered by this study. This will be firstly evaluated by general indicators: evolution of the GDP in a long time period if possible; evolution of the employment market and the level of unemployment. Secondly, we will focus on more specific and structural indicators: evolution of the employment textile, evolution of employment in the different segments of the textile value chain, the general evolution of the economic structure, especially the evolution of the research and development or in business services sector, which are often considered as the keys for the actual and future economic growth. These indicators will be as much

as possible treated at the local scale described here over. But in some cases, notably to have longer time series, we should be obliged to use a less refined scale, to evaluate the regional evolution in which the districts are inserted.

3. Beyond this quantitative approach, the literature will be the main basis of this study, as it provides the best lighting to evaluate the structures and the recent evolutions of the areas covered here. Moreover, literature offers us a qualified and often relevant explanation of this industrial success which allows to replace it in specific historical contexts.

3.5 Empirical result of the case study: Specific reactions of the marshallian districts to globalization

3.5.1. Global evolutions of the marshallian districts

The table 13 evaluates the general economic wealth of the three districts considered here, as well as their recent evolution.

Table 13 : Economic performances of some regions including industrial districts, 1995-2002 (National level is between brackets)

	Average annual growth 1995-2002	Level of GDP/inhab in 2002 in % of European level	Unemployment
South of Western Flanders	4,54 (4,66)	119,5	4,5 (8,4)
Prato	3,57 (3,93)	128	5,6 (8,0)
Ringkoebing	5,19 (4,94)	123	4,7 (5,5)

Source: Eurostat

The recent evolutions show relatively low economic performances of these areas, lightly inferior to the national average, except for the Herning-Ikast district. This relative slowing down is interesting to underline as these areas have known strong economic performances for the last decades. We have no long term data at the scale we are working with, but we can still draw some conclusions from the level of GDP/inhab in some nuts 2 regions, in which the areas covered by this study are included. For example, Toscana was around 87% of the European level of GDP/inhab in 1960, while in 1984, its level was 114% of the European average, and maintains around 112% in 1990. During the nineties, regional accounts have been completely reviewed, and it is difficult to compare the data. We observe the same evolution in Western Flanders, with the level of GDP/inhab. in comparison of the European level which has grown from 85% to 106% between 1960 and 1990.

It seems that, all things being equal, these specific districts are coming to the limit of their performances. But, this should not be exaggerated: firstly, economic performances are hardly below national one (it is thus more a relative

decline than a real crisis); secondly, unemployment remains very low; finally, this tells nothing about the causes of the process and it seems that economic performances are relatively good if one considers the structural weakness of these districts because of the high share of declining industrial employment.

3.5.2. The case of southern Western Flanders (or Courtraisis)

The Belgian Courtraisis is limited (Musyck B., 1995), at least in the statistics presented here, to three district South Western Flanders province: Kortrijk, Tielt and Roeselaere.

Emergence of a marshallian district

Coutraisis in the south of Western Flanders is very representative of the European marshallian districts. Innner Flanders has a very ancient tradition in the linen textile industry, in the form of homework industry in complement of a relatively poor agriculture, especially in the Lys valley, from at least from the seventeenth century. Industrial revolution has thrown this area in a deep crisis in the nineteenth century, except in Gent which has been the only pole of early modernization at the very beginning of this century. Elsewhere, local urban merchants continued to benefit from low cost of labour and have been unable to adapt to the new technologies that were taking place at the time. However, slowly, a local entrepreneurship emerged and modernized the industrial infrastructure on the basis of the existing structure, still very specialized in linen industry. It is interesting to notice that the big Belgian finance has never been interested in these crisis areas, where the industrial structure was very dispersed, with the result that local entrepreneurship has never been dominated by national investors.

The post war development

It is really after the textile crisis of the fifties that this region, still relatively poor, has emerged as a real endogenous area of strong development. As we already noticed, the GDP/inhab has grown from 85% of the European average in 1960 to 106% in 1990.

This success is due to the conjunction of a new international context and the specific structure of this area. Europe has known exceptional growth in the post-war period, in a fordist context, where the biggest investors focused on specific fordist industries, those which allow high gains of productivity thanks to a segmentation of the work process. Light industry has been largely excluded from this process and remained more dispersed. Regions as inner Flanders have thus

been able to modernize and diversify their industrial structure in specific sectors on a very endogenous basis. The table 14 illustrates the diversification of the industrial structure between 1958 and 2002.

This autonomous growth is illustrated by the emergence of a local banking system to support this development and by the fact that most of the enterprises are still family-owned, even when they spread outside the region (Musyck B., 1995). The first thing to notice from this table is the remarkable stability of the industrial employment, whereas in the same time the national industrial employment has dropped from more than 1260000 to 680 000! As we can observe from the table, the district has been able to compensate the dramatic drop in textile and clothing industry by two main structural evolutions. On one hand, there has been a horizontal diversification to other light industry, especially furniture developed on the basis of an industry of panel of linen fibre, and food industry, strongly linked to the development of a vegetable culture. On the other hand, there has been a vertical diversification with a rising in the value chain of textile, for example by the production of textile machinery (45% of the national production) or even synthetic fibres (15% of the national production).

Table 14 : Evolution of the industrial structure, from 1958 to 2002

	Employment in 1958	Structure of the industrial employment in 1958	Employment in 2002	Structure of the industrial employment in 2002
Textile industry	36950	50,1	17676	25,2
Clothing industry	9286	12,6	1912	2,7
Wood-furniture	7050	9,6	7931	11,3
Food industry	4292	5,8	10167	14,5
Electric, Mechanic , transport machinery and equipment	4291	5,8	10418	14,8
Smelting works, lamination and forges	3243	4,4	4025	5,7
Non ferrous ores	3149	4,3	2742	3,9
Metal works	1977	2,7	5426	7,7
Printing	777	1,1	2454	3,5
Precision instruments	620	0,8	481	0,7
Other manufacturing industry	2081	2,8	6989	10,0
Total manufacturing industry	73716	100,0	70220	100,0

Sources: Muysick (1995) for 1958; own evaluation on the basis of ONSS for 2002

In conclusion, south of Western Flanders has created a dense integrated network of small and medium enterprises, inserted in a very interdependent local civil society (the social-Christian pillar system). It has built a solid economy, less subject to delocalization than the industrial spaces dominated by transnational capitals (Vandermotten Ch., Marissal P., 2003).

Recent Economic performance

Because of its flexibility, the district has shown a remarkable capacity of adaptation to the new economic environment emerging in the seventies, the so-called flexible capitalism (Boyer, 1986). The economic performances (table 15) have remained very good after the seventies crisis and until the middle of the nineties. From 1981 to 2001, the employment has grown at the average rhythm of 0.45% each year while national employment remains stable. Unemployment is near the frictional level, around 4% of the active population.

But when one looks at the most recent performances, signs of decline could be observed: between 1995 and 2002, the annual growth of the GDP has reached 3.40 % at maket prices, that is to say a performance lightly inferior to the national level (3.54 %). It appears that the drop in the textile employment is not anymore compensated by the development of integrated new industrial activities, and the tertiary growth is not always sufficient to compensate the industrial decline.

It seems that the local flexibility and know-how are not sufficient anymore to face the strong competition with the rest of the world. They may have reached the limit of their capacity to improve their technology in the value chain, because of a lack of research and development and also may be qualification. Indeed, the level of diploma is relatively low in the Belgian context, with a strong predominance of technical education related to the traditional activities, and the workforce is traditionally trained inside the enterprises (Vandermotten Ch., Marissal P., 2003).

However, one has to qualify such a dark picture of the situation. In no way, we can speak of a crisis, hardly a slowing down in the remarkable long term performances of the district. Moreover, most of this slowing down is due to structural effect more than a lack of local dynamism. It means that if you eliminate the fact that this region has a structure very oriented to some declining industrial sectors, the performances are still remarkable.

3.5.3. The marshallian district of the Prato

The specific historical and cultural context

The marshallian district of Prato is in many aspects very similar to the "Coutraisis".

Firstly, there is long pre-industrial tradition in the textile industry, mostly based on the wool weaving. From this long tradition, and despite of the crisis during the industrial revolution, survived a local network of active entrepreneurs and workers and a specific sectorial specialization.

Secondly, the dense network of small towns from which the merchants organized the production is another common point with inner Flanders.

Thirdly, and more importantly, there is this exceptional socio-cultural homogeneity, based on common ideological and political local culture. Here the communist party has played the role of the social-Christian pillar in the Coutraisis. These "subcultures" have endowed the necessary flexibility to such a complex economic system, especially in the working relations. In this context, we can speak of a real cooperation of workers and capitalists (Colli A, 1998) instead of class struggle. Indeed, the distinction between workers and managers is not always as clear as it could be in other production systems since many workers have founded their own enterprises. This creates a very sure economic environment which reduces considerably the cost related to work struggles and also allows confident relations between the different actors of the production system. We can also outline this apparent paradox of a dominant communist party which allows social peace rather than favour class struggle. Indeed, this domination dates from the second world war and is very linked to the specific social networks that pre-exist such a domination, for example a strong tradition of local democracy (the Italy of the municipalities typical of the central Italy) or the communitarian familiar system. In other terms, the social cohesion was strong before the communist party became dominant, and it only reinforces the cultural homogeneity.

Industrial structures and recent economic performances

The recent economic performances of the Prato districts are not what we could observe in Coutraisis. After a severe drop in the eighties, there is a significant recovery of the Prato district in the nineties. The most significant aspect is the growth of the industrial sector in a context of global de-industrialization. The pattern is thus quite different than the one observed for the Belgian district. But from this evolution, we cannot draw any general conclusion about the economic wealth of the Italian marshallian districts.

Table 15 : Evolution of the employment in Prato, compared to Toscana and Italy, 1981-2001

	Average annual growth, 1981-1991		Average annual growth, 1991-2001	
	Manufacturing industry	Total	Manufacturing industry	Total
Prato	-2,60	0,07	0,24	0,93
Toscane	-1,76	0,65	-0,60	0,66
Italie	-1,07	1,15	-0,72	0,76

Source: 8° Censimento generale dell'industria e dei servizi 22 ottobre 2001, http://www.istat.it/

The table 16 will help us to understand this evolution, as it gives the structural evolution between 1991 and 2001.

The first thing to underline is the exceptional weight of the manufacturing industry, mostly in the textile sector. While this part is about 31% of the employment for whole Italy and 33% in Toscana, it reaches the level of nearly 50% in the Prato, whose 40% in the textile industry. This means clearly that this district has never known the diversification we observed in the "Coutraisis" district in Belgium. The structure is more conform to a "pure" industrial district since we can observe a large amount of very small family enterprises, in different complementary segments of the same sector. Beyond this diversification inside the textile sector, the diversification has been very weak, except in the textile machinery.

A priori, this overspecialization should be considered as a weakness but it appears that after the drop of the eighties, the district has known positive evolutions and even maintained in a difficult context the employment in the textile industry. Most recent data should be needed to confirm these evolutions for the last years, when the international competition increased severely. Nevertheless, we can argue that this district had an efficient answer to the challenge of globalization. This is due to a certain level to reorientation of the industry: the growth of the clothing industry, generally less qualified, means in fact the development of specific fashion industry; other specific segments have been developed such as "ennoblissement textile", which is a sign that a technological rising in textile value chain.

However, the resistance of the textile industry is not all, since we can notice that business services, often considered as the key for a actual and future growth in a post fordist economy, have nearly doubled in the nineties. It represents nearly 12% of the total employment (14 % in whole Italy), which is remarkable if you consider this sector has a tendency to concentrate in big towns.

All these observations confirm the remarkable ability of the district to adapt its structures in a very changeable and unstable economic environment, notably with the growing competition of the eastern European and Asian countries.

Table 16 : Evolution and structure of the employment by section in Prato province, 2001.

Section	Sector	Employment in 1991	Employment in 2001	Structure of the employment in 2001
Agriculture		134	112	0,1
Extraction		5	0	0,0
Food industry		602	750	0,8
Textile and clothing industry		38020	37017	40,4
Whose	*Mills*	10920	10330	11,3
	Weaving	10800	7485	8,2
	"Ennoblissement textile"	7081	7581	8,3
	Other textile industry	9219	11621	12,7
	Clothing	3019	5053	5,5
Leather and shoes industry		201	350	0,4
Wood industry		430	377	0,4
Paper ; printing; Edition		559	615	0,7
Chemistry, rubber and plastic industry		763	924	1,0
Non metallic ores		264	285	0,3
Metallurgy and metal works		848	1160	1,3
Machinery and equipment		1602	2315	2,5
Electrical Machinery		455	787	0,9
Fabrication of means of transport		15	42	0,0
Other manufacturing industry		586	601	0,7
Manufacturing industry		44345	45223	49,4
Distribution of gas, electricity and water		324	12	0,0
Building		6550	7953	8,7
Trade		17008	15826	17,3
Hotel-restaurant		1720	2211	2,4
Transportation and communication		2348	3258	3,6
Finance		1631	1968	2,1
Business services		5734	10836	11,8
Education		213	249	0,3
Health and social action		1106	1264	1,4
Collective, social and personal services		2299	2433	2,7
Total		83417	91545	100,0

3.5.4. The Herning-Ikast district in Denmark

The emergence of the marshallian district

The late industrialization of Denmark at the end of the nineteenth century has begun in Copenhagen and in the others towns of the eastern part of the country. Less densely populated, Western Jutland remains a very rural and relatively poor region. However, in the last decades, the industry has considerably grown in the counties of Ribe, Rinkgoebing, Viborg, south and north Jutland, with a part of the national industrial production going up from 18% to 30% between 1971 and 1989.

The Herning-Ikast district illustrates this dynamism. The textile production has begun in the seventeenth century, as a complement to a poor agriculture in a region dominated by sheep landes. The wool has given birth to a specific production of socks, mostly exported.
This production has survived to the industrial revolution: local firms have manufactured and commercialized homework industry of hosiery. The social protection system has allowed these firms to survive from the crisis in the thirties.

In the fifties and sixties, most of the experts foresaw the collapse of the hosiery industry, because of a stagnating market, of high production costs, of low level of qualification of the workforce, and of a relative isolation. Nevertheless, the district did survive, firstly thanks to taylorian rationalization, and then by the specialization of each production unit in specific niches, inside a broader network of enterprises; all evolutions which are typical of a marshallian district.

Due this specific organization, these firms have shown a remarkable capacity of adaptation to the new flexible capitalism, characterized by a strong requirement of flexibility in a very changeable market. They pay a growing attention to the design and the quality; they modify frequently their products to adapt them to new demands. They also use the most modern machinery, but they invest more in research and development and design.

In the working relations, the system has replaced the taylorian division of work by a specific management of the staff in small groups in order to avoid too repetitive tasks. Very significant of the working relations is the general attitude of the trade unions: despite of the high share of union members among the workers, it appears that their attitude pays more attention to the interests of the firms than to the national watchword.

Recent evolutions

We will now focus on the answer of this district to the growing international competition. The table 17 shows clear signs of low performances compared to regional and national environment: while until 1994, the Herning-Ikast district keeps good economic performances, in the last decade, the situation has deteriorated.

The structural evolutions, as shown in table 18, will allow us to better understand these evolutions. Let's notice first the structural differences with the two others marshallian districts. Firstly, textile industry represents only about 6% of the total employment, a share comparable to the southern Western Flanders, very inferior to what we observed in the Prato district. However this level reached 15% in 1994. Secondly, as we observed for the Belgian districts, there has been a clear diversification to other light industries, such as food, wood products and fabrication of metal products. However, unlike the southern Western Flanders, this district is not producing textile machinery, and forms a less complete textile value chain.

In terms of performance, the evolutions shown in table 18 are spectacular, since the textile employment drops from 7300 to less than 2900 employees between 1994 and 2004. In the same time, others industrial sectors resist much better, with even a significant growth for metal products (+ 500 employees). The global level of employment could be maintained thanks to growth in some tertiary sectors, notably business activities and social institutions. Briefly, it seems clear that the textile crisis affected severely the Herning-Ikast districts.

But, one has to qualify such a conclusion. Despite of this dramatic shift, the district could maintain a certain level of production and firms have still high levels of profit. As an answer to the growing competition, the labour intensive activities have been subcontracted to low wages countries, for example to Lodz in Poland. So it appears that the district has specialized in the fashion while the production has been delocalized in central and Eastern Europe.

In conclusion, if the crisis could not be avoided because of the international competition, local firms have been able to react to this new environment: they developed new strategies, by delocalizing the labour intensive activities.

Table 17 : Average annual growth of the employment of the Herning-Ikast district, in regard to its regional and national environment, 1984-2004

	Annual growth of the employment		
	1984-1994	1994-2001	1994-2004*
Herning-Ikast district	0,53	0,28	-0,26
Ringkoebing County	0,53	0,47	0,00
Denmark	0,27	0,72	0,31

* After 2002, figures are not perfectly comparable over the time. Thus the evolutions should be read only to compare regional performances.
Source: http://www.dst.dk/

Table 18 : Evolution of the employment by sector in the Herning-Ikast district, 1994-2004

	Employment in 1994	Employment in 2004*	Absolute evolution 1994-2004	Employment structure in 2004
Agriculture, horticulture and forestry	1839	1313	-526	2,86
Fishing	19	14	-5	0,03
Mining and quarrying	22	33	11	0,07
Mfr. of food, beverages and tobacco	1411	1276	-135	2,78
Mfr. of textiles and leather	7308	2855	-4453	6,22
Mfr. of wood products, printing and publ.	1788	1862	74	4,06
Mfr. of chemicals and plastic products	140	173	33	0,38
Mfr. of other non-metallic mineral products	441	370	-71	0,81
Mfr. of basic metals and fabr. metal prod.	2463	3042	579	6,63
Mfr. of furniture; manufacturing n.e.c.	1917	1435	-482	3,13
Manufacturing industry	**15468**	**11013**	**-4455**	**23,99**
Electricity, gas and water supply	289	154	-135	0,34
Construction	2062	2646	584	5,76
Sale and repair of motor vehicles sale of auto. fuel	1236	1160	-76	2,53
Wholesale except of motor vehicles	2654	3317	663	7,22
Re. trade and repair work exc. of m. vehicles	2797	3474	677	7,57
Hotels and restaurants	995	1122	127	2,44
Transport	1542	1817	275	3,96
Post and telecommunications	751	661	-90	1,44
Finance and insurance	1129	1037	-92	2,26
Letting and sale of real estate	537	597	60	1,30
Business activities	2326	3486	1160	7,59
Public administration	1963	1540	-423	3,35
Education	2837	2979	142	6,49
Human health activities	2130	2421	291	5,27
Social institutions etc.	3713	5052	1339	11,00
Associations, culture and refuse disposal	1708	1933	225	4,21
Activity not stated	289	144	-145	0,31
Total	**46306**	**45913**	**-393**	**100**

* after 2002, figures are not perfectly comparable over the time. Thus the evolutions should be read in order to evaluate main structural evolutions.
Source: http://www.dst.dk/

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4. MIGRATION FLOWS AND IMPLICATIONS: CASE STUDIES ON FRANCE, HUNGARY AND SWEDEN

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ITPS

4.1 Introduction

Much of the debate regarding "replacement migration" has taken for granted that if Europe opens up its borders the needed labour will show up. This is, of course, an exaggerated view, something which has been pointed out by scholars in the field (Browne, 2002, Gee & Gutman, 2000, W.W. Rostow, 1998). To master the population decline, United Nations calculated that *1 840 million net immigrants are needed* during the period 2000 to 2050 (UN Population Division, 2000). This figure is so high that it is not realistic to think that immigration is the one and only solution to the demographic challenges.

The need for labour immigration and "replacement migration" is neither evenly spread between countries, nor between regions in the developed countries. Recent research indicates that the immigration flows are headed for the metropolitan areas in the "heptagon" (London-Hamburg-Munich-Milan-Paris-London) (Vandermotten et al., 2004), while peripheral parts of the European Union and the candidate countries face population decline and depopulation (ESPON project 1.1.4 Final Report).

Three case studies will be undertaken to illustrate the differences in the migratory movements to countries in the European Union. The three studied countries are France, Hungary and Sweden. These countries do not only represent three different types of migratory movements, but also three different types of economic structures; the demand for labour is a part of the economic structure.

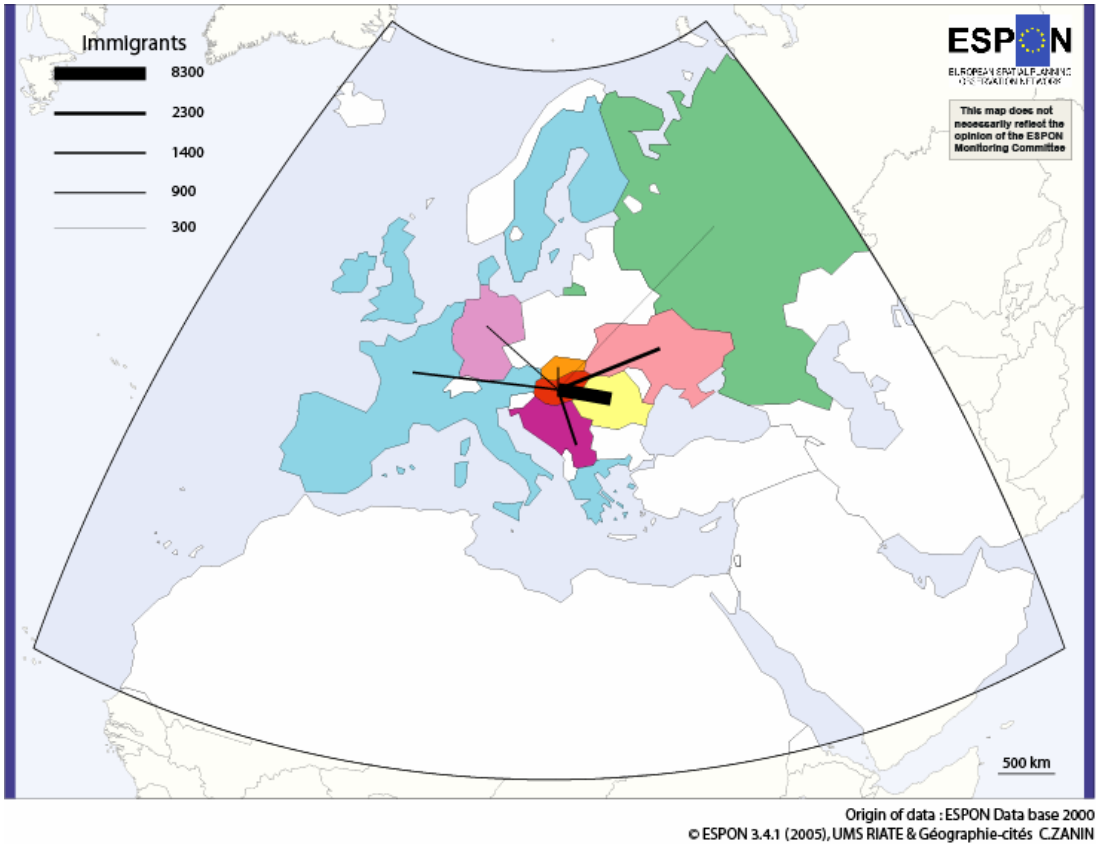
This paper will start discussing the migration flows to the studied countries and the immigrants' choice of settlement. A simple theoretical model will then be presented, followed by empirical evidence in the studied countries. Some scenarios for the future development will be then be discussed, and the concluding remarks will discuss the findings.

4.2 Migration Flows

4.2.1. Hungary

The migratory movements to Hungary are very modest; in 2000 the net migration to Hungary was only 18 000 persons plus 7 800 asylum seekers. A vast majority of the immigrants immigrated to Hungary from the neighbouring countries; approximately 50 per cent of all immigrants came from Romania, 10 per cent from Slovak Republic, 10 per cent from Ukraine and 10 per cent from Former Yugoslavia.[3] This migration flow was dominated by ethnical Hungarians (Castles & Miller, 1994; Szoke, 1992). Another 10 per cent of the immigrants came from the European Union, and roughly 10 per cent of the remaining immigrants come from countries from the rest of the world (e.g. USA, China and Russia).[4] Ethnical Hungarians moving to Hungary constitute about 80 per cent of the net migration to Hungary. Less than 10 per cent of all immigrants come from countries outside Europe. One reason for the large immigration from Romania is that the number of check-points between Hungary and Romania increased after the fall of the Communist system (Ilies, 2005).

Map 11 : Regional Neighbourhood immigration to Hungary in 2000



[3] The OECD Migration Database.
[4] Idem

In 2000 about 7 800 asylum seekers entered Hungary, of which 1 500 were recognised as asylum seekers by Hungary before entering the country. An additional 900 were accepted as refugees by Hungary after an investigation. The asylum seekers were dominated by persons from Afghanistan, Bangladesh, Iraq, Turkey, India and Serbia-Montenegro. [5]

After the collapse of the Communist system the Hungarian Government never feared a mass emigration of Hungarian, but to become a transit country for migrants who wanted to make their way to the European Union. Together with Poland, Czech Republic and Slovak Republic, Hungary had a relative affluence and a bad or under developed institutional structure to deal with immigration, which made the country attractive for refugees and want-to-be-immigrants (Castles & Miller, 1994; Toth, 1992; Szoke, 1992). In October 1991, the Hungarian government implemented new visa rules, which lowered the number of entrants to Hungary with 41 000 within a few days! (Szoke, 1992).

4.2.2. Sweden

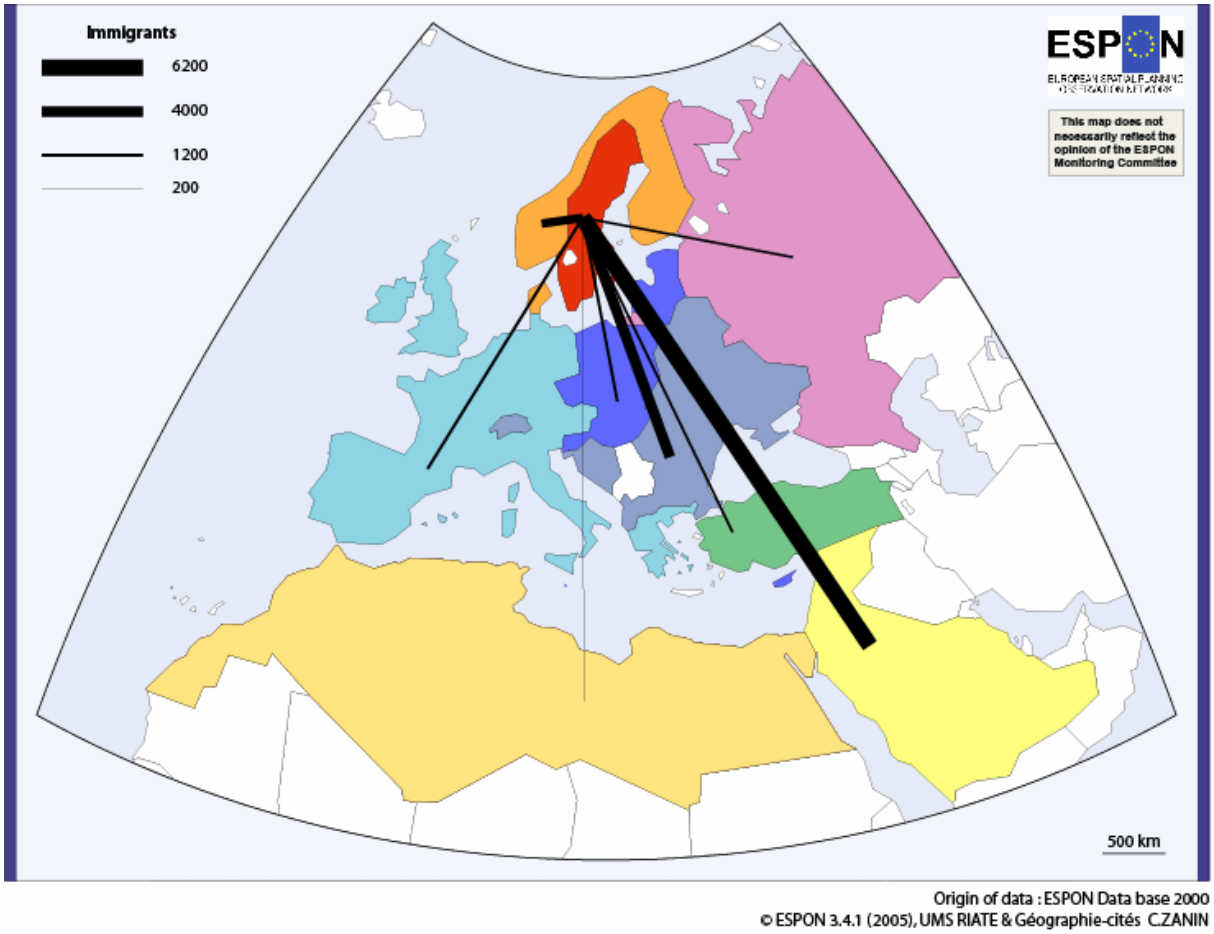
The labour immigration until the 1970's was dominated by Nordic and South European labour. When the labour immigration declined around 1970, labour immigration was replaced by refugees and tied-movers, mainly from non-European and East European countries (Scott, 1999; Bevelander, 2000).

Map 12 shows net migration to Sweden in the year 2000. More than 75 per cent of the net migration came from European countries, Russia, Turkey and the Middle East. About 400 net immigrants came from India, 700 from China and about 1 400 from Africa, which constituted about 10 percent of the net immigration to Sweden (Rauhut, 2004)

For 2000, about 25 000 temporary work permits (valid for 3 until 48 months) were issued, together with just less than 450 permanent work permits (Rauhut, 2004). However, only 3 300 of them actually immigrated to Sweden.[6] Relatively low salaries for well educated and relatively high taxes repel many presumptive migrants from immigrating to Sweden (Utrikesdepartementet, 2002; Lindh, 2002 and Rauhut 2002, 2004).

[5] Central Statistics Office of Hungary
[6] Statistics Sweden (2005)

Map 12 : Regional Neighbourhood immigration to Sweden in 2000



4.2.3. France

It must be stated clearly that there is no emigration data for France; France does not keep a record on the country of destination for persons emigrating. As a result, it is not possible to calculate the net migration between France and other countries. Furthermore, the result for France is therefore not fully compatible with the results for Hungary and Sweden. In 2000 France had a net migration of 40 000 persons.

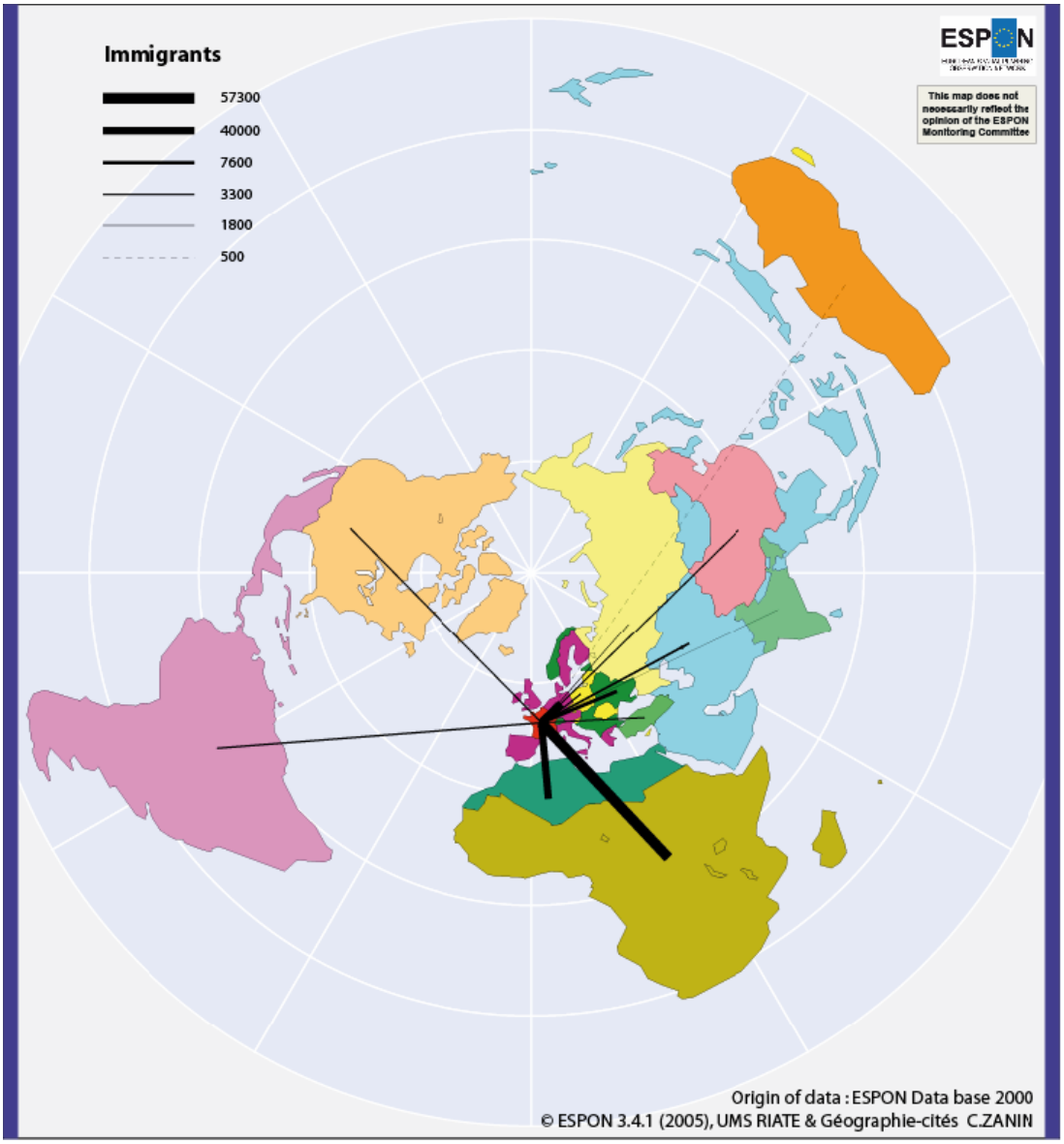
A very large share of the immigration to France comes from the former French colonies; in 2000 (Castles & Miller, 1994), approximately 160 000 persons immigrated to France and just less than 60 000 came from the former French colonies in Africa.[7] Much attention has been given the East-West migration in Europe, (Layard et al., 1992) but the migration from the former French colonies in North Africa is just as interesting. This area has for long served as a French labour reserve, legal as well as illegal. Since migration flows have a tendency of

[7] INED database

following former migration flows, this area will most likely continue to send migrants to France (Castles & Miller, 1994).

Besides the strong immigration from Maghreb and the former French colonies in Africa, the second biggest migration came from the countries of EU15 (about 43 000) and Asia (about 21 000). About 6 500 persons immigrated from North America and the same number from South America in 2000 (see map **X.3**). The immigration from the New Member Countries in Eastern Europe was very modest in 2000, only 3 000 persons. Another 2 000 came from Romania, 2 000 from the former Yugoslavian countries, and 2 000 from Russia. Just less than 6 000 persons emigrated from Turkey.

Map 13 : Gross immigration to France in 2000



4.3 The Immigrants' Choice of Settlement

In general, immigrants are headed for the major metropolitan areas. In the United Kingdom 12 percent of the population is located in London during the period 1996-1000, while the share of immigrants in London was more than 40 per cent; more than 40 per cent of the immigrants to Italy settle down in Rome and Milan; Paris attract 36 per cent of the French immigrants (Vandermotten et al., 2004). In the case of Hungary, the immigrants favour Budapest (Vandermotten et al. 2005; Eurostat, 2005).The three metropolitan areas in Sweden attract most of the immigrants too (Häll, 1997).

However, compared with map X.4 the settlement patterns of immigrants above do not fully correlate for France and Sweden. For France, the highest migration rate is for Languedoc-Roussillon and Alsace, with Paris only on third place. Languedoc-Roussillon attracts many retired persons from Europe due to its climate; the same kind of immigration of retired people is found in e.g. Spain and Portugal (ESPON project 1.1.4, 2005). Strasbourg is located in Alsace, and the European Parliament is situated in Strasbourg. This is probably the reason why the international immigration is so high to Alsace.

In Sweden all regions in the country show a strong or very strong international net migration rate for 2000. One explanation is that the rural areas (Norra Mellansverige, Mellersta Norrland, and Övre Norrland) are sparsely populated. Quite modest immigrant flows will therefore indicate a "strong" international net migration rate, which is a statistical illusion. A second explanation is that asylum-seekers are placed in camps all over Sweden. When the Asylum-seekers receive a permission to stay in Sweden they get registered as immigrants in the county which the camp is situated in. Generally, there are no or few jobs in the rural and peripheral Sweden for immigrants, so they move to the three metropolitan areas and to the major cities where job opportunities are better (Häll, 1997, Hammarstedt, 2003).

4.4 Factor Prices and Substitutability: A Simple Model [8]

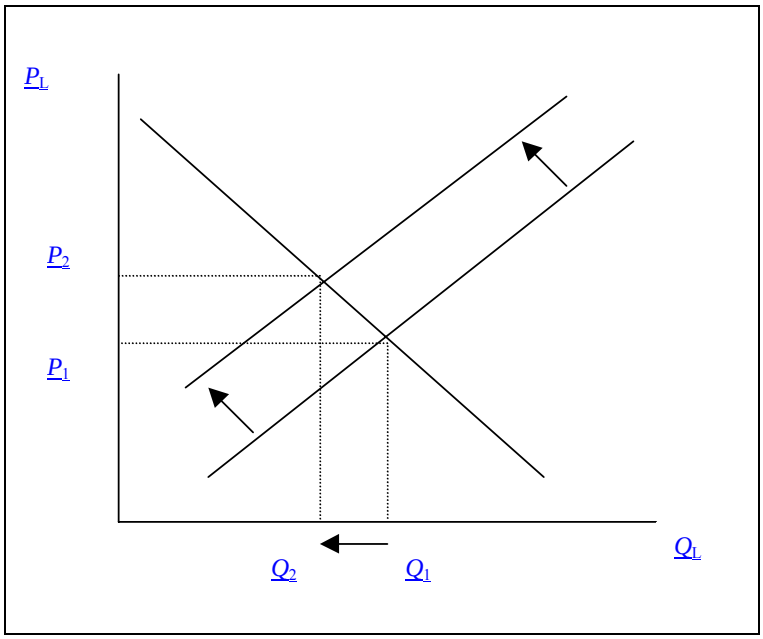
In economic theory, the demand for labour depends on the total demand in the economy and on the alternative cost for replacing labour with capital. A labour shortage occurs when the demand for labour is higher than the supply and when the alternative cost for substituting labour with capital is too high. According to standard economic theory, the demand for labour depends on the fluctuations of short-term business cycles. In a short-term perspective, the opportunity cost for replacing labour with capital, i.e. investing in new technology, will be too high. If

[8] This section is taken from chapter two in Gaspar et al. (2005)

the labour shortage continues, or even worsens, over time, the opportunity cost of not replacing labour with capital will be too high. In a long-term perspective, labour shortage is not about being short of labour, but about lacking the capacity to adjust to the structural changes in the economy (Begg et al., 1987, Wonnacott & Wonnacott, 1986; Elliott, 1991; Fallon & Verry 1988).

A consequence of labour shortage is that the cost for labour will increase, which is illustrated in figure 1. When the quantity of labour, QL, diminishes, and the quantity moves from Q1 to Q2, the price for labour, PL, will move from P1 to P2. As a result, a new equilibrium will be achieved (see figure 1).

Figure 15 : The Relation between the Quantity of Labour and the Price of Labour



Labour shortages can be "partial" and "general". A partial labour shortage occurs when there is a shortage of labour in a specific profession or sector of the economy, e.g., farm workers, nurses, bus drivers or construction workers. A general labour shortage is a result of demographic changes in the population, i.e., there is a shortage of labour in all professions and sectors of the economy (Rauhut, 2002).

According to economic theory, it is possible to estimate the effects of changes in the relative prices of a factor commodity (as shown in figure 1), especially when it comes to the demand for that specific factor commodity and substitution effects. Given the assumption that a company is profit-maximising, a shortage of a factor commodity will result in an increase in its price. As a consequence, this specific factor commodity will be replaced by another, cheaper, factor commodity. If it is labour that is in relative shortage, capital will be substituted for labour. Elliott states that the "substitution effect distinguishes the firm's

reaction to the change in the relative price of capital and labour, holding constant the scale of production" (Elliott, 1991)

Begg et al. state that "the substitution effect leads the firm to produce a given output using a technique which economizes on the factor that has become relatively more expensive. Thus, a rise in the wage rate of labour leads to a substitution effect towards more capital-intensive production methods at each output" (Begg et al 1987). According to Wonnacott & Wonnacott, "in a competitive, fully employed economy, the wage rate increases as productivity increases. This conveys a clear message to those producers who can no longer afford the higher wage. The message is: society can no longer afford to have its scarce labour employed in your activity. There are now too many other, more productive pursuits. This may seem harsh, but it is the sign of economic progress" (Wonnacott & Wonnacott, 1986).

There are, in general, five ways to deal with a relative change in the price of labour (Rauhut, 2003).

i. If the relative factor price for labour increases on a short-term basis, the increase in cost will be paid by the consumer of the commodity or service.
ii. If the relative factor price of labour increases on a long-term basis, capital will, if possible, be substituted for labour.
iii. If the relative factor price of labour in labour-intensive production increases on a long-term basis, organisational or institutional changes will take place in order to use the labour more efficiently.
iv. If the relative factor price of labour increases on a long-term basis, labour in-migration can be used, provided that imported labour can replace domestic labour. This is easily done for some sectors of the economy, but for others, it is more troublesome to replace domestic labour with immigrated labour.
v. If the relative factor price of labour increases on a long-term basis, labour-intensive production will be moved to countries where labour is cheap and in abundance.

An increase in wages is to be expected when labour is scarce, which leads to an increasing wage ratio in the production. When the marginal cost of a continued increase in production is higher than the marginal cost of substituting capital for labour, institutional, organisational and technological changes will be required in order to replace the scarce and expensive factor commodity labour in production. Despite using less labour, production will be kept up due to increased productivity. This is so not only because firms are profit- maximising, but also because they are cost minimising (Fallon & Verry, 1988).

However, there are no clear-cut results (whether theoretical or empirical) that show a link between a change in the population structure and its economic effects. The results are dependant on the assumptions that have been made. Depending on the institutional and organisational changes that take place at the time of the population changes, population decline can result in both positive and negative economic developments (Rosenberg & Birdzell, 1986; Easterlin, 1996; Kelley & Schmidt 1994; Coale & Hoover 1958).

Historically, situations of long-term labour shortage have led to labour being replaced through technological, institutional and organisational changes. This has meant that productivity improvements have resulted in increased growth. The creation of an economic surplus through economic growth is a condition of welfare (Boserup, 1981; Rosenberg & Birdzell; 1986; Dillard, 1967; Rider, 1995; Cameron, 1997). How threatening or challenging are the unfavourable future demographic development, causing depopulation and short-term labour shortage? It is not a question of just getting immigrants to fill up population gaps; it is a question of getting the right labour with the right competence and skills as well as getting them to the right geographical areas.

4.5 The Future Immigration Demand

The labour immigration to the industrial sector in Sweden until the 1970's was dominated by Nordic and South European labour. In the Fordist production system in the 1960s, labour could generally be put to work quickly after arriving in the new country. The immigrant was given a short introduction to the workplace and was then able to carry out the work in a Fordist production model. There were no requirements for location specific knowledge – e.g., knowledge of language and culture – for these labour immigrants in industrial production during the 1960s. In other words, substitutability between foreign and domestic labour was high. Unfortunately, there was a negative aspect of the labour immigration: it counteracted the structural transformation of the Swedish economy, as stagnating trades and sectors could keep afloat through access to cheap labour. When the crisis came in the 1970s, the bubble burst and companies within these trades and sectors went under. The immigrants remained, and since then, they have had a weak tie to the Swedish labour market (Lundh & Ohlsson, 1994, 1999). Today, Sweden's economy is not based on industrial production, but on services. Within the areas of nursing, education and care, location-specific knowledge is usually required to carry out the work; this means that substitutability between foreign and domestic labour is limited.[9]

[9] For a more detailed discussion on substitutability, see Rauhut (2002, 2004). For some occupational groups within nursing, education and care, the production value is so high that it is worthwhile for the employer to

A study on replacement migration to Sweden showed that it will be more difficult than many might think to find labour for female-dominated professions within the public sector (nursing, education and care) in the rural and peripheral parts of Sweden; in the metropolitan areas around Stockholm, Gothenburg and Malmö there is no shortage of labour. Most of the professions require tertiary education. It is far from obvious that Sweden will succeed in recruiting male labour to the female professions from countries where gender equality has not come very far or is non-existent (Rauhut, 2004).

The former French colonies, especially Tunisians, Algerians and Moroccans, served for long as a labour reserve during the Fordist production era. A large share of the immigrated labour was employed in the industrial sector in the 1960s, and in particular the automobile sector (Vandermotten et al., 2004; Castles & Miller, 1994), where substitutability between foreign and domestic labour was high. However, these immigrants "were relegated to the bottom of the labour market, often working in highly explorative conditions. Housing was frequently segregated and very poor in quality – indeed shanty towns (known as "bidonvilles") appeared in France in the 1960s" (Castles & Miller, 1994).

The immigrant profile in France looks different in the 1990s: the share of women is higher, and the level of education is higher, many "white-collar" workers and high level managers. It's not only young, low educated single men immigrating to France anymore; many immigrants are tied-movers who come to be reunited with the family (Vandermotten et al., 2004). Since such large shares of the immigrants come from francophone countries and former French colonies, the immigrants do not suffer from an insufficient location specific knowledge as immigrants do in Sweden. Contrary to Sweden, substitutability between foreign and domestic labour in France is still high. However, similar to Sweden, immigrants chose to settle in the metropolitan areas.

International migration was rare in Hungary during the Communist era. Immigration was close to zero, and the only emigration that took place occurred in 1956; after the Soviet Union invaded Hungary to crush the reformist movement, a large number of political refugees escaped Hungary. After the collapse of the Communist system in Eastern Europe, Hungary was used as a transit country for migrants headed for Western Europe. Many ethnical Hungarians in the neighbour countries have immigrated to Hungary after the collapse of the Communist system (Castles & Miller, 1994). Most of the post-

send a person recruited from abroad, for example, a doctor, on a six-month intensive course in Swedish and then six months experience to learn how the Swedish healthcare system works. Within other professional groups such as staff nurses in old-age care, the production value is too low and it is not worthwhile for the employer to make the same investment (Rauhut 2004).

war emigration and immigration to Hungary has not had economic causes, but political and socio-cultural causes (Rothschild, 1989; Szoke 1992).

The substitutability between foreign and domestic labour in Sweden is low, the migration flows to Sweden are small and presumptive immigrants with work permit in Sweden never enter the country. The greatest demand for labour is in the rural and peripheral parts of the country, while immigrants in general settle down in the three metropolitan areas. Unless a future immigration aims at just filling up a population gap, immigration is not an option for Sweden to solve the future demographic challenges. Sweden must chose a long-term solution by favouring technological, institutional and organisational changes *and* use a very selective immigration policy to ensure the immigration of specialists.

France has a steady flow of immigrants from its former colonies, and the substitutability between foreign and domestic labour in France can be assumed to be high. The share of well-educated has also increased amongst the immigrants to France. Contrary to Sweden and Hungary in the European periphery, France is situated within or just outside the "heptagon", an area considered to be the heart of Europe and an area attracting immigrants. However, similar to Sweden, the immigrants are headed for the metropolitan areas, and not the rural or peripheral areas in France where they are needed the most. Nevertheless, immigration can be used to deal with the demographic challenges in France.

Hungary has had no colonies nor established international immigration flows. When the immigration of ethnical Hungarians ends, the immigration will be even smaller. As a member of the European Union immigrants headed for the European Union cannot use Hungary as a transit country anymore. Just as in the case of Sweden, immigrants are needed in the peripheral parts of the country, while the immigrants prefer to settle down in the metropolitan area of Budapest. Furthermore, as the old industrial sector and planned economy is transformed into a service sector based capitalist economy, the substitutability between foreign and domestic labour in Hungary is low (except for ethnical Hungarians). Immigration cannot be a solution to the demographic challenges in Hungary.

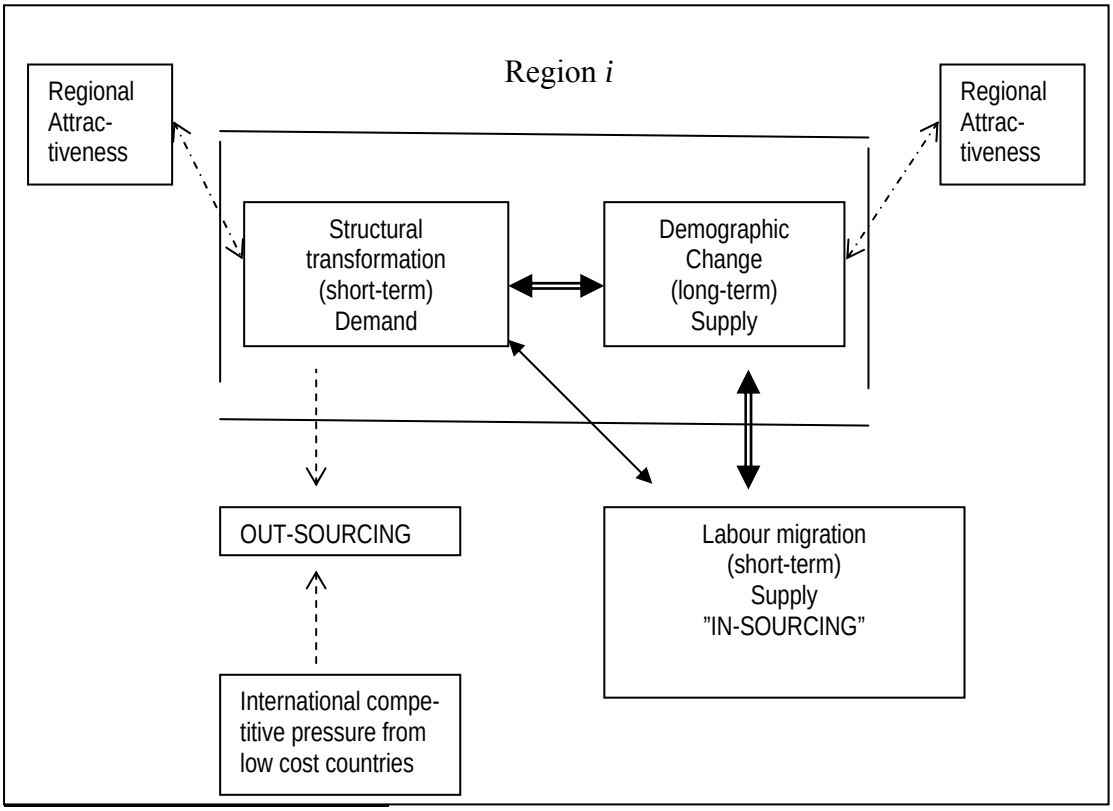
4.6 Scenarios [10]

Each region in France, Hungary and Sweden will be under the influence of structural changes at the industry level, which renders changes in the labour demand for given skills in the short and medium term. Changes in the composition and production portfolio of sectors will change the demand in the

[10] This section is based on Edvardsson et al. (2005)

regional labour market for low, medium and high skilled labour and for specific competences associated with sector specificities. The impetus for these changes may originate from many sources. One source is the competitive pressure from "outside". This competitive pressure may come from changes in policies or may come from the exhaustion of previously regional strongholds in the production process in specific sectors. The policy change may relate to national or international measures. The national measures may relate to the location of national knowledge resource centres, which may be pivotal for the destiny of sectors dependent on such resource centres. The international measures relate to the strong forces towards integration of product markets internationally. Tradable goods have increasingly reach accessibility to a wider set of geographic markets through policies of free trade and the adjoin changes in transport technologies making transportation a minor portion of the total cost of products. EU enlargement is one such example of the emphasis of extending market access to increase international trade and thereby increasing the presence of regional structural change. The competitive pressure may also originate from the exhaustion of regional resources. The presence of bottlenecks on the labour market and the possibly associated increases in regional wages will make the firms located in a region less competitive relative to region with ample resources at their disposal.[11]

Figure 16 : Intersections between regional trends and EU enlargement



[11] The extent that such pressures from regional resources in the competitiveness will materialise will to a large extent depend on the labour market mechanisms present in the regional labour markets, which has at a Nordic scale previously been analysed by e.g. Persson et al. (2004).

Source: This is a slightly revised model originally sketched out by Edvardsson et al. (2005)

Firm choices will obviously be interconnected with the individual choices in a region. Individual choices will in the medium and long run change the labour supply from regional residents. Migration to other regions will change the labour supply in the medium and short run, but ageing and a low fertility will reduce the regional labour supply without any out-migration. The demographic changes in the incumbent population of the region will therefore reduce labour supply of all skill types in the long-run. Demographic renewal from other regions is one solution.[12] The present analysis will therefore focus extensively on the possible demographic renewal that may possibly be obtained from immigration to the different regions of the Nordic countries. Immigration from the enlarged EU or countries outside the EU may solve for the problems of skilled labour supply in the medium and long run and thereby contribute to the solution of the competitiveness of regional industries. The individual choices of immigration to the regions in France, Hungary and Sweden may solve for the labour shortages that may pose problems for sector competitiveness faced under the firm choices in the same region.

Above all these mechanisms of interaction between regional trends determined by choices of incumbent firms and individuals and international trends of competition from low cost countries and immigration from the same countries will be a rather intangible regional attractiveness. This regional attractiveness will influence both firm choices and individual choices and thereby endogenously determined the outcome for regions. This indicates that this factor is to a large extent endogenous. It may though also capture trends in regional policies in the different countries and preferences among individuals for certain characteristics of the region of residence. Shifts in these factors may in dynamic ways influence the regional attractiveness of different regions with different urban structures and different degrees of peripheral status. Regional attractiveness may also depend on the actions taken by regions themselves. Regions may through different regional policies be able to change their relative position on the national and international scale of regional attractiveness. This is most clearly seen in national contexts, where metropolitans compete internationally for investment. National policies may though also contain elements that promote the regional attractiveness. Given regions have some autonomy in terms of settling policies that are adapted to the specificities of the region and are able to finance such policies either though decentralised tax collection or national subsidies, the

[12] This has also been analysed by Persson et al. (2004), as has the medium and short run effects of out-migration from regions. See also Gaspar et al. (2005) and ESPON project 1.1.4 (2005)

regions may furthermore change their attractiveness through means such as investments in culture, knowledge and infrastructure. The exact outcomes of regional attractiveness are accordingly diverse depending on the location of regions and the different policy measures at hand to promote regional attractiveness.

4.7 Concluding Remarks

The immigration to France, Hungary and Sweden show three quite different patterns. The immigration to Hungary mainly comes from the neighbour countries; in the case of Sweden, the sender countries are European or in the European neighbourhood. The migration flows to France are from all over the globe.

Sweden has experienced a labour immigration during the 1950's and 1960's, but since then the demand for foreign labour has been low. Contrary to this immigration has remained high, based on refugees and family reunions. France has experienced a high immigration for a long time, especially from their former colonies. Hungary has not faced immigration in a larger scale until the 1990's – immigration during the Communist era was rare. Since the 1990's ethnical Hungarians are headed for Hungary as well as some refugees.

Compared with the results on demographic trends and depopulation from ESPON project 1.1.4, the settlement patters of immigrants presented here are not the optimal settlement patterns to achieve a sustainable population development in the European regions. To achieve sustainable population development immigration is needed to the rural and peripheral parts of Europe, but these areas are rejected by immigrants as they are headed for the metropolitan areas.

The demand for foreign labour will depend on the regional structural change in the economy. In what extend domestic labour can be substituted with foreign labour is also of great importance here. The exact outcomes of regional attractiveness depend on the location of a specific region and on the different policy measures at hand to promote regional attractiveness. There is no "one-size-fits-all" solution to this.

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Partie V

ESPON & Neighbouring countries

5. RUSSIA AND EUROPE: THE SCALES AND GEOGRAPHIES OF A COMPLEX NEIGHBOURHOOD RELATION

Yann Richard
LADYSS

Russia is a very particular neighbour of EU. It is by far the largest one, with a surface covering roughly 17 million km². And in the political and economic agenda of the European commission and of the EU members, its importance is growing up rapidly for several reasons.
The dependency of EU from imported energetic resources such as crude oil and gas is increasing and is foreseen to grow rapidly in the nearest future. Russia is the second largest producer of crude oil in the word and possesses the largest reserves of natural gas. Besides, its territory is so large that it is a transit territory for energetic imports coming to EU from other countries (Central Asia). At last, Russia is by far the first supplier of energy resources for a significant number of EU member states whose dependency on Russia reaches 90 or 100% in some cases. Over the last decade, the share of Russia and CIS in the energetic imports of EU has been increasing dramatically.
The political relations between EU and Russia are complex, mainly because of chaotic relations between this neighbour and the new member states. There is still no definitive agreement yet between Russia and Latvia and Estonia about their common border. The agreement had been signed by foreign ministers in 2005, but Russia has finally decided not to ratify it. There are many other subjects of discontents: political relations of Russia with the Baltic States are bad since the middle of the 1990s because of the EU and NATO enlargement process; the relations with Poland are so bad that many diplomats from both countries have been recently evicted; the status of Russian minorities; the Kalinigrad issue... One could say the same about Belarus. Its relations with Poland, for instance, have been bad for a long period of time and they have even worsened since 2005 because of the treatment of the Polish minority. This is of course not a complete list. In addition, this part of the external border of EU seems to be quite closed.

The goals of this study are the followings:
- To analyze the evolution of EU – neighbourhood relations at different scales since the 1990s and to explain these evolutions. Does this relation evolve the same way and at the same pace for EU as a whole, for CEE countries, for Latvia and at last for border regions?
- To understand the place and role of the Baltic States in the frame of relations between Russia and EU. Are they still a part of the interface between Russia and Europe or not?

- To know if there is any relation between this border problem and the most recent evolutions of Latvia's and Estonia's territories.

Several topics are taken into consideration:
- The economic relations: foreign trade at various scales;
- Foreign direct investment flows and stocks;
- The cross border cooperation in the frame of the Interreg III A Priority North (Estonia-Russia) and Priority South (Latvia-Belarus).

5.1 What is the state of the economic relationship between EU and Russia, at different scales?

As far as the economic relations (mainly trade and foreign direct investments) are concerned, one can notice that Russia is getting more and more incorporated in the European economic region. Nevertheless, on the one hand, this process is not going along the same way or with the same rhythms at each level. On the second hand, it varies a lot according to the topic taken into consideration (trade of goods, services, investments…).

Evolution of economic relations between Russia and EU: Russia is getting more and more integrated in the European economic region.

Except for the period that followed the Russian economic crisis, the exchanges of goods between Russia and EU have dramatically increased since the 1990s in both directions. The increase of oil and gas tariffs is not enough to explain this increase. The exports from EU to Russia have followed the same evolution. In addition, the imports of EU from Russia had already increased a lot between 2000 and 2001 before in the oil crisis which caused the increase of oil tariffs.
EU 25 is now the first external trade partner of Russia, which is partly due to the recent enlargement in 2004. The share of EU 25 now represents more than 50 % of the total external trade of Russia. Reversely, the share of Russia in the total external trade of EU 15 has also increased since the end of the 1990s, from 1.9 % to 3 % between 1999 and 2002. As far as UE 25 is concerned, one can draw the same conclusions, according to the data released by Eurostat. The trade with Russia has undergone a 51 % jump between 2000 and 2004. The share of Russia in EU 25 total external trade has gone from 4.5 % up to 6.3 %. These figures show that Russia is getting more and more involved in a process of economic regionalisation along with the rest of Europe. Russia is not the only one concerned by this process. While the share of EU 15 has constantly decreased in the external trade of EU 15 members since the 1990, the share of other neighbour countries has constantly grown up showing an enlargement of the European economic region.

