

EAST-WEST STUDIES

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**Journal of Social Sciences of  
Tallinn University School of Governance,  
Law and Society**

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EWS Number 9 (48) 2018

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Journal of Social Sciences of Tallinn University School of Governance, Law and Society

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## **PREFACE**

Dear reader,

Tallinn University's School of Governance, Law and Society is presenting another edition of our academic interdisciplinary journal. It features articles written by colleagues from within the university, as well as from outside. We acknowledge the wide interest towards the journal and welcome continuing contributions in the future. East-West Studies journal is an important link between different fields of social science and humanities. For the legal profession, the idea of law's social dimension is evident from the included articles; today's world it seems to need a consistent attention.

**Mart Susi**

Editor-in-chief

Professor of Human Rights Law

**MAKING INDIA'S IDEA OF STRATEGIC AUTONOMY SIMPLE.  
NON-ALIGNED MOVEMENT REVISITED**

**MADLI TIKERPUU**

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This research was supported by Tallinn University and a grant from European Social Fund's Doctoral Studies and Internationalization Program Dora, which is carried out by Foundation Archimedes.

**ABSTRACT**

India's foreign policy decisions and actions are often questioned and debated in the context of great power polarities. Although the context for discussions is relevant, India's experiences in recent history, especially during the Cold War have been underestimated and overlooked. This article argues that challenges during the Cold War and the foundations of Non-Aligned Movement (NAM) should be considered fundamental when explaining India's foreign policy decisions and the idea of strategic autonomy that drives its politics on international arena. Even more, considering the NAM principles and building upon post-Cold War decisions, India's idea of strategic autonomy reflects Nehruvian idealistic and moralistic principles combined with PM Modi's realistic foreign policy principles. These principles and the idea of strategic autonomy will be explained through three Indian foreign policy choices. Firstly, India's focus on the region exhibits the desire to build up a strong region to minimise the risks from possible great power rivalries. Secondly, relations with emerging powers like BRICS and IBSA demonstrate the ambition of building up a just world order. Thirdly, India's ambition to reform UN and its economy exhibits its ambitions of raising into a great power status where power and responsibilities are interrelated. Finally, India's idea of strategic autonomy will be explained, where power, responsibilities and moralistic world view are all part of it.

**KEYWORDS:** India; non-alignment; foreign policy independence; emerging powers; strategic autonomy

“We will promote a democratic and rules-based international order, in which all nations, small and large, thrive as equal and sovereign...”<sup>1</sup>

Exploring India's role in the launch of Non-Aligned Movement (NAM) during the Cold War and its relations with participant countries today is pivotal to understanding India's idea of strategic autonomy in the 21<sup>st</sup> century. India's economic growth has not only re-opened the debate about country's rise in world arena and raised the question about the form of power it will gain<sup>2</sup> but has also brought up the need to understand its often incomprehensible foreign policy choices. Country's negotiations with US on the matters of nuclear capabilities, confrontational relations with Pakistan and China have characterized India as a challenging negotiating partner and a country with complicated foreign policy. For EU, the FTA negotiations grab most of

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<sup>1</sup> Narendra Modi, 'Prime Minister's Keynote Address at Shangri La Dialogue (June 01, 2018), *Government of India, Ministry of External Affairs* (Shangri La, 2018), available online at: <http://www.mea.gov.in/Speeches-Statements.htm?dtl/29943/Prime+Ministers+Keynote+Address+at+Shangri+La+Dialogue+June+01+2018> (accessed 11.06.2018).

<sup>2</sup> Eswaran Sridharan, 'Where Is India Headed? Possible Future Directions in Indian Foreign Policy', *International Affairs*, (2017), 93(1), pp. 51-68.

the attention to develop the much-criticized strategic partnership into deeper relationship and to overcome the obstacles for more successful economic relations.

As the confrontation between US and Soviet Union has ended, there will be examined to what extent do the continuity of NAM principles exist in the relationships between India and region, BRICS, IBSA and behind domestic and international reforms. The paper argues that despite the absence of confrontation, the aspects of NAM principles are still present in India's current foreign policy to achieve long-desired foreign policy independence, today as strategic autonomy. Even more, country's post- Cold War choices exhibit a model of 'lessons learned' foreign policy.

The request for independent foreign policy has been one of the major goals since country's independence in 1947 and is closely related to the ambition of restoring the great power status.<sup>3</sup> As will be shown in this article, in order to understand and evaluate India's foreign policy decisions, country's experiences during Cold War, dissatisfaction with current world order, India's position and role in current world order, and concerns about future changes combined with the ambition of becoming a great power should be taken into account. As will be discussed later in the article, these aspects will constitute what India considers as strategic autonomy.

The literature has mainly focused on India's foreign policy and its aspirations towards great power status<sup>4</sup> also briefly touching upon the bargaining strategies<sup>5</sup>. Although the NAM was of utmost importance for Third World and was at the centre of India's Cold War foreign policy,<sup>6</sup> relatively little attention has been paid to the interrelatedness of the principles of the movement and India's foreign policy choices after the end of the Cold War. Thus, this article aims to fill this gap by studying India's current foreign policy activities and principles explained through the prism of NAM values in past and in present. Building upon Cold War time NAM principles and that time India's foreign policy decisions, the article will demonstrate how India's current foreign policy has been shaped. In order to explain current aims and principles through Cold War time choices, the article will use India's policy in the region and participation in BRICS and IBSA to show how relations with 'like-minded'<sup>7</sup>

<sup>3</sup> The origins of the great power status lie in Ashoka's Mauryan Empire in 322 – 185 BC.

<sup>4</sup> Baldev Raj Nayar, 'India in 2005: India Rising, but Uphill Road Ahead', *Asian Survey*, (2006), 46 (1), pp. 95–106; Amrita Narlikar, 'Peculiar Chauvinism or Strategic Calculation? Explaining the Negotiating Strategy of a Rising India', *International Affairs*, (2006), 82 (1), pp. 59–76; Peter R. Lavoy, 'India in 2006: A New Emphasis on Engagement', *Asian Survey*, (2007), 47 (1), pp. 113–24; Rahul Sagar, 'State of Mind: What Kind of Power Will India Become?', *International Affairs*, (2009), 85 (4), pp. 801–16; Surjit Mansingh, 'Assessing Reorientation of India's Foreign Policy in a Globalized World', *International Studies*, (2010), 47 (2–4), pp. 143–61; Walter C. III Ladwig, 'India and Military Power Projection: Will the Land of Gandhi Become a Conventional Great Power?', *Asian Survey*, (2010), 50 (6), pp. 1162–83; Subrata K. Mitra, 'Nuclear, Engaged, and Non-Aligned: Contradiction and Coherence in India's Foreign Policy', *India Quarterly: A Journal of International Affairs*, (2009), 65 (1), pp. 15–35; Rohan Mukherjee and David M. Malone, 'Indian Foreign Policy and Contemporary Security Challenges', *International Affairs*, (2011), 87 (1), pp. 87–104.

<sup>5</sup> Narlikar, 'Peculiar Chauvinism or Strategic Calculation? Explaining the Negotiating Strategy of a Rising India'; Amrita Narlikar, 'India Rising: Responsible to Whom?', *International Affairs*, (2013), 89 (3), pp. 595–614; Amrita Narlikar and Aruna Narlikar, *Bargaining with a Rising India: Lessons from the Mahabharata*, New York: Oxford University Press, 2014.

<sup>6</sup> Cecil V. Jr Crabb, 'The Testing of Non-Alignment', *The Western Political Quarterly*, (1964), 17 (3), pp. 517–42; Irene Brown, 'Studies on Non-Alignment', *The Journal of Modern African Studies*, (1966), 4 (4), pp. 517–27; A.P. Rana, 'The Intellectual Dimensions of India's Nonalignment', *The Journal of Asian Studies*, (1969), 28(2), pp. 299–312; Michael Brecher, 'Non-Alignment Under Stress : The West and the India-China Border War', *Pacific Affairs*, (1980), 52 (4), pp. 612–30; Satish Kumar, 'Nonalignment: International Goals and National Interests', *Asian Survey*, (1983), 23 (4), pp. 445–62; Cedric Grant, 'Equity in International Relations: A Third World Perspective', *International Affairs (Royal Institute of International Affairs 1944-)*, (1995), 71 (3), pp. 567–87.

<sup>7</sup> Like-minded' countries or nations is a term India uses in its annual foreign policy reports to refer to states sharing the same standpoints and values on matters of UN reform. Government of India Ministry of External Affairs, *Annual Report 2006-2007*, New Delhi, (2007), p. ii, available online at: <[http://www.mea.gov.in/annual-reports.htm?57/Annual\\_Reports](http://www.mea.gov.in/annual-reports.htm?57/Annual_Reports)> (accessed 10.06.2018) ; Government of India Ministry of External Affairs, *Annual Report 2008-2009*, New Delhi, (2009), p. 110, available online at: <[http://www.mea.gov.in/annual-reports.htm?57/Annual\\_Reports](http://www.mea.gov.in/annual-reports.htm?57/Annual_Reports)> (accessed 10.06.2018); Government of India Ministry of External Affairs, *Annual Report 2009-2010*, New Delhi, (2010), p. 111, available online at: <[http://www.mea.gov.in/annual-reports.htm?57/Annual\\_Reports](http://www.mea.gov.in/annual-reports.htm?57/Annual_Reports)> (accessed 12.06.2018); Ministry of External Affairs, *Annual Report 2010-2011*, New Delhi, (2011), p. 106, available online at: <[http://www.mea.gov.in/Uploads/PublicationDocs/45\\_Annual-Report-2010-2011.pdf](http://www.mea.gov.in/Uploads/PublicationDocs/45_Annual-Report-2010-2011.pdf)> (accessed 12.06.2018); Government of India Ministry of External Affairs, *Annual Report 2011-2012*, New Delhi, (2012), p. xv, available online at:

countries help India to work towards adjusting the international system to its expectations, where its strategic autonomy will be feasible. In addition, the incentives behind domestic economic reforms and the ambition of adjusting the UN will be explained. Finally, based on the explanation of India's foreign policy since Cold War, author will reveal the meaning and importance of India's idea of strategic autonomy. This article attempts to offer a new perspective to understanding India's idea of strategic autonomy by examining country's behaviour through NAM principles and challenges.

## 1. History: NAM principles and India's foreign policy during Cold War

The widespread discussion and understanding of NAM has mainly focused on neutrality, ignoring foreign policy independence as an important and integral detail of the movement<sup>8</sup>. More precisely, it was the reluctance to choose sides in great powers' power struggles that initiated the NAM states to declare to be non-aligned, often confused with neutralism. New *de iure* independent states aimed also for *de facto* independence in terms of their political voice, where states' actions and choice reflected their own preferences, not of a particular bloc<sup>9</sup>. Consequently, it was the common concern of developing countries to maintain their foreign policy independence, oppose colonialism and neo-colonialism and western domination<sup>10</sup>. According to Brown<sup>11</sup> Algerian leader Ben Bella has declared that the movement was not aligned even with non-alignment. The NAM was thus a developing countries' response to the fighting blocs, for "the common defence of their interest" to be non-aligned from either bloc<sup>12</sup>. The difference of NAM and neutrality thus stood in the *state* of international actors in the time of confrontation. Neutrality rules out any kind of support for participants in a conflict, in other words, actors refuse to take part in any kind of activities in case of conflict. NAM was thus similar to neutrality in a sense of not taking sides, but with the difference that if their decisions and actions coincide with one of the fighting blocs, it is *their own preference*, their own worldview, not supporting the bloc who has similar standings.

The principle of 'acting and making its own choices' also reflected India's goal to remain independent in foreign policy choices, although posing dilemmas and challenges between national interests on international arena and poverty alleviation at state level. Namely, the economic situation with the aim to raise population's living standards challenged country's defence capacity and vice versa<sup>13</sup>. Preserving state's security thus required alternative measures. The solution for India was a skilful

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<[http://www.mea.gov.in/annual-reports.htm?57/Annual\\_Reports](http://www.mea.gov.in/annual-reports.htm?57/Annual_Reports)> (accessed 12.06.2018); Government of India Ministry of External Affairs, *Annual Report 2012-2013*, New Delhi, (2013), p. x, available online at: <[http://www.mea.gov.in/annual-reports.htm?57/Annual\\_Reports](http://www.mea.gov.in/annual-reports.htm?57/Annual_Reports)> (accessed 12.06.2018). Prior to the call for UN reforms by UN Secretary General Kofi Annan in 2005, the term was used by India when explaining cooperation in issues such as peace-building, terrorism, extremism and human rights, etc. Government of India Ministry of External Affairs, *Annual Report 2000-2001*, New Delhi, (2001), p. ii, p. 89, p. 102, available online at: <[http://www.mea.gov.in/annual-reports.htm?57/Annual\\_Reports](http://www.mea.gov.in/annual-reports.htm?57/Annual_Reports)> (accessed 12.06.2018); Government of India Ministry of External Affairs, *Annual Report 2004-2005*, New Delhi, (2005), p. 113, available online at: <[http://www.mea.gov.in/annual-reports.htm?57/Annual\\_Reports](http://www.mea.gov.in/annual-reports.htm?57/Annual_Reports)>(accessed 12.06.2018). Thus, the term is used when expressing shared values or standpoints on different issues.

<sup>8</sup> Brecher; Crabb; Werner Levi, 'Indian Neutralism Reconsidered', *Pacific Affairs*, (1964), 37 (2), pp. 137–47; Francis Low-Ber, 'The Concept of Neutralism', *The American Political Science Review*, (1964), 58 (2), pp. 383–91.

<sup>9</sup> Brown, 1966, p. 517

<sup>10</sup> Government of India Ministry of External Affairs, 'History and Evolution of Non-Aligned Movement', (2012b), available online at: <<http://mea.gov.in/in-focus-article.htm?20349/History+and+Evolution+of+NonAligned+Movement>> (accessed 22.06.2018).

<sup>11</sup> Brown, 1966, p. 517

<sup>12</sup> Ministry of External Affairs, (2012b), ch. Evolution

<sup>13</sup> A Appadorai, 'India's Foreign Policy', *International Affairs (Royal Institute of International Affairs 1944-)*, (1949), 25 (1), p. 40; Jerome B Cohen, 'India's Foreign Economic Policies', *World Politics*, (1955), 7 (4), pp. 546–71; Taya Zinkin, 'Indian Foreign Policy: An Interpretation of Attitudes', *World Politics*, (1955), 7 (2), p. 202; Micahel Edwardes, 'Illusion and Reality in India's Foreign Policy', *International Affairs (Royal Institute of International Affairs 1944-)*, (1965), 41 (1), p. 43.



foreign policy, known as non-alignment, which in the context of USA and Soviet Union confrontation was set as a cornerstone for Cold War time foreign policy<sup>14</sup>.

That time new strategy obtained large-scale support amongst domestic public but raised criticism on the international level. International arena considered NAM as a movement based on neutrality, which was largely a reason for questioning whether it was a mean to maintain India's security and independence by avoiding alliances (while having USA and Soviet Union's support for conflicts with China) or something else<sup>15</sup>. The new foreign policy strategy was soon tested, when over the nine years India was affected by four substantial occurrences: Sino-Indian border conflict in 1962, Chinese 1964 nuclear test and Indo-Pakistani war in 1965 and 1971. As a result of these events and domestic reluctance against the conventional military strengthening, India again encountered discussions about the alternatives serving the goal of both national security and foreign policy independence. Respectively, the idea of nuclear deterrence was born. The new strategy was seen as enabling India to maintain independence in foreign policy decisions and keeping its membership in NAM<sup>16</sup>.

Although the preferred choice contributed to keeping NAM principles, it faced economic and political obstacles. Wars with China and Pakistan had led India to economically difficult situation and brought along food crisis in mid-1960s, which made country dependent on US food. India's position was further complicated due to agreements with Soviet Union about military equipment. This placed India again in a situation where on one hand the country had to remain consistent on the principles of NAM while on the other hand to act in a context where the meaning of the chosen strategy was still understood as neutrality, thus missing the reality of its choices. Even more, the relations with two opposing powers were politically complicated by US and Soviet Union endeavours to ban nuclear tests for countries that had not conducted the tests by 1967<sup>17</sup>. To leave the possibility open for future nuclear capability developments, India decided not to sign the Non-Proliferation Treaty. The tests were conducted in 1974, as a response to US decision to send its aircraft carriers to the Bay of Bengal in 1971 supporting West Pakistani forces in Bangladesh War. India referred to the test as a "peaceful nuclear explosive" while demonstrating its foreign policy independence foremost from US, but also from the Soviet Union<sup>18</sup>. In 1987 India decided to start developing nuclear weapons as a response to Pakistan's nuclear weapon capability development supported by China<sup>19</sup>. The 1998 BJP government-lead nuclear tests gave Indian foreign policy makers an impetus to declare "we have set the stage to reclaim our rightful inheritance as a great power"<sup>20</sup>.

Despite the fact that the Cold War type confrontation between US and Soviet Union has ended and therefore NAM is not as apparent on international arena as it was during the Cold War, one must keep in mind India's challenges during that time and country's role as one of the founding members of the movement. The NAM was not only a foreign policy tool but also reflected India's foreign policy principles of solidarity and independence that have remained as parts of its current policy. Moreover, as the centres of trade and competition for resources amongst developed countries have moved to Asia and Africa respectively, but the Cold War time power distribution in international institutions remains, NAM principles are at least as relevant as they were in the past<sup>21</sup>. Rising economies and powers expect their political voices to be heard equally to their economic weight.

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<sup>14</sup> Appadorai; Zinkin.

<sup>15</sup> Edwardes, p. 55.

<sup>16</sup> Edwardes, p. 57.

<sup>17</sup> Baldev Raj Nayar and T.V Paul, *India in the World Order: Searching Major-Power Status*, Cambridge: Cambridge University Press, (2003), p. 164, p. 174.

<sup>18</sup> Nayar and Paul, pp. 175–81.

<sup>19</sup> Nayar and Paul, p. 199.

<sup>20</sup> Madhup Mohta, 'An Enquiry into India's International Identity: The next Great Power?', in *Indian Foreign Policy: Challenges and Opportunities*, ed. by Atish Sinha and Madhup Mohta, New Delhi: Academic Foundation; Foreign Service Institute, (2007), p. 34.

<sup>21</sup> S.D. Muni, 'India and the Post-Cold War World: Opportunities and Challenges', *Asian Survey*, (1991), 31 (9), p. 869.

## 2. Today: India's foreign policy choices after the Cold War

The end of the US- Soviet Union confrontation and India's financial crisis in the beginning of 1990s entailed the change of direction in state's foreign policy, focusing on economic reforms and redefining relations with other states. India acknowledged the importance of economic growth as a factor in domestic poverty alleviation and for the realization of national interests in the international arena<sup>22</sup>. As the Cold War ended, the relationship based on "anti-imperialist, anti-colonial and anti-racist" principles needed to be renewed, where new relationships were established and developed through economy and commerce<sup>23</sup>. This principle has remained integral for establishing relations with actors who help to serve India's foreign policy interests or pose some kind of foreign policy challenges to India. In other words, focusing on economic aspects enable actors with different interests to cooperate.

Therefore, India's 21<sup>st</sup> century's strategic partnerships with two of the biggest economies, USA and EU rely heavily on trade and technology cooperation. In addition, the partnership with USA has touched the boundaries of strategic issues like cooperation on counter-terrorism, defence trade, joint military exercises, civil nuclear cooperation and energy dialogue<sup>24</sup>. Although not as successfully as the other side would hope. The aspirations towards more politically strategic partnership have been also one of the priorities in relations with EU. Again, the established relations rely on pragmatic considerations on the contrary to India's moral principles and solidarity towards Third World that is still dominant, when discussions about possible allies arise. Even more, India's dissatisfaction with the dominant world order is also distinguishable in its bargaining strategies<sup>25</sup>. However, the focus on economy and commerce still enables India to build up relations with desired partners.

Another distinctive feature of India's foreign policy after the end of the Cold War has been the aim to adjust international institutions consistent with changes in international system. The support for strengthening and reforming the UN as a multilateral forum, restructuring the international economic system and preserving independence in its decision-making has become an integral part of India's foreign policy<sup>26</sup>. Furthermore, the dissatisfaction with the world order- today hegemony and unipolarity is still present:

"The demise of one of the blocks has not done away with the pressing problems of the world. On the contrary, renewed strategic interests bent on domination grow stronger and, even, acquire new and more dangerous dimensions for underdeveloped countries."<sup>27</sup>

### 2.1 Strengthening the region: Looking and Acting East

India's policy in Asia has been shaped by events in world politics. Asian countries were amongst India's foreign policy priorities already in 1950s, but the challenges during the Cold War kept country occupied with rather reacting to changes than implementing a preferred policy. The 1990s on the contrary, on one hand enabled and on the other hand induced the country to focus on strengthening relations with neighbouring countries. New focus on the region was derived from the economic reforms and 'Look East Policy' (now known as 'Act East Policy'), when country was in need for new trade

<sup>22</sup> Mansingh.

<sup>23</sup> Muchkund Dubey, *India's Foreign Policy: Coping with the Changing World*, New Delhi: Pearson, (2013), p. 24.

<sup>24</sup> Government of India Ministry of External Affairs, *Annual Report 2012-2013*; Government of India Ministry of External Affairs, *Annual Report 2013-2014*, New Delhi, (2014), available online at: <[http://www.mea.gov.in/annual-reports.htm?57/Annual\\_Reports](http://www.mea.gov.in/annual-reports.htm?57/Annual_Reports)> (accessed 12.06.2018).

<sup>25</sup> Narlikar, 'India Rising: Responsible to Whom?'

<sup>26</sup> Government of India Ministry of External Affairs, *Annual Report 2013-2014*.

<sup>27</sup> Ministry of External Affairs, 2012b, ch. Evolution

partners. Even more, the collapse of the Soviet Union as India's close trade partner both in military and consumer goods and a supporter of India's diplomacy in UN, was one catalyst for searching new policy options<sup>28</sup>.

Hence, India in 1990s was not only interested in new trade partners, but was also committed to build up its vision of integrated region as a response to changing international order. Next to the new strategy built upon economic considerations stood also the combination of changes in world arena- globalization and the success of regional integrations like ASEAN, EU, NAFTA, APEC. Focusing on improving relations with neighbours was also a mean for tackling the possible problems posed by the new world order. The recent history had provided India numerous valuable experiences. In addition, the tendency for regional integrations after Cold War prompted India to undertake changes in foreign policy means to achieve its goals of foreign policy independence. By building up closer relations with regional associations, India prevented the risk of being left into isolation. India thus decided to direct its policy towards South and South East Asia<sup>29</sup>.

The reasons behind India's decision to focus on the region are multidimensional embodying domestic, regional and international factors. In addition to the desire to avoid extensive impacts from possible great power rivalries, India's determination for integrated, peaceful and stable region has been influenced by considerations for country's economic development and social harmony<sup>30</sup>. Good relations with neighbouring countries serve the purpose of economic growth providing a precondition for economic sustainability to decrease dependency and vulnerability from major powers.

One of the cornerstones for India's 'Act East Policy' has been participation in ASEAN. PM Modi has attached substantial importance to ASEAN, when addressing the association as "... an example and inspiration" for acting in "... a world that summons us to rise above divisions and competition to work together."<sup>31</sup> ASEAN and India share a vision of more integrated and peaceful region, and the relationship serves either side's goals to increase economic growth. In addition, it also contributes to India's aims of closer relations with other states and ventures in the region. The close relationship and economic integration with ASEAN has facilitated India's engagement with East Asia Summit (EAS), the Asia-Europe Meeting (ASEM) and bilateral relations with ASEAN countries. The emphasis on ASEAN has been a strategically important step to improve close relationships with other regional groupings and countries, and thereby to pave the way for the role of a stronger regional actor.

Indo-Pacific has obtained remarkable attention by India. The importance to India was especially emphasized lately in PM Modi's speech at Shangri La Dialogue when he rejected the possible view of a region "... as a strategy or as a club of limited members."<sup>32</sup> Even more, PM Modi underlined that "India's own engagement in the Indo-Pacific Region – from the shores of Africa to that of the Americas - will be inclusive."<sup>33</sup> Pacific has become a new centre for world trade attracting India to pay more attention to the region. As an example of the importance India has attached to the region, India has more trade agreements in the region than in any part of the world.<sup>34</sup>

## 2.2 Working towards just international system: Empowering emerging powers

Another mean to execute India's foreign policy strategy of autonomy has been forming extensive partnerships with other emerging powers. As a result, there is an overlap of countries in different platforms, as can be seen in cases of India's partnership

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<sup>28</sup> Thongkholal Haokip, 'India's Look East Policy: Its Evolution and Approach', *South Asian Survey*, (2011), 18 (2), p. 245.

<sup>29</sup> Thongkholal Haokip, 'Recent Trends in Regional Integration and the Indian Experience', *International Area Studies Review*, (2012), 15 (4), pp. 377–92.

<sup>30</sup> Government of India Ministry of External Affairs, *Annual Report 2012-2013*.

<sup>31</sup> Modi, 'Prime Minister's Keynote Address at Shangri La Dialogue (June 01, 2018)'.

<sup>32</sup> Modi, 'Prime Minister's Keynote Address at Shangri La Dialogue (June 01, 2018)'.

<sup>33</sup> Modi, 'Prime Minister's Keynote Address at Shangri La Dialogue (June 01, 2018)'.

<sup>34</sup> Modi, 'Prime Minister's Keynote Address at Shangri La Dialogue (June 01, 2018)'.

with BRICS and IBSA. Although the established forms of cooperation might not have gained their full operational impact, they serve as a good platform for forming common positions and necessary alliances for specific situations or events<sup>35</sup>.