Figure 17 : Evolution of Russian exports and imports to and from the countries of the Triad.

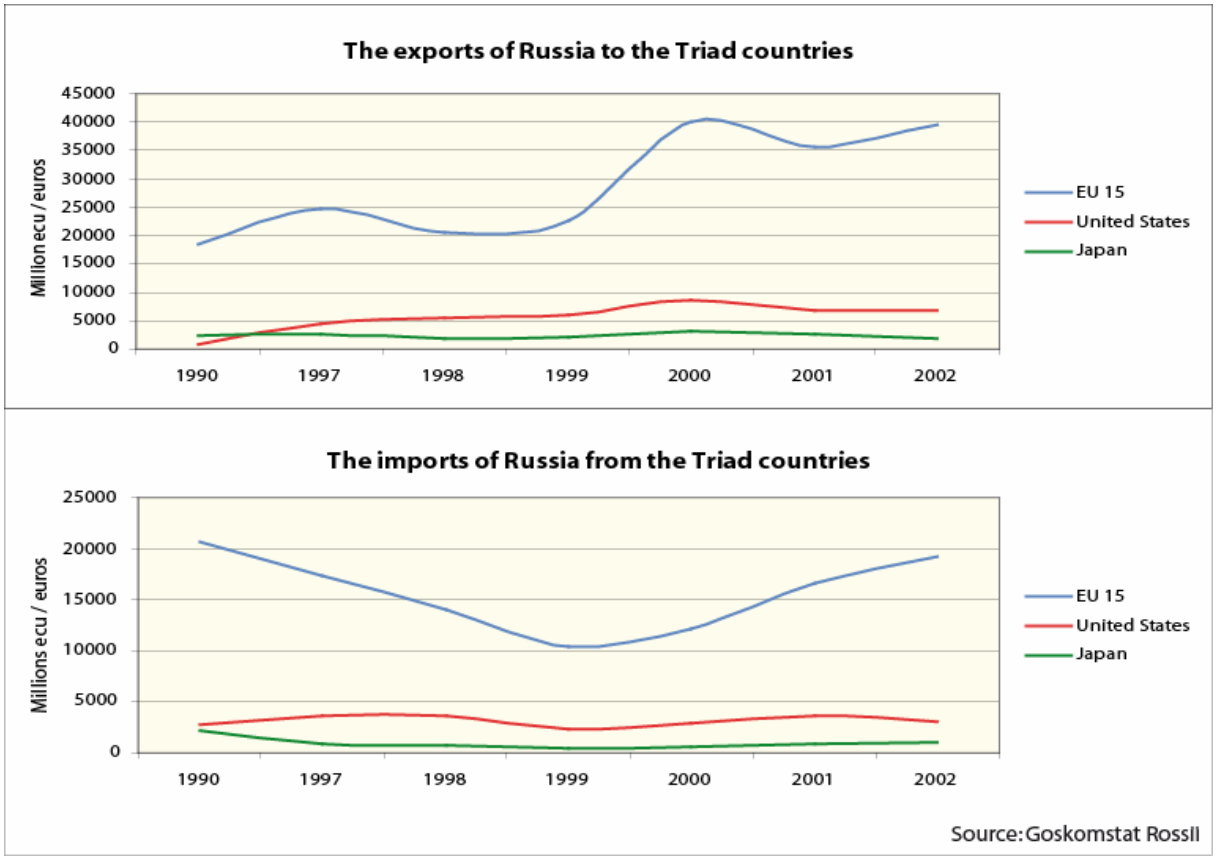


Figure 18 : Evolution of UE 15 exports and imports to and from neighbour countries.

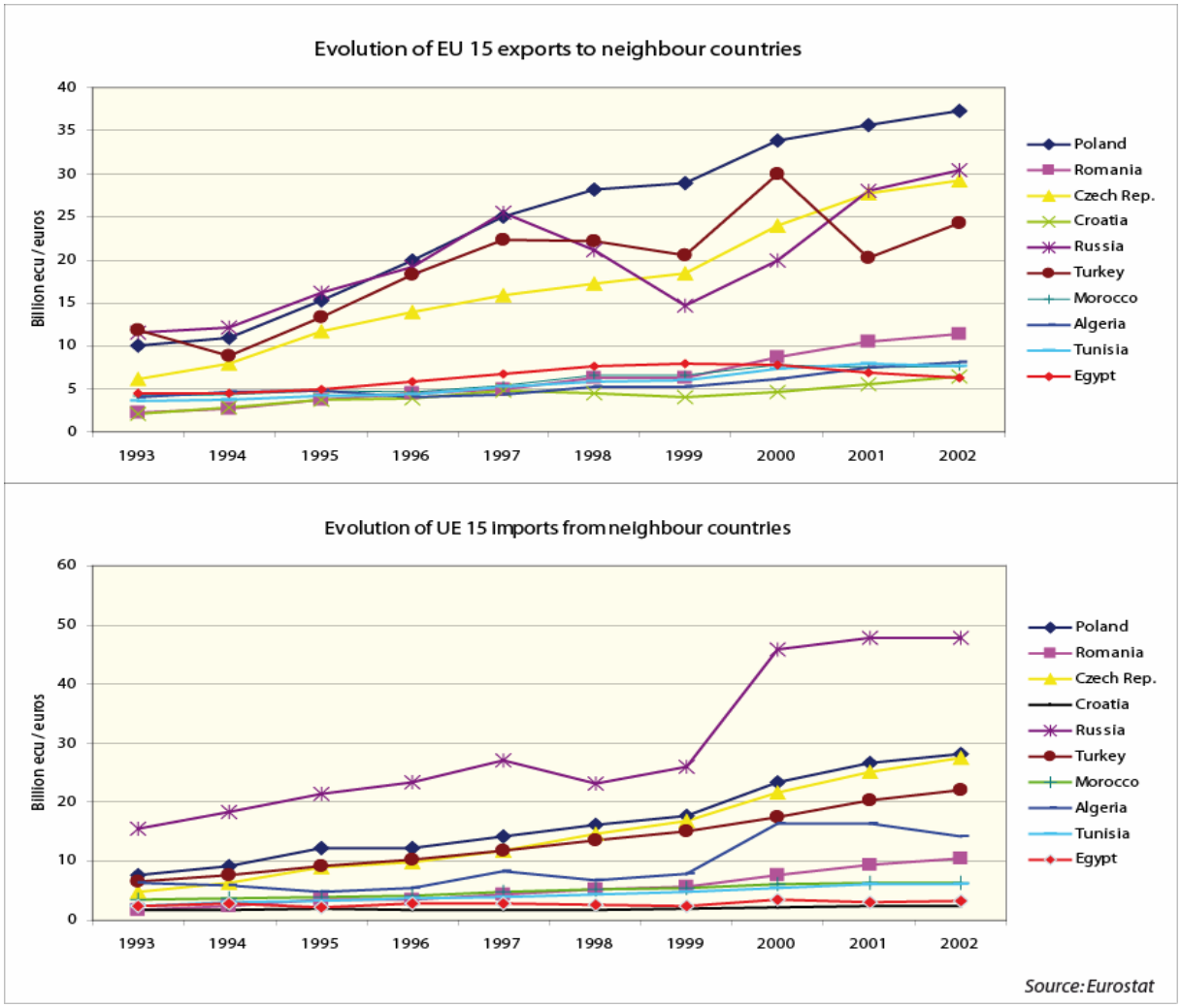
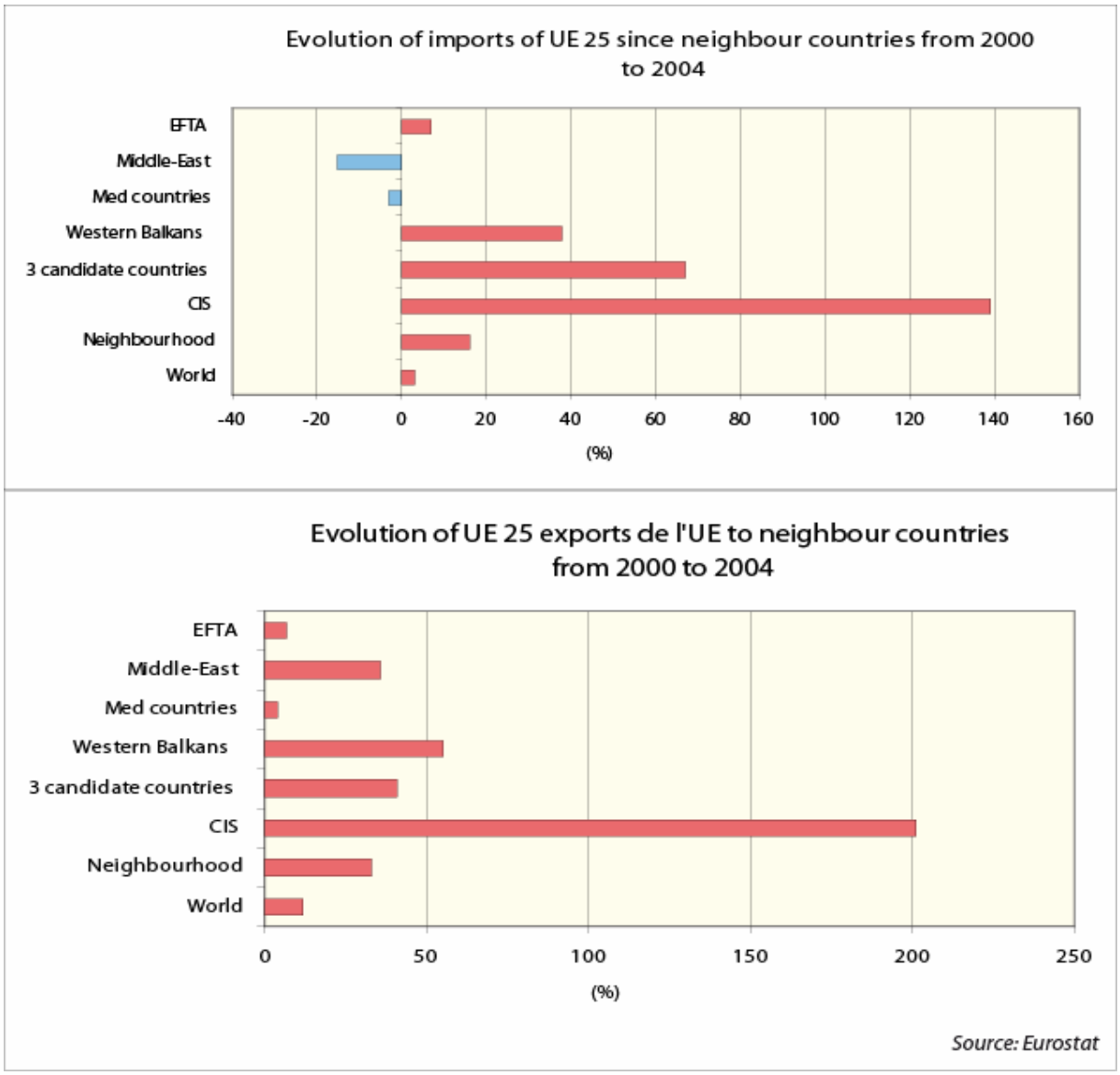


Figure 19 : Evolution of exports and imports (in euros) of EU 25 from 2000 to 2004.



However, this assumption must be qualified.

The process of regional integration is mainly based on exchanges of goods and raw materials. Besides, it concerns more the EU 15 and EU 25 as a whole than the new CEE members of EU. The total external trade of CEE countries has dramatically increased since the 1990s, but the share of Russia in that trade has fallen down for all of them. The only cases of stability are the Czech Republic and Slovakia whose exports towards Russia have always remained stable, around 5 % of their total exports. As far as the imports of the CEE are now concerned, the flows have been staying roughly up to the level since the 1990s until the 2000s. This is largely due to the importance of Russia as the main supplier of oil and gas for the best part of Central and Eastern Europe. The reorientation of CEE

countries exports from the East (former USSR) to the West has given way to the formation of a border line between former USSR and the central part of the European continent. The Russian market has become less attractive for the CEE countries because of the economic crisis. Besides, their economic structure has significantly changed with a shift from industries towards service activities. Consequently it no more matches the needs of the Russian economy.

Figure 20 : Evolution of Russia's share in the external trade of some CEE countries.

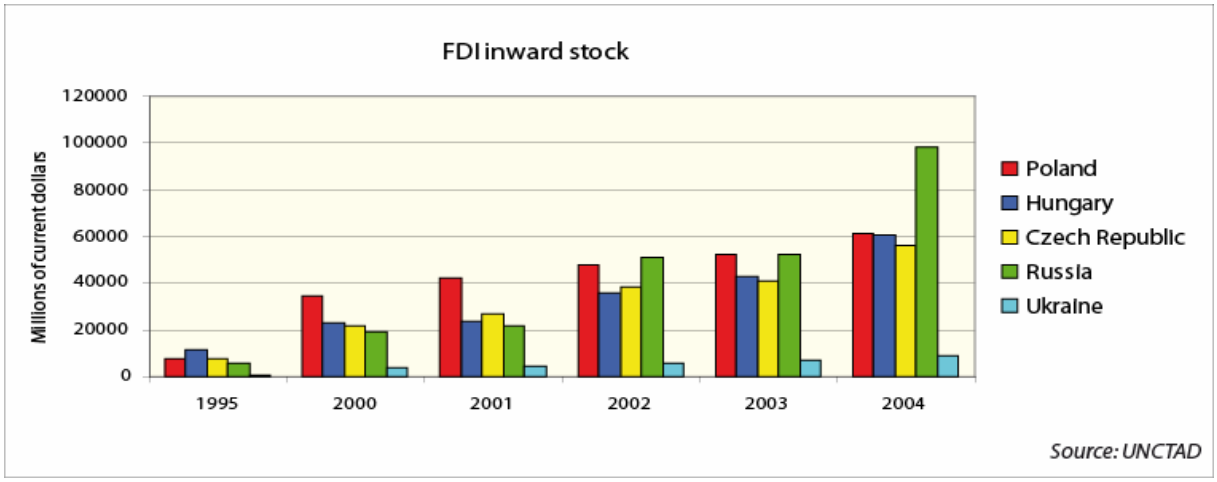


As far as the foreign direct investments are concerned, one must say that Russia remains a closed economic space. It remains relatively unattractive for foreign investors and nothing has been made for years to attract them. Flows and stocks of foreign direct investments have dramatically increased in the world from the 1990s onward, going up to 8 250 billion dollars in 2003 from 693 billion dollars in 1980. The FDI stock has also increased in Russia, but it remains modest, as well as in the other western CIS countries such as Belarus, Moldova and Ukraine. In 2002, the FDI inward stock in Russia was only 48 USD per inhabitant, but it was 3 554 USD in the Czech Republic and 1 846 USD in Estonia. And in the CIS, Russia is only rated 10th for the amount of FDI per inhabitant: the CIS average is

242 USD and it reaches 938 USD in Kazakhstan. The situation has changed a little in 2004 thanks to the reforms set up by president Putin's administration, especially in the fiscal area. The FDI stock in Russia has jumped up to the record level of 99 billion dollars.

However, nothing indicates that this change is the starting point of a long term trend.
- Such a phenomenon had already taken place in the beginning of the 1990s but it brutally ended because of the economic crisis in 1998.
- 99 billion dollars is almost a twofold increase compared to the cumulative stock in 2003. However it remains modest for a country of 143.5 million inhabitants with a rapid economic growth (FDI stock in Poland in December 2004 reached more than 84 billion dollars). FDI flows are somewhat more diversified than before, going to economic sectors such as retail trade, transports, food industries and so on. Nevertheless, oil is still playing an important role, attracting a large part of FDI flows but without a significant number of new jobs created and without significant transfers of technologies.
- An important part of the direct investment stock officially comes from foreign countries but is actually composed by Russian capital returning to Russia through Luxemburg, Cyprus, Virgin Island, UK, Gibraltar...
- At last, even if EU is the first foreign investor in Russia, it concerns a relatively modest stock. It still represents less than 1 % of the Russian GDP and only 11 % of the gross fixed capital formation.

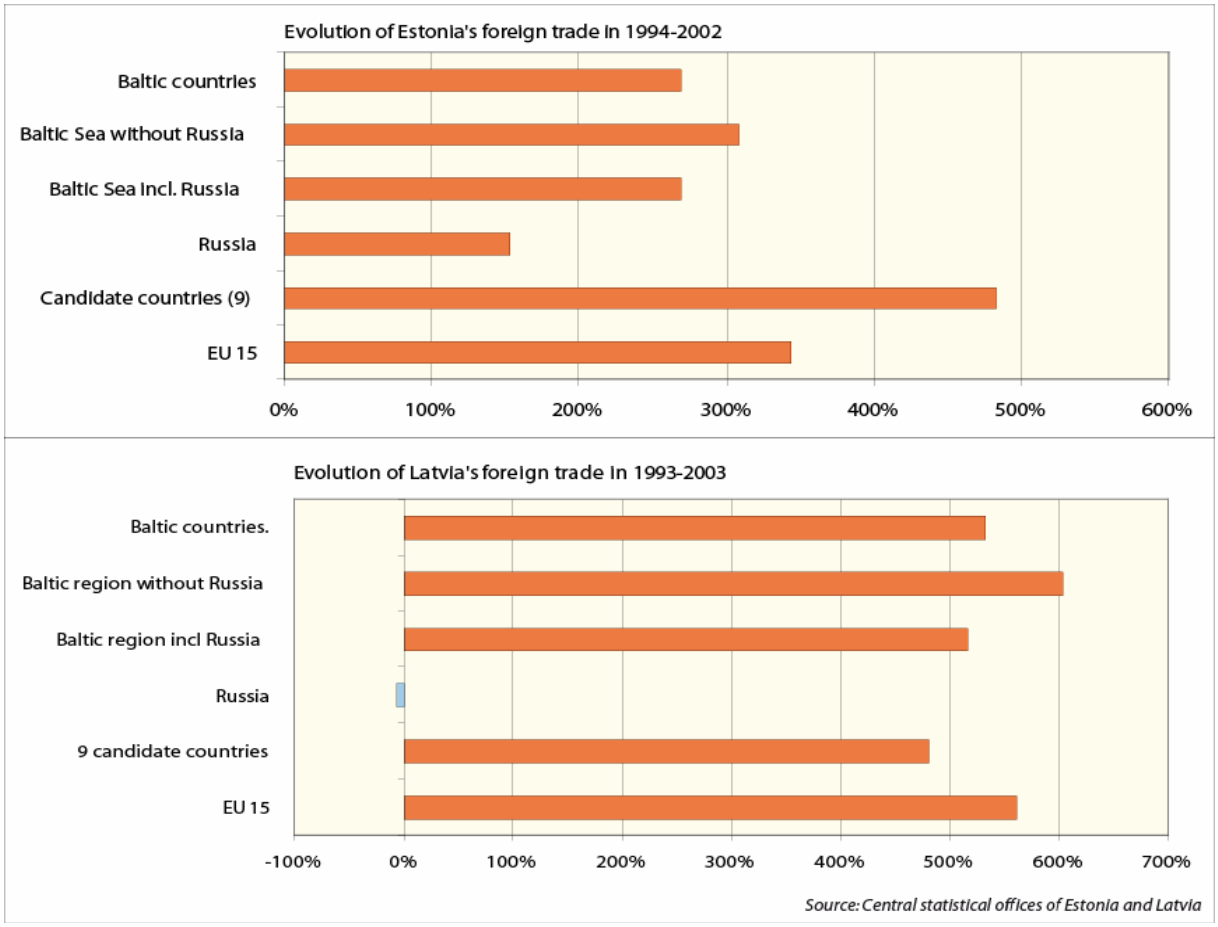
Figure 21 :FDI inward flows and inward stocks.



How are the economic relations between Russia, Estonia and Latvia going on?

The decrease of trade relations.

Figure 22 : Rhythm of evolution of external trade of Estonia and Latvia.



The evolution of trade relations with Russia is not going on the same way for Latvia and Estonia. It can be seen on the graphs above dedicated to the evolution of the exchanges of goods. As far as Estonia is concerned, the external trade has strongly increased with the new members of EU (candidate countries), and secondarily with EU 15 and the Baltic region. The external trade with Russia has also grown up, with a roughly 150 % increase, but this is much less than with other trade partners. In the case of Latvia, the evolution is a bit different. This country is getting rapidly integrated in the Baltic region and its external trade with EU 15 has increased a lot whereas its trade relations with Russia have decreased.

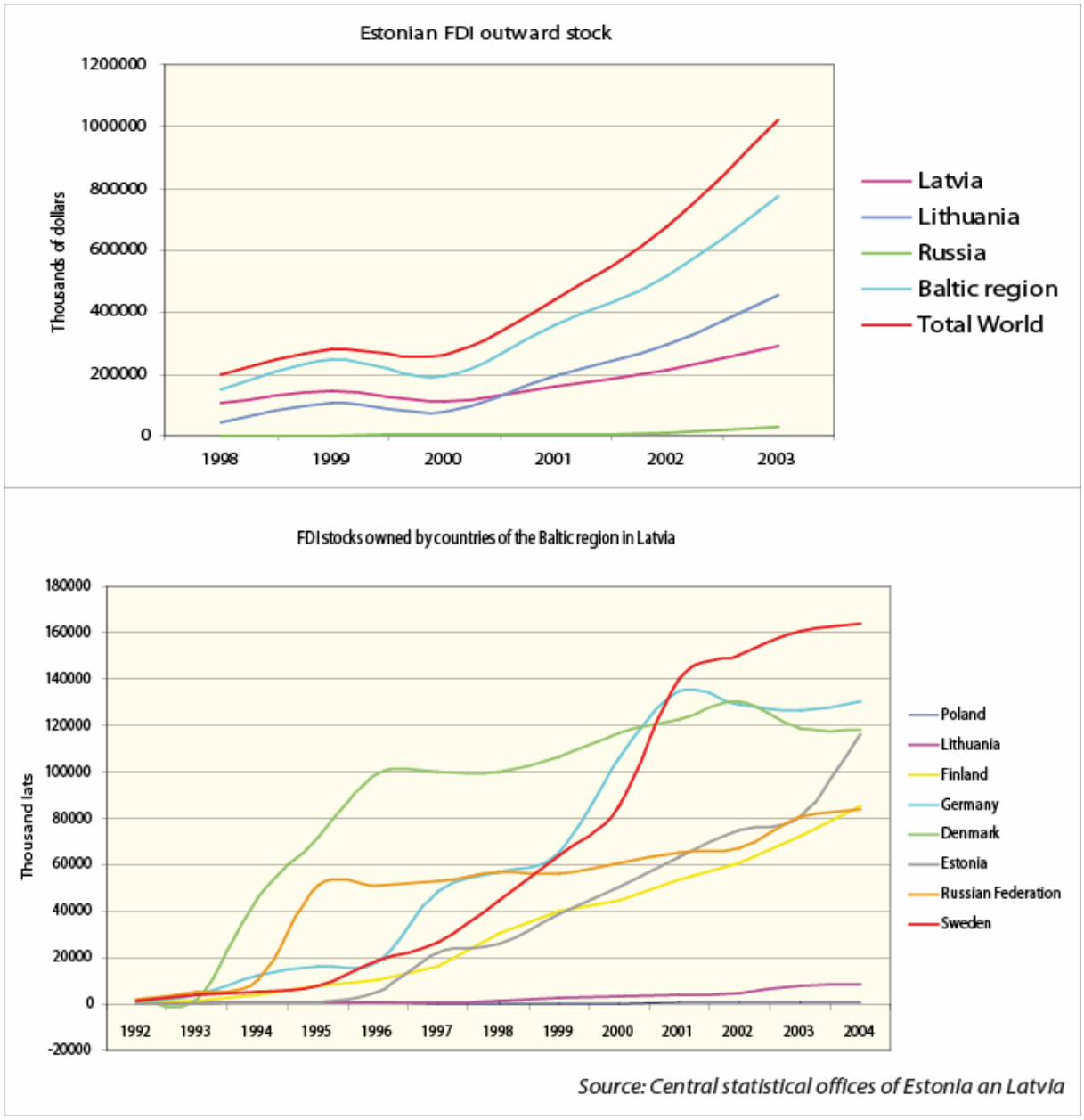
Consequently, the share of Russia in the external trade of Estonia and Latvia has fallen down. Russia's share in Estonian's export reached 36.5 % in 1997 but fell down to 12.3 % in 2003. Its share in Latvia's export has gone from 41 % in

1997 down to 14 % in 2003. The imports of goods have followed the same evolution. Russia's share in the total imports of Estonia has decreased from 35.7 % to 18.4 %, and it has decreased from 33.4 % to 17.8 % in Latvia's imports. Although Lithuania is not taken into account in this case study, we can remind here that the evolution of its external trade towards Russia has followed the same evolution. Its exports to Russia reached 24 % of the total in 1996 but 10.1% in 2003; the share of Russia in its imports was 29% in 1996 and only 22.1 % in 2003.

The border effect on foreign direct investments.

As far as the foreign direct investments stocks are concerned, one can notice two main facts:
- The presence of Russian investment stock is weak in both Baltic States as it can be seen on the second graph concerning Latvia. Russian investments are mainly oriented towards the countries of the CIS (especially Ukraine and Belarus) and secondarily towards certain countries belonging to the EU 15.
- In the opposite direction, the outward FDI stock owned by Baltic States abroad is clearly concentrated in the Baltic region and especially in the other Baltic States but not to Russia. As it is shown on the graph below, the Estonian outward FDI stock has been increasing rapidly from 2000 onward but it has remained very low in Russia. This country is not attractive for Estonian investors, and investors from other countries in general, because of several burdens: unclear legislation especially regarding the fiscal domain; insufficient level of liberalisation and high level of state control in economic sectors such as energy and transports; inadequate business climate because of unclear administrative rules…

Figure 23 : Foreign direct investments in Estonia and Latvia.



How to explain the decreasing trend in the commercial relations?

The successive Latvian and Estonian governments have never managed to entertain long term normal political relations with Russia, because of various problems shortly presented in the introduction of this study. As a matter of fact, the external economic relations of Russia seem to be partially shaped by political concerns. Consequently, the political tensions with Estonia and Latvia, which have been prevailing over the best part of the post soviet period (from 1992 onward), partly explain the decreasing trends of economic relations between Russia and that part of its "near abroad".

Estonia and Latvia have been directly affected by various Russian trade discriminatory measures since the middle of the 1990s. Among these measures was the so-called double tariffs system which prevented these two countries from the status of the "Most Favored Nation". This situation has seriously affected imports of Estonian and Latvian goods, such as foodstuffs, which suddenly became uncompetitive on the Russian market because of a twofold increase of duties supported by exported products. It has come to an end with the recent extension of the Partnership and Cooperation Agreement signed by EU and Russia. Before this extension, many companies in the Baltic countries had already successfully reoriented their exports to the West. Nevertheless, other companies, especially those located in the North Eastern part of Estonia, have not been able to do so. Some have disappeared. Some have been standing idle because of the loss of their Russian market. The double tariff system was accompanied by various non tariffs measures against Estonia and Latvia certain of which are still into force:

- Double toll control for goods on both sides of the border.

- Import ban imposed by Russia on goods requiring an Estonian phytocertificate from August 2004 to May 2005...

- Decision made by Moscow to raise the tariffs of railroad shipment towards Estonia, whereas the tariffs of freight transport to Russian ports remained lower for a large range of goods. This decision has automatically increased the competitiveness of Russian ports such as Saint-Petersburg, Ust-Luga, etc…

The shift of Baltic States' economic structure since the outbreak of USSR also played a role in the decreasing trend of trade relations with Russia. During the Soviet period, in the frame of the planned economy, Baltic States had been specialized on the productions of goods needed mainly by Russia. That is why they became, among other specializations, a food and agricultural base oriented to the Russian "market". Since then, the situation has changed. The dominating items of exports of the Baltic States have now little connection with the needs of Russian economy. In Estonia's and Latvia's exports, not any commodity creates 10 % or more of total exports in each commodity chapter. Lithuania is an exception because its economic structure much better matches the needs of Russian market (vehicles, transport equipment, machinery and equipment…).

The evolution of transit trade flows through Estonia and Latvia.

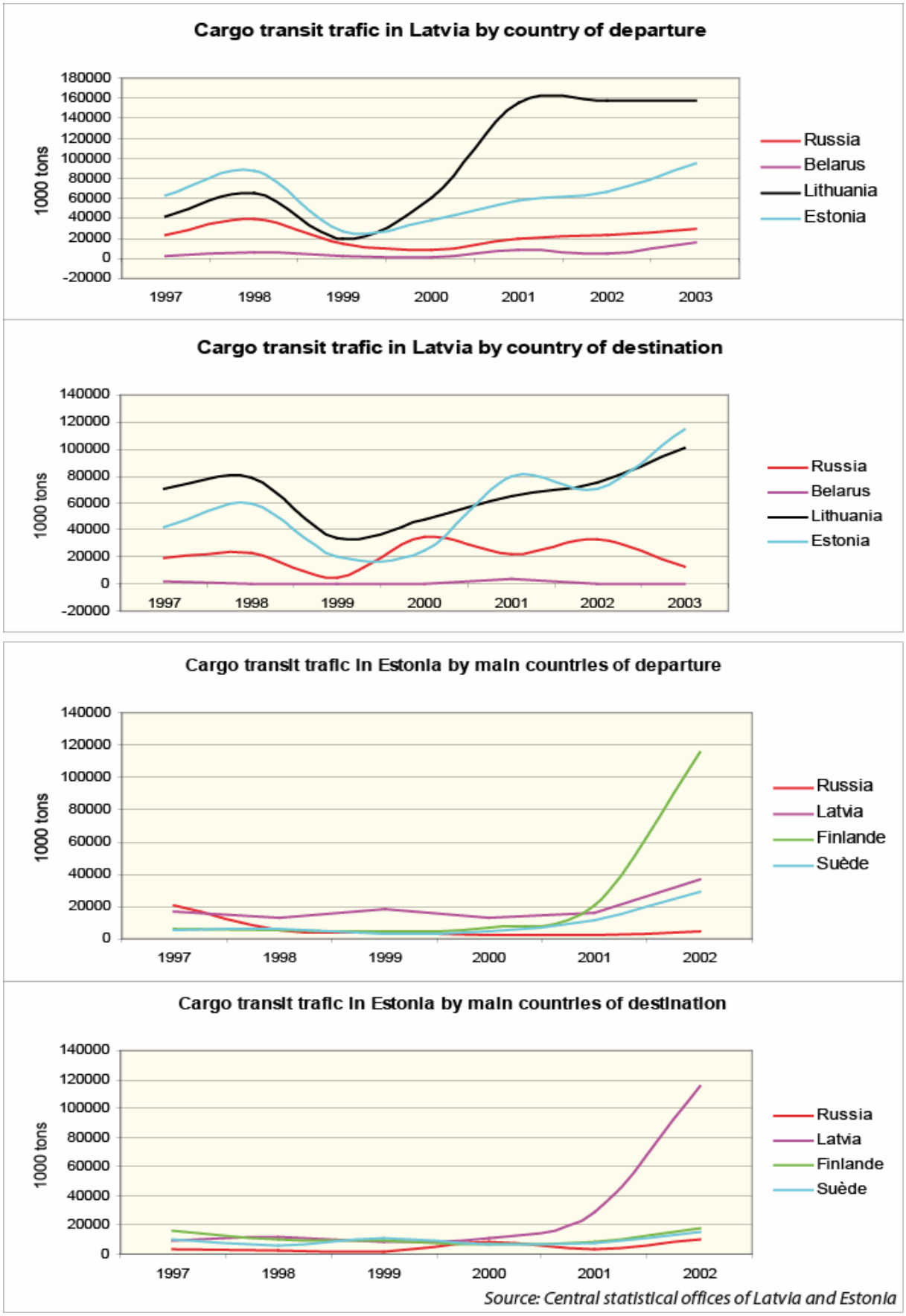
Since the beginning of the 18th century and the victory of Russia upon Sweden, the Baltic shore is a strategic interface between Russia and Europe. The Baltic ports (Tallinn, Riga, Klaipeda, Ventspils, Liepaja, Butinge…) have always been major outlets for Russian exported goods and gateways for Russian imports.

Since the outbreak of USSR, the situation has changed. The political relations between Russia and its Baltic neighbours are quite bad, particularly because of the border issue which has not come to any definitive solution yet. And Russia, whose economy is more than ever based on the extraction and exports of raw materials, tries to diversify the corridors for its exports of oil and gas. That is why Russia has made major investments in the north western part of its territory where several new infrastructures have recently been built, especially the port of Primorsk. The recent signature of an agreement with Germany for the construction of a submarine gas line in the Baltic Sea is quite in line with this strategy. What is the actual situation of Estonia and Latvia in this particular political context?

The evolution is not the same in Estonia, in Latvia and even in Lithuania. To sum up what follows, one can say that Latvia may suffer from a border effect with Russia and Belarus, whereas the role of Lithuania as a major transit place for Russia and Belarus is more and more obvious. Estonia may be progressively confirmed as a transit place for Russia in the future (as it is shown by recent Russian investments made in port facilities in Sillamae and Tallinn), although its political relations with Russia could be much better, but it still suffers from political decisions made by Russia.

As it appears on the graph above, the situation of Latvia as a gateway to Russia and Belarus is more and more fragile. For instance, the flows of oil transiting from Russia or Belarus to the rest of the world by pipeline have undergone brutal changes several times in the 1992. They have undergone a rapid decrease after 2001 because of the decision made by Russia to send its crude oil directly to the Russian ports of the Baltic shore. In a way, Latvia's territory and mainly the port of Ventspils have been short-circuited by this decision. This decision is also partly due to the bad relations between Russia and Latvia on several issues: the accession to NATO and EU, the would-be bad status of the Russian minority in Latvia, a major disagreement about the border between countries... As a consequence, Russia decided to stop the flow of crude oil going to Latvia. This caused a rapid decrease of the cargo traffic in the port of Ventspils (roughly one third) which is specialized in the transit of crude oil. Latvian government has tried to replace the transit of crude oil by pipeline with the transit of oil products by railway. But it has not compensated the loss of the Russian crude oil flows. Generally speaking, Latvia is less and less playing the role of an interface between Russia, Belarus and the rest of the world. It is particularly obvious in the case of Belarus. This country has imported almost nothing through the Latvian territory since the second part of the 1990s. Meanwhile, in Estonia, Latvia and Lithuania, the cargo transit traffic from and to the other Baltic States have regularly increased since 1999. It has even been stabilized at a very high level for Lithuania since 2000.

Figure 24 : Evolution of transit traffic in Estonia and Latvia.



Source: Central statistical offices of Latvia and Estonia

The situation of Estonia is different. Its territory is used as a transit place mainly by Latvia, Finland and Sweden. The traffic coming from and going to Russia is relatively low and has even decreased during the 1990s. But, meanwhile, the transit of oil products by train has increased since the beginning of the outbreak of the USSR. It seems that the geographical situation of Estonia is a great subject of interest for Russian business. The Russian political power has bad relations with Estonia for the same reasons as with Latvia. But the growth of investment flows coming directly or indirectly from Russia in the sector of transports shows that the relations of Estonia with the Russian business are much better. Recently, the first part of the new part of the port of Sillamae, located near the border with Russia, has been opened to traffic. This infrastructure will be able to handle 10 million tons of goods a year. It has been financed by Estonian and Russian investors (50 % / 50 %), who are attracted here for several reasons: the location of the port; its free zone status; its connection to the Saint-Petersburg-Tallinn highway with new roads. Numbers of investments have been made by Russian investors in other ports of Estonia (Muuga, Tallinn). And, as it can be seen on the graph, the increase of the traffic of Tallinn's port is in majority due to the increase of transit outbound traffic. That shows that Estonia is becoming anew a transit place for Russia and for other neighbour countries. According to transport specialists, is due to the following factors: the geographical proximity of Saint-Petersburg, which is richer and more industrialized than the Russian average, the good quality of transport infrastructures and mainly of railways, the high quality of services in the ports, the insufficiency of Russian port infrastructures in this region. Estonia is more likely than Latvia to take profit from these factors because of its proximity with Saint-Petersburg.

Contrary to Latvia, the role of the Lithuanian territory as a transit place has dramatically increased both for Russia and Belarus. For Russia, it is due to the geographical situation of Kaliningrad and the necessity to keep as much as possible connected with this oblast separated from the rest of the Federation. Besides, Lithuania has become one of the major outlets for Belarussian exports of goods, together with Kaliningrad, because of its geographical proximity.

As a conclusion, one can say that the role of Baltic States as transit places for exports and imports of Russia and Belarus has changed a lot since the outbreak of the USSR. While the transit traffic from and to other Baltic countries and other EU members has increased, the transit from and to CIS countries has decreased, except for Lithuania. For instance, Latvia is much more used as a transit place by Lithuania and Estonia than by Russia. There is a risk for Latvia to be marginalized. Besides, there is a growing competition between Baltic countries to attract transit traffics from and to former USSR. This traffic is economically very

important for the transport sector represents around 7.5 and 9 % of the GDP in each Baltic country (in Latvia, transit transports represent around 10 % of the GDP according to various sources). In this context, the decision of Russia to stop its exports of crude oil through the Latvian territory can have serious consequences.

5.2 A strong barrier effect at the local level: the cooperation for the implementation of cross border projects is under developed.

Russia is involved together with Latvia and Estonia in transnational cooperation (Interreg III B) and in cross border cooperation programmes (Interreg III A Priority North and Priority South). For the period going from 2004 to 2006, 7.8 millions euros of Tacis funds have been allocated to the Russian and Belarusian Partners involved in the Interreg III programme. From this allocation, in the framework of Tacis 2004 Action Programmes, 1 million EUR has been made available to the Belarusian partner's participation in the South Priority projects and another 1 million EUR to Russian partner's participation in North Priority projects. The total amount of ERDF funding is 7.8 million euro s for Priority North and 10.4 million for Priority South.[13]

Russia and Belarus were not concerned by the first call for proposals but they participated to the following calls. The 2nd call for proposal for the Priority North took place between February 28 and April 18, 2005. In 9 of the received projects, 35 partners were from Latvia, 21 partners from Estonia and 5 partners from Russia. After the 2nd call for proposals, five projects were approved in the INTERREG IIIA North Priority (involving Russia and Estonia), by the Steering Committee (SC). Russia is involved in none of these projects which concern only Estonia and Latvia. That shows the lack of commitment of Russia in cross border cooperation with its neighbours until 2005. Nine projects were approved in the INTERREG IIIA South Priority, in June 2005 by the Steering Committee (SC). Belarus is involved in four proposals:

- Development of cycling net in the Baltic Country of Lakes (development and marketing of 45 bicycle routes);
- Developing cooperation among bordering Latvian, Lithuanian and Belarusian local administrations with an aim to define potential spheres of economic

[13] All the paragraphs dedicated to the issue of cross border cooperation are partially based on meetings in Riga and Tallinn with various experts, mainly on long discussions with the members of the joint secretariat in Riga (especially with Ieva Kalniņa, head of Riga Office, whom I want to thank for her patience and her competency), and with members of the Estonian government (mainly Kadri Jushkin and Jaak Mandi, whose work is oriented towards the issue of the regional development in the Ministry of the Interior). Special thanks to Kadri Jushkin whose role is central to this part of the report and who accepted to provide us with precious informations, and explanations, about the mechanisms and current developments of the crossborder cooperation with Russia.

development and define diversification possibilities for each of the involved cities in the region;
- Conservation and sustainable management of biodiversity in Lake Druksiai which is a transboundary wetland complex of international importance (safeguard the biodiversity in the Lake Druksiai situated on Lithuanian-Belarusian border);
- Improvement of financial management of import / export procedures in order to improve the financial management related to import / export procedures of small and medium sized enterprises located in border territories of Latvia, Lithuania and Belarus.

The 3rd Call for Proposals for INTERREG IIIA Priority North, supporting cross-border cooperation between Estonia, Latvia and Russia, was launched on 5 September 2005. The steering committee met in January 2006 in order to discuss the submitted projects. Among 48 projects proposed for the Priority North, 16 were approved among which 9 with Russian partners. In the frame of Priority South, 36 applications were received by the steering committee and 15 were approved but only one with a Belarusian partner which is less than in the second call.

The fourth call for proposals was launched on 27th February 2006 and closed on 2nd May 2006 for the Priorities North and South. Priority North is supported by 2.2 million euros for ERDF funding and roughly 3 million euros for Tacis action programme. As for the Priority South, the budget is 2.7 million euros from the ERDF funds and 0.8 euros from Tacis action programme. The fourth call shows a higher level of commitment of partner countries. One of the projects submitted has a Russian Lead Partner and 53 Russian partners are involved in various projects among the 31 submitted to the steering committee. As for the Priority South, 50 project applications were received. One had a Belarusian lead partner. And 36 Belarusian are involved in other projects.

The Russian administration has long been reluctant to get firmly involved in cross boeder cooperation with Estonia. As an example, one can remind that the Federal Government signed the Tacis Financial Agreement Memorandum of the year 2004 only in June 2005. Consequently, the programmes of cross border cooperation implemented with Baltic States, which would support cross-border cooperation with Russia, worked only partially. That means that up to now, Russian partners were obliged to participate in the projects on their own financial resources. That seriously hampered the progress of cross border cooperation projects with Estonia. Thanks to the signature of the Financial Agreement in June, Tacis CBC funds could finally be transferred to INTERREG (now "Neighbourhood") programmes on the EU external border. That enabled the implementation of "genuine" joint projects with Russia. This is why Russia was

able to take part to the third call for proposal under Priority North. Russia has not signed the memoranda for 2005 and 2006 yet. And if they finally happen to do so, it will be too late to work in close connection with the Estonian side because most of the Interreg programmes currently going on are committing their own fund at the moment and no ERDF fund will be left soon. By the way, the relations between the two states are pretty bad: in a recent seminar dedicated to cross border cooperation, organised by Putin's administration representatives, Russia refused to deliver a visa to Estonian Minister of Foreign Affairs. The next memorandum (2005) does not include only cross border cooperation. It also includes Tacis national funds. If the memorandum is signed, Russia will be able to use these funds, but it seems that those dedicated to Tacis-CBC will not a priority to the Russia administration. As far as Belarus is concerned, the Lukashenko's administration signed the Tacis financial agreement in December 2004. That means that the level of cooperation of this country has also remained very low up to 2005. But Belarus has been able to participate to the second call for proposals under the Priority South with real Tacis CBC funds.

The principle failure of the crossborder cooperation is here. The preparation of Neighbourhood programmes went along very well in 2003-2004, in close co-operation with Russian regional administrations, and the programmes were ready to be launched in autumn 2004. But the signature from Russia was very long to come. So the Member States have actively used the ERDF part of the budgets to finance their parts of the projects. Meanwhile, the Russian partners generally wait their own financing for a long time. Perhaps the Tacis CBC money will be available too late, Russia only starting using Tacis when the Member States have already used most or all of the ERDF funds. One can say that there is no cooperation anyway, although the preconditions were very good. Somehow, the Russian Federal Government has apparently been hindering all the hard work the regional administrations did to elaborate these programmes.

Russia and Belarus have participated to the autumn calls for proposals (3rd call) in the frame of the cooperation programme BSR IIIB, North IIIA and North IIIB. That maybe means that they have decided to get more involved in the conception of joint projects with their neighbours. But this apparent return of interest from Russian and Belarusian partners does not necessarily mean that Russian and Belarusian central authorities will fully support the implementation of future approved projects. In addition, since last couple of months, and gradually more, Russia and the Baltic States started to prepare in common for the next programme period (2007-2013). For a while, almost weekly, negotiations were going on with the European Commission over the draft Regulations for 2007. The regulations were hoped to be ready by autumn, in order to start the writing of new programmes. During this period, co-operation

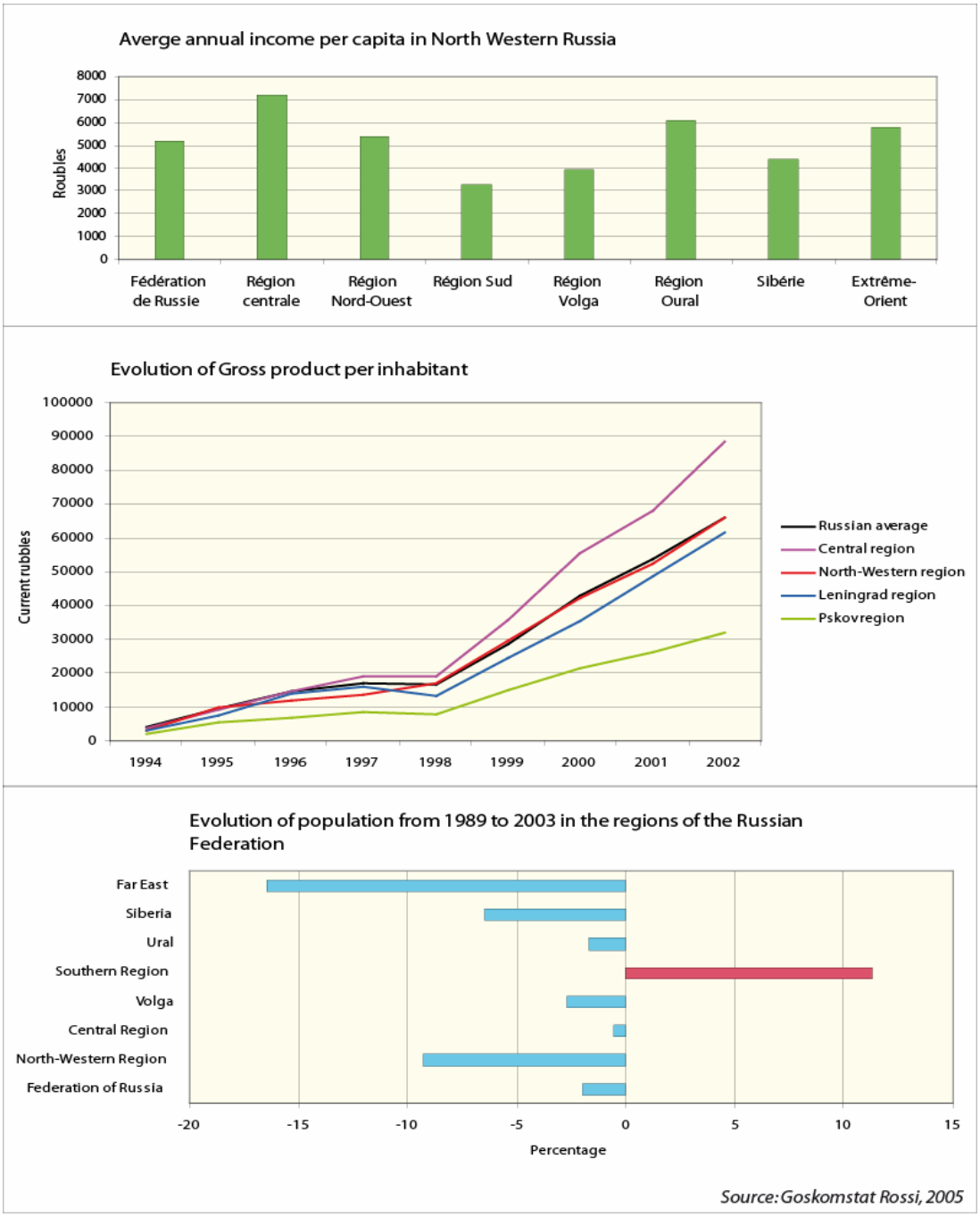
with Russia will be financed under the ENPI (European Neighbourhood and Partnership Instrument) regulation.

But Estonia, as many other member States, is not at all satisfied with the Commission proposals. There are several crucial points in which Estonian authorities do not agree. They will be extensively presented and discussed in the final draft version. But the main problem for most member States is that they should, according to the Commission's plans, take the full responsibility for all the programme funds, including funds spent in Russia. At the same time, Estonian and Latvian administrations know already now that they are not willing to take this responsibility, because Russia would never let e.g. Estonian auditors to come to Russia to check the spending of funds. On the other hand, they are not willing to trust Russian auditors as well, if they are bearing the responsibility. They want Russia itself to be responsible for all the wrongdoings, i.e. they have absolutely no intention to pay any funds back to the Commission from Estonian national budget just because Russian partners would have committed an irregularities or management mistakes. This is a very problematic subject and the initial optimism that cooperation with Russia would be much easier since 2007 has now vanished. If there is any cooperation at all, it would most probably be at least the same difficult.

The low quality of the cross border cooperation with Belarus and Russia is also due to other causes:
- A political problem: Russia has bad relations with Estonia and the profound disagreement about the border between the two countries hampers the possibility of cross border cooperation. Such a border disagreement has also been worsening the relations of Russian with Latvia for years.
- Russia and Belarus are very centralized States: that means that it is quite difficult for regional authorities to get fully involved in the negotiation and the implementation of joint projects. They have no real autonomy to get in touch directly with local authorities of other countries (Pskov, Leningrad, Vitebsk and Grodno regions). They do not have financial resources either and they are fully dependent from the central authorities from this point of view.
- There is a serious lack of administrative competency on both sides of the border for the conception of joint projects and for the application after calls for proposals. Maybe Leningrad oblast is more likely to develop these competencies thanks to its large population. But it will be more difficult in less populated districts such as the Eastern part of Latvia (Latgale), the Eastern part Estonia, Pskov and Vitebsk regions.
- It is not that easy to carry out cross border cooperation projects along the external border of EU because the majority of the areas concerned are also relatively poor. That was a crucial point during the first call for proposals as Russian and Belarusian oblasts were obliged to get in CBC projects only on their

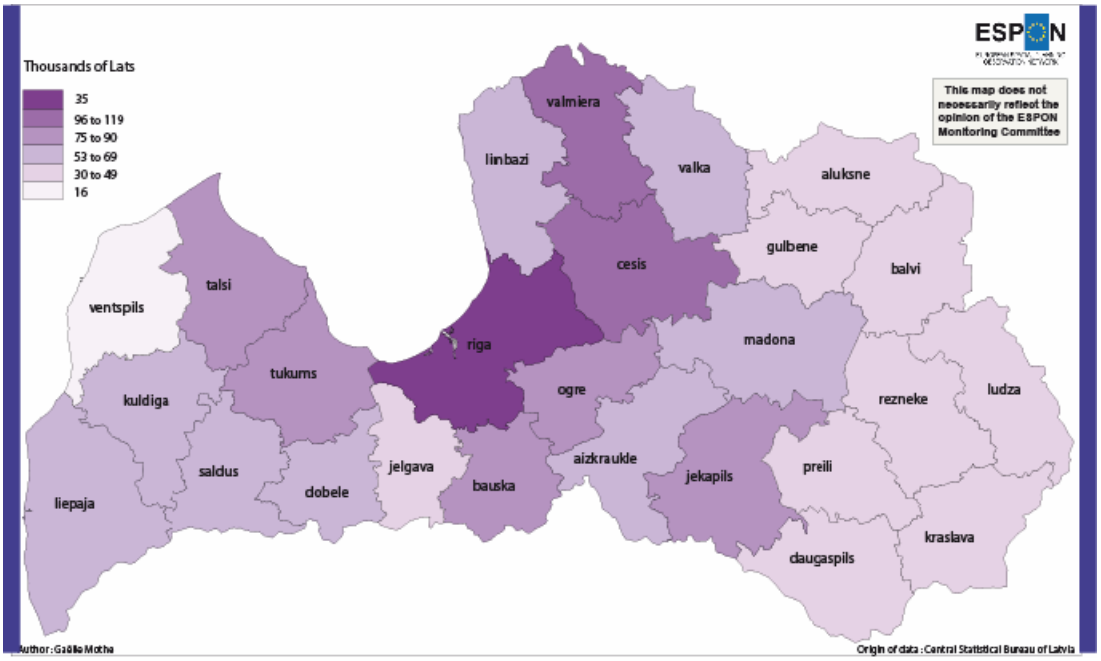
own funds. And the problem was the same in the second call for Russian oblasts, deprived form Tacis CBC funds. For example, Pskov region (graph n°9) is one of the poorest of the North Western part of Russia, whose wealth is slightly inferior to that of the Federation (thanks to a few regions which possess oil resources). In addition, the north-western region of the Federation has lost a significant part of its population. One could say the same for the region of Vitebsk, which is the poorest in Belarus. This relatively under developed context hampers cross border cooperation projects for two main reasons: the lack of local financing possibilities and the lack of cooperation opportunities because of bad social and economic context presenting very few incentives for the conception of joint programmes of development. These regions are not attractive. Besides, the border regions of Russia, Belarus, Latvia and Estonia are not complementary on the economical point of view. Their economic structures are almost the same. Such a situation grounds more the conditions for competition than for cooperation.

Figure 25 : Annual income in North Western Russia in 2004, Evolution of gross product per inhabitant and Evolution of the population.

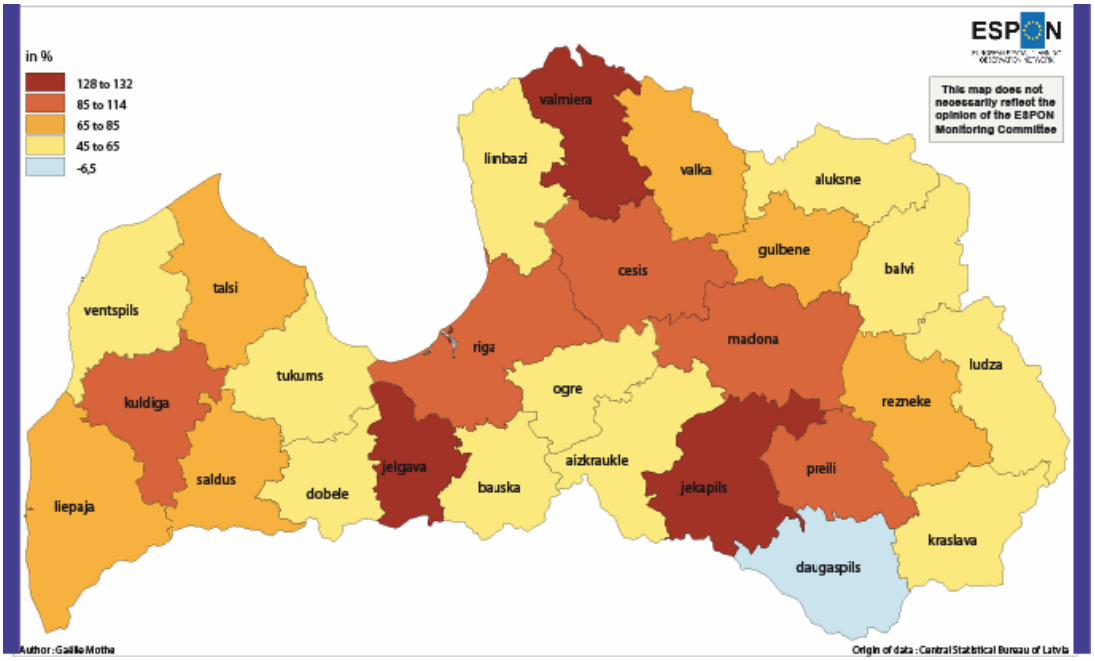


- Such problems also exist on the Estonian and Latvian side of the border. The cross border cooperation is there hampered by a bad social and economic background characterized by the following features: low GDP and GDP per inhabitant which means a lack of local financing capacities; a regular and rapid decrease of the number of inhabitants since the 1990s, which causes a lack of local administrative capacities; a low personal real income, etc.

Map 14 : Gross Domestic Product of Latvian Districts in 2004



Map 15 : Variation of Gross Domestic Product of Latvian Districts between 1996 and 2004).



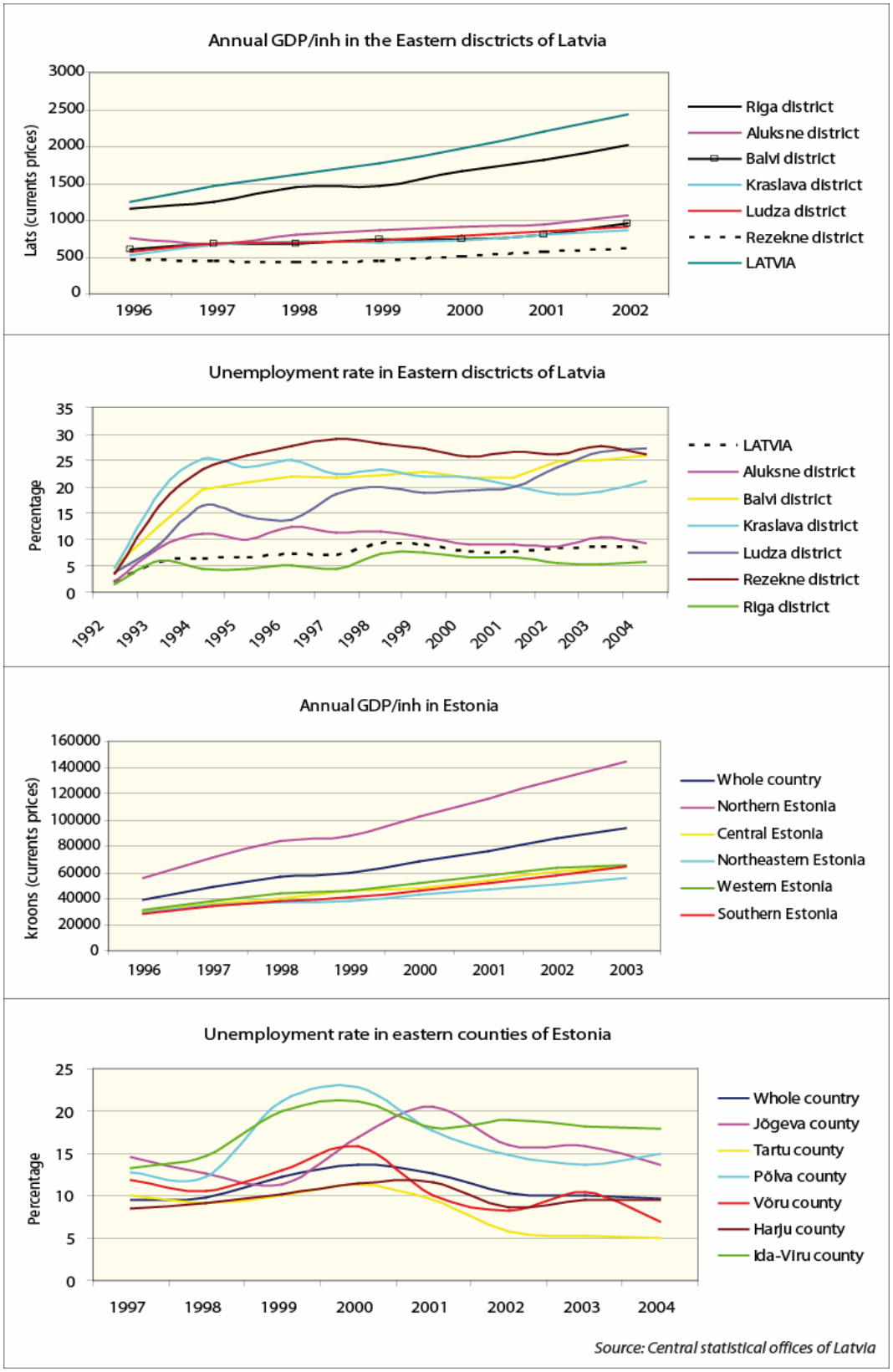
As cross border cooperation with Belarus and Russia has been working only for roughly one year, it is hardy possible to draw the balance sheet of the implemented projects. According to the joint secretariat of Riga, the first evaluations will be available next spring. It will be then possible to see how things are going on.

5.1.1. DOES THE FRONTIER WITH RUSSIA HAVE A TERRITORIAL IMPACT ON LATVIA AND ESTONIA?

It is tempting to say that there is a direct relation between what has been presented above as a border effect and the relative backwardness of the Eastern regions of Estonia and Latvia. Especially in Estonia where the geographical pattern of development is now the opposite to what it was during the Soviet period. The region of Narva, for instance, located in North-Eastern Estonia, was much more developed than today. Indeed, in both countries, almost all the social and economic indicators are beneath the national averages in the eastern regions and the gap between most and less developed regions is still widening. The regional GDP, regional GDP / inhabitant and the real personal income are generally low and the unemployment rate is higher than the national average. Maps will be displayed in the final version of this case study.

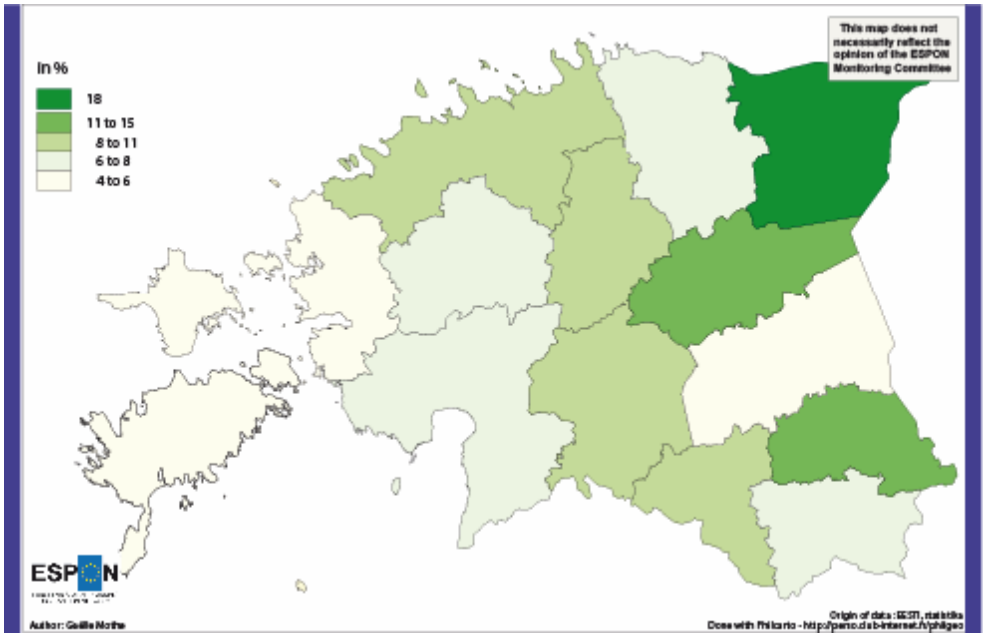
An accurate analysis of the cause of such regional disparities shows that the relation between the border and the local low level of development is not that obvious. Two short examples will be enough to highlight this idea. The district of Tartu is located in South-East Estonia along the border with Russia, near the lake Peipsi. This geographical situation could be considered as a burden, hampering every possible development. But one can empirically notice that it is not the case. In this county, the unemployment rate is much lower than the average

Figure 26 : Evolution of regional economic indicators.

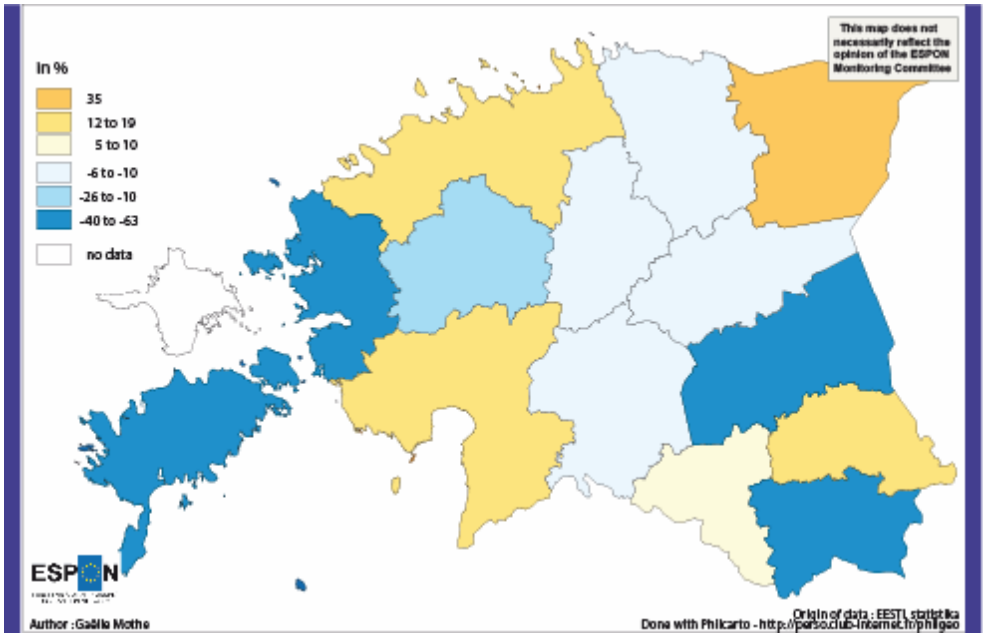


Source: Central statistical offices of Latvia

Map 16 : Unemployment Rate of Estonia's counties in 2004

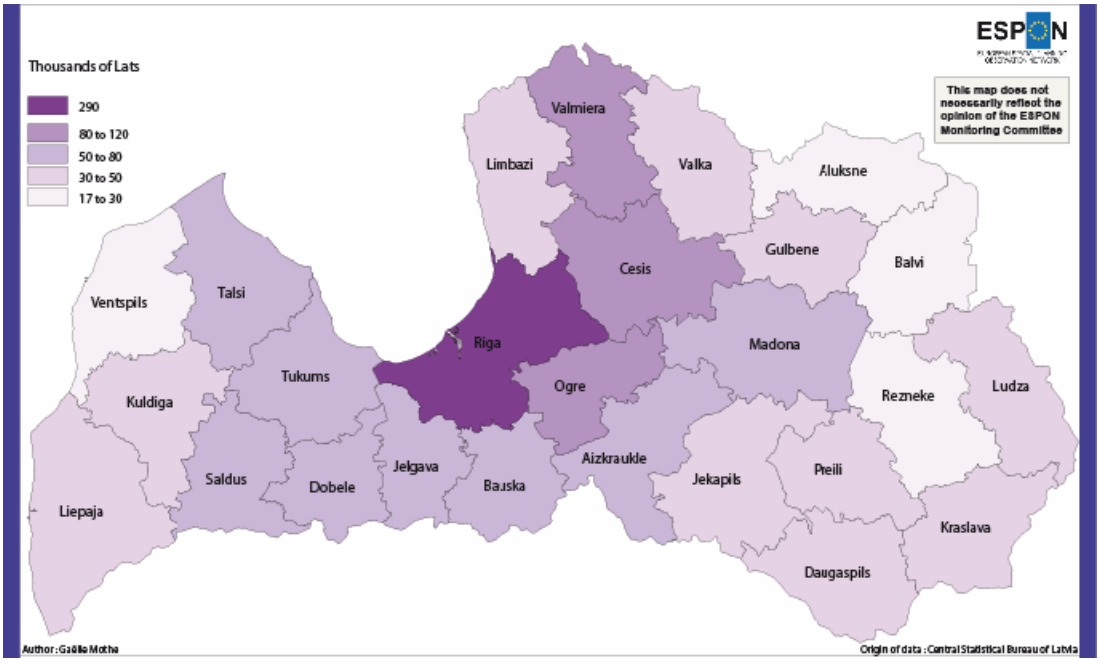


Map 17 : Variation of unemployment rate of Estonia's counties from 1997 to 2004



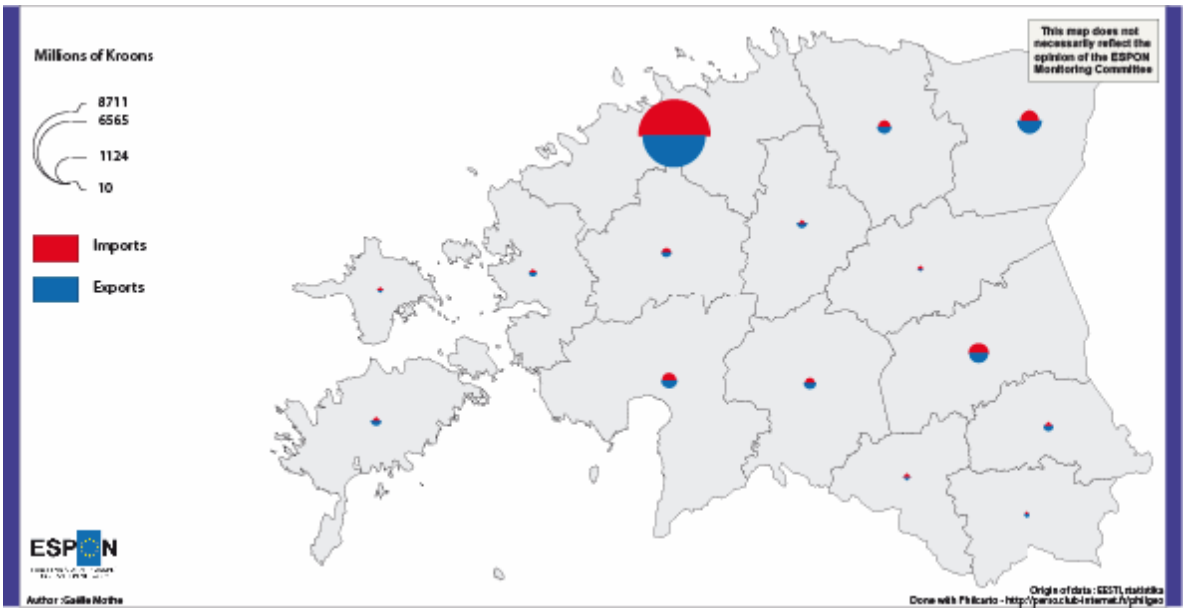
Besides, many other regions in Estonia and Latvia show a low level of development but they are not located in the eastern part of these countries. It is particularly obvious in Latvia where one can notice a decreasing trend in development indicators as one moves away in every direction from Riga. Nevertheless, these examples are not sufficient to prove that there is not any relation between the low level of development of these districts and their eastern location near the border. The border location is not enough to explain local social and economic evolutions but it certainly plays a role in these evolutions.

Map 18 : Gross Domestic Product of Latvian Districts from 2000 to 2004 (annual average)

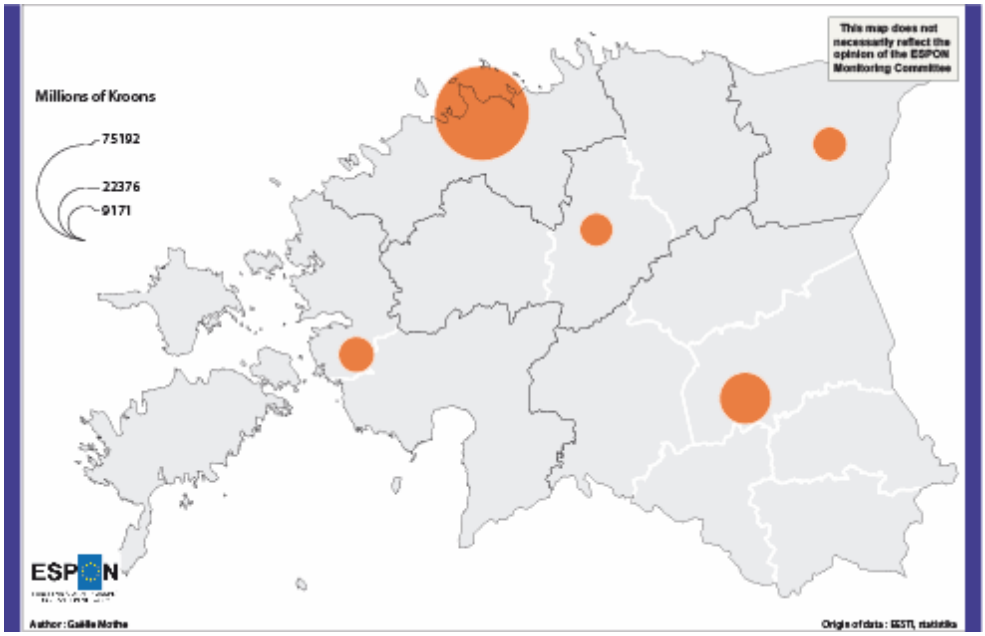


Before their accession to EU, Estonia and Latvia had already started to implement radical reforms of their economic structure, wiping away the soviet legacy rather rapidly. This process was extremely rapid in Estonia and began a bit later in Latvia. In the mean time, partly thanks to Association agreements signed with EU in the 1990s, Latvia and Estonia opened themselves to the West, attracting many foreign investments from EU and mainly from the countries surrounding the Baltic Sea. Both countries fastened onto Western Europe through their capital regions, that is Riga and Tallinn which are located in the western part of these territories. This « capital effect » is due to the higher attractiveness and accessibility of national metropolises. Capital regions, not only in the Baltic States but also in most of the post socialist CE countries, have been more able to attract investments thanks to various causes: numerous and well trained labour force, more diversified economic structure, higher quality and more numerous infrastructures, better accessibility, large demographical size providing labour force and consumers… Tallinn and Riga became rapidly parts of the European economic space. They integrated themselves in the Baltic urban network, establishing intense relations with Helsinki, Stockholm and other European metropolises. As it is shown on the maps n° 6, Tallinn realizes the major part of Estonian external trade and realizes the major part of Estonian GDP. This shows how much the prosperity and economic activity is concentrated far from the eastern border.

Map 19 : External Trade of Estonia's Counties in 1993



Map 20 : Gross Domestic Product of Estonia's Regions in 2003



But until now, the rest of Latvian and Estonian territories have not really taken benefit from this "capital region effect". Consequently, one can wonder about the role of Riga and Tallinn. Are they interfaces between their respective territories and the rest of the World? Are they « continental islands » taking benefit form their high insertion in the European urban archipelago but sailing away from the rest of their national background? In fact, according to Latvian and Estonian geographers, and officials of the Regional Development Department of the Ministry of the Interior in Tallinn, the low level of development of the eastern regions is partly due to a distance effect. Their backwardness is partly due to the distance between them and the capital regions. That explains why the western

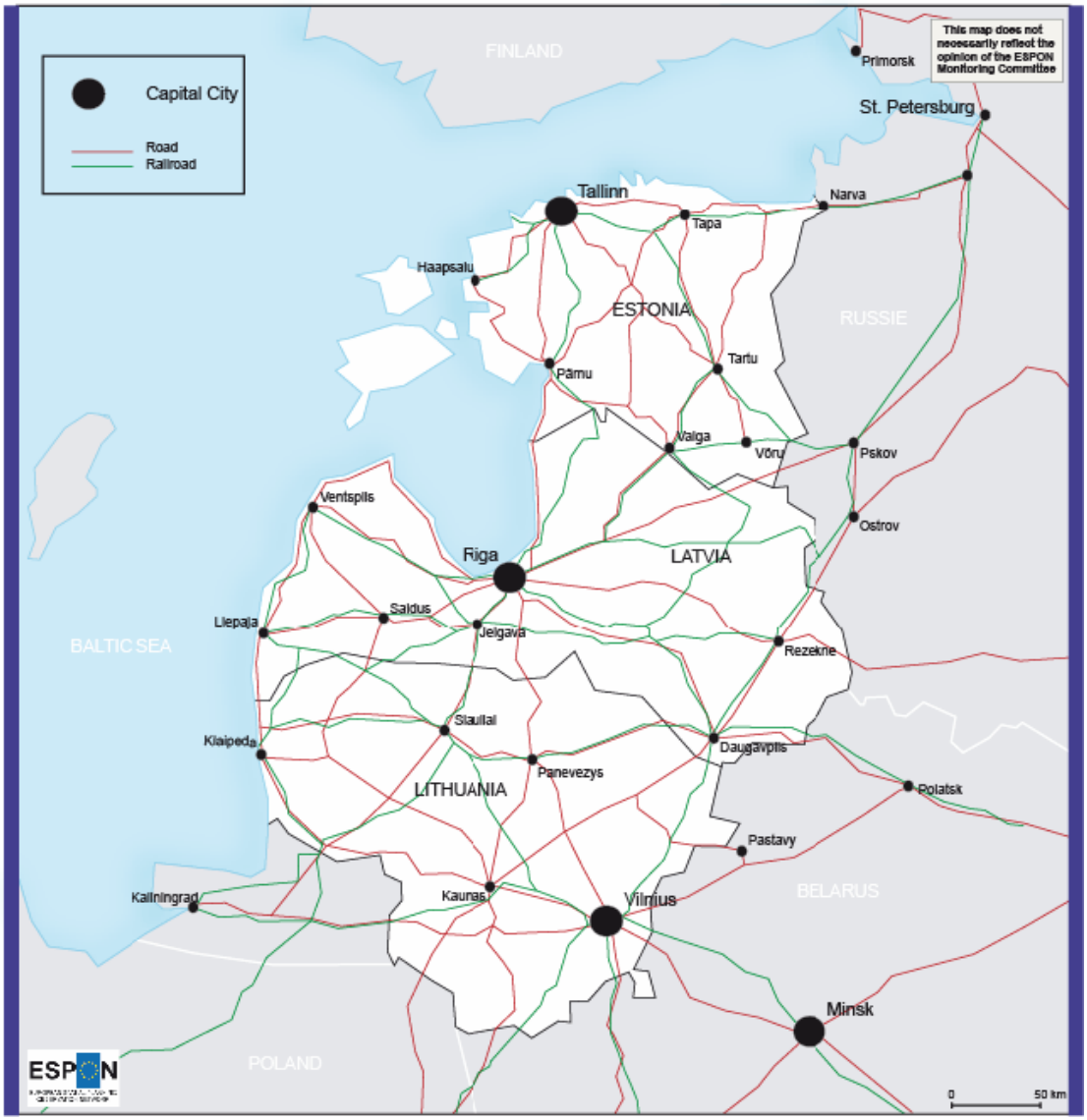
part of Latvia, far from the Russian and Belarusian border but also far from the capital, is under developed.

Other factors have played a role in the regional disparities of development level, among which the choices made by national governments in the domain of regional development. For instance, from the beginning of the 1990s onward, Estonia has been ruled by liberal governments whose main subject of concern was the implementation, very successful, of a liberalisation programme based on quick structural reforms and attraction of foreign direct investments. Meanwhile, regional disparities have not really been attended to because that was not a priority. The interest for the regional issue emerged in Estonia only in the end of the 1990s, that is to say after 1997. Estonian authorities tried to handle this problem in creating in each region appropriate conditions and climate for business development. This political choice has not been really effective because efficient tools for regional development such as transport infrastructures (mainly railways) had been privatized, hampering the leverage power of governmental decision in this domain. Consequently, the gap between regional levels of development is still widening.

Nevertheless, the border plays a role in the internal geography of Estonia and Latvia in some cases.

In Estonia, the region of Narva is very much dependent from Russia. It is located on a major transport axis linking Russia to Estonia and Leningrad region to Tallinn. Besides, the local industries strongly depend from goods imported form Russia and from Russia as an export market. Consequently, local business needs an open border as much as possible. But the statistics displayed by the State office of statistics in Estonia show that Narva region is a secondary actor in Estonia's foreign trade, as well as other Eastern districts (Jögeva Pölva), far behind the capital region (Harju county and Tallinn city) and behind Pärnu and Tartu counties.

Map 21 : Roads and Railroads in Baltic States



During the soviet period, this region underwent an industrialization process as a part of the whole soviet economic system based on strong interrelations between Soviet republics and regions. Soviet authorities developed there industrial specializations which were mainly related to the needs of Russian and Soviet economies. The manufacturing companies of Narva region have not been able to set out efficient restructurations. The local economic structure, inherited from the Soviet large scale industry, is roughly the same as in the beginning of the 1990s, presenting a high share of manufacturing activities and a very low share for service activities in the regional GDP. In addition, the image of this region is bad for many investors (Tallinn attracts more than 81 % of the FDI inward stock in Estonia) because a various factors: bad environmental quality, high unemployment rate, problems related to the presence of the Russian minority, backwardness of local industries, lack of local capital, insufficiently skilled labour force… The proximity of Saint-Petersburg, whose development level is rather

high compared to the Russian average, could be an advantage: presence of financial capital and high level service activities, large customer market… Besides, Narva could take benefit form its situation between Saint-Petersburg and Tallinn, as a transit territory.

The border between Estonia and Russia still strongly hampers the growth of trade relations of Narva region because of non tariffs barriers, which were presented above, and also because of bottlenecks at the crossing points along the border. The bridge between Narva and Ivangorod is too small. In addition, trucks which go to Russia have to cross the city of Narva whose infrastructures are not sufficient to handle this daily massive influx. The Estonian national authorities have sent an official letter to the Russian central administration in order to propose the common financing of a second bridge over the river Narva which separates to two countries. They have not received any answer yet. In the same time, Finland and Russian governments have announced that they will venture to modernize the rails links between saint-Petersburg and Helsinki. The journey between the two cities will be cut from five hours and a half to three. The involved rail companies will not only modernize the rail infrastructures. They have also decided to speed up the border crossing procedures. It seems that the external relations with Russia are developing more rapidly than with the Baltic States in the transport issue. Meanwhile, there is still a strong barrier effect between Estonia and the nearest Russian region due to frequent traffic jams on both sides of the border.

Figures given by various sources show that Estonia is not among the main trade partners of Northwest Russia for the exports of goods. And it rates only ninth for the imports. The modernization of transport infrastructures would enhance these exchanges. Such a modernization is necessary not only for Estonia but also for Russian companies because the Russian ports located on the Baltic shore between Finnish and Estonian border are not sufficient to handle the increase of Russia's exports and imports. Recent investments in the Estonian port of Sillamae, located in Estonia 25 km from the border, shows that Estonia could take profit from this situation.

5.3 Policy orientations

To have comprehensive view of the policy recommendations related to the Key Question Neighbourhood, it is necessary to refer to the Volume I. Here are presented only the recommendations directly connected to this case study.

- To continue the dialog with Russian authorities, at the highest level, in order to conceive genuinely joint projects in the transport issues. The ports located on the 350 km long coast line around Saint-Petersburg are not enough to handle Russian imports and exports. For instance, the port of Ust-Luga is burdened by

natural shortcomings, its sailing channel being not deep enough to handle large ships. Russia needs Baltic ports (especially Sillamae and Muuga in Estonia). But the bad quality of politic relations of Russia with its nearest western abroad has negative effects. It hampers the development of high quality crossing point of the border, whereas it would be necessary to modernize bottlenecks such as Narva and Koidula. Several months ago, Estonian authorities have sent to the Russian government an official proposition about the modernization of Narva-Ivangorod crossing point and about the construction of a new bridge. They have received absolutely no answer yet but the cargo volumes at the Ivangorod-Narva border checkpoint have jumped 33 percent just in the first five months of this year, according to local newspapers. And the traffic is expected increasing since Estonia has opened the port of Sillamae.

- To negotiate with Russia in order to convince the government to lift non tariff barriers which still hamper the growth of external trade in that part of the neighbourhood. This would have a positive effect on regions whose economy is still much oriented towards the Russian market.
- To maintain the effort towards the conception and implementation of real joint projects with Russia and Belarus. This effort may convince the central Russian authorities to move to a higher level of decentralisation. This is the only way to make the projects bases on Interreg III A initiative going on. Without any real autonomy, local governments of Pskov, Leningrad, Vitebsk, Grodno and Minsk are not able to cooperate directly with their Baltic counterparts.
- To make an effort for the training of local authorities on both sides of the border. Local governments usually suffer from a lack of administrative capability for the conception, implementation and financing of joint cross border projects.
- To determine very clearly the rules of the game about cross border cooperation. Baltic States authorities sometimes do not receive enough support from the European commission in this domain. That is to say that they feel somewhat isolated in front of Russia when they negotiate cross border projects. It is necessary to define more clearly each part's task. Baltic authorities want to negotiate only the contents of the projects with Russia and Russian regions. All the rest must be left to European Commission. For instance, according to the future legal framework for cross border cooperation for the period 2007-2013, Estonian authorities will have to handle auditing, irregularities and even recovery of funds in case of wrongdoings on Russian side. According to the recently published regulations, if Estonia really happens to become the Managing / Paying authority, Estonian government will be obliged to perform control on the financial activities of Estonian and also on Russian partners. Estonia does not agree with that type of procedure and Russia is not likely to let any Estonian official come to Pskov or Leningrad oblasts in order to make financial controls. European Commission should first negotiate the distribution of responsibilities between all potential partners and then let them negotiate only the content of cross border projects.

- To define more accurately the status and the amount of funds dedicated to cross border cooperation dedicated inside the future European and neighbourhood Partnership Instrument. Nothing clear has been said about this issue until now.

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6. HUNGARY – THE NEW BORDER OF THE EUROPEAN UNION

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CRS HAS:

6.1 Introduction

Hungary has common borders relations with seven countries: Austria, Slovakia and Slovenia are EU members while Slovakia, Slovenia and Romania joined NATO. Romania stands good chances of becoming an EU member in 2007. It is generally assumed that borders should not divide but unite, however Hungary shapes up its present neighbourhood policies in accordance with the realities of a still divided Europe. Different circumstances obtain at the regional level across soft or hard borders (depending on whether the neighbouring country belongs to the EU and/or NATO or not).

The aim of this research is to examine the development of relationships between Hungary and two neighbouring countries (Romania and Serbia-Montenegro) after the fall of the communist regime (Figure 1).



Map 22 : Studied countries

After 1989, Hungary's two neighbours evolved in completely different directions. Impacting on these countries neighbourhood policies are elements such as: the international relations and perceptions, economic growth, the pace of progress made during the transition, inner social tensions, political, social, economic conditions, etc. Nevertheless, a number of similarities are to be found across the border regions of the three countries. First of all, large Hungarian minorities live in the areas close to the borders. Moreover, economic differences across the borders are less dramatic. These regions in particular as well as countries in general are characterized by a history of multicultural coexistence. The political system change had special relevance to the borderlands, as isolation could be brought to an end, borders became transparent and hence they could develop new connections with the rest of Europe.

Hungary's early EU accession created a novel situation. Once again, borders serve to separate Hungary from neighbouring non-EU countries, only temporarily in the case of Romania, but for a longer time in the case of Serbia-Montenegro.

Bilateral relations between Hungary and Romania form the cornerstone of the stability in Eastern Europe. The relationship between the two countries suffers from a painful past, mainly due to the partly unresolved situation of the Hungarian minority. After 1989 this became a key issue in Hungarian foreign policy and a highly divisive, politicized and manipulated topic in Hungarian domestic politics. Right wing parties prefer to portray themselves, rightly or wrongly, as champions of the cause of Hungarian minorities (e.g. grievance for cultural autonomy for Hungarian minority in Romania, the so-called Status law, double citizenship, etc.). On the other hand, the parties constituting the actual liberal-socialist governing coalition tend to put the emphasis on the improvement of bilateral relations and the support of Romania's accession to the EU, thus hoping that the situation of minorities would improve as a consequence of it. This policy line was given special emphasis at the meeting of the governments of the two countries, in October 2005 in Bucharest. Some voices went as far as to compare the importance of this joint session to the beginning of French-German reconciliation after World War II.

Relations between Serbia-Montenegro and Hungary were not deeply influenced by minority conflicts (at least not after World War II). However, the Yugoslav war put an end to what had been a more or less peaceful relationship. Tensions have been sparked off in the beginning by the influx of Yugoslav (as well as Hungarian minority) refugees and later by drastic altering in the social and economic situation in Voivodina (where Hungarians primarily live). This has been mainly due to the massive Serbian immigration. As a result, political participation of

Hungarian minority has been much more restricted. The new conflicts cast the shadow on current Hungarian-Serbian cooperation as well.

We seek in this study to expose economic and social differences among the three countries both at the national level and in border regions. Consequently, we attempt to focus on the old and new elements of the emerging forms of integration, and the obvious consequences of EU membership of Hungary for its neighbourhood policies with Romania and Serbia –Montenegro.

6.2 Social and economic differences after 1990

Economic potential

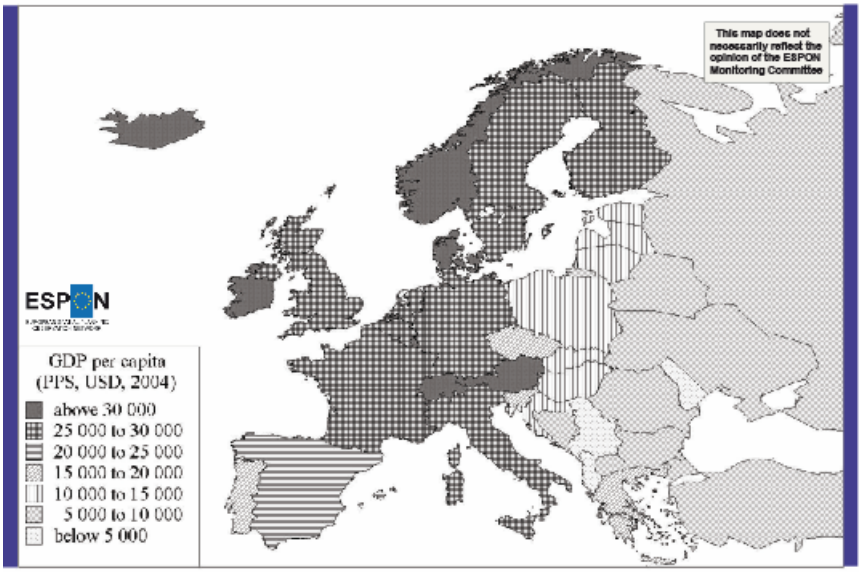
With 22 million inhabitants and a surface of 238 000km2, Romania is considered to be a large country both at regional level – compared to its other two neighbours – and at European level. Hungary and Serbia-Montenegro have similar size: Hungary counts 10 million inhabitants on 93 000 km^2, whereas the 8,3 millions inhabitants of Serbia-Montenegro live on 91 000 km^2. According to their economic capacity, Hungary finds itself in leading position: in 2003 the Romanian GDP reached 69% and the Serbian one 25% of Hungary's value.
Economic development (GDP/capita) in Hungary reached in 2003 less than 55% of the European average (E-15), while in Romania 26 % and in Serbia-Montenegro 17% of it only. (Table 1. and Figure 2)

Table 19 : GDP/capita (Hungary = 100%)

Country	1998	1999	2000	2001	2002	2003
Romania	40,3	33,3	35,5	35,4	32,5	31,7
Serbia-M.	31,8	43,5	17,9	27,2	29,0	30,1

Source: Transition report 2004. European Bank for Reconstruction and Development, London, UK.

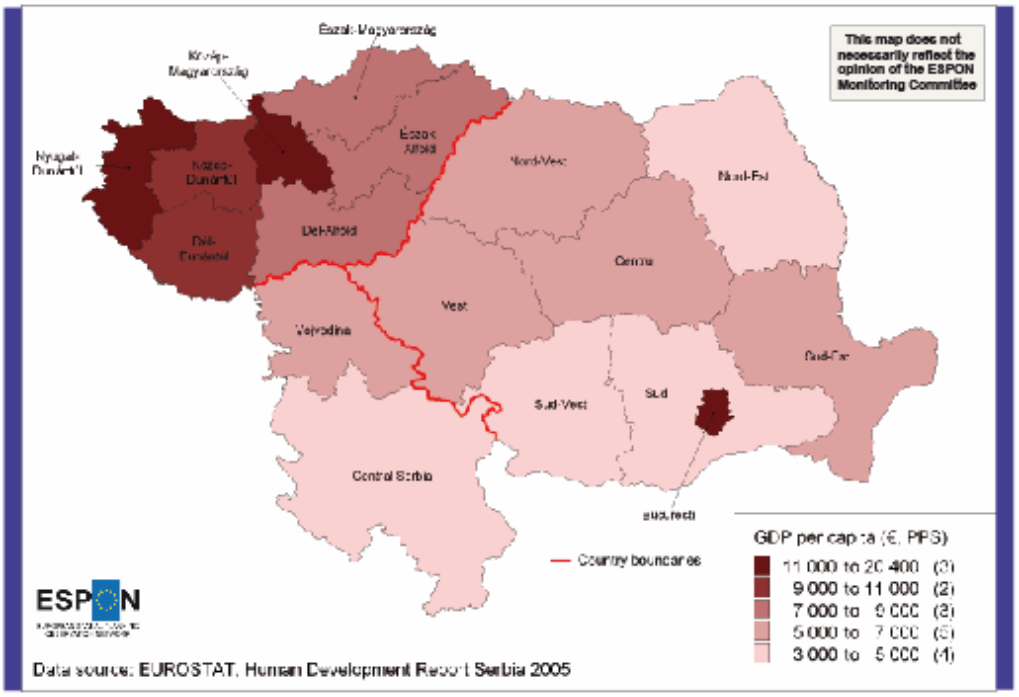
Map 23 : GDP per capita in European countries



Data source: World Bank: World Development Indicators 2005.

Hungary's relationship with the two neighbouring countries has been deeply influenced by the sharp economic differences existing between them. Despite their rapid growth (in 2001 and 2002 the growth of Hungarian GDP was 3,8 and 3,3%, while in Romania 5,3 and 4,9%, and in Serbia-Montenegro 5,5 and 4,0%), these economic differences remained at the same level.
Differences are less visible in the border region (40–80% in favour of Hungary) compared with the three times differences of the countries'average (Figure 3.).

Map 24 : Regional differences in the GDP per capita of the three countries



Employment and unemployment

The employment rate significantly decreased after 1989, affecting women in particular. The socialist inheritance – the high level of employment – has longer persisted in Romania and Serbia-Montenegro (much more than in other Southeast- European countries such as Italy, Greece or Turkey). At the same time, the employment rate has been following a downward path (Table 2).

Table 20 : Employment rate, 2001

Top countries in Europe	%	Studied countries	%	Proportion of women %	Bottom countries in Europe	%
Sweden	78,4	Romania	62,2	46,2	Greece	48,7
Island	74,3	Serbia-M.	59,9	42,9	Turkey	48,7
Norway	73,3	Hungary	53,3	44,4	Italy	48,0

Source: Trends in Europe and North America – 2003, UN Economic Commission for Europe

Unemployment could not be analyzed in connection with employment partly due to the calculation method of unemployment registration and partly because of the unknown extend of the black economy. The unemployment level is relatively low particularly in Hungary but also in Romania. On the contrary, not only that the unemployment level is extremely high in Serbia-Montenegro but it has been continuously going upwards (Table 3).

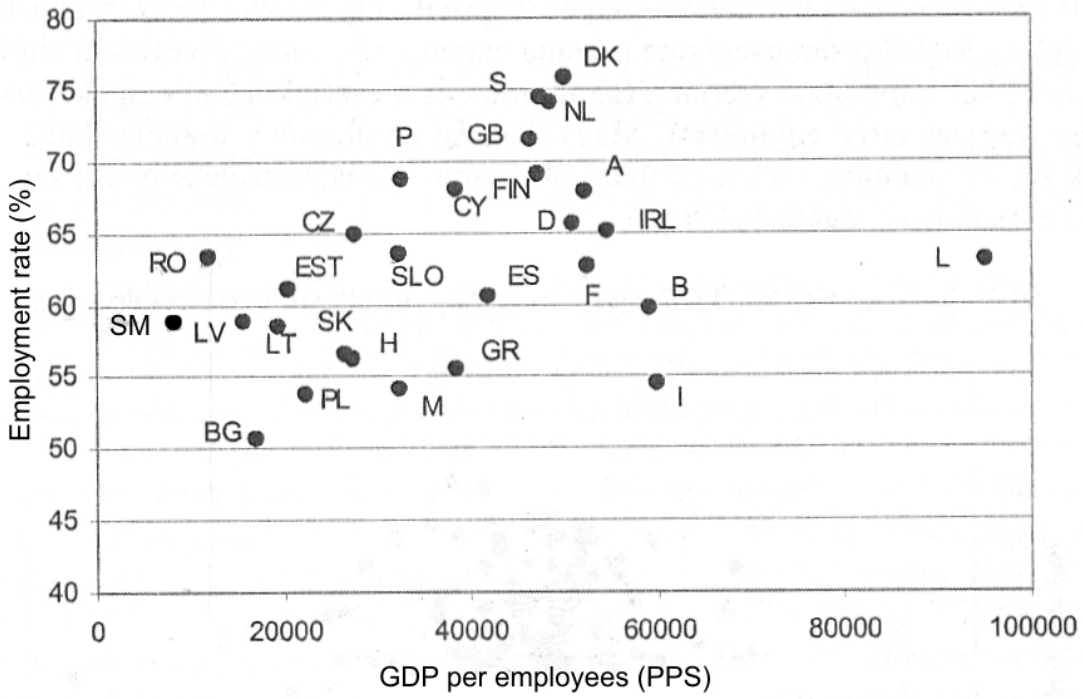
Table 21 : Unemployment level in 2001

Top countries in Europe	Unemp-loyment rate %	Studied countries	Unemp-loyment rate %	Bottom countries in Europe	Unemployment rate %
Luxemburg	2,0	Hungary	5,7	Bosnia-H.	39,9
Island	2,3	Romania	6,6	Macedonia	30,5
Switzerland	2,6	Serbia-M.	27,9	Serbia-M.	27,9
Netherlands	2,7			Bulgaria	19,4
				Slovakia	19,2
				Poland	18,2

Source: Trends in Europe and North America – 2003, UN Economic Commission for Europe

Competitiveness

Figure 27 : Competitiveness of European countries



Source: Based on Lengyel, I. (2003) Verseny és területi fejlődés. (Competition and regional development). JATEPress, Szeged. p.357. (author's own calculations)
Notes: B: Belgium, DK: Denmark, D: Germany, GR: Greece, E: Spain, F: France, IRL: Ireland, I: Italy, L: Luxemburg, NL: Netherlands, A: Austria, P: Portugal, FIN: Finland, S: Sweden, GB: Great Britain, CZ: Czech Republic, EST: Estonia, H: Hungary, LT: Lithuania, LV: Latvia, PL: Poland, RO: Romania, SLO: Slovenia, SK: Slovakia, CY: Cyprus, M: Malta, BG: Bulgaria, SM: Serbia and Montenegro.

At the European Union level, countries' competitiveness has been measured on the basis of employment rate and productivity. Figure 4. shows that the countries from Central and Southeastern Europe and Baltic area fill in the unfavorable bottom-left corner. The lowest productivity level is registered in Serbia-Montenegro, Romania, Latvia and Bulgaria while the lowest employment level can be found in Bulgaria, Poland, Hungary and Slovakia. Only Czech Republic and Slovenia could catch up with the countries from the European middle-group.

Changing the economic structure

A strong correlation can be noticed between economic development and economic structure. In other words, in the countries where economic development (GDP/capita) is high, the proportion of the tertiary sector is also significant whereas that of the agriculture is generally low. There are nonetheless several exceptions: Malta, Greece and Latvia showed high tertiary proportion although their economic development is at a medium level. In Austria, Finland, Norway, Ireland the proportion of industry is extremely high. In Island agriculture plays an important role at present, too. However, our research

countries, Hungary, Romania and Serbia-Montenegro could not be included in to this „exception" group. (Table 4)

Table 22 : GDP and employment by major economic sectors, 1995 and 2001

	1995			2001		
	Agriculture	Industry	Tertiary	Agriculture	Industry	Tertiary
Hungary	6,8 (8)*	30,9 (33)	62,3 (59)	4,3 (6)	31,3 (34)	64,4 (59)
Romania	20,9 (40)	40,3 (31)	38,8 (29)	14,8 (43)	34,0 (26)	51,2 (31)
Serbia-M	19,3 (6)	37,8 (52)	42,9 (42)	21,1 (6)	32,1 (63)	46,8 (30)

** the employment rates in brackets*
Source: Trends in Europe and North America – 2003, UN Economic Commission for Europe, p 174, 155.

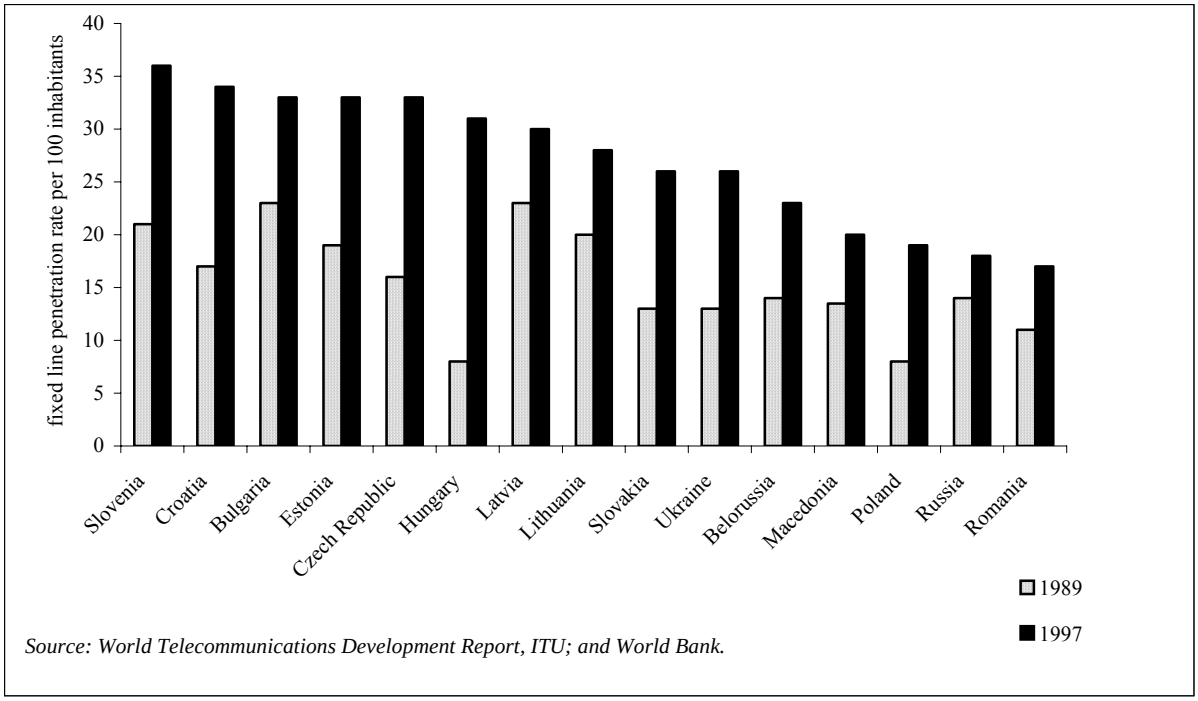
Economic transition had a significant impact on Hungarian agriculture (before 1989 the agriculture gave almost 30% of GDP, and 20% of employment). At the same time industry has kept its importance. The present employment structure in Hungary shows some similarity with Austria, Finland, Ireland or Norway: low proportion of agriculture (1-4%), and relatively high proportion of industry (32-42%).

As of Romania, the slow modernization process is translated into the large proportion of agriculture in country's economy. It is however true that the contribution of the traditional industry (metallurgy, particularly) has significantly decreased. In Serbia-Montenegro the main tendencies are somehow opposite to the other two countries: the proportion of agriculture amongst GDP indicators and the employment in the industry sector have been growing while the importance of the tertiary sector has been decreasing. These trends can be explained by the unstable economy and the extremely high unemployment level.

Infrastructural supply

The main driving sectors of a modern economy are transports, telecommunication and informatics. We shall analyze these branches in the countries under research.
Under state socialism, Hungary was on the last place at building infrastructure even among the COMECON countries (Figure 5).

Figure 28 : Telephone penetration in transition economies in 1989 and 1997.



Source: World Telecommunications Development Report, ITU; and World Bank.

During the transitional period, Hungary improved its position compared to its neighbours but it is still lagging behind the EU countries. Rapid progress has been made in infrastructure development (motorway building, railway modernization, infrastructure of telecommunication) following the EU accession.

Table 23 : The current situation (2001) and occurring changes in the infrastructural supply (%) from 1995 to 2001

	Hungary 2001	1995-2001 %	Romania 2001	1995-2001 %	Serbia-M. 2001	1995-2001 %	Germany	Ireland	Sweden
							in 2001		
Telephon*	374	10	183	6	229	3	635	485	739
Mobil*	498	64	172	175	187	187	683	729	790
PC*	85	17	32	19	23	10	336	359	507
Internet*	145	84	36	117	38	111	292	207	456
Cars*	244	–	139	–	161	–	534	361	455
Motorway(m)*	45	–	5	–	45	–	142	31	171

* pieces (or meter) per 1000 inhabitants

Source: Own data compiled by using the database of Trends in Europe and North America – 2003, UN Economic Commission for Europe

A comparison between the three countries under study and the most developed or the most dynamic European countries has been drawn (Table 5).

Consequently, it can be argued that the three countries are significantly backwarded as general differences between them and the chosen developed countries are 2-3 fold. The PC spreading is alarmingly lagging behind: the difference in the number of PCs per 1000 persons is 6-fold between Sweden and Hungary, and 22-fold between Sweden and Serbia-Montenegro.

Amongst the three countries, Hungary enjoys the most favorable position, particularly in regard to the use of PCs and the Internet. Due to its high-pace infrastructural development during the socialist era, Serbia-Montenegro could preserve relatively good standards concerning the telephone supply and the length of motorways (per 1000 inhabitants).
It can be generally concluded that the fastest rise was registered in the use of mobile telephony within the three countries. At the same time, the development of information technology was relative and very slow. .

Social differences

Infant mortality is a basic indicator of public health. If one draws a comparison between our research areas and the most developed European countries, one can distinguish among highly significant differences, even amongst these three countries. (Table 6)

Table 24 : Infant mortality in 2000

Infant mortality rate (per 1000 live birth)	Countries
< 4	Finland, Spain, Sweden, Iceland, Norway
5–10	Czech Republic, Croatia, Estonia, Hungary (9,2), Lithuania, Poland, Slovakia, Slovenia
10–20	Albania, Bosnia-H., Bulgaria, Latvia, Romania (18,6), Serbia-M. (13,3), Macedonia
36,6	Turkey

Source: Trends in Europe and North America – 2003, UN Economic Commission for Europe, p. 191

As far as *life expectancy* is concerned, several similarities are to be noticed among the three countries – especially their serious lagging behind developed Europe. In the cases of the Baltic countries, Hungary and Romania, men formed "the club with the least hopes" in 2000 (Table 7).

Table 25 : Life expectancy at birth in 2000

	Woman	Men
Hungary	75,6	67,1
Romania	74,2	67,0
Serbia-Montenegro	75,1	70,3
Sweden	82,1	77,5
Italy	82,9	76,7
France	83,0	75,5

Source: Trends in Europe and North America – 2003, UN Economic Commission for Europe p. 187

During the last 10-15 years, *tertiary education* all over Europe was characterized by a dynamic increase of students' number. Finland has been at the top of the European list (52 students per 1000 population) whereas Norway, Ireland, Estonia, Latvia, Poland and Slovenia belong to the „top group" as well (with more than 40 students per 1000 inhabitants). The above cited countries show that the fast absorption level in higher education has not been only a consequence of the country's development level but also of political decisions. It is a fact that in Hungary (30 students/1000 capita) and Romania (24 students/ 1000 capita) the number of students tripled from 1990 to 2000. Nevertheless, the gap between these countries and the leading ones is still wide. Unfortunately, Serbia-Montenegro did not benefit from any increase during these 10 years (16students/1000 capita).

Macroeconomic stability

Foreign direct investments (FDI), inflation, current account and external debt have been chosen as indicators of the macroeconomic situation of the three countries.

Table 26 : Foreign direct investment (net inflows recorded in the balance of payments)

Countries	Cumulative FDI inflows 1989–2003 in USD mln	Distribution among CEB and SEE countries* (%)	Cumulative FDI inflows per capita 1989–2003 in USD mln
Hungary	33 641	18,8	3 364
Romania	10 536	5,9	486
Serbia-Montenegro	3 112	1,7	374

Source: IMF, central banks and EBRD

The starting days of *FDI* were different in each of the three countries. Hungary initiated a massive privatization process immediately after the regime change, opening the biggest supply branches of the economy (except of the land and the banking sector) to foreign investors. In the first part of 1990s, Hungary was the leading host country in Eastern Europe. Between 1998 and 2002 Czech Republic and Poland experienced the golden years of privatization and of FDI, namely right after the end of the Hungarian privatization. Nowadays, Slovakia became an important host country for FDI. FDI penetrated the Romanian economy starting with 1997 while its top year was 2004. Nonetheless, foreign investors have not shown too big interest in Serbia-Montenegro's economy so far. (Table 8)

During the transformation years every post-socialist country has been hit by an extraordinarily high rate of *inflation*: in Hungary this happened between 1992 and 1996 with a rate of 23–28% (annual average retail/consumer price level). In Romania, 1993 was the „top" year, with 256% inflation rate; from 1997 on (155%), a continuous, downwards trend of inflation can be noticed. Because of the Yugoslav war, hyperinflation marked the beginning of the 1990s (9237% in 1991); after a period of oscillation, the radical decrease of inflation started in 2002. In 2003 the inflation rate was 15,4% in Romania, 11,2% in Serbia-Montenegro while in Hungary it went under 5%.

As far as *general government balance* is concerned Hungary has shown some instability in 2003 when the budget deficit was 6,1%. This level remained high in 2005 too, in spite of the strict expectations of the EU. Romania and Serbia-Montenegro could control the governmental sector in a more effective way, thus pushing this indicator under 2% in Romania, and under 4% in Serbia-Montenegro.

Between 2000 and 2003, the *external debt* remained the same in Serbia-Montenegro, while it increased by 50% in Romania and it doubled in Hungary. If one is to compare the external debt with the economic capacity, Serbia-Montenegro proves to be in serious financial crisis; meanwhile Hungarian debt has been more or less financed by important FDI. (Table 9)

Table 27 : External debt in 2003

Countries	External debt in USD million	External debt/GDP (%)
Hungary	40 157	62,3
Romania	11 588	34,6
Serbia-Montenegro	10 753	68,9

Source: Transitional Report 2004. EBRD p. 165, 173, 137

The progress in transition

Since 1994, the European Bank for Reconstruction and Development elaborated some transition indicator scores in order to be able to formulate judgments about the country-specific progress in transition. The transition indicators are grouped into four main fields: enterprises, markets and trade, financial institutions and infrastructure. The indicators from 1 to 4+ represent little or no change from a rigid, centrally planned economy, whereas 4+ stand for standards of an industrialized market economy. The EBRD report also points at the private sector's share in the GDP (Table 10).

According to the present EBRD report (2005) Hungary leads the movement of transition among the post-socialist countries, Romania has important debts in the governance and enterprise restructuring, the competition policy and the securities markets. Serbia-Montenegro could show important progress only in the case of price liberalization.

Table 28 : Transition indicator scores, 2004

Indicators	Hungary	Romania	Serbia-Montenegro
Large-scale privatisation	4	4-	2+
Small-scale privatisation	4+	4-	3+
Governance and enterprise restructuring	3+	2	2
Price liberalisation	4+	4+	4
Trade and foreign exchange system	4+	4+	3+
Competition policy	3	2+	1
Banking reform and interest rate liberalisation	4	3	2+
Securities markets	4-	2	2
Infrastructure reform	4-	3+	2
Total	34	28	21
Private sector share of GDP (%)	80	70	50

Source: Transition report – 2004. EBRD

6.3 Political, social and economic relations between Romania and Hungary, Serbia and Hungary prior to Hungary's accession to the EU

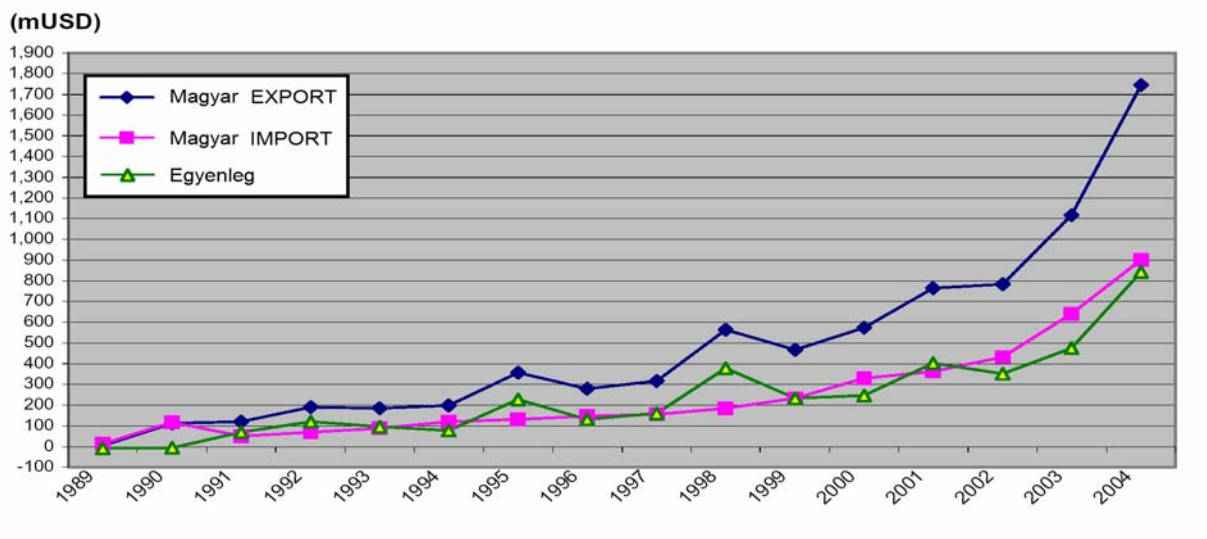
6.3.1. Cooperation forms between Hungary and Romania prior to Hungary's accession to the EU

Following the signing of the Trianon treaty at the end of the First World War, borders between Hungary and Romania had been redesigned and bilateral relations had been rather frozen throughout several decades. Only after the overthrow of the Ceausescu regime in 1989 did hopes for a normalization of relations flourish again. The difficulties arising from the transition to a market economy as well as the significant economic differences posed additional burden on the initiation of cooperation forms. The unfolding of cross-border cooperation has been hindered by the fact that the Hungarian regions in the vicinity of Romania are economically underdeveloped and have been particularly affected by the transitional changes. The social tensions foregrounding minority-related problems and nationalism intensified. However, strained relations between the two countries have progressively been left behind and bilateral relations at national, regional and local levels were enhanced in the last one and a half decades.

Economic Relations

Foreign trade between the two countries still registered a low turnover in the first period of the 1990s. Although the exchange of goods went upwards in the last decade, genuine prosperity could be felt only after 2000. In the years following 2000, imports and export figures steeply rose (Figure 6) so that the import-export turnover was three times higher by the end of 2004. Hungarian foreign trade has always had positive figures in relation to Romania. Hungarian exports primarily consist of electrical machines, vehicles, mineral fuel, medicaments and meat products. The accession to the EU had a negative impact on the exports of agricultural products to Romania, i.e. the export of cereals had been reduced with 70%. Aluminum and its derivatives, atomic reactors, boilers, machines and mechanical equipment, electric machines and accessories, clothing items form the bulk of imports of Romanian products.

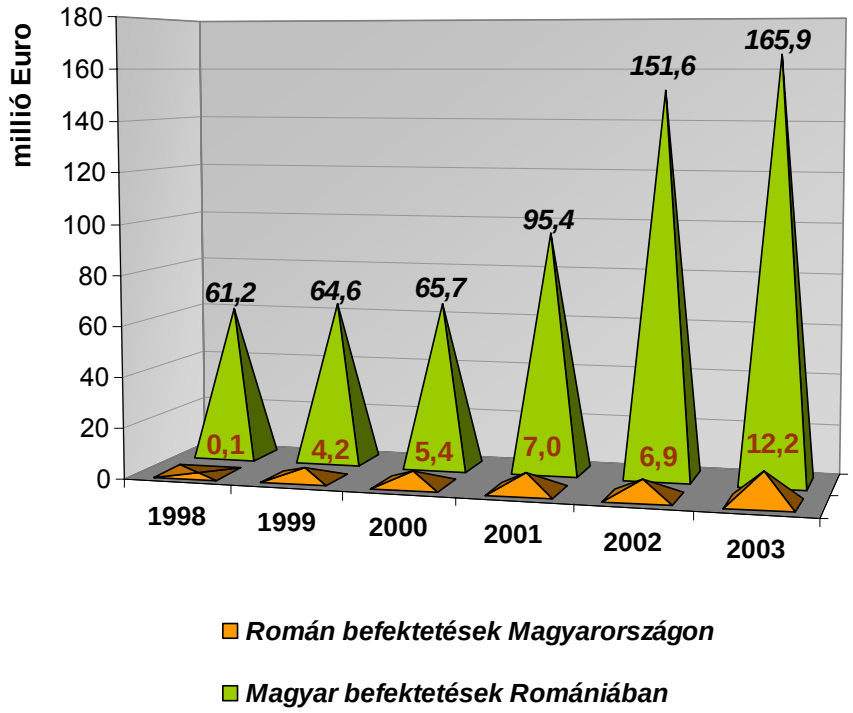
Figure 29 : The evolution of Hungarian-Romanian foreign trade from 1989 to 2004



Source: KSH
Notes: Magyar Export: Hungarian Export, Magyar import: Hungarian import, Egyenleg: Balance

Mutual ***capital investments*** unequally evolved. After the change of regime, Romania continued to be a preferred destination for Hungarian capital. Already in 1998, Hungarian capital investment in Romania overtook 61 million EUR. Even though capital export has been continuously increasing ever since, a real jump of more than 45% was made in 2001, while in 2003 growth registered almost 59% rise. Within 6 years the value of Hungarian investment in Romania became three times higher and in 2003 it rose above 165 million EUR. If other elements of corporate investment are also taken into account - credits, assets, securities and the capital market operations – only in the first half of 2005 the real value of Hungarian capital in Romania was more than 700 million EUR (Figure 7).

Figure 30 : The evolution of Hungarian and Romanian mutual investment from 1998 to 2003



Source: Figure compiled on the basis of the data provided by the Hungarian National Bank
Notes: Román befektetések Magyarországon: Romanian investments in Hungary, Magyar befektetések Romániában: Hungarian investments in Romania.

Hungary is ranked only 14th among the countries with investments in Romania. However, in respect to the number of joint ventures created, Hungary fills in the 5th position. On the other hand, even though the value of Romanian investments in Hungary continues to go upwards too, Romania does not count as a significant investor in its neighbouring country (in 2003 the value of investment was 12,2 million EUR, meaning less than one tenth from the value of Hungarian investments in Romania). Industrial sectors (chemical industry/engineering) as well as the banking sector are mostly attractive for Hungarian investors. 30% of the Hungarian companies have investments in the Romanian heavy industry, whereas 16% of them flourish in the retail industry, 24% in the industrial sector and 14% in the services branch.

Contrary to investments from other countries, Hungarian capital is primarily placed in the Romanian regions inhabited by Hungarians, namely in the four counties along the Romanian-Hungarian border (Szatmár, Bihar, Arad, Temes) and in the inner counties of Transylvania (Kolozs, Kovászna, Maros, Hargita). In addition, prominent Hungarian investments are directed towards the otherwise geographically isolated Bucharest. The presence of Hungarian investors is explained by the fact that Transylvania is among the more developed Romanian

regions, moreover, by the use of a common language and by prior investments made there. Investment in the farther regions is impeded by several factors such as: the low capacity of absorption, the unqualified labour force and the backward infrastructure. However, one has to note that Hungarian entrepreneurs investing in the areas near the border generally bring less capital value: the average size of their investment barely counts as a quarter of the non-Hungarian investments. These entrepreneurs are predominantly micro and small enterprises. Nevertheless, the major Hungarian businesses (OTP, MOL, TriGránit and Richter Gyógyszergyár, etc.) have also invested – mainly in Bucharest and in the larger towns from Transylvania (MOL Rt. is largely present in Bucharest and operates the petrol station in the Székely county).