IBSA, where the participant countries overlap with BRICS members is not as outstanding in international arena as BRICS, but enables for India to use it as a forum for discussing and establishing common positions on mutually important matters. With the purpose of raising developing countries' voice in international system, it is argued to be a new representative of Non-Alignment<sup>36</sup>. Institutions' ground principles of changing and reforming Western dominated institutions have given India friends in one of the driving principles of its foreign policy. In fact, when establishing IBSA Dialogue Forum, three countries prioritized the Charter of the UN and discussed reforming UN Security Council<sup>37</sup>. India, Brazil and South Africa aim for reforms in the UN to strengthen the role of the developing countries in the international system- an aim that was also one of the driving forces of NAM. Three middle-powers have been actively negotiating the conditions beneficial for developing countries in international institutions. Next to India and Brazil's cooperation for the reform of UN Security Reform is the common stand for conditions that would take into account developing countries advantages in WTO<sup>38</sup>. It has been even argued that IBSA has an implication for soft balancing through their cooperation in international organizations by aiming "to transform the global order in favour of emerging powers in the medium-term"<sup>39</sup>. Although the cooperation between IBSA countries is very much value-based, the pragmatic considerations for the expansion of trade should not be excluded.

Although BRICS' public profile has focused on empowering developing countries' economies, it serves for India twofold purpose: raising the voices and profiles of emerging markets and powers, and working towards more just international system, where the Western dominated institutions have alternatives or complementary opportunities. BRICS speaks with its economic, demographical and geographical power. According to statistics published in 2017, BRICS represents around 41% of world population and 29% of land mass<sup>40</sup>. Together they combine a considerable amount and a variety of world resources and in international trade.<sup>41</sup> In 2016, BRICS share of world export accounted for 18.2% and share of world import

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<sup>35</sup> Sanjukta Banerji Bhattacharya, 'Engaging Africa: India's Interests in the African Continent, Past and Present', in *The Rise of China & India in Africa: Challenges, Opportunities and Critical Interventions*, ed. by Fantu Cheru and Cyril Obi, London: Zed Books, (2010), pp. 71–72.

<sup>36</sup> Abdul Nafey, 'IBSA Forum: The Rise of "New" Non-Alignment', *India Quarterly: A Journal of International Affairs*, (2005), 61, pp. 1–78.

<sup>37</sup> India-Brazil-South Africa Dialogue Forum, '1st IBSA Summit Meeting', *Joint Declaration*, (2006), par. 8, par. 10, available online at: <[http://www.ibsa-trilateral.org/images/stories/documents/declarations/1st\\_summit\\_declaration.pdf](http://www.ibsa-trilateral.org/images/stories/documents/declarations/1st_summit_declaration.pdf)> (accessed 22.06.2018).

<sup>38</sup> Daniel Flesmes, 'India-Brazil-South Africa (IBSA) in the New Global Order: Interests, Strategies and Values of the Emerging Coalition', *International Studies*, (2009), 46 (4), pp. 404–5.

<sup>39</sup> Flesmes.

<sup>40</sup> BRICS, 'General Information, Economic and Social Indicators Comparison of BRICS Countries', *BRICS Joint Statistical Publication 2017*, (2017), p. 19, available online at: <[http://www.brics2018.org.za/sites/default/files/documents/Statistics/BRICS\\_Joint\\_Statistics\\_Publication\\_2017.pdf](http://www.brics2018.org.za/sites/default/files/documents/Statistics/BRICS_Joint_Statistics_Publication_2017.pdf)> (accessed 23 June 2018).

<sup>41</sup> Brazil exports 44.2% of world's soy beans, 41.3% of world's raw sugar, making it the biggest exporter for both products in the world and 20.2% of world's iron ore (2<sup>nd</sup> biggest exporter in world after Australia). Russia exports 11.1% of world's crude petroleum (2<sup>nd</sup> after Saudi Arabia), 9.3% of refined petroleum (2<sup>nd</sup> after USA) and nearly 12.2% of coal (3<sup>rd</sup> after Australia and Indonesia). India exports 15.3% of world's diamonds (2<sup>nd</sup> after USA) and nearly 10.6% of world's jewellery (4<sup>th</sup> after Switzerland, China and USA). China is the largest exporter in world, exporting 41.2% of world's automatic data processing machines and its units, 23.6% of world's electrical machinery and its parts and 36.1% of world's telephones', making it the largest exporter in world in all previous product categories. South Africa exports 24.5% of world's platinum, making it the biggest platinum exporter in the world, 5% of world's iron ore (3<sup>rd</sup> in world after Australia and Brazil). The data is based on year 2017 exports World Trade Organization, 'Statistics Database', (2018), available online at: <<http://stat.wto.org/Home/WSDBHome.aspx?Language=E>> (accessed 24 June 2018); Trade Map, 'Exports', (2018), available online at: <<https://www.trademap.org/>> (accessed 24 June 2018).

for 14.6%<sup>42</sup>, compared to 5.4% and 4.8% respectively in 1992<sup>43</sup>.<sup>44</sup> The emerging powers are aware of their importance and weight in the world economy. As a consequence of BRICS growing economic weight, the entity has taken a common position that existing international institutions and organizations need to be changed, where the current economical weight of the BRICS countries, other emerging economies and developing countries will be taken into account. The dissatisfaction with the standstill of the IMF and UN Security Council reforms has led the rising economies to search for alternative solutions to show and execute their influence in world affairs. The signing of agreement establishing New Development Bank (NDB) dealing with infrastructure and sustainable development projects in BRICS and other developing countries is the beginning of their initiative.

At the same time when signing the NDB agreement, the treaty establishing BRICS Contingent Reserve Arrangement (CRA) was signed, which is another step closer supplementing USA dominated financial system. The two new institutions complement for Third World countries World Bank (WB) and International Monetary Fund (IMF), which are dominated by Western powers. Although the new institutions cannot yet compete with WB and IMF, in case they should become fully operational, it serves as an alternative to current conditions-based institutions. If developing countries will be using NDB instead of WB, the BRICS will be dominating and influencing the respective countries and balancing other major powers in the international system.

Yet, notwithstanding the similarities between BRICS and IBSA, there are substantial differences in their essence that also reflect India's aims in these ventures. IBSA was founded on the initiatives of three respective countries to enhance South-South cooperation between three continents. One of the founding objectives was to reform the international system in a way that would take into account the voice of developing countries. BRICS on the other hand was first used as an acronym for fast growing economies; the actions were institutionalized five years after the term was taken into use based largely on future prospects. Another factor of difference points to IBSA as representing the democratic states of BRICS as well as the matter of standing closer to Western values than Russia and China.

The purpose of the two for India is similar- to increase the participation and share of developing countries in international policy-making. Although BRICS is more visible in international arena and has taken ambitious objectives on examples of NDB and CRA, it is and will be most likely dominated by China. BRICS includes China as India's neighbour and long-term source for disagreements in regional and world matters, e.g. China's reluctance to India being permanent member of UN Security Council. In IBSA, on the contrary, India is equal with other members, furthermore, IBSA's members are directly or indirectly related to NAM and thus share the same values.

### 2.3 Reforming the unfunctional structures: Attracting the W(r)est

India has been an active G4<sup>45</sup> country speaking for the reform of the UN Security Council and having been elected seven times as a non-permanent member<sup>46</sup>. It has also announced its ambition to become a non-permanent member of the Council

<sup>42</sup> World Trade Organization, 'Statistics Database', *Statistics*, (2017), available online at: <<http://stat.wto.org/Home/WSDBHome.aspx?Language=E>> (accessed 24 June 2018).

<sup>43</sup> World Trade Organization, 'International Trade and Market Access Data', *Statistics*, (2018), available online at: <[https://www.wto.org/english/res\\_e/statis\\_e/statis\\_bis\\_e.htm?solution=WTO&path=/Dashboards/MAPS&file=Map.wcdf&bookmarkState=%7B%22impl%22:%22client%22,%22params%22:%7B%22langParam%22:%22en%22%7D%7D](https://www.wto.org/english/res_e/statis_e/statis_bis_e.htm?solution=WTO&path=/Dashboards/MAPS&file=Map.wcdf&bookmarkState=%7B%22impl%22:%22client%22,%22params%22:%7B%22langParam%22:%22en%22%7D%7D)> (accessed 24 June 2018).

<sup>44</sup> Author's compilation based on WTO database. 1992 data by WTO excludes India's exports and imports in military goods, fissionable materials and bunkers.

<sup>45</sup> G4 comprises of Brazil, Germany, India and Japan, who all aspire to become permanent members at UN Security Council and support each other's demands in it.

<sup>46</sup> United Nations Security Council, 'Countries Elected Members of the Security Council', (2018), available online at: <<http://www.un.org/en/sc/members/elected.asp>> (accessed 20.06.2018).



during the period of 2021-2022<sup>47</sup>. These efforts have played an integral role in performing its vision of becoming a great power, where one precondition for achieving such purpose is making itself visible among international actors.

India has been consistent in reinforcing the foundations of its visibility in a world arena and also in relations with great powers. One of the most outstanding declarations was in 2014 when PM Modi made a statement at UN General Assembly and declared the need for the reform of UN to reflect 21<sup>st</sup> century international system<sup>48</sup>. Although the declaration itself was nothing new, PM Modi's speech about the need for changes reflected more than just a desire to reform UN. It spoke about mutual responsibilities of international actors, where the poverty eradication, fight against terrorism and tackling other global challenges is the responsibility of all<sup>49</sup>. Thus, reforming the UN extends further from India's aspirations to change the international institution merely according to its own interests. Namely, India views the UN as a multilateral forum who has the chances, but even more importantly, the responsibility for collective action, dialogue and engagement for the purpose of peace, equality and development. Changed UN thus serves twofold purpose for India: on one hand, it enables to pursue its own interest, but on the other hand, with rights and opportunities come responsibilities to all actors participating in international system. PM Modi's speech thus is an example illustrating the driving principles of India's foreign policy that stands also for the solidarity of and for all.

Next to India's ambitions of reforming the international structures, equal attention has been paid to domestic reforms. Modi has undertaken substantial reforms on India's bureaucratic machine with the aim to raise India's ranking in World Bank's 'the ease of making business' index from 134<sup>th</sup> to 50<sup>th</sup><sup>50, 51</sup>. Other aspects of reforms lie in raising population out of poverty and improving country's poor infrastructure<sup>52</sup>. The purpose of the reforms is threefold: to attract foreign direct investments for continuous economic growth, develop relations with other actors, and to raise its international economic profile. India's economic reforms are amongst other purposes as a prerequisite for being noticed in the world and to expand country's global role<sup>53</sup>. The rise of its economic profile is expected to give India economic power, which in turn is another factor enabling country to raise its influence in world affairs<sup>54</sup>. India's aims for wealth combined with BJP and Hindu nationalist's goals of leading the country to the great power status adds thus a geo-economic dimension to India's foreign policy, where wealth accumulation is expected to pursue state's political objectives<sup>55</sup>. India aspires towards economic strengthening of the

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<sup>47</sup> Permanent Mission of India to the UN, 'Security Council', *India and UN*, (2018), available online at: <<https://www.pminewyork.org/pages?id=eyJpdil6InV4bXg3M0N2TUdSVlA1bEp4cDlvS3c9PSIsInZhbHVlIjoR3pyOTBsRDNkXC9zQTlEU0x5Mnl1bGc9PSIsIm1hYyI6IjE2NTBjZTRiNDkyMzhlNTA0ZjkwMjY2Y2NhZThlNDIxM2E2MTI2YTlY2ZTk2ODYwYjMyMDA2NmJmYmFlMjQ1ZDQifQ==&subid=eyJpdil6IjFV21yWW9E>> (accessed 22 June 2018).

<sup>48</sup> Narendra Modi, *Statement by H.E. Narendra Modi, General Debate of the 69th Session of the United Nations General Assembly*, New York, 27 September 2014, available online at: <[http://www.un.org/en/ga/69/meetings/gadebate/pdf/IN\\_en.pdf](http://www.un.org/en/ga/69/meetings/gadebate/pdf/IN_en.pdf)> (accessed 22.06.2018).

<sup>49</sup> Modi, *Statement by H.E. Narendra Modi*.

<sup>50</sup> The Economist, 'Remaking India: Yes, Prime Minister', *The Economist*, DELHI, 18 October 2014, available online at: <<http://www.economist.com/news/asia/21625857-more-moderniser-market-reformer-narendra-modi-relies-his-bureaucrats-yes-prime-minister>> (accessed 21.06.2018).

<sup>51</sup> Although there have been improvements in India's rise in the ranking, the ambition of being among top 50 has not yet been met. In 2018, World Bank placed India on 100<sup>th</sup> place The World Bank, 'India Jumps Doing Business Rankings with Sustained Reform Focus', *Press Release*, (2017), available online at: <<http://www.worldbank.org/en/news/press-release/2017/10/31/india-jumps-doing-business-rankings-with-sustained-reform-focus>> (accessed 24 June 2018).

<sup>52</sup> The Economist, 'Reviving India's Economy: Modi's Mission', *The Economist*, Mumbai, 24 May 2014, available online at: <<http://www.economist.com/news/briefing/21602709-new-prime-minister-has-good-chance-resuscitating-countrys-underperforming>> (accessed 14 October 2014).

<sup>53</sup> Niranjana Sahoo, 'Decoding Modi's Foreign Policy', *Carnegie Endowment for International Peace*, 23 September 2014, available online at: <<http://carnegieendowment.org/2014/09/23/decoding-modi-s-foreign-policy>> (accessed 14 October 2014).

<sup>54</sup> Samuel P Huntington, 'Why International Primacy Matters', *International Security*, (1993), 17 (4), p. 72.

<sup>55</sup> Deborah Cowen and Neil Smith, 'After Geopolitics? From the Geopolitical Social to Geoeconomics', *Antipode*, (2009), 41 (1), p. 42.

country to maintain the competitiveness in the international arena both in economic and political terms<sup>56</sup>. According to geo-economists, economic power is the new strategy to gain primacy, “a state with primacy can establish, or at least strongly influence, ‘the rules of the game’ by which international politics is played...”<sup>57</sup>

### 3. Strategic autonomy explained

Strategic autonomy as a term is not new in debates about India’s foreign policy. The term has been used mainly to explain India’s foreign policy in relations with USA<sup>58</sup>, but also to provide Indian foreign policy decision makers support and guidance in a changing international system<sup>59</sup>. The concept has been very well adopted in explaining India’s foreign policy ambitions by referring to foreign policy independence. Nonetheless, there is more about strategic autonomy than making and maintaining its independence in foreign policy.

Strategic autonomy for India on one hand is the *de facto* freedom to make its own choices and actions, but on the other hand is meant to serve also other third world countries’ interests on international arena. In other words, India’s understanding of strategic autonomy entails next to India’s own interests also aim of bringing other *less heard* countries’ voices to international arena. Even more, it’s about justice in terms of creating the international system where all states’ voices will be heard and decisions are made on value-based consensus. Such idea is often misunderstood and confused with ‘opposing some states and allying the others.’ India’s relations, or even expectations to states do not depend merely on what kind of benefits they bring to India. On the contrary, for India, the *power of established powers* means responsibilities in international arena next to pursuing merely one’s own interests<sup>60</sup>. Strategic autonomy for India is both about power-politics and responsibilities.

Although the idea of idealistic and moralistic principles in India’s strategic autonomy has developed from Nehruvian non-alignment principles, PM Modi’s view of India’s role in international system has added the economic and traditional power aspects to policy implementation<sup>61</sup>. Strategic autonomy is a substantial part of India’s grand strategy of great power status, where the responsibilities and autonomy work together. The building up of close relations with its neighborhood and other emerging powers, and domestic and international reforms is thus twofold. Firstly, Cold War- time experiences taught India a valuable lesson of misconceptions between established powers and developing ones in terms of expectations and understandings. The post- Cold War period has in some way continued it, as India’s course is still often questioned by established powers. The latter is even intensified in the context of India as a rising power. India, thus, emphasizes the relations with region and emerging powers not only in terms of economic development, but also as actors with similar understandings and expectations of the world system. In some way, the relations can be described as expectations without expectations. States interact with each other in expectations to change the international system, but without expectations to ‘ally or oppose.’ Secondly, building up on all above, India’s idea of strategic autonomy is very well aware of the interdependent world, where

<sup>56</sup> Sanjaya Baru, ‘Geo-Economics and Strategy’, *Survival*, (2012), 54 (3), pp. 47–58; Vincent Cable, ‘What Is International Economic Security?’, *International Affairs (Royal Institute of International Affairs 1944-)*, (1995), 71 (2), pp. 305–24; Huntington; Edward N Luttwak, ‘From Geopolitics to Geo-Economics: Logic of Conflict, Grammar of Commerce’, in *The Geopolitics Reader*, ed. by Gearóid Ó Tuathail, Simon Dalby, and Paul Routledge, Taylor & F, London: Routledge, 1998, pp. 125–30.

<sup>57</sup> Robert Jervis, ‘International Primacy: Is the Game Worth the Candle?’, *International Security*, (1993), 17 (4), 52–67, p. 53).

<sup>58</sup> Guillem Monsonis, ‘India’s Strategic Autonomy and Rapprochement with the US’, *Strategic Analysis*, (2010), 34 (4), pp. 611–24; C. Raja Mohan, “‘India: Between ‘Strategic Autonomy’ and ‘Geopolitical Opportunity.’”, *Asia Policy*, (2013), 15, pp. 21–25; Howard B. Schaffer Teresita C. Schaffer, *India at the Global Hightable: The Quest for Regional Primacy and Strategic Autonomy*, Washington, D.C.: Brookings Institution Press, 2016; Institute for Defence Studies and Analyses, ‘India’s Strategic Autonomy Dilemma and the Rapprochement with the United States’, New Delhi, 2009, available online at: <[https://idsa.in/event/IndiavsUS\\_gmonsonis\\_200309](https://idsa.in/event/IndiavsUS_gmonsonis_200309)> (accessed 22.06.2018).

<sup>59</sup> Sunil Khilnani and others, *Nonalignment 2.0 A Foreign and Strategic Policy for India in the Twenty First Century*, New Delhi, India, 2012, available online at: <[http://www.cprindia.org/sites/default/files/NonAlignment\\_2.0\\_1.pdf](http://www.cprindia.org/sites/default/files/NonAlignment_2.0_1.pdf)> (accessed 23.06.2018).

<sup>60</sup> Narlikar, ‘India Rising: Responsible to Whom?’

<sup>61</sup> e.g. see Narlikar 2017

decisions need to be made in a context of 'liking to some and not liking to others.' Why then not to make value-based decisions and maintain its coherent foreign policy.

#### 4. Conclusion

The confrontation between two superpowers ended almost two decades ago, but NAM principles have remained an integral part of India's foreign policy. Although there is a difference in the focus of research, a similar conclusion was made by Pant and Super<sup>62</sup> when studying India's grand strategy in 21<sup>st</sup> century challenges.

Dissatisfaction with the existing world order, whether it to be bipolar or unipolar combined with the support for the same principles as during Cold War is one of the driving forces of the foreign policy. The end of the confrontation changed international system primarily for the Western world, but did not bring any major developments to Third World, including India<sup>63</sup>. Memberships in decisive bodies of international institutions remained unchanged reflecting Cold War time international order. Despite some substantial reforms in India (and in wider Asia), economic and technical flourishing took place mainly in North America and Europe. The continuing dominance of post- Second War world order in international institutions and economic developments has kept developing countries' place in the architecture of international system the same as during Cold War. India with other developing countries in today's international arena stands on behalf of the common interests for the equality of voices in international arena.

As a result, India has built up the relationships on common interests that in many ways are based on shared understandings of the world order, whether it to be in international system or in parts of the international system. This shared understanding of the world order speaks on behalf of the changes, which should incorporate an arrangement considering the voice of the developing world and emerging powers. India has skilfully chosen the strategy and principles upon which to build the partnerships that serve the purpose of changing the dominant world order where the voice of Third World, including India, will be heard.

In pursuing its foreign policy objectives and choosing the rightful strategy, India has through time focused on adapting to either on-going or future changes in the world arena. End of the Cold War enabled to focus on achieving long wanted regional integration, but the endeavours were equally derived and amplified by the desire to remain active player in the new world order. Focusing on the region was first step to conform to the world in its immediate neighbourhood. Being a skilled player in achieving its medium-term foreign policy aims and taking into account the historical relationships, the economic cooperation served India's and its partners' interests in economic growth and shared vision of more integrated region.

Today, the means for continuing NAM policy have changed accordingly to the world order, but principles remain largely the same. Nehru's foreign policy principles and vision of a 'just' world order have been dominating in India's post-Cold War world affairs with PM Modi's realistic foreign policy goals. Foreign policy ambitions of becoming a great power combined with dissatisfaction about the governing international institutions; and the focus of its foreign policy towards like-minded countries to work for the equitable, multi-polar world order, have directed India's actions against the current systemic concentration of power.

Strategic autonomy as a strategy and a purpose exhibits a major difference between India's and Western foreign policy thinking. For India, idealistic and moralistic principles enable simultaneously foreign policy with realistic aims, challenging Western dualistic and binary foreign policy thinking. The combination of somewhat contradictory principles enables to work with like-minded countries towards mutual interests, while also develop relations with other competing actors and great powers. The success of Indian policy is thus very much dependent on international actors' willingness to accept and understand the reality of post-Western world.

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<sup>62</sup> Harsh V Pant and Julie M Super, 'India's "Non-Alignment" Conundrum: A Twentieth-Century Policy in a Changing World', *International Affairs*, (2015), 91 (4), pp. 747-64.

<sup>63</sup> Muni, p. 864.



# IMPLEMENTATION OF JOINED-UP GOVERNANCE FOR SOLVING YOUTH EMPLOYABILITY ISSUES IN ESTONIA: MATCHING EU PRESSURES AND CIVIL SERVANTS' PERCEPTIONS

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ANU TOOTS

## ABSTRACT

*This article focuses on the supply side of joined-up governance in youth policy. Theoretically, the article seeks to contribute to a better understanding of how the challenge for more intense cooperation has altered the roles of central government in local policy implementation, and how civil servants adapt to this new situation. Empirically, the analysis represents a case study of the provision of integrated labour market services for youth in Estonia, focusing on one-stop-shop Pathfinder service centres. We analyse the EU's impact on pushing national governments to apply a joined-up approach in youth policy. We study how joined-up thinking is reflected in national policy strategies and institutional arrangements, and then compare this institutional framework to intersectoral cooperation practices and perceptions of civil servants toward joined-up governance for solving youth issues. The analysis revealed that joined-up governance in Estonia is supported by the relevant domestic and European policy strategies and is accepted by civil servants as a more efficient way to provide youth employability services. Although the readiness of actors for cooperation has been seen as the main premise for joined-up governance, there was also a clear expectation that cross-sectoral joined-up working should be initiated firstly at the ministerial level, as it would then be easily transited to the local level.*

**KEYWORDS:** *cross-sectoral integrated youth policy, joined-up governance, collaborative partnership, employability, civil servants' perceptions, Youth Guarantee*

## Introduction

Empirical studies on the implementation of joined-up governance (JUG) in youth policy are rather rare, which may be a result of two factors. On the one hand, youth policy<sup>1</sup> is a relatively novel life-course-perspective area; and on the other, it is scattered across various public policies. For instance, youth (un)employment issues typically sit within the overall employment and social policies, but the development of employability skills is allocated to educational policy. This article attempts to challenge this conventional sectoral approach and analyse the problem of youth employability as embedded at the junction of social, educational and youth policy. In this paper, we distinguish employability from employment. We study youth employability as the development of an individual's special characteristics, capacity skills and readiness for work.<sup>2</sup> In contrast with employability, (un)employment concerns only the concrete status of having/not having a job.

By applying the JUG perspective, it is possible to analyse the extent to which the premises and conditions for JUG exist at policy level and whether JUG principles and practices can be found at the office level of service provision. Our focus is on supply, i.e. the actors' side of JUG. Previous studies have found that if participants' value orientations are neglected, the

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<sup>1</sup> Youth policy—a policy (set of agendas, documents, plans, actions) that aims to ensure favourable conditions for the development of young people.

<sup>2</sup> McQuaid, R., Lindsay, C. (2005). Concept of Employability. *Urban Studies*, Vol. 42, No. 2, 197–219, February 2005, p. 200.

real mechanisms that make JUG work remain hidden.<sup>3</sup> This article seeks to contribute to filling this gap and investigate institutional arrangements, legal documents, and the perceptions of civil servants who work with cross-sectoral integrated youth policy initiatives.

In research literature, joined-up governance is often associated with new public management (NPM), and therefore the majority of the studies empirically analyse countries where NPM is most profoundly rooted, such as the UK, New Zealand and Australia. Yet, fragmentation and the “silo” effect in policy implementation caused by the core principles of NPM is geographically much more widespread. Estonia, the research site for this article, has been one of the active followers of NPM. The Estonian experience is valuable as, in the last ten years, the youth policy sector has been enriched by new institutions and legal strategies stressing interaction between youth policy actors. Moreover, in 2014, based on EU recommendations, Estonia adopted the Youth Guarantee (YG) plan, leading to new measures to increase youth employability and strengthen partnerships across government agencies.<sup>4</sup> The pressure to overcome these “silos” came from international actors (OECD, EU), and the problem is recognised by national policymakers. At the level of policy implementation, however, collaboration still occurs more often within one sector (i.e. actors from the youth sector contribute to youth policy) than horizontally across various sectors; the vertical dimension of collaboration between central and local levels is even more ad hoc. All this makes Estonia an interesting case for studying the application of JUG in youth policy, since one can expect high dynamics and noteworthy interactions between multiple levels of governance.