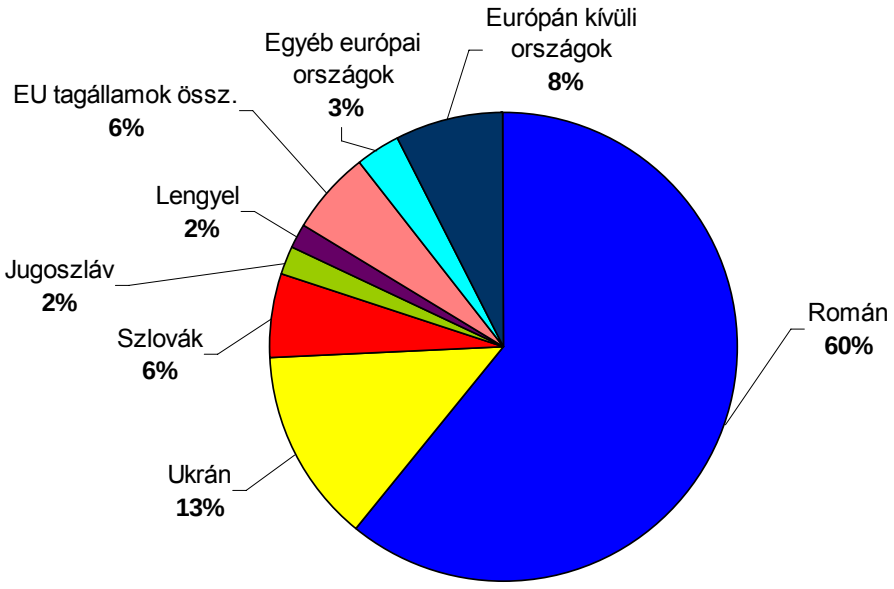
Romanian export of capital to Hungary has been mainly directed to Budapest. This trend can be mostly explained by the fact that the Eastern part of Hungary is economically underdeveloped and that there is not a significant Romanian minority over the border (namely it did not settle there because of the language difficulties). In addition, Romanian companies take Hungarian capital for a safe stepping stone in the direction of the EU or they choose to invest in the Western part of the country. Several assistance schemes have been designed under Hungarian – Romanian cross-border economic cooperation programs with the purpose of remedying the unfavorable status of the border region (euroregions, agencies of regional development, chambers, business development endowments, etc). With the exception of the PETROM investment started up in 1999, these attempts have had little success in the Southern plain so far.

As earnings in Romania are significantly lower and living standards poorer than in Hungary, it is not surprising that the number of Hungarian citizens in possession of a Romanian work permit is not representative. On the contrary, the number of *Romanian citizens* ***working legally and illegally in Hungary*** is highly representative. On the basis of the number of work permits distributed to foreigners of different nationalities in the first half of 2002 it can be argued that most of the workers come from Romania, Ukraine and Slovakia (these ratios are still sound). The majority of comers originating from the neighbouring countries are of Hungarian nationality, thus not facing integration difficulties in the guest country (Figure 8).

The number of foreigners officially in possession of work permits –thus not even the large number of Romanians - does not influence the dynamics of the labour market. If one takes into account both the figures of those officially unemployed and of those filling in vacancies their number is at an acceptable level. Greater problems arise from the fact that the period of time spent for performing seasonal work has an upward trend, however not in those areas where seasonal work would be needed indeed.

In a retrospective analysis, the great majority of foreign labour force has been seeking jobs in Budapest and Pest county, while only a fraction of the comers have found incentives to settle in the counties along the border with Romania (Figure 9). As the ratios on the figure show, they were not significantly modified in the last years, although smaller variations occur every season. As of figures effective on 30 June 2002, 41 972 work permits were released to foreigners. Out of these, 23 338 sought jobs in Budapest, some seven thousand in Pest county, whilst barely 300 worked in Borsod-Abaúj-Zemplénben county, 510 in Hajdú-Bihár and 530 in Szabolcs-Szatmár-Beregben county. Compared to the previous year, the regional differences slightly decreased, inasmuch as the share of the capital and Pest county did not rise any further. At the same time, the proportion of foreigners with work permits in the Southern and Western regions went upwards. In other words, this means that due to the lower wages on the Hungarian market, the high rate of unemployment and the scarce work opportunities, the Eastern region of Hungary will not be able to attract foreign workers in the future either.

Figure 31 : The distribution of Hungarian work permits on nationality criteria in the first half of 2002

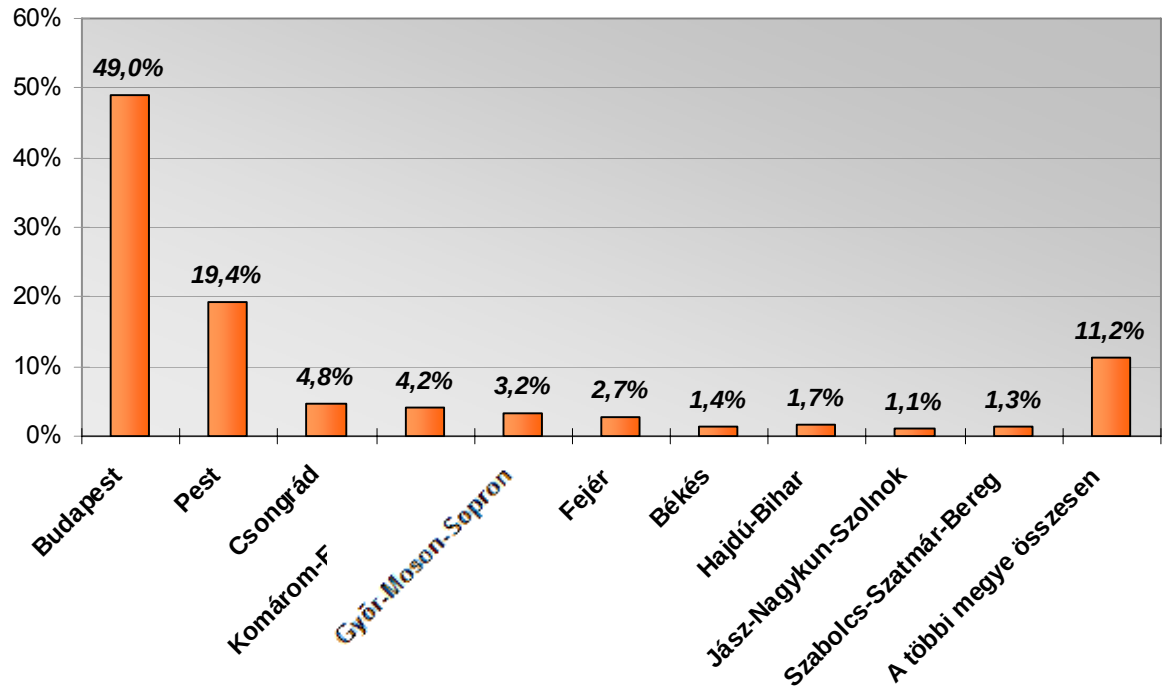


Source: Figure compiled by Balcsók I. on the basis of the data provided by the Labour Office
Notes: Román: Romanian, Ukrán: Ukrainan, Szlovák: Slovakian, Jugoszláv: Yugoslavian, Lengyel: Polish, EU tagállamok össz.: EU total, Egyéb európai: Other European countries, Európán kívüli: Out of Europe.

Romanian citizens working on the Hungarian black labour market essentially get seasonal jobs in agriculture and constructions. There are no accurate data in connection with their status but it can be argued that a great deal of them work

in compliance with the legal provisions. In many cases, illegal/black work is just a statutory concept. Sometimes the only way to respond quickly to the demands of entrepreneurs in exchange of modest rewards is to hire Romanian citizens ready to come to the small Hungarian settlements along the Romania-Hungarian border. It often happens that it is more advantageous to transport the group of illegal workers over the border in the required area for only half of the usually charged daily-work fee. This is explained by the fact that the accommodation cost for several days is still cheaper than hiring the services of Hungarian employees. In addition, guest workers on the black market are not interested in meeting all formal requirements in order to get a legal work permit. Generally, the usual procedures for getting a work permit can take up to two months and the related costs (for workers from abroad who anyway get lower incomes) amount to some 40 thousand forint (about 200 EUR). To sum up, even though the black market already seriously affects the regional labour market along the border with Romania, the rate of unemployment is still high in these areas. It could be therefore concluded that this phenomenon does not exert a significant influence so far.

Figure 32 : Distribution by counties of the effective number of work permits released to foreigners (31 December 1999.)

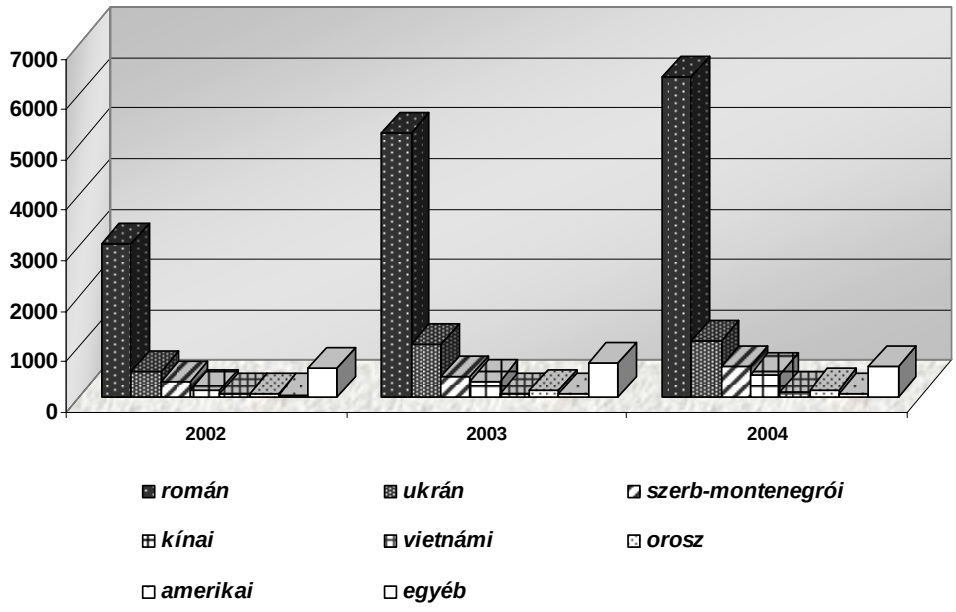


Source: Table compiled on the basis of the data provided by the Labour Office
Note: distribution by counties; A többi megye összesen: other counties

Migration

It can be argued that migration tendencies are similar to the work patterns. That is to say that the number of Hungarian citizens settling in Romania is not at all representative, whereas for Romanian citizens Hungary is one of the cherished destinations. For years, the proportion of Romanian citizens in possession of residence permit has been the highest in comparison to other nationalities settling in Hungary. From 2002 to 2004 their number doubled, while their ratio systematically exceeds 60% (Figure 10). Accordingly, at the end of 2004 Romanian citizens were in possession of 55 723 immigration permits (58.9% from the total number released to foreign immigrants) and of 11 865 residence permits (68,4% from the total number of residence permits attributed to foreigners). Romanian citizens settling in Hungary are predominantly of Hungary nationality. Their migration is not merely justified by ethnic reasons but also by the encouraging economic prospects that re-settling entails. It is not easy to identify accurate data/trends from the distribution of Romanian immigrants in the Hungarian regions. However, on the basis of the distribution of work permits it can be argued that most of Romanians choose to settle primarily in Budapest and Pest county and in Western Hungary. Only a few prefer to reside in the regions along the Romanian border, nevertheless they still constitute more than half of those settling close to the border.

Figure 33 : The evolution of the residence permits' number according to citizenship (2002–2004)



Source: The Office for Immigration and Citizenship
Notes: roman: Romanian, ukrán: Ukrainan, szerb-montenegrói: Serbian, kínai: Chinese, vietnámi: Vietnamese, orosz: Russian, amerikai: American, egyéb: others

Education

The number of Romanian citizens coming to study in Hungary is also significant. They are solely Hungarian nationals from abroad and mainly graduating from higher education institutes. Unsurprisingly, as Hungarian is the language of instruction, they are not confronted with language problems. Many years of experience have shown that a great deal of these students do not go back to Romania, trying instead to settle themselves in Hungary.

In the past years, out of the total number of Hungarian students from Romania enrolled in basic training only less than 10% pursued their studies in Hungary (the ratio of Hungarians from Ukraine approached 50%). From the perspective of Hungarian nationals outside the borders, training pursued in their country of origin is still very important, since certain special training programs are made available there in Hungarian and at an adequate level. At the same time, among 12913 foreign students enrolled in Hungarian institutes in the academic year 2003-2004, almost a quarter of them (3105 persons) came from Romania. The majority of Romanian students – similarly to students from other neighbouring countries – benefit from college and university training. Besides, the number of students from Romania enrolled in Hungarian PhD and DLA programs is more than half from the total number of foreigners. (Table 11)

Table 29 : The number of foreign students coming to Hungary from the neighbouring countries

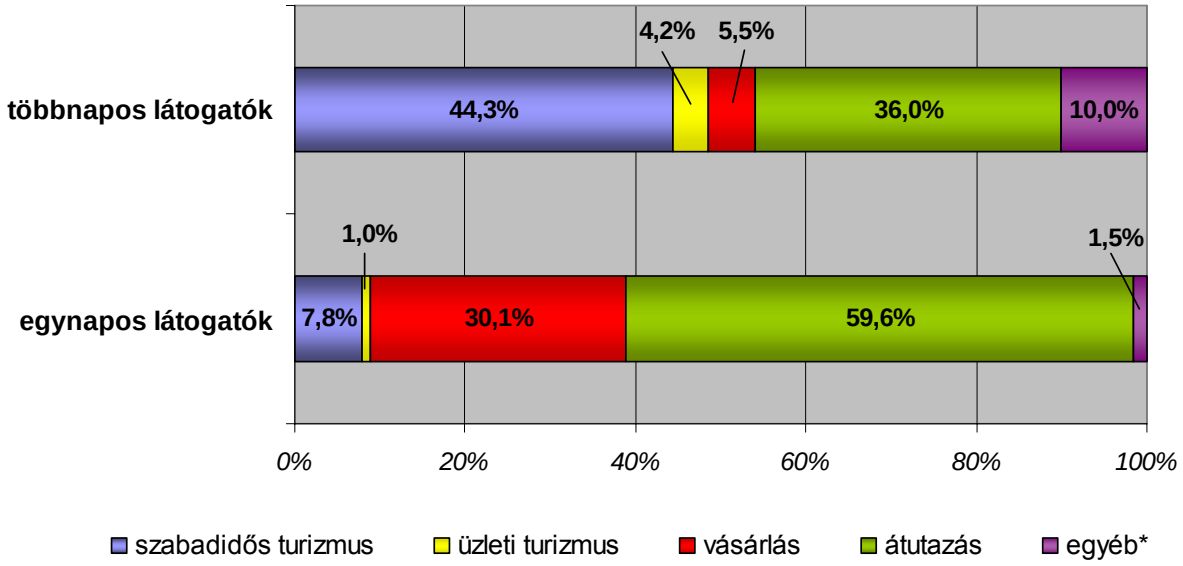
Country	Higher education	College level	University level	Further specialization	Phd, DLA	Total
	Number of students receiving training					
Austria	1	14	8	5	4	32
Croatia	3	32	168	13	9	225
Romania	13	1 647	1 001	122	281	3 064
Serbia and Montenegro	0	601	469	8	17	1 095
Slovakia	5	1 223	1 115	37	67	2 447
Slovenia	0	14	18	1	2	35
Ukraine	5	662	437	10	58	1 172
Total no. of foreigners	28	5 016	7 049	240	580	12 913

Source: Table compiled on the basis of the data provided by the Ministry for Research

Tourism

Tourism between Romania and Hungary became an important sector. Most of the foreigners visiting Hungary are from Romania. In 2004, a fifth (6922 thousand people) from the total number of foreigners came from Romania, thus overtaking the visitors from Slovakia, Austria, Serbia and Montenegro, Germany, Ukraine and Croatia. Close to 80% from the total figure of tourists visiting Hungary in 2004 came from these six countries and Romania. From the number of Romanian visitors in Hungary, 71,5% came here only for one-day visit, 19% spent from one to three nights here, whereas 9,4% four or more nights. Altogether 8,7% from the amount of one-day visitors traveled for touristic purposes (leisure tourism[14] – 385 thousand persons, business tourism[15] – 48 thousand persons). The rest of visitors only passed through Hungary or they came to do shopping here. From the number of tourists spending more days in Hungary almost half came for tourism, however, among these the number of visitors in transit is still high (Figure 11).

Figure 34 : The number of Romanian visitors in Hungary according to their travel destinations



Source: Table according to KSH data
Notes: többnapos látogatók: several-day-visitors, egynapos látogatók: one-day-visitors. Szabadidős turizmus: leisure toursm, üzleti turizmus: business tourism, vásárlás: shopping, átutazás: transit, egyéb: other

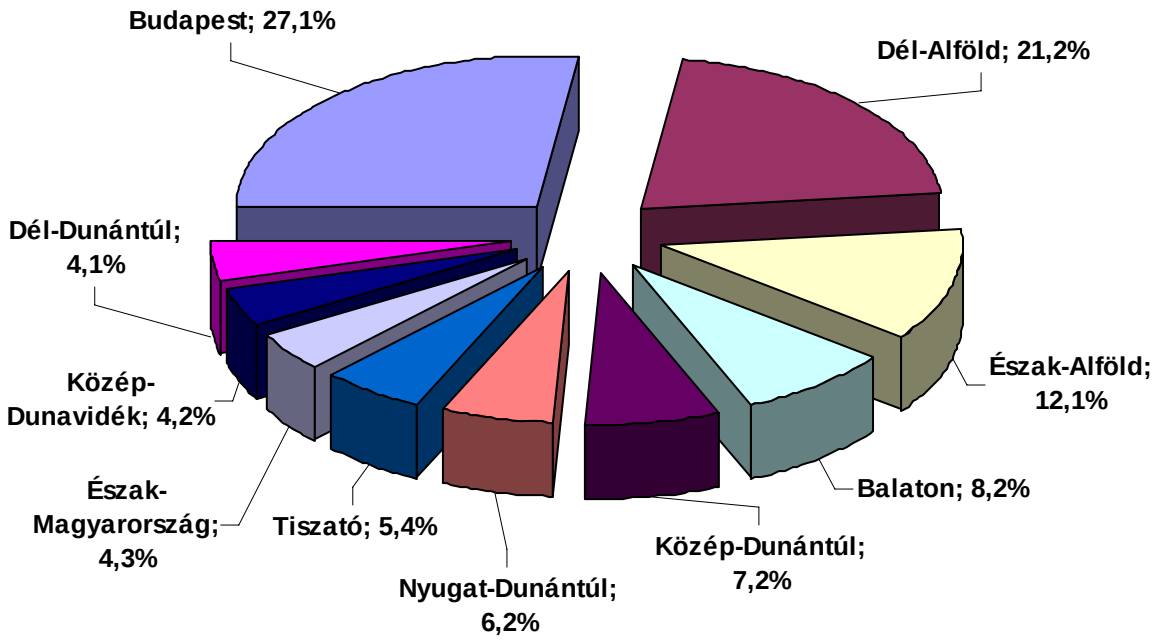
From examining the distribution of Romanian tourists visiting Hungary for several days according to tourist regions, it can be concluded that Budapest has been the

[14] Leisure tourism: holiday; round trip; sightseeing; hiking; visiting relatives, friends, acquaintances; medical treatment; wellness treatment; taking part to cultural and sport events; hunting; religious purposes.
[15] Business tourism: conference, congress; business trip; exhibition; market

most preferred destination. Nevertheless, the South and Northern Great plain regions at the border with Romania receive a significant proportion of visitors (Figure 12). On the other hand, the per capita daily expenditures of Romanian one and several- days visitors are quite low. In 2004, the 4,8 thousand forint expenditures were significantly behind the average of 8,4 thousand forint of the other foreign visitors in Hungary.

Romania is a preferred destination for Hungarian citizens, too. According to the figures, in 2004, on the second place after Austria, Romania received the highest number of Hungarian tourists (3286 persons). Nonetheless, this figure is less than half from the total number of Romanians coming to Hungary. The proportion of one-day visitors is 72,1%, out of which the majority certainly travelled to Romania for shopping and "petrol" tourism. Unfortunately, KSH does not provide detailed data on the motivations of travellers, but from experience it can be concluded that Hungarian tourists go to Romania for several-days visits for leisure tourism. First of all, they visit areas populated by ethnic Hungarians, especially places of interests and holiday resorts in Transylvania and the Székely region.

Figure 35 : The distribution of several-days visitors from Romania to Hungary according to touristic regions



Source: Own compilation on the basis of data provided by KSH

In addition to the above, Hungarian-Romanian relationships entail several other aspects, from cultural relations and twinning settlements to environmental cooperation. A series of treaties regulated the cross-border cooperation between

the two countries. Besides border control and patrolling agreements, a series of *state treaties* with direct impact on cross-border cooperation had been signed between Romania and Hungary. Among these, the *Hungarian-Romanian Comprehensive Agreement* (1997. yearly code XLIV.) is the most important, as it enforces the cooperation framework. The intergovernmental expert committees (i.e. the Committee concerning cooperation among minorities, the Committee concerning economic, trade and tourism - related cooperation, the Cross-border cooperation Committee respectively that for cooperation among local governments, the Committee for infrastructure, traffic, water and environmental management cooperation, etc.) set up in terms of the treaty the most important tasks. In other words, who is to work out and to monitor the cooperation between Hungary and Romania in "joint affairs".

Numerous bilateral comprehensive cooperation agreements have been and are enforced at the social economic level (i.e. the convention on multimodal forwarding of goods, the Hungarian-Romanian agreement on the protection of investments, diplomas issued by accredited research institutes, diplomas, official certificates and bilaterally recognized academic degrees, the Hungarian-Romanian cooperation agreement on privatization, etc). Among these, due to geographic conditions, the agreements on water management and environment protection receive special attention.

Cross-border relations

The fundamental framework has been defined on the grounds provided by the Hungarian – Romanian Border Rivers Convention signed in 1986 and by the Treaty on "Cooperation in regard to environmental protection" in effect from 2000. In addition, several agreements on water conservation have been enforced (i.e. the Agreement on the Flood Control, the Agreement regarding drainage, the Rule on the Exchange of Information, etc). In fact, the need for closer cooperation has arisen from the fact that the border line cuts in two the natural ecosystem (among which a great deal of ecological corridors) and that the two areas are connected through a network of surface – underground water systems (with numerous water flows across the border). Moreover, enhanced cooperation is justified by the existence of common surface and underground water supplies in the area, by the fact that the industry in the border region – especially on the Romanian side – is outdated and makes use of environmental-polluting technology. This entails high environmental risks, as for instance in the case of Tisza and its related tributaries which are regularly contaminated with cyanide and heavy metal residuals.

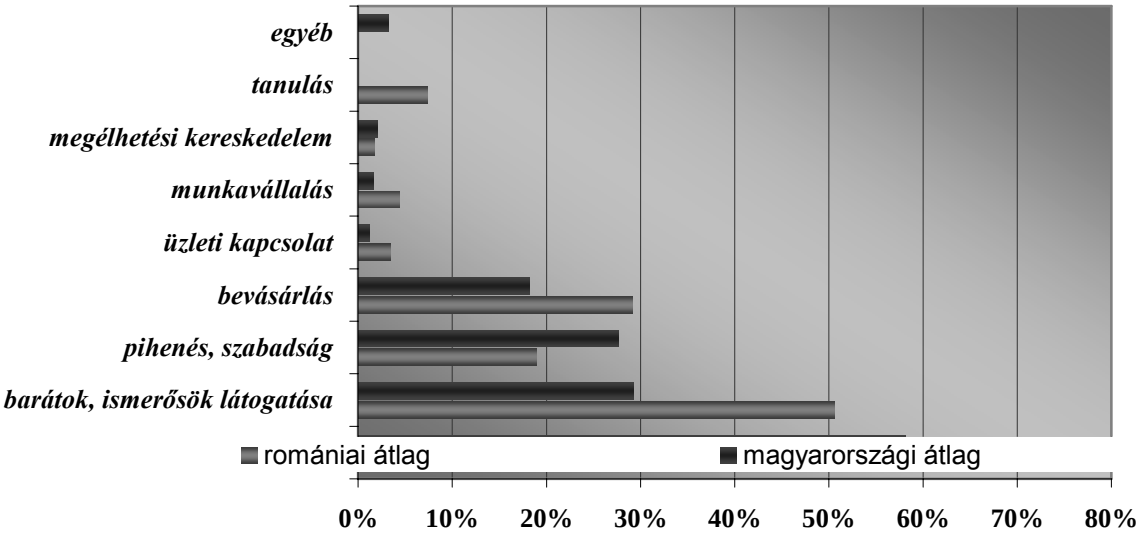
The establishment of *euroregions* in the 1990s as well as of new and smaller-sized euro-regional organizations and agencies significantly contributed to the

intensification of the cross-border relations. The Hungarian and Romanian counties along the border line share two large-scale, very diverse euroregions given their development and operational patterns: the Carpathians Euroregion and the Duna-Körös–Maros–Tisza Euroregion. The western part of the border line incorporates the Carpathians Euroregion – facing the Duna-Körös-Maros-Tisza Euroregion, in place from 1997 on. This has not been the result of a self-developing, "bottom-up" initiative but its framework has been enforced in connection with greater political objectives, in a "top-down manner". The Carpathians Euroregion has a "multinational" character. Oversized historical-territorial-ethnical and other sort of problems prevent the large organizations from working efficiently there. Once this has been acknowledged by local actors, they came to realize that smaller-sized and hereby more efficient Euroregional organizations should be created. Two organizations at county level are already in place: the Interregion, formed at the border between Romania-Ukraine and Hungary and the Hajdú-Bihar-Bihor Euroregion respectively. Moreover, the Bihar-Bihor Euroregional Organization has come into being on the two sides of the border, as merger of the associations created by the inhabitants of the Bihar and Bihor regions.

In addition, the *agreements between settlements* have a significant importance for cross-border relations. Among these, the most efficient framework in vue of daily, operational agreements is the twinning of cities (i.e. Nyíregyháza – Szatmárnémeti, Debrecen – Nagyvárad, Békéscsaba – Arad, Szeged – Temesvár). Many Hungarian settlements have a Romanian twin town. It can be nevertheless argued that these relations could essentially come into being due to the existence of Hungarian-Hungarian relationships. In other words, amongst Romanian settlements, the majority of partners are Hungarian. Consequently, we could distinguish among the cross-border relations on one hand those that render cooperation more operational and on the other hand most of the cultural relations existing between twin towns. Many Hungarian settlements are involved in such relations, whereas most of the Romanian towns participating in twinning projects are from the Székely region.

Frequent and diverse relations develop between the inhabitants of the very border region in particular. With regard to the nature of cross – border relations with the neighbouring country, Romanian and Hungarian respondents have equally placed personal relations (visits of relatives, friends, and acquaintances) as the most frequent motivation. Furthermore, both parties have emphasized the frequency of resting and leisure – related as well as of shopping- driven motivations (Figure 13).

Figure 36 : The nature of relations between the inhabitants of the settlements across the Hungarian-Romanian border (measured by their frequency)



Source: Data collected from a questionnaire-based survey, administered by Debrecen Institute of MTA RKK ATI
Notes: egyéb: other, tanulás: education, megélhetési kereskedelem: smuggling (?), munkavállalás: work, üzleti kapcsolat: business relationship, bevásárlás: shopping, pihenés, szabadság: recreation, barátok, ismerősök látogatása: visiting friends and relatives, romániai átlag: Romanian average, magyarországi átlag: Hungarian average.

A development concept and programme, with particular relevance to the Hungarian-Romanian cross border relations, was designed in September 2000. Its priorities were revisited in 2003. According to the main document entitled *The Development Concept and Program for the Hungarian-Romanian Cross-Border Region,* its objectives are formulated at the county level. The counties concerned from the Hungarian side are Szabolcs-Szatmár-Bereg, Hajdú-Bihar, Békés and Csongrád, whereas from the Romanian side Satu Mare, Bihor, Arad and Timis counties are included in the programme.

6.3.2. Forms of Cooperation Between Hungary and Serbia–Montenegro Before the EU Accession

The social and economic differences between Hungary and Serbia after 1990 are due to the different paths that systemic changes undertook. While Yugoslavia has been involved in a civil war (although a multi-party system has been also established there, the power was practically in the hand of the post-communist nationalists) Hungary started and - as the most relevant indicators show - completed the transition period to a market economy. .
As argued in the previous chapter, Serbia-Montenegro and Voivodina have been completely ruined by the war. The economy continued to be in a shattered state after 2000 and development is very slow. Transition is an ongoing process; the

country's social, economic situation is not stabilized yet. Unemployment level remained high, inflationary effect is strong, corruption is overwhelming whilst politics and cohabitation of nationalities are poisoned by nationalism. In spite of their pre-war dynamism, *the state of affairs in the border area with Hungary and Voivodina resembles this picture.*

The economic situation of Voivodina

Similarly to the general situation in Serbia, Voivodina is characterized by slow economic growth rate (in 2002 it was 2%), high unemployment, outdated technology, low competitiveness level, non-transparent legal regulation system and stagnating industrial production. In 2001-2002, Voivodina's economy was deeply confronted with stagnation in almost every economic sector. Import rates were higher than export ones and in August 2002 industrial production was less than half of the 1990 level. At the same time, territorial indicators are in many respects better than the indicators of Central-Serbia or the whole republic (Table 12):

Table 30 : Comparison of some economic indicators of Voivodina and Serbia

	Voivodina	Serbia	Central-Serbia[16]
2001-2002 industrial production growth (%)	2,1	1,7	1,6
2001-2002 wholesale trade turnover growth (%)	9,5	3,1	1,7
2002 per capita average real income (dinars)	10 480	8 742	9 208

Source: Socio-Economic Trends, 2002, 9.

27% of the active population is unemployed in Voivodina. Since 2001 on, the unemployment level has been growing with 10% (there are 500 thousand employed and 270 thousand unemployed persons). Factory bankruptcies are also frequent nowadays. Employment is in many cases (according to the estimations in the case of 200 thousand employees) translated by a formal or a minimal salary. The post- civil-war influx of Serbian refugees exacerbated economic stagnation, generating further unemployment (in 1996 the unemployment level was below 20%). Thus, in this regard the situation is worse here than in the case of Central-Serbia or of the whole country. While in Voivodina there are 123 unemployed persons to 1000 inhabitants, in Serbia this value is 101 and in Central-Serbia is 93. [17]

[16] Without Voivodina and Kosovo Autonomous Regions
[17] 31 December 2001 data

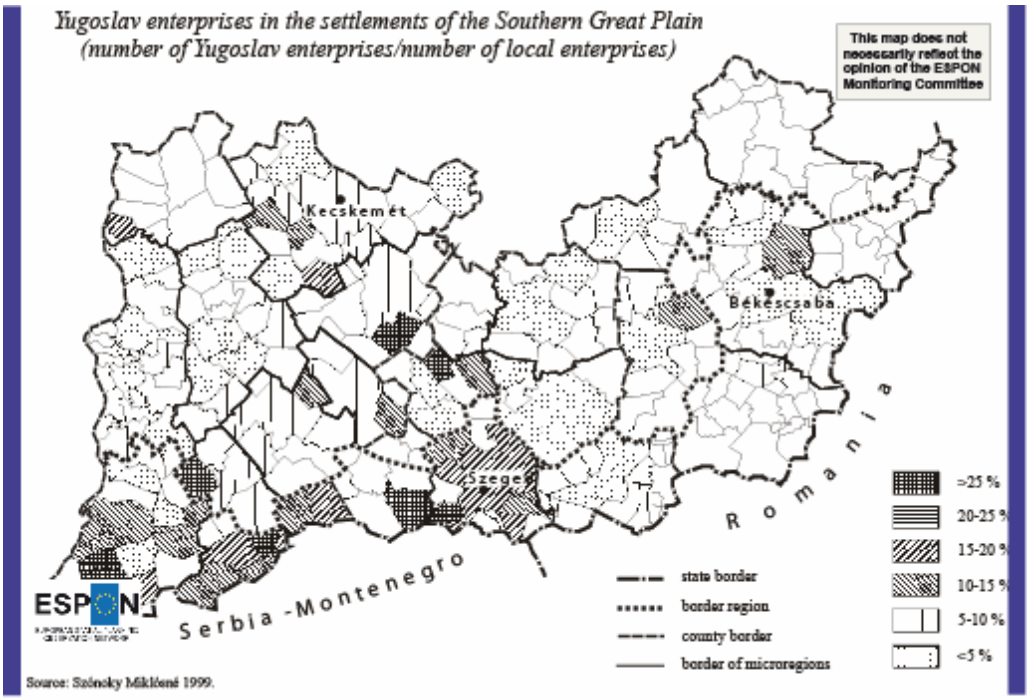
Cross border cooperation between Hungary and Serbia

Even though Voivodina is considered to be one of the most developed regions of Serbia, it is still quite backwarded in comparison to the areas at the Hungarian border. This area bears the ruinous consequences and aftermath of the civil war whereas in the southern Hungarian border area "only" signs of backwardness and very slow development are to be noticed.

Some words on the civil war period

During the civil war in the 1990s, fleeing ethnic Hungarians from Serbia, Serbs and other Yugoslav ethnic groups transferred significant wealth over the border, in Hungary. The number of Serbian enterprises has risen in the southern border region, strong migration processes have started, trade and other relations have been enhanced. Szeged became the central settlement of entrepreneurial capital investment. The refugees located their new enterprises near to the border, by this indicating their wish to return to the origin country. Only 15% of the capital investments were real, 85% of them consisted of fictive family enterprises with insignificantly subscribed capital.

Map 25 : Yugoslav enterprises in the settlements of the Southern Great Plains

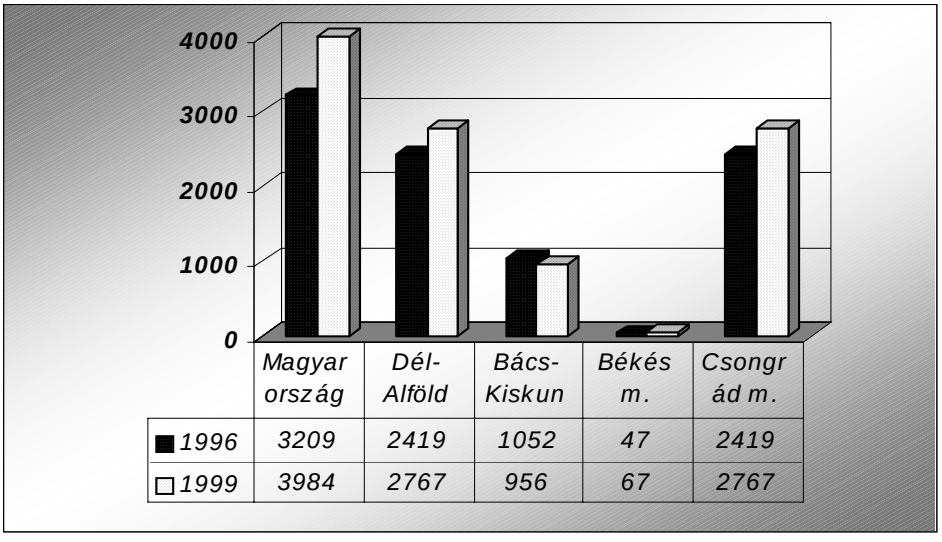


Wealth was transferred in the banks from Szeged at the end of the 1980s. Many people bought flats, which significantly pushed up flat prices in Szeged; others invested their capital in enterprises. During the 1993 immigration wave period, many enterprises came into being in the Bács-Kiskun County. In regard to Hungary's territory, the Szeged–Kecskemét–Budapest axis became especially attractive for investors (Figure 14).

After the war

At present, Hungarian entrepreneurs are highly reluctant to invest in Voivodina or in other Serbian territories. Since 2001, some 140-150 investments have been registered in Voivodina. Hungarian SMEs mainly opened branches there by establishing joint ventures with local partners. Hungarian firms often look there for work partners that could use the significantly cheaper Serbian labour. The presence of Hungarians in Voivodina is favorable to Hungarian investors as they represent cultural and information capital for them; their language skills and local knowledge facilitate the Hungarian intrusion into the Voivodina market. In the communities led by Hungarian local governments Hungarian firms can count on the local governments' political support. Moreover, they enjoy certain economic benefits by cooperating with local Hungarian entrepreneurs (Figure 15).

Figure 37 : The situation of the Yugoslav enterprises in the counties of South Great Hungarian Plain (1996-1999)



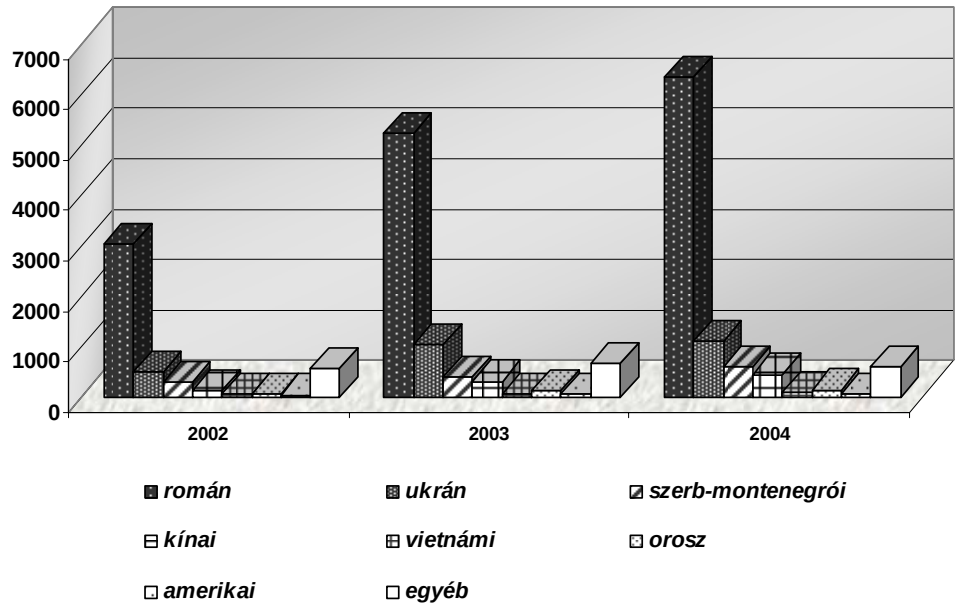
	Magyarország	Dél-Alföld	Bács-Kiskun	Békés m.	Csongrád m.
1996	3209	2419	1052	47	2419
1999	3984	2767	956	67	2767

Source: CD Céghírek (Firm news) 1996, 1999.

Migration

Political tensions, fleeing away from the capital and family unifications[18] significantly contributed to the migration processes. These processes have mainly been a feature of the first half of the 90s, however, they are still ongoing. Figure 16. illustrates migration processes in the first years of the new millennium, analyzed on the basis work permits, settlement permissions and the naturalization processes. The current share of immigrants from Serbia-Montenegro is significantly lower than in the 90s, yet there is a slightly growing tendency.

Figure 38 : The evolution of the residence permits' number according to citizenship (2002–2004)



Source: Office of Immigration and Nationality, 2004

Notes*:* roman: Romanian, ukrán: Ukrainan, szerb-montenegrói: Serbian, kínai: Chinese, vietnámi: Vietnamese, orosz: Russian, amerikai: American, egyéb: others

Economic relations with Hungary

Yugoslav-Hungarian and cross-border economic relations had been very lively before the change of the system. During this period, the reclusive policy of the socialist countries was mitigated by the so-called "small border traffic"[19], very prolific at the beginning of the '80s. In the trade sector, the department store cooperations[20] were in favour of a higher export-import rate, and their primary aim was to diversify the product offer.

[18] The male family members abroad aimed at family reunification.
[19] The border area population's freer traveling, border crossing were made possible by an interstate agreement.
[20] It was not an accepted socialist solution; the corporations generally were not authorized to directly cooperate.

Under the cooperation framework of the food processing industry, Hungarian sugar beet and soy bean productions were also processed in Voivodina. In the '70s and '80s, cooperations were set up in the milk industry, meat industry, plant improvement and in the field of seed grain production. Moreover, relations between agrar experts supported the experience exchanges launched at the higher education level and in the seed grain producing institutions (Bácsalmás). Seed grain production and research carried out in the Agricultural Faculty of Újvidék University were opened to Hungarian producers until the mid-'80s.

In other words, a dynamic division of labour remained in place until the beginning of the 90s. On the other hand, inter-institutional and interpersonal relations extensively developed. At that time, Yugoslav firms had better relations on the global market as technology and product development had been in place in Voivodina earlier than in Hungary. There was a significant rate of "shopping" tourism, but of real tourism too. Although in a quite formal way, the process of twinning settlements also started at the time. In addition, contacts were initiated and developed between economic organizations too.

The dynamic relations that had existed before the systemic change have been disrupted by the civil war when Yugoslavia disintegrated. As currently incurring sanctions, the small economy of Yougoslavia has been not able to establish significant economic and trade relations so far. These relations show an upward tendency only since 2000 on. But opportunities are open in the region; the "relations/connections" capital could be immediately activated under favorable circumstances (e.g. the Kunbaja producers buy the seed grains from the mentioned Újvidék research institution).

Since 15 August 1996, ambassadorial relations exist between Hungary and Serbia-Montenegro. There is an embassy and trade agency in Beograd and a foreign economy attaché in Subotica/Szabadka.

Several important bilateral agreements have been signed between the two countries:

- Total visa exemption agreement (27 April 1967);
- The most favored nation status ensuring economic and trade agreement (1996);
- Agreement aiming the avoidance of the double taxing; Investment protection agreement (20 May 2001);
- Bilateral free trade agreement (7 March 2002)[21].

Although bilateral trade relations were enhanced since Autumn 2000, no significant results could be registered. Moreover, the implementation of the free

[21] Business2Hungary.yu, Hungarian Investment and Trade Development Agency Our bilateral economic relations, http//www.business2hungary.hu/.

trade agreement and of the so-called 'six points economic package[22]' is quite slow.

The cooperation forms between the enterprise development foundations, firms, commerce and industry chambers, and by different exhibitions, fairs, business people meetings[23] organized by the county and local governments contributed to the strengthening of cross-broder economic relations. In spite of the differences between the Hungarian and the Serbian Chambers, they can still significantly assist in the enlargement of direct corporate relations, in the mutual participation to exhibitions and fairs, in the organization of cross border business meetings and in the exchange of information.

The target areas of cooperation are commerce, wood industry, food processing industry, confection industry, furniture industry, and business consulting. As a result of cooperation, it is worth mentioning the setting up of the Cross Border Coordination Working Committee; it coordinates the work of regular chamber meetings, the mutual fair participation and the business meetings.

Hungarian direct investment

Cooperation possibilities and expectations are much higher than the actual involvement of the Hungarian capital in the Serbian economy. In fact, the Serbian party suggested that the Hungarian government should send experts to the Serbian Ministry for Economy and Privatization, in order to promote participation to privatization programs[24]. An agreement was signed by the General Consul of Szabadka and the Economic Chamber of Zombor district, aiming at the higher participation of Hungarian investors to the privatizations in Voivodina. Accordingly, the Zombor economic chamber will provide on-line information regarding the district's economic possibilities and the firms to be privatized[25].

[22] - free trade agreement
- energy systems' cooperation
- SMEs credit guarantee based support
- Building of the Budapest-Beograd motorway
- participation in the reconstruction
- tourism cooperation

[23] East-West Expo, Farmer Expo International Agricultural and Food Processing Industry Professional Exhibition, Csaba-Expo

[24] Meetings on the Hungarian enterprises' participation in the Serbian privatization Magyar Szó (Hungarian Word) 7 December 2002

[25] Visa requirement and economic relations Magyar Szó (Hungarian Word) 7 December 2002

Commerce

The free trade agreement between Hungary and Yugoslavia came into force on 1 July 2002. According to this agreement, Hungary contributes to the temporary insurance of certain, one-side advantages in connection with the elimination of customs; this is the first such agreement, when Hungary accepts certain asymmetry in the benefit of the other party. Concerning Yugoslavia, this is the first free trade agreement which was concluded in line with the norms of the World Trade Organization (WTO). The evolution[26] of bilateral trade in the last two years is illustrated by Table 13.

Table 31 : The evolution of the bilateral trade 2001–2002

Year	Trade turnover (million USD)	Hungarian export into Yugoslavia (million USD)	Increase of the Hungarian export (The same period of the previous year=100)	Hungarian import from Yugoslavia (million USD)	Increase of the Hungarian import (The same period of the previous year =100)
2001	258,6	194,0	109,5	63,0	106,9
2002	350,0	224,5	115,0	66,8	120,6

Source: HCSO[27] Foreign Trade, 2002. 12. 5/b
Foreign trade turnover concerning the relatively important countries
www.ksh.hu/pls/ksh/docs/hun

In 2001 Hungary was on the eighth place in regard to Yugoslav exports. As far as imports are concerned, it was on the fifth position, with significant Hungarian bilateral foreign trade surplus[28]. As for Hungarian export, the share of processed products is the largest, but food, beverages and tobacco are significant Hungarian export items too; Serbia-Montenegro mainly exports products processed in Hungary. Following the free trade agreement, the barter turnover between the two countries increased, thus *reaching the pre-war level*. It is difficult to objectively judge the role of the free trade agreement in the upswing of the foreign trade as the normalization of bilateral relations contributed to the development of trade independently from it. Contrary to the desired pace of bilateral relations, several unpleasant circumstances prevented potential Hungarian partners from initiating contacts. The cautiousness of Yugoslavia towards Hungarian entrepreneurs is justified because of the relaxed paying attitude, backed by the current state of the economy and the events of the

[26] Concerning the relations with Hungary, the trade between the Voivodina and Hungary grew 18% between 2001 and 2002 due to the effect of the free trade agreement.
[27] Hungarian Central Statistical Office
[28] IMF, 78–79.

previous years. The economy is characterized by mutual indebtedness of enterprises, no remedy has been found to it so far whereas it is only made more difficult by the restrictive financial policy. Cash or ready-made transactions dominate the foreign trade. Open transportation, delayed payment, application for product credit without bank deposits are not offered. The indebtedness, the lack of financial assets makes highly risky the collection of non-paid accounts, products and services. In case of a product bought in Serbia it is mandatory to avoid advance payment because of the "product elimination" risk. The collection of the expired claims via legal means is quite uncertain too. Due to the uncontrollable character of corporate transformations and financial channels, the payment of debt is questionable in the implementation phase as well. Transportation and technology discipline are insecure and unreliable, the custom procedure is slow and complicated and there are problems with the property registry (this latter is significantly better in Voivodina than in Central Serbia)[29].

Education

During the 90s, but mainly since 1993, in the hope of a more secure education, high school pupils and university students went to study to Budapest, Szeged or other centers where it was possible to get specialized education (wood processing high school, horticultural high school, actor training high school). The education-driven migration reached its peak between 1992 and 1995, and another intense period was around 1999, during the Yugoslavia NATO attacks. However, die to the economic and politic difficulties, this process is still ongoing.

From Yugoslavia's point of view, the unprecedented higher education relations have been established during the most difficult times of embargo. Although there is a symbolic and formal-like cooperation between Szeged University and the Natural Science Faculty of the Újvidék University, the Zenta - based distance education center at the Horticultural Engineering Faculty of Saint Stephen University is much more significant for practical reasons. Through this connection, 80 horticultural engineers from North-Bácska got degrees and remained in Voivodina! The local branch of the Technical College from Gábor Áron University similarly operates in Szabadka and recently a SZÁMALK local branch opened in Topolya.

As a result of cooperation in the higher education field, it could be mentioned that students from Hungary-based university and colleges could organize their summer training in Voivodina too, starting with the summer of 2000.
The following table (Table 14.) refers to, amongst others, the 2005 share of the students arriving from Serbia.

[29] Interview with András Pallos

Table 32 : The number of the foreign students arriving from the neighbouring countries in every faculties (persons)

Country name	Higher level vocational training	Colleges	Universities	Professional further education	PhD, DLA	Total
	Number of students					
Austria	1	14	8	5	4	32
Croatia	3	32	168	13	9	225
Romania	13	1 647	1 001	122	281	3 064
Serbia-Montenegro	0	601	469	8	17	1 095
Slovakia	5	1 223	1 115	37	67	2 447
Slovenia	0	14	18	1	2	35
Ukraine	5	662	437	10	58	1 172
Total foreigners	28	5 016	7 049	240	580	12 913

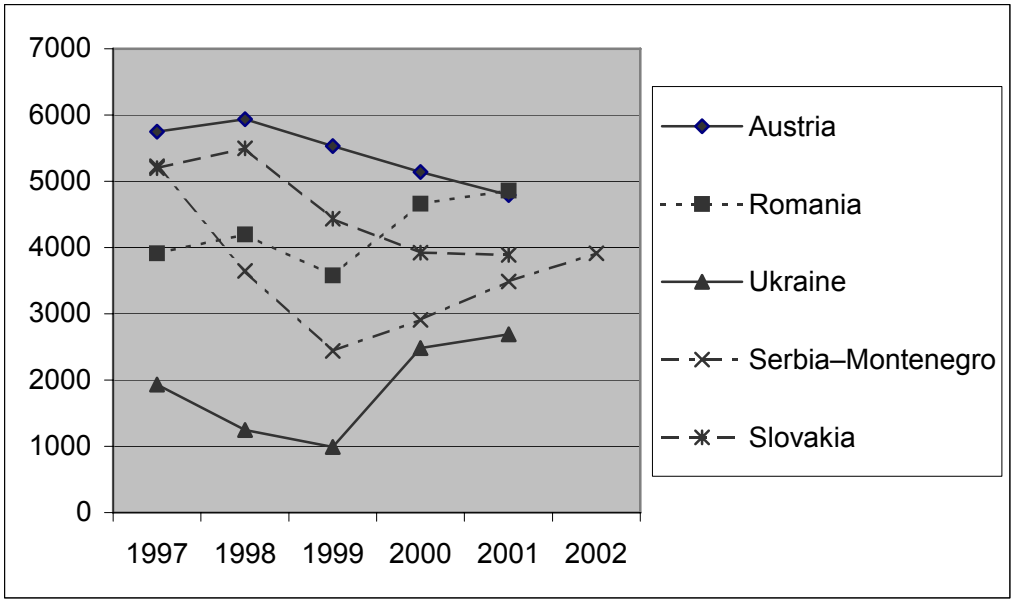
Source: data of the Ministry of Education

There is a continuous health care migration from the Hungarian inhabited Voivodina areas, i.e. the Voivodina people travel to Szeged to get specialized private treatment.

Tourism

The former Hungarian inbound tourism from Serbia, which mainly meant the mass arrival of the Voivodina people to the Hungarian spas, the Lake Balaton, Budapest, completely collapsed (1992–93). This is due to the change of system and the transition to a market economy, following which prices increased and Serbian economy found itself in decline. Only "shopping" tourism reappeared after the Serbian change in 2000, however there is a slight increasing tendency in other tourism branches as well. Transit tourism stayed alive during the 90s whereas education tourism is also significant. The structure of visits underlines this fact as well. In the first part of 2005 the share of one-day stay (transit tourism) was 81% while the share of stays over 2-3 days was minimal. The number of nights that visitors spent (in the first half of 2005) was 47000, indicating a 13% increase in comparison with the same period of the previous year (Figure 17).

Figure 39 : Number (thousands) of the arriving tourists from the neighbouring states



Source: HCSO

Water management and environmental protection

Water management relations, re-opened in 1955, contributed to the development of more intensive and fair cooperation forms. The number of water management organizations engaged in cooperation programs went up. In fact, it is indispensable to ensure continuous cooperation in view of fulfilling the professional requirements (the effective flood control and catastrophe protection presumes cooperation).

In the field of *environmental protection,* the Kiskunság National Park Directorate and the (Serbian) Voivodina Nature Protection Institute attempt to establish cross-border cooperation, with particular emphasis on concerted management of Szabadka forests and the Körös-ér Landscape Protection Area.

Regional, settlement cooperation

During the years after the change of system in Hungary, the Yugoslav-Hungarian *cross border cooperation* has been exclusively handled in the form of relations between settlements. This has been due to the absence of a proper "middle level" from the Yugoslav public administration. However, the local governments of *Bács-Kiskun and Csongrád counties* maintained relations with the Zombor and Szabadka municipal governments. Although these relations were restricted to a formal level during the 90s, they became more vivid in the context of regional cooperation carried out between Szabadka–Szeged and the Zombor–Baja regions. The Hungarian villages on the Serbian side (Ada, Becse, Bácstopolya, Magyarkanizsa, Zenta and newly Törökkanizsa) set up significant contacts as well. The twin-town relations between smaller settlements are more or less restricted to cultural and sport activities.

The Voivodina Autonomous Region (VAR) is a member of the Danube–Körös–Maros–Tisa Euro region since 1997. Its greatest achievement was to assure full membership status for Szabadka city in this organization, in addition to the VAR membership.

In line with the Euroregion development strategy, closer cooperation of the region's member counties is enhanced. However, this cooperation could be made more effective through developing communication strategies (border crossing points, public roads, regional information technology) and through European economic development methods (incubator houses, innovation centers, industrial parks). The reopening of the former Szeged–Temesvár–Kikinda railway as well as the assurance of the navigability on Béga and Temes Rivers are taken into account. In the context of the cross border regional development cooperation, in 2003 in Moravica an initiative was launched for the establishment of the Kunbaja–Bajmok Industrial Park and Logistical Center.

The readiness for cooperation is well proven by the existence of the border-related regional development concepts and strategies. Among the Hungarian documents there are direct references to this aspect e.g. in the *South Great Hungarian Plain Regional Development Strategy, Csongrád County Regional Development Strategy*[30]as well as from the Serbian side in the *Serbian Land Use Plan*[31] and the *Voivodina Economic Development Concept*[32]. The *Upper-Bácska and North-Voivodina Cooperation Program* as well as the *DKMT Euro region Development Strategy*[33] are made possible with the participation of both states' experts. All documents underline the importance of cooperation, emphasizing the significance of traditional economic sectors' (food processing industry, seed grain production and trade) and the new EU forms and opportunities for cooperation (industrial parks, establishment of incubator houses).

The success of cooperation is also acknowledged in the 80 PHARE CBC – where participants with small projects signed in , as in this case the fundamental application requirement was the involvement of Voivodina partners. All successful applicants had Zombor, Bajmok, Zenta-based partners. There were nearly 450 applicants for the 2005 Neighborhood Program applications (INTERREG III A - CARDS[34]). In spite of the relatively small amount (2 million EURO) available, the great responsiveness of applicants proves the viability of these renewed connections (economic, chamber, self government, and research institutes related fields).

[30] MTA RKK ATI (Great Plain Research Institute of the Center of Regional Studies of the Hungarian Academy of Sciences) Békéscsaba Group , 2000
[31] Prostorni Plan Srbije, 1996
[32] GTZ, 2003
[33] MTA RKK ATI Békéscsaba Group, 2005

[34] CARDS-program – *Community Assistance for Reconstruction, Development and Stabilization* – It is related to Albania and the Yugoslav successor states

6.4 How does Romania relate to Hungary after its accession to the European Union?

From 1 May 2004, Hungary became member of the European Union and thus the only neighbour of Romania with communitarian status. This paper discusses how Hungary's accession to the EU affects relations between the two countries.

Bilateral relations have always evolved against the backdrop of disputes concerning the situation of the large Hungarian minority in Romania. However, Hungary's recent EU membership sets the traditional topics of this debate in a broader European context and raises new challenges. This paper argues that Hungary's accession in the EU did impact the relationships between the two countries. Since 1 May 2004, the two post-communist countries addressed mutual problems not only from a strict neighbourhood perspective but mostly in the light of Hungary's already EU membership and Romania's candidacy respectively.

My main argument is that the status differentiation (EU member vs. EU candidate) had a maturing effect on bilateral relations, in the sense that issues of common interest were approached with a higher degree of responsibility and European awareness. This status differentiation contributed at leaving behind past tensions and opening up new channels of dialogue and cooperation. At the same time, Romania could indirectly experience the immediate effects of the EU accession and acknowledge various changes that European integration brings about.

Political developments: leaving behind conflicts of the past, focusing on future challenges

Even though Romania and Hungary have been solidary in their efforts towards European integration in the past 15 years, the different perceptions of the status of the Hungarian minority living in the north-west part of Romania (Transylvania) generated sometimes critical moments in the bilateral relations.

Soon after 1 May 2004, relations between the two countries witnessed a critical moment: Hungarian officials proposed that regional autonomy for Hungarians in Transylvania should become a pre-condition for Romania's accession to the EU. Without having any direct impact on the rapports of Romania with the EU, the statement made a few eyebrows raise in Bucharest. Regional autonomy counts as the highest grievance of the Democratic Union of Hungarians from Romania (DUHR). Even though enlarged minority rights have been conceded in the last 15 years, successor Romanian governments failed to confer regional autonomy proper to Hungarians in Transylvania. In the light of this state of affairs, Romanian political class qualified Hungary's usage of authority derived from the

EU membership as a tactless interference in the internal affairs of an EU-candidate with a large Hungarian minority. Moreover, the declaration did not match the external policy line promoted by the Union itself. As the commissary for enlargement Olli Rhen repeatedly stated, to confer or not regional autonomy is a matter of domestic politics, to be solved internally by each member or candidate country (www.divers.ro, no. 40 (186) 4 November 2004, 26 (218)/7 July 2005; http://www.hatc.hu/editorspicks.php, www.bbc.co.uk/romanian).
Further burden has been put on bilateral relations in autumn 2004, when a referendum was called in Hungary on dual citizenship for Hungarians outside Hungary's borders. The referendum held in December and soon after the Romanian general elections, provided ground for heated discussions both in Hungary and in Romania. The referendum was declared invalid due to low turnout. It nevertheless revealed a complicated anatomy of relationships between the two countries, in connection with the grievances and envisaged migration trends of Hungarians from Transylvania. As its representative, DUHR officially voiced the will of the Hungarian minority to enjoy double citizenship, thus having unrestricted access to the space and market of the European Union. On the other hand, as a major actor of Romanian domestic politics, DUHR is nevertheless aware that by supporting the dual citizenship it may jeopardize its own interests in the long run: if dual citizenship is enforced, a high number of Hungarians from Transylvania could relocate to Hungary/EU, therefore the electoral basin of DUHR could be seriously affected and the political stakes of the union endangered.

While it still remains an open question, there is however reason to hope that despite these temporary setbacks, with the change of prime minister in Hungary and a newly elected government in Romania, relations will by and large continue to evolve in a positive, friendly manner. In early 2005, the recently appointed Hungarian prime minister stated in the course of bilateral talks held in Budapest that Romanian internal issues such as "regional autonomy" are to be exclusively addressed by UDMR, the official representative of Hungarian rights in Romania. In the course of several bilateral meetings held in 2005, both Hungarian and Romanian prime ministers called for European "compromise solutions" to matters of mutual interest and stated that both countries should primarily focus on a common future and leave the cumbersome legacy of the past behind.

Migration trends in Hungary and Romania after 1 May 2004

As its living standards have been approaching the Western ones, Hungary became an attractive target for work and residence. Moreover, the country is considered to be a "tampon zone", an interface between the rich West and poor East. The Hungarian minority from Transylvania is the main pole of migrants from Romania to Hungary.

In this regard, Endre Sik, director of the International Center for Research on Migration and Refugees argues that "with the exception of ethnic Hungarians from neighbouring countries, almost no one else speaks Hungarian and this is a sort of natural system of defense against economic migration" (**http://www.bbc.co.uk/romanian/news/story/2005/05/050530_trailer_arena_dunare.shtml**). The presence of Hungarian minority in general and the Hungarian minority from Romania in particular, in the overall migration towards Hungary is quite obvious if we consider the data disclosed by the Office of Immigration and Nationality of the Hungarian Ministry of Interior in respect to 2003. The number of foreigners having immigration permit to Hungary by 31 December 2003 was nearly 100 000. Nearly 60% of these permits (exactly 57 847) was issued to Romanian citizens (Király András, '*Migration problems and minority rights in Europe',* Government Office for Hungarian Minorities Abroad,http://www.goethe.de/ms/buk/archiv/material/Migration/KiralyTheHungarianapproachFinal.doc). Mr. Egyed Zoltan, director of the Immigration Office of the Ministry for Domestic Affairs argues that 48 000 applications for residence visas were handed in only in 2004. Three quarters of these applications were also in connection to getting a work permit (BBC Romanian, **http://www.bbc.co.uk/romanian/news/story/2005/05/050530_trailer_arena_dunare.shtml).**

As EU member, Hungary became in 2004 gateways to the world's largest economic market and the rise in illegal migration on its eastern border was inevitable. For this reason, the European Union had thought reasonable to introduce careful and strict regimes for entering its territory to filter out 'unwanted guests' already from November 2003. Thus, as a preliminary step towards its integration in the EU in May 2004, Hungary adopted the Schengen border regulations in regard to Romanian citizens. Before this date, Romanian citizens could renew every month their staying in Hungary, fact which led to an exodus of Romanians seeking work and residence abroad, often through illegal means. Since November 2003, Romanian citizens are allowed to spend without a visa 90 days in 6 months on the territory of Hungary.
Given the large Hungarian minority from Romania, the adoption of the EU border regulations created new challenges to be met. How could Hungary comply with the strict EU regulations concerning access to the EU territory and simultaneously follow its own priorities regarding the flux of Hungarians in and out of Hungary (Király András, '*Migration problems and minority rights in Europe',* Government Office for Hungarian Minorities Abroad, http://www.goethe.de/ms/buk/archiv/material/Migration/KiralyTheHungarianapproachFinal.doc)? Hungarian minorities from abroad regard Hungary as their kin-state and are in favour of enjoying more subsequent privileges. On the other hand, as an EU member, Hungary has to enforce strict border regulations against

illegal migration, which can often conflict with its identity-preserving policies towards Hungarians abroad.

The effects of enforcing the EU border regulations could be experienced without delay. The provisions mainly aimed at cutting down the number of illegal immigrants to Hungary and other EU countries by initiating more thorough control of passengers at the border, closer examination of the valid visas, a better tracking down system at the Romanian-Hungarian border control points. In fact, once Romania would reach full EU membership, it will become itself a "tampon zone" between the farther east and the west of the continent and will have to deal with the same frontier issues as Hungary at present. (Judit Juhász, "Hungary: Transit Country Between East and West", at: http://www.migrationinformation.org/Profiles/display.cfm?id=181). On the other hand, these regulations made it harder for Hungarians outside Hungary to keep contacts with relatives and friends inside Hungary, as the number and duration of visits became more limited. In the long run, the newly enforced measures could entail some psychological effects of those ethnic Hungarians who feel that the door of possibilities is being closed in their face.

Consequently, Hungary made attempts to further shape its migration policy along the lines of EU requirements as an international obligation but at the same time not to destroy the network of manifold relations with Hungarians living outside its borders. For instance, in order to counterbalance the failure of the referendum on double citizenship, the Hungarian state introduced, effective from March 2005, "national visas" for citizens from neighboring countries, i.e. multiple entry visas for a period of 5 years. These visas are intended to help preserve the identity of ethnic Hungarians beyond the borders without however, automatically conceding to them the right to work in Hungary (BBC Romanian, 06 Ianuarie, 2005 - Published 16:46 GMT).

Enlarged regional cooperation within an European framework

Intensified programs of regional cooperation and border management have been already envisaged by Hungary and Romania in accordance with general European policies. As previously argued, Hungary acts as a "buffer country" between the EU space and the non-EU countries. Its border with Romania became external frontier of the European Union and serves as a filter to prevent illegal immigration into the EU.

Romania's own capacity to ensure efficient border management is a key area of concern for the European Union, as the country aims at full membership in the bloc on 1 January 2007. When Romania joins the EU it will manage more than 1500 km of the enlarged Union's external border and Brussels has interest in making sure that Romania could fulfil this role. "It should be able to prevent the illegal trade in goods and people, without erecting a new iron curtain between the EU and the countries which will be left outside the enlarged Union", explains Jonathan Scheele, the European Commission's chief negotiator in Bucharest (Story from BBC NEWS: http://news.bbc.co.uk/go/pr/fr/-/1/hi/world/europe/4110754.stm, Published: 2005/06/21, 15:35:19 GMT).

In addition to being able to act as a filter against illegal migrants and products from countries such as Moldova and Ukraine towards the EU, Romania has also the duty to make sure that its own citizens do not abuse the right to free circulation within the Schengen space. In 2004, the border police managed to stop more than 1.5 million Romanians from traveling to the EU, but the filter is not perfect. One of the reasons is corruption among some border police, who is ready to accept money in return for turning a blind eye to irregularities in the travel papers of fellow Romanians.

The Romanian border police chief argues that this is a "particular concern" on Romania's western border with Hungary, now EU member. Such an incident caused by corruption and mere incompetence took place in March 2005, when several coaches with more than 200 Romanian citizens on board were refused entry to Spain, motivated by lack of valid travel documents. The Arad Border Police was found guilty, as it failed to check that passengers have valid passports, hotel bookings, return tickets and enough money for their journey. "Everybody is allowed to make a mistake once", said European Commission's chief negotiator in Bucharest. "But it shouldn't happen again, because it would undermine confidence in Romania's ability to control its border with Hungary, hence with the EU". Should Romania not register considerable progress at the chapter of frontier security, its EU entry could be delayed with one year till 2008.

However, progress has gradually been made and common strategies of border management as well as various projects of cross-border cooperation between Hungary and Romania have been launched. According to the Trans-Border Cooperation Program 2004, signed on 8 April 2005, the CBC program Romania-Hungary has a budget amounting to some 5 million EUR from PHARE funds and some 1.58 million EUR from Romania's budget. The CBC programs incorporate Romania's western and Hungary's eastern parts. The funds are mainly being allocated for projects of infrastructure development between Romania and Hungary, promotion of tourism and environmental protection.

Cooperation with Hungary in the environment field is now very efficient, and the bilateral relations are developing at a fast pace, Hungary's Minister of Environment and Water Miklos Persanyi said. "Environment protection has no boundaries. No country can have a clean environment, unless its neighbour is concerned with the same aspect. We depend on each other," the Minister added (Mediafax, http://www.roinfocentre.be/media_news_358.asp). Moreover, according to Magdolna Kalapati, Head of the South Great plain Regional Office of the National Agency for Regional Development in Hungary, 18 economic development and infrastructure projects will be financed within the framework of the PHARE CBC program (Bucharest Daily News, http://www.roinfocentre.be/media_news_224.asp) in the near future.

Broader forms of future cooperation between the two countries are directly facilitated by the infrastructure projects carried out in the western part of Romania. Building at least one motorway that could link Romania to the major European traffic corridors is first priority for the country, given its speculated accession date to the EU in 2007. However, it has been a much disputed and politicized topic as to which route the motorway should cover and how should its building be financed.

In the late '90s, on the occasion of the European Conference for setting the Pan-European transport corridors, Romania took the responsibility to build up the fourth Pan-European corridor, cutting its way from Romania's western to the eastern border: Arad - Timisoara - Sibiu - Rimnicu-Vilcea - Pitesti - Bucuresti, Constanta. The project is to be financed from European structural funds, disposed through the European Investment Bank. Its works have actually started and some financing channels have been already activated. However, the Nastase government (2000-2004) decided to initiate works for a new motorway, cutting through the middle of Transilvania, from Brasov to Bors, at the expense of continuing works for the "IV Pan-European corridor".

This other motorway has a much better coverage of the region inhabited by Hungarians, hence its emphasis on the political agenda of the Democratic Union of Hungarians from Romania (DUHR). The motorway construction works were commissioned to the American company "Bechtel". Two main objections were voiced in connection with this contract: apparently the project was commissioned to Bechtel in the absence of a public tender, and at odds with the interest of some European bidders; secondly, all construction costs are deducted from the state budget, which poses additional burdens on the Romanian tax-payers. The "Bechtel highway" was a constant topic of dispute in the electoral campaign of 2004. After the new government PNL-PD came into power, works have been stopped in the first months of 2005 and only 213 million EUR (instead of 500 million EUR) construction costs have been allocated from the state budget for

2005.(**stiri.acasa.ro,** 30 May 2005, 09:59 am, „Doua variante pentru legatura cu Occidentul").

The incumbent government has clear-set objectives: "If Romania wants to pose in a serious country and the current government in a credible institution, then we need to respect certain European engagements" stated prime-minister Tariceanu (http://www.expres.ro, 11 July 2005, „Autostrada se muta de la Cluj la Sibiu"). At present, the works at the "IV European corridor" are given priority but the building up of the Bechtel highway will also continue, even though at a slower pace.

To choose the routing of the motorway linking Romania to Europe is in fact a political decision. The topic stirred some debates within the current governing coalition. DUHR is unmistakably in favour of the "Bechtel" project, as developing the road system in the middle part of Transylvania, where most Hungarians live, is a necessity. Such a motorway would directly link Hungarian communities from there to Hungary and to EU further. Regional advantages are significant: it would be a clear incentive for Hungarian investors to startup new trades, relocate and intensify already existing businesses in the western part of Romania, inhabited by their co-ethnics.

On the other hand, building up the motorway along the "IV European corridor" has its own advantages. The connection with European traffic corridors and international economic exchanges is anyway made through Hungary. Additionally, it seems that Hungary itself has plans to build a motorway up to Szeged - Nadlac, giving priority to the European corridor as well (www.cotidianul.ro, 29 May 2005). It follows from here that this route would connect not only the west of Romania with Hungary/EU but also the country's south-eastern regions. It therefore provides stronger incentives for a larger category of European investors, interested in setting the foot in Romania, anywhere from Transylvania to the Black Sea. In other words, building the motorway in accordance with the IV corridor would enhance the economic attractiveness of Romanian regions both at a regional and wider European scale.

Economic consequences of Hungary's accession to the EU for Romania

Hungary's integration in the EU created important economic opportunities for Romania but also highlighted certain difficulties and threats having mainly to do with the implementation of common European market policies.

During the period 2000-2004, Hungary's business figures from trade with Romania amounts to 2.113,6 million dollars. Cars, electronic devices and high tech products are the bulk of Hungarian exports to Romania. In exchange,

Hungary imports from its Eastern neighbour garment products and accessories, mechanical devices, paper, furniture, etc. (www.cotidianul.ro, 23 January 2005).

An analysis regarding the regional distribution of foreign investments in Romania in the last 14 years shows that Hungarian investments had mainly been focused in the north-west and central part of the country. The Hungarian company MOL has been reported as the biggest investor in the area, with some 104 million dollars invested in the purchase of the petrol distribution company in Cluj/Kolozsvár.
(http://webzter.ro/resurse_investitii_straine_prezentare_zonala.php). At the end of November 2004, the export of Hungarian capital to Romania summed to 345, 08 million dollars (the real value of investments amounted to 720 – 740 million dollars) through some 4.948 Hungarian functional companies. At the same time, it is worth mentioning the presence of Romanian capital in Hungary, summing up 50-55 million dollars through some 6 010 companies with Romanian capital. The largest Romanian investor is SN Petrom, with a social capital of 17 million dollars (www.**cotidianul**.ro, 23 January 2005).
The increasing presence of Hungarian investments in Romania is directly related to the low wage costs in the country. The Economist Intelligence Unit shows in a study that wages in Romania are the lowest in the region (BBC Romanian, 30 November 2004, published 16:37 GMT). For instance, in the course of 2004, Romanian companies spent on average 0,95 dollars for one hour of work of an employee whereas 7,71 dollars were spent in Slovenia and 4,37 dollars in Hungary. Even though this affects the purchasing power of Romanians, it can also bring economic advantages to the country, the study shows.

After 2004, when Hungary entered the EU, an increasing number of European companies which used to have their production plants in Hungary started thinking about 'délocalisation', that is shifting factories and jobs to the lower-wage economies of the non-EU members, such as Romania ("European Union Enlargement", April 28th 2005/ From "The Economist" print edition). Another reason for which Western companies invest eastwards is the access to the local market. "Romania with its 23 million inhabitants and with wage costs under 1 dollar per hour is a very attractive target. Moreover, unlike its neighbours, such as Ukraine, the implementing of the pre-accession strategy to the EU considerably reduced the political risks", it is argued in the study.

Hungarian companies such as OTP, MOL and Gideon Richter had massively invested in Romania. For instance, OTP bought the bank RoBank, MOL is now the owner of Shell (a carburant distribution network), whereas Gideon Richter invested in a large research and development center in Tirgu Mures, in Transylvania. "Broader urban investments amounting to 1.2 billion USD are expected to be achieved through the construction of urban and commercial

centers in the areas around Bucharest and Cluj in the next few years, as well as the enlargement of the RoBank network and investments in telecommunications", stated János Halasz, director of the Romanian-Hungarian section of the trade development agency ITDH, (www.**cotidianul**.ro, 23 January 2005).

Romania's upcoming EU entry is a sound explanation why an increasing number of Hungarian businesses expand to Romania. The number of inquiries to the ITDH regarding investment opportunities in Romania went up by 80% last year (Vilaggazdasag, pp.1&2; Hungary Around the Clock, http://www.hatc.hu/editorspicks.php, 14 July 2005). Hungary is rated as the seventh largest investor in Romania, with over 5,100 companies in the country, of which 674 were registered last year alone. Hungarian businesses are most active in food processing, software development and auto spare parts. (http://www.hatc.hu/editorspicks.php). Hungarian companies are setting foot in the Romanian market by acquisitions and/or by setting up new subsidiaries in a bid to expand regionally, Halasz explained. This signals that many SMEs are financially sound enough to make the jump, he noted. Moreover, as already benefiting from EU development programs and financing schemes, a series of Hungarian SMEs have been involved in expertise and training programs for their Romanian homologues, in order to facilitate their integration in the European market (http://www.hatc.hu/editorspicks.php).

After 1 May 2004, the price of basic products, especially sugar and oil, doubled in Hungary in line with the provisions of the common European market. This led to a massive import of sugar from the western part of Romania to Hungary. The imports determined Hungarian sugar producers to file complaints to the Hungarian Finance minister in Budapest asking for a solution to be worked out against this market disequilibrium (BBC Romanian, 14 July 2004 - Published 11:02 GMT).

In exchange, following the same provisions of the common market, the wheat overproduction registered in 2004 in the new member countries of the EU (Hungary, Czech Republic, Poland) could pose a serious threat to the Romanian existing stock, considered to be the most expensive in Europe – the president of the Romanian National Association of Flour Milling and Baking Industries argues that while a tonne of wheat produced in the EU costs around 100 EUR, Romanian wheat is sold with 20-30 EUR more per tonne. (http://www.expres.ro/afaceri/?news_id=182664, 29 March 2005). In order to avoid a market collapse, the EU had to intervene by purchasing and transporting large quantities of cereals resulted from the wheat overproduction registered in Hungary, Poland, Czech Republic in 2004.

It is said that at the beginning of 2005 the European Union had the largest stocks of cereals in the last ten years (http://www.expres.ro/afaceri/?news_id=182664,29 March 2005). Unlike in the EU countries where mechanisms of intervention in cases of overproduction are enforced and made use of, the non-EU countries face a high risk of massive imports of cereals at a very low price.

There is reason to believe that although Romania signed an agreement with the EU based on which only 124.000 tonnes of wheat could be imported without customs tax in 2005, the actual imports could be even higher, due to cheaper, tax-inclusive prices (http://www.expres.ro/afaceri/?news_id=182664, 29 March 2005). At any rate, starting with 2007 – the envisaged date for Romania's accession to the EU- Romanian producers will not enjoy any state support or subsidies in connection with the cereal production. Thus, they will have to enter in direct competition with other cereal producers from the EU member countries.

However, the effects of Hungary's accession to the EU were visible at the daily level too. Lower prices in Romania provided an incentive for Hungarian citizens to cross the border on a weekly basis seeking cheaper food, clothing and household products. As a result, so-called "border supermarkets" have mushroomed after Hungary's accession. It was reported that the number of Hungarian citizens crossing the eastern border with Romania doubled since 1 May 2004 (www.capital.ro, 7 April 2005). (Figure 18., 19., 20)

A short summary

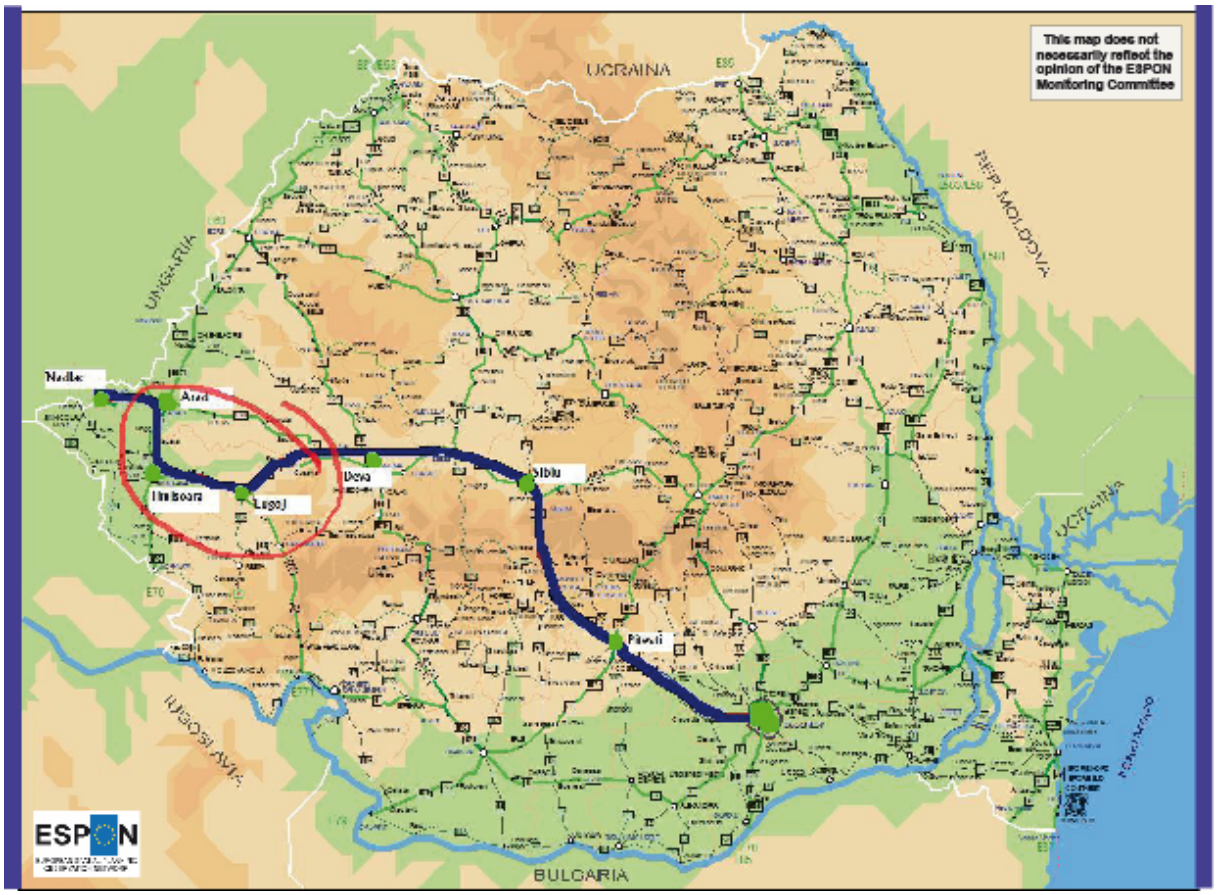
After 1 May 2004, Romania has as neighbour at its Western border not only Hungary but the European Union itself. In the last one and a half years, the status differentiation in connection with the EU (Hungary – already EU member and Romania – still EU candidate) had a significant and positive impact on the bilateral relations at various levels. As an EU member, Hungary is in a position of supporting Romania's expected accession to the EU in 2007 and of enhancing diverse forms of regional cooperation within an European framework.

Paradoxically, as presently left out of the common European market, Romania became a more attractive target for European/Hungarian investors, interested in bringing capital and expertise in a country with cheap and qualified labour force and strong EU prospects. On the other hand, Romania could learn from Hungary's experience how the EU membership and the implementation of common market policies impact the country at different levels.

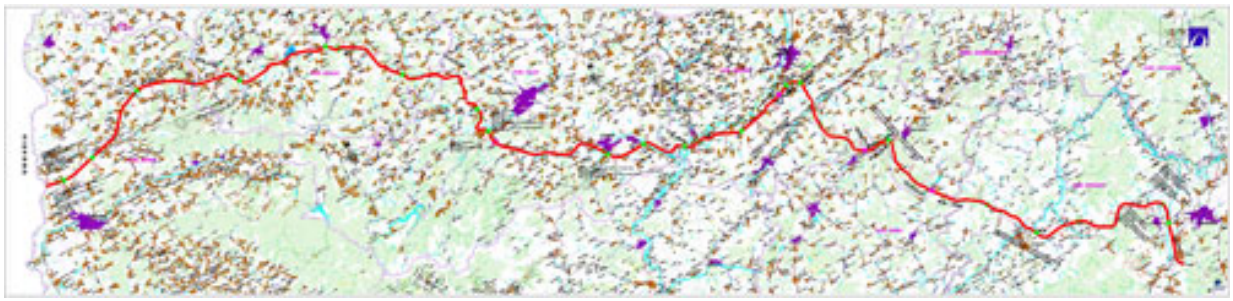
Map 26 : European transport corridors and the concession made to Romania: how the IV European corridor intersects Romania



Map 27 : The IV corridor at present: motorway with „political detour" in Banat



Map 28 : Bechtel / Transylvania highway



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7. ROMANIA AS EASTERN BORDER OF THE EUROPEAN UNION

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Ionel Muntele
Alexandru Rusu
Oana Stoleriu
Georgiana Voicu
TIGRIS

7.1 Introduction

The aim of this study is to show the territorial and general features of the Romania's evolution in the framework of the regional and global dynamics. It aims not only at determining the influence of the **geographical location**[35], but also that of the **geohistorical evolution**, in defining those points of strength or weakness which influence the possible trajectories of the Romanian territory.

Our choice is justified by the following two considerations:

a) The location of a territory is the only stable element in its socio-political and cultural evolution. Consequently, the total inertia of the geographical position becomes the parameter which controls the place and the role played by that territory in a given combination of circumstances. The territory is rather the *object* than the *subject* of the forces which manifest themselves in particular socio-political circumstances. This corresponds to a large extent to the Romanian case.

b) The geohistoric evolution of a territory derives directly from its geographic position. The long term global trends tend to induce a strong inertia and force that space to remain in a kind of geoecological niche which is hard to be abandoned. Thus, that "in between" location or in the close proximity of a core area imposes to the territory a extrovert behaviour, based on a continuous action or at least on immediate responses to internal or external stimuli. On the contrary, the location in peripheral areas or in those in contact with the great cultural areas imposes a rather reserved behaviour, a more reflective one, with rare moments of initiative and with long moments of inertia in front of the

[35] The geographical position is considered here not only from its geo-mathemathic perspective (the location in accordance with the absolute and relative coordinates) but also from the socio-economic and cultural one (the location depending on the great cultural world's area).

internal or external stimuli. This second case better describes the evolution of the Romanian territory.

These considerations generate a series of questions related to the Romanian integration in the European Union and to the impact of this process upon the neighbourhood policy:
- What is the specific of the geographical position of Romania in the context of the past, present or future dynamics of the world's driving forces?
- What is the specific of the geohistorical evolution of Romania and what are the past, present and future consequences on its geopolitical behaviour?
- What are the forces that influence the territorial dynamic of Romania and what are the probable consequences of these forces?
- What are the important spatial scales for the study and understanding of these forces?

The first part of our research proposes a qualitative approach, followed by a evolution in the second part.

7.2 General Assumptions

Our study is based on a series of assumptions considered to have a certain level of certainty. These assumptions set up the theoretical background of the research and they constitute working hypotheses.

7.2.1. The modern Romanian territory is much more an *object* than a *subject* of the history

The modern evolution of Romania makes plausible the location of this state in a *entre-deux* space, a concept developed by professor Violette Rey of École Normale Supérieure LSH in Lyon: "…I understand this concept of *d'entre deux* space, as a space in which the external forces, being in competition, counts more that the internal forces in the process of constructing the territorial architecture, and in which the time stands under the sign of the adversity and of a eternal new beginning" (Rey, 2001, p.241). This concept is illustrated mostly evidently in the cases of Romania and Poland, two countries which were shaped and reshaped ceaselessly on long periods by external forces.

The emergence and evolution of Romania were two historical processes strongly tributary to the main features of the European geostrategic scene in the past two centuries. The political and divergent interests of the Great Empires (Russian, Ottoman, Austrian-Hungarian) and then, that of the modern states (France,

Great Britain, Germany, Russia, Hungary, Turkey) exerted extraordinary strong pressures over Romania. These pressures materialized especially through losses and regains of territory in a context of a relative diplomatic "isolation" on the European ground. Besides, the significant demographic size and the great surface of Romania, compared to the neighbours', have enhanced the regional ambitions of Romania which politically and military took a part in the evolutions of Central Europe and the Balkans (military interventions in the Balkan wars, containment of the bolshevik revolution from Hungary, the alliance with Germany against Soviet Union). This regional role, encouraged by the Great powers, led Romania to the idea that it had to strengthen its position as a regional leader (visible after 1989) and to find a political niche in the interstitial spaces between the Great Powers. This fact came into sight during the communist period (the relative independence towards Moscow, the keeping of relations with Israel, the exportation of the socialist revolution towards the Third World) and goes in the present time.

To be not only a political object shaped by the global forces but also a political subject limited in action to just some peripheral zones had some very important consequences:
- Long lasting conflictual relations with neighbour countries.
- The establishment of the very flexible, unstable and full of distrust political relationships with the Great Western (Western Europe) and Eastern (Russia) powers.
- The conception of an external policy based on the increase of the political influence in Eastern and South-Eastern Europe and on efforts to turn itself into a buffer-space between the Great World Powers.

7.2.2. The Romanian territory experiences the implementation of a *repeated* modernity never *ended*

The unification of the three principalities (Moldavia and Valahia in 1859 and Transylvania in 1918) brought on the European scene an important state in terms of surface and number of inhabitants, enjoying a very important geo-strategic position in the European context of the end of 19th century and of the beginning of the 20th century. This state was formed by three historical regions with their own different legacies connected to different cultural areas: the Central European one (Translvania), Eastern and Balkan ones (Moldavia and Valahia). These huge internal fractures proved dangerous in the political context of the past 150 years. The Romanian government found a solution, a normal one for that period, with *a rapid and aggressive construction of a Romanian national identity* and with an immediate import of modern Western European institutions and values.

The creation of this national identity was built on European norms, between 1850-1950, with the exacerbation of an ethnic nationalism at the expense of a civic patriotism. Formed in a very rapid way, the Romanian national identity was confiscated by the communist regime and reinforced by the national communist identity. The extreme ideological manipulation and the cultural isolation, between 1950 and 1990, had two main consequences: the national identity underwent a decrease of its content and the alterity was impossible to be invented.

The importation of western institutions and values was rapid. This led much more to imitation than to a real appropriation. The modern institutions (the state, the political parties, the Parliament) and the bourgeois values (art, fashion, architecture, social behaviors) were transplanted in a space characterized by an agrarian economy and a rural way of living (at the beginning of the 20th century over 80% of the population lived in villages). But the emergency of the construction of the national union has legitimated this fact. Moreover, it has even encouraged it (in arts and especially in literature was proposed for example the *forms without content theory*, which invited or even lured the artist to imitate the West, hoping that they will built a know-how which led finally to original creations). Even in these extreme and precarious conditions, the western modernity started to flourish: the democratic institutions started to work, the economy began to move toward industrialization and fine arts gave signs of originality. But the experience was suddenly interrupted by the inclusion of Romania in Moscow's sphere of influence and by the importation of socialist modernity, which completely destroyed the incipient western European structures. Archipelago of places which took part to that western modernity (industrial regions in formation, urban regional networks which evolved naturally towards an urban and unitary system, the intellectual cores) was brutally replaced by the monolithic and standardized structure of a *communist modernity*. The failure of this model became obvious after 1990. It made possible the return of the post war one.

This evolution of the modern elements places Romania in an *entre-deux* space and has a series of important consequences:
- The confirmation of the territorial and institutional inertia in front of the changes because of a succession of repeated starts and unexpected and uselessly repeated stops.
- The increasing risk of a superficial imitation of institutions and values imposed from the outside together with the undercover upholding of some conservatory and profound dimensions of the cultural local/regional structures.
- The burdening of the invention of alterity. This caused some difficulties of communication with the outside at individual or collective level. It made more difficult the regularization the relationships with neighbour countries and the

implementation of some policies promoted by the European Union (i.e. the self-governance of the national minorities).
- The emphasis of the regional cleavages in the inner country (between cosmopolitan and ethnically "pure" regions, between the more extroverted and those conservative ones, etc.).

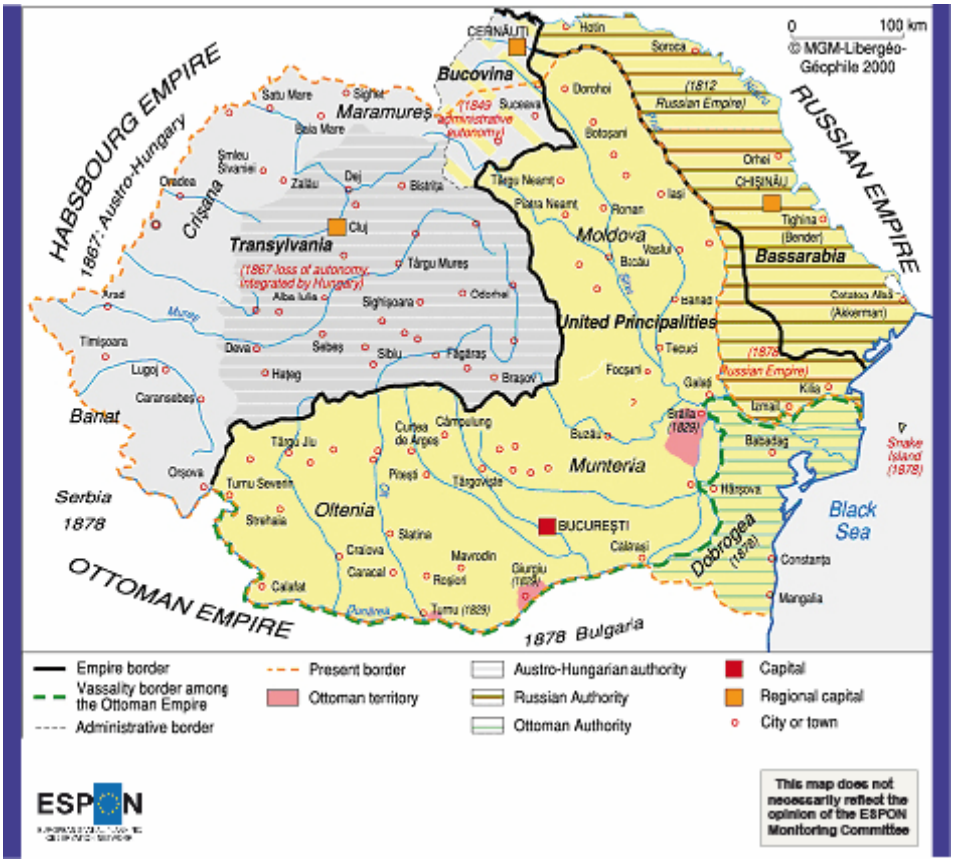
7.2.3. The Romanian territory is a space of invention and of promoting of *negotiating territorial techniques*

The *entre-deux* position, extremely uncomfortable and burdened by visible negative dimensions in the context of modernity, reveals itself more and more as an advantage in the conditions of postmodernity. The flexibility, not only of the production techniques, the permeability of the frontiers, the growth of the human mobility, but also of the capital and of information, all these are phenomena which transform, reduce very much or even annihilate the great structures of the Western modernity. The fact that in Romania, these structures of the industrial age did not have the time to imprint themselves profoundly in the territory, sets free the assumption according to which its territory is a space in which territorial techniques of negotiation, able to combine the inertia of the territorial structures with the acceleration of the conjunctive structures, can be invented freely. The inter-ethnic relationships, the rural-urban, regional-national, regional-international, emigration-immigration, foreign and national policy are many processes and phenomena which seem to find original solutions in Romania. This idea will be more deeply demonstrated in the second version of our study case.

7.3 L'entre deux: Romania between West and East

The construction of the Romanian modern territory is the clear expression of external forces' action. The initial nucleus, the United Principality, was formed in 1859 with the support of France, in the context of a powerful territorial compression coming from the neighbour Empires (figure 1). The subsequent territorial losses or enlargements were also placed under the same sign of such external factors, that all the internal political and social projects had to take into consideration.

Map 29 : The Romanian territory between 1850 and 1900



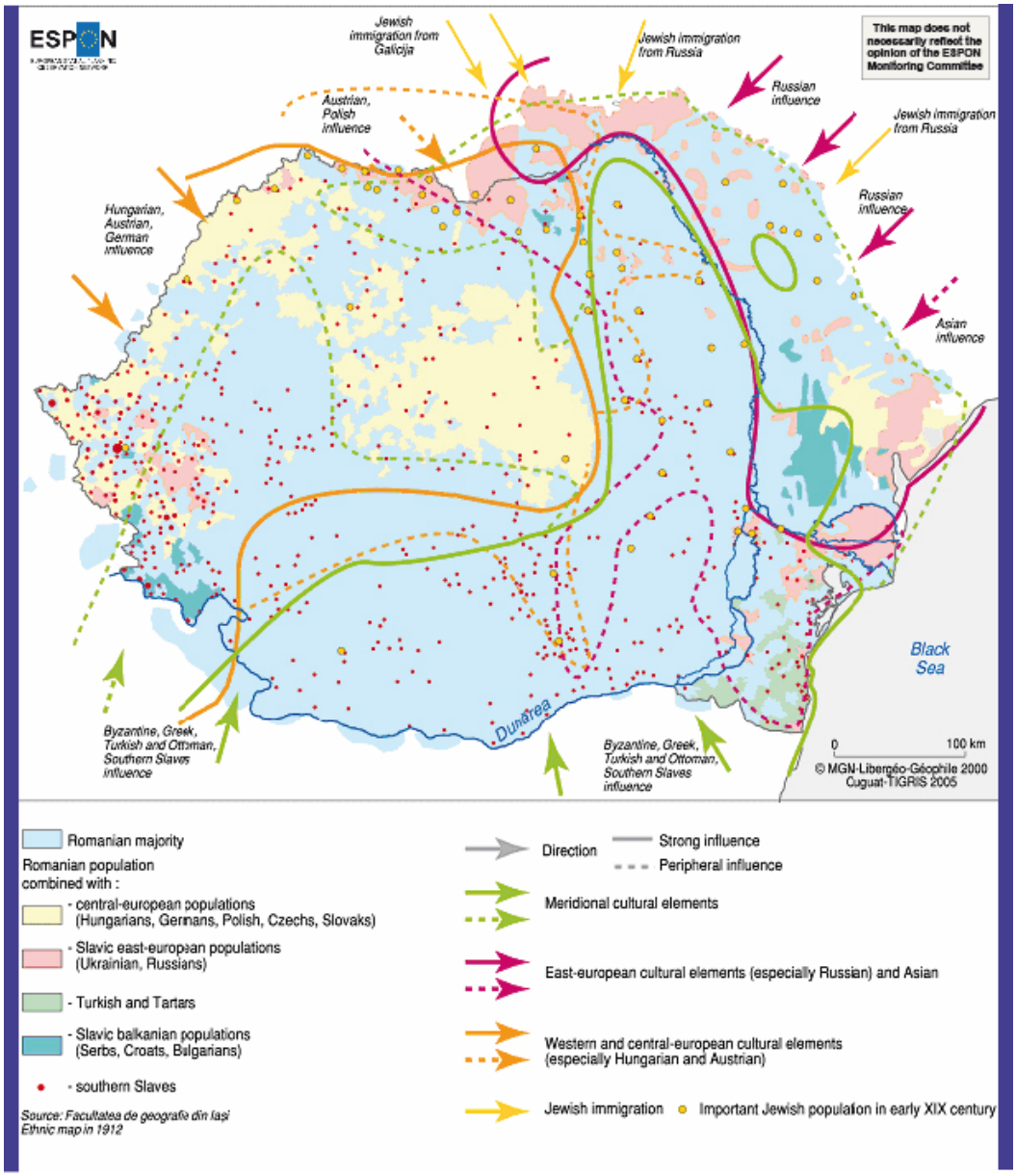
The historical evolution of the Romanian territory did not show only violence. The profound dynamics of this *entre-deux* space put into contact, for a long time, different cultural areas (figure 2), with consequences of an extraordinary importance. At the peripheries of the ethnic areas, the populations melt continuously, forming mosaic belts which allowed the occurrence of alterity and the peaceful and profitable coexistence of the inhabitants. Transylvania, especially south-western Romania (the Banat region) shows this kind of spaces, because the historical accidents which troubled Western Europe were unknown here (religious wars, for example).

At more fine and individual levels, cultural convergences came to reality as common structures which held myths, popular believes, similar gastronomies and music, close styles of living, etc.

The setting up of the modern eastern states (1850-1920) caused the coming out of the national frontiers and the emergence of different national projects, founded on the Western European modernity pattern. The result was successful became very sensible in the places mostly closed to the core, that is Western Europe. Progressively, Romania found itself at the periphery of the European space and entered, as it was expected, the Russian area of influence, asserted at

the end of the Second World War and laid down by theYalta Conference between the victorious powers.

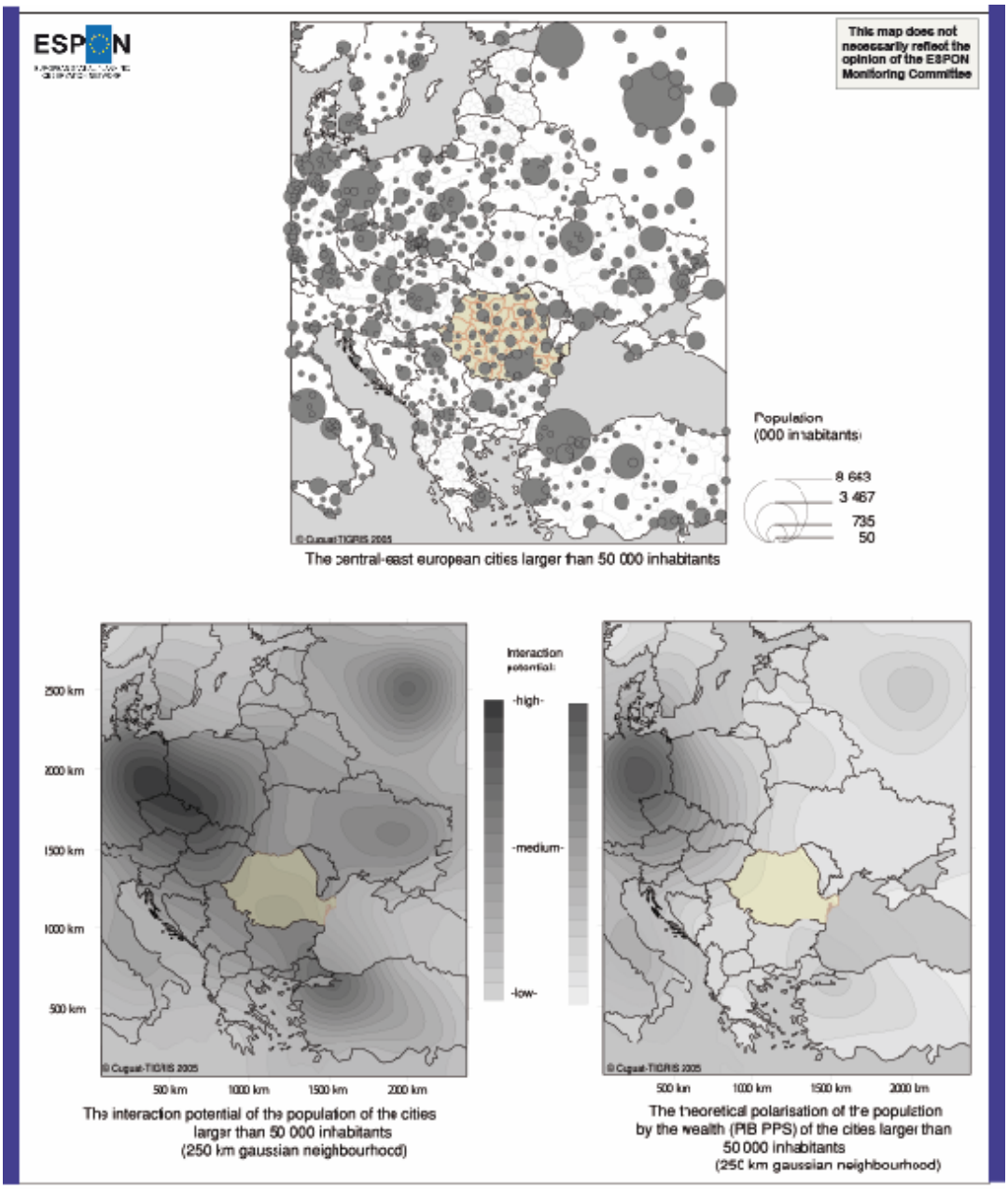
Map 30 : Romania as cultural interface



The stopping of the west European modernity and its replacement by of the soviet one hurled the country into another periphery, that of Moscow. From Moscow towards the West, Romania was yet the most modern state, an obvious expression of the initial cultural western choice. This advantage which could have been transformed in a structure of resistance against of the soviet model was annihilated in 1965, when the process of getting out from the soviet influence, decided by the president Ceauşescu, became the beginning of a "modernity" in an original Romanian style. The complete failure of the latter left Romania weakened and bewildered after the outbreak of the communist coalition.

The geographical analysis of the current situation shows that Romania lies it into the core of the potential relational field between East and West, in an *entre-deux* position, which would be qualified as the centre of the Euro-Asian peripheries.

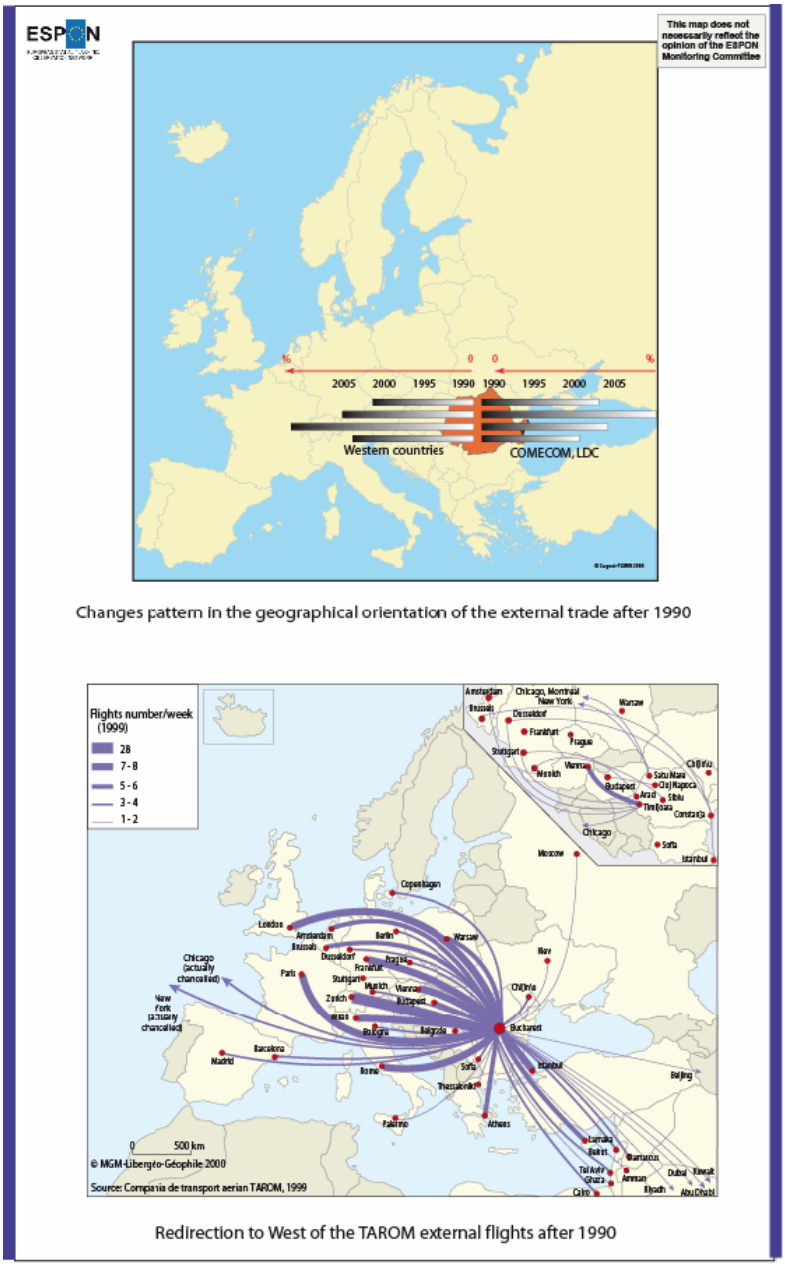
Map 31 : Romania in the core of the Euro-Asian peripheries



From a demographic point of view, Romania stands at the crossroads of forces generated by the great amounts of population in the Central Europe, in Turkey and in Western CIS (Moscow/ Saint Petersburg, western part of Ukraine). Described by the interaction potential between the populations localized in the cities with more than 50,000 of inhabitants, these fields of forces represent, in fact, potential waves established between the three great demographic

ensembles. In this case, Romania's position would be a privileged one, because it potentially controls the major part of these waves. Unfortunately, the breaking up of the analysis through the introduction of the urban GDP, demonstrates that the force of attraction of the demographic ensembles decreases dramatically, except that of the Central-European. The situation would have been clearer, if the huge potential from *the Pentagon* had been taken into consideration. In the absence of the valorisation of its interface position, nothing remains to Romania but a single solution, namely that of asserting vehemently its position towards West, hoping that the economic welfare state of Russia, Ukraine and Turkey will considerably improve in the recent future.

Map 32 : The western tropism of the post-communist Romania



Romania's orientation towards West became obvious immediately after the collapse of the communist system in December 1989 (figure 4). In 1983, the external trade of the country was dominated by the COMECOM (83.6% from imports and 63.6% from exports). In 2004, the European Union provided 62.7% of Romanian imports and attracted 67.1% of Romanian exports. COMECOM (inclusively the former Soviet space and former Republic of Yugoslavia) does not hold more than 20.4% and respectively 10.6%. The same assumption is also valid for air and earthly transports, tourism, intercultural exchanges, investments and the infrastructure projects.

The oscillation between East and West, resulting from national decisions but strongly influenced from the exterior, seems to come off, once again, at the expense of the East. What does the instability of Romania's trajectories mean?

7.3.1. Political consequences

Romania's status as an *entre-deux* space compelled the involved parts to make difficult decisions and had depraved political consequences during its entire modern history. The western traditional allies had been many times obliged to betray Romania, if only through indifference (the Dictate of Vienna and the loss of Transylvania, the Yalta Conference). As well, Romania was forced to betray its allies, either chosen or imposed ones (Romanians turning back their arms against Wermacht's soldiers, who were allies between 1941 and 1944; growing hostility towards Soviet Union). Such instability of the choices raised a wall of distrust between Romania and Euro-Asiatic states.

What kind of influence had this state of being after 1989? What will be the future behaviour of Romania? These are important questions in the context of the near accession of Romania to the European Union.

7.3.1.1. The long way of the European Union to Romania (and vice-versa)

The misunderstanding of Romania's profound problems, the abominable mass-media manipulation in the December 1989 revolution and then the image of Romania in general, made the European Union extremely reserved concerning the wish and capacity of Romania to join it. The countless destructions provoked by the 40 years of communism and by the so-called Romanian "modernity" promoted by the Ceauşescu's regime, overlapped the incomplete adoption of the

western modernity during the inter-war period and offered less chances of rapid economic recovery.

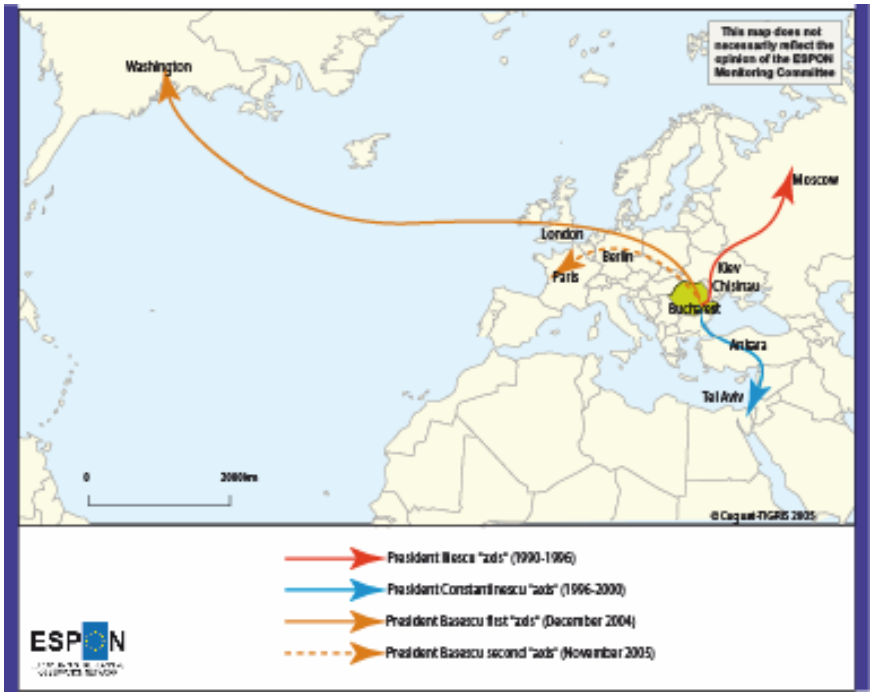
Moreover, the political renewal after 1989 was made only at the ideological level, in a superficial way, because the politicians were in fact former activists of the secondary echelon of the Communist Party. The creation of the "historical parties" (which existed before the installation of the communist regime), respectively the *National Peasant Party* and the *National Liberal Party*, was rapid but inconsistent and immediately discredited by the power which was controlled by the former communists (the *National Salvation Democratic Front*, transformed later in a *Social-Democrat Party of Romania* and then in the present *Social-Democrat Party*).

Under these circumstances, the transformations imposed by the new regime (privatisation, restructuring, construction of the democratic institutions and of the market economy) generating social instability, were, at the beginning, less promoted by the non-communist political power, eager to consolidate their position by promoting some demagogical policies in order to guarantee the popular support.

The refusal manifested by the European Union in the first years after 1989 did nothing but to enhance these tendencies and to induce an acute feeling of frustration and isolation among the Romanian population. This fact (the emergence of a negative image of the European Union because of errors of communication) must be kept in mind by the officials from Brussels with view to the enlargement process.

It is not an astonishing fact that, in terms of foreign policy, Romania found its whereabouts, initially, towards Russia, with which the president Iliescu signed in 1991, just before the implosion of the ex-Soviet Union, the first international post-communist treaty. Immediately after that, in the period when the former Soviet Republics regained their independence, in spite of a popular unfavourable opinion, Romania hurried to recognize the independence of the Moldavian Republic. It can be interpreted as a gesture to guarantee its security on its Eastern flank. But this fact made difficult an eventual union with the Moldavian Republic with Romania, by complicating the situation along the future eastern border of the European Union. The connections/relations established afterwards with Ukraine in order to control the armed conflict between Moldavian Republic and Transnistria completed what could be considered as the first international political axis of the post-communist Romania.

Map 33 : The search of an international affirmation and national security



The classical threat represented by Russia, stiff deeply in the unconsciousness of the Romanians, caused this political behaviour, but also permitted a very active and ardent searching of an ally, so as to counteract the eventual hostile actions of Moscow. Thus, all these efforts were directed towards the integration in NATO, which manifested a clear tendency of extension to the East. The popular adhesion to this project was larger and more obvious than that to the European Union, whose image remained confused and who seemed to raise conditions for a doubtful and distant result. In other respects, the population has always been disturbed by a visible overlapping between the two organizations (NATO = European Union type). Thus, although the negotiations with EU had almost started, the emergency of the national security issue made that president Constantinescu explicitly closer to the foreign policy of the United States of America than that of the European Union. The proof is the authorization/agreement of for the passage of American aircrafts, over the Romanian territory, which dive-bombed the Serbian territory, despite of the opposition of Brussels. In addition, the opacity and uncertainty proved by the European Union about the future of the country broke out the slight desires of regional leader of Romania and allowed president Constantinescu to give priority to the Bucharest-Ankara-Tel Aviv political axis, which signified less a movement towards Turkey or Israel than a rapprochement with USA.

A second element appears which must be taken into account by the European Union in its relations with the neighbours, even without a continuation of the enlargement process: as long as EU cannot offer itself security guaranties, it must pay more attention to the national priorities of the neighbour countries.

The return to power in 2000 of the president Iliescu and of the Social-Democratic Party brought an equilibrium in the priorities between NATO (in fact the USA) and the European Union. Despite all these facts, Romania (and Poland, in a similar *entre-deux* situation) decided to move closer to the positions of the United States, supporting them in the Iraki conflict, sending also troops, in spite of the protests of Brussels. In this context, a declaration of the European Union, according to which Bulgaria could access to the Union before Romania, sharpened the tensions between the two candidate countries and generated an unhealthy competition between Romanians and Bulgarians. In order to limit these tensions, the Prime ministers of both countries decided to set out an official tandem: together inside or outside the EU.

We can highlight here another idea. The strategy promoted by the European Union of creating a competition between the different candidate states can generate popular undesirable attitudes and can reactivate older conflicts (as it happened between Czech Republic and Slovakia, between Slovakia and Hungary, between Hungary and Romania, etc….).

The official accession to NATO and the end of the negotiations with the European Union (2004) let the president Băsescu, and the centre-right alliance who reached the power, enjoy a calmer foreign policy. In spite of this, the small blackmail related to the Unites States offered a new mean to answer to the pressures exerted by Brussels: in December 2004, the president Băsescu indicated that the essential axis of the Romanian foreign policy was between Bucharest, London and Washington. His speech was more temperate during his visit to Paris in November 2005, where he indicated another possible axis, between Bucharest, Berlin and Paris…But just on the 6th of December, the American United States secretary, Condoleezza Rice, coming from Poland where she had done the same thing, was signing at Bucharest the agreement through which Romania accepted the presence of American military base on its territory.

This fact did not generate objections from Brussels, but Moscow strongly reacted, declaring however that "…it won't get even to another cold war". For Romania, this fact means the growth of the tensions with Russia. Romania had already begun to be bitterer since Russia cut its electric energy supplies to the Moldavian Republic, and its pro-European views became stronger and stronger. Romania replied and immediately cancelled a project of connection of its own electrical networks with that of Moldova in order to supply its neighbour with Romanian electricity, a fact that couldn't be accepted too easily by Russia, especially since the president Băsescu, being into visit through Georgia, declared that Moscow wanted to turn the Black Sea into a Russian lake.

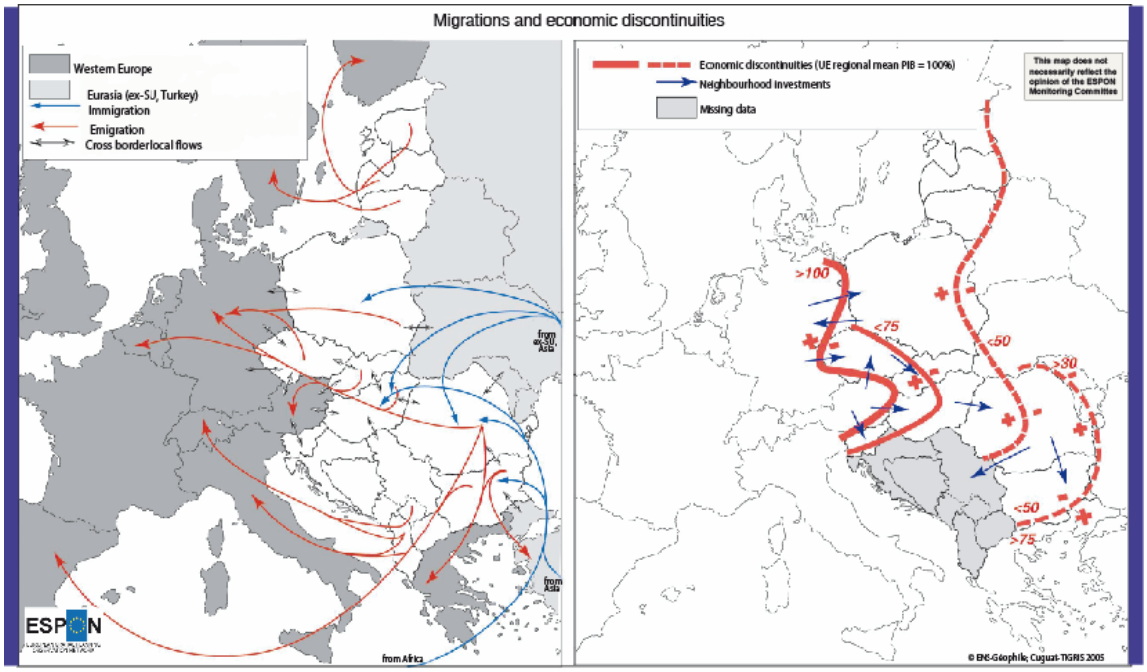
The affirmation of this obvious pro west attitude and that of a moderate critical attitude towards Russia reveals that Romania engaged with all its confidence in the refoundation of the Western European values and that it expected it to be a way with no return.

7.3.2. Territorial consequences

The functioning of *entre-deux* spaces points out a series of processes and phenomena hard to find in other places. Forced to evolve in a context of unstable equilibrium, to lead or to be led by circumstantial tropisms, these spaces tend to become spaces of discovering of some structures and resisting behaviours, incorporated in the territorial architectures by which they to mould them in a subtle way. The specific of the migratory phenomenon from the Central and Eastern Europe is just an example in this sense.

The collapse of the communist regime and then the process of the European Union enlargement increased the fear of a massive invasion of the Eastern Europeans in the Western Europe. This fact did not happen or, if it happened, was just a circumstance and was due to some unpredictable causes (the shock therapy in the economy of Poland, the conflicts in the Western Balkans). Just after a couple of years, the migration flows to the EU decreased significantly (in favour of other destinations such as USA, Canada, New Zealand and Australia), replaced by circulatory migrations characterized by the recurrence or the periodical leaving of the migrant. What is more interesting is the fact that the phenomenon started to develop also between the CEE countries and those from the former soviet space (Ukrainians in Poland, Moldavians and Ukrainians in Romania, Russians - of Bulgarian origin - in Bulgaria…). Another fear of the Occident was the fact that the Eastern countries could become large gateways to the European Union for the poor populations coming from Africa and Asia. Neither this fact became a reality, although there is a transit flow of illegal migrants through the territories of the CEE countries. More important are the *definitive* migrations from Asia (and to a lesser extent from Africa) to the new member or candidate countries. Thus, the Czech Republic, Hungary, Poland, Bulgaria and Romania tend to become destination countries for the migrants from who come from Eastern Asia (especially China) or from the Middle East (figure 6). These migrants have established or opened some sort of business in the CEE countries and they are getting more and more integrated in their new country of residence.

Map 34 : Migrations and welfare gradient in Central-east Europe



This confirms the fact that the Central and East European space presents dual features. It functions in the same time as a periphery, as well as a core area. Out of the classical nucleus' proximity, that is the European Union, the explanation can also derive from the particular territorial organization of the states concerned, due to their geographical position and their geohistorical evolution. Thus, the study of the Central and East European countries sets off a certain type of territorial and curious regularity and namely a double gradient of development (of modernity?), at the national and infranational level. In other words, the parameters of the gradient decreases from west to east, not only from a country to another, but also inside the country, from the western regions to the eastern ones (figure 6). From state to state, the decrease of the welfare level can be explained by the increase of the distance from the generating and promoting centre of modernity. At the infranational level, things seem to be not that simple.