The aim of the article is to understand how EU pressure, existing national policy strategies, and institutional arrangements associate with the perceptions of actors that implement joined-up services in youth policy. The article begins with an examination of approaches to the concept of JUG. The conceptual analysis is followed by an exploration of existing national legal acts and strategies in the youth field in order to understand whether the existing institutional arrangements and regulations advance or hinder the JUG approach in youth service provision. Our special interest is in the role the EU has played in advancing the integrated approach in youth policy and services. Although methodologically relying on the institutionalist approach, we argue that actors can play an active role in building a cooperative management culture, and their actions can have a significant effect on dismantling the “silos”. This agency perspective is elaborated in a qualitative analysis of individual interviews with civil servants that deliver services for youth at various governmental levels and policy sectors. The main argument for using two kinds of data—legal documents and civil servants’ interviews—lies in the very nature of the joined-up approach. Sullivan claims that policy strategies are often “flawed” (being too superficial or contradictory) and therefore provide an insufficient source for judging the implementation of JUG.<sup>5</sup> However, JUG is an interactive, dynamic process in which a vast range of actors with potentially different values and understandings is involved. Therefore, it is important to study how actors “translate” strategies and other relevant policy documents into their everyday practices. The concluding section revisits existing JUG theories on the basis of empirical findings.

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<sup>3</sup> Schulman, S. (2010). *Better together? A comparative study of joined-up practice and youth policy in England and New Zealand*. PhD thesis at the University of Oxford.

Taru, M. (2017). *Integrated youth policy—Riding the wave of cross-sectoralism*. In *Youth Knowledge 21 “Needles in Haystacks”*.

Davies, J. (2009). *The Limits of Joined-up Government: Towards a Political Analysis*. *Public Administration*, 87(1), pp. 80–96.

Foster, C. (2005). *Joined-Up Government and Cabinet Government*. In Bogdanor, V. (2005). *Joined-up Government*. The British Academy Press by Oxford Academy Press, pp. 114–138.

<sup>4</sup> European Commission (2016). *The Youth Guarantee and Youth Employment Initiative three years on*. Internet source available at [http://eur-lex.europa.eu/resource.html?uri=cellar:73591c12-8afc-11e6-b955-01aa75ed71a1.0001.02/DOC\\_1&format=PDF](http://eur-lex.europa.eu/resource.html?uri=cellar:73591c12-8afc-11e6-b955-01aa75ed71a1.0001.02/DOC_1&format=PDF) 11.03.2018.

<sup>5</sup> Sullivan, H. (2005). *Is Enabling Enough? Tensions and Dilemmas in New Labour’s Strategies for Joining-up Local Governance*. *Public Policy and Administration*. Vol. 20 (4), pp. 10–24.

## 1. Defining joined-up governance (JUG)

### *Development of governed partnership*

A joined-up approach to organisation and delivery of public services is not a new concept. The idea of partnerships and networking as a way to unlock the power of the public sector grew in importance through the late 1980s and early 1990s as a consequence of the deficiencies in new public management (NPM).<sup>6</sup> The joined-up approach soon came to be seen as the main vehicle for better integration of various public-sector executive institutions that would facilitate addressing impressive problems—complex challenges that cannot be handled by simply breaking them into several isolated pieces.<sup>7</sup>

In contrast to JUG, NPM aimed to break the monolithic public sector, and in pursuing this aim has created multiple agencies with relatively narrow foci, internal markets and compulsory competitive tendering. At the heart of these reforms was a hope for efficiency, accountability and responsiveness. However, despite some efficiency gains, such agencification and a single-focus approach resulted in the increasing difficulty of coordinating multi-agency responses to complex problems that often extended across different policy areas and levels. To counter “departmentalisation” and fragmented modes of working, various holistic modes of governance emerged.<sup>8</sup> In 1997, the Blair government in the UK introduced “joined-up government” to achieve horizontal and vertical coordination and hence avoid situations in which different policies undermined one another.<sup>9</sup> Some scholars see JUG as a viable mechanism for providing services, being an alternative to traditional hierarchical governance.<sup>10</sup>

Beyond being a domestic remedy to better governance, the JUG approach gained high prominence with European Union (EU) bodies. The EU added the multilevel governance perspective to horizontal cooperation, by labelling it as a “coordinated action by the EU, Member States, and local and regional authorities, based on partnership, and aimed at drawing up and implementing EU policies that leads to responsibility being shared between the different tiers of government concerned, and which is underpinned by all sources of democratic legitimacy and the representative nature of the different players involved.”<sup>11</sup> As far as youth policy is concerned, the EU became an advocate for the joined-up youth policy approach in the first decade of the 21st century. A major shift to the JUG approach was made by the European Commission in the White Paper on Youth 2001. The White Paper set out a framework of cooperation between national ministries and youth councils, and between the Commission and the European Youth Forum by using the Open Method of Coordination (OMC). The EU

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<sup>6</sup> Newman, J. (2001). *Modernizing Governance: New Labour, Policy and Society*. London: SAGE Publications Inc.

Skelcher, C. (2000) Changing Images of the State: Overloaded, Hollowed-out, Congested. *Public Policy and Administration*, Vol. 15(3), pp. 3–19.

Ling, T. (2002). Delivering Joined-up Government in the UK: Dimensions, Issues and Problems. *Public Administration*, Vol. 80 (4), pp. 615–642.

Davies, J. (2009). The Limits of Joined-up Government: Towards a Political Analysis. *Public Administration*, 87(1), pp. 80–96.

<sup>7</sup> O’Toole, L.J., Jr. (1997). Treating Networks Seriously: Practical and Research-Based Agendas in Public Administration. *Public Administration Review*, 57(1), pp. 45–52.

Guo, C., & Acar, M. (2005). Understanding Collaboration among Nonprofit Organisations: Combining Resource Dependency, Institutional, and Network Perspectives. *Nonprofit and Voluntary Sector Quarterly*, 34(3), pp. 340–361.

Isett, K., Mergel, I., Leroux, K., Mischen, P., & Rethemeyer, K. (2011). Networks in Public Administration Scholarship: Understanding where we are and where we need to go. *Journal of Public Administration Research and Theory*, 21, pp. i157–i173.

<sup>8</sup> Skelcher, C. (2000) Changing Images of the State: Overloaded, Hollowed-out, Congested. *Public Policy and Administration*, Vol. 15(3), pp. 3–19.

Champion, C., Bonoli, G. (2011). Institutional Fragmentation and Coordination Initiatives in Western European Welfare States. *Journal of European Social Policy*, Vol. 21 (4), pp. 323–334.

Van de Walle, S., Groeneveld, S. (2011). *Research in Public Policy Analysis and Management, Volume 21: New Steering Concepts in Public Management*. Bradford, GBR: Emerald Insight.

<sup>9</sup> Pollitt, C. (2003). Joined up Government: A survey. *Political Studies Review*, Vol. 1, pp. 34–49.

<sup>10</sup> Provan, K.G., & Kenis, P.N. (2008). Modes of Network Governance: Structure, Management, and Effectiveness. *Journal of Public Administration Research and Theory*, 18(2), pp. 229–252.

<sup>11</sup> EU Committee of the Regions. (2009). *White paper on Multi-level Governance*.

Youth Strategy 2010–2018 proposed the joined-up approach as a central policy principle, which should include short and long-term actions and all key policy areas that affect young people. However, the joined-up governance of youth policy is mainly limited to the policymaking phase, whereas the responsibilities for implementing different parts of the strategy will remain with the relevant ministries or government bodies.<sup>12</sup>

Joined-up working can have a number of aims including: a) innovation in policy development or service provision by bringing together people with different backgrounds, professions and experiences; b) better use of financial resources and improved cost-effectiveness; and c) increased efficiency for policy outcomes and services to tackle cross-cutting issues by eliciting the contribution of multiple players at central, regional, local and community tiers of governance.<sup>13</sup> All these aims are relevant to youth policy. Firstly, this is because different policy areas tackling youth issues and needs bring together a large variety of specialists. Secondly, youth policy is typically not the first priority in public budgets, and often suffers from scarce financial resources. Thirdly, youth issues quite often crosscut each other, which begs for cross-sectoral solutions.

To some extent, JUG aims are similar to those of NPM, i.e. enhancing the efficiency and responsiveness of policy performance. Moreover, similarly to the research on competitive tendering and (quasi-)markets in public services, many studies on joined-up delivery of public services have found that existing evidence hardly allows the conclusion that policy performance has generally improved in terms of better use of resources or novelty and user-friendliness of services.<sup>14</sup> What, then, is novel and promising in the joined-up approach?

One strand of studies relates JUG to new non-hierarchical forms of governance, such as networks that should fit better in the era of blurring boundaries and wicked issues. In governance networks, interdependent yet operationally autonomous actors are engaged in a process of dialogue and self-organisation where rules and defined supervision do not play a central role.<sup>15</sup> These characteristics fit well with the core idea of JUG. However, there are also important differences between joined-up and network-based governance. JUG “seeks to align formally separate organisations towards a particular goal of public policy. It aims to coordinate activities across organisational boundaries without removing the boundaries themselves.”<sup>16</sup> Furthermore, in networks all parties are regarded as equal and none could have a legitimised leadership role. In the case of joined-up arrangements, a defined leader is important for success.<sup>17</sup> In a multilevel governance situation, this means that the central government sets clear objectives that local networks need to achieve.

Thus, although a joined-up approach differs from a sector-based “silo” government, it does not mean a hollowing-out of the state. On the contrary, it requires a restart for government bodies regardless of type or level, in order to work across portfolio boundaries and provide integrated responses to policy issues. The role of government in this JUG approach is to enable, steer and coordinate rather than control. Steering does not rest on authority; instead, it builds on the capacity to create the

<sup>12</sup> Denstad F. (2009). Youth policy manual. How to develop a national youth strategy. Council of Europe Publishing, Strasbourg, p. 19.

<sup>13</sup> Newman, J. (2001). *Modernizing Governance: New Labour, Policy and Society*. London: SAGE Publications Inc., p. 109.

Pollitt, C. (2003). *Joined up Government: A survey*. *Political Studies Review*, Vol. 1, pp. 34–49.

Lag Reid, P., Randma-Liiv, T., Rykkja, L., Sarapuu, K. (2014). Introduction: Emerging Coordination Practices in European Public Management. In the book “*Organising for Coordination in the Public Sector*”. Palgrave Macmillan UK, p. 2.

<sup>14</sup> Tett, L., Crowther, J., O’Hara. (2003). Collaborative Partnership in Community Education. *Journal of Education Policy*, Vol. 18(1), pp. 37–51.

<sup>15</sup> Newman, J. (2001). *Modernizing Governance: New Labour, Policy and Society*. London: SAGE Publications Inc., p. 108.

Considine, M., Lewis, J. (2003). Bureaucracy, Network, or Enterprise? Comparing Models of Governance in Australia, Britain, the Netherlands, and New Zealand. *Public Administration Review*, Vol. 63, No. 2 (Mar.–Apr., 2003), pp. 131–140.

Soerensen, E., Torfing, J. (2007). *Theories of Democratic Network Governance*. Basingstoke, UK: Palgrave Macmillan UK.

<sup>16</sup> Ling, T. (2002). Delivering Joined-up Government in the UK: Dimensions, Issues and Problems. *Public Administration*, Vol. 80 (4), p. 616.

<sup>17</sup> Sullivan, H. (2005). Is Enabling Enough? Tensions and Dilemmas in New Labour’s Strategies for Joining-up Local Governance. *Public Policy and Administration*. Vol. 20 (4), pp. 10–24.

Saikka, P., Karjalainen, V. (2012). Network governance in activation policy—health care as an emergent partner. *International Journal of Sociology and Social Policy*, Vol. 32 Iss 5/6, pp. 299–311.

conditions for positive-sum partnerships.<sup>18</sup> Similarly to Newman, Sullivan does not favour a neoliberal managerial efficiency. *Legitimacy, mutual confidence, mindset*: for her, these are the key concepts in understanding what makes joined-up policy delivery successful.<sup>19</sup> Such an approach brings Sullivan close to those researchers stressing that trust, creating meaning and value orientations of partners in joined-up action are important.<sup>20</sup>

### *Ways toward success in JUG*

Considering the popularity of rhetoric about joined, integrated, holistic, etc., styles of governing, it may well be that joining up is forced from above instead of being a result of an evolutionary learning process among partners. Typically, joined-up practices are studied at the local level, although in the era of multilevel governance, avoiding currents from the national or even supranational level seems to lead to an inadequate understanding of the situation.<sup>21</sup> In such a form of working, where interaction exists between vertical and horizontal levels, actors may come into conflict. Multi-actor cooperation may involve disagreement over accountability, inter-actor rivalry, conflicting objectives, or values. This can occur inside the cabinet, between ministries and departments involved in inter-sectoral task forces, programs or projects, or specialised actors involved in collaborative service delivery.

Literature looking at barriers and disagreements more closely can be divided into two strands. The first takes an institutionalist approach and explains the success or failure of JUG via formal structures of governance. Bogdanor argues that JUG can become successful through changes in governmental structure and money allocation. If existing structures are left untouched, partnerships may be time-consuming and inefficient.<sup>22</sup> Page also stressed the importance of structural factors, showing at the same time scepticism towards the second strand of literature. For him, major conflicts between departments can hardly be solved through training.<sup>23</sup> Bevir and Newman, in contrast, believe that a new working culture and collaboration-oriented training can support structural changes.<sup>24</sup> The idea of JUG seems mostly to be about working together in a pragmatic and intelligent way.<sup>25</sup> In reality, though, actors bring to the network their former traditions of vertical and hierarchical decision-making, which makes innovative ways of joined-up service delivery difficult to push through.<sup>26</sup> If existing value conflicts are not recognised and dealt with, there is a risk that interest groups with different values will replicate silo practices.<sup>27</sup>

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<sup>18</sup> Newman, J. (2001). *Modernizing Governance: New Labour, Policy and Society*. London: SAGE Publications Inc., p. 108.

<sup>19</sup> *Ibid.*

<sup>20</sup> Davies, J. (2009). *The Limits of Joined-up Government: Towards a Political Analysis*. *Public Administration*, 87(1), pp. 80–96.

Bevir, M. (2005). *New Labor*. Routledge.

Tett, L., Crowther, J., O'Hara. (2003). Collaborative Partnership in Community Education. *Journal of Education Policy*, Vol. 18(1), pp. 37–51.

Saikka, P., Karjalainen, V. (2012). Network governance in activation policy—health care as an emergent partner. *International Journal of Sociology and Social Policy*, Vol. 32 Iss 5/6, pp. 299–311.

<sup>21</sup> Sullivan, H. (2005). *Is Enabling Enough? Tensions and Dilemmas in New Labour's Strategies for Joining-up Local Governance*. *Public Policy and Administration*. Vol. 20 (4), pp. 10–24.

Davies, J. (2009). *The Limits of Joined-up Government: Towards a Political Analysis*. *Public Administration*, 87(1), pp. 80–96.

<sup>22</sup> Bogdanor, V. (2005). *Joined-up government*. The British Academy Press by Oxford Academy Press, p. 81.

<sup>23</sup> Page, E. (2005). *Joined-up Government and the Civil Service*. In Bogdanor, V. (2005). *Joined-up government*. The British Academy Press by Oxford Academy Press, p. 148.

<sup>24</sup> Bevir, M. (2005). *New Labour: A Critique*. Routledge. London.

Newman, J. (2001). *Modernizing Governance: New Labour, Policy and Society*. London: SAGE Publications Inc.

<sup>25</sup> Van de Walle, S., Groeneveld, S. (2011). *Research in Public Policy Analysis and Management, Volume 21: New Steering Concepts in Public Management*. Bradford, GBR: Emerald Insight, p. 17.

<sup>26</sup> Saikka, P., Karjalainen, V. (2012). Network governance in activation policy—health care as an emergent partner. *International Journal of Sociology and Social Policy*, Vol. 32 Iss 5/6, pp. 299–311.

<sup>27</sup> Davies, J. (2009). *The Limits of Joined-up Government: Towards a Political Analysis*. *Public Administration*, 87(1), pp. 80–96.



Thus, joined-up working requires changes from actors in order to learn new routines, new cultures, and new languages.<sup>28</sup> Here, one can see a rather sharp contrast in how NPM and JUG interpret the autonomy of civil servants. NPM reforms increase the autonomy of individual civil servants and emphasise their individual responsibility for particular blocks of work, while JUG implies shared responsibility, both between civil servants in different departments and between civil servants and their counterparts at the local level.<sup>29</sup> The existing literature provides mixed evidence regarding the satisfaction of civil servants with professional autonomy. Page claims that they are not interested in maximisation of individual autonomy and thus are eager to support the JUG approach only if it provides the right to decide on cooperation.<sup>30</sup> Schulman takes a more optimistic note and finds that joined-up initiatives produce high-quality output in cases where civil servants adjust their routine and use JUG tools in their daily work.<sup>31</sup>

JUG tools can go beyond regular meetings and include institutional rearrangements as well. One such example is one-stop shops like the Pathfinder centres studied in this article. But there are also many other tools: inter- and intra-organisational policy networks; restructured ministries or agencies; shared objectives, procedures or strategies; special positions with coordination responsibilities; inter-agency collaboration units; and specific budgeting tools that encourage the achievement of common goals.<sup>32</sup>

Quite obviously, there are no one-size-fits-all solutions for efficient implementation of JUG. The differences between policy fields and the differences between countries do matter.<sup>33</sup> Thus, it is important to research real JUG practices in various policy fields within particular national contexts, as this sheds light on successful paths toward joined-up working. The next section will explore the experience of Estonia in implementation of JUG in youth policy, and more precisely in the field of youth employability. Our special interest is finding out how the opinions of civil servants, with changes in structure and legal documents, support JUG in youth policy.

## 2. Implementing the EU Youth guarantee in Estonia as an experience of joined-up working

This section is divided into three subsections. First, we provide an overview of the institutional structure of actors engaged in enhancing youth employability in Estonia. Institutional arrangements identify the main actors in youth policy, in which actors take a leading role, and how actors interact with each other (the main strategies and tools for joined-up interactions). By using theoretical knowledge, we explore whether existing institutional arrangements advance or hinder the JUG approach. Our special interest is on Pathfinder one-stop-shop centres, which provide integrated counselling services for young people for their better employability. Then we analyse whether and how the JUG approach is addressed in youth policy strategies and legal documents. This will allow the evaluation of not just the current state of affairs but also future directions for youth policy governance. Thirdly, we explore how civil servants perceive JUG in youth policy and how their perceptions match legal frameworks and the theory of JUG. As previous research shows, successful implementation of JUG requires civil servants to share common meanings and values in JUG and a readiness to change work cultures. Throughout the analysis, we look at the role of the European Union in advancing an integrated approach to youth employability.

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<sup>28</sup> Klein, R., Plowden, W. (2005). JASP meets JUG: Lessons of the 1975 Joint Approach to Social Policy for Joined-Up Government. In Bogdanor, V. (2005). *Joined-up Government*. The British Academy Press by Oxford Academy., p. 108.

<sup>29</sup> Bogdanor, V. (2005). *Joined-up government*. The British Academy Press by Oxford Academy Press.

<sup>30</sup> Page, E. (2005). *Joined-up Government and the Civil Service*. In Bogdanor, V. (2005). *Joined-up government*. The British Academy Press by Oxford Academy Press, pp. 139–155.

<sup>31</sup> Schulman, S. (2010). *Better together? A comparative study of joined-up practice and youth policy in England and New Zealand*. PhD thesis at University of Oxford, pp. 340–341.

<sup>32</sup> Lagreid, P., Randma-Liiv, T., Rykkja, L., Sarapuu, K. (2014). Introduction: Emerging Coordination Practices in European Public Management. In the book “Organising for Coordination in the Public Sector”. Palgrave Macmillan UK, p. 4.

<sup>33</sup> Perry, G. (2005). *Joined-Up Government in the west beyond Britain*. In Bogdanor, V. (2005). *Joined-up government*. The British Academy Press by Oxford Academy Press, p. 50.

The empirical analysis is based on EU and Estonian youth policy documents and expert interviews with Estonian civil servants in the field of youth affairs working at the supranational, national, and local levels. A total of 11 individual semi-structured expert interviews were carried out in 2013 and 2017, in accordance with the periods of the Youth Policy Strategy (2006–2013) and Youth Field Development Plan (2014–2020), respectively; personal interviews were accompanied by a focus group of 12 municipality-level respondents (youth centre managers and youth council members) in 2013.

### *Do existing institutional arrangements support joined-up government in enhancing youth employability?*

This section analyses how formally separate governmental and non-governmental actors are jointly involved in enhancing youth employability at various levels. In other words, we check whether the institutional structure is favourable to JUG, characterised by the non-hierarchical relations between actors and work toward a common goal. We begin our empirical analysis with an overview of institutional arrangements that help understand which actors take the leading role and what the main tools are for joined-up interactions. According to previous research, JUG institutional arrangements require leaders that steer and coordinate rather than control. Thus we explore which bodies take on the leader's role. Furthermore, we analyse the main tools in use by relying on the classification suggested by Lagreid et al.<sup>34</sup>

A JUG approach to youth employability in Estonia presupposes the collaboration of actors in three policy sectors: social policy, educational policy, and youth policy. Influenced by the New Public Management, Estonia established a vast number of executive agencies focusing on some rather narrow policy implementation areas. Agencification was further boosted by EU programming periods, when significant amounts of EU funds needed to be properly allocated and used. As a result, policymaking in Estonia is extensively interwoven between ministries and agencies. In the area of youth employability, we see the emergence and strengthening of two executive agencies: the Archimedes and Innove Foundations. The latter executes (besides curriculum development and national testing) EU and domestic policies in career counselling and labour market training, while the former deals with educational mobility, including youth exchange and work placement practices abroad (such as Erasmus). The early years of agencification strengthened the silo effect, where different departments worked separately and therefore failed to address important issues (such as the youth labour market transition). An important impetus in overcoming the silo effect in youth policy governance was given by the Youth Guarantee (YG) Scheme, adopted by the European Commission in 2013 in the aftermath of a significantly weaker situation in European labour markets. The YG program set member states the goal of ensuring a job, education, apprenticeship or traineeship for all young people under 25 within a period of four months of becoming unemployed or leaving formal education. The Estonian Ministry of Social Affairs (MSA), as the leading actor in Estonia, presented the national Youth Guarantee Implementation Plan in cooperation with the Ministry of Education and Research (MER) on 30 April 2014; this can be regarded as an initial step in breaking the “silos” and moving towards joined-up thinking. The plan targets youth aged 15–26 years old with the goal of tackling two major obstacles preventing young people from being employed: low levels of education and lack of relevant work experience.

The MSA is responsible for the entire labour market policy, including youth labour market policy. One important task of the MSA is to communicate with the European Commission regarding the implementation of the Youth Guarantee. To facilitate a partnership between the actors engaged in the implementation of the Youth Guarantee domestically, the MSA has formed a working group that involves relevant parties, coordinates activities, and monitors implementation of the plan. The working group enhances cooperation between specialists and representatives of different interest groups related to the Youth Guarantee implementation.<sup>35</sup> There are three key actors included here: the Estonian Unemployment Insurance Fund (social policy actor), Estonian Youth Work Centre (youth policy actor), and the Innove Foundation (educational policy actor) with its Pathfinder network. The first is a quasi-governmental organisation, and a legal person in public law, that offers various labour market services and benefits; the second is governed by the MER and manages youth work in the framework

<sup>34</sup> Lagreid, P., Randma-Liiv, T., Rykkja, L., Sarapuu, K. (2014). Introduction: Emerging Coordination Practices in European Public Management. In the book “Organising for Coordination in the Public Sector”. Palgrave Macmillan UK, p. 4.

<sup>35</sup> Ministry of Social Affairs of Estonia. (2014). Youth Guarantee Implementation Plan in Estonia.

of national youth policy; the last (Innove) was also established by the MER to develop career and educational counselling services and regional cooperation in the field.

Besides steering the working group activities, the MSA and MER also use task delegation, which is very common in Estonian governance practice. The MSA delegated some labour market services to the Unemployment Insurance Fund that, in the frame of YG, provides preventative measures such as job-search workshops in schools and the “My first job” supportive measure for registered 17–29-year old unemployed individuals with little or no work experience. The MER, responsible for career counselling services, delegated the implementation of services to two different bodies: the government agency, Innove, and the Estonian Youth Work Centre. The Innove Foundation, with its 15-county-based Pathfinder one-stop-shops (*Rajaleidja* in Estonian), provides career services for all young people aged 7 to 26 years. The Estonian Youth Work Centre delegated the implementation of the Youth Prop Up program (*Tugila* in Estonian) to a non-governmental umbrella organisation, the Association of Youth Centres (AYC). The AYC focuses on NEET-youth [not employed and not in education] aged 15–26 by providing specialised services via the Youth Prop Up program to approximately 8,800 at-risk young people in order to bring them back to education and/or the labour market. Compared to governmental agencies, the activities of the AYC are more project-based and the work is envisaged for the period of the existing Youth Action Plan (2015–2018). The Pathfinder centres were launched in September 2014 as an explicit measure to implement the EU’s YG. Their main mission is to offer integrated services in special educational, social pedagogical and psychological counselling, speech therapy, career counselling and career information provision. Before 2014, services were provided by different institutions, including local governments, non-profit organisations, and foundations, totalling 24 institutions all over Estonia. The system was fragmented and limited; unevenly distributed resources did not allow youth services of equally high quality everywhere in Estonia.<sup>36</sup> Pathfinder centres were intended to be the remedy for the fragmentation of the previous system. Furthermore, it was intended to improve access to services, raise the quality of services, and increase public awareness of the counselling possibilities in the one-stop-shop manner. The coverage and quality were secured via county-based locations and a unified quality assurance system. All centres have a common digital client database that fulfils two goals. First, in case of a difficult problem, all of the specialists from various centres can work with the same client, since the database makes information sharing possible. Second, the system collects statistics about all clients needed for monitoring and evaluation of the program as a whole. The Pathfinder network also puts significant effort into increasing the visibility of its services. Trainers and counsellors often visit educational institutions; in 2017, a Snapchat account for online consulting and answering questions was launched.