In the first case, the functioning of the state institutions proves to be an explicit and satisfactory factor. All the modern states in Central and Eastern Europe are recently born states, of which the actual territorial shape was an outcome of the First World War. The replacement of the imperial or royal structures by modern state was achieved in a short period of time. The quality and depth of such a shift was directly proportional to the distance from the emitting centres of the west-European modernity and inversely proportional the distance from Eurasian centres of power.

At the infra-national level the explanation can not be the same. The great distance from the European West and the decisive influence of the Ottoman

Empire, or that of the Russian Empire, can maybe explain the situation of regions located in eastern Poland and southern Romanian. But it can not explain the differences between Bohemia and Moravia or those between the east and west of Hungary. To find out the explanations for the differences between regions situated on opposite sides of the borders between Austria and Hungary, Germany and Poland, Hungary and Romania, is difficult as well.

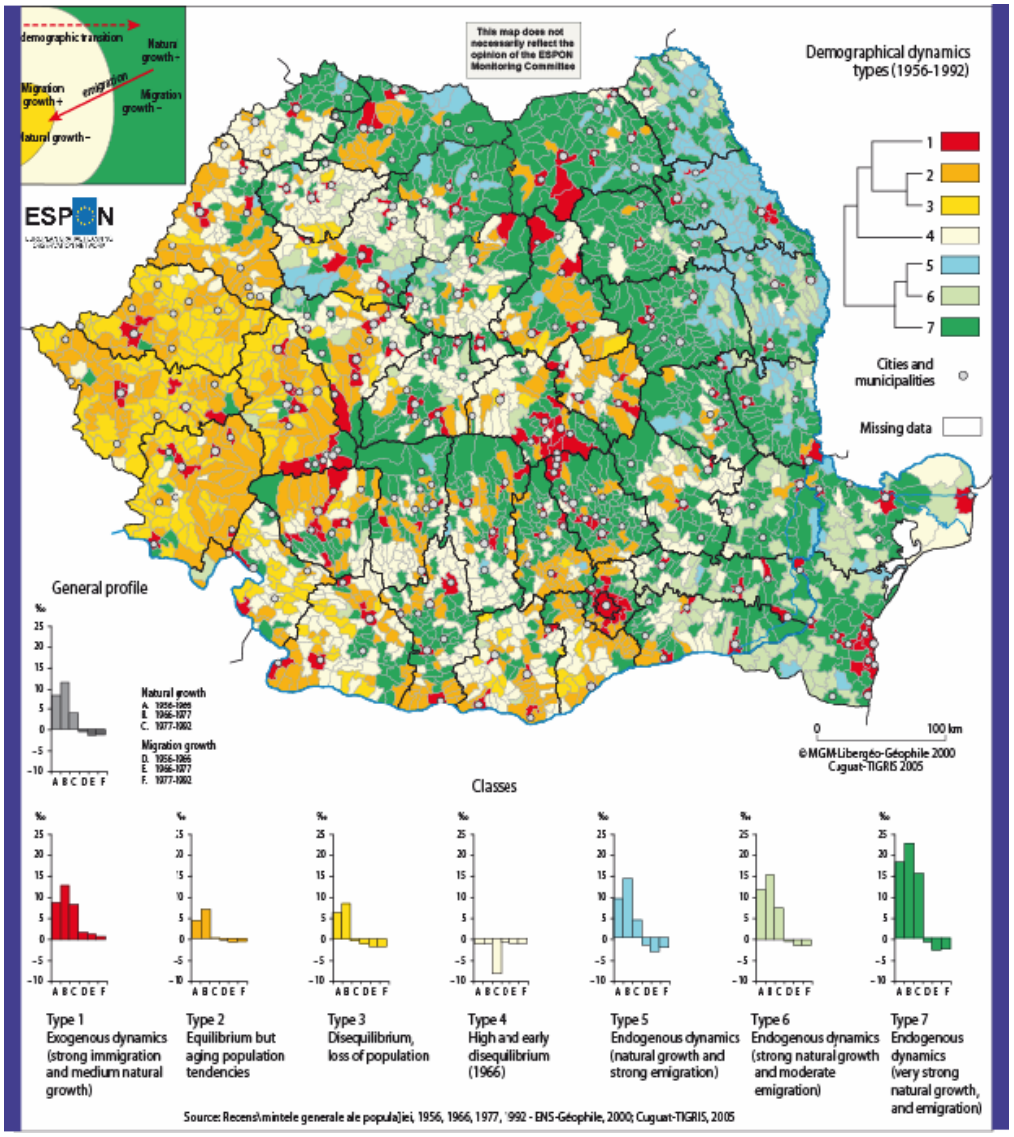
We believe that, if an explicative general structure exists for these inter-regional differentiations, it stands in the modernity spatial diffusion mechanisms. By this time, there is no rapid diffusion through the "export" or "import" of official elements of modernity (such as institutions, laws, activities), but a *slow diffusion*, *over the centuries, of the behaviours, traditions and individual attitudes.* This spreading, from near to near, created a long run continuous field of inter-relationships across Central and Eastern Europe. These networks of relationships were cut off by the borders of modern states, much more impermeable than those of the former empires and kingdoms.

The diffusion of the modern demographic behaviours in Romania (figure 7) illustrates this process of construction of some extremely powerful territorial structures, which withstood even to the brutal interventions of the communism. The entrepreneurial spirit, the private initiative, the spatial and professional mobility or the opening to novelty, are basic features of the modern behaviours, which preserved better in the western regions and were the first which reacted to the transformation of the regime after 1989.

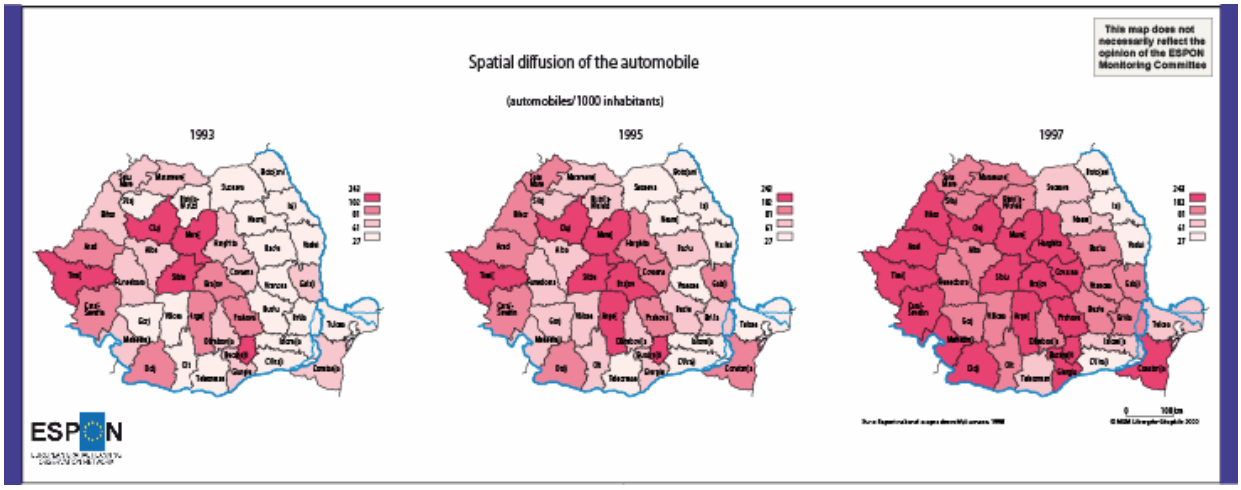
The map 36 shows the spatial diffusion of the automobile after the fall of the communist regime. The differences of behaviour between western and eastern parts of Romania can not be put on the reckoning of the economic pre-existent discrepancies (Transylvania has always been perceived as the richest one).

To have an offer, first of all, a supply must exist. The Western part of Romania reacted more rapidly to the new economic stimuli. The process of economic privatisation was also made faster. The private initiative developed earlier and the recapitalization of the economy started as early as possible. The existence and rapid increase of some small financial capitals allowed the development of a second-hand automobile offer, imported from Western Europe by small firms, by private persons or illegal speculating networks. The legal system spread afterwards to the eastern and southern parts of Romania, up to the present the automobile market being one of the most dynamic from the national economy (250,000 new cars sold in 2005 with 50% more than in 2004).

Map 35 : The West-East diffusion of the demographic transition in Romania



Map 36 : Spatial diffusion of the automobile in postcommunist Romania



The functioning of these resisting territorial structures, slowly developed at the infra-national levels, is also boosted in present times by the macro-dynamics of the global economy (figure 9). In search of rapid profits and in the circumstances of an international hardening of the competition, the foreign direct investments revealed a different spatial strategy depending on the comparative advantages offered various regions in the world.

The diminishing of the state's power in negotiations with great international firms grants to them a large freedom of movement, without any consideration to the programmes of regional (well balanced) development set up by the governments. Thus, expensive national programmes (the technopole programme in Hungary) or attractive legislative packages (the disadvantageous zones/areas from Romania) are ignored by FDI, which follow their own interests, leading to the emphasizing of regional differentiations. Thus, the spatial dynamic of FDI does not make anything but to strengthen the remarked West-East gradient at the continental scale, not only at the state's level (through the preferential orientation of the capital towards the core proximal countries), but also at of the regional level (by the selective interest granted to the comparative or competitive advantages) (figure 40 and table 33).

Figure 40 : The territorial organization scheme in Central-east Europe

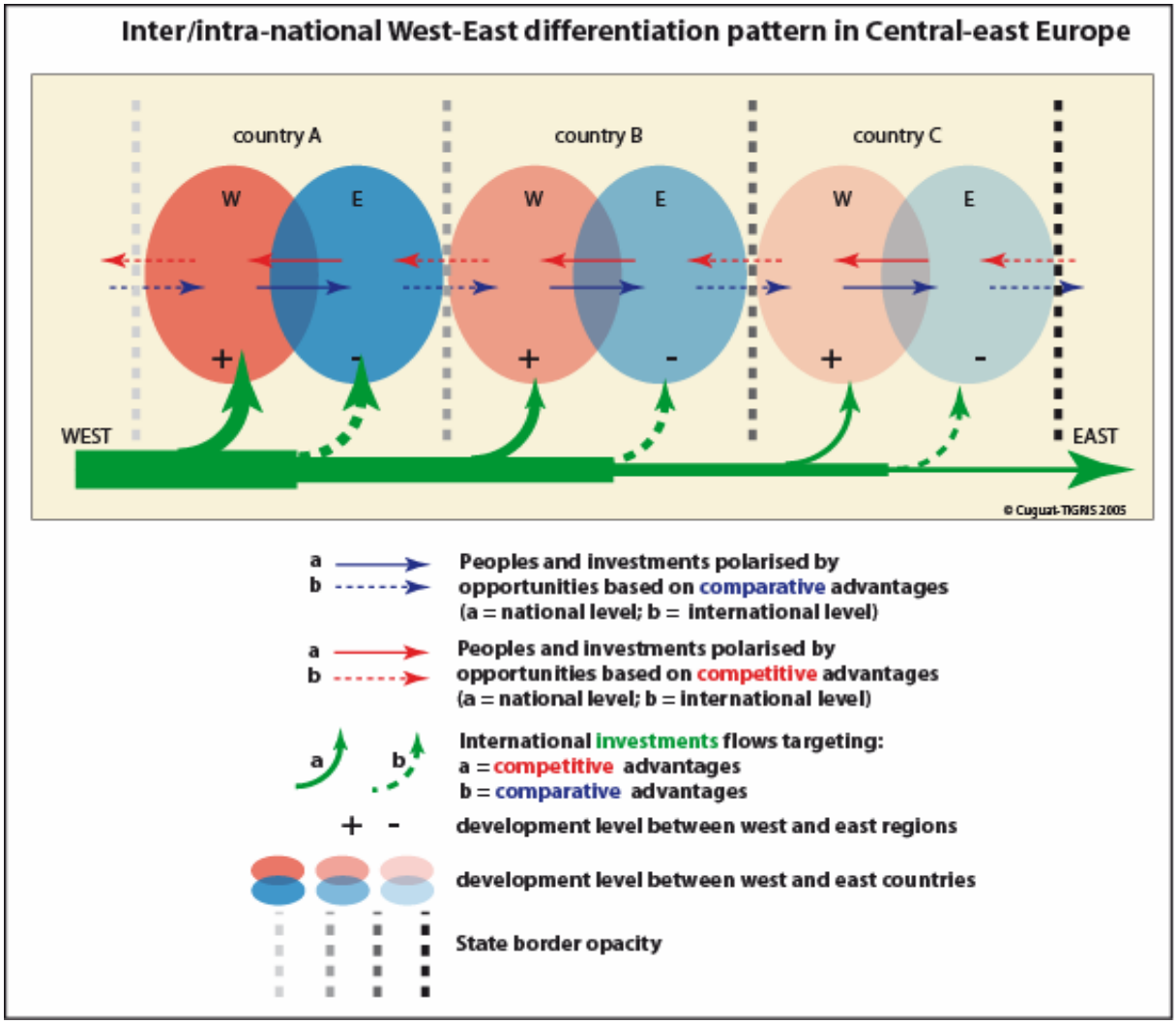


Table 33 : Distribution of FDI in Romania (1990-2004 stock)by economic development region

Economic development region	Number foreign enterprises	%	Stock FDI 000 RON	%	Stock FDI 000 USD	%	Stock FDI 000 EUR	%
BUCHAREST-ILFOV	**52241,0**	**52,3**	**12900737,9**	**49,8**	**7065351,8**	**55,5**	**5847657,9**	**55,5**
WEST	**11240,0**	**11,3**	**1356586,1**	**5,2**	**805856,5**	**6,3**	**666969,3**	**6,3**
NORTH-WEST	**10077,0**	**10,1**	**1521215,6**	**5,9**	**815905,4**	**6,4**	**675286,3**	**6,4**
CENTRE	**9612,0**	**9,6**	**1223037,1**	**4,7**	**626599,7**	**4,9**	**518606,9**	**4,9**
SOUTH-EAST	5751,0	5,8	3719978,6	14,4	1317174,6	10,4	1090163,2	10,4
NORTH-EAST	4205,0	4,2	777441,1	3,0	354877,5	2,8	293715,3	2,8
SOUTH	4111,0	4,1	4000042,1	15,4	1540128,3	12,1	1274691,4	12,1
SOUTH-WEST	2614,0	2,6	415393,7	1,6	198017,2	1,6	163889,5	1,6
Total ROMANIA	**99851,0**	**100,0**	**25914432,3**	**100,0**	**12723910,9**	**100,0**	**10530979,9**	**100,0**

Source: National Bank of Romania

The profound structure of the Central and East European territories, including Romania, combined with the economic circumstantial dynamics of the current period, makes the region the most relevant spatial level for analysis and the management of the territorial evolutions.

Unfortunately in Romania, as well as in other states in the same region, the regional level lacked a relevant official administrative organization, because of the fears that the regional identities might put in danger the state's unity. Under the pressures exerted from the European Union, all the countries have rapidly set up this regional level, but most of them, including here Romania, preferred to consider the regions as entities without judicial personality and gave them only the role of administrating the structural European funds.

7.3.2.1. Being/living l'entre-deux

The analysis of the FDI is just a mean of testing the assertions and hypotheses advanced up to now. The geographical origin of the FDI (figure 10 and table 2) emphasizes a state of being which confirms the *entre-deux* position of Romania.

For a long time, the distrust of the European Union towards Romania also manifested through a limited presence of the direct investments, excepting two notable situations: Germany and Netherlands. The promotion of the adhesion negotiations modified this situation, nowadays the European Union providing 52.3% from the foreign capital firms and 74.3% from the FDI stock. This fact reduced in relative terms the presence of the USA, which, between 1990 and 1993 was the most important foreign investor. The acceptance of the American military bases of operation on the national territory was done by the power from Bucharest hoping that the great companies from the USA will invest more, improving thus the actual shares of only 4% from the firms and of 5.3% from the stock volume of FDI.

On the second place of the foreign investors stands Asia, with a share majority of the Middle East countries. In comparison with the western investors, the Asian countries presents an inversed report of the FDI parameters: although contributes with only 7.1% from the total volume of the investments, it covers only 37.4% (respectively 39,581) from the foreign capital firms subscribed between 1990 and 2005. This report means numerous investments but reduced as volume, and can be translated in many cases through the definitive settlement in Romania of citizens from Lebanon, Syrian Arab Republic, Irak, Jordan, China, India. The strong relations between Romania and the Middle East countries are described by the frequency of the TAROM company flights towards this region (see figure 4). This situation leads the thought to the interface

position that the communist Romania had between the West, Israel and the Arab world and to the perenniality of the diplomatic and economic relationships established in that period, which can be proved as the best card from present. The crisis of the Romanian and French journalist hostages in Irak, solutioned in favour of them and with the help of the Romanian secret services, is an example in this sense. The traditional markets in the Arab countries from the Middle East and Africa, with a socialist orientation, can also constitute the trump for the foreign companies which invest in Romania.

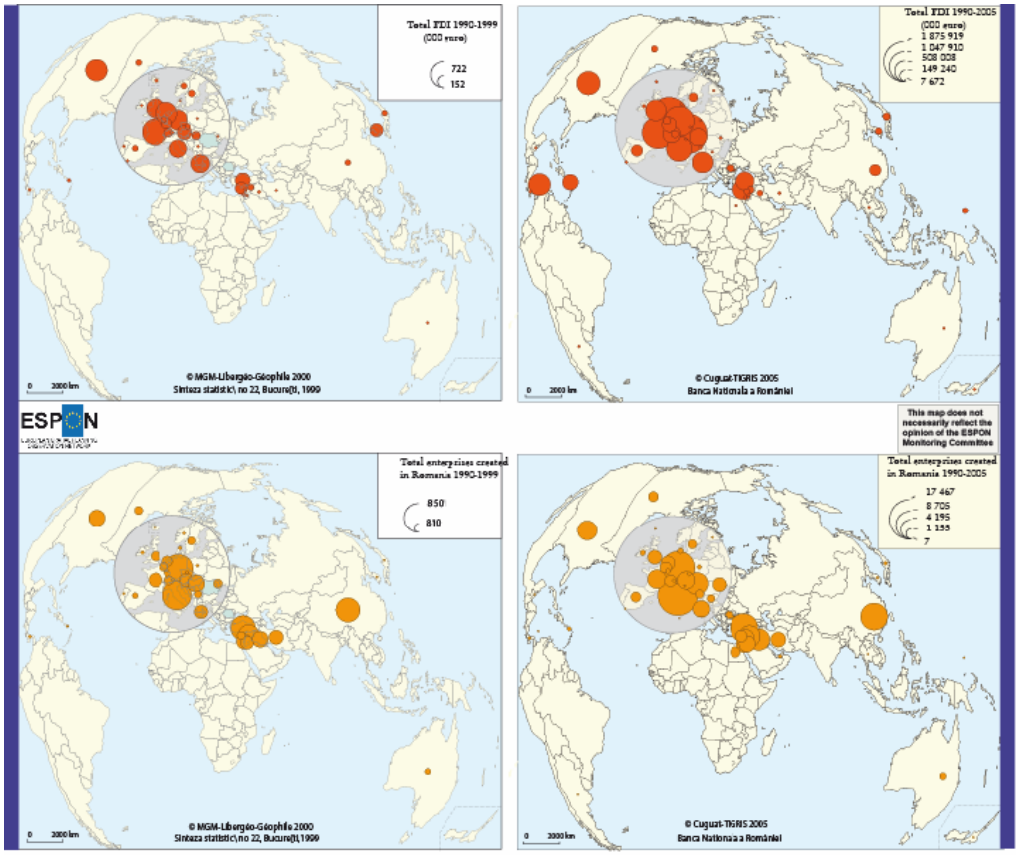
A notable absence on the investors' shortlist is that of Russia, although present in Romania in the petroleum industry, gas distribution, metallurgy... The explanation deals with the fact that the Russian investments get through the agency of the off-shore firms (especially from Cyprus). This so-called "shyness" refer to Japan's situation after the Second World War, when its investments from the Pacific were seen with a kind of hostility by the population of those states which had been occupied and had bore the rigours of the Japan occupation. The historical animosities between Romania and some of its neighbours, respectively Russia and Ukraine, launch for many times nationalist outbursts from both parts and prevented from the establishment of some common economic and diplomatic between the given parts.

Table 34 : Romania: geographical origin of the FDI (1990-2005 stock)

	Foreign enterprises (number)	Foreign enterprises (%)	FDI stock (000 euros)	FDI stock (%)
EUROPE	**58246,0**	**55,0**	**9437262,3**	**78,0**
from which EU	*55349,0*	*52,3*	*8994817,6*	*74,3*
ASIA	**39581,0**	**37,4**	**859939,4**	**7,1**
from which Middle East	*31380,0*	*29,6*	*593211,8*	*4,9*
NORTH AMERICA	**5245,0**	**5,0**	**692191,5**	**5,7**
from which USA	*4195,0*	*4,0*	*645693,4*	*5,3*
OTHER	**2459,0**	**2,3**	**199829,8**	**1,7**
OFF- SHORE	**392,0**	**0,4**	**918061,7**	**7,6**
Total ROMANIA	**105923,0**	**100,0**	**12107284,7**	**100,0**

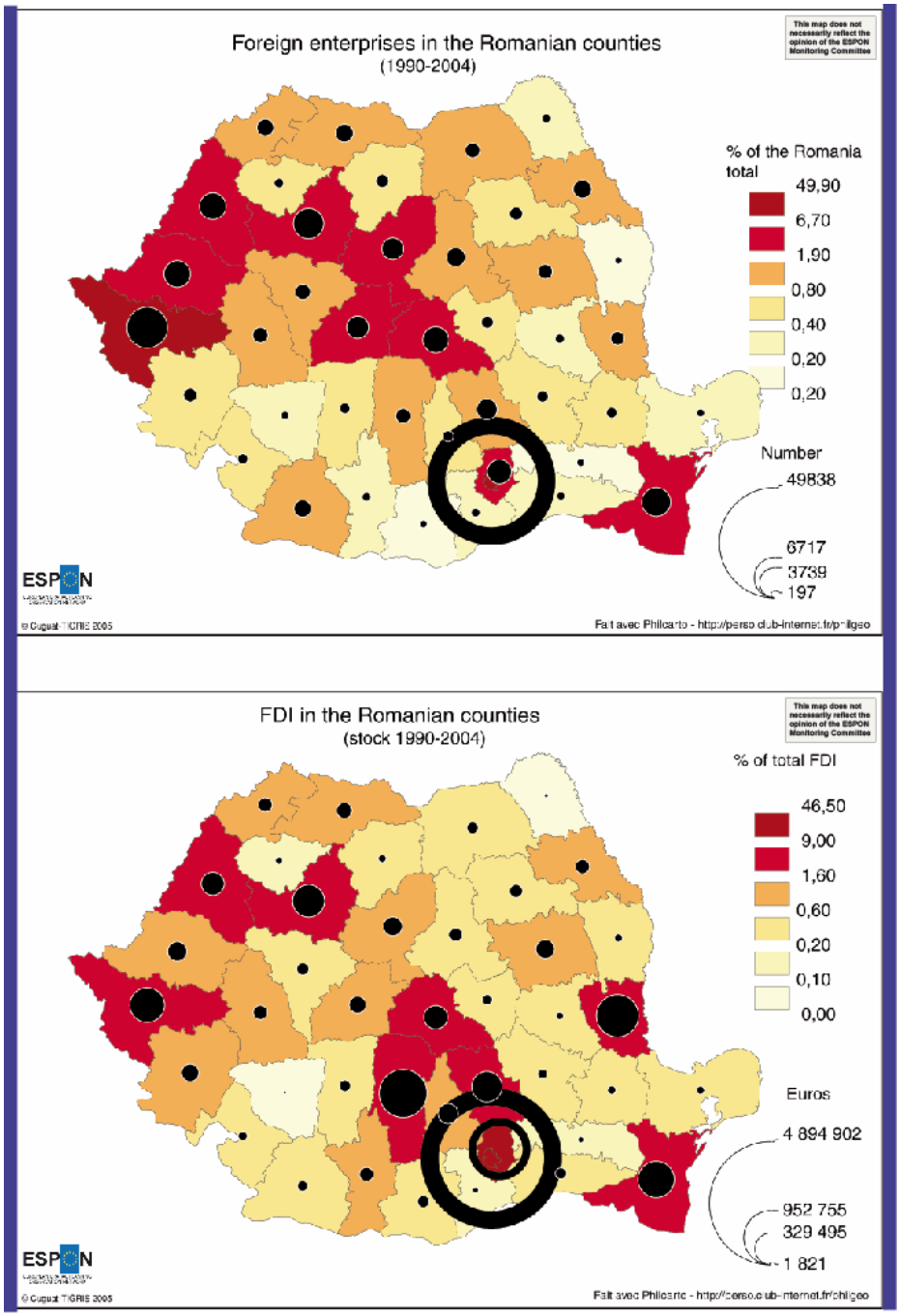
Source: National Bank of Romania

Map 37 : The origin of the FDI in Romania



The distribution of the investments in Romania favours the capital, Bucharest, and the western regions (see table 1). Only the Bucharest municipality concentrates almost 47% from the investment stock and 50% from the total amount of the foreign capital firms subscribed up to year 2005.

Map 38 : Distribution by county of the FDI stock



The western regions (see figure 11) derive advantage from a double advantage: there are the most developed areas from the country besides having an important Magyar minority represents a preferential target for the proximity investments in the immediate neighbourhood of Hungary (see WP8.7.). The major part of the Hungarian investments (353 millions of EUR, respectively 2.91% from the total amount) exist under the form of small but numerous firms (5250, respectively 4.96% from the total) and tend to concentrate in those areas in which the Magyar minority is localized, what brings up the risk of outlining some new spatial lack of balances.

The eastern and southern, rural and less developed regions do not attract either the international financial waves, or the investments of proximity, because the neighbours are countries which were in an economic dilemma (Serbia, Bulgaria, Republic of Moldova, Ukraine). For example, the Republic of Moldova invested only 15 millions of EUR (0.12%) in 1992 through small firms (1.88%) and Bulgaria 9.2 millions EUR in 584 firms.

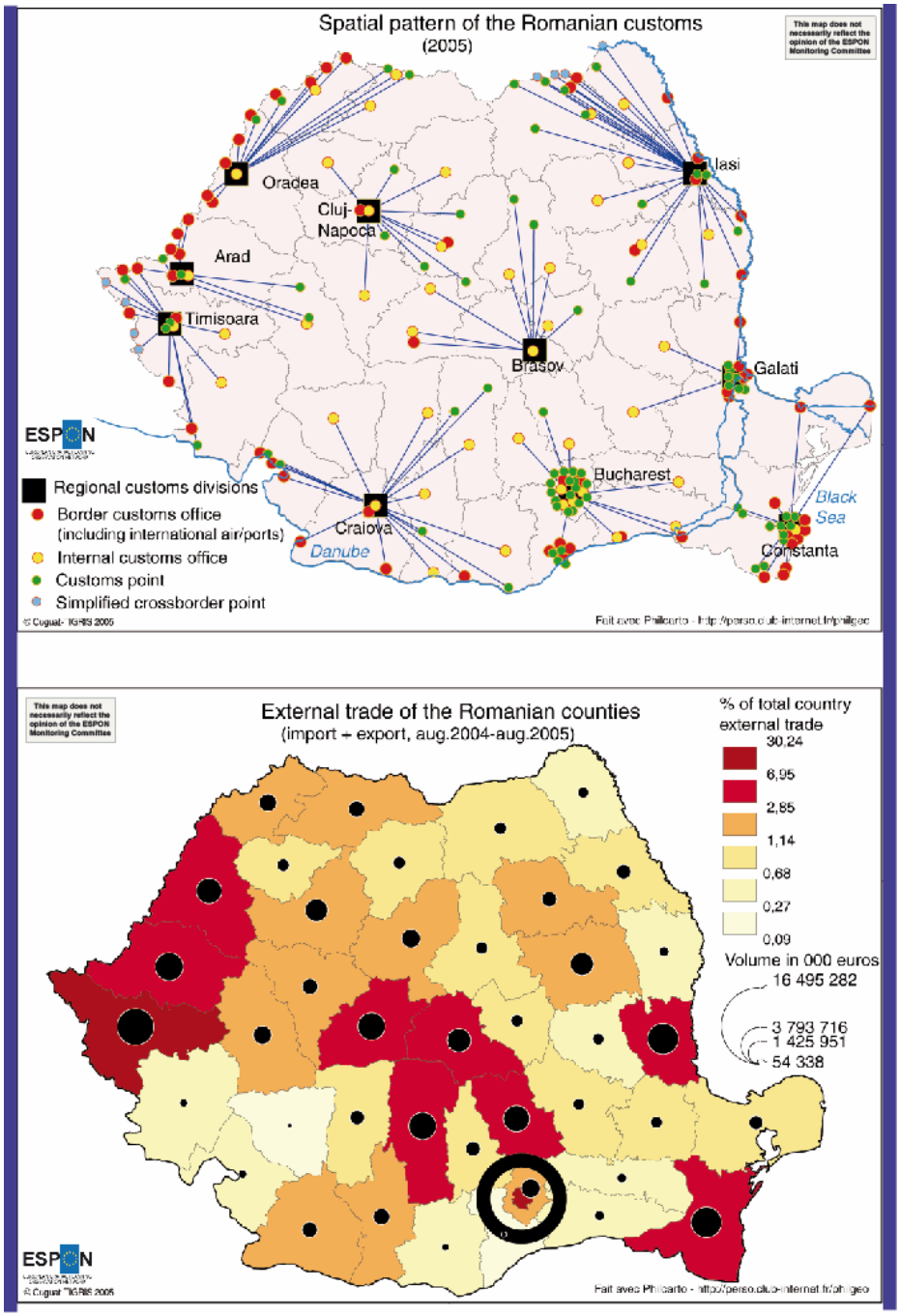
The analysis of the FDI location after the investment stock shows the tropism created by the comparative advantages, the major part of the investments being attracted by the western regions and by the diagonal axis Bucharest-North-West, with an acknowledged industrial tradition. To those latter is also added the Constanţa county which profits from the existence of the greatest port in the south-east of Europe, stream-lined and in directly bound with the Danube-Main-Rhine corridor.

Because all the communist economies were de-capitalized, the main engine of the present economic dynamics is represented by the FDI, the only ones that can support the transformation charges of the production structures and those of the services. The regions which take advantages from the FDI consideration are, consequently, in a great evident advantage towards those left in shadow.

The analysis of the spatial organization of the Romanian custom and that of the spatial intensity of the exterior trade (figure 12) confirms this fact. If the western part of Romania has five regional customs divisions (Timişoara, Arad, Oradea, Cluj-Napoca and Braşov), in the eastern side of the country only one appears, centered on Iaşi municipality. This fact can be explained only through the greater intensity of the trade activities in the regions from the western side, the eastern border/frontier being in many parts inert. In the south, the regional customs divisions are organized around the seaport (Constanţa), fluvial ports (Galaţi) and around the capital (Bucharest) which tends to become a regional metropolitan area.

The spatial organization of the customs and the intensity of the exterior trade – symbols of some profound territorial structures – are governed consequently also by the external forces (FDI preferences, transcontinental commercial flows, borders opacity degree, metropolization).

Map 39 : Spatial patterns of the Romanian external trade



7.4 Conclusion

The present stage of the research achieves a qualitative analysis of the Romania's geographical position and of its territorial consequences, using a concept which seems to be adequate to the aim, respectively that of the *entre-deux.* In fact, Romania is used as a pretext of this study, the latter aiming to grasp a general pattern for those states from the close proximity peripheries. The preliminary results of the research, which follow to be verified, quantitatively, in the next stage, lead to the following conclusions:

- The integration into the European Union of the peripheral states from the Eastern Europe do not increase their feeling of the national security; from here some distinctions between the foreign policy of the Union and that of the new state members or candidates, which seek new strategic alliances. The policy of the "sanitary belt" seems to impose from itself: a privileged status for the neighbour states (Ukraine, Republic of Moldova, Caucasian countries…) can bring an extra-advantage in terms of stability at the European Union borders.
- The policy of the European Union of including new members or of creating a new belt with a privileged status in the close proximity, must not release an attitude of competition between these states, because their *entre-deux* position keeps alive the memory of the past conflicts, and from this, the nationalist outburst can be launched anytime.
- The *entre-deux* states rise problems in the integration view under a form or another in the European Union (tensions at the frontiers, cultural differentiations, fragility in front of some processes such as the administration of the FDI claims/pretentions or globalisation) but it also deals with some advantages (pre-existent diplomatic relations with sensitive spaces, the know-how necessary to the joining of the profoundly inert structures with the circumstantial dynamics, the keeping of the architecture and of the regional spirit).
- The states of the *entre-deux* represent another valid relay in the reception and for the diffusion of the western modernity towards outside, not only at the official level (through the rapid and coherent promotion of its values and institutions), but also at an officious level (on long term, through the promotion from near to near of the individual and group behaviours and attitudes based on alterity and on the respecting of the human values).

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8. FOCUS ON SWITZERLAND

Marco Keiner,
ETH Zurich

8.1 Introduction

In Europe and the World, Switzerland is associated with features like

- Direct democracy
- Fiscal paradise
- Neutrality
- Specific high quality products (watches, chocolate, cheese, and manufacturing)
- Transit corridor between Western Europe and Italy, and
- The divide between its Government (the Federal Council) and its population in regard of joining the European integration process

This text will highlight the political and economic relations between Switzerland and the European Union and show the process and the state of the mutual negotiations of coming together.

It is a compilation of the following official documents:

Federal Council: Integration Report 1999. Berne 2000, http://www.europa.admin.ch/europapol/off/ri_1999/e/index.htm

Federal Council: New Foreign Policy Report of the Federal Council (*Foreign Policy Report 2000)* - Presence and co-operation: Safeguarding Switzerland's interests in an integrating world. Berne, 2000; http://www.europa.admin.ch/europapol/off/ap/e/index.htm

Swiss Federal Chancellery: Trends and possible future issues in federal policy - Challenges 2003-2007, Berne 2002; http://www.admin.ch/ch/e/cf/herausforderungen/

Swiss Integration Office DFA/DEA: The Seven Bilateral Agreements Between Switzerland and the European Union of 1999 – Report on the Agreements and Companion Measures, with Explanations. Berne, 2002.

Swiss Integration Office DFA/DEA: Explanatory documents on Swiss European policy; http://www.europa.admin.ch/europapol/expl/e/index.htm

Swiss Integration Office DFA/DEA: Bilateral Agreements I; http://www.europa.admin.ch/ba/e/index.htm

Swiss Integration Office DFA/DEA: Bilateral Agreements II; http://www.europa.admin.ch/nbv/e/index.htm

8.2 Development trends of the European union and Switzerland

8.2.1 Switzerland and Europe

The process of European integration has entered a new important phase. Eight central and eastern European countries, together with Malta and Cyprus, have joined the EU in 2004. A further two countries from eastern Europe, Bulgaria and Rumania, and most probably Turkey as well, are set to become members at a later date. The European Single Market has become more clearly defined with the introduction of the common currency.

Overall, Europe is finding its way towards a state of political and economic order that will bring it peace, stability and prosperity. Apart from the European Union (EU), NATO remains a stabilising power factor complemented by the mechanisms of the OSCE (Organisation for Security and Cooperation in Europe).

The EU is the most important partner of Switzerland - politically, culturally and economically. The EU and Switzerland are founded on common fundamental values such as democracy, regard for human rights and a constitutional state. The EU is by far the most important trading partner of Switzerland: three-fifths of Switzerland's exports are sent to EU countries, while four-fifths of Switzerland's imports come from there.

Switzerland also has close contractual ties with the European Union. 1972 saw the conclusion of the Free Trade Agreement (for industrial products), while seven bilateral agreements were signed in 1999 in the areas of free movement of persons, overland transport, air transport, agriculture, research, and technical barriers to trade and public procurement. These bilateral agreements I came into force on 1 June 2002. Further negotiations in nine new areas (Bilaterals II) have been concluded on a political level on 19 May 2004.

8.2.2 Assumptions on overall future development trends

Over the last 15 to 20 years, the basic international conditions for the Swiss economy and society but also for federal policy have radically changed. Technological advances in transportation, in electronics and in their areas of application such as IT and telecommunications, in the development of transport infrastructure and the lowering of transportation costs, as well as the sustained trend towards liberalisation, increasing international competition through the reduction of trade and customs barriers, particularly also at regional level (EU, NAFTA, etc.) increasingly enable companies, institutions and individuals to extend their activities to the regional and global level. The end of the Cold War

and the transformation of the former planned economy state block have had a legitimising, reinforcing and accelerating effect. These developments form the foundation for an exceedingly manifold and complex process, which for simplicity's sake is referred to in this report as 'globalisation'. Many developments evolving today will probably not fully unfold before the first or second decade of the 21st century, but are still fraught with considerable uncertainties and could cause far-reaching global structural changes (new technological system, further integration of the global economy through multi-national enterprises, shift in the balance of global economic power, accentuation of global environmental problems, etc.).

From Switzerland's point of view, globalisation possibly finds its greatest expression in the momentum of European integration. The countries of Europe see European integration primarily as Europe's answer to the increasingly global challenges. In the 1990s, the EU was enlarged to include Sweden, Finland and Austria and has been consolidated with the treaties of Maastricht, Amsterdam and Nice. The most evident changes in recent years have been Economic and Monetary Union with a common central bank and the highly symbolic single currency, as well as the efforts to establish a Common Foreign and Security Policy including a European Security and Defence Policy. The coming years will be characterised by the structural reform of the EU and the arrival of new Member States. The accession to the EU of eight Central and Eastern European states together with Malta and Cyprus is set to take place in 2004. Two further Eastern European countries (Bulgaria and Romania) and possibly Turkey should be able to join at a later date.

The consequences of globalisation and the progressive enlargement and consolidation of the European integration process are already evident in Switzerland today and it can be assumed that they will continue to intensify. Considerations on Swiss trends and future challenges are, therefore, inseparably linked to assumptions regarding overall international conditions, while because of the emerging cooperative global integration movement at two levels (cooperation within and between global regions), a distinction is made between global and a European level for practical reasons.

Developments in the international environment over the coming ten years:

- Slightly accelerating economic growth at both the global and the European level, however, with the possibility of temporary setbacks; weaker growth in Asia as compared to the early 1990s; initially only a slight shift in balance of power within the global economy.
- Continuous reinforcement of global networks within or between various companies and research institutions through alliances, mergers etc; further increasing mobility of capital within the frame of liberalised and

highly modern capital markets; sustained intensity of geographic competition in particular between OECD countries, but also with the emerging markets.
- Accelerating modernisation processes towards the information, knowledge and service society, especially in OECD countries.

The central foreign policy questions and problems that Switzerland will have to confront in the coming decade have to some extent been part of the fields of Swiss foreign policy activities for some years already. Swiss foreign policy is characterised by continuity and calculability. Switzerland will concern itself with most of the existing and future international challenges. It too will be required to reach political decisions and undertake social adjustments as a result. Switzerland has the strength and vitality to respond to these challenges independently. In so far as these challenges are of significance for foreign policy, it certainly cannot claim to have ready answers to every question. But one essential observation surely emerges: *these global issues far exceed the capacity of an individual state to respond and find solutions.* If Switzerland wishes to make any contribution to the realisation of global responses, it will only be able to do so in close collaboration with other states. The fact that these *"other states"* are, in Switzerland's case, primarily the states of Europe is clear on the basis of common values, traditions, convictions and interests. Self-righteousness and absence can endanger the country's major interests.

8.2.3 Economic and Population Trends in Switzerland

In the even tougher international competition in terms of location and market share, Switzerland appears to be in a good position judging from cross-sectional data, but judging from longitudinal data (development trends of productivity, investments, income, taxes, etc.) its position is less favourable. Unrestricted access to the EU market is vital for Switzerland's economic development.

As a result of the introduction as planned of Economic and Monetary Union in 1999 there was initially a sideways development in the exchange rate of the Swiss franc to the Euro. From mid-2000 there was an appreciation of the Swiss franc, which has continued and is set to put a strain on the Swiss export economy. However, Swiss exports obtained easier access to the European single market when the bilateral agreements came into force in June 2002, which provides some compensation.

The assumption is that a high level of private consumption and a growth in exports of 2.2% in the period up to 2015 will result in average economic growth of 1.5% per annum.

The traditional leading sectors of the Swiss economy (chemical industry, precision instruments and watches, banking and insurance) are expected to maintain their competitive edge. They are the linchpins of economic prosperity. Rationalisation and restructuring will continue in the wake of European Monetary Union and further service industries such as banks, insurance and management consultancies will be affected. Certain traditional industries such as mechanical engineering and metal processing could experience a renaissance. Others are on the threshold of technological innovations (IT, communications). In the future there is likely to be increased demand in the health sector. It is anticipated that jobs are more likely to be created in sectors catering to the domestic market, which are less exposed to the pressures of international competition. The tertiarisation of the economy will increase, not least on account of the fact that many new occupational images in the industrial sector are taking on the character of services as a result of the new ICT. It cannot be ruled out that Switzerland could degenerate into a dual economy with dynamic sectors characterised by high productivity and few available jobs and sectors with lower productivity, which can offer employment, to a certain extent on account of state funding mechanisms and regulations, but do so under unfavourable working conditions.

The construction industry can keep ticking over in the event that major government investments (Rail 2000, NRLA, national road construction) are realised and due to essential maintenance of existing buildings. There is no expectation of a boom as the weak development of demand in the construction of housing (population development is the main reason here) and overcapacities in the industrial-commercial sector are likely to continue to have a dampening effect.

International competition in the tourism sector between the different holiday destinations in response to the globalisation processes will remain and the changed security situation will have an influence on visitor figures. In the medium term further restructuring and adjustment processes in this sector can be expected.

As a result of the increasing number of gainfully employed persons and stable economic growth as well as the smooth operation of the labour market, unemployment will fluctuate around the 3% mark depending on the economic trend. Productivity will only be able to grow to about 1.5% per annum under the same competition conditions.

The clearly discernible trend since the 1990s towards flexibilisation of the labour market will continue. The number of invalidity cases and welfare claimants (welfare offices) offsets this.

Location attractiveness of Switzerland:

- Losing ground
- Unrestricted access to EU market is key

Exchange Rate:

- Franc goes from strength to strength
- Easier access to European domestic market

Economic growth:

- 1.5% pa on average up to 2015

Structural change:

- Existing market leaders remain linchpins of economic growth
- Increased pressure due to EMU
- Continuing tertiarisation of the economy
- Accentuation of dual economic structure?

Construction industry:

- Stabilisation in the event that major projects are realised

Tourism sector:

- Further restructuring

Labour market 1:

- Unemployment level to remain below 3% to 2007, then slight fall possible

Labour market 2:

- Flexibilisation to continue

8.3 The European policy of the Swiss federal council

The Swiss Federal Council approved the new Foreign Policy Report at its closed meeting on 15 November 2000. The Report replaces the previous "White Paper on Switzerland's Foreign Policy in the 90s" of 29 November 1993. The "Foreign Policy Report 2000" summarises how the Federal Council shaped Switzerland's foreign policy in the past decade and sets out its objectives and priorities for the decade ahead.

In its Foreign Policy Report of 15 November 2000 the Federal Council set out its long-term aim of taking Switzerland into the EU as well as the three preconditions for the commencement of entry negotiations:

Firstly: Switzerland first wishes to gather experience with the seven bilateral agreements from 1999. It wants to see how these agreements work out in practice.

Secondly: The effects of joining the EU on central areas of Swiss statehood must be thoroughly clarified and convincing answers found to any outstanding questions. The Federal Council will publish a report on the pros and cons of EU membership in the second half of this legislative period outlining the consequences for the country's federalism, popular rights, neutrality, system of government organisation, finances, economic and monetary policy, agriculture, migration policy, not to mention its foreign and defence policy.

Thirdly: There needs to be broad domestic support for the aim of EU entry.

On 4 March 2001 the people and the cantons overwhelmingly rejected the popular initiative "Yes to Europe!". This initiative was intended to oblige the Federal Council to open immediate negotiations on entry to the EU. Voters heeded the Federal Council's recommendation to reject this popular initiative because the preconditions for the commencement of negotiations on entry to the EU had not yet been met.

The Federal Council reaffirmed the key elements of its European policy after the vote on 4 March 2001:

- in the short term, the implementation of the seven bilateral agreements, their extension to the ten new EU Member States and the conclusion of the second series of negotiations are the top priority.
- in the medium term, priority will be given to obtaining approval of the second series of agreements by the Federal Assembly and the Swiss people and their subsequent implementation.
- the longer-term aim of the Federal Council's European policy is to take Switzerland into the European Union. The Federal Council is convinced that in the long-term Switzerland can better safeguard its interests within the EU than outside it. Today, many problems can no longer be resolved through the lone actions of individual states, but only in acting together at European level.

8.4 Stages of swiss european policy

Switzerland has consistently adopted a European policy aimed at closer cooperation with the other nations of Western Europe. At each step it has been careful to ensure that this policy is firmly anchored in public law and intergovernmental agreements. It nonetheless followed the development of European integration in the supranational framework of the European Community (EC) with scepticism, preferring a European free trade area, as indeed did the United Kingdom. The European Community (EC), the objective of which was to reconcile the belligerents of the two world wars, in particular France and Germany, and to prevent any further outbreak of conflict between participating countries, was created without any thought being given to Swiss participation. And indeed Switzerland had never seriously considered joining, nor had its membership been sought by the EEC member nations. Quite the opposite in fact, since the demand for association which Switzerland eventually presented in 1962 was put in a bottom drawer due to the influence exerted by the French President Charles de Gaulle. Switzerland thus ran the risk of being cut off by customs barriers from its principal trading partner, Germany. This problem was not overcome until Switzerland signed a free trade agreement with the EC in 1972. Although the United Kingdom joined the Community in 1973, seven years of stagnation in the process of European integration made it possible for Switzerland to just coast along without feeling any real pressure to negotiate.

However the conclusion in 1985 of the Single European Act and the effective creation of the single market with the four freedoms (freedom of movement of persons, goods, services and capital) that resulted from this, forced Switzerland and the other countries of the European Free Trade Association (EFTA) to reconsider their position, eventually leading at the end of the 1980s to negotiations for the creation of a European Economic Area (EEA) based on the same four freedoms. Ultimately however the limited objectives which the EFTA states had set for themselves in these negotiations were overtaken by a number of major events that reshaped the world: the fall of the Berlin Wall, the collapse of the Soviet Union, and the superpowers' renunciation of their Cold War commitments in Germany and Europe. It became clear to all the states of the "old continent" that henceforth they must themselves accept responsibility for peace and prosperity in Europe, for indeed there was no other choice. The vast majority of EFTA countries (Austria, Finland, Sweden, Norway and Switzerland) consequently decided to apply for membership in the European Union. Switzerland suspended its application in 1992, after the Swiss electorate rejected the government's proposal to join the EEA.

In Switzerland's case relations with the EU were eventually to be given a new lease of life by the decision to seek sector-by-sector bilateral agreements. After lengthy negotiations, seven such agreements were signed with the EU in 1999. These were approved by a large majority of the electorate in the referendum of

May 2000. The agreements came into force on 1 June 2002. Further bilateral negotiations between Switzerland and the European Union on ten new areas are also in course since June 2002.

8.4.1 First Stage: from the end of World War II to the foundation of EFTA

At the end of the Second World War, there was great need for political and economic unity in Europe. Switzerland however did not feel tempted to participate in the West European integration process, for her economy was flourishing and the policy of neutrality had proven its worth. Its leaders therefore decided against joining the European Council at the time of its creation in 1949 as the first step towards a federation of European states. It was not until the Treaty of Rome did found the European Economic Community in 1957 that her hesitation about joining the European Council was finally overcome. The Confederation became a member of the European Council in May 1963.

An event of singular importance to the Swiss economy occurred in 1960 with the creation of the European Free Trade Association, EFTA. When France opposed the idea of extending the six-member EEC, the United Kingdom, Denmark, Norway, Sweden, Austria, Portugal and Switzerland decided it was time to get together to defend their economic interests and create a free trade area of their own. Some of these nations, the UK and Denmark in particular, saw it as a transitional step. Switzerland on the other hand had its eye on a free trade agreement with the EEC. Thus it was that in the Sixties, Switzerland laid the foundations of a policy based on step-by-step pragmatism in the context of bilateral negotiations. The coordination instrument of this pragmatic policy would be the Integration Office DFA/DEA, created in 1961.

8.4.2 Second Stage: from the free trade agreement to the Single European Act

In 1972, Switzerland achieved one of her goals in the form of a free trade agreement (FTA) with the EEC. While ensuring that Switzerland would not be left entirely out of the EC integration process, this agreement did not require relinquishing any sovereignty, and also left it open for the Swiss to negotiate additional trade agreements. The only institution the partners had in common was the Joint Committee, which was not however endowed with any supranational powers. This arrangement allowed Switzerland to keep intact its neutrality, federalism and direct democracy. The FTA allowed plenty of scope for new agreements. Over the next 20 years, Switzerland took full advantage of this

leeway, concluding well over 100 special bilateral treaties with the EC. Most of these involved trade in goods. The two sides did have talks on other key policy areas however, such as transport, the environment, research and development. And they reached several understandings in these areas too. The participation of Switzerland in the Community's efforts to co-ordinate standardisation is also worth mentioning in this context.

This sector-by-sector approach, at the level of bilateral negotiations, was seen as the most viable solution over the long term. It was thanks to the success of this approach, in the atmosphere of economic and political crisis that prevailed within the EEC at the beginning of the 80s, that there would be no need for serious discussion on the "Europe question" in Switzerland for many years to come. Despite intensification of the West European unification process, culminating in the Single European Act (SEA) of 1986, this state of affairs continued in Switzerland.

It was only with the Swiss people's decision not to become a member of the United Nations that same year that doubts began to set in, being first expressed in the French-speaking cantons of western Switzerland, fearful of the country's increasing isolation. But concern was also spreading in the rest of the country, which was as much worried by the prospect of economic discrimination as by political isolation. This resulted in a more active policy on Europe, and efforts to ensure the compatibility of all new Swiss legislation with the laws of the EC (the so-called Acquis Communautaire), which began in May 1988. In August of the same year, the Federal Council published its first major report on Europe, entitled "Switzerland's position on the European integration process". In this document, while advocating an integration policy based on sector-by-sector negotiations, the Federal Council recognised that times had changed, and admitted for the first time that full EC membership should not be categorically ruled out.

8.4.3 Third Stage: Switzerland seeks its place in the Europe of the 21st century

In January 1989, Jacques Delors who was still President of the European Commission, presented his EEA project to the European Parliament in Strasbourg. Switzerland's dream of a "golden mean" solution seemed to be coming true, for the EEA would require neither a common policy with regard to third countries, nor a common economic and monetary policy. Moreover, there would be little need to adapt Swiss legislation. Switzerland was also ready to accept the Single European Market part of EC law (Acquis Communautaire) as the sole basis for negotiations, on the condition that she be granted the right to

participate in the legislative decision-making process. It was at this point, at the end of 1989, that the bargaining began, on the one hand between the EC and EFTA, but also between the different EFTA partners, which had been unable to agree on a unified negotiating position. It was not until October 1991, in Luxembourg, that the breakthrough came, which allowed Switzerland to share in the so-called four freedoms (the free movement of goods, persons, services and capital). Following the sweeping changes that had been wrought in the world's political map, EEA membership could no longer be said to really meet Switzerland's interests, except partially. For the situation of the countries of Eastern Europe had changed entirely, the Soviet Union had crumbled, and the superpowers no longer had the same engagements in Germany and Europe. In any case the EEA agreement did not allow Switzerland to participate in the decision-making process. After signing the EEA agreement in Porto on 2 May 1992, the Federal Council submitted its request for EU membership to Brussels on 26 May 1992. The Swiss government's "Eurolex" programme, aimed at bringing Swiss law into line with that of the EC, was unveiled on 1 June.

Less than two months later however (6 December 1992), the EEA option was rejected by 50.3% of the electorate, as well as by 14 cantons and four half-cantons. The government interpreted the result as a mandate to eliminate or at least to minimise the main disadvantages of Switzerland's continued non-participation in the EEA, by negotiating agreements with the EU, sector by sector. At the same time, the government decided that a revitalisation programme was needed to improve Switzerland's attractiveness as an economic centre, to be achieved by the dismantling of various "barriers", and by liberalising the internal market and the cartels that exist in different sectors of the economy. The application to join the EU was frozen.

At the end of 1993, in its report on Swiss foreign policy in the '90s, the Federal Council confirmed Switzerland's commitment as a partner to Europe, and consequently the maintenance of full EU membership as the long-term objective of the country's integration policy. Next, the government focused its attention on the only objective capable of implementation in the short term – the sector-by-sector bilateral negotiations with the EU. These negotiations were begun in December 1994 and concluded in December 1998. Signed in Luxembourg on 21 June 1999, the agreements have entered into force on 1 June 2002.

With the publication of its 1999 Report on Integration the Swiss government gave parliament, in February of that year, a new summary of its view of relations between Switzerland and the EU. The Report on Integration is intended to serve as a solid basis for an objective and comprehensible discussion for everyone interested in the debate on European integration. It is on the strength of this debate that the Federal Council will eventually determine whether or not

domestic conditions are suitable for the beginning of negotiations with the EU for Swiss membership.

The «Yes to Europe» popular initiative was rejected by a clear majority on 4 March 2001. 77% of the voters said no to this request for the Federal Council to open immediate negotiations on accession to the EU. Swiss citizens therefore endorsed the position of the Federal Council not to seek EU membership at this stage because the conditions necessary for such a step do not exist at present.

The Federal Council set out its European policy clearly in its foreign policy report of November 2000. Implementation of the seven bilateral agreements with the EU is the immediate priority. In the medium-term, Switzerland wishes to negotiate further bilateral agreements with the European Union in new areas. These negotiations are in course. EU accession continues to be the long-term objective. The Federal Council is convinced that Switzerland will be able to safeguard its interests more effectively as a member of the EU than if it stays outside. This is the only way in which it can have its stay and help to shape decisions, which have a direct bearing on Switzerland, too.

However, before negotiations on accession are opened, the Federal Council believes that three conditions must be satisfied: in the first instance, Switzerland wishes to acquire experience of the seven bilateral agreements. Secondly, the implications of EU accession for central areas of the Swiss constitution must be studied in detail and proposals made for the necessary reforms. Thirdly, broad domestic policy support for the goal of accession must be secured.

The history of the negotiations brought the following facts to light:

- One advantage of the sectoral route is that, in the choice of the subjects for negotiation, Switzerland has an equal say with the EU while the implementation and application of the conventions takes place autonomously in Switzerland and the direct costs remain low. This is because contributions to the budget of the European Union only have to be paid in certain specific instances (for example for research).

- The following arguments militate against the sectoral route as a long-term instrument of Swiss integration policy:

- The EU shows great reluctance to choose further negotiating areas because of its own diverse internal interests. Negotiations can only be conducted on matters, which are of some interest to all fifteen Member States.

- The length and complexity of the negotiations are considerable because of

the special circumstances prevailing in the EU. With fifteen Member States the EU has achieved a degree of complexity, which makes sectoral approaches difficult. Whenever one specific problem is examined (e.g. freedom of movement for persons), new imbalances of interests may arise between the EU Member States, which in turn have to be compensated by concessions in other areas (such as agriculture). The systematic absence of Switzerland from meetings between the fifteen EU States makes it difficult to effectively clear up real or imaginary misunderstandings as to Swiss positions in due time.

- There are also institutional barriers to the completion of further sectoral treaties: on central matters of mutual interest, a treaty solution could only be arrived at if Switzerland were to transfer sovereign rights to the EU and, in particular, acknowledge the supreme judicial authority of the EU Court of Justice and the legislative and political majority decisions of the Council of Ministers. These matters, which cannot be settled by sectoral treaties but only by EU accession, include e.g. the elimination of the customs union frontiers for the trade in goods, comprehensive cooperation on internal security on a basis of parity, institutional safeguards for monetary and exchange rate stability and membership of economic treaties between the EU and other regions of the world (NAFTA, Mercosur, Apec, Mediterranean region etc.).

- A negative counterweight to the acceptability of sectoral agreements in terms of sovereignty is the circumstance that an adjustment of the treaties to changing circumstances (for instance progress in technical criteria for products or in environmental protection legislation) may be a cumbersome process, especially if parliamentary approval of the treaty change is necessary in all fifteen EU States.

The Federal Council has made a thorough identification of the sectoral route in the past years and will continue on this road jointly with the European Union to the extent that this is possible and both parties have an interest in doing so (entry into force of the sectoral conventions; in addition, modernization of the rules on free trade in food industry products, membership of Europol, negotiations on a parallel agreement to the Dublin Convention on Initial Asylum Seekers, Swiss participation in EU programmes, e.g. in education, film, promotion, statistics and environmental monitoring). On the other hand, the Federal Council is well aware that the limits in terms of content and procedures for sectoral agreements between Switzerland and the European Union will soon have been reached

8.4.4 EEA participation

Swiss membership of EEA as compared to EU accession is facilitated by the limited implications in terms of formal constitutional policy and lower costs.

As compared to EU accession, the need for adaptation in agriculture would not exist; there would be no need to change our financial regulations (no acceptance of the EU minimum value added tax), while adaptations to comply with the conditions of Economic and Monetary Union would also not be necessary.

In the event of an unsuccessful outcome to the ratification procedure for the sectoral conventions, the EEA would be of interest in terms of its content (the four freedoms); the solutions which remain to be negotiated in all areas, in particular in national transport and social insurance law would be much the same for Switzerland as the solutions arrived at in the sectoral conventions concluded at political level on 11 December 1998.

However, factors against participation in EEA, even as an intermediate step to EU accession, include institutional weaknesses and shortcomings in terms of content (no customs union or common foreign trade policy, no common agricultural policy, no full rights of co-decision), the obligation of the EFTA countries to speak with a single voice and the circumstance that the EEA increasingly fails to cover important areas which will play a vital role in the European future of Switzerland (monetary stability, policy on asylum seekers, internal security, external policy).

The opinion that is sometimes voiced to the effect that the relationship between Switzerland and the EU might be permanently governed by an association treaty going beyond the content of the EEA Convention and specifically tailored to suit Switzerland would presuppose a willingness of the EU to negotiate in that sense and fails to recognize the fact that only EU Member States can exercise rights of co-decision.

8.4.5 Switzerland remains outside

The continuation of the existing pragmatic policy of small steps with all its known advantages and drawbacks is less an integration policy option as far as the Federal Council is concerned, than the expression of a reality which remains valid until the policy change which the Council seeks finally comes about.

On the other hand, measures to shadow EU policies or the maintenance of an offshore position are not integration policy instruments, which the Federal Council is examining in more detail at this juncture. The declared systematic and unilateral shadowing of legal developments in the EU would be politically dubious and economically risky as Switzerland would constantly have to make unilateral contributions if it adopted this approach. The offshore policy would

result in a fundamental change in the economic and social situation of the country from which a few people might profit greatly, but would cause the nation as a whole to lose its present character. Mixed forms of the policy of remaining in isolation would repeatedly come into conflict with the constitutional and economic policy deficits referred to earlier.

8.5 Eu accession

8.5.1 Identity, independence, federalism and people's rights

In the area of federalism, the cantons would have to cooperate in decision-making in all matters of relevance to them, which are discussed and decided in the EU. The Federal and cantonal Authorities would conduct an in-depth dialogue on appropriate measures in the run-up to EU accession. The main emphasis would be on measures to strengthen information for the cantons, improve cantonal consultation in preparation for decisions and ensure suitable representation of the cantons in some EU bodies.

The *regional policy* of the Federal Council could be continued as at present and adjusted still more effectively than is the case today to Swiss needs through cooperation within the EU.

Accession of Switzerland to the European Union would be compatible with the *Federal Constitution.* Article 89 of the Federal Constitution, which requires a popular and cantonal majority for such a decision, was revised in 1977 precisely with a view to EU accession.