Specialists in the various institutions described above are meant to collaborate closely in solving youth employability issues. For instance, if a young NEET person is registered in the Estonian Unemployment Insurance Fund (EUIF), they simultaneously receive information about Pathfinder centres and Youth Prop Up centres. In order to reach NEET and other marginalised young people, local municipalities are responsible and do mobile or detached youth work that takes place in areas frequented by young people, such as streets, cafés, and parks, at times that are suitable for young people. Mobile/detached youth work is important in establishing contact with young people and then encouraging them to use YG services. In the case of unemployed young people who are interested in continuing their studies, the EUIF directs them to career guidance in Pathfinder centres. The schools and youth centres in turn are obliged to note educational problems shown by young people and to the use Pathfinder centre specialists’ support and guidance. EUIF and Pathfinder centres also do preventative work with young people at schools through various workshops in introducing the labour market and career planning to young people. The core idea of the system is based on the collaborative work of qualified specialists, which guarantees young people the services they need, no matter where the first contact with the young person was made.

The success of collaborative working is measured via a set of indicators.<sup>37</sup> Some of them are common to all actors implementing YG in Estonia, while some are for the EUIF only. As is clear from previous common research goals, shared funding and concrete responsibilities with indicators for progress evaluation are prerequisites for successful joined-up working.

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<sup>36</sup> Innove Foundation. (2018) Lifelong Guidance in Estonia. Internet source available at [https://www.innove.ee/wp-content/uploads/2018/01/LifelongGuidance\\_170x240\\_web.pdf](https://www.innove.ee/wp-content/uploads/2018/01/LifelongGuidance_170x240_web.pdf) Retrieved:06.02.2019.

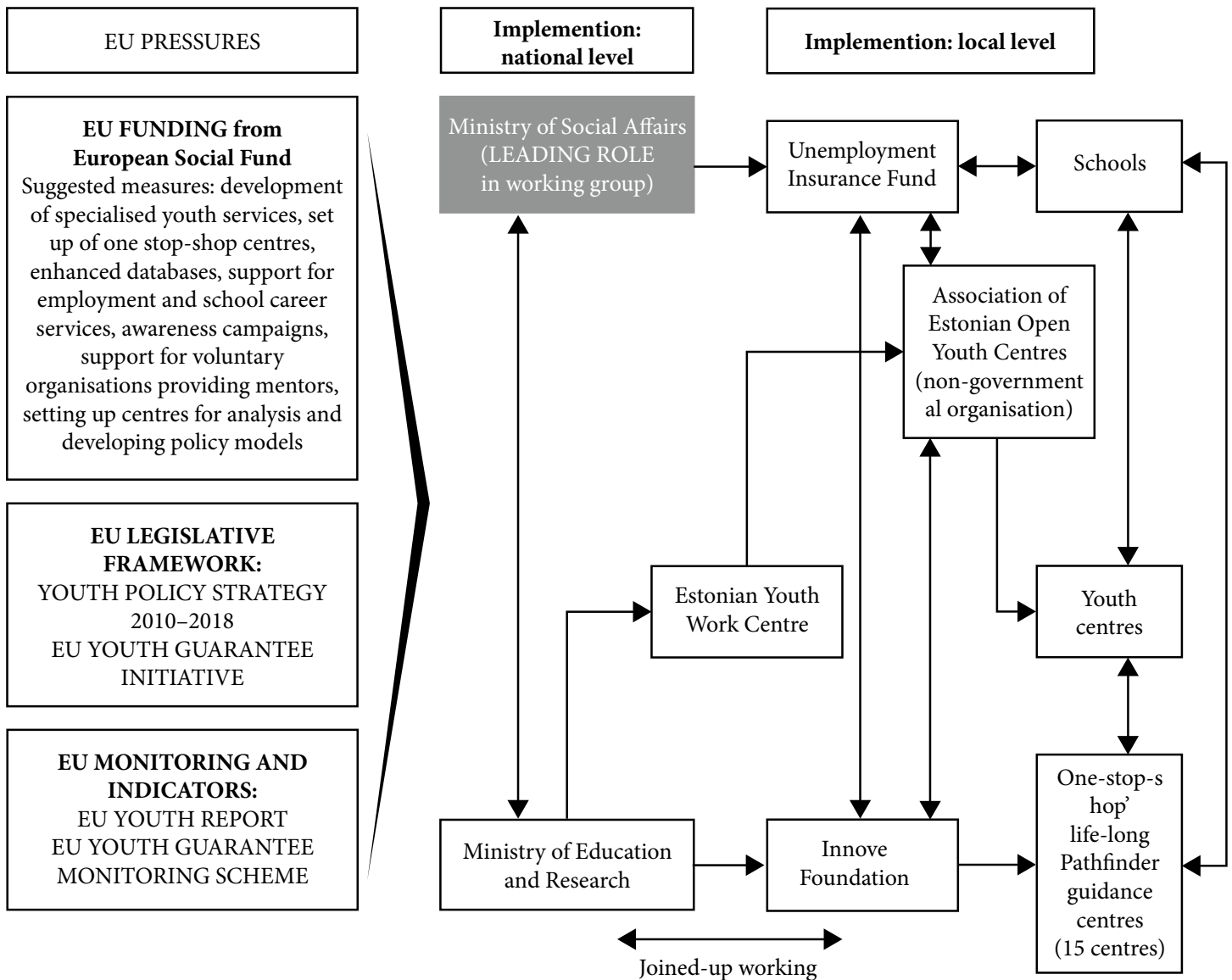
<sup>37</sup> Ministry of Social affairs of Estonia. (2014). Youth Guarantee Implementation Plan in Estonia.



Although interactions between institutions may look rather chaotic because a young person can receive services from all YG actors at the same time or according to their needs, we argue that this type of collaboration represents the nature of joined-up working. Institutions have common goals for working towards youth employability; the interactions are non-hierarchical, and include actors from various policy sectors (youth, education, social policy), various types of organisations (state authorities, state-governed, NGOs), and various governance levels. Figure 1 summarises the institutional arrangement of YG implementation in Estonia. As can be seen, the state's role is not diminished; instead, one ministry (MSA) plays a leading role in coordinating a non-hierarchical cooperation network.

**Figure 1.** Key organisations jointly implementing the Youth Guarantee Implementation Plan in Estonia.

**JUG approach in Estonia for implementation of Youth Guarantee**



To conclude, the YG implementation plan has given an important impetus for cooperative working toward a common goal in increasing youth employability. Under the tools for joined-up working proposed by Lagreid et al.,<sup>38</sup> Estonia has mainly made use of common objectives with specific indicators, budgeting tools via support from EU structural funds, and a temporary working group led by the MSA and Pathfinder one-stop-shop centres with a full cycle of career and educational guidance services. The Pathfinder network thus far seems to be rather successful in advancing cooperation across governance levels and departments. However, to make the change sustainable, it needs to be supported by policy strategies and action plans. We will turn to this issue in the next section.

### ***Do youth policy strategies support joined-up governance in enhancing youth employability?***

Contemporary policymaking is often framed to a greater extent by strategies and action plans than by legal acts. A policy field as novel as youth policy is a good example of this shift. Therefore, we omit the analysis of legal acts here and focus on strategies at the European and domestic levels. Estonian policy strategies are closely linked to EU youth policy and, in the area of employment, this relationship is especially clearly visible. The responsibility for developing a youth policy strategy lies with the Ministry of Education and Science, which involves other ministries, youth agencies and associations according to their area of responsibility.

The National Youth Work Strategy 2006–2013 was the first governmental document to attempt to coordinate the activities of different spheres and integrate them into a coherent policy. The strategy emerged after two EU youth policy documents, namely the EU White Paper on Youth (2001) and Youth Pact (2005). The White Paper urged an increase in cooperation between EU countries in the youth policy and greater account to be taken of youth in sectoral policies. The Youth Pact stressed the adoption of joined-up working to ensure the social inclusion and employment of young people in the EU.

The Estonian Youth Work Strategy 2006–2013 defines youth policy as “a more extensive area—a unified approach to all activities targeted at young people in all areas concerning their lives”.<sup>39</sup> The document also highlights the importance of joined-up youth policy and explain its value to young people: “as a result of a joined-up youth policy, a young person is expected to get the experience that will enable successful management of the challenges, choices, and opportunities ahead, including: participation opportunities and experience; studying; creativity and the possibility of self-expression; information and guidance; experience in social membership; safety and welfare; prevention of problems and support in dealing with them.”<sup>40</sup> The strategy includes the main mechanisms for the development of the joined-up cross-sectoral approach as the “creation of a cooperation network at the local level and improvement of the cooperation of the concerned ministries.”<sup>41</sup> In the Youth Work Strategy 2006–2013, the following polices are included: education, employment, health, culture, social, family, environmental, crime prevention and national defence policies. However, the strategy does not outline how these policy sectors should be connected and what the main responsibilities of these institutions are. The document stresses a broad universal approach to the youth policy, which extends to all main areas of life of young people. Additionally, it focuses mostly on youth work as the main tool for implementing youth policy. The indicators of the youth policy implementation are mostly linked to youth work results.

The next national strategic document, the Youth Field Development Plan 2014–2020, was developed to advance the cross-sectoral joined-up approach in youth policy. The key differences from the previous Youth Strategy (2006–2013) include, first, a novel understanding of the concepts of youth policy, and second, greater emphasis on institutional roles and responsibilities.

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<sup>38</sup> Lagreid, P., Randma-Liiv, T., Rykkja, L., Sarapuu, K. (2014). Introduction: Emerging Coordination Practices in European Public Management. In the book “Organising for Coordination in the Public Sector”. Palgrave Macmillan UK, p. 4.

<sup>39</sup> Ministry of Education and Research of Estonia. (2006). Estonian Youth Work Strategy 2006–2013, p. 5, Internet source available at [https://www.hm.ee/sites/default/files/noorsootoo\\_strateegia\\_eng.pdf](https://www.hm.ee/sites/default/files/noorsootoo_strateegia_eng.pdf) (27.02.2018).

<sup>40</sup> Ibid. p. 16.

<sup>41</sup> Ibid. p. 18.

The Development Plan does not make a differentiation between youth policy and youth work. The new concept is a youth field that includes both dimensions and hence can be seen as a step towards more holistic policymaking. The Development Plan also stresses the institutional aspect of cooperation, and defines the main actors responsible for implementing the cooperation that ensures the administrative capacity to run a coordinated project.<sup>42</sup> The responsibilities of the main actors such as the Ministry of Education and Research, the Ministry of Social Affairs, the Ministry of Justice, the Ministry of the Interior and the Ministry of Culture are clearly defined. The document also contains a list of other effective national strategies and action plans with the aim of showing a more holistic picture of youth policy. Joined-up working with other spheres is required by the document and the need for a comprehensive approach to the lives of young people is explained.

A comparative analysis (Table 1) of these two youth policy documents reveals different meanings and understandings of cross-sectoral joined-up youth policy in general, and the different roles of actors in it. The more recent document stresses the institutional aspects of cooperation and points out the main actors responsible for the implementation of the integrated approach. This shift suggests that joined-up governance today relies on a more sustainable and administratively capable foundation.

**Table 1.** Differences of the integrated cross-sectoral approach in the Estonian Youth Strategy (2006–2013) and Estonian Youth Field Development Plan (2014–2020). Compiled by the authors.

Differences	Estonian Youth Strategy 2006–2013	Estonian Youth Field Development Plan 2014–2020
Role of actors	Implementation of Strategy is the responsibility of the Ministry of Education and Research, shared with the Estonian Youth Work Centre  The following parties and authorities are involved at local, regional and national levels: youth workers, young people and their representative organisations and institutions, parents' councils.	Implementation of the Development Plan is the responsibility of the Ministry of Education and Research, shared with the Estonian Youth Work Centre  In addition, the Ministry of Social Affairs, Ministry of Justice, Ministry of the Interior, Ministry of Culture, and subordinate agencies (e.g. Innove, the Police and Border Guard Board, Rescue Board, Unemployment Insurance Fund) and other partners, youth associations, local governments and county governments according to their areas of responsibility are involved.
JUG emphasis	On engagement of individuals in the youth sector	On the role of institutions
Use of terms: youth work, youth policy, youth field	Youth work as the main area; two terms, "youth work" and "youth policy", are used	Youth work and youth policy are integrated in one term: "youth field"
Universal versus targeted approach	Universal youth policy. The strategy gives a list of the main areas of young people's lives and the policy aims.	Targeted youth policy.  The plan is directed at concrete youth issues, focusing on concrete priority goals and measures

<sup>42</sup> Ministry of Education and Research of Estonia. (2013). Youth Development Plan 2014–2020. Internet source available at [https://www.hm.ee/sites/default/files/nak\\_eng.pdf](https://www.hm.ee/sites/default/files/nak_eng.pdf) 27.02.2018.

Differences	Estonian Youth Strategy 2006–2013	Estonian Youth Field Development Plan 2014–2020
Indicators	<p>Few indicators on youth work results</p> <p>Indicators:</p> <ul style="list-style-type: none"> <li>■ Youth (7–26 years) involvement in youth work</li> <li>■ Youth participation in youth associations</li> <li>■ The number of youth work institutions increases</li> <li>■ Youth councils in every county and major town</li> </ul>	<p>More indicators, including those in employment and education</p> <p>Indicators:</p> <ul style="list-style-type: none"> <li>■ Decrease of proportion of young people (aged 18–24) with basic or lower levels of education that do not continue in education</li> <li>■ Decrease of the youth unemployment rate in the age group 15–24</li> <li>■ Involvement of young people in youth work (% of the total number of young people)</li> <li>■ Regional availability of youth work provisions</li> <li>■ Number of opportunities for organised participation</li> <li>■ Satisfaction of young people with youth work</li> <li>■ Proportion of youth workers taking part in training (per year)</li> </ul>

Another important change in building the legal framework of youth policy is an even closer link between domestic and European strategies. The effective EU Youth Strategy (2010–2018) sets a framework for cooperation via two main objectives: to provide more and equal opportunities for young people in education and the labour market; and to encourage young people to participate actively in society. The Estonian Youth Field Development Plan (2014–2020) aims to create opportunities for the self-development and self-realisation of young people that support the formation of a cohesive and creative society. National and European documents on youth employability issues are also similar, as demonstrated in Table 2.

**Table 2.** Similarities between the EU Youth policy strategy (2010–2018)<sup>43</sup> area “Employment and entrepreneurship” and the Estonian Youth Development Plan (2014–2020)<sup>44</sup> measure toward the employability and labour market inclusion of young people.

EU Youth Policy Strategy (2010–2018)	Estonian Youth Field Development Plan (2014–2020)
<p><b>Area: Employment and entrepreneurship</b></p> <p>Address the concerns of young people in employment strategies</p> <ul style="list-style-type: none"> <li>■ Invest in the skills employers look for;</li> <li>■ Develop career guidance and counselling services;</li> <li>■ Support quality internships/ apprenticeships;</li> <li>■ Encourage entrepreneurship.</li> </ul>	<p><b>Measure 2. Increase the labour market inclusion of young people and improve their employability</b></p> <ul style="list-style-type: none"> <li>■ young people’s employability is supported by providing them with opportunities to obtain work experience (including voluntary work) and better understand the world of work, paying particular attention to risk groups;</li> <li>■ the ability of young people to become entrepreneurs and employers by themselves is enhanced by supporting their initiative and more effectively implementing a variety of youth work provisions for entrepreneurship and entrepreneurial spirit to be recognised, and this, among other things, in cooperation with businesses;</li> <li>■ measures are launched for young people not in education, employment or training by means of youth work services provided by institutions and organisations to support their return to education and/or entry into the labour market.</li> </ul>

As far as policy implementation mechanisms are concerned, the EU supports member states for joined-up working. Besides calls for mainstreaming the youth issues across all policy areas and common objectives set in the Youth Policy Strategy, the

<sup>43</sup> European Commission. (2009). Youth Policy Strategy 2010–2018. Internet source available at [https://ec.europa.eu/youth/policy/youth-strategy\\_en](https://ec.europa.eu/youth/policy/youth-strategy_en) Retrieved 01.10.2018.

<sup>44</sup> Ministry of Education and Research of Estonia. (2013). Youth Development Plan 2014–2020. Internet source available at [https://www.hm.ee/sites/default/files/nak\\_eng.pdf](https://www.hm.ee/sites/default/files/nak_eng.pdf) Retrieved 27.02.2018.

EU is applying common indicators against which the overall progress towards Strategy objectives is measured. The Youth Report, published every three years, makes progress evaluation public. Since the EU cannot use institutional tools in “soft” policy areas, it turns to strategies, shared objectives and indicators to force joined-up working in the youth field in member states.

In summary, we can see a strengthening of the joint-up approach in national youth policy documents over time, which is supported by similar tendencies at the EU level. In the area of youth employability the joined-up approach is first and foremost characterised by forcing more intense cooperation between actors in education and actors in labour market policies with allocation of clear responsibilities and JUG tools to all parties. Now let us turn to an investigation of civil servants’ perceptions, a key factor in the vitality of join-up governance.

### *Joined-up governance as perceived by civil servants*

This section is divided into three parts. Firstly, we will investigate how civil servants understand the meaning of cross-sectoral joined-up youth policy; secondly, we will analyse civil servants’ experience with joint working in terms of tools and premises; and finally, we will present civil servants’ interpretations of their roles in the new governance situation.

### *Understanding JUG*

The idea of the joined-up approach was generally understandable to most respondents, but nobody was able to provide an exact definition, and the concept of “joined-up youth policy” caused some confusion in interpreting the term. This proves that the joined-up approach in youth policy is not easily achieved because of its broad meaning. For some, the joined-up approach in youth policy means, first of all, including the opinion of youth, whereas the majority stressed the cooperation between various actors from various policy fields.

“Integrated joined-up youth policy is when young people’s wishes and needs are paramount. It is a youth-oriented policy.”

“Joined-up youth policy is actually a networking of various stakeholders. It does not mean that only the youth worker runs around and delivers youth services, but other actors also need to be actively engaged in the process, like teachers, social workers, child protection workers, the police, no matter who, everybody relating to young people.”

Respondents also mentioned that joined-up working should have at least one actor with a coordinating role.

“I see it as close collaboration between different sectors, while I think that it needs to be coordinated by one responsible institution.”

One respondent stressed that joined-up working needs a common vision of solving youth issues and shared values between all stakeholders:

“Integrated means youth policy is not directed towards a specific group like young people, but takes into account the broader picture of youth development. For me, this is not a fixed action of one or two stakeholders, but rather various stakeholders agree on an overall common vision on how to solve problems and provide responses in close cooperation. An integrated approach will work if all stakeholders share common values concerning what a better future for young people is.”

Thus, respondents accept the joined-up approach as it is described in the national documents on youth policy. They are aware of the concept of cross-sectoral youth policy and recognise it as a priority. Moreover, they believe that joined-up working requires a shared vision and shared values in order to achieve common goals.

### *Existing cooperation practices with JUG.*

Next, we were interested in determining what joining up looks like to civil servants and how they cooperate and work together. We studied effective cooperation between governmental and non-governmental actors when dealing with youth issues and explored the perceived need for even closer joint working. First, respondents were asked to name their partners and how they cooperated with them. Based on the interviews, a comprehensive table of cooperation between various actors is compiled. As Table 3 demonstrates, cooperation more often occurs between actors of the same level of government and within one sector, in particular the youth sector. However, civil servants also pointed out that this cooperation took the form of non-hierarchical collaboration, which can be regarded as a solid premise for JUG. Some respondents also describe working between non-governmental and governmental actors and across various levels of government.

“The Tallinn City Youth and Sports Department has close cooperation with city municipalities, we also work with the Estonian Youth Work Centre, Estonian Youth Council, cooperation with universities, youth work researchers, even the business sector. Our cooperation is not only with youth work organisations but with other areas, as well.”

“The Estonian agency of the EU’s Erasmus Youth Program works with various agencies. We have a county affiliate system. We have partners mostly in each Estonian county and we also try to recruit these partners to achieve the youth program goals. Local youth centres and schools are also our very big partners.”

“The Estonian Open Youth Centre acts as the umbrella organisation. We bring information from the ministry to youth centres, ‘translating’ from higher to lower levels. We have members in our work from all over Estonia. Thus, this ensures for us that we have a strong voice and can better organise the proposals on the ministry level, and it’s easier for us to be heard by the ministry. In this case we are the translator from the bottom to upper levels.”

**Table 3.** Non-hierarchical cooperation between actors in solving youth issues. Source: interviews.

Actors	Partners	Cooperation levels
Ministry of Education and Research; Ministry of Social Affairs	EU institutions, Estonian ministries, youth umbrella organisations, youth researchers, civil society	The same level, upper level (EU) and lower level (local, regional)
Local governments	Municipalities of other EU countries, municipalities of Estonia, local, city and county youth councils, various foundations and organisations from different sectors	The same level, upper level (EU, umbrella organisations)
Youth centres	Schools, youth organisations, local governments, other youth centres, NGOs, the police, Union for Child Welfare, Unemployment Insurance Fund, Estonian Youth Open Centre	The same level, upper levels (regional, national, umbrella organisations)



Actors	Partners	Cooperation levels
Schools	Local municipalities, the police, culture and hobby centres, youth centres, the Estonian Open Youth Centre, Estonian Agency of the EU Youth in Action Program, other schools, the Estonian Union of School Student Councils	The same level, upper level (umbrella organisations)
Youth councils	Local municipalities, student school councils, student university councils, the Estonian National Youth Council	The same level, upper level (umbrella organisations)
Estonian National Youth Council	The Ministry of Education, school and university students' councils, the Estonian Agency of EU Youth in Action Program	The same, i.e. national level
Estonian Association of Open Youth Centres	The Ministry of Education, Estonian Agency of the EU Youth in Action Program, Estonian Youth Work Centre, local municipalities, youth centres	The same, i.e. national level, lower level
Estonian Youth Work Centre	The Ministry of Education, Estonian Agency of the EU Youth in Action Program, youth organisations, PRAXIS think tank	The same, i.e. national level, lower level
Estonian agency of the EU Erasmus Youth Program	The Ministry of Education, youth organisations, youth centres, schools, the Estonian National Youth Council, city governments, the Estonian Youth Work Centre, EU institutions and other agencies of the EU Youth in Action Program in EU member states	The same, i.e. national level, upper level (EU), lower level
InnoVe Foundation (including Pathfinder centres)	The Ministry of Education, Estonian Unemployment offices, youth centres, schools	The same, i.e. national level

The cooperation can take various forms and be of varying intensities. Based on interviews, we distinguished three modes of operation:

A: an institution works independently, does not cooperate with others (2 respondents out of 23);

B: an institution works with specific partners and rarely engages new partners (15 of 23);

C: an institution works with a range of partners and is active in engaging new partners (6 of 23).

Respondents from categories A and B were mostly government institutions both at central and local levels. Respondents from category C were mostly from youth umbrella organisations or institutions working on youth affairs at the local level, such as youth work centres and Pathfinder centres.

When asked about institutional support or sustainability of cooperation, respondents revealed that such aspects were almost entirely missing in current cooperation practices, or at least respondents were not aware of such mechanisms. For them, cooperation depends heavily on enthusiastic people ("Cooperation quite often depends on individuals' initiatives and is very much based on previous contacts") or is evoked by some temporary project or issue ("Cooperation is short-term in nature and very often based on special projects' objectives"). When the project is finished, "the working group is dissolved" and "this also ends the cooperative practice." Institutions were seen by respondents as barriers rather than facilitators for efficient cooperation, because senior managers are focused more on formalities that do not let them go outside the box.

"Every organisation has its own goals and priorities that sometimes do not match others."

"Our organisation has its own strategic plan for next year, there are concrete actions, objectives and even partners. Thus we have to follow our plans. Sometimes we cannot take part in some joined-up working event, because it was not planned in advance in our strategy."

The vague concept of youth policy has been mentioned as an additional barrier that enforces institutional rigidity, as each institution has its own understanding of the field and objectives of youth policy.

“Youth policy is currently under one ministry. Although the topic of young people should be discussed in every ministry in the same sense, if there is no information about youth as a whole and there is no common understanding about the youth field among ministries, then it cannot really be assumed that cooperation between the other institutions at the local level will emerge.”

“I think the particular needs of young people can be solved in a more effective way if we share more information and good practices between institutions. Quite often, there is a lack of information about partners’ activities and programs. If I knew more about all of the programs that our partners provided, I would probably do more networking and cooperation.”

The impact of the EU, however, was perceived in a positive way. Several respondents expressed the opinion that EU institutions, with their funding and priority goals in the youth field, have been forcing joined-up working at the national and local levels in Estonia. As an example of a positive EU spill-over, civil servants named Pathfinder centres as good practice for joined-up actions.

“Inevitably, we have to take into account EU directives and in my opinion, it is a natural process that we rely on in international agreements. On the political side, it gives the opportunity to adjust their legislation, and at the same time provides opportunities for close cooperation with others, to exchange different countries’ experience.”

“Due to the general framework and funding mechanisms, every ministry has the obligation to do the work to implement EU recommendations. This is a big plus.”

“The EU provided strong development for better cooperation. The EU also definitely influenced the development of the inter-sectoral approach to youth policy.”

The analysis of current practice in cross-sectoral youth policy in Estonia shows that the main premise for JUG is a shared understanding of the cross-sectoral approach to youth policy. The link between effective practices, national youth strategy and an institutional system is, however, largely missing. This means that joined-up working exists at a very early stage, often being just a synonym for cooperation. Joint institutional structures have not emerged, with the exception of the Pathfinder centres. However, the case of Pathfinder unfortunately confirms the project-based character of JUG in Estonia. As explained above, Pathfinder centres have been established under the EU programming period, and in 2020 when the programming period is over, the Pathfinder centres will partially be closed, and their tasks divided between the Unemployment Insurance Fund (career counselling) and educational institutions (career teaching). Thus, there are and will be several institutions playing an important role in youth policy, but the respondents did not provide any clear answers on how such cooperation could be governed. The dominant view was that joined-up working should start at the ministerial level. If cooperation between ministries is ensured, ministries can take the leading role in joining up various actors at the local level.

### ***Personal role in advancing JUG as perceived by actors***

According to the interviews, civil servants perceived their roles in JUG in many different ways: as the information holder, informer, communicator, policy implementer, designer of young people’s opinions, designer or decision-maker of youth policy, youth representative, fiscal planner, representative of youth interests, planner, counsellor, contributor. One of the main roles that respondents mentioned was “partner”, which indicates the internalisation of the non-hierarchical nature



of JUG. Moreover, respondents noted that their roles changed quite often according to cooperation needs, which suggests acknowledging the flexibility and context sensitivity of joined-up working. However, the dilemma of civil servants' autonomy as revealed in previous research came up in this study, too. Respondents said that there were quite often expectations of fixed obligations from them, leaving limited room for changing roles and novel collaboration. Interestingly, they also admitted that adherence to formalised behaviour was sometimes dependent on the people themselves, and not on institutional constraints.

“The established formalities and structured tasks quite often are not conducive to cooperation, and for me it seemed difficult to jump outside the box.”

“I have concrete tasks, and if my duty ends here I am not supposed to interfere with other areas.”

“It seems to me that this attitude to joined-up working is well formalised, so that the civil servant cannot do anything he wants.”

“For some officials, frames for actions may be made by the institution. Or he has created these frames for himself.”

Participants were asked about the knowledge and skills civil servants needed in order to work jointly. Personal characteristics and the will to work collaboratively were considered most important. The interviewees argued that officials should not interfere with interpersonal relationships, but should rather focus on common goals.

“I still think that personality matters. If you are a person prone to conflict, you cannot have such cooperation. I've also sometimes been combative. I've said a lot of things directly. I feel that half of the things could be saved.”

“A person needs to be social, courageous and open-minded, they need to dare to be involved and get in touch with others. They have to understand the main goals and know when to join up and how much.”

“Personal relationships are hindrances, in that if there has been some kind of personal offence, misconception or misunderstanding, then this will be a hindrance.”

Concluding the analysis of civil servants' perceptions and experiences with JUG, we found that they shared a common understanding of the cross-sectoral joined-up youth policy approach, accepted the need for JUG to provide youth services in a more efficient way, and agree that the main premise for JUG was the readiness of actors. The role of institutions was perceived in a vague and rather negative manner. Institutions limit and formalise cooperation, especially with actors from other bodies or sectors. However, central government institutions (i.e. ministries) were assigned the obligatory role of being a leading partner in JUG. They must initiate and launch JUG firstly at the ministerial level; afterwards, it can transition to the local level.

## **Conclusion**

The implementation of JUG in youth policy is a relatively new and challenging area, which is handled by many political agendas at the European and domestic levels. This article has attempted to analyse JUG policy and practice in the area of youth employability in Estonia. We have focused on institutional arrangements; legal strategies and documents in youth policy; civil servants' perceptions; and real experience in joined-up working.

The analysis revealed that joined-up governance in Estonia was supported by appropriate domestic and European policy strategies. The European effect has become significantly more visible in the Youth Field Development Plan (2014–20) compared to the earlier Youth Work Strategy (2010–18). The EU Youth Guarantee initiative forced national governing bodies to revise existing links between the parties involved and to make their responsibilities better defined. In order to stimulate collaboration between different policy sectors, MSA, within the framework of the Youth Guarantee implementation plan, formed a working group of actors from youth, social, and education policies. As result of the EU's intervention, the first one-stop-shop in the field of youth employability in Estonia—the Pathfinder centre network—was established. Pathfinder was seen by civil servants and youth workers as a tangible positive experience of joint working. Therefore, the EU recommendations and funding for the implementation of the Youth Guarantee initiative made the MSA the leading JUG actor in domestic youth policy. The EU, with its strategic documents, measures and indicators, also had its effect on which JUG aim has become the most prominent. Based on empirical analysis, we suggest that an increase in the efficiency of policy outcomes in tackling crosscutting issues by eliciting the contribution of multiple players has outperformed other JUG goals such as policy innovation and better use of financial resources.

In broader terms, joined-up governance in Estonian youth policy largely remains at the rhetorical level, filled with diverse content by various participants. Interviews revealed that cooperation occurred mainly within organisations at the same level, and although there are many signs of non-hierarchical relations, rank-and-file civil servants overwhelmingly expressed the wish to have the ministry as a clear leader in JUG. The interview material unfortunately does not allow us to determine whether this leading role is seen more in terms of steering or command-and-control. Similarly complicated is the expression of a “final word” regarding the perceived importance of institutions versus agencies for successful joined-up working. A majority of interviewees share the scepticism of Bogdanor, Page, Saikku and Karjalainen that existing institutions constrain the progress of JUG. Several others, in contrast, agree with Sullivan and Newman's perspective that personality matters more and a willingness to cooperate can eventually bring about institutional change. A follow-up analysis of the experience of the Estonian Pathfinder centres would probably provide more evidence about the complex interplay between structure and agency.

**WHAT IS COMPLIANT PRESENTATION UNDER THE LAW OF DOCUMENTARY LETTERS OF CREDIT?  
A CRITICAL ANALYSIS OF ARTICLE 14 OF THE UCP 600**

**HAMED ALAVI**

**ABSTRACT**

Documentary letters of credit are among the most popular methods of payment in international transactions. The key to their success is in reducing the risk for exporters by replacing importers' financial undertakings with a guarantee of payment from a bank. Within the framework of a complicated process, a bank will guarantee to honour the seller's presentation of complying documents with terms of credit on behalf of the creditworthy buyer, who will compensate the bank based on another contract. By applying two principles of autonomy and strict compliance, documentary credit mitigates the existing commercial risk of trade between a buyer and seller who are in different countries and have no information about the financial capacities of each other's businesses. These two principles are regulated under the Unified Customs and Practices for Documentary Letters of Credit (the UCP), which was promulgated by the International Chamber of Commerce for the first time in 1933. The constant revisions of the UCP (current version UCP 600), which reflected current market practices, resulted in a global turnout of traders and its recognition as one of the most successful sets of rules introduced by the private sector. The main idea behind the introduction of the UCP (as confirmed by ICC officials) was to harmonise rules applicable to international LC transactions at the global level. However, it should be noted that the UCP has no power of law, and in case of any conflict between its provisions with national law or absence thereof among its provisions, national law will prevail. Therefore, it is of crucial importance that its degree of harmonisation with national laws in preventing possible losses to traders and bankers active in the practice of international trade finance be defined.

This paper studied general requirements for compliant presentation within 14 articles of the UCP 600 in comparison with requirements under English Law. In order to provide a complete picture to the reader, this paper analysed the respective sections of other ICC publications, including ISBP 745745, DOCDEX decisions, and ICC Banking Commission Opinions along with the UCP. The main purpose behind this paper is two-fold: Firstly, it tries to provide a legal analysis of the general framework of compliance requirements for documents under the UCP 600. Secondly, it strives to find existing conflicts between respective provisions in the UCP 600 and English Law. Recognition of such conflicting areas can be used as advice for the drafting committee of the UCP to achieve their goal of further harmonising the practice of international trade finance.

**KEYWORDS:** Documentary Letters of Credit, Principle of Strict Compliance, Presentation, Examination of Documents, UCP 600, English Law.

## **1. Introduction**

Documentary Credits, Documentary Letters of Credit or Banker's Documentary Letters of Credit, are one of the oldest and most appreciated existing instruments for financing international trade. The long history of Documentary Letters of Credit resulted in their being considered as the "Life Blood of Commerce".<sup>1</sup>

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<sup>1</sup> *Edward Owen Engineering Ltd v. Barclays Bank International Ltd* [1978], Q.B. 159, 155 (Kerr, L.J.).

In today's world, Letters of Credit are considered one of the most attractive areas of research for legal, international trade and finance scholars. In this respect, Professor Roy Goode defines Documentary Letters of Credit as: "A monetary promise that is independent of the transaction that gives birth to it and that is considered binding when received by the beneficiary without acceptance, consideration, reliance, or execution of a solemn form".<sup>2</sup>

Although Documentary Credits have a very extensive mercantile history, their involvement in the utilisation of credit arrangements practically goes back to the second half of the 19<sup>th</sup> century.<sup>3</sup>

A review of the legal history of Documentary Letters of Credit shows that *Rose v Von Mierop and Hopkins* is one of the first lawsuits and landmarks of LC Law in the English legal system.<sup>4</sup> In the absence of internationally harmonised regulations, national laws regulate the operation of documentary letters of credit in different countries. However, in 1933, the International Chamber of Commerce introduced the Unified Customs and Practices for Documentary Letters of Credit (the UCP). According to an ICC official: "the objective [of the UCP] is to create a set of contractual rules that would establish the [letter of credit] practice, so that practitioners would not have to cope with the plethora of often conflicting national regulations".<sup>5</sup> This is a challenging responsibility. On the one hand, international business and its requirements are an ever-changing phenomenon due to constant technology developments. On the other hand, national laws on the same legal phenomena differ substantially. As a result, to be adequately practical in harmonising such a diversion, the UCP should be constantly updated and modified in this context. In this way, the UCP has been undated six times since its first promulgation (the current version is the UCP 600).

A global welcome of international business activists to the UCP shows the essential need for the existence of such a harmonising tool in the practice of trade finance. However, the UCP does not have the power of law, as the ICC is a private international organisation and its publications will not play the role of law. Additionally, the UCP is not a convention. Therefore, in cases of conflict between the contents of the UCP and national law, national law will prevail. Since the diversity of national laws can create huge problems for international business practitioners, it is necessary for the UCP to provide a sufficiently clear and adequately comprehensive set of rules for smooth operation of international LC transactions with a minimum level of conflict with its provisions in national law. This complicated task is performed by a Drafting Commission, which tries to achieve harmonisation among national committees before the promulgation of each new version of rules.

Despite the existence of a huge body of literature on different aspects of international LC transactions, there is a visible research gap in analysing the adequacy of particular aspects of the UCP. Presentation compliance is one of the most important issues in the smooth operation of international LC as it is the sole condition for payment to the seller. Among others, Maritime transport documents are an important part of the presentation bundle due to their particular requirements as document of title and security in shipped goods, which they provide for banks. It is also worth mentioning that more than 90 percent of global trade is transported by sea.<sup>6</sup> Additionally, this issue is of particular importance as the international business society has started requiring the ICC to start revision of the current UCP.<sup>7</sup> However, there is a visible gap in scientific literature regarding the legal analysis of the existing provisions of the UCP 600 on the requirements for the compliance of maritime transport

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<sup>2</sup> Goode. R, "Abstract Payment Undertakings" in Peter Cane and Jane Stapleton (eds), *Essays for Patrick Atiyah* (Clarendon 1991), 230.

<sup>3</sup> Garcia RLF "Autonomy principle of the letter of credit", *Mexican Law Review*, (2009), 69.

<sup>4</sup> *Pillans and Rose Van Mierop and Hopkins*; McCurdy. W, "Commercial Letters of Credit", *Harvard Law Review*, (1922) 539.

<sup>5</sup> UCP600, 4.

<sup>6</sup> IMO Maritime Knowledge Centre International Shipping and World Trade Facts and Figures, October 2009, available at: [www.imo.org/KnowledgeCentre/ShippingFactsAndNews/TheRoleandImportanceofInternationalShipping/Documents/International%20Shipping%20and%20World%20Trad%20facts%20and%20figures%20oct%202009%20rev1\\_\\_\\_tmp65768b4.pdf](http://www.imo.org/KnowledgeCentre/ShippingFactsAndNews/TheRoleandImportanceofInternationalShipping/Documents/International%20Shipping%20and%20World%20Trad%20facts%20and%20figures%20oct%202009%20rev1___tmp65768b4.pdf) [accessed on 30 Oct 2017].

<sup>7</sup> The Institute of International Banking Law and Practice confirmed that at the 2015 American Annual Survey Conference, a list of items was compiled to consider for the next UCP revision. [www.iiblp.org/the/community-speaks-the-UCP700-wish-list/](http://www.iiblp.org/the/community-speaks-the-UCP700-wish-list/) [accessed 30 Oct 2017].

documents and possible areas of problems that can be improved in subsequent revisions of the rules. This paper endeavoured to fill the existing research gap by providing maritime transport in the UCP 600 with a legal analysis from relevant articles and studying their adequacy in the international operation of documentary letters of credit. Due to the direct reference of the ICC to its other publications, namely the International Standard Banking Practice, DOCDEX decisions, and ICC Banking Commissions Opinions, their relevant provisions were also studied as a complementary companion to the UCP in comparison with the English Law approach to the subject matter.

The paper delimitates itself to studying the requirements for the compliance of sea transport documents under the UCP 600 and the adequacy of those provisions in comparison with English Law.

Issues relevant to the presentation compliance of other documents and bank security provided by transport documents are left outside the scope of this paper due to delimitations.

This paper is structured as follows: after the introductory part, Chapter Two provides an overview of the legal nature of the UCP. Chapter Three discusses the principle of strict compliance in international LC transactions and requirements for documentary compliance in letter of credit law with a focus on Article 14 of the UCP 600 ISBP 475 and DOCDEX decisions. The same chapter also compares and contrasts the general requirements of compliance between English Law and the UCP 600. For this purpose, research will follow the scientific approach to the subject matter by trying to find answers to the following questions: First, what are the characteristics of compliant presentation for maritime transport documents under the UCP 600? Second, what are the areas of confusion for traders and document checkers in relevant articles within the framework of the UCP 600? Third, are the UCP 600 rules regarding general conditions for the compliance of documents in international LC transactions adequately practical?

## 2. The Legal Nature of the UCP

Although the UCP has been present in the international trade environment for the last 80 years and achieved a global application in LC transactions, its legal nature is still debatable.<sup>8</sup> The fundamental question is whether the UCP has the power of law or if it is merely effective as being incorporated by parties to a contract. Scholars offer different positions by considering the UCP as a part of the international commercial custom<sup>9</sup> for mere contractual terms, which should be expressly referred to by the parties to any credit.<sup>10</sup> Despite the fact that the question does not generally arise due to the constant requirements of banks for incorporation of the UCP in the credit, its legal nature has raised a valid theoretical question among legal experts. Supporters of the idea that the UCP is more than mere contractual terms refer to its long-term existence in the modern practice of letter of credit transactions as well as its global application.<sup>11</sup> Others argue that the International Chamber of Commerce as an issuer of the UCP is not a public authority; therefore, its promulgated rules do not have the force of law.<sup>12</sup> Additionally, they defer to Article 1 of the UCP 600, which provides:

“The Uniform Customs and Practice for Documentary Credits, 2007 Revision, ICC Publication no. 600 (‘UCP’) are rules that apply to any documentary credit (‘credit’) (including, to the extent to which they may be applicable, any standby letter of credit) when the text of the credit expressly

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<sup>8</sup> Hugo, C. The Legal Nature of the Uniform Customs and Practice for Documentary Credits: Lex Mercatoria, Custom, or Contracts. *S. Afr. Mercantile LJ*, 6, (1994), 168.

<sup>9</sup> Chhina, R. K. (2015). The Uniform Customs and Practice for Documentary Credit (the UCP): Are They Merely a Set of Contractual Terms? *Banking & Finance Law Review*, 30 (2), 245.

<sup>10</sup> Malek, A., & Quest, D. Jack: Documentary Credits. (London, Toddle, 2009), 300.

<sup>11</sup> Chhina 2015, 265.

<sup>12</sup> Alavi, H. Documentary Letters of Credit, Legal Nature and Sources of Law. *Journal of legal studies*, 17 (31), (2016 d), 120.

indicates that it is subject to these rules. They are binding on all parties thereto unless expressly modified or excluded by the credit.”

From the perspective of English Law practitioners, the legal nature of the UCP can be approached either as contractual terms applicable to the credit by agreement of parties, or an independent source of law.<sup>13</sup>

In the English legal system, an independent source of law would be either custom or usage. In the case of *Lockwood v Wood* it was held that: “A custom which has existed from time immemorial, without interruption, within a certain place, and which is certain and reasonable in itself, obtains the force of law, and is, in effect, the common law within that place to which it extends, although contrary to the general law of the realm.”<sup>14</sup> Using the same line of reasoning, Halsbury’s Law of England defines custom as: “...a particular rule which has existed either actually, or presumptively from time immemorial and obtained the force of law in a particular locality although, contrary to, or not consistent with the general common law of the realm.”<sup>15</sup>

Therefore, in order to constitute a custom, a rule should be: immemorial, reasonable, certain (in terms of the nature and relevance to the locality), and its application should not be disrupted from inception.<sup>16</sup> Clearly, the UCP cannot meet the requirements of qualifying as a custom. This is reputedly confirmed by English legal commentators. Donaldson J. in *Golodetz & Co v Czarnikow –Rionda Inc*<sup>17</sup> held that: “The UCP rules do not have the force of law.” Additionally, it is argued that *Banque de l’Indochine et de Suez S.A. v J.H. Rayner (Mincing Lane)*<sup>18</sup> is an authority that does not recognise the UCP as a custom or usage.<sup>19</sup> The general line of reasoning is that permanent revisions of the UCP do not match the necessity for constant and uninterrupted use of a custom from its immemorial inception. Additionally, under English Law, a custom would be immemorial if its origins go back prior to 1189.<sup>20</sup> The local application of the custom is another requirement in recognising a custom that does not apply to the UCP due to its global acceptance.

On the other hand, Black’s Law Dictionary defines a usage as:

“Usage is a reasonable and lawful public custom concerning transactions of the same nature as those which are to be effected thereby, existing at the place where the obligation is to be performed, and either known to the parties, or so well established, general, and uniform that they must be presumed to have acted with reference thereto.”<sup>21</sup>

A usage can be recognised with the following attributes: it is certain, reasonable, and not acting against any legislation. Therefore, some aspects of the UCP may qualify as a usage while others do not. Issues like the autonomy of the credit from the underlying contract and the necessity for strict compliance of the presentation with the terms and conditions stipulated in the credit can be good examples. However, treating the UCP as a usage received no support among English legal commentators.<sup>22</sup> Therefore, by rejecting the legal nature of the UCP as a trade usage and custom, English Law recognises it as contractual terms that should be incorporated into the credit by the agreement of the parties. This position is confirmed

<sup>13</sup> Ellinger, E. P. The uniform customs—their nature and the 1983 Revision. *Lloyd’s Maritime and Commercial Law Quarterly*, (1984), 578.

<sup>14</sup> *Lockwood v Wood* (1844) 6 QB 50 64 (115 ER 19 24–25).

<sup>15</sup> Halsbury’s Law of England 1975, 2.

<sup>16</sup> Halsbury’s Law of England 1975, 2.

<sup>17</sup> *Golodetz & Co v Czarnikow—Rionda Inc* [1979] 2 Lloyd’s Rep. 450 (QB) 455.

<sup>18</sup> *Banque de l’Indochine et de Suez S.A. v J.H. Rayner* (Mincing Lane) (1983) 1 Lloyd’s Rep. 228.

<sup>19</sup> Schmitthoff, C. M. Clive M. *Schmitthoff’s Select Essays on International Trade Law*. (BRILL, 1988) 460.

<sup>20</sup> Halsbury 1975, 5.

<sup>21</sup> Black, H.C. Nolan, J.R, Connolly, M.J, and Nolan-Haley, J.M. *Black’s law dictionary: definitions of the terms and phrases of American and English jurisprudence, ancient and modern*. St. Paul, MN: West Publishing Company, 1990.

<sup>22</sup> Schmitthoff 1988, 280; King, R. *Gutteridge and Megrah’s Law of Bankers’ Commercial Credits* 8th Edition, Routledge, 2003, 18



on many occasions by considering the UCP as “a set of standard terms and definitions that apply subject to the agreement between the parties”<sup>23</sup> or “a body of rules binding on those...who have adopted them”<sup>24</sup> or “[it] appl[ies] only if the parties have incorporated them into their contract.”<sup>25</sup>

### 3. Framework for Defining the Compliance of Presentation under the Letter of Credit Law

To determine the compliance of presentation made by a beneficiary, the standard for examination of documents is encapsulated in Article 14 of the UCP 600.<sup>26</sup> The following guidelines in Article 14 are necessary for a beneficiary exporter to be certain about the general compliance of its presentation before looking at the specific requirements of each particular document provided in other articles of the UCP 600. However, to grasp a complete picture about the necessities for a compliant presentation, the reader must look into other ICC publications in addition to the UCP. DOCDEX decisions, Banking Commission Opinions and International Banking Practice (ISBP) are essential in determining presentation compliance as they also provide clarifications and some additional rules to the UCP 600. This paper will refer to them on numerous occasions. It is also necessary to point out the comprehensive body of English Common Law in this respect. However, this paper does not intend to compare and contrast ICC publications and Common Law, and in case of any conflict between them, it will be clarified which one should prevail.

#### 3.1. Standard of Examination

Article 14 (a) sets the duty of a bank in examination of documents. Following the principle of autonomy, a bank will check the presentation only with reference to documents and their compliance with the terms and conditions on their face. The complying presentation is defined under Article 2 of the UCP 600: “in accordance with the terms and conditions of [1.] the credit, [2.] the applicable provisions of [the UCP] and [3.] international standard banking practice.” To proceed, author starts with the principle of autonomy, and moves forward with the duty to examine “on the face”. Finally, three elements of a compliant presentation will be studied: credit, the UCP, and international standard banking practice.

##### 3.1.1. Autonomy Principle

It seems that the reference of Article 14 (a) to the duty of a bank to determine the compliance of a presentation “on the basis of documents alone” reflects the principle of autonomy embodied in Article 4. Accordingly, “a separate transaction from the sale or another contract...[and] banks is in no way concerned or bound by such contract.”<sup>27</sup> As a result, determining the compliance of presentation does not have anything to do with the existence of a conflict between parties over the performance of the underlying contract.<sup>28</sup> This is in accordance with the principle of autonomy of contracts in Common Law that confines document checkers to looking only at presented documents and neglecting any other sources of information.<sup>29</sup>

<sup>23</sup> Ellinger 1984, 583.

<sup>24</sup> King 2003, 6.

<sup>25</sup> Todd, P. *Bills of Lading and Bankers' Documentary Credits*. (London, Taylor& Francis, 2013) 18.

<sup>26</sup> Presentation has been defined by UCP 600 Art. 2 titled “Definitions” as: the delivery of documents.

<sup>27</sup> UCP 600, Article 4.

<sup>28</sup> Alavi, H., “Autonomy Principle and Fraud Exception in Documentary Letters of Credit, a Comparative Study between the United States and England”. *International and Comparative Law Review*, Vol. 15, No. 2, (2015), 50.

<sup>29</sup> *Hamzeh Malas & Sons v. British Imex Industries Ltd* [1958] 2 Q.B. 127; [1978] Q.B. 159; *United City Merchants (Investments Ltd v. Royal Bank of Canada* [1982] 2 Lloyd's Rep. 1; Alavi, H. “Comparative study of Unconscionability exception to the principle of autonomy in law of Letter of Credits.” *Acta Universitatis Danubius. Juridica* 12.2 (2016). 98.

### 3.1.2. “On the Face”<sup>30</sup>

Article 13 of the UCP 500 as the predecessor of Article 14 of the UCP 600 contained a reference to the duty of document checkers to examine documents “on their face” to determine the compliance of presentation. The outcome was confusing because some banks misunderstood the phrase, as a document checker is supposed to examine documents only on their front page.<sup>31</sup> It has been submitted that during consultation sessions for preparation of the UCP 600, there was an agreement to delete the phrase, but it still appears in Article 14 (a).<sup>32</sup> Adodo suggests that “on their face” refers to the autonomy principle, as a bank should only examine documents in the presentation as their entirety, and not seeking facts outside the presentation.<sup>33</sup> This is in addition to Article 5, which clarifies that “a bank only deals with documents and not with goods.” Reemphasising the autonomy principle in Article 14 seems redundant, as Articles 4 and 5 already do the same in the appropriate section of the code. As a result, the insertion of the phrase in Article 14 (a) confirming the autonomy of the credit seems not to be the correct action. Additionally, if it is inserted for another purpose, then the correct meaning should be provided in the ISBP. The author considers this area of the UCP 600 in need of correction or elimination in future revisions.