Clearly, the fifteen Member States of the EU have retained their sovereignty. As an EU Member, Switzerland would have an opportunity to influence and help to shape the rules, which are applied on an ever-growing part of our continent. Given the central geographical, demographic, political and economic values of Switzerland and the EU, for many years now, Switzerland has no longer been able to escape the growing influence of EU decisions. *Accession* would in fact strengthen Switzerland's independence firstly by enabling the country to take part in decisions which concern it (it might adopt a joint approach with other Member States, depending on the circumstances and needs) and secondly because it could benefit from the substantial weight of the EU if efforts were made to exercise pressure on Switzerland.

If Switzerland became part of the EU, the Swiss people and possibly also the cantons could continue to exercise the people's rights embodied in the Federal Constitution (referendum, initiative). As the Council of Ministers stressed in an

answer to a parliamentary question on the compatibility of national referenda with the Community treaties, the organization of referenda is an exclusive preserve of the respective constitutional orders of the Member States. However, the outcome of a referendum must not be allowed to influence obligations arising under the treaties establishing the Communities. Studies by various Swiss universities have shown that, had Switzerland already been an EU Member since 1993, the number of concrete conflicts between Community law and referendum proposals at either Federal level or voting procedures at cantonal level would have been very small.

In 1991 – in the context of the EEA negotiations and also with a view to possible EU accession – the Federal Assembly adopted a statutory provision permitting the participation of Parliament in the area of external policy. On this basis, the Federal Council would, in the event of EU accession, systematically consult the Foreign Policy Committees before adopting its own position on acceptance of decisions of the Council of Ministers which would be directly applicable in Swiss law (regulations) or entail an amendment of Swiss legislation (directives). In this field too, it remains to be seen whether the existing procedures would be sufficient in the event of EU membership. At all events the Federal Council takes the view that accession would not weaken the role of Parliament or that of the cantons in our political system. The weight of the national parliaments of the EU Member States shows this to be possible.

As to the *organization of justice*, Switzerland would remain autonomous in the event of accession, save that its own procedural law would not be allowed to discriminate against Community law and threaten the legal validity of the latter.

In addition, Switzerland has always been well integrated into overall European cooperation in matters of *civil and criminal law* through the Hague Conference and the Council of Europe. As far as the Brussels Convention on the mutual recognition and enforcement of legal decisions of 1968 is concerned, the parallel Lugano Convention has so far guaranteed Switzerland's integration into the legal area. If the cooperation can be continued in its existing form, there would therefore be no significant problems for Switzerland in these domains.

In the Federal Council's view, *internal constitutional policy measures* would have to be considered in detail in the following areas in the event of EU accession:

- measures would have to be discussed with the cantons to enable them to play an appropriate part in the definition of the Swiss negotiating position at the time when accession negotiations begin. The extent to which the cantons could enforce their right of consultation in the negotiations, especially in cases where their own competencies are concerned, would also have to be determined.
- in the area of people's rights, concrete proposals would have to be made

in an explanatory statement on EU accession, defining the instruments by which the most evident cases of conflict could be resolved. It would also be necessary to examine how the involvement of the Federal Assembly in the definition of Switzerland's negotiating positions on European policy could be ensured.

- the organization and working methods of the Federal Council and Federal Administration would have to be reviewed.

8.5.2 Prosperity

An attempt to assess the impact of EU accession on Swiss prosperity, shows – as is hardly surprising – that only the financial costs can be effectively calculated, while the impact on economic growth, prices, interest rates, wages, tax and rents can only be estimated. This is because economics are not an exact science and economic growth depends significantly on the parameter of private initiative by entrepreneurs, which cannot be measured, and on the development of the social environment (for instance the social partnership). The situation here resembles that prevailing in any economic risk analysis. The costs, which arise, are relatively easy to calculate, while the loss of profit caused by the slowness to take business opportunities can only be determined by comparative study and estimates. This conclusion, which the Federal Council already reached in the run-up to the EEA vote in 1992, means that the economic arguments for or against a change of the background conditions, i.e. in this case for or against EU accession, generally strengthen scepticism. The opponents of membership are able to set a relatively precise figure to the cost of the changes (e.g. an annual net payment to the EC budget of around 3 billion francs), while the advocates of liberal background conditions are only able to show trends, expectations and comparative values.

That being so, the following summary conclusions can be put forward:

- within the EU, and even within the same linguistic area, there are no significant population migrations;
- wage differences remain considerable and effective action to prevent abusive social dumping remains possible in the EU;
- thanks to EU accession, future economic growth would tend to be higher although this growth would also depend significantly on other factors such as internal reforms;
- in the present state of our knowledge, it can be assumed that EU accession would exceed the benefits of an EEA solution, even if the net transfer to the EU in the event of accession must be taken into account in this comparison;

- the initial adaptation costs must therefore be seen against a more sustained and enhanced economic dynamic;
- the loss of monetary policy independence means that monetary policy can no longer build on a different economic development; other mechanisms of adaptation, such as flexible prices and wages, would also be needed;
- the adaptation requirements – adjustment to the real interest rates prevailing in Europe or agricultural measures – must not be underestimated;
- preparatory and accompanying steps must therefore be decided and transitional periods stipulated in the negotiations at domestic level;
- the inevitable conversion of State revenue and spending would of course also constitute a complex political venture.
- The proposals would obviously have to satisfy the following conditions:
    - annual net payments to the EU would be financed by additional revenue from the indispensable increase in the standard rate of VAT which would in turn bring higher state revenue
    - the attractiveness of Switzerland as a business location from the tax angle could only be safeguarded by extensive compensation of the higher rate of VAT in other areas, such as income tax and social security contributions
    - the conversion of the tax system would have to be economically acceptable and viable in terms of social compatibility.

In principle, it must be remembered that accession cannot be seen as the panacea for all our economic problems. But it would be equally misguided to suppose that strictly internal measures could offset the economic drawbacks of standing aside from integration policy. Economic dynamism is particularly likely if an outward-looking economic policy goes hand in hand with continued internal reform.

In the welfare sector, the Federal Council would make a further study of the following *internal measures in event of accession:*

- Action already existing in the draft stage to *prevent social and wage dumping.* These measures have been drawn up by a working group with the participation of the social partners and will shortly be laid open to consultation by the Federal Council to enable preparations for implementation of negotiated solutions to be put in hand in the framework of the sectoral conventions in Switzerland

- In the area of *agricultural policy,* the steps already taken by the Federal Council to improve competitiveness will be continued; measures must also be verified to compensate the inevitable structural adaptations

- The *conversion of the Swiss tax system* which will be rendered necessary by possible EU accession and the efforts to coordinate financial policy more effectively with a view to compliance with the Maastricht criteria at the different policy levels in Switzerland, including social insurance, would be a matter for consideration by the political system in Switzerland in the next few years. The Federal Council has in mind to approach the question of compensation of additional revenue from the higher rate of VAT on the occasion of the renewal of the financial regulation, which expires in the year 2006. Decisive criteria for the measures to be chosen would be economic and social compatibility and the preservation of the financial autonomy of the Federal and cantonal authorities.

8.5.3 Switzerland's Position in the world

There is no doubt that EU membership is legally compatible with the status of permanent neutrality. With the external and security policy of the EU in its present form, Switzerland could preserve its neutrality even as a EU Member.

The question as to the preservation of Swiss neutrality would only arise if the EU States were one day to create a common defence and security structure by a unanimous decision. As an EU Member, Switzerland would have to play an active part in the creation of such a system and would be fully involved in the decision-making process. If a European security architecture were to be created which would offer Swiss citizens at least as much security as armed neutrality, the latter might become meaningless.

In the *security policy sphere,* and regardless of possible EU accession, Switzerland will find it necessary to redefine some of the conditions underlying its existing policy. The Federal Council has therefore commissioned a security policy report for 1999. The reorientation of Swiss security policy will presumably entail reforms, which will improve the ability of Switzerland to shape the joint external and security policy of the EU.

From the *external economic policy standpoint,* Switzerland could continue to defend its economic interests even after EU accession and help to shape the external trade policy of an economic world power as a Member enjoying equal rights to all the others

8.5.4 Internal security

If Switzerland does not wish to become a bolt hole for criminals who are wanted all over Europe or a hub and logistic base for international criminal organizations acting from Switzerland – in short an island of insecurity – it must seek still

closer international cooperation to counter this threat. That is also in the interest of the EU. One step in this direction consists of bilateral police cooperation treaties already negotiated with neighbouring countries or under negotiation today. The same goal is pursued by the police liaison officers stationed at certain focal points of international crime. But these instruments on their own are inadequate compensation for the institutional deficit and reduced access to information.

Whether the EU Member States will be willing, after the entry into force of the Amsterdam Treaty, to open negotiations with Switzerland on internal security cannot be predicted at this juncture. Existing experience shows that such negotiations will be difficult, time-consuming and carry a price in terms of sovereignty. It seems likely therefore that EU accession would be the best means of fully making good Switzerland's security deficit. This could be achieved by participation of Switzerland in the Schengen information system and cooperation at Federal level by appropriate central agencies in Europol.

On the subject of *asylum seekers,* non-accession would have the consequence that, because of the increasingly close cooperation prevailing between the EU Member States, Switzerland might become a place of first refuge for second asylum seekers in Western Europe. That would lead to a massive increase in asylum requests and entail very high extra costs.

In the *area of internal security and asylum,* the Federal Council will be examining how, in the event of accession, the disappearance of Swiss border controls could be compensated by internal measures. Border controls might be replaced by controls in the area close to the frontier (secondary searches, as they are known). A Federal body might be set up for certain specific interventions while the staff and material resources of the cantonal police forces might be increased. An adaptation of that kind could be achieved without any fundamental change to the existing system.

8.5.5 Contribution of Switzerland to the economic and social cohesion of the enlarged EU

The enlargement of the European Union (EU) represents a major step towards securing peace, stability and prosperity in Europe, from which Switzerland will also profit. To support this process, which is also in Switzerland's interest, the Federal Council has decided to make a contribution to the economic and social cohesion of the enlarged EU. The Swiss contribution amounts to CHF 1 billion over a period of five years. With this cohesion contribution, Switzerland is continuing its tradition of solidarity with Eastern Europe and is contributing

toward lessening the economic and social gap between the old and the new member states of the EU. Switzerland shall support specific projects in different areas. They will be chosen and carried out autonomous by Switzerland. The financing will not affect the budget.

8.5.6 Reasons for and against EU accession

The following compilation of advantages and drawbacks of Swiss accession to the European Union can only be a guide to help each Swiss citizen to weigh up the respective interests at his or her own individual level. Working with its own overview which focuses less on particular interests than on the overall well being of Switzerland itself, the Federal Council wishes to give guidance by highlighting the key issues in a flood of information.

The question of Swiss accession to the EU is essentially one of constitutional policy, which also has economic, population and peace policy aspects. For many European States, EU accession is the right strategy to secure lasting peace, economic prosperity and co-decision rights on matters of continental importance.

In our present state of knowledge, the costs of EU accession can be estimated at about 3.1 to 3.9 billion francs annually. This must be set against a loss of decision-making autonomy and freedom of action. Benefits of accession to Switzerland as an economic location (especially for the production of goods and tourist services) are probable in the long term, but cannot be proved at this juncture. Better education and job opportunities for our young people, researchers, cultural creators and job seekers also weigh favourably in the balance as do the mechanisms of solidarity between the Member States to resist attempts by non-European authorities to exert pressure on Switzerland. Another factor in favour of accession is that Switzerland would have to be an EU member to enjoy equal rights with the overwhelming majority of European States to seek solutions to problems and reach decisions which can best be resolved on the continental level (liberal and social internal market conditions, continental freedom of movement for persons, business ventures and ideas, effective action against crime, fair distribution of burdens in the refugee sector, worldwide representation of European basic values). This benefit must be set against the drawback that the positions represented by Switzerland on these matters may be outvoted and that some of the institutional particularities of Switzerland which are so dear to Swiss citizens (people's rights, Federal balance, tax system, numerically small government) may be affected or limited and have to be adapted to the changed circumstances.

A factor in favour of early EU membership is that some important questions for

our country have not yet been settled in the EU (central matters of security, tax competition, social order and EU institutional framework). Switzerland could therefore provide inputs for future decisions. On the other hand, Switzerland would have to accept the fact that most matters of cross border economic law have already been settled in the EU and that law is made by majority voting in the remaining areas. Switzerland would of course take part in those votes. Another factor in favour of accession is that introduction of the single currency (the euro) after a transitional period, which would have to be negotiated will result in lower transaction costs and put an end to the risk of harmful speculation on the Swiss franc. On the other hand, in the first instance, some painful adaptation costs would have to be accepted, for instance in the form of higher interest and rental costs and also in the shape of wage and price reductions.

Accession would probably be conducive to a more equitable distribution of burdens in asylum policy and would also result in the disappearance of checks on persons and goods at the national border; problems of internal security would then have to be countered by effective European police cooperation (joint control of the EU's external frontiers, Europol).

Accession to the EU would be detrimental to the extent that Switzerland, like all the other EU States, would lose its right to conclude separate trade agreements with non-European countries. On the other hand, Switzerland would profit from the economic strength of the EU, which concludes such trade agreements on behalf of its Member States.

The citizens would enjoy greater legal protection as they could enforce the rights granted to them by European Community law in the ordinary courts. They would also have certain rights of appeal to the EU Court of Justice against some measures taken by European Community bodies.

Like some commercial activities and services, which have been protected so far against foreign competition, our agriculture would lose its protection in relation to the EU. The prices paid for products and services would fall. On the other hand, the means of production imported from other European countries would become cheaper and the market for Swiss high quality products would be greatly enlarged. The process of structural adaptation of Swiss agriculture will continue in any case, with or without EU accession. However, EU accession would require certain transitional periods because of the extensive adjustments necessary in agriculture. The conversion to 15% VAT would bring substantial extra revenue to the Federal Authorities (over 15 billion francs annually, disregarding the impact of any VAT increases in the context of the 11th AHV Review). Depending on the short-term economic situation, this might prove prejudicial to economic growth in Switzerland and would have to be

compensated by a reduction of other State burdens on the population (such as direct taxation, social charges). The accompanying increase in the State share and the related restructuring of the Swiss tax system would lead to severe internal policy controversy.

EU accession would have no impact on the preservation of Swiss neutrality, as the examples of Finland and Austria prove. By staying neutral, Switzerland would undertake when it joins the Union to participate in the creation of a comprehensive continental security system and would ultimately gain a security margin from that system. However, it could preserve its position in situations with a critical bearing on neutrality by exercising the constructive right of abstention.

In weighing up the overall interests, the Federal Council identifies another important consideration: Swiss accession to the EU would promote national cohesion and the country's influence beyond its borders, while the representation of State interests could be substantially improved by taking a seat on the many multilateral bodies of the European Union. The apparatus of the State and the density of regulation would hardly increase. On the contrary they would tend to diminish and the policy of openness to Europe which EU accession implies, would increase the pressure of competition and therefore promote the reforms and revitalization of national strength that are necessary internally.

8.6 Bilateral agreements i between switzerland and the european union of 1999

Agreed at the political level in December 1998 at a meeting in Vienna, the sector-specific bilateral agreements between Switzerland and the European Union cover seven areas: civil aviation, overland transport, the free movement of persons, research, public procurement markets, agriculture and the elimination of technical barriers to trade. The most distinctive feature of these agreements is the fact that they are thus limited to specific areas. It is for this reason that they are frequently referred to as "sector-specific" agreements.

The seven agreements were initialled in Berne on 26 February 1999 and signed in Luxembourg on 21 June 1999. In the following they had to be ratified by Switzerland and the EU, the agreement on free movement of persons additionally by every EU-member state. After the completion of this process of ratification the seven agreements have come into force on 1 June 2002. The agreements can be terminated at anytime.

8.6.1 Research

The research agreement allows Swiss research establishments to participate on an equal footing in all programmes and activities of the fifth Framework Research Programme (FRP) of the European Commission and the fifth Euratom framework programme. However, as the agreement will already expire on 31 December 2002, its financial provisions, which apply from 1 January of the year following the entry into force of the bilateral agreements, will not be able to take effect. This in turn means that the research agreement will not take full effect even after its entry into force in the first half of 2002. However, the agreement does provide for the possibility of renewal to allow full participation by Switzerland in the sixth EU framework programme (2003-2006). After its entry into force, renewal negotiations will therefore be opened between Switzerland and the EU.

8.6.2 Public procurement

The World Trade Organisation (WTO) agreement in the area of public procurement has been in force since January 1 1996. The federal government, the cantons and public law companies active in the water, transport and energy sectors must comply with WTO rules on tendering and the signing of contracts for goods, services and construction, if these go beyond certain thresholds. The WTO agreement served as the basis for the agreement on public procurement markets between Switzerland and the EU, which involves an even broader range of applications than in the case of the WTO text. The procurement of local authorities, the telecommunications and rail transport sectors and the procurements of private enterprises operating on the basis of concessions or an exclusive right are thereby liberalised if the agreed thresholds are exceeded.

8.6.3 Technical barriers to trade

The agreement calls for the mutual recognition of declarations of conformity (tests, certificates, product approvals etc.) for most industrial products. To the extent that Swiss legislation is recognised as being the equivalent of EU legislation, a single test of conformity will henceforth be sufficient for commercialisation of the products in question in the markets of both Switzerland and the EU. Duplicate testing to establish conformity to specific Swiss or EU requirements will no longer be necessary.

In cases where Swiss specifications differ from those of the EU, further testing will remain necessary, in the one case to demonstrate conformity with Swiss legal requirements and in the other conformity with EU laws. In both cases

however Swiss certification bodies may now carry out the tests.

8.6.4 Agriculture

The agricultural agreement between Switzerland and the EU will make it much easier to conduct trade in agricultural produce by reducing or even eliminating non-tariff barriers, through mutual recognition of technical requirements in the veterinary field, in pesticides and similar products, in "bio" agriculture, in relation to quality standards for fruit and vegetables, and so on. The agreement calls for improved access to the agricultural markets of each party for products of particular interest. As negotiated, the agreement would open the EU market to some of the most competitive Swiss products including fruit and vegetables. For cheese, free trade will be introduced five years after the date of entry into force. This is in Switzerland's interest because it exports more cheese than it imports. Switzerland has agreed to make concessions for fruit and vegetables during the period when there is no harvest (winter) and for items that are not produced in Switzerland, or at least not in appreciable quantities (e.g. olive oil). Fresh meat, wheat and milk on the other hand are not affected by the removal of customs duties.

The agreement necessitates a supplement to Swiss agricultural policy, which requires a stronger market-led strategy on the part of farmers. In an effort to make Swiss agriculture more competitive, the federal government has provided for certain companion measures, designed above all to "help farmers to help themselves" when it comes to bringing their produce to market.

8.6.5 Civil aviation

The agreement defines the terms by which Swiss airlines will be allowed access to the deregulated European civil aviation market on a reciprocal basis. The gradual acquisition of transport rights* and the prohibiting of discrimination will put Swiss airlines virtually on an equal footing with the companies of Europe, making it possible for them to become majority shareholders in other EU airlines.

8.6.6 Overland transport

The agreement in the area of overland transport calls on both parties to work for the creation of a co-ordinated policy in this field. Some aspects of this agreement involve improving conditions for mobility, environmental protection, comparability of general conditions, and the guarantee of the most direct transit

routes possible.

The accord includes provisions for gradual opening by Switzerland and the European Union of their respective road and rail transport markets, for both persons and goods, on a reciprocal basis. It provides for a transitional period for road traffic, which ends in the year 2005, with a definite arrangement to be in place by 2008 at the latest.

The overland transport agreement is one of the main pillars of Switzerland's transport policy. It is the basis on which Switzerland plans to reorganise its railways, in co-ordination with Europe, developing new infrastructure (New Transalpine Railway, "NEAT" + traffic upstream and downstream) while introducing a new tax on heavy goods vehicles (HGVs) based on the kilometres travelled, while increasing transit taxes to levels considerably higher than those existing at present.

In an effort to implement the provisions of the constitutional article on the protection of the Alps, the Swiss government and parliament decided on a series of companion measures aimed at reducing the volume of goods traffic crossing the Alps by road to about 650,000 passages per annum. In effect this would amount to a 50 per cent reduction in HGV traffic compared to the situation today.

8.6.7 Free movement of persons

The agreement on freedom of movement between Switzerland and the EU provides for the progressive opening of the employment market. After seven years, Switzerland can decide whether it wishes to extend the agreement. This decision will be the subject of an optional referendum.

The agreement covers workers of all kinds, the self-employed and persons without gainful employment who have sufficient financial means of their own. On entry into force of the agreement on freedom of movement, persons in gainful employment and the self-employed only benefit directly from the rights granted if at that time they are already authorized to pursue an employment activity on the territory of the contracting parties. Persons who wish to take up employment on the territory of the other contracting party will only benefit from freedom of personal movement two years after the entry into force of the agreement. For employed persons from the EU the transition to free movement will take place in several stages extending over a period of 12 years.

The agreement on the freedom of movement is supplemented by mutual

recognition of professional diplomas and coordination of social insurance. To prevent abuse of the freedom of movement of persons, the federal government and parliament have taken accompanying measures to protect Swiss employees against wage dumping.

The advantages include the opportunity of living and working freely anywhere in Europe, the know-how acquired as a result of participation in European research programmes, the improvement in relations between Switzerland and the European Union, and the guarantees given by the latter for Switzerland's environment policy, all of which are factors that are of inestimable value.

The economic advantages have been estimated as equal to about 2 per cent of the gross domestic product (GDP), i.e. about SFr8 billion. This includes the anticipated price reductions of benefit to consumers.

For example the Swiss sector that includes machine manufacturing, electrical and metallurgical products expects to increase its turnover by some SFr300 million each year thanks to the bilateral agreements. This figure has been calculated taking the following into account:

- The volume of additional orders from public procurement markets
- The ability to make unlimited use of the outcomes of European research programmes
- Greater flexibility in the utilisation of employees
- The growing competitiveness of Swiss products following the elimination of costly technical barriers to trade.

Once the seven-year transitional period comes to an end, the total cost will amount to SFr350-450 million each for the Swiss Confederation and for the social security service, i.e. about 0.2 per cent of GDP. These figures are maximum values based on pessimistic assumptions (high unemployment rate). In fact these costs will be considerably less if the economy grows at a good rate. Each percentage point of additional growth will bring an extra SFr400-500 million into the coffers of the Swiss Confederation. The gains would be even greater in the cantons, whose tax revenues are significantly higher.

8.6.8 Legal and institutional framework

The seven agreements are all inextricably linked together, with the exception of special provisions for the agreement on research. The agreements have been concluded and approved as a whole, to take effect simultaneously. The extinguishment of a single agreement would automatically render the others

inapplicable.

The agreements can be separated into three categories: the five agreements that involve deregulation, one based on co-operation (in research) and a partial integration agreement (civil aviation). Another difference is that, unlike the six other accords the civil aviation agreement extends the so-called acquis communautaire (existing Community legislation) to Switzerland.

All the seven agreements will be supervised by joint committees, within which each of the two parties must make rulings on a unanimous basis. These joint committees only have decision-making powers in the cases stipulated in the agreements. Each party is responsible for the proper application of the agreements on its own territory. However, the European Commission and the European Court of Justice monitor compliance with the rules of competition in the area of civil aviation.

None of the seven agreements involves a transfer of legislative powers to a supranational body. The majority are based on the mutual recognition of each other's legislation by the two contracting partners. It is in the interest of both parties to maintain this legislative equivalence. It is with this in mind that specific procedures have been laid down for the exchange of information and for consultations when one party intends to amend its regulations.

8.7 Blateral agreements ii Switzerland – EU (as of February 2005)

The Bilateral Negotiations II are the continuation of the Bilateral Agreements I 1999 and thus constitute further progression along the bilateral path. This was pursued after rejection of Switzerland’s accession to the European Economic Area in 1992: It involves on the one hand the pragmatic settlement of outstanding specific interests and problems in the relationship between Switzerland and the EU through bilateral, sector-specific negotiations and agreements, and on the other hand involves improving on and structuring the existing treaty framework where this is in both sides’ interest.

After conclusion of the Bilateral Agreements I, the EU-Commission was essentially sceptical regarding new negotiations with Switzerland. The reason why, despite this scepticism, a second round of bilateral talks has come about, is because the EU itself discovered two fresh concerns: Firstly, Switzerland should be integrated into the system planned by the EU for cross-border taxation of savings. Secondly, Brussels wanted to increase cooperation with Switzerland with regard to the fight against fraud in the area of indirect taxes (especially against

cigarette smuggling).

8.7.1 Parallelism of negotiations

Switzerland acceded to the requests made by the EU, but also set three conditions:

1. Negotiations should not only be conducted in the two dossiers required by the EU, but should also extend to cover additional areas of importance for Switzerland: These include Switzerland's participation in Schengen/Dublin (cooperation in the fields of police and justice, asylum and migration) and the seven remaining dossiers ("leftovers") from Bilateral Negotiations I. In a joint statement on the Bilateral Negotiations I, Switzerland and the EU had already come to an agreement on negotiations in the following areas: processed agricultural products, statistics, the environment, Media, education, pensions and services.
2. Negotiations proceeded in parallel in all dossiers and were concluded simultaneously. This parallelism of negotiations ensured that a balanced overall outcome was achieved that also took account of Swiss interests.
3. Switzerland's interests as a financial centre, i.e. banking secrecy, must be protected at all times.

From June 2002 negotiations between Switzerland and the EU were conducted in parallel for ten dossiers: On the one hand, these concern economic interests (e.g. of the food industry, the financial centre or tourism). But they also extend to cover the cooperation between Switzerland and the EU in other crucial political areas: e.g. domestic security and asylum policy (Schengen/Dublin) or in areas such as the environment, statistics, culture and training.

With regard to the dossier concerning the liberalisation of services, Switzerland and the EU agreed in March 2003 that, in view of the large number of issues still outstanding and the complexity of the dossier, negotiations in this area will be continued separately and concluded at a later date.

In the summer of 2003, seven of the remaining nine dossiers of the Bilateral Negotiations II were essentially completed: taxation of savings as well as the six leftovers. An important step was taken in June 2003 with the political agreement with regard to the taxation of savings. The agreement is based on the principle that Switzerland imposes a withholding tax of up to 35% on behalf of the EU states and pays back three quarters of this to the EU states. This means that, on the one hand income from savings received by EU citizens can be taxed efficiently in Switzerland, whilst the Swiss legal system and banking secrecy remain protected.

Politically sensitive differences were still outstanding in the closing phase for the dossiers relating to the fight against fraud and Schengen/Dublin. These concerned the question of the exchange of information with regard to tax offences within the scope of judicial and administrative assistance.

8.7.2 Political agreement

On May 19th, at a summit meeting between Switzerland and the EU in Brussels, political agreement was also reached with regard to these final questions. Agreement on the final points consists of the following provisions:

- With regard to Schengen/Dublin, Switzerland receives the guarantee that, in the area of direct taxes, banking secrecy remains protected. In the event that a future Schengen provision revokes the principle of double liability with regard to direct tax offences thus giving rise to an obligation for legal assistance with regard to evasion offences, Switzerland receives, an opt out without the need to withdraw from the Schengen cooperation.
- In the area of fight against fraud, i.e. matters relating to indirect taxes (customs duty, VAT, excise duty, for example on tobacco and alcohol) Switzerland makes available the same legal instruments to the EU as those used in Swiss proceedings (national treatment); i.e. cooperation is extended to include all cases involving serious offences. Cooperation with regard to cases of money laundering is also extended. However the definition of money laundering according to the Swiss criminal code remains unchanged. There are no new reporting requirements for Swiss financial intermediaries.

8.7.3 Balanced overall result

The Swiss Federal Council considers this agreement to be well balanced, with Switzerland's key requirements (conclusion of all dossiers including Schengen/Dublin, protection of banking secrecy) being fulfilled. Switzerland provides reciprocal cooperation with regard to cross-border taxation of savings by deducting a withholding tax on income from savings earned by EU citizens (taxation of savings). Swiss cooperation is also extended to cover all serious offences relating to indirect taxation (smuggling, customs fraud, VAT fraud) (fight against fraud).

The bilateral agreements provide Switzerland with the following benefits:

Firstly, the agreements cover significant economic interests:

- *Finance sector:* The interests of the Swiss finance sector are protected (taxation of savings, fight against fraud), and banking confidentiality in relation to direct taxation is preserved (Schengen/Dublin).
- *Food industry:* Reduced customs duties improve export opportunities for the food industry. This also benefits Swiss agriculture as a supplier (processed agricultural products).
- *Tourism:* The Schengen visa encourages tourism in Switzerland (Schengen/Dublin).
- *Tax benefits for holdings:* Swiss holdings operating throughout Europe pay less tax (taxation of savings).

Secondly, cooperation is extended to other important political areas:

- *Security policy:* Cross-border crime can only be fought effectively by - Security policy: Cross-border crime can only be fought effectively by means of international police and judicial cooperation. Schengen provides the tools for this purpose.
- *Asylum policy:* The Dublin cooperation offers measures against "asylum tourism" and thus relieves pressure on the national asylum system.
- *Environment:* The European Environmental Agency is an important means for international cooperation on protection of the environment. By being a member of the Environmental Agency, Switzerland can contribute towards this cooperation.
- *Statistics:* Broad-based statistical information is essential to support key political and economic decisions. The statistical agreement harmonises and optimises the exchange of comparable statistical data between Switzerland and the EU.
- *Culture:* Participation in the EU film promotion programmes (MEDIA) strengthens the role of film as an important part of Swiss cultural heritage.
- *Education:* Cooperation within EU training programmes provides access to a wide range of training for Swiss nationals, and increases the quality of training. This provides improved opportunities in the employment market.

8.7.4 Next steps: Signature and approval

There are nine negotiation results ensuing from the Bilateral Negotiations II. Eight of these are agreements (processed agricultural products, statistics, pensions, environment, media, Schengen/Dublin, fight against fraud, taxation of savings), which need to be approved by Parliament. Three of the agreements (MEDIA, Schengen/Dublin and taxation of savings) require amendments to legislation in order to be implemented. The ninth negotiation result (Education/vocational training/youth) consists of a declaration of intent.

The Swiss Federal Council will submit the agreements as separate proposals to Parliament. However, the agreements shall be submitted to Parliament collectively. At the same time the Federal Council submits the application for an accelerated parliamentary approval process. The agreements should be discussed in both councils in the same session.

The Federal Council also submits seven of the Bilateral Agreements II (statistics, pensions, environment, media, Schengen/Dublin, fight against fraud, taxation of savings) to the optional referendum in accordance with Article 141 of the Federal Constitution. The Federal Council bases this recommendation to Parliament on the constitutional clarifications provided by the interdepartmental "approval process" work group led by the Federal Office of Justice. The agreement concerning processed agricultural products does not meet the requirements for the optional referendum, as it is merely an adaptation of the existing protocol 2 of the 1972 Free Trade Agreement.

None of the agreements meet the constitutional criteria for submission to the compulsory referendum (Article 140 of the Federal Constitution). This would require accession to a supranational community or organisation for collective security. Nor are these conditions fulfilled with regard to the Schengen/Dublin association agreement. Switzerland's participation in Schengen does not amount to accession to a supranational community, but is instead a normal contract covering international cooperation. On the basis of the negotiation results achieved, it will only be possible for Switzerland to adopt any future Schengen law after conclusion of a new contract under international law. This requires each time a new Swiss approval process each time (Federal Council, Parliament, Referendum). Consequently no transfer of sovereignty to a supranational community takes place. Failure to adopt any new Schengen law would ultimately result in certain termination of the agreement.

On 25th June 2004 the agreements were initialled and then underwent consultation procedures. The results of this clearly showed that Bilaterals II were supported unanimously by industry, and by the majority of parties, organisations and federations. The cantons, too, were unanimous in their support. The agreements were strongly rejected only by the Swiss People's Party (SVP). The Federal Democratic Union (EDU) and the Campaign for an Independent and Neutral Switzerland (AUNS) expressed opposition to Schengen/Dublin. Numerous shooting associations criticised the proposed changes in weapons laws, and the Federal Council has dealt with the main concerns by amending its proposed amendments to the Swiss Weapons Act.

The Federal Council issued the message on Bilaterals II on 1 October 2004, and

the agreement was signed in Luxembourg on 26 October 2004. Parliament debated the message and the agreement during the winter session: All the agreements were accepted in the National Council with a clear majority, and in the Council of States, with the exception of Schengen/Dublin, the result was unanimous. The Schengen/Dublin association agreement met with somewhat more resistance. In the National Council, this agreement was accepted with 129 votes in favour and 60 votes against it and in the Council of States, with 36 votes in favour and 3 votes against it.

In line with the application of the Federal Council, the Federal Assembly will submit seven agreements (statistics, pensions, environment, media, Schengen/Dublin, fight against fraud, taxation of savings) for the optional treaty referendum. None of the agreements shall be submitted for imputation of the compulsory referendum. The countdown for the referendum started with the publication of the Federal decrees on December 21, 2004, in the federal journal. The deadline for the referendum is March 31. The earliest possible date for a vote is June 5, 2005.

8.7.5 Overview of Bilateral Agreements II Switzerland - EU

- Cooperation in the fields of justice, police, asylum and migration (Schengen/Dublin)
- Taxation of savings
- Fight against fraud
- Processed agricultural products
- Environment
- Statistics
- MEDIA
- Education, occupational training, youth
- Pensions

8.7.5.1 ooperation in the fields of police, justice, asylum and migration (Schengen/Dublin)

Criminals who are specifically choosing to operate across national borders commit an increasing number of crimes. This development presents new challenges for security measures tailored to individual countries, and calls for greater international cooperation. The individual countries also face a similar challenge in combating illegal immigration and coping with asylum migration.

The EU is Switzerland's most important partner in these areas. For some time the EU has been promoting determined and well-targeted cooperation for security and migration. Central to this cooperation is the Schengen/Dublin security and asylum system, in which Norway and Iceland, non-Member States of the EU, have also been participating since 1999. With a bilateral agreement to Schengen/Dublin, Switzerland will have access to the instruments for cooperation on security and asylum within the EU.

- Schengen promotes free movement of person's traffic by essentially removing controls on persons at the internal boarders of the EU. At the same time as reinforcing internal security, controls on external borders of the "Schengen area" are tightened and cross-border cooperation between police forces and judicial authorities within Schengen states is strengthened. Connection to the Schengen Information System (SIS), the pan-European electronic investigation database, is particularly important for Switzerland. This has proved to be an efficient means of fighting cross-border crime (such as illicit smuggling of migrants, and also the trafficking of persons, drugs and arms). The ability to exchange information rapidly by computer has increased the effectiveness of inspections and of international arrest warrants. Legal assistance is also regulated within the scope of Schengen cooperation. A special provision ensures that Swiss banking secrecy is protected with regard to direct taxes. Switzerland does not have formal co-decision rights in relation to future Schengen law, but it does have extensive possibilities to participate in the decision shaping process. However, new laws are not adopted until they have been approved under the Swiss legislation process, consisting of the Federal Council, parliamentary approval and a referendum if necessary. Failure to adopt a legal act could ultimately result in termination of the agreement, so Swiss sovereignty is thus preserved.

- The Dublin cooperation lays the foundation for sharing the burden of managing asylum migration fairly, efficiently and equally. Only one EU state is ever responsible for conducting the procedures relating to an asylum case. The state responsible is determined by means of various criteria, this in turn ensures the right to an asylum hearing. The tendency towards countries trying to reduce the attraction they hold for asylum seekers in relation to other countries can be moderated. At the same time the burden is reduced from national asylum systems. Thanks to the electronic database, EURODAC, which stores and identifies the fingerprints of asylum seekers, repeated applications can be identified and the applicant can be repatriated to the state responsible for the asylum proceedings. Asylum proceedings due to "asylum shopping" are inefficient and cost-intensive. With Dublin, their number can be reduced. According to unofficial estimates, currently around every fifth application in

Switzerland is a second application. By participating in Dublin, the burden on the Swiss asylum system would be significantly reduced. At the same time, a participation in Dublin would help to prevent a further tightening of Swiss asylum law. By not participating in Dublin, the reverse would be true. Switzerland would be the sole second port of call for asylum applications in western Europe and it would need to be prepared for an increase in asylum applications, and therefore in additional costs.

8.7.5.2 Taxation of savings

The Federal Council has always shared the viewpoint of the EU, that income from savings should be taxed appropriately. It stresses that it is not in Switzerland's interest to attract businesses that are seeking to avoid the planned EU regulation for cross-border taxation of savings. For this reason, Switzerland has already declared that it will use its legal system to make its financial centre unattractive for these types of financial transactions. However, this is on condition that the EU introduces an efficient system for the taxation of all income from savings. Furthermore, this system should not just apply to Member States and their dependent or associated territories, but also to the relevant financial centres outside the EU.

Under the agreement negotiated with the EU, Switzerland undertakes to impose a withholding tax on all income from savings originating abroad, which will be effective for natural persons with tax residency in an EU Member State. This withholding tax increases progressively up to 35%. It can be replaced by a voluntary disclosure of the interest payment, on the express advice of the person receiving the interest, to the revenue authorities of the country of domicile for tax purposes. In addition, Switzerland undertakes to provide administrative assistance on request to the EU Member States in cases of tax fraud or similar serious offences.

There will be no automatic exchange of information between tax authorities. With the withholding tax model, Switzerland can be sure on the one hand that the EU directives for the taxation of savings cannot be avoided by using Switzerland. On the other hand, the Swiss legal system and banking secrecy remain protected.

The agreement also provides for the abolition of tax on payments of dividends, interest and licence fees between affiliated companies.

8.7.5.3 Fight against fraud

The agreement on combating fraud aims for more intensive cooperation against smuggling and other types of offences, in the areas of indirect taxes (customs duty, value added tax, consumer tax), and subsidies as well as in public procurement. With this in mind, administrative and legal assistance will be organised more effectively and the exchange of information with administrative and legal authorities in the EU strengthened.

Stronger cooperation against criminal activity is as much a benefit for the EU as it is for Switzerland. The EU benefits by being able to conduct the fight against cigarette smuggling and other fraudulent activity more efficiently, thereby avoiding revenue losses. Switzerland benefits as its financial centre has no desire to be abused as a hub for fraudulent business activities.

8.7.5.4 Processed agricultural products

The agreement on processed agricultural products satisfies one of Switzerland's main economic interests within the second series of bilateral negotiations: In future, companies within the Swiss food industry will be able to make duty-free exports of a wide range of products to the EU market. For Swiss agriculture, this improved competitiveness for the food processing industry opens up new opportunities. And prices for the consumer will tend to fall as a result of stronger competition.

Processed agricultural products (e.g. chocolate, biscuits, soups, sauces, pasta, instant coffee) occupy a unique place between industry and agriculture, in so far as they consist partly of agricultural raw material and partly of an industrially manufactured product. Customs duties have already been abolished on the manufactured part of the product. On the agricultural part, the "raw material handicap" can be compensated by means of a price compensation mechanism. That means that competitive disadvantages due to large differences in the price of raw materials can be compensated by customs duties and export subsidies at the level of the price differences.

The bilateral agreement on processed agricultural products results in the following improvements:

- Revision of the price compensation mechanism: As part of a simplified price compensation mechanism, the EU undertakes to completely abolish its customs duties on Swiss products and also to waive export subsidies. For its part, Switzerland will reduce its customs duties and export subsidies or, in certain cases, will likewise abolish them completely.

- Extension and revision of scope of application: The range of products covered by the agreement has been extended.

8.7.5.5 Environment

The European Environmental Agency (EEA; founded at the beginning of the 1990s) is responsible for gathering and analysing data on the state of the environment in European countries, as well as ensuring that this data is comparable. The EEA thus provides the scientific basis for a sound EU environmental policy. In view of the cross-border nature of environmental risks, the EEA has become a key instrument for cooperation on environmental policy between the European states.

Closer cooperation in environmental matters through Switzerland's membership of the European Environmental Agency is the subject of an environmental agreement between Switzerland and the EU. Switzerland can thus increase its commitment to environmental protection at a European level. Until now, Switzerland has only participated informally in EEA activities, on the basis of selective participation in projects. Membership of the EEA means Switzerland will actively participate in organising projects and research at a European level, gain full access to the EEA's pan-European comparable environmental data and, for its part, will be able to submit comparable Swiss data as a basis for an effective environmental policy.

8.7.5.6 Statistics

As the world we live in becomes more and more complex, statistical data becomes an increasingly indispensable basis of information for well-founded decisions. Statistics play a major part in providing a source of factual, reliable and relevant information in politics and the economy, as well as in day-to-day life.

Eurostat, the Statistical Office of the European Union (EU) is responsible at a European level for gathering and publishing data supplied by the national statistical institutes. Eurostat is also responsible for the comparability and monitoring the comparability of national data on the basis of standard definitions and criteria for data collection.

The bilateral agreement on cooperation in the area of statistics regulates the progressive harmonisation of statistical data collection between Switzerland and the EU. Comparability of Swiss and European data in such important areas as

trade relations, the employment market, social security, transport and the environment is thus guaranteed in the medium term. Switzerland also gains improved access to data published in the EU and gains prominence in Europe, in so far as greater quantities of Swiss data are published in statistics compiled by Eurostat.

8.7.5.7 MEDIA

One of the priorities within the EU audiovisual policy is the promotion of European films. The EU has set up the MEDIA promotion scheme to help European production overcome various difficulties in the face of non-European competition. The EU terminated Switzerland's participation in this programme as third country after rejection of the EEA in 1992.

The aim of an agreement for Switzerland to participate in both MEDIA programmes currently running (MEDIA Plus and MEDIA Training programmes) highlights Swiss interest in the cooperation to promote European audiovisual productions. Participation gives Swiss television programmes and filmmakers equal rights of benefit from EU support measures.

The agreement grants full participation in the EU programmes – MEDIA Plus (promoting the creation and distribution of Community audiovisual works) and MEDIA Training programmes (training programmes for professionals in the EU audiovisual programme industry). Current Swiss legislation in the audiovisual field is already largely compatible with Europe, which satisfies a key requirement for participation in the MEDIA programmes. An amendment to Swiss legislation is necessary only in the matter relating to quotas for European productions, fixed at 50%.

8.7.5.8 Education, occupational training, youth

The EU promotes the mobility of students, apprentices and young people within the framework of the Community programmes known as SOCRATES (general education), LEONARDO DA VINCI (occupational training) and YOUTH (extra-curricular work). These people can build their international experience at either an academic or a practical level through periods of residence abroad or cooperative projects under the education, vocational training and youth programmes. Not only does studying abroad enrich young people on a personal basis, it also improves their future prospects in the labour market.

Over thirty countries currently participate in these three EU programmes. At the

moment Switzerland is only able to participate on a project basis, supported by federal funds. It would like to raise this status, with participation to be legally established and thus guaranteed, which would grant equal rights to Swiss people participating in projects relating to the three programmes with regard to project initiatives and input to projects.

Swiss participation in the current programmes (2000-2006) was not possible for the EU for legal reasons. For this reason the EU Council of Ministers and the European Commission have declared their intention to allow Switzerland to participate in the future generation of programmes (from 2007).

In the meantime the current project-based cooperation will be consolidated. Switzerland and the EU have agreed in the form of an exchange of letters that both partners will have a high-level meeting once a year to set about consolidating cooperation as well as preparing for talks on full participation.

8.7.5.9 Pensions

In the absence of an agreement between Switzerland and the EU on double taxation, pensions of retired EU officials living in Switzerland are taxed twice: The EU imposes a tax at source on pensions paid to retired officials and Switzerland subjects these people to income tax on the residual amount. Within the scope of the Bilateral Negotiations II, Switzerland waives this tax. However this tax exemption is only granted if the EU also effectively taxes income from pensions at source. This arrangement only affects around 50 pensioners.

- ANNEX: STATISTICAL GRAPHICS -

Figure 41 : Comparison between Switzerland, the EU – 15 and new EU members: average annual growth rate 1994-2000 (in %)

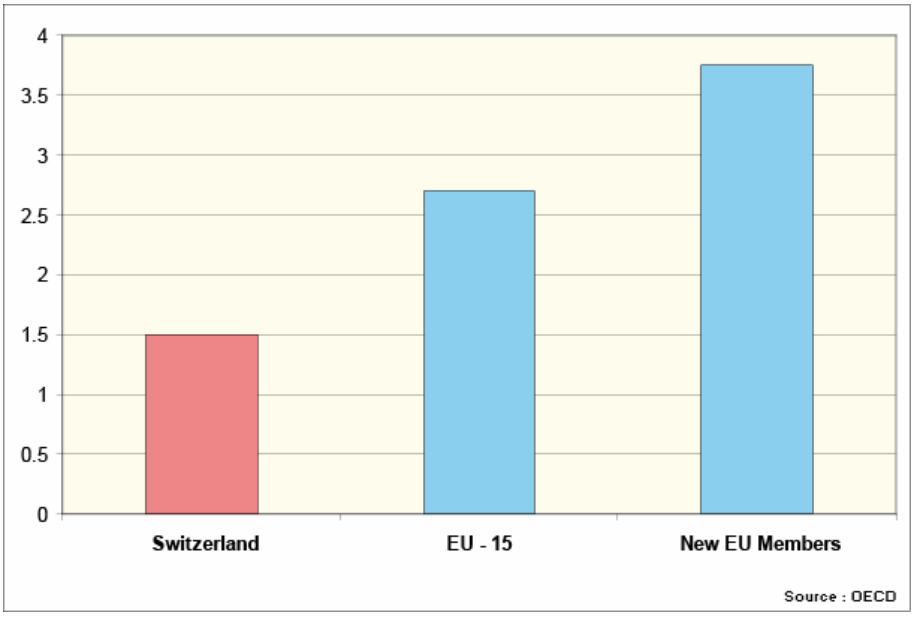


Figure 42 : Swiss Imports and Exports 2002

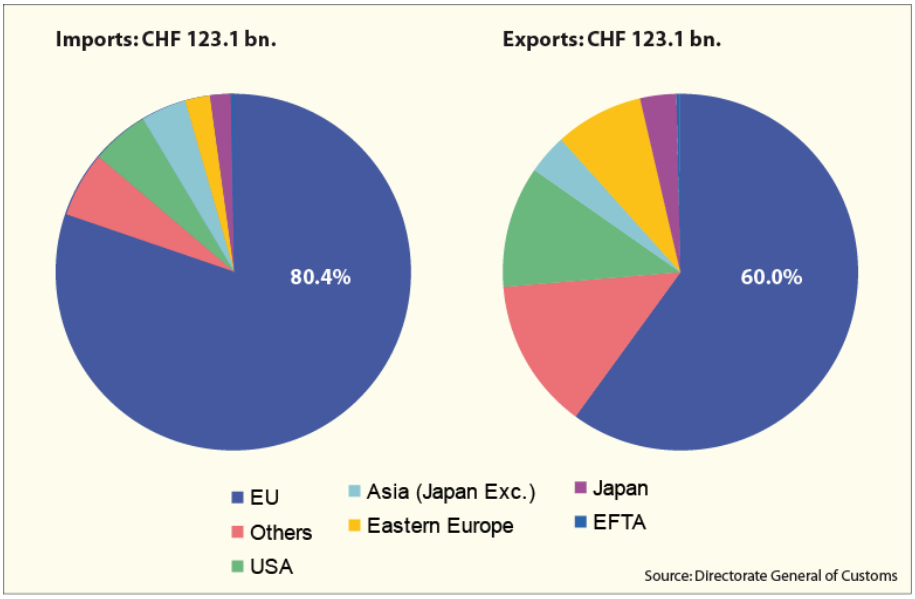


Figure 43 : Swiss direct investments in the EU-15 in CHF bn.

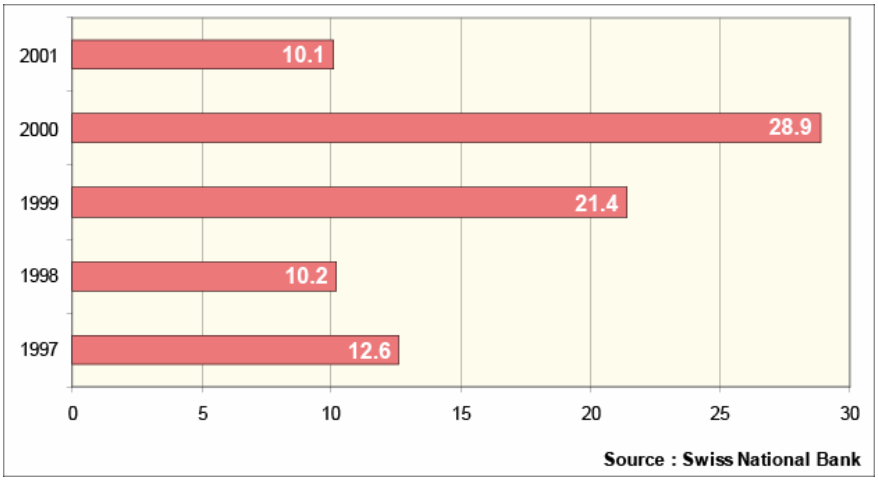


Figure 44 : Swiss direct investments from the EU-15 in Switzerland in CHF bn.

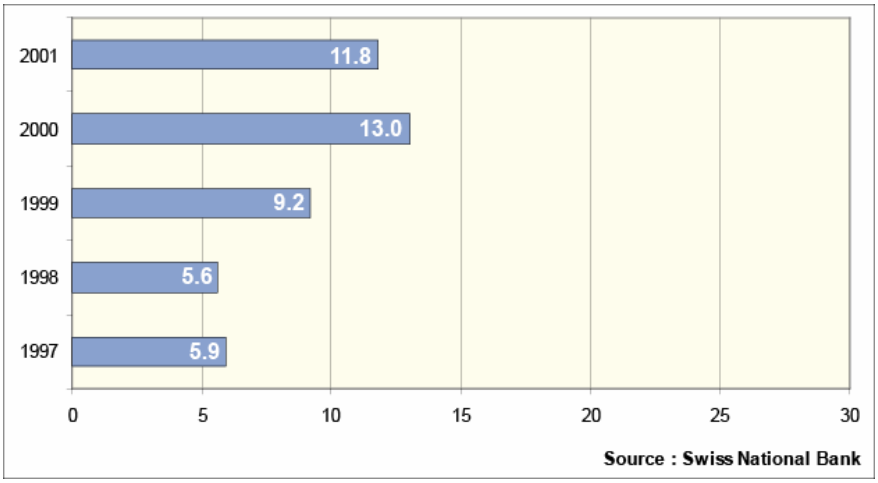
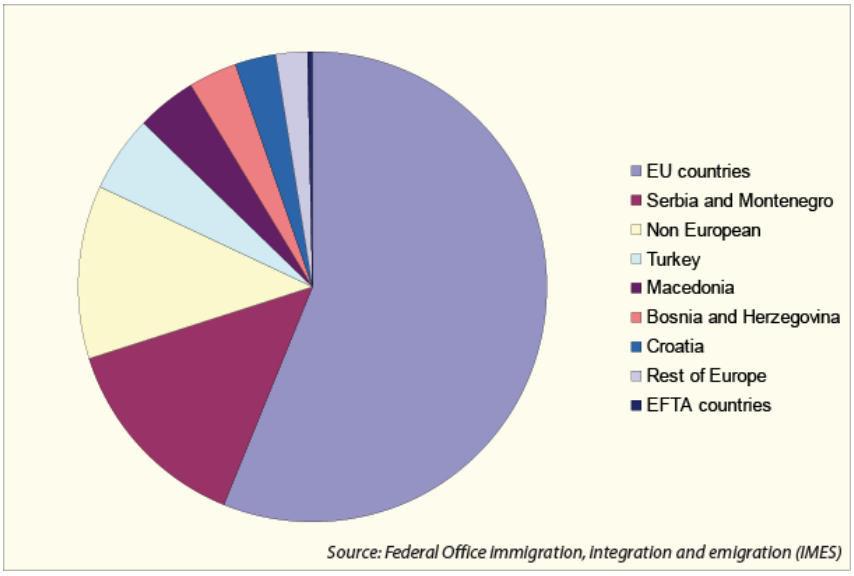


Figure 45 : Permanent foreign resident population in Switzerland; proportion (in %) by nationality at the end of December 2002



Map 40 : Trans-Alpine movements of Goods: Transit Routes

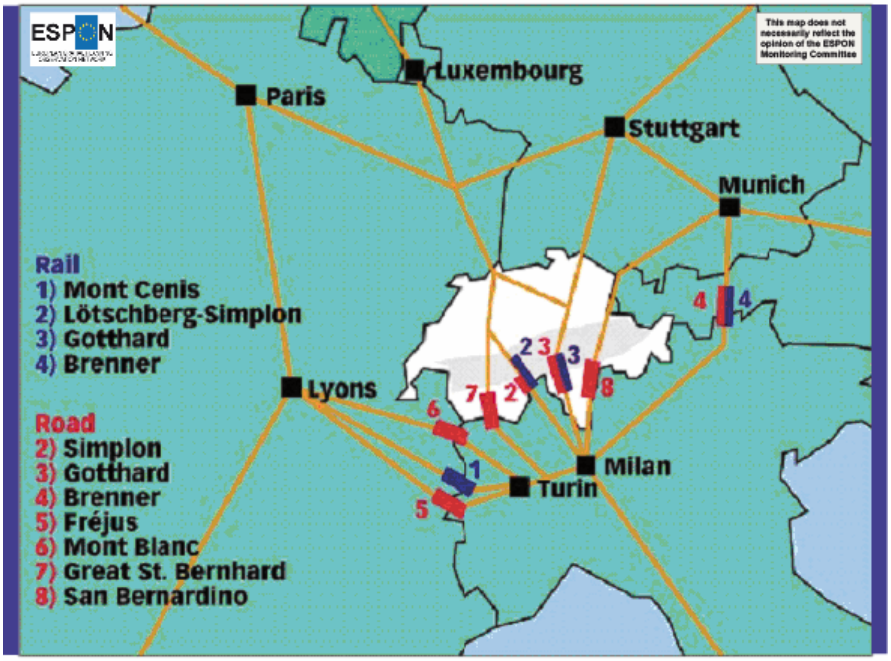


Table 35 : Foreign trade

Year	Total in Million CHF	EU in %	EFTA in %	Germany in %	France in %	Italy in %	USA in %	Japan in %
Swiss Exports								
1999	114445.5	62.6	0.5	23.3	9.4	8	11.4	3.6
2000	126549.1	62.6	0.5	23.3	9.4	8	11.4	3.6
2001	131717.1	61	0.5	22.2	9	8	10.6	3.9
2003	130380.5	60	0.4	20.8	9.2	8.3	11	3.8
Swiss Imports								
1999	113415.6	79.7	0.3	32.5	12.5	10.2	6.1	3
2000	128615.3	79.7	0.3	32.5	12.5	10.2	6.1	3
2001	130052	79.9	0.3	32.2	11	10.2	5.3	2.4
2002	123125	80.4	0.2	32.3	10.4	10.8	5.3	2.1

Source : La vie économique; dec., 2003

Table 36 : Direct Investment

	Swiss Investements Abroad		Foreign Investment in switzerland	
Year	Total / million CHF	In Eu / in %	Total / million CHF	In Eu / in %
1999	311 258	48.2	121 561	62.0
2000	381 910	48.8	142 055	59.5
2001	415 646	47.2	149 731	61.5

Source: La vie économique; dec., 2003

Table 37 : Manpower in Swiss Firms Abroad

Year	Total	EU / in%	North America / in %
1999	1 640 957	48	17.8
2000	1 763 022	46	19.4
2001	1 718 681	44.3	19.5

Source : La vie économique; dec., 2003

Table 38 : Commercial Exchange with the EU according to product categories 2001

	Part commercial trade with the EU in %	
Products	**Exports**	**Imports**
Agriculture and forestry	3.2	8
Chemical products	34.4	22.1
Metals	7.5	7.6
Machines	24.3	22.1
Precision instruments, watches, jewels	17.3	6.6

Source : La vie économique; dec., 2003

able 39 : Foreigners in Switzerland (12/2002)

	Number	In %
Eu & EFTA	816 152	56.4
Serbia and Montenegro	198 092	13.7
Turkey	78 846	5.4
Others	354 222	24.5
Total	1 447 312	100

Source : La vie économique; dec., 2003

Table 40 : Swiss Citizens Aboard (June 2002)

	number	In %
EU	345 208	59.5
EFTA	5 902	1
USA	67 929	11.7
Canada	34 192	5.9
Australia	24 924	4.3
Others	102 241	17.6
Total	580 396	100

Source : La vie économique; dec., 2003

Table 41 : Growth of GNP in %

	1997	1998	1999	2000	2001	2002
Switzerland	1.7	2.4	1.5	3.2	0.9	0.2
Germany	0.8	2	2	2.9	0.8	0.2
France	1.9	3.5	3.3	4.0	2.2	1.2
Italy	2.0	1.8	1.6	3.2	1.8	0.4
Great Britain	3.4	2.9	2.4	2.9	2.1	1.7
EU	2.6	3	1.2	3.1	1.8	1.1
USA	4.5	4.3	4.1	3.8	0.3	2.4
Japan	1.8	-1.1	0.1	2.8	0.4	0.1
OECD	3.6	2.4	3.1	3.9	0.8	1.8

Source : La vie économique; dec., 2003

Table 42 : Rate of Unemployment in % of Wage-Earners

	1999	2000	2001	2002
Switzerland	2.7	2.0	1.9	2.8
Germany	10.5	9.6	9.4	9.8
France	10.8	9.5	8.7	9.0
EU	8.7	7.8	7.4	7.7
USA	4.2	4.0	4.8	5.8
Japan	4.7	4.7	5.0	5.4
OECD	6.7	6.3	6.5	7.0

Source : La vie économique; dec., 2003

9. MOBILITIES IN WESTERN MEDITERRANEAN SEA: THE OTHER GEOGRAPHIC CONTINUITY.

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9.1 Introduction

In this 3rd millennium beginning, Morocco faces strong changes in the migration pattern which are the consequences of an endogenous and exogenous paradox. Because of its specific geographical position, Morocco has to act more and more like a glacis at the European Union frontier. After being for years an emigration country, it tends to become an immigration one, but above all a transit space, like Mexico located on the United States border.

Some preliminary observations will lead us to evaluate the real issue of labour migration in Western Mediterranean Region and in Morocco in particular.

In the World, the number of migrants grew from 75 millions in 1960 to 100 millions in 1980 and finally reached 175 millions in 2000. The latest data proposed by the CMMI[36] are 200 millions international migrants (only those that lived out of their country of origin for more than one year) and 9.2 millions of refugees. Those figures are equivalent to the population of Brazil. This report underlines the attractiveness of developed countries where the number of migrants grew from 48 millions in 1980 to 110 millions in 2000. Majority of migrants are in United States (35 millions), followed by the Russian Federation (13.3 millions), Germany (7.3 millions), Ukraine (6.9 millions) and India (6.3 millions). China is the country that sends the most numerous migrants with 35 millions Chinese abroad, followed by India (20 millions) and Philippines (7 millions). So, at the World level during the last four decades, the figures show the increase of migratory flows, even if they vary a lot between each macro-region. After the domination of South-North flows, the South-South flows increased during the 1980s. That is the consequence of the increasing number of

[36] Les éléments ci-dessous sont transposés du site web : Migration in an interconnected world : New directions for action. Report of the Global Commission on International Migration (GCIM). 2005. Switzerland. 88

political and "environmental refugees"[37]. According to the UNHRC in 2000, 5,473,000 refugees (among the 21,798,000 who are under its responsibility) are in Africa. Among them 3,627,000 are "refugees" and 1,846,000 are "displaced" persons.

African migrants go to Asia, United States but above all to Europe. The number of migrants of African origin in OECD countries is estimated at 7 million (2004) from 82 millions African migrants, i.e. 8.5%. Among those 7 millions, the migrants from Northern Africa are 3.2 millions (45%), which is very similar to the number of Asian migrants (3.1 millions). 94% of Sub-Saharan African migrants and 98 % of North African are concentrated in 10 countries. France gathers respectively 39% and 72% of them. The second country for the number of migrants from North African is Spain with 400 000 migrants. African migrants are numerous in United States and in United Kingdom (2 millions).