### 3.2. Reasonable Care

This is an issue directly relevant to the standard of the duty of care supposed to be provided by banks during examination of documents. Article 13 (a) of the UCP 500 commented on “reasonable care” as a required standard for banks to examine the documents. The standard of “reasonable care” was imposing the requirement “to adopt a professional and diligent approach” in the determination of compliance.<sup>34</sup> However, the phrase is eliminated from the UCP 600 as the ICC argues that it is “superseded” by “more comprehensive and precise” provisions of Article 2 and Article 14 (a).<sup>35</sup> Therefore, the requirement that presentation should comply with international standard banking practices implies the necessity for the application of “reasonable care” in the determination of compliance by banks. The article seems confusing; however, it is believed that with the elimination of the phrase, banks must exercise reasonable care in determination of presentation compliance rather than thoroughly analysing the document.<sup>36</sup> The question of why a standard of care is not provided in ISBP 745 if banks should perform their duty in accordance with standard banking practices still remains.

### 3.3. Conditions Stipulated in Credit

From among the three components for defining compliant presentation, it seems the conditions stipulated in the credit are the most important ones. It is possible for parties to the credit to agree on exclusion of any part of the UCP.<sup>37</sup> Even in case of not excluding provisions of the UCP, in case of occurrence of any conflict between them, there is a strong argument in favour of the prevailing terms and conditions of the credit over the UCP provisions.<sup>38</sup>

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<sup>30</sup> Article 14 (a), UCP 600.

<sup>31</sup> Isaacs, M. and Barnet, M. International Trade Finance—letters of credit, UCP 600 and examination of documents *J.I.B.L.R.* (2007) 22 (12) 661.

<sup>32</sup> Debattista, C, “The new UCP 600—changes to the tender of sellers’ shipping documents under letters of credit” *J.B.L.* (2007), 338.

<sup>33</sup> Adodo, E, “A Presentee Bank’s Duty When Examining a Tender of Documents Under the Uniform Customs and Practice for Documentary Credits 600”, *J.I.B.L.R.*, 24 (11), (2009), 567.

<sup>34</sup> Bridge, M. *Benjamin’s Sale of Goods First Supplement to 7th Edition*, (London, Sweet and Maxwell 2008), 236.

<sup>35</sup> ICC Commentary, 62.

<sup>36</sup> Debattista 2007, 338.

<sup>37</sup> Article 1 UCP 600.

<sup>38</sup> Debattista 2007, 338.



The ICC also confirms that in any conflict with local law and the UCP, “local law will always rule in a dispute situation... unless the credit states otherwise.”<sup>39</sup> Therefore, banks have the duty of examining the presentation and defining its compliance with the terms and conditions of the credit. The extent of compliance of documents under English Law is subject to the principle of Strict Compliance; however, such notion is not provided in the UCP.<sup>40</sup> To add to the confusion, experts agree that using the UCP will result in losing the ground for the standard of Strict Compliance.<sup>41</sup>

The principle of Strict Compliance under English Law is clarified by Viscount Sumner in *Equitable Trust Co of New York v. Dawson Partners Ltd.*<sup>42</sup> “There is no room for documents that are almost the same, or that will do just as well.” The documents must strictly comply, and in case the bank “does [not do] as it is told...[and] departs from the conditions laid down, it acts at its own risk”<sup>43</sup> where it jeopardises its own reimbursement.

Evidently, when the credit calls for particular documents, the bank should examine the compliance of stipulated documents against the terms and conditions of said credit. According to common law, documents are supposed to be exactly the same as “there is no room for documents that are almost the same.”<sup>44</sup> However, it is almost impossible to have presented documents exactly the same as required by the credit. After all, the beneficiary does not exercise any control over the production of documents prepared by a third party. Therefore, strict compliance cannot “extend to the dotting of i’s and the crossing of t’s”,<sup>45</sup> and “some margin must and can be allowed, but it is slight.”<sup>46</sup> For example, under common law, if the place of delivery is mentioned as “SloveniO”, the document might be considered as compliant. A typographical error of using “O” instead of “a” will not change the meaning of the word and does not create confusion for the document checker.<sup>47</sup> However, “SlovANia” might be rejected as a discrepancy because there is confusion over the place of delivery being “Slovakia” or “Slovenia”.<sup>48</sup> The ICC takes a similar approach to typographical errors. ISBP 745 clarifies that the main criteria for considering a typographical error as a discrepancy is whether or not it will affect the meaning of the word or sentence.<sup>49</sup> Banking Commission Opinion R209 considered the surname of the “attention party” on a transport document mentioned as “Chai” instead of “Chan” as a discrepancy. However, “industrial parl” instead of “industrial park” was compliant.<sup>50</sup>

Under the UCP 600, it is unclear how a document checker should be aware of all places and phrases in order to be able to understand which typographical error renders the presentation as a discrepancy and which does not. It is suggested that the test would be more effective and efficient if it considered the resulting confusion of a typographical error.<sup>51</sup> As a result,

<sup>39</sup> Banking Commission Opinion R515 No. 321. p. 37.

<sup>40</sup> DOCDEX decision 221: the UCP 500 has no reference to the strict compliance standard.

<sup>41</sup> Downes, P. UCP 600: not so strict compliance 4 *J.I.B.F.L.* (2007) 19, 196; Dolan, J.F. The strict compliance rule in a recession in *DC Insight* Vol. 15 (4) (2009), 8.

<sup>42</sup> *Equitable Trust Co of New York v. Dawson Partners Ltd.* (1926) 27 Ll Lrep, 49.

<sup>43</sup> (1926) 27 Ll L Rep. 49.

<sup>44</sup> (1926) 27 Ll L Rep. 49.

<sup>45</sup> King 2003, 186.

<sup>46</sup> [1982] 2 Lloyd’s Rep. 476.

<sup>47</sup> *Hing Hip Hing Fat Co Ltd v. Daiwa Bank Ltd* [1991] 2 HKLR 35 (Hong Kong) where “industries” instead of “industrial” was held to be an obvious typographical error and caused no confusion.

<sup>48</sup> [1985] *Beyene v. Irving Trust Co.*, 596 F. Supp. 438 (American Case) where the misspelling of the name “Sofan” as “Soran” was considered a material discrepancy.

<sup>49</sup> ISBP 745, paragraph A23.

<sup>50</sup> No. 55 in 1995–2000 published; DOCDEX decision 205 when quoting Banking Commission Opinion R209 accepted that the address St. Blass instead of St. Glass was not a discrepancy.

<sup>51</sup> Isaacs & Barnet 2007, 664.

it would be logical to propose upgrading the test within the framework of Paragraph A 23 of ISBP 745 to whether or not an informed document checker can unequivocally establish that a typographical kind of error will not affect the meaning of a word.

### 3.4. Conditions in the UCP

As was mentioned in the previous section, the conditions stipulated in the credit are the most important components in determining the compliance of the credit. The UCP provides conditions for documents that, when meeting them, will result in the test of compliance for the presentation being passed. As this paper is about compliance of transport documents, the requirements for specific transport documents will be discussed in future chapters. However, at present, the discussion will cover presentation compliance in its entirety. This section will discuss consistency among presented documents, the UCP position on non-documentary requirements, description of goods, linkage, timeframe for examination, and combined documents.

There is a general agreement that the UCP offers a less stringent rule regarding the principle of strict compliance than English Law.<sup>52</sup> However, some case law indicates that it merely offers a certain degree more of discretion.<sup>53</sup> To start with, the UCP provides tolerance equal to 5% for the quantity of the goods in contrary to restrictions applied in common law on the de minimis rule.<sup>54</sup> In the case of *Moralice (London) Ltd v. E D and F Man*<sup>55</sup> (not subjected to the UCP), the court ruled a discrepancy of the presentation where the bill of lading showed three bags of sugar fewer than the amount indicated in the credit. It is submitted that a court will rule for the application of tolerance in credits subjected to the UCP. This is despite the fact that in conflict with national law and the UCP, national law will prevail, and the outcome would be impractical. One reason is that in the reality of international commodity trading, the majority of credits are issued for bulk shipments and it is practically impossible to ascertain the exact amount of a shipment at the time of issuing credit. Secondly, the agreement of parties to subject the credit to UCP rules indicates that they understand and intend to apply the 5% tolerance. As a result, the court should not deny the decision of the parties for governing their credit by UCP rules. Thirdly, other sections of the UCP 600 also signify its departure from strict compliance. For example, Article 14 (j) and 14 (i), which are both introduced in the 2007 revision of the UCP, can be mentioned for this purpose. The former deals with addresses and contact information, and the latter refers to dates indicated on documents.

#### 3.4.1. Addresses

Article 14 (j) of the UCP 600 provides:

“[it] need not be the same...as [the address] stated in the credit or indeed the same as an address in another document. It must however be “within the same country as the respective addresses mentioned in the credit.”

This sub-article offers a great degree of flexibility in the application of strict compliance, which was not previously available in the UCP. There are many questions regarding the application of Article 14 (j). To start with, do the exceptions to addresses apply to individuals as parties to the credit? It is logical that big companies would have different addresses and they might

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<sup>52</sup> Alavi, H. Documentary Letters of Credit, Principle of Strict Compliance and Risk of Documentary Discrepancy. *Kor. UL Rev.*, (2016 e). 19, 8.

<sup>53</sup> *Indian Overseas Bank in Fortis SA/NV v. Indian Overseas Bank* [2010] 1 Lloyd's Rep. 227; [2009] 2 C.L.C. 550 at 554 – 555.

<sup>54</sup> UCP 600—Article 30 (b).

<sup>55</sup> *Moralice (London) Ltd v. E D and F Man* [1954] 2 Lloyd's Rep. 526.

use addresses in different locations in relevant documents and this is acceptable as long as both addresses are within the same country. However, it is suggested that the same exception does not apply to individual parties to the credit. Another question would be the situation that no address is mentioned in the credit or the address details are incomplete. It is suggested that presentation is a discrepancy in both cases, i.e. when no address is presented and/or when the credit provides a phone number to notify the party with a country code but the phone number of the same party in the bill of lading indicates no such information.<sup>56</sup>

### 3.4.2. Dates

It is provided by Article 14 (i) that: “[Transport document] may be dated prior to the issuance date of the credit, but must not be dated later than its date of presentation.” Paragraph A11iii of ISBP 745 emphasises that transport documents should be dated even in the absence of such requirement by the credit. The need for the presence of a date of issuance on other documents depends on their nature and content. The main idea behind this article is that presented documents should not show dates after the date of presentation. Accordingly, the ICC comments that the article intends to prevent a situation in which banks reject documents dated after the day of shipment.<sup>57</sup>

The abovementioned examples show the inclination of the UCP to distance itself from strict compliance. The issue will be analysed further in the discussion below regarding non-documentary conditions.

### 3.4.3. Non-documentary conditions

The problem of non-documentary conditions is a source of the occurrence of a great deal of problems in international LC transactions. In the practice of international LC transactions, non-documentary conditions are situations when a requirement has been placed in the credit but no document is demanded to satisfy that requirement. For example, in the credit, it is asked that goods should have a Norwegian origin but there is no requirement for a Certificate of Origin to be coupled with the condition. Under English Law, courts respect the principle of the freedom of contract.<sup>58</sup> Therefore, they rule in favour of any express agreement reached by parties in the credit with or without a document having been called for satisfying it. On the other hand, Article 14 (h) of the UCP 600 provides: “If a credit contains a condition without stipulating the document to indicate compliance with the condition, banks will deem such condition as not stated and will disregard it.” This is the easiest approach, which might have been taken by simply disregarding the document that is not called for in the credit. The ICC efforts to tackle the problem of non-documentary conditions go back to Position Paper no. 3 under the UCP 500, which is not applicable today.<sup>59</sup> According to Position Paper no. 3, if the credit requires a particular piece of information but does not require a document for this purpose, a document providing such data will not be disregarded. The Position Paper tried to clarify misunderstandings about the UCP 500; however, the ICC did not incorporate it in the UCP 600 due to the creation of further confusion. Confusion arose from the possibility for the existence of discrepancies in documents that were not required by the credit but were examined.<sup>60</sup> The current situation under the UCP 600 has been endorsed by DOCDEX decision 201, which provides that requiring a purchase order’s addressee to sign any document without asking for the presentation of the purchase order should be disregarded as a non-documentary condition.

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<sup>56</sup> Antoniou. Anna Mari, Doctoral Thesis, *Complying Shipping Documents Under the UCP*, University of Southampton. (2011), 120.

<sup>57</sup> ICC Commentary, 66.

<sup>58</sup> (1983) 1 Lloyd’s Rep. 717.

<sup>59</sup> Commission on Banking Technique and Practice, 1994, 110.

<sup>60</sup> ICC Commentary, 66.

In fact, application of Article 14 of the UCP 600 is in accordance with the principle of autonomy of the credit. Since a bank is only obliged to examine the documents in defining presentation compliance, requiring anything out of documents called by the credit in the examination process is *ipso facto* undermining the independence of the credit. As a result, if banks examine non-documentary conditions, they not only violate the autonomy of the credit, but also fail to perform their duties in accordance with their obligations in Articles 4, 5 and 14 (a) of the UCP 600.<sup>61</sup>

It should not be forgotten that the UCP does not have the power of law, and courts particularly in England will not hesitate to strike down Article 14 (h). It is crucial for banks to remember that such conditions are effective under English Law.<sup>62</sup>

#### 3.4.4. Consistency

Article 14 (d) provides: “data in [one] document...need not be identical to, but must not conflict with...data in any other document.”<sup>63</sup> Consistency refers to the correlation between presented documents. In fact, the bank is obliged to compare data in one document against data in another document within the framework of the same presentation. Establishing consistency between presented documents can be an extremely time-consuming job for a document checker.<sup>64</sup> It is not difficult to imagine the time necessary for checking numerous documents in a complicated presentation against the terms and conditions of the credit, the UCP 600 and each other. The main idea behind requiring consistency among presented documents is to prevent a situation under which presentation is dishonoured due to a difference of documents but not an inconsistency in the context. A very easy example is the possibility to have different names for the consignee on the bill of lading and certificate of origin. An informed document checker will not consider the existence of different names on the abovementioned documents as an inconsistency since in the practice of international trade it happens a lot when the buyer is named in the certificate of origin as the consignee but on the bill of lading the bank’s name is mentioned in the same field.

#### 3.4.5. Description

Article 14 (e) provides that: “the description of the goods, services and performance, if stated [in a document] may be in general terms not conflicting with the description in the credit.” The sub-article applies to the condition when the description of goods is provided in a given document.<sup>65</sup> However, not providing a description of goods on a document or lack of sufficient description will not amount to a discrepancy.<sup>66</sup> It should be recalled that Article 14 (e) does not apply to the description of goods on the Commercial Invoice.<sup>67</sup> Common law takes a similar approach.<sup>68</sup> However, the exception applies to the situation in which the description of the goods on the credit and on the given document are not the same. In such a situation, the goods described on the document should be clearly identified as the same goods mentioned in the credit. Otherwise, presentation would be correctly rejected due to such discrepancy.<sup>69</sup> This requirement refers to the important principle of linkage in common law.

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<sup>61</sup> Antoniou 2011, 130

<sup>62</sup> Alavi, H. “Risk Analysis in Documentary Letter of Credit Operation.” *Financial Law Review* 1, no. 4 (2016 b): 27-45.

<sup>63</sup> UCP600—Article 14 (d).

<sup>64</sup> Ulph, J *The UCP 600: documentary credits in the 21st Century J.B.L.* (2007), 366.

<sup>65</sup> ICC Commentary, 65.

<sup>66</sup> Opinion R260 No. 59.

<sup>67</sup> TA 681rev in *DC Insight* Vol. 15 (3) 2009, 22.

<sup>68</sup> *Midland Bank Ltd v. Seymour* [1955] 2 Lloyd’s Rep. 147.

<sup>69</sup> [1983] 1 Lloyd’s Rep. 228.

### 3.4.6. Linkage

Under common law, linkage refers to the possibility to link goods presented in documents to goods that represent the underlying transaction. Therefore, banks will accept the presentation made by a beneficiary as compliant when it is clearly linked to goods in the underlying transaction. This issue is supported by some scholars, as in the absence of the requirement for linkage, an exporter can present any document in a compliant format without reference to goods in the contract of sales.<sup>70</sup> In addition to the *de minimis* rule and non-documentary requirements, the absence of a linkage requirement is the third argument in favour of providing more discretion in checking presented a document by the UCP than common law. Apparently, application of the principle of autonomy (Articles 4 & 5) in addition to the absence of responsibility for a bank to determine the genuineness of documents (Article 34) are the reasons behind not referencing to the linkage principle in the UCP 600. In the absence of linkage equipment under the UCP 600, it is suggested that national law should govern the issue (in the case of our discussion, English Law). However, this can be a problematic area and it is better to be considered by the ICC Banking Commission in future revisions of the UCP.

It worth mentioning that in the absence of reference to the linkage requirement, Article 14 (f) of the UCP 600 tries to solve the problem: “If a credit requires presentation of a document other than a transport document, insurance document or commercial invoice, without stipulating by whom the document is to be issued or its data content, banks will accept the document as presented if its content appears to fulfil the function of the required document and otherwise complies with sub-Article 14 (d).”<sup>71</sup> For example, when a packing list is required under the credit with no further detail regarding its data and format, the bank will consider a document presented as a packing list as long as it meets the general requirements to be considered as a packing list.

### 3.4.7. Combined Documents

In the absence of any reference to combined documents in the UCP, paragraph A40 of the ISBP 745 provides: “documents required by the credit should be presented as separate documents.” It provides two exceptions: it gives permission for packing and weight list to be presented as a single document when two original documents are presented and each of them shows packing and weight details. Another exception is when a document can be combined with another one without the need for a signature and date as long as the document that contains it shows the signature and date inserted by the same entity in charge of making it. Currently, there is no case law regarding combined documents under the UCP 600. However, DOCDEX decision 211 provides that the use of combined decisions under the UCP 500 is neither allowed nor prohibited. Therefore, compliance of presentation including combined documents should be checked against existence or absence of permission for it under the credit itself.

The ISBP 745 has a clear position regarding combined documents, but in the absence of any guidance in the UCP 600, there is a risk of the inclusion of such documents by the beneficiary in the presentation resulting in its rejection by the bank. This is a risk that should be considered in subsequent revisions of the UCP.

### 3.4.8. Time for Examination

The last section to be discussed in this chapter is about the timeframe provided by the UCP 600 for examination of documents by a bank. The issue of timeframe is important for both the beneficiary exporter and bank, as not acting properly within the

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<sup>70</sup> Ulph 2007, 365.

<sup>71</sup> Article 14 (d), UCP 600.

timeframe provided by the UCP can result in them being precluded from receiving due payment under the credit.<sup>72</sup> Article 14 (b) provides that: “[bank] shall have a *maximum* of five banking days following the day of presentation” regardless of the fact that the expiry date of the credit might be during or on the last day of these five days. This includes each of the nominated, confirming and issuing banks. It is submitted that a bank should not speed up the process of checking documents due to their proximity to the expiry date.<sup>73</sup> The time span provided for checking documents under the UCP 500 was a maximum of seven working days, which was reduced to five days in the 2007 revision based on the votes of the ICC National Committees. The agreement was two-fold: First, to reduce the timeframe for examining presentation compliance. Second, to remove the notion of “reasonable time”.<sup>74</sup> According to the ICC, the reason for removing the notion of reasonable time was the lack of harmony in understanding the notion at the global level.<sup>75</sup> In fact, defining a reasonable time for checking compliance of presentation depends on the particular number and type of documents required by each credit.<sup>76</sup> Other important factors can be the language of documents, consisting of the presentation and complexity of the presentation in its entirety.<sup>77</sup>

Therefore, in order for the bank not to be precluded from claiming its own reimbursement from the applicant (under Article 16) it should consider the presentation as compliant and pay the credit amount to the beneficiary (in accordance with Article 15 (a)) or issue the notice of rejection and refuse to pay the beneficiary (Article 16 (d)) before the end of the fifth banking day.<sup>78</sup> On the other hand, it is submitted that even 5 banking days is too much, and the timeframe for checking documents should not be more than 3 days.<sup>79</sup>

In order to reconcile diverging opinions regarding the reasonable time for checking the documents by banks it is possible to refer to Banking Commission Opinion R264 Ref. 63 on the UCP 500: “The seven-banking day rule...is intended to be the outer guideline...Local practices and legal precedents...dictate the ‘reasonable time’ that a bank should take to check the documents.”<sup>80</sup>

Using the same line of reasoning, it is possible to argue that five banking days is the maximum period provided for banks to examine presentation compliance, and local law will decide whether or not the bank could wait for the fifth day to announce the result if it was available earlier.<sup>81</sup> Other crucial issues relevant to the time of examination covered in the UCP 600 are the notion of “banking day” and “day of presentation”. However, the timeframe for examination of documents is a debated issue and it seems to need further clarification in subsequent revisions of the UCP.

### 3.5. International Standard Banking Practice

According to the ICC Commentary,<sup>82</sup> the final concept in compliant presentation goes back to banking practice. However, it should be noted that banking practice refers to day-to-day practice in the international banking industry, and it is not

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<sup>72</sup> Alavi, H. Comparative Study of Issuing Bank’s Obligations towards the Beneficiary of a Letter of Credit under UCP and English Law. *Hasanuddin Law Review*, 2 (3), (2016 a), 289.

<sup>73</sup> ICC Commentary, 63.

<sup>74</sup> UCP 500—Article 13 (b).

<sup>75</sup> ICC Commentary, 63.

<sup>76</sup> *Seaconsar Far East Ltd. V. Bank Markazi Jomhourī Islami Iran* [1999] 1 Lloyd’s Rep. 36 at 41.

<sup>77</sup> Ellinger, P, Reasonable time for examination of documents, *J.B.L.*, (1985), 408.

<sup>78</sup> Debattista 2007, 339.

<sup>79</sup> Yen Low, H. UCP 600: the new rules on documentary compliance. *International Journal of Law and Management*, (2010) 52 (3), 203.

<sup>80</sup> ICC Collected Opinions 1995—2001, 134.

<sup>81</sup> Banking Commission Opinion R534 No. 339 in Opinions 1995–2004.

<sup>82</sup> ICC Commentary, p. 16.



limited to ICC document ISBP 745. Due to the unawareness of a beneficiary, details of such practice in the international banking sector can be a big advantage for banks and work as “A wild card that banks can play at their convenience.”<sup>83</sup> Despite the fact that it will never be the main source of reference in determining the compliance of a presentation (in the presence of the UCP), its fluid nature is a huge obstacle in the way of creating a comprehensive picture from such a practice among international traders. The practice between Norway and Russia is definitely not the same as the practice between Norway and the US, and no guideline can provide a full picture from such practice at the global level, let alone the need for constant revisions to meet the requirements of technological change. To solve this issue, the main sources of international standard banking practices are defined by the ICC advisor as: “ISBP (currently version 745) as a ‘necessary company’ to the UCP and ‘inevitable aid’ to LC practitioners,”<sup>84</sup> DOCDEX decisions, made by an arbitration tribunal consisting of three experts on the subject matter, and ICC Banking Committee Opinions. For the purpose of this paper, recourse will be made to one of the abovementioned sources in clarification of the problem at hand.

#### 4. Conclusion

As it is mentioned in the introductory part of the UCP 600, the high rate of rejections in international LC transactions was among the reasons for further updating of the rules.<sup>85</sup> The discussion in this chapter followed the goal of informing exporters about the requirements of compliant presentation in the current situation and the manners in which banks will define presentation compliance.

It is not possible to fit such an investigation into just a few words, but we can summarise that exporters should present all stipulated documents (not conflicting with each other) that are called for under the credit at the counter of the appropriate bank where the credit is available before the expiry date of the credit. Making a checklist from the documents to be presented and their quality in the sales agreement with an applicant is a definite way a seller can protect themselves from facing the risk of rejection due to a discrepancy. The issues of non-documentary conditions and consistency among documents in presentation are complicated issues that call for particular attention. Paper also strived to analyse areas in which the requirements of compliance in the UCP and the ISBP 745 are in conflict with market practice. Awareness of such conflicting areas will be useful for beneficiary exporters so they are not trapped by them, and can also be considered by the ICC in future revisions of the rules.

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<sup>83</sup> Reynolds, F. and Smith, D. Reports from the UCP seminars (part 2) *DCInsight* Vol. 14 (1) (2008). 6.

<sup>84</sup> ICC publication 681, 11.

<sup>85</sup> Introduction to the UCP 600, p. 11.

## INTEGRATION, CATCHING-UP AND DEVELOPMENT CEILINGS

### THE USABILITY AND EXPLANATORY CAPABILITY OF THE SEMI-PERIPHERY TERM IN THE ANALYSIS OF CENTRAL AND EASTERN EUROPEAN COUNTRIES' DEVELOPMENT TRAJECTORIES

ERIK TERK

#### INTRODUCTION AND GOALS OF THE STUDY

The turning of Central and Eastern European (CEE) economies on the path of building a market economy, their subsequent integration into the European Union's economic space, and finding their place in it is a geo-economic process of pan-European or even broader significance that takes decades. It has not always been possible to adequately foresee the continuation of this process, the acceleration or slowing of economic growth, faster development of integration or its obstruction. The same goes for the dynamics of more global processes and crises, which all exert their influence on events in our region. Politicians as well as economists have offered unjustifiably optimistic forecasts and sometimes created groundlessly bleak scenarios. Theoretical bases for interpreting, directing and monitoring these ongoing processes have usually been hastily drafted "on the move" and then adjusted to conform to the current reality. As examples we can mention the economic transition theory, the "catching-up" types of approaches, and theoretical positions according to which the economic integration and various types of harmonisation were organised. Of course, there were certain more general theoretical foundations in the fields, such as the theory of economic growth, theories on international trade, developmental economics, etc., but all these were quite general and linking them to particular time periods and the specifics of the region was anything but easy.

The countries of the CEE region underwent several stages after escaping from the command economy, imposed geopolitical ties and communist ideology. This was the following sequence of stages characteristic for many countries: economic decline related to the system's change, during which the reorganisation of the economy according to market economy requirements had to be carried out (liberalisation, stabilisation, privatisation), followed by an initial growth period, then frequently some kind of intermediate crisis, preparations for EU integration (harmonisation), a period of new economic growth caused by EU accession (the effect of better access to markets as well as available structural funds), the decline caused by the global economic crisis, and then recovery as well as a new, but not very impressive growth period. While it was possible during the first six–seven years of this cycle to rely on the recently formulated economic transition theory, which, formulating it simply, merely prompted which moves to make and in which order so as to hope for new growth, afterwards there was no theoretical basis available for the subsequent developments, unless the excessively simplified liberalisation propaganda and claims of the necessity of a "thin state" can be considered one.

Various convergence estimates and forecasts were popular in the EU accession period, as well as the European Commission's consultations in drafting various development measures, showing how to reduce the gap between the new members and the core countries with the help of the structural funds and Brussels-recommended support programmes. While the new members did not have many opportunities during the accession negotiations to adjust the integration process according to their specific needs (besides applying for transition periods of limited durations), the EU financial support for the development of infrastructure and the funding of development policies improved CEE countries' opportunities to better cope with EU market pressure as well as that of the globalisation process in the wider sense.

After the end of the global economic crisis the new EU members were already regular members who no longer received as intensive attention as previously, while their economic growth and general development tended to slow down. The

productivity of the new members looked as if it would remain significantly lower than that of the old ones. Keywords like growth ceilings and development ceilings became relevant.<sup>1</sup>

In fact, even during the pre-crisis boom period there were symptoms revealing that CEE countries' economic growth lacked a sustainable nature: with rising wages and increasing costs of other economic inputs it became necessary to rearrange the structure of the economy to enter a new stage of economic development, based on a knowledge economy. However, the CEE economies were not ready for this. In fact, they were not the only ones in Europe to face that problem. Veugelers and Mrak find when analysing the economic growth dynamics of the Visegrád Group of new EU members and the EU cohesion countries (the countries joining the EU before the post-socialist group, predominantly Southern European states) that in case of either group their economic growth accelerated and the developmental gap with the old EU members shrank significantly, especially among the post-socialist countries, but then the growth engine lost momentum.<sup>2</sup> Economic growth reached a limit that reduced the development rate and did not permit them to catch up as rapidly as the East Asian growth champions had shown.<sup>3</sup> When analysing the slowing of this catching-up process, the authors reached an important conclusion: within-industry spillover effects are as either absent or very weak. The reasons are, in case of firms owned by foreign investors, their relative isolation from the other economies of the location countries, and in case of firms based on domestic capital, their low levels of business sophistication and limited ability to form clusters.

There seems to be a lack of clarity regarding the growth potential of the new member countries and the conditions for releasing it. This article attempts to introduce, in order to further study the development prospects of the CEE countries, the treatment used by E. Wallerstein about semi-periphery countries and semi-periphery economies, i.e. the countries and economies that are located between the core and the periphery, and possess the features of both groups (more about it later on).<sup>4</sup> This is not a very unequivocal or operational concept, which certainly needs further elaboration before using, but the approach proposed by Wallerstein has several attractive qualities. First, it concentrates attention on the external relations and dependencies of a country's economy, its position and role in the world economy. This approach is essentially structuralist, and postulates the existence of long-term dependencies. For these two reasons its emphasis is somewhat different than that of the middle-income trap concept, which has been quite widely used so far.<sup>5</sup> Both address the situation where the countries that do not belong among the wealthiest or poorest ones tend to experience a standstill of growth in a certain stage of development primarily due to the increasing cost of production. Yet the concept of the middle-income trap concentrates more on the domestic factors of the economy of the country under observation, while the semi-periphery concept focuses

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<sup>1</sup> Goeke, H. and Hüther, M., 2016. Regional Convergence in Europe, Leibnitz Information Centre for Economics; Parscariu G.C. and M.A.P. de Silva Duarte (ed.), 2017. Core Periphery Patterns across the European Union: Case Studies and Lessons from Eastern and Southern Europe. Emerald Publishing; Kaletovic D., 2018. Has Eastern European Economic Growth Hit a Ceiling?, Schafelhaven Market Insider, 20th of August.

<sup>2</sup> R. Veugelers and Mrak M., 2009. The Knowledge Economy and Catching-up Member States of the European Union, Report prepared for Commissioner's Potocnik's Expert Group, "Knowledge for Growth". In case of the Baltic States the growth continued but since it was largely based on the inflow of cheap financial capital thanks to the European Central Bank's interest policy rather than the actual competitiveness of the economy, which declined due to growth in wages, this growth ended with a very steep fall during the international economic crisis.

<sup>3</sup> Observing the growth rate of the more successful CEE countries in the period following the end of the economic decline caused by the change of regime shows that the leading CEE countries' growth rates were comparable to that of the East Asian "tigers". Yet a study of a longer time period and consideration of the CEE countries' growth slowdown makes it evident that the East Asian countries' catching up process has been significantly more sustainable. Further details see: Terk E., 2015. Practicing Catching up: a Comparison of Development Models of East Asian and Central Eastern European Countries. Frankfurt: Peter Lang Verlag.

<sup>4</sup> Wallerstein I. M., 1976. Semi-Peripheral Countries and the Contemporary World Crisis. Theory and Society. Elsevier; Giovanni Arrighi G. and J. Drangel., 1986. The Stratification of the World Economy: An Exploration of the Semiperipheral Zone. Review 10:9.

<sup>5</sup> Shekhar A. et al, 2013. Growth Slowdowns and the Middle-Income Trap. IMF Working Paper.

more on outside factors and dependencies.<sup>6</sup> Secondly, the concept of semi-periphery countries considers that the relation between the core and the peripheries occurs in a geographic space and are, as a rule, long-term. This permits the set of instruments of geo-economics and geopolitics to be used to analyse these relations. As a rule the cores are dominant in the geographically closer peripheries and semi-peripheries. Thirdly, the developments of the CEE economies have so far been predominantly treated “in their own juice”, the development of some CEE countries has been compared only with other CEE countries—which ones passed the transition better, showed the fastest growth, achieved better cooperation with the EU core countries, etc. Analysis in the context of semi-periphery countries permits the span of the analysis to be effectively doubled to a global dimension, comparing the development of the CEE countries and their prospects not only with Southern European semi-periphery countries but, if so desired, with semi-periphery countries in South America. Of course, this would attract greater interest if it should appear that there are sufficient common features among the semi-periphery countries’ parameters, economic behaviour and problems they face.

While preparing the present article we set the following goals:

- To verify whether the economies traditionally considered as semi-periphery economies form a relatively homogeneous body (or bodies) in reality. If no, there would be no reason to use this concept as a basis or the definition of semi-periphery economies should be significantly adjusted. The CEE economies are studied in this analysis as one of the specimens of semi-periphery economies;
- To determine which features are common for the body of semi-periphery economies under observation as a whole and which for their more specific manifestations;
- To test the constancy in time (over a 10–12-year period) of the homogeneities of the general complex of semi-periphery countries and its sub-groups;
- To study the changes of the positioning in the world economy of two European semi-periphery economic bodies in comparison with the world’s core economies and the economies that have succeeded in leaping from one stratum of economic development to another within recent decades;
- To clarify important changes in the development indicators characterising semi-periphery countries’ economies occurring in a time period, including the indicators of the final state of their economic success and the indicators of the most important factors contributing to development;
- To try to identify the factors mainly influencing the changes in the final state (positioning) and the factors possibly obstructing the movement of their economies to a better position;
- After carrying out the analysis, to derive conclusions regarding the opportunities for further use of the semi-periphery concept and the limits of its implementation.

### **On the approaches to the semi-periphery category**

The division of states into three groups—the periphery, the core and the semi-periphery—is primarily known from the Wallerstein World Systems Theory, yet the use of approaches based on differentiation between the core and the periphery and in that framework highlighting the semi-periphery as an interface stratum is not principally alien to other schools and

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<sup>6</sup> In case of the concept of the middle-income trap, the proposed solutions focus on the diversification of the hitherto too unilateral economic structure, suppressing domestic corruption, measures for creating a wider wealthy middle class, whose demand could help to invigorate the domestic market, etc. Work on the middle-income trap also seems to be meant for countries only recently emerging from the stage of cheap and elementary, e.g. resource-based economy; in case of economies at the development level of the Czech Republic or Slovenia, which face the need to change their economies’ positioning in the international economy, such recommendations may prove insufficient.

authors either (e.g. Paul Krugman's new trade theory/new economic geography). It is presumed that what is happening in the core has a very strong impact on the periphery (and the semi-periphery); figuratively speaking, the core shapes the periphery for itself, the core-periphery system possesses a certain stability, and it is not that easy to move between the strata within these systems. Of course, it depends on the various concepts of how stable or unchanging these structures are viewed or whether one core or several are discussed, etc.

The Wallerstein school, when studying the hierarchic domination relations treated in the core-periphery theory, primarily proceeds from the pattern of international economic relations as basic, and the question of political domination is not ignored, but treated as secondary in the framework of established economic dependencies.

The World Systems analysis, which was initiated by Wallerstein, defines semi-periphery regions as the primary structural elements in the economy of the world. Semi-periphery is more than a description, as it also serves as a position within the world hierarchy in which economic and social change can be interpreted. Wallerstein claims that these regions play a significant role when it comes to mediating the economic, political and social, activities linking the periphery region with the core. They allow the possibility of dominance over the periphery region. Semi-periphery countries can serve to alleviate the political pressures that the core can exert upon the periphery and the political unrest that the periphery can direct back to the core. Thus they stabilise the World System by their existence. They are exploited by the core region while exploiting the periphery region itself.

However, S. Babones and P. Babcicky<sup>7</sup> describe in their article Wallerstein's explanation of the origins of the semi-periphery as a bit teleological (it exists because if it did not exist the system would not be stable) and a bit improbable (we don't see much evidence of systematic semi-peripheral exploitation of the periphery), yet they find that that this intermediate stratum exists in reality and that the category of semi-periphery would be, after carrying out the necessary elaborations, a useful instrument for analysis.

A. Giddens believes that Wallerstein's concept has made a major contribution by enabling the typical temptation of orthodox sociology to treat social changes as predominantly endogenic to be overcome within the framework of the concept. Admittedly, he also criticises Wallerstein for insufficient recognition of the autonomy of the (foreign) political and military factors from the economic one, since the concentration of political and military power in the world does not unequivocally proceed from economic concentration.<sup>8</sup> He cites Wallerstein's specific interpretation of the concept of capitalism as the reason for this drawback.

Indeed, there have been several attempts in recent decades to elaborate on and develop the concept of semi-periphery. One of them, for instance, is the attempt to differentiate between the semi-core and semi-peripheral specialisation profiles in the international economy.<sup>9</sup> The authors relate the former to specialisation in complex industry in particular and thus consider it more promising. One option for differentiation between core economies on the one hand and the semi-core or semi-periphery economies on the other is to concentrate on the state's capability of maintaining its positive balance of payments long-term. For instance, if Spain should be incapable of achieving that, it should not be included among the core economies, as a negative balance of payments is a sign of a state's inability to manage independently and its descent in the role of a dependent economy.<sup>10</sup>

The approach more typical to political science considers it important to distinguish between the semi-periphery accepting its dependence on the core with probable perspectives of stagnation and the semi-periphery attempting to follow an independent economic policy. The latter variant is related to the concept of state activism and the strong state.<sup>11</sup>

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<sup>7</sup> Babones S. and Ph. Babcicky, 2011. Russia and East—Central Europe in the Modern World System: A Structuralist Perspective.

<sup>8</sup> Giddens A. and S. Griffiths, 2006. *Sociology* (5<sup>th</sup> Edition). Polity Press.

<sup>9</sup> Bohle D. and B. Greskovits, 2012. *Capitalist Diversity on Europe's Periphery*. Cornell University Press.

<sup>10</sup> Braeu R., 2018. *Is Spain Becoming Semi-Core?* Standish Market Insights, February 2018.

<sup>11</sup> Babones S. and Ph. Babcicky, 2011. Russia and East Central Europe in the Modern World System: A Structuralist Perspective.



Wallerstein's theory and the quite closely related dependency theory have been criticised for their inability to sufficiently reflect the realities of the 21st century, especially globalisation (the decline of the role of the states and the rise of the role of transnational corporations, etc.). This criticism is partly justified, but as several authors<sup>12</sup> have emphasised, this does not mean that the semi-periphery has disappeared in the 21st century world or that the significance of this category has declined. It does mean that this category needs certain reappraisal and elaboration based on newly acquired material. The period of globalisation has brought along significant changes in the international division of labour as well as the relations between economics and politics, while, as the latest developments have shown, the development of globalisation need not be irreversible and accelerating; there may be setbacks and globalisation may undergo modifications.

One of the arguments brought out against the use of the semi-periphery category claims that the dependencies are much more complicated in the contemporary world. Some countries, for example oil-producing countries, may be interpreted as a periphery from one viewpoint, and very much a core from the other. Additionally, regional domestic differences have increased in today's countries, including those of CEE. Would it be proper to describe for example Hungary as a semi-periphery country if Budapest is a quite wealthy city?<sup>13</sup> Such objections partially derive from considerations of prestige: the EU member countries, for example, are not very willing to be related to the (semi-) periphery and prefer emphasising that admission to the EU should guarantee a state's sterling quality and is sufficient for feeling like a part of the core, either economically or politically.

Although there is no unequivocal understanding of which countries should be considered new semi-peripheries, this category is usually seen as covering the so-called cohesion countries of the southern part of the EU (Portugal, Greece, Cyprus, Spain)<sup>14</sup>, most of the former post-socialist countries of Europe, and primarily East Asian countries: after Japan, Taiwan, which has chosen the export-centred development strategy, South Korea, Thailand, Malaysia, and the People's Republic of China as a rising star as well. Singapore has already moved on to a status somewhere between a semi-periphery and core economy. The western part of Asia provides Turkey and Israel, sometimes also Iran and Lebanon. In case of the American continent it includes the more highly developed part of South and Central American countries (Argentina, Uruguay, Chile, Mexico, for some authors also Brazil). In Africa only the Republic of South Africa is sometimes mentioned. The above list does not include all countries that have displayed rapid economic growth and improved their positions in GDP-based rankings. Some of the "upwardly mobile" countries are, according to their economic and social parameters, still periphery countries, which could be described as capable of exiting the status of periphery economies provided that their growth will continue: India, Indonesia, the Philippines and Vietnam. Regarding India and Brazil it can be argued that they have only partly reached the economic wealth necessary for semi-periphery status (some wealthier provinces). Yet the existing literature is not very homogeneous concerning this issue, as some of these states are interpreted by some authors as semi-periphery countries.<sup>15</sup>

The issue of distinguishing between the semi-periphery and the core is also a problematic one, which actually has not been discussed profoundly enough. There is no doubt that the former semi-periphery country Japan has long ago become a core country, while Singapore should also be included among the core, considering its level of development and wealth. Taiwan

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<sup>12</sup> Worth O. and Ph. Moore (ed.), 2009. "Globalization and the 'New' Semi-Peripheries". Palgrave & Macmillan.

<sup>13</sup> Bod P. A., 2015. *A World of Peripheries—Hungarian Review*, vol. VI, No. 5.

<sup>14</sup> Some authors also include Austria.

<sup>15</sup> Authors with a political science or sociology background do not usually consider the lower limit of a state's wealth important to treat it as a semi-periphery country. Their approach proceeds from the role the state performs in the World System and an important role, at least politically, can also be played by countries with a low per capita GDP. Yet "lumping together" countries with very different levels of wealth reduces the meaning of the comparative analyses of their economic development; the behavioural patterns of countries of different levels of wealth cannot be too similar. For example, comparison of the economic behavioural patterns of Austria and Brazil is unlikely to yield meaningful additional information. It seems that the Wallerstein school tends to list in particular the larger countries as semi-peripheries. Representatives of the World Systems Theory consider the political strength factor important in maintaining dominance or vice versa breaking it up and escaping dominance; larger states thus inevitably shift to the foreground. Larger countries also possess a greater ability to marshal their economic resources and thus lead a more independent economic policy.



and the Republic of Ireland could be placed somewhere between the semi-periphery and the core as well. Their GDP per capita level is comparable to the core countries as to its per capita GDP and wage levels, although it still displays features characteristic of a semi-periphery country as to its role in the international economy and some other indicators, e.g. the dual economic structure, where the foreign capital-based part of the economy, including a large share of the high-technology sector, operates in relative separation from the rest of the country's economy. South Korea, on the other hand, is clearly a semi-periphery country as to the aforementioned indicators, yet as to its role in the international economy and positioning in global value chains is similar to a core country.

In case of several unevenly developed Southern European countries (Italy, Spain) it can be argued that only a certain geographic part of them has shifted to the core countries' trajectory (e.g. Northern Italy) rather than the entire state.<sup>16</sup>

The vagueness in defining the category of semi-periphery is also caused in Wallerstein's case apparently by the fact that he operated with this category on a historically long timeline spanning centuries; therefore, it is difficult to find a definition that would be adequate in the 17th as well as the 21st centuries, for example. In the most general way the semi-periphery countries are defined as countries with average industrialisation and income levels,<sup>17</sup> but this leaves their profile of specialisation open. Earlier it meant the production of predominantly agricultural products and raw materials for the core countries; at present mainly less sophisticated work in the manufacturing value chain,<sup>18</sup> and in the future maybe the supply of certain types of services.

In theory, the primary criterion for designating the semi-periphery remains their similar role in the international division of labour along with the resulting peculiarities, rather than their wealth and standard of living. For example, most authors have problems in defining the wealthy oil-producing countries as belonging to either the core or the semi-periphery and view them as a separate category. It could be argued in principle of course that the semi-periphery countries are of average wealth at the global level, yet this zone of wealth varies quite widely, starting from per capita GDP of some USD 18,000 (this is more or less the world average and the PRC has just reached it) and reaching approximately USD 40,000 per capita or slightly above that (the level of South Korea and Spain). In the ranking of wealth this means the range roughly between 30th and 75th places.<sup>19</sup>

### **Developing methodology for empirical study**

In order to find answers to the questions posed at the beginning of the article we developed a methodology for the empirical study, which will be described below.

The study concentrated on two groups of semi-periphery countries in Europe.<sup>20</sup> First, the eight CEE countries that acceded to the EU in 2004, and Croatia, which joined in 2013. Hereinafter it will be designated as the CEE group. Secondly, the so-called

<sup>16</sup> Globalisation, by creating quilt-type development, reinforces this tendency.

<sup>17</sup> For example Giddens A. and S. Griffiths, 2006. *Sociology* (5<sup>th</sup> Edition). Polity Press.

<sup>18</sup> A certain difference exists between CEE countries and Eastern European countries, e.g. Russia. While the CEE countries have entered the world economy mainly through manufacturing, Russia is involved predominantly as a processor of raw materials.

<sup>19</sup> Dependent on whether the list includes some microstates like San Marino and St Kitts and Nevis and special-status territories like Macao. Some rankings compiled for comparing different development indicators include them, while others do not.

<sup>20</sup> More precisely: the countries regarding which we could presume that the progress of the study will confirm, based on their links with international economy, economic parameters and economic behavioural patterns, that they belong to the group of countries that could be generally described as semi-periphery countries. We could not completely rule out that the economies of some countries selected for the sample would have more in common with the economies of core countries or other genuine periphery countries. We did not consider it necessary to start the study with a highly accurate definition of semi-periphery country/economy; the study was rather viewed as a measure for elaborating such definitions.

cohesion countries of the EU—Spain, Portugal and Greece—along with Cyprus, which joined the EU in 2004. Hereafter they will be collectively described as the Southern group of the semi-periphery countries.

The fact that all the countries under observation are members of the EU should improve the comparability of the results.

A questionable solution is the omission of Bulgaria and Romania from the sample of countries, while Croatia has been included in it. An argument in favour of including Croatia in the sample was the fact that its neighbour Slovenia, another former part of Yugoslavia, was among the countries being studied. This opened a certain opportunity to treat the CEE countries, if so desired, as two sub-groups: the northern and the southern (south-eastern).

We also feared that the inclusion of Bulgaria as a country of significantly lower per capita GDP than the others would make the sample too heterogeneous as to economic wealth (from Spain's and Malta's per capita GDP at USD 38–39,000 to Bulgaria's level of USD 20,000).

In addition to the two groups of semi-periphery countries, two reference groups were used in the study: a group of seven core countries/economies and a group of so-called breakthrough economies, including six countries.

Since the borders between the core and semi-periphery countries are quite vague in theoretical works, we attempted to use the strictest selection criteria of the core countries, i.e. by including the countries that have stood out for a long period for their high wealth levels and that are also known as homes of large, multinational corporations. These are the countries whose economic and international policies display a definite international extent. The sample was formed so as to also include smaller countries in addition to great powers. The group includes the US, Germany, the UK, the Netherlands, Sweden, Switzerland and Japan.

The reference group of the breakthrough economies included the countries that have made a major leap in their economic development and improving their international economic positions in recent decades. The upsurge of their development occurred later in some cases and earlier in others (e.g. Finland managed it somewhat earlier than others). We did not attempt to define whether they could be currently considered as core countries (there are arguments in favour in case of, e.g. Singapore and Ireland) or semi-periphery countries. What matters for their selection is the fact of their movement from the semi-periphery towards the core. Although statistics show in case of some of these countries a higher per capita GDP level than in some core group countries, none of them belongs to the sample of “old wealthy countries”. The selection included Singapore, Ireland, Finland, Israel, Taiwan and the Republic of Korea.

Table 1 contains, in addition to data concerning these groups, comparable data on the “rising star”, China.

The direct objects of our study are the semi-periphery countries. Internal shifts in the two other groups, those of leader countries and breakthrough countries, will not be addressed. The study will discuss only the state and dynamics of certain parameters of these groups compared with the semi-periphery economies' group and its subgroups.

Next we had to draft a body of indicators based on the existing statistics and research data, where the central position would be occupied, according to our theoretical basic concept, by indicators characterising the integration of the countries' economies into the international economic system and which would allow for the reflection and analysis of shifts in the semi-periphery countries' economic behaviour compared with the other groups of countries (the core countries' and the breakthrough countries' economies) and the improvement or deterioration of their relative position against the global setting.

Most of the indicators used derive from the database used by the World Economic Forum (WEF),<sup>21</sup> which have been complemented by other indicators from the UN, WB and OECD databases. Compared with the analyses made for the Global Competitiveness Reports the focus of the analysis has been significantly modified.

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<sup>21</sup> Schwab K., (ed.) 2018. World Competitiveness Report 2017–2018, World Economic Forum, Geneva; Lopez-Claros A. (ed.), 2007. World Competitiveness Report 2006–2007, World Economic Forum, Geneva.

The system of indicators comprises three blocks. Block 1: general conditions necessary for economic development. This includes three indicators for measuring the education level of the population and the index built by the WEF for measuring the institutional quality level of the environment.

Block 2: indicators reflecting the type of integration of the country's economy in the international economy. This includes indicators like the share of export of GDP, the share of inward FDI stock of GDP, the balance of inward and outward FDI, expert opinion about how much FDIs in a specific country contribute to the development of the technological level (from the WEF database), and two indicators reflecting the positioning of enterprises in the value chain (resulting from interviews with experts): the value chain breadth and control over international marketing channels. Combined with them, we also used indicators showing the nature of the products' competitive advantage, the sophistication of the production process and the domestic clustering of enterprises as well as the innovation capability index of a country's economy, used by the WEF.

Block 3: Indicators measuring output, the positioning of the state in the global ranking of per capita GDP plus the general competitiveness index of a country's economy as used by the WEF (again expressed as the state's global ranking).<sup>22</sup>

Regarding the above there are comparable basic indicators for 2017 as well as 2006, i.e. the year preceding the global crisis. This permits analysis of the change of output indicators as well as the indicators of the first two blocks across quite a long period, and building hypotheses about their mutual relation.

Since a majority of the indicators have been provided as rankings (see Table 1) it allows for the elimination of the effects caused by the short-term changes in the parameters of the business environment in the different sub-stages of the cycle of the world economy.

### **Semi-periphery economies from the viewpoint of per capita GDP level**

The groups of economies under observation contain the upper half and middle section of the countries usually treated as semi-periphery and are therefore quite homogeneous (USD 25,300–38,100 per capita, predominantly the range between USD 28,000 and 35,000 per capita). The extremes are, on the one hand, Spain and Malta in the Southern group and on the other hand, Croatia in the post-socialist countries group. In terms of global rankings the positions are between 30 and 54, after discarding extreme cases between positions 33 and 49. Top performers of the CEE group (the Czech Republic, Slovenia, Estonia) have even higher GDP per capita indicators than some of the countries from the Southern group (Greece and Portugal).

The difference in wealth between the leader countries and semi-periphery countries is apparent, but the gap between the wealthier ones in per capita GDP is not disastrously wide (4–5 thousand USD per capita). It is another matter that as far as the development indicators necessary for producing economic growth in semi-periphery countries with higher per capita GDP go (more about that further on), there is no ground for presuming that any of the semi-periphery countries represented in this table could pose a threat to the leader group as to per capita GDP or GNI within the next ten years, for example. To provide some background: some earlier breakthrough countries, which took off from the semi or full periphery have already boosted their per capita GDP indicators not merely to the level of the leader countries, but compete with their elite—Singapore, Ireland.