In the same time, the European Union tends to reduce the immigration flows by increasing the controls at the borders and the difficulties to obtain a visa. However, meanwhile, another trend encourages the migration of skilled migrants toward developed countries, leading to the brain drain of competent people from the less developed countries.

Without real migration policy, one could believe or fear that the closure of the borders would lead to limit the departures from emigration countries. However, considering the demographic and economic conditions in those countries and the growing disparities with developed countries, the departures would certainly be maintained if not increased.

More and more, the main factor of migration is the search of an employment.

That is true for Morocco and other sub-Saharan countries and particularly West African ones. A survey on Moroccan migrants (Hamdouch B., 2000) set out during the summer 1998, showed that it was the main reason for migration for 40% of migrants since 1975, (even if the number of departure because of family reunification, or upper academic studies increased). The figure was less that 17% before that date.

[37] When the equilibrium is broken between the population and resources is durably broken, but also starvation and epidemics or other natural catastrophes.

9.2 Moroccan migrants in Europe and in the World

Migratory movements have been for many years an important feature of the Moroccan socio-economic development, particularly for peripheral regions such as Souss and Rif. The first destination was Western Africa that has rapidly been replaced by Algeria and Tunisia as destinations but also as stopover to Europe. From First World War to the beginning of the 1970s, Moroccan migration matched the classical pattern of "repulsion/attraction" between two places. Mobilization to take part to the 2 World Wars and requisitioning of colonial workers to sustain the French economy increased the migratory movements[38]. Then, the first Moroccan migratory flows toward France were mostly imposed. The situation is quite different now. More, until 1973, in most of European countries and both from host countries and migrants' points of view, migration was considered as provisional.

Since 1986 Moroccan migration undergoes a slowdown because of European border restrictions. However, it quickly set up appropriate strategies in order to by pass the European regulations. Now migration patterns are quite different. On the one hand, spouses and children join the fathers and students and educated people migrations increased, causing a brain drain (AMERM, 2002). Women and children migrations increased too (Charef M., 2002). On the other hand, voluntary illegal migrations replaced involuntary legal ones toward Europe or elsewhere. Each year, more than 100,000 candidates to migration mix themselves with tourists in Moroccan ports and airports. No other country in the World has even faced such a population drain during so long a period of time (Bertoin, 2005).

Nowadays, Morocco depends as much on this phenomenon that provides the financial resources necessary to its economic stability, as on strategic economic sectors as agriculture, phosphate exploitation and tourism.

9.2.1. A globalized migration

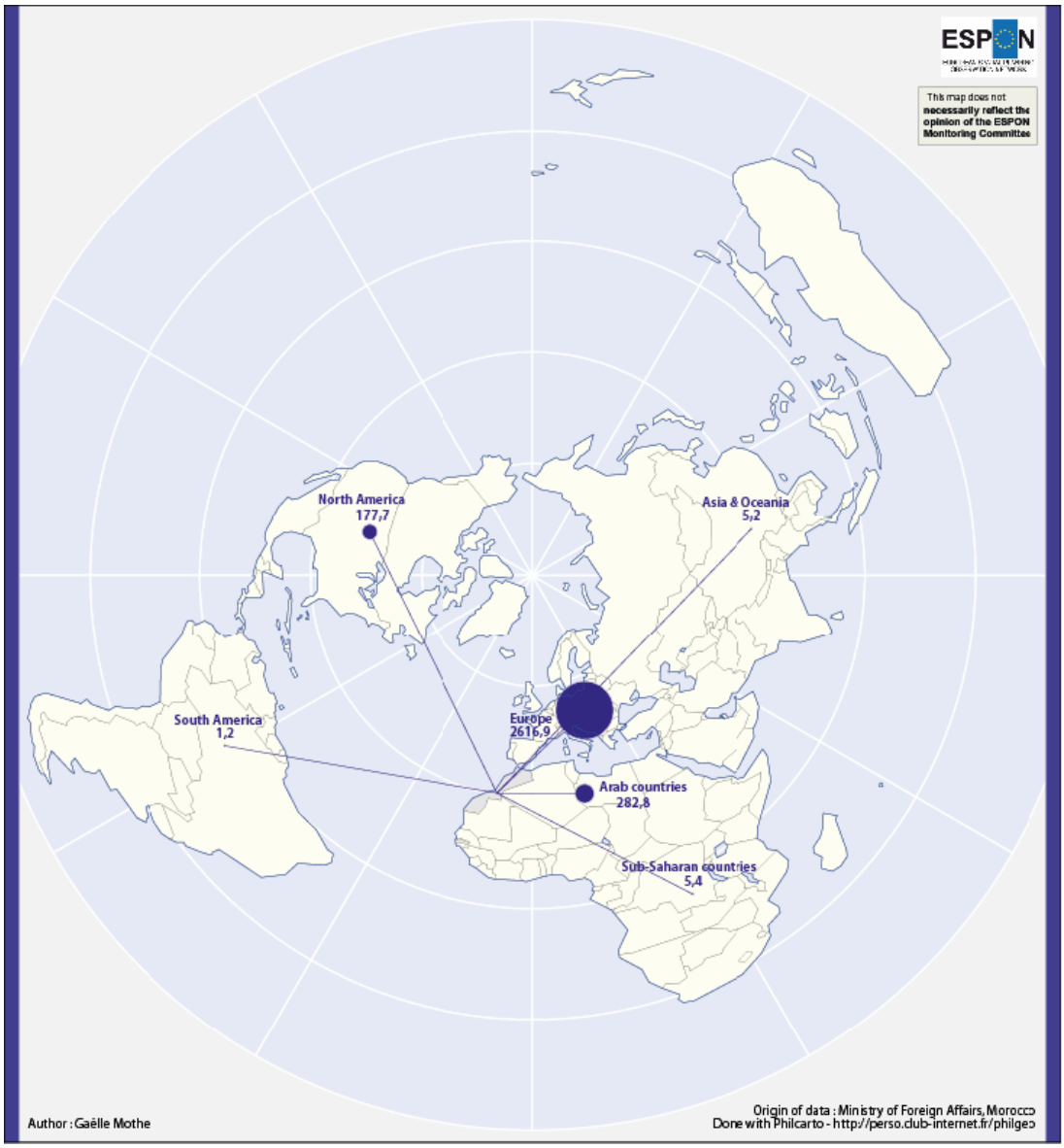
The economic crisis during the 1970s, the first oil crisis, the increase of unemployment and the coming back of xenophobic and demagogic discourses lead numerous States to close their borders and to encourage migrants to go back to their countries of origin. In the same time, the family reunification is set up in order to soften this politic option. This measure leads to the feminisation

[38] One should note that the pro-Franco Spain requisite numerous Moroccans during the civil war, but that did not cause any migratory flows.

and rejuvenation of the migratory flows and reduces the number of men living alone in hotels, boarding house or residential hotels that were the main characteristic of Moroccan migration till 1975.

The closure of European borders leads people who wish to migrate to choose other destinations. That leads to the broadening and therefore the globalisation of the migratory system since the 1970s. Moroccan migrants are still numerous in Europe but some of them choose now to go to North America, to Asia, particularly Japan, and to South America.

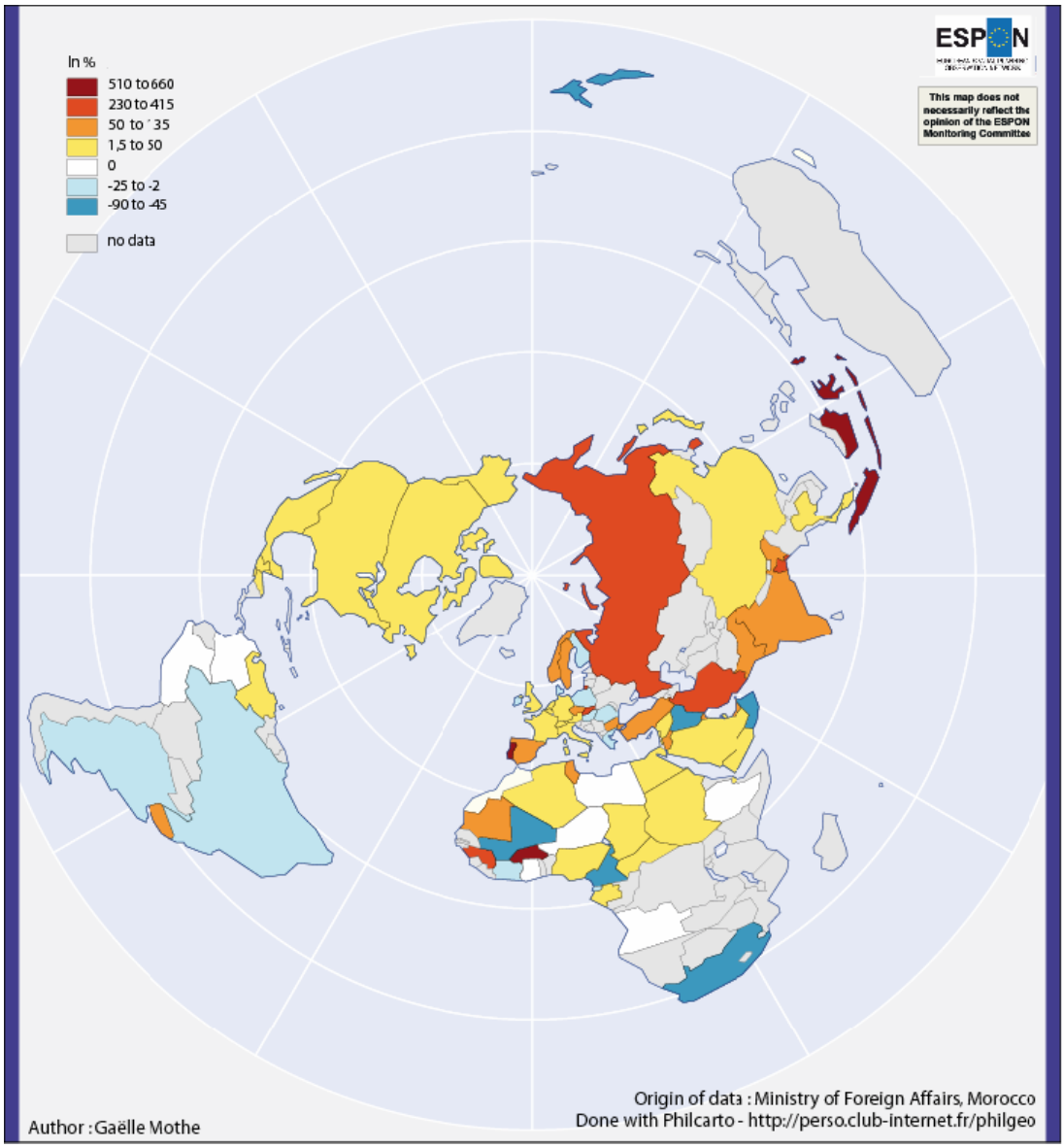
Map 41 : Number of Moroccan citizens listed in consular services, by region, in 2004[39].



[39] All the maps of this case study have been produced by the Moroccan partners. The drawing of borders represented on these maps do not necessary reflect the opinion of the other partners of the project nor the opinion of the ESPON monitoring committee.

- Moroccan migrants are attracted by developed countries where their number is still growing. According to the Moroccan Ministry of Cooperation and Foreign Affairs, it grew from 1.03 million in 1995 to 2.2 in 2001 to reach 3.08 millions in 2004. That represents nearly 10% of the Moroccan population and that makes Moroccan migrants more and more visible in the World. The 31st December 2004, 2,616,871 Moroccan resided in Europe, 282,772 in Arab countries, 178,914 in Americas, 5,371 in Africa and 5,167 in Asia and Oceania. The growth of the Moroccan migrants varies according to the regions or the countries considered. Their number is increasing in new destination countries like Spain, Italy, Canada and United States whereas the most important flows were previously oriented to France, Belgium, Netherlands and Germany.

Mp 42 : Variation of the number of Moroccan citizen listed in consular services, by countries, between 2002 and 2004.



To conclude, the Moroccan migration shifts from traditional destinations where the borders are now closed, to new and more distant horizons as Canada and United States.

9.2.2. A presence still important in Europe

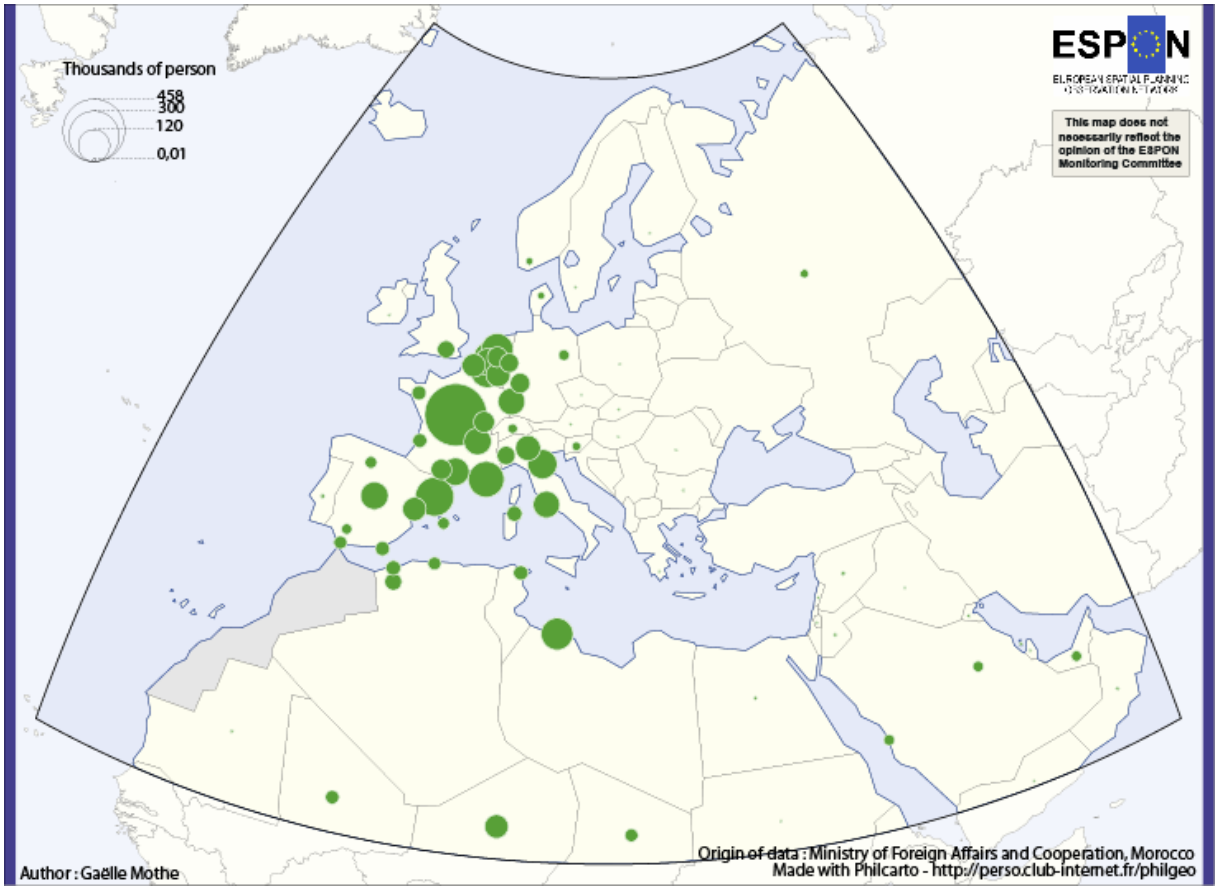
For historical reasons, France was for a long time the main destination of Moroccan migrants. But after the Independence, the labour demand of other Western European countries broke this "tête-à-tête". The spatial pattern of Moroccan migration in Europe changed with the raise of new destinations like Belgium, Netherlands and Germany. When those countries started to close their borders after the oil crisis and economic depression, migrants chose other (and more discrete till there) destinations such as Spain and Italy. In those countries,

migrants can not pretend to salaried works like in the industry sector but to marginal works or sub-contracting ones that are in the same time mostly illegal and insecure.

The presence of migrants of Moroccan origin started in the 1930s but it was never important in number. It was only after the pro-Franco period and the economic take off that it really started to increase to reach actual numbers. Spain, which was an emigration country, was first a stopover between 1975 and 1985 before to become a attractive pole and destination country (Colectivo Ioé, 1994) welcoming mostly Moroccan migrants. In 1985, the proportion of Moroccan residents in Spain was 5% compared to those in Belgium or Netherlands. In 2000 this proportion is respectively 180% and 1987%. This increase is very rapid, even if the numbers are still low in the new destination countries, such as in Portugal. In traditional immigration countries, the number are stabilising or even decreasing in African and Arab countries. In France, there were 260,000 Moroccans in 1975[40], 441,300 in 1982 and 584,708 in 1990. In Netherlands, the increase is also impressive (about 10 in 1960, 21,000 in 1969 and 156,000 in 1990). In Germany, the Moroccan presence is weaker, with 30,000 persons at the beginning of the 1970s and 62,000 twenty years later. That distribution was roughly similar during the 1990s, even if the destinations diversified and even if the sociologic profile of migrants changed.

[40] Ces statistiques sont issues de l'article de Mohammed Charef, elles ne comprennent que les individus immatriculés par les services consulaires. Elles permettent pourtant d'avoir un panorama relativement clair.

Map 43 : Number of Moroccan citizens listed in consular services in 2004.

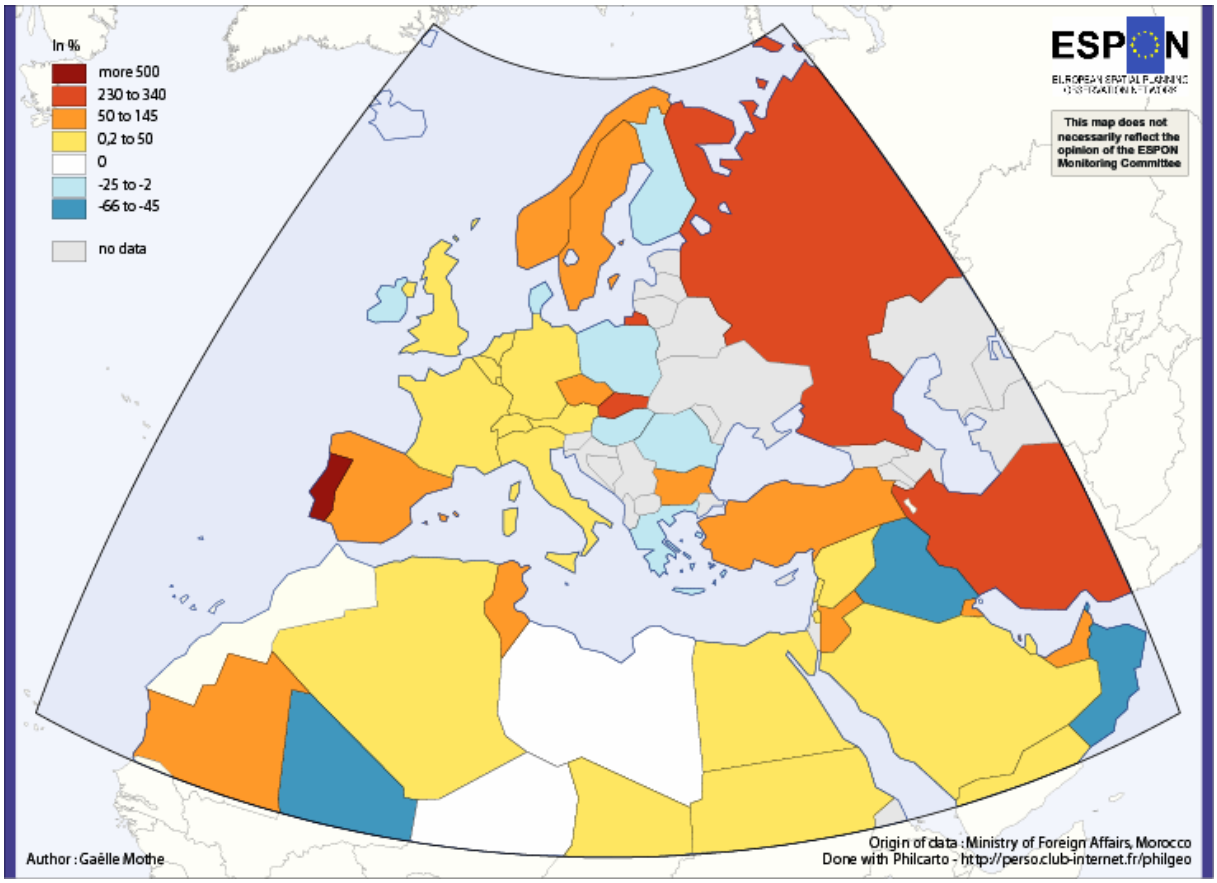


Those numbers are not really the exact ones because of the development of naturalizations among the Moroccan community residing abroad (Belbah M., Chattou Z., 2002). For example, between 1961 and 2000, more than 183,000 persons of Moroccan origin became French. That phenomenon concerns women and men of all ages and all socio-professional categories. It started slowly before 1973 with less than one thousand naturalizations per year. It increased between 1974 and 1990 with an average of 2,500 per year. After that date, more than 10,000 were naturalized each year.

Today, following the formation of "installed and stabilised ethnic communities", Moroccan migration became the place of a real migratory circulation (Charef 1999). It is "complex", despite its apparent simplicity, and changing, despite the multiplication of rules that try to slow down or stop the flows. It is supported by the development of the means of transports and communication. The establishment of nation states, with closed borders and national laws, reduced the space left to migratory flows and forced the migrants to circulate in tightened spaces. Each time a migrant tries to cross a border, he faces many obstacles like material obstacles, social norms or laws and does not have other choice than to

"burn" them, as Moroccan migrants say. Henceforth, despite the growing closure of borders, the Moroccan migration increase and diffuse all over the World.

Map 44 : variation of the number of Moroccan citizen listed in consular services, by country, between 2002 and 2004



9.2.3. Moroccan students in Europe and in France.

One can observe a decrease of the number of departures. Many factors could explain that phenomenon: to proceed to the inscriptions in universities aboard is more and more difficult; the Moroccan government stopped to deliver fellowship to students abroad; the increased difficulties to find a job, even with a diploma; the raise of a new generation, more arabized that scarcely speaks foreign languages. However the number of departures is still high and it concerns more and more Ph D students. Moroccan students abroad are about 33,340 in 1992, i.e. 13.1 % of the total of Moroccan students.

In 1990-91, 25,894 Moroccan students were in France, 4,737 in Belgium, 849 in Spain, 422 in Germany, 53 in United Kingdom. The small numbers of students in those countries can be explained by language problems, but also because the fees for the studies are higher than in France. More historical links and the presence of numerous Moroccans in France explain such a high number. France

attracts a lot of Moroccan students that are the most important foreign group with more than 15% far before Algerian ones with 8.5%. In France, 40.7% of Moroccan students are women in 2000-01.
In 2000-01 they were distributed in the following academic fields:

- 26.3% in science and technique and "Grandes Ecoles"
- 23.2% in letter and human science
- 20.9% in economic science
- 11.5% in medicine
- 9.8% in laws in politic science
- 7.9% in IUT

Moroccan students represent 33.6% of students from South-Mediterranean countries in European Union. Morocco is the 3rd sender of students in the World, with 3.1% of foreign expatriated students, after China (8%) and Japan (3.4%). Hallary C. (1994) notes that Morocco has the most numerous and diversified student diaspora in European Union. For that reason, he compares Morocco with Asian new industrial countries. Morocco has the same role toward France as South Korea toward the United States.

9.3 Migrants: essential contribution to Moroccan economy and society.

Like Tunisia, Morocco is interested by the earnings of its nationals living abroad, certainly because it does not possess gas and oil resources, contrarily to Algeria. As soon as in 1966, it tried to set up a system to collect the money of migrants and to transfer it to Morocco by the mean of the Banque Populaire and its branch offices in European Union, and by incentive actions like the parity between French Franc and Dirham, or the attribution of constructible lands (Charef, 1999). Some private banks followed this example contributing to set up a network of Moroccan bank offices in the main European cities where Moroccans are concentrated. This policy happens to be a success as the number of financial transfers is still growing. Each time a slowdown occurred, the authorities set up appropriate incentives.

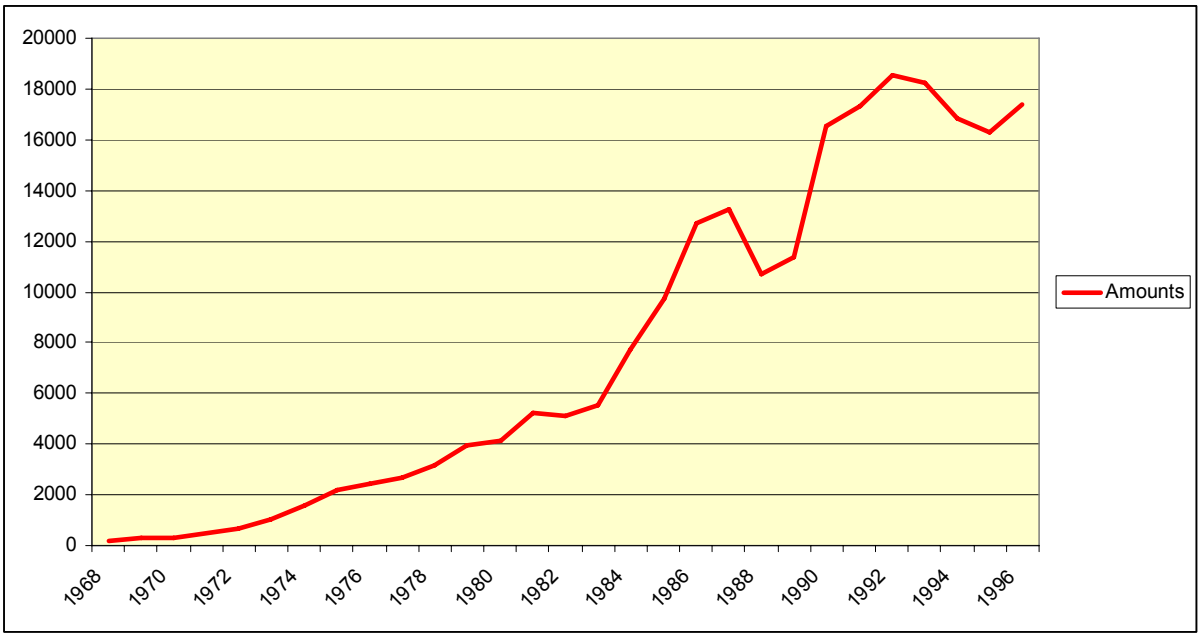
9.3.1. Profitable states efforts

Financial transfers from migrants have been multiplied by four between 1966 (158 millions of Dirhams) and 1972 (640 millions). That growth is correlated to the number of Moroccan residents abroad, but also to the increase of salaries in European Union and to the development to seasonal migrations. During the 1980s, the transfers have been multiplied by 3, even if an important fall occurred

in 1988 (20% compared to 1987). That kind of fall contributes to mobilise the State authorities (Belguendouz, 1992) and policy makers that try to restore the confidence of the banks and of real estate and investment sectors (Errachidi, 1993).

The first years of the 1990s have been characterised by an impressive increase of transfers that reach the amount of 16.5 billions of Dirham in 1990. That is due to the devaluation of that money by 10% in 1990. Observing the variations during that decade, one should note that the Gulf War did not really affect the Moroccan transfers. In 2001, the level of 30 billions was reached. That ranks Morocco on the 5th position in the World for the amount of remittances, after large countries like India, Philippines or Mexico.

Figure 46 : monetary transfers from Moroccan abroad (millions of dirhams)



Source: Bank of Morocco

9.3.2. Geography of fund transfers

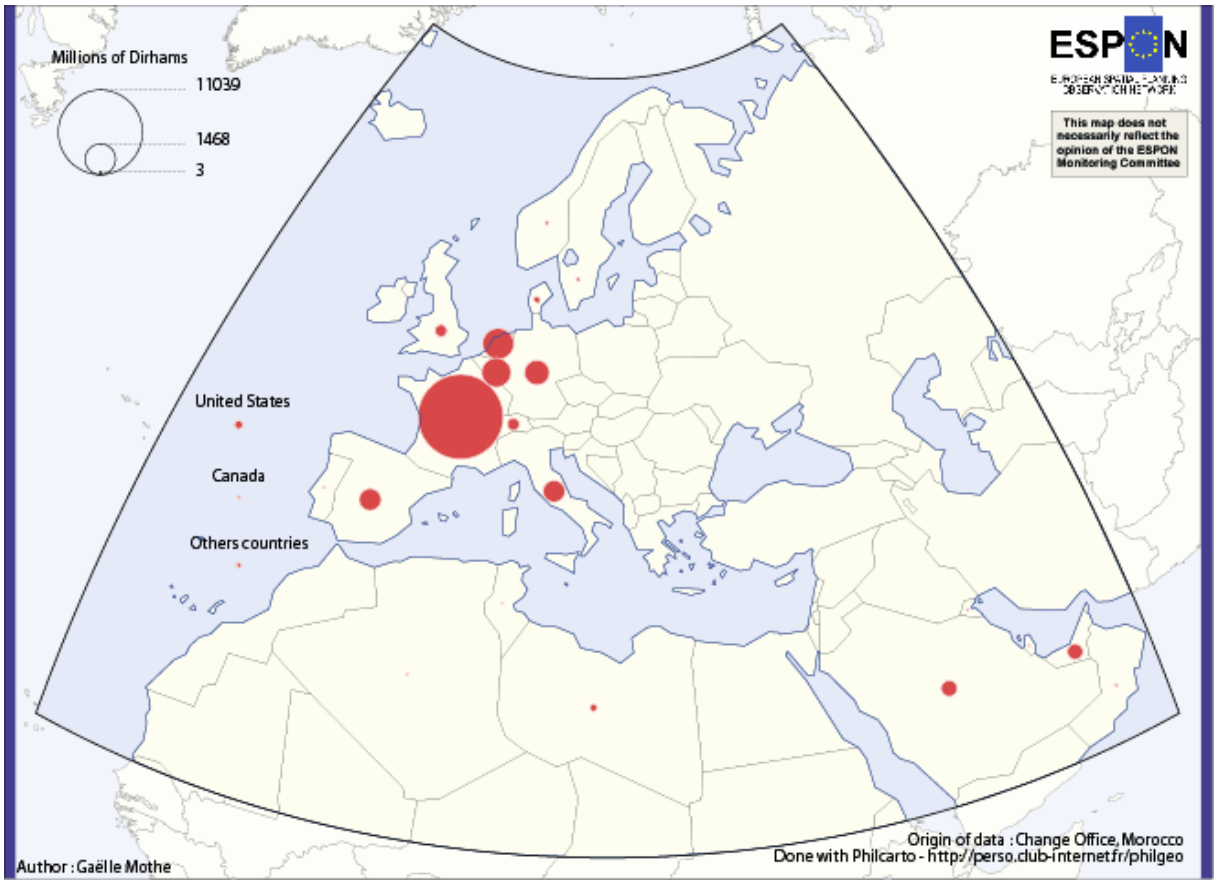
The numbers of origins of transfers follows the geographical dispersion of Moroccan migrants. In the 1960s and 1970s, France was the main destination of Moroccan migrants and therefore the main origin of transfers: it represented 93% of transfers toward Morocco (Baroudi A. 1978). Since the middle of the 1970s, Belgium, Netherlands and Germany also contribute to these transfers. But what has to be underlined is the increasing share of Spain, Italy and Arab States, even if in the two first ones the illegal migration is numerous, that means that workers are concentrated in low wage sectors and send no money by a legal

way. The increase of migrations toward North America at the beginning of the 1980s leads to a relative decrease of the share of transfers from Europe which still represented 81% of the total flow in 1985.

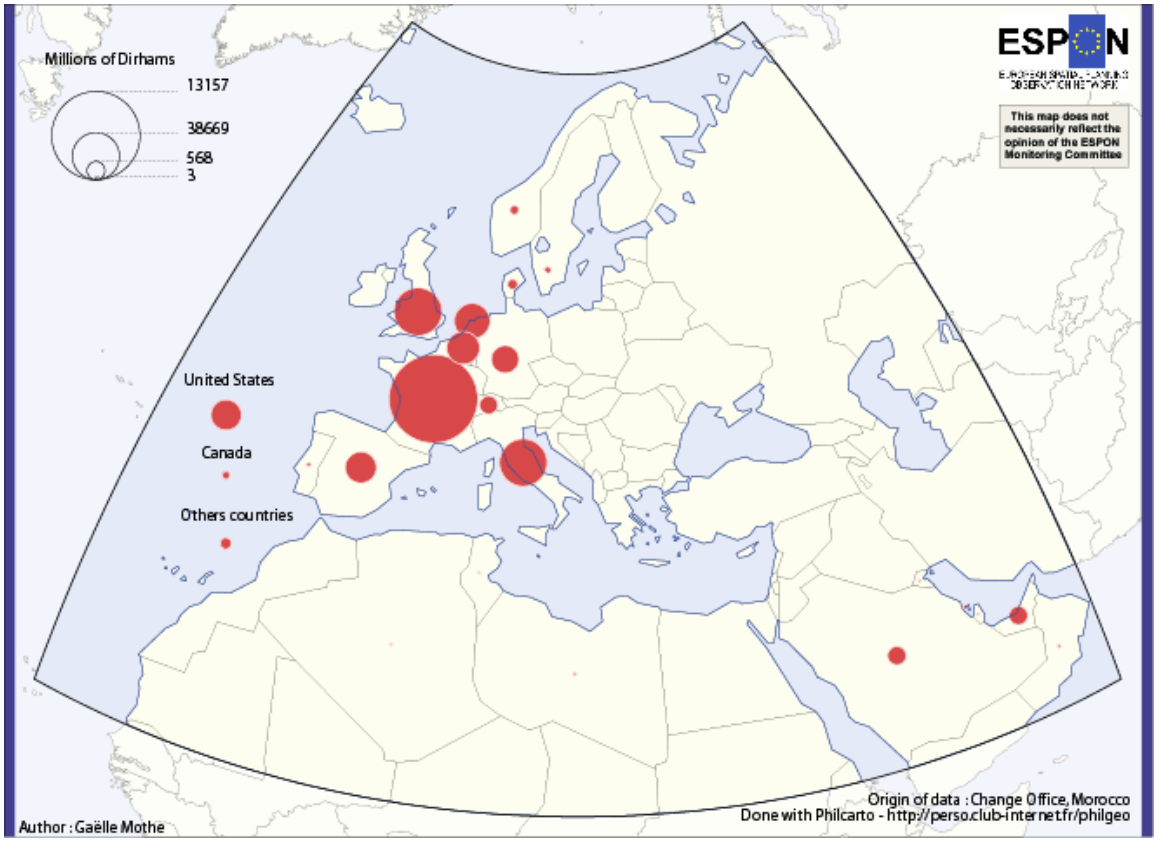
9.3.3. Moroccan bank network in Europe

In Europe the "Banque populaire du Maroc" is the most present with 36 windows and 197 employees, far before the "Banque commerciale du Maroc" (B.C.M.) and the "Banque Marocaine du Commerce" (BMCE). However, the latter is in the second position as regard to the share of transfers (9%) when the B.C.M.'s share is 7%. Those banks have branches all over Europe, in France, Belgium, Netherlands, Great Britain, Italy and Germany and aim to help the external Moroccan trade and to attract the money of Moroccan residents.

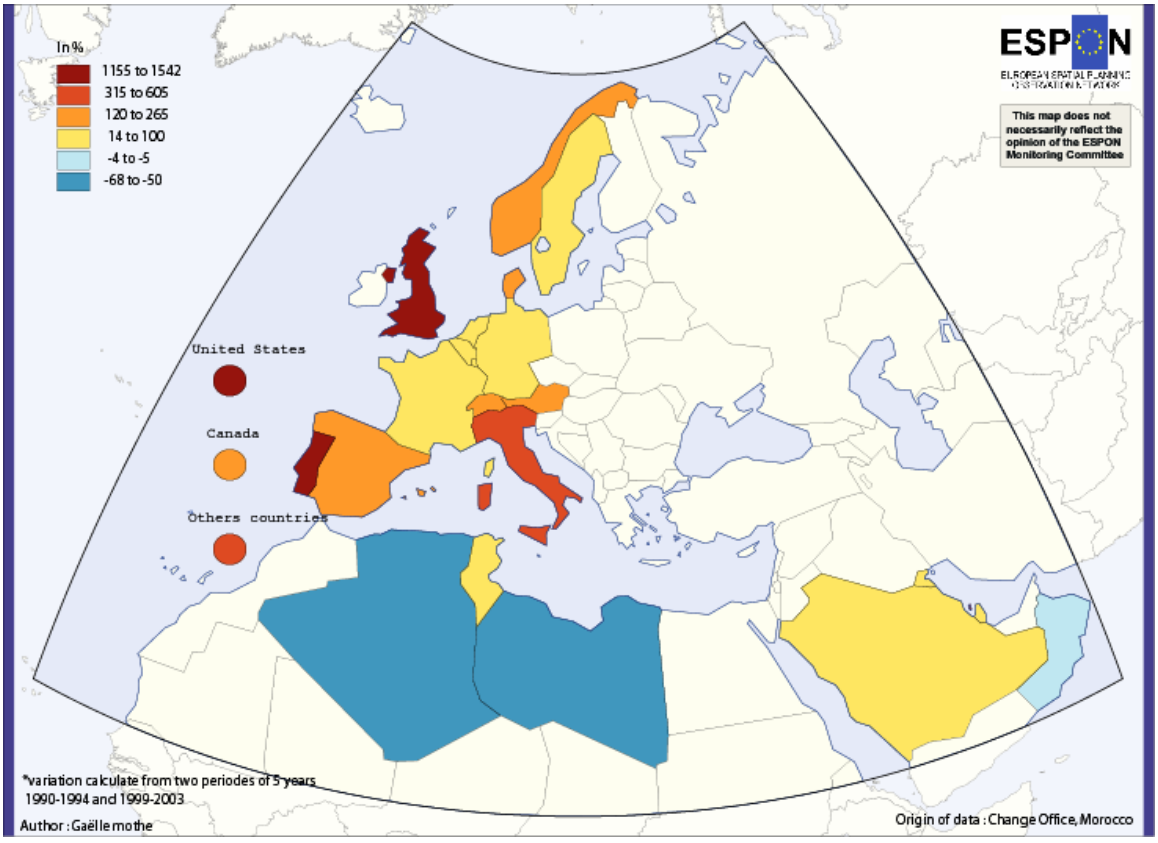
Map 45 : transfer of funds from the Moroccan abroad to Morocco between 1990 and 1994.



Map 46 : transfer of funds from the Moroccan abroad to Morocco between 1999 and 2003.



Map 47 : Evolution of transfer of funds from the Moroccan residents abroad to Morocco between 1990 and 2003



9.3.4. Transfer usage

This financial godsend supports the balance of payments. The remittances are one of the main resources of the country. That is why the authorities pay a lot of attention to it and sets out different policies in favours of transfers.

From a social point of view, the migrant's role is more and more important and nearly vital for the development of their home region. They set up projects to improve the standard of living of their families: house building, shop or small enterprise opening, improvement of farming techniques, well digging… But they can also aim to help the village community. So migrants are organised in collective development actions within the framework of associations. Acting as genuine "small firms", those non governmental associations have a dense network of relations and a high level of know-how in various domains. They can contribute to well digging, electrification, repairing of roads and trails, building of schools and medical dispensaries, buying of means of transports for the village…

Because of this monetary support, migrants could play a great role in the regional and local development. But this support can have reverse unwanted effects, and eventually no effects at all, if it is not integrated in a broader spatial planning document which aims to reach a homogeneous development at the regional scale.

But in addition, migrants are also a kind of mediators between their home country and the rest of the World. Therefore, they play the role of "bridge-men". They contribute to the diffusion of ideas and techniques. Their actions broaden the local horizon in establishing connections between their home place and the rest of the world. This action upgrades the image of voluntary work. The transformation of local and regional society mechanism are on their way, but they have to be supported and even more when one considers that the effects of the intervention of migrants will be less and less perceptible in the future because they more and more belong to an other space, that is the country of residence. That is why it is essential to set up a policy to stimulate investments and to root the migrants in the regional society, economy and culture.

The Moroccan government knew, first, how to attract the transfers. But, since then, it did not succeed, or did not want to use it as a lever to develop the country. Nevertheless, some local or regional studies (Charef M., Gonin P.,) show the role of those transfers for the creation of new jobs in construction and agricultural sectors (Berriane M., 1993). Moreover, this money helps maintaining the social stability as it helps large joint families' everyday life.

9.3.5. Migration: a bridge between the two shore of the Mediterranean Sea.

Mobility is one of the most striking social phenomena at the beginning of the 21st century. The life of migrants is punctuated by returns for the vacations of familial events. Travels between country of residence and Morocco take place all the year long, but especially during the summer vacation. The "season" starts officially on June 15th and stop on September 15th. Rush periods are the following ones: from June 25th to Jully 7th; from July 25th to August 7th; from August 25th to September 5th. In 1994, the number of entries of national in Morocco between June 15th and September 5th were about 820,000 (that is an average of 10,000 entries each day and 3,500 cars). But the variation is very important according to the period with a concentration between the end of July and the beginning of August. Till 2000, the registered travels hardly reach one million. In 2003, more 2.3 millions Moroccans resident abroad came in Morocco, 2.5 in 2004. Tanger is the main point of entry and regularly undergoes dramatic increases of the traffic.

9.3.6. Holiday migrations: an other way to connect Morocco and Europe

Until recently, each country crossed by Moroccan migrants for vacation had its own laws. There was no harmonisation and coherence with the neighbour countries' to this respect. The lack of coordination in the implementation of facilities and rest areas (lay-by) lead to the increase of road accidents, the disorganisation of the dense traffic on roads and the congestion of port cities. That compels Morocco and Spain, which are the most affected countries, to coordinate their action in order to face the migrant flows.

A shy and nearly informal coordination started in 1983, initiated by the Spanish "Traffic General Direction", the Embassy of Morocco in Spain and some NGOs as Spanish Red Cross and Moroccan Red Crescent. It led to the building of six rest areas on the Spanish territory. This operation has slowly been institutionalised and leads to a change in the Moroccan-Spanish relations. This seasonal operation, called "transit operation", has been improved each year and became in 1991 the "Strait crossing operation" that implied in Spain:

- the General Direction of Traffic
- the General Direction of Civil Protection
- Malaga, Almeria, Ceuta and Melilla ports

On the Moroccan side, the following actors are involved:

- Moroccan Embassy in Spain
- Moroccan Red Crescent

- Royal Gendarmerie
- National Commission for the Prevention of Road Accidents
- Under-secretary's Department of Ministry of Foreign Affairs in charge of the Abroad Moroccan community.
- Hassan II Foundation for Moroccan Residents Abroad
- Local Authorities

The mixed Moroccan-Spanish commission meets several times a year to organise the seasonal travel of Moroccan migrants. At the national level, the actions have one objective: to make the travel easier. The actors of the Moroccan transportation sector are implied in the operation and they are asked to set up efficient equipments to face the seasonal flows.

9.3.7. The travel back actors

In 2004, *Royal Air Maroc* Company estimated that more than 230,000 Moroccan workers used its aircrafts between Morocco and Europe that means around 20% of the total number of passenger without taking into account the persons of Moroccan origin who travel with a foreign passport. About 67% of the Moroccan air traffic is with Europe. Since then, the share of Moroccan travellers on *Royal Air Maroc* reached 33%. A new fact is the dispersion of those travels all over the year, because of the retired migrants who are used to travelling 5 or 6 times a year. They represent a precious clientele when the season is over.

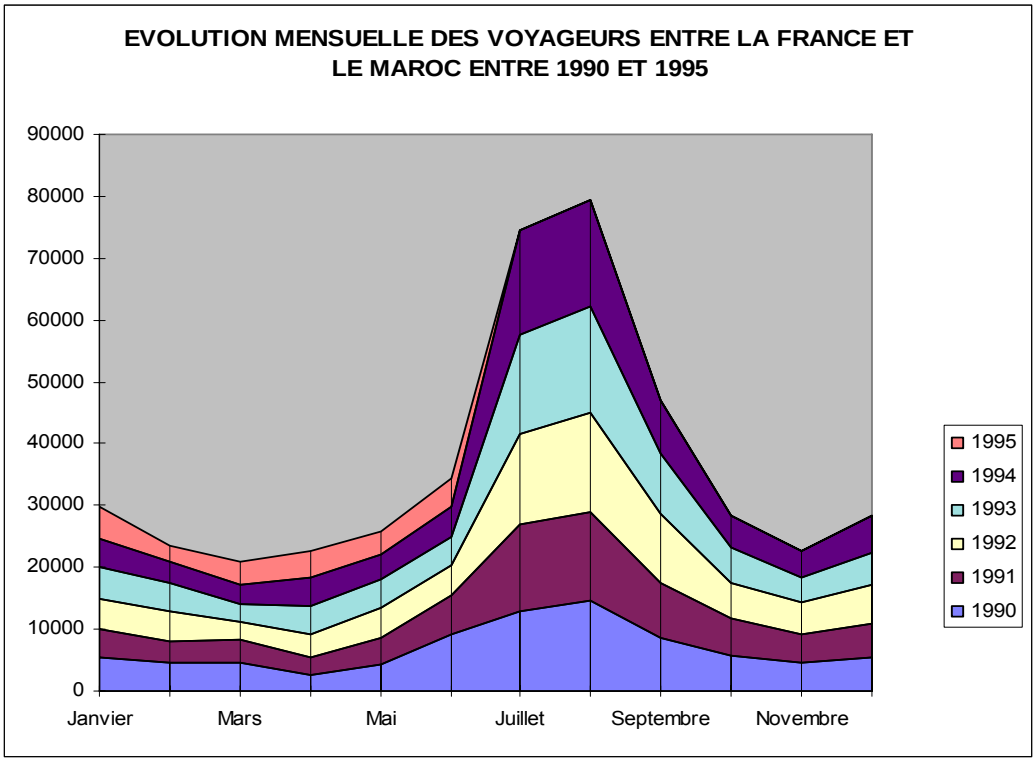
Each year, under the impulse of authorities and in coordination with other transportation actors, *Royal Air Maroc* sets up supplementary flights between Morocco and the main migration countries. In 1994 the company added 175,000 seats and 230,000 in 2004 in order to handle the number of returns. The importance of migrants is revealed by the creation of seasonal connections, for example Al Hoceima-Amsterdam or Oujda-Bastia, Oujda-Dusserldorf. The main customers of Oujda airports are migrants because tourism is not well developed in the north-easter part of Morocco.

Some other air companies propose flights to Morocco such as Air France, in accordance with bilateral agreements. The two countries companies have to share the traffic in an equitable way: prices are often imposed and charter companies are not allowed to transport Moroccan citizens (even if the double-nationality allows travellers to benefit from the charter prices). But charters are oriented to touristy places which are not the same as migrations regions.

With the implementation of the “open sky”, air transport between Morocco and Europe will be more and more affordable. Without too high prices for Moroccan

residents abroad, the plane would have already attracted more passengers. Even with the 30% reduction off granted by the companies to people that have a work permit, tariff are still too high.

Figure 47 : Monthly travellers between France and Morocco between 1990 and 1995.



The "Compagnie Marocaine de Navigation" and other maritime companies in the Gibraltar strait make more efforts to reduce the waiting time in ports, either by renting additional boats or by increasing the frequency of travels. Migrants are the main customers of those companies. Between June 1st and July 30th 1994, there were 694,523 passengers. Most of them transited by one point of the triangle Algésiras-Tanger-Ceuta (85%). The main reason of the domination of those ports is that the fare to cross the Mediterranean Sea is very high from other ports located out of the Strait (Malaga, Almeria and Melilla). It is so high that even those who living in the north-eastern part of Morocco chose the Strait path.

9.3.8. A perennial link between Europe and Morocco

In order to face the growth of exchanges between Europe and Morocco, and to link the two continents, a perennial link through the Gibraltar Strait has been evoked during Fes Meeting in June 1979, by the kings of Morocco and Spain. In

October 1980, a cooperation agreement was signed in which both countries decided to create a commission aimed at programming and coordinating the preliminary studies and to set up two civil societies in charge of those technical and scientific studies.

Two projects are considered as possible, from a technical point of view: a railway tunnel and a highway bridge between Cap Malabata in Morocco to Punta Paloma in Spain.

- The railway tunnel would have between 38 and 53 kilometres lengths. It would be made of two main galleries with a railway in each one, plus a service gallery. Cars would be carried on a rail shuttle between two railway stations. It is roughly the same functioning principle as for Euro-tunnel.
- The highway bridge will be made of a succession of spans of 3,000 to 3,500 metres long, in the part of the Strait where the depth is more than 50 metres. The concrete pillars could reach a depth of 300 metres.

9.4 Laws and migration management in Morocco

The tragic events of the 5 to 6 October night had to happen at Ceuta and Melilla to attract the attention on the migrations realities in Morocco, and in the region, and on the relations of Morocco with its northern and southern neighbours. The global economic situation can turn people from all over the World into potential migrants toward a small number of destinations. The increase of the development level gap between northern rich and southern poor countries reinforces the European attraction.

The continuous migration movements through Morocco results from the addition of numerous factors that hamper the social and economical development of Africa, such as the rapid demographic growth[41], the multiplication of armed conflicts, the environmental problems, the more and more difficult socio-economic situation and the lack of democracy and meritocracy. In addition, the possibilities to migrate in wealthier and more stable neighbour African countries, such as Côte-d'Ivoire, are more and more scarce.

The migration pressure its highlighted by dramatic events that are reported nearly each day by media which publish the macabre list of the victims that bump into the more and more hermetic border.

[41] 221 millions people in 1950 ; 800 millions today.

Because of its geographical situation, Morocco has to face growing flows of illegal transiting migrants. European Union asks it to make more efforts to discourage and stop those flows, trying then to externalise its border management and to make it done by other countries (in Maghreb, in Eastern Europe and in Turkey). Morocco then became the ultimate southern frontier of the Schengen space. But it is very difficult for Morocco to handle alone the migration problem. Legal and illegal migrations became a recurrent social and political issue in the African-Mediterranean relations, as during the Barcelona meeting, but without any concrete effect till now on the departure and transit countries. It seems that European Union, like the United States and Canada, considers casually the dramatic consequence of their migration policies. More, they are interlinked with the contradiction that they argue on the benefit of liberalism but try to limit the migrations of workers. In other words, they encourage the circulation of people that make possible the capital circulation and in the same time they try to stop the migration of people who are the victims of the circulation of capital (relocation, flexibility, unemployment). And in the same time, numerous European economic sectors welcome this illegal and exploitable work force. One example is the employment of seasonal workers for fruits ad vegetable harvesting that rarely follows the employment laws as it is shown by the living and working conditions in some farms in Southern Spain. One can remember too the dramatic events of El Ejido. Other economic sectors do not hesitate to recruit illegal migrants: construction, textile, catering and hotel business.

9.4.1 Morocco between the devil and the deep blue see

Previous migration pattern was characterised by a place of departure and a place of destination, without any twist and turn. Nowadays, migration paths are more and more complex both in time and in space. In this context, Morocco plays an important role as an interface between Africa and Europe in general, and between Iberian Peninsula and Canary Island in particular, because it is placed in a geographical strategic location, so close to the highly coveted European continent.

Candidates to emigration come from numerous countries. They include the illegal national migrants, whose number is slowly decreasing since 2002, due to the security dissuasive measures set up by the Moroccan government and public awareness campaign about the illegal migration dangers. The transit migrations

have increased since the mid-1980s, and the law-and-order measures to contain illegal migration can not break the dream of a better life.

The desperate rush to force the way to Ceuta and Melillia by night contributed to the production of striking pictures. The video surveillance cameras that punctuate the railings provided quasi-instantaneous pictures of the assault. The worldwide diffusion of these pictures will offend the sensibility of public opinions on the both side of Mediterranean Sea and even further. However, the migrant is far from being a breakage-neck or an adventurer.

9.4.2. Illegal migration, a long uneasy way.

From Agadès, that is the crossroad of the illegal migration, a way leads the migrants to Tamanrasset and from there to Morocco, crossing a large desert and inhospitable space. Migrants are vulnerable to controls (they have to circumvent the check points or to pay the "controllers"), mechanical breakdown, climatic risks like sandstorms, health problems (dehydration, diarrhoea, fever…), robbers, swindler and other people that denounce them, and above all they have to find an opportunity (administrative, human, temporal…) to cross the border. Some of them have left their home and families for years, between 2 to 5 years according to the testimony of Gambian and Congolese migrants. They stay for weeks or months in some regions or cities, trying to take advantage from this forced stop by working to earn something that will allow them to go on. Numerous examples are in Algeria in the construction sector. More, women illegal migrants try to compensate their low income by prostitution.

After many obstacles, the luckiest ones reach Eastern Morocco, near Oujda. Some of them settle in frontier cities like Maghnia, (attracted as they are by the closest locations near the frontier and the view on the Spanish coast from the Moroccan shores), waiting for an opportunity to cross the border, alone or with the help of a runner. They are then stopped very close from Europe. Each new group which arrives increases the number of candidate migrants waiting for departure.

9.4.3. Oujda, a crossroad

The migrants who manage to cross the border near Oujda, generally stay for a while. Probably to have a rest, to get in touch with a frontier runner and to choose the best option for their travel to Europe. Different testimonies underline

the permanent presence, for years, of illegal sub-Saharan migrants who stay in the mountains, organised in small groups of 6 or 7 persons. During the day, they stay in the universities and in campus, because those spaces are legally preserved from police incursion but also because they receive help from Moroccan and foreign students and teachers.

Some of them choose to carry on travelling. First, they take the public transports by small groups, mixing with the population. But as their number increases, they become more and more visible and the controls are more frequent and severe. They have to take the informal way of transportation whose fare does not stop to increase. The "normal" fare, plus the "risk" supplement puts a serious strain on their migration budget and risks to jeopardize the payment of the travel through the Mediterranean to Europe. The amount paid for the crossing is conditioned by the location of the boarding point, by that of the arrival point in Spain, by the offer, by the season and by the politic context.

9.4.4. the necessity to take short-cuts

When the Algerian-Moroccan border in crossed near Oujda, they are 3 solutions to reach the Mediterranean Sea or Atlantic shores. Sub-Saharan migrants make their choice by taking into account the controls intensity, the contacts at the destination point and the existence of networks.

- The Nador direction leads to a crossing at Melilla or to an attempt to reach the Spanish shore between Malaga and Almeria. The space between Oujda ad Nador is a densely populated agricultural area. That is also a point of departure of international migrants. A significant part of the local population earns its living thanks to the smuggling of illegal migrants between Algeria and Melilla. This way is not often chosen by migrants because of geographical difficulties and because it is far from the Spanish shores. In the "Gourougou" forest, 400 to 1000 policemen set up 113 actions between January and October 2005 and managed to arrest of 6,000 illegal migrants.
- Another option is to cross the Tanger region toward Ceuta or the Andalusia coasts. It is the most utilized path, but also the more controlled one both by Spanish and Moroccan troops. To cross the sea to Spain is very risky, not to say fatal. The crossing is made by fragile fishermen small boats, the so-called "pateras", equipped with a 40 to 60 horsepower engine and overcharged. Sometimes, they carry 90 persons, as it was a case in 2005

when one of these small boats sank near Tanger. A majority of departures take place all along the Northern Moroccan coast, sometime until Kenitra.

- The third way cross Guercif, Fes, Rabat, Casblanca reaches the Saharan region via Agadir. The aim is to get closer from the Canary Islands. When the migrants, who travel in small groups, reach Rabat or Casablanca, they are handled by a dense quasi-mafia network composed by touts, sometimes compatriots of them who try to make little money and guide them to Agadir. When they have reached Agadir, a new tout drives them by truck or Land Rover toward Tan Tan. Then, they can be hosted in some house or they camp near the city. Frugal meals are sometimes given to them, generally water and bread with canned sardines.

9.4.5. All the Moroccan territories in concerned, but particularly the Eastern part

Observation posts are set up and some 7 000 men are durably mobilised to check the point of passage of illegal migrants, helped by 4 000 men from the Royal Army Forces, Gendarmerie and other helps mobilised after the charges of Sebta and Melilla. That leads to the arrest of some frontier runners and touts and the seizure of the boats.

In the same time European Union puts the pressure on Morocco in order to make it discourage the illegal migration flows. In counterpart, it offers logistic and financial support. During the last meetings of Morocco and European countries, since the end of the 1980, the illegal migration question was most frequently raised. Each time, Moroccan authorities insist to make some European country regularised the Moroccan migrant's situation. But each time European countries seem to be more interested in the identification of presumed Moroccan citizens that have to be expulsed.

One can wonder whether Morocco and other North African countries are able to conceive and to implement a comprehensive migration policy. For the time being, they simply try to cope with the phenomenon because they can not even control the flows of departure from their own countries. Moroccan authorities are aware of the sensible situation of Morocco as a transit area and try to attract the attention of the international public opinion, without any positive effect until now.

9.4.6. Moroccan migration laws.

Till now, as an emigration country, Morocco did not pay very much attention to immigration phenomenon even if it is one the rare Arab country which has ratified a large number of international texts that protect the migrant workers. However, its old fashioned laws in that field dated from the French protectorate and were no more useful till their abrogation by the 02/03 law. The analysis of the legal framework is useful to observe the management of migration flows by Morocco. This management mostly relies on United Nation principles even if some countries in the region have not ratified them yet.

Table 43 : ratified conventions by Mediterranean countries

Country	Convention 1989 WTO	Convention 143 WTO	Convention 1990 United Nation
Algeria	19.10.62		
Morocco			21.06.1993
Tunisia			
Mauritania			
Libya			
France	19.03.1953		
Italia	22.10.1952	23.06.1981	
Spain	21.03.1967		
Greece			
Portugal	12.12.1978	12.12.1978	
Malta			

This situation is not specific to the Maghreb. The convention n°97 (1949) has been ratified by only 42 countries and the n°143 by 18 countries only. According to the WTO survey on worker migration, , in 2003, the main reasons invoked are the principles of the equality of consideration between national and migrants, the existence of free public services… Morocco is the only country that ratified the United Nations convention (1990) on that aim to protect migrant workers and their family members.

Morocco has voted laws that try to organise the migration and to protect the migrants: the n°02-03 law (11 November 2003) that unified and harmonised the previous laws and penal code, rationalised the rules of the strangers' stays and codified the infractions linked to illegal migration. The "stranger" is defined as someone who does not have the Moroccan nationality or none nationality. Generally Moroccan laws connected to the migration issue are harmonised with

international norms. More, Morocco is now part of international organisations that aim to protect the rights of migrant workers.

In the same time, a "Direction de la Migration et de la Surveillance des Frontières" has been created in order to set out a national strategy to fight against the smuggling of human beings and to monitor the borders. It has to fight against the illegal migration.

9.5 Conclusion

The assault to barbed wire walls of Ceuta and Melilla are not only security questions. Those walls are the symbol of the developing disparities between two spaces and draw one of the most economic unequal borders of European Union. Those assaults and migration flows are neither the responsibility of the sole Morocco nor that of Spain. They set up the term of the relations between rich and poor, North and South, European and African spaces. They have to question us about the amount of sadness they are made of: poverty, starvation, armed conflicts and lack of future prospect in most of African countries. Those events were not only dramatic for the sole European and International consciences. They also strike the Moroccan public opinion on a question they were hardly aware of.

Nowadays, to think about the Mediterranean Sea Region, one have to think globally, to think about complementarities, to find the way to mutual confidence and to underline the convergences. It is necessary to understand the mobility by underlying what phenomena are interlinking people and spaces instead of focus on law-and-order policies.

There is an emergency for Europe to set up a global strategy on the migrations, where Morocco should have a real place and not only the role of a watchman or guard. Europe and particularly countries of the southern bank of the Mediterranean must help Morocco and North-African countries in general to become regional powers, for the interest of both spaces. In this perspective, migrations should not be seen as a problem but as a bridge between shores, as a window on the World for Africa and the living expression of our interdependency.

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