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<sup>22</sup> This index is composed on the bases of more than 120 separate indicators and is divided into 12 groups, so-called pillars (macro-economic situation, quality of institutions, position in different markets, innovation, etc.).

## Semi-periphery economies from the aspect of fundamental development premises

We hereby refer to, first, the general quality of institutions and, secondly, the standards of the education system.

**Institutions.** Ratings of institutional quality<sup>23</sup> bring out clear differences between the groups provided in the table. The semi-periphery countries lag far behind the leader countries as well as the breakthrough countries (with the exception of Estonia, whose general index of institutional quality is above the corresponding indices of some breakthrough countries (South Korea, Taiwan)). The level of institutional development varies very widely in the group of semi-periphery countries being analysed, from 24<sup>th</sup> place in the global ranking to 102<sup>nd</sup> place, while the broadening of the range of variety has emerged in the past decade; it used to be almost half as wide. Particularly large differences in institutional quality can be observed in the CEE group of countries: from Estonia's high level to low standards in Croatia, Hungary and Latvia. The Southern group of the semi-periphery countries is more homogeneous in that respect (while Greece lags behind the others).

When observing the dynamics of rankings of institutional development in the past decade we can notice contradictory tendencies; the indicators of institutional development have significantly improved in some semi-periphery countries like the Czech Republic and Estonia, while they have very noticeably deteriorated in others like Croatia, Hungary, Latvia and Greece.

Since sustainable progress in economic development, especially regarding catching up with the leader countries, is not possible without a high level of institutional development and constant adjustment according to circumstances, overcoming the crisis reflected in the above figures may be an issue of existential significance for some semi-periphery countries in the upcoming period.

**Education.** Regarding the general duration of education of the people and using the world as a whole for the background, the countries of all four groups in the table can be considered countries with educated populations, yet there are noticeable differences between the groups. The difference between two groups of semi-periphery countries is conspicuous: while mean years of schooling in the CEE group vary generally between nine and 11, in the Southern group it varies between 11 and 13 years. The only countries to confuse the pattern are Croatia and Cyprus; the years of schooling in Cyprus are closer to the CEE group and those in Croatia are closer to the Southern group of semi-periphery countries.

Mean years of schooling of the top countries of the CEE group can actually rival that of such leader/core countries like the Netherlands, Japan and Sweden. However, the indicator of Germany, the US and Switzerland is higher still.

The mean years of schooling indicators of the group of breakthrough countries vary between 11 and 13 years, thus within the same range as the CEE indicators; the figure is slightly lower only in Singapore, but the gap is not too wide.

The duration of schooling of semi-periphery countries' residents is significantly longer than that of the periphery countries; this also applies to the states that, thanks to rapid economic growth, are either approaching the wealth level of semi-periphery countries or have already caught up with the semi-periphery league as to a number of indicators, e.g. India and China. Reaching the level of ten mean years of schooling is a major effort for countries rising from below; it is harder than preparing additional engineers, economists or other necessary specialists.

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<sup>23</sup> The index of quality of institutions worked out by the World Economic Forum consists of 21 parameters including not only the components concerning the components with an intermediate impact on the business environment, such as property rights, quality of governmental regulations, etc., but also the same general parameters such as public trust in politicians, efficiency of government spending, and the reliability of police services.

In most of the Southern semi-periphery countries of Europe the length of schooling of the population lags behind not only the indicators typical of the core countries but also the breakthrough countries. This may become a potential bottleneck if these countries should try to climb to the core economies' level in the future. It is not the case for CEE group states.

While the medial length of the population's schooling is an indicator showing the existence of a broad base for improving the state's position in the international economy, the situation of the "higher end" of the population's educational structure is shown more precisely by the share of labour of people with bachelor's, master's and doctor's degrees. The importance of this indicator keeps increasing as the economy develops from straightforward production to more complex, innovation-based production.

As for the share of people with higher education, the two groups of semi-periphery countries under observation form a relatively homogeneous body—24–32% of residents in the age of 25–64 years have at least a bachelor's degree (or comparable degree). This is a very high ratio when compared with the entire world, not only with the periphery countries but also with the non-European semi-periphery countries. The top of the CEE group (Estonia, Latvia, Poland) display an indicator of roughly 30%, yet some countries of the same sub-group display approximately 23–25%, and in the Southern group states it remains between the two aforementioned figures. Regarding this indicator, the best of the semi-periphery countries observed ranks equal to some breakthrough countries and even some leader states.<sup>24</sup> However, the share of people with university education is still higher (40% or more) among the leader countries the UK, Japan and the US and among the breakthrough countries of South Korea and Israel.

The ratings of the quality of the education system regarding its adequacy to the requirements of economy are extremely variable, but generally tend to be critical/negative. This especially applies to the CEE countries. While this adequacy is judged as relatively good in Estonia, satisfactory in the Czech Republic, Malta and Portugal, a number of states like Slovakia, Croatia, Hungary and Greece are very critical in their judgments. Background: the leader and breakthrough countries generally rate the education system's quality from the economy's viewpoint as good (Switzerland, the US, Singapore, Finland have higher ratings), while Japan is somewhat more critical.

Discussions about reconciling the economy's needs and the education system, especially in the CEE countries, frequently hear the counterargument to accusations that the education system no longer meets the needs of the economy and that youth study "unnecessary" specialties—this mismatch has been caused by the economic policy resulting in an excessively primitive economic structure of the state, incapable of offering youth sufficiently attractive and lucrative jobs.

### **Semi-periphery economies from the viewpoint of openness to the world economy**

All the countries on the table are members of the WTO, which by itself should ensure a certain compliance with the rules of an open economy. Viewing the actual role of international trade and international investments in the economies of these countries obviously reveals differences between the states<sup>25</sup> but in principle they all can be described as countries that have staked on surviving/succeeding in the global economy and exports.

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<sup>24</sup> Germany pays great attention to applied technical education; accordingly the share of university education among the population is lower than in other leader states.

<sup>25</sup> It is a statistical regularity that the share of exports in the economy is significantly lower in large countries with large domestic markets compared with small countries. The producers in small countries are often forced to turn to exports since the domestic market lacks consumers for larger-scale production.



## The share of exports in the economy

Among the semi-periphery economies, the CEE group forms a homogeneous block in that respect. Regarding the share of exports in GDP, only Croatia and Poland stand out in the predominant pattern (exports amount to 60–90% of GDP, a very high indicator internationally) with their lower figures, while in Poland's case it can be partially explained with the greater volume of the domestic market thanks to the larger population. (Compared with other large countries, the share of Poland's exports of GDP—53%—is not actually low, it is significantly higher than that of, e.g. Spain.)

The Southern semi-periphery group is also quite homogeneous in that respect, but if we omit the small island state of Malta, which is peculiar in several aspects, the predominant range of export share in this group is significantly lower than that of the CEE group and remains between 33% and 63%. Against the EU countries' background this could be considered a more or less average share of exports (the EU countries' average in 2017 was 45%). Considering that these are EU member states and a clear majority of members' trade occurs with other EU countries, this statistic also clearly indicates that although the CEE countries entered the EU integration processes later than the cohesion countries, by now they have been integrated into the EU economic space more closely than the aforementioned group, at least as far as the ratio of export volume and GDP volume goes. It is another matter, however, how profitably the countries of either group have entered the international value chains. This subject will be addressed in the following parts of the article.

To provide some background, let us view the significance of exports in the countries of the leader group and the “breakthrough group”. The US and Japan stand out among the leaders as to their lower share of exports in GDP, but here we have to keep in mind that these are very large economies and their share of exports in the range of 10–20% means very large export volumes of great significance for the world economy. It is true that both of these leader countries have lost a noticeable share of the world market to the new emerging power of China in recent decades.

A more complicated issue, especially when considered within the paradigm developed by Wallerstein, is whether the core economies of the contemporary world, especially world powers enjoying the status of core economies, are actually striving to seize the position of a dominant export leader similarly to what Great Britain once used to occupy. After all, there are other and better methods of domination, primarily the control of capital flow. Another aspect of the problem is that the regulation of complex domestic economic processes is becoming increasingly complicated in large countries with highly developed economies and for that reason the issues of goods and services exports will shift to lower positions in economic policies.

Statistics concerning the group of countries we designate as breakthrough countries provides a clear indication of the importance of export success in rising from semi-periphery countries to core countries. With the exception of Israel, in which case the realisation of export orientation is obstructed by clearly geopolitical factors, i.e. a hostile political environment, all the countries viewed in this group are very strong exporters, in past decades as well as currently. The economic structure of Singapore and Ireland is especially clearly export-oriented; the share of exports in these countries is much higher than in the strongest exporters of the CEE region. However, when using the breakthrough countries as role models for the present semi-periphery countries, we face the question of how likely the mobilisation of the population and the state is as a whole for achieving export success in the present-day world, which operates under different ideologies. The earlier success stories were achieved by using strongly corporate and, compared with today, more state-centred mechanisms (coordinated capitalism versus liberal capitalism); this applies to European states as well (Ireland, Finland).

The economic policy of the PRC has paid more attention in recent years to supporting domestic development and avoiding disproportions, but we certainly cannot argue that China's position on the world market has deteriorated due to it. The approximately 20% share of exports in GDP means, considering the size of the country, a clear leader's position in world exports.



## Foreign direct investments (FDI)

When comparing the significance of the FDI stock in the economies of different countries, we can notice considerable differences. Among the semi-periphery countries, Estonia, the Czech Republic and Hungary stand out in the CEE group with a higher share of FDI, while Cyprus displays ultra-high FDI stock, hinting at a completely different economic model, in the Southern group of the semi-periphery. Their opposites are countries with a low significance of FDI—Slovenia, Lithuania and especially Greece and Malta. Among the remaining nine countries the share of FDI stock of GDP remains in the range of 45–67%; this span, which could be considered mainstream in the EU semi-periphery countries, is significantly higher than the EU average, which remains slightly below 40%. While in the case of Greece the low level could be partly considered a side effect of the complicated post-economic crisis situation, and the other divergences from the aforementioned mainstream zone can only be caused by deliberate economic policies with their different emphases.

An analysis of inward FDI does not suffice an explanation of the countries' role in the world economy, and the ratio of inward and outward FDI is highly important as well. The situation is relatively similar in the CEE countries with the volume of outward FDI being significantly lower than that of inward FDI; in some countries like Slovakia, Poland and Latvia, it is more or less a magnitude lower. The long-term persistence of this proportion testifies to a country's peripheral position in the international economy. This proportion is slightly better in Estonia, but outward FDI here is still less than one-third of inward FDI.

Inward and outward FDIs are better balanced in the Southern group of semi-periphery countries. They are more or less balanced in Spain and Cyprus, and in Portugal and Greece the incoming FDI stock is higher than that of the outward investments, but the former exceeds the latter by about two times rather than by an order of magnitude. Malta is a special case with a very small number of inward FDIs.

Further opportunities for understanding the subject can be found in an analysis of expert opinions carried out by the World Economic Forum, where experts of given countries were asked how their inward FDIs contributed to improving the sophistication and competitiveness of their respective countries' economies. The differences of opinion were quite telling. While the interviewed experts from Slovakia, Portugal, and to a slightly lower extent from Lithuania and Spain tended to agree with the statement, the experts from Croatia, Slovenia, Latvia, Greece and Cyprus expressed a rather resolute opposite opinion. When comparing the replies to the question in 2007 and in 2017,<sup>26</sup> a rather general negative dynamic becomes apparent among the CEE countries. Estimates had become significantly more positive only in two countries, Lithuania and Poland, out of eight (the experts of the Czech Republic were not asked this question in 2007). The opinions had become significantly more negative in Estonia, Slovakia, Hungary and Latvia. They had turned very slightly more positive in Croatia yet remained in the highly negative zone. The negative dynamic of opinions in Estonia and Hungary in particular is a sign of danger. The share of inward FDIs has been very high in these countries for a long time, they had been considered testing grounds for this model of FDI-based development, and the opinions and expectations concerning FDIs in the modernisation of the economy had been highly positive ten years ago. If we believe the experts we have to conclude that the development model heavily relying on FDIs had serious flaws.

## Relation between the quality of basic premises and the dynamic of economic development rankings

In the following we shall look at whether we can observe some connections between improving the economic positions and such premises of economic development such as educational level indicators and the quality of the institutional environment.

**Education.** We had the hypothesis that since the education indicators in the Southern group countries varied highly as per country, one could presume considerable variation in these countries' economic performance as well. The hypothesis was only partially confirmed. Malta and Cyprus can boast the best education indicators of this group. Malta was indeed one of

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<sup>26</sup> This is possible only in case of some countries under observation.

the countries that had improved their economic position within the past decade, while that of Cyprus had remained roughly the same. But Portugal, Spain and Greece with lower education indicators had also yielded ground in economic development indicators.

In general, education indicators should not become bottlenecks in making economic progress in the CEE countries group; the problem may instead lie in education system features and economic requirements being better matched. However, it can be observed here that Croatia and Hungary, which report lower education indicators than the others, have also lost their positions in the economic wealth rankings.

**Institutions.** Two facts should be underscored. First: the positions of all semi-periphery countries under observation with the exception of Estonia and Malta in the institutional environment quality rankings are much lower than those in the economic wealth ranking; in some cases the gap is very wide. Secondly: more than half of the countries under observation have experienced a decline of the institutional environment ranking in the past decade. The exceptions are only the Czech Republic and Estonia with a positive shift, and Poland and Malta with no negative or positive trend. All that should indicate that the semi-periphery countries still have a lot to do to prevent the institutional environment from obstructing economic development. Yet there is no reason to presume that the quality of the institutional environment or positive dynamic in that respect would necessarily ensure rapid economic progress. A clearly determined positive connection between these indicators could be observed only in a very limited number of cases (Czech Republic, Malta). A positive example from the institutional viewpoint is Estonia with its best index of institutional environment quality among the semi-periphery countries, which kept improving within the past ten years, yet the country was nevertheless incapable of advancing its position in the ranking based on per capita GDP.

### **Relation between the type of participation in the international economy and the dynamic of economic development rankings**

As we already described earlier, all the semi-periphery countries under observation are in fact export-oriented to a lesser or greater degree—the CEE countries, however, more so than the countries of the Southern group. The share of exports did not increase or decline very significantly during the hard times of the observation period. Since this period, especially the years of the global crisis, were unfavourable for exports, it granted at least a theoretical advantage to countries with a large domestic market. It is possible that this effect helped Poland, but judging by the end results, probably not Spain.

The countries under observation differed significantly as to the share of FDI stock in GDP. It is not possible to claim that CEE countries with a higher or somewhat lower share of FDI were more successful in the past decade. Among the high FDI-share countries, the Czech Republic improved its position while that of Hungary and Croatia deteriorated and that of Estonia remained unchanged. Slovenia with its low share of FDI was clearly unsuccessful during this period. Among the countries of the Southern group, Cyprus and Malta with their high share of FDI were more successful than others.

When analysing the opinions of the countries' expert groups on whether or not FDI contributes to the development of the technological development of a country's economy, we can see a clearly negative shift in estimates in the CEE countries. The opinions have become more negative in all countries with the exception of Poland and Lithuania where the share of FDI is the CEE group's average. A different tendency is apparent in the Southern group of the semi-periphery countries. The corresponding opinions have become positive in all countries of the group except for crisis-stricken Greece.

A majority of the CEE group countries display a characteristic combination of high export-orientation and a high share of inward FDI, while the positions of outward FDI are weak in this group. In such a situation the critically important question is whether or not the country's enterprises can acquire functions in the international value chains that would grant them opportunities to earn adequate income and develop.

In practically all semi-periphery countries under observation, their weakness is the position in the international value chains and controlling them. With the exception of the Spanish experts' judgment on value chain breadth in their country, we find in no country in either group of semi-periphery countries an expert group opinion of value chain breadth or control of international distribution, which would be even slightly above average against the background of the global evaluation panel (among the 30 top ratings given by different countries' expert groups when answering these questions and evaluating their countries' situation). Low positions in value chains almost automatically result in specialisation in predominantly those products and services where the competitive advantage is the low-cost input rather than more sophisticated and high-quality products and services and where the production processes are simple rather than complex.

Compared with the enterprises of the Southern group countries the positions of the CEE countries in value chains are weaker and the dynamic in that sphere is more negative. Regarding value chain breadth the positions of all CEE countries have deteriorated if we can rely on the experts' opinions. The dynamic of most countries of this group in control of marketing channels is also negative in this decade, although with some exceptions (incl. the Czech Republic). Among the Southern group countries, all except Greece are judged to be currently in a better state regarding acquiring wider functions in value chains than they used to be ten years ago.

The position in value chains is also closely related to the opportunity to develop and realise the innovation capability of the economy. The indices characterising the innovation capability of economies of the members of both groups are not too high either, yet the overall picture is not fully negative. The innovation index of several CEE countries (Estonia, and to a smaller extent Slovenia and the Czech Republic), and among the Southern group countries, Portugal is quite respectable when compared with countries of a similar wealth level, yet this rather high innovation capability cannot be realised in the economic outcomes, probably due to the low positions in the international value chains.

The innovativeness rankings of the Southern group's countries are in all cases lower than the rankings of wealth.

### **Can the competitiveness index predict the growth of economic wealth?**

It could be logically presumed that states with a higher competitiveness index at the beginning of the period would improve their ranking in the per capita GDP rankings by the end of the period, i.e. the competitiveness index should permit forecasting the changes in the states' wealth rankings. Do the developments in the semi-periphery countries in the last decade confirm this hypothesis?

In the beginning we look at the state and dynamics of country groups and countries as to the per capita GDP indicator and competitiveness index.

At the beginning of the period under observation, in 2006, the per capita GDP rankings of the semi-periphery countries under observation extended from 26<sup>th</sup> place (Spain) to 54<sup>th</sup> (Croatia). The Southern and CEE semi-periphery groups differed very clearly—the former was much wealthier than the latter. The sole exception was the wealthiest member of the CEE group at that time, Slovenia—its per capita GDP surpassed the bottom members of the Southern group, Malta and Portugal.

The divergence of the semi-periphery economies in the world ranking based on competitiveness indices (2007) was even minimally larger, ranking between 25<sup>th</sup> (Estonia) and 51<sup>st</sup> (again Croatia); however, this indicator does not enable differentiation between two distinct sub-groups of semi-periphery countries. The competitiveness indicators of the CEE group countries, although their divergence is quite high within the sub-group, tend to be even better than those of the Southern group. The positions of most CEE countries in the competitiveness rankings are better than their places in rankings based on per capita GDP levels. The competitiveness of the Czech Republic is only one notch below Spain, the best performer of the Southern group. The lowest competitive indices in the Southern group countries are those of Greece and Cyprus, and in the CEE group of Croatia and Slovakia.

When studying the 2017 rankings of economic wealth we can see only minimum blending among the Southern and CEE groups during the ten-year period. All CEE countries with the exception of Croatia have surpassed crisis-struck Greece, and the Czech Republic with its highest per capita GDP level among the CEE countries has also left Portugal behind. Slovenia, too, despite its not too successful development, ended the period at a per capita GDP level slightly above that of Portugal. However, on the whole the Southern group has remained somewhat wealthier than the CEE group.

Within the CEE group, the Czech Republic, Slovakia and Lithuania have significantly improved their positions in the global per capita GDP rankings, and the positions of Slovenia and Hungary have noticeably deteriorated, while the others have retained their previous positions or have undergone only minimal changes, 1–2 notches. Portugal and Malta have improved their positions in the Southern group, and Spain and especially Greece have fallen, while Cyprus has approximately maintained its previous ranking.

When viewing the European semi-periphery group as a whole, we notice that its internal divergence has remained more or less unchanged; the per capita GDP positions of the countries within the group now spread between 33<sup>rd</sup> and 54<sup>th</sup> places. The whole span of the global ranking where the semi-periphery countries are located as to their economic wealth has shifted downward; the current position of the wealthiest country (Malta) in the ranking is lower than that of the former wealthiest country (Spain) while the position of the lowest-wealth country has dropped as well (Croatia in 2006 and 2017). In other words, from the global viewpoint Europe's semi-periphery has rather shown retrograde dynamics during the decade.

We witness even worse dynamics when looking at the competitiveness rankings. While the best performer of Europe's semi-periphery (Spain) occupied 20<sup>th</sup> place in the global ranking of this indicator in 2007, the present best (the Czech Republic) ranks 25<sup>th</sup>. While the weakest performer (Croatia) held 51<sup>st</sup> place in 2007, the current country of lowest competitiveness (Greece) ranks 54<sup>th</sup>. The length of the span in the global ranking where these countries are located according to this indicator has actually shrunk, but the span itself has shifted downward.

The rankings of all Southern group members according to competitiveness are currently worse than the rankings based on economic wealth and leave little hope for a leap in their economies during the upcoming period. The position of the top of the CEE group (the Czech Republic, Estonia) in the global competitiveness ranking is better than in the economic wealth ranking, although the difference in case of the Czech Republic is a couple of notches.

How strong then was the connection between the competitiveness index as the premise and the economic growth as the result?

We have to admit that the predictions based on the competitiveness index were only partially realised. Within the CEE countries' group this index allowed for the rise of the Czech Republic in the economic wealth ranking and the decline of Hungary and Croatia to be predicted, which all took place, yet it would have been impossible to foresee the slowing of Estonia's progress or the rise of Slovakia and Lithuania according to their positions in the 2007 competitiveness index.

As for the Southern group, the weak positions in the competitiveness index signalled the upcoming hard times for Greece and Cyprus. In reality Greece indeed dropped, yet the per capita GDP position of Cyprus remained practically unchanged. The index could have predicted the improvement of the economic positions of Spain and Portugal. In reality, however, Malta showed the best improvement of economic position while Spain's position deteriorated significantly.

The issue of the usability of the competitiveness index in forecasting needs more detailed analysis that would also study the more precise dynamic of the index, determine the length of the time lag between the changes of its individual components and the impact on real economy, etc., but based on the analysis presented here we can argue that the predictability of the competitiveness index has been rather limited, at least so far. Accordingly, some factors either absent from the makeup of the **WEF competitiveness index or underrepresented there do not allow the internationally quite high competitiveness index of some countries under observation to be realised in economic growth, in other words, they enable the semi-periphery countries to catch up with the core countries.** Proceeding from Wallerstein's theory, these factors could be sought among the indicators reflecting the connections of the semi-periphery countries with the hierarchically arranged world economic system.

## General conclusions (Does the semi-periphery persist in Europe and how is it doing?)

Summation of the results of the empirical analysis and their comparison with the existing theoretical background allows for reaching the following basic conclusions:

### a) Conclusions about core-periphery relations in general (global picture)

- Based on the developments of the past ten years one can argue that the division into the periphery, the semi-periphery and the core is predominantly persistent. One can observe a certain weakening of the positions of the dominant core (leader) economies during the past ten years, but this can mainly be explained by two reasons. First, a number of countries specialising in the production of oil and gas have risen among the world's wealthiest economies. These countries' other development premises for maintaining their positions long-term are not high. Secondly, the People's Republic of China has begun to play a significantly larger role in the world economy, having reinforced its positions in exports and the financing of international economics while attempting to have greater say in global politics. China's several premises give reason to believe that the growth of its economy and the strengthening of its positions may continue, despite recently slowing down. Yet China has only reached/is reaching the world average level as to the per capita wealth indicators, while its several other development indicators correspond more to those of the bottom half of semi-periphery countries (e.g. mean years of schooling indicator).
- Out of the group of countries this study describes as breakthrough countries of an earlier period, i.e. striving from among semi-periphery to core economies, two, namely Singapore and the Republic of Ireland, have established themselves as some of the wealthiest states in the world. Their development indicators are more uneven than those of the old core countries yet by now they can be considered as definite core economies. However, both are relatively small countries/economies, and therefore their addition does not significantly change the general geo-economic picture.
- It is telling that as to the competitiveness index all seven leading core economy countries studied in the analysis maintained their position among the world's top ten throughout the observation period. Holding the key position of the core economies is supported by a favourable position in the global value chains and control over them, very high technological development and high innovation capability of the economy, as well as indicators characterising very high education standards. However, some signals of drawbacks are sent by the level of the institutional development index, which is in the countries of this group at the world top 20 level, rather than among the top 10.

### b) Empirical conclusions about the semi-periphery group of countries

- When judging according to GDP dynamics or competitiveness index changes, the general difference between the two groups of Europe-based semi-periphery countries, the CEE countries and the Southern group, has not significantly increased, and neither has there been any considerable mixing of the two. The top performers of the CEE group have passed the weakest of the Southern group, yet this is no reason to claim that the CEE group has been more successful; the Southern group as a whole is more even, with Greece being the sole exception. Both groups have their laggards and leaders (Greece and Croatia as the laggards and the Czech Republic and Malta as the top performers). **It can be stated, however, that the European semi-periphery group has generally maintained in the past decade its homogeneity when compared with other groups of countries like the core countries, breakthrough countries and periphery countries.**
- The greatest weaknesses in practically all semi-periphery countries are unfavourable positioning in the international value chains and controlling them. Low positions in value chains almost automatically results in specialisation in predominantly those products and services where the competitive advantage is the cheap input rather than more sophisticated and high-quality products and services and where the production processes are simple rather than complex. The situations of semi-periphery and core economies are totally different in that respect.

The indices characterising the innovation capability of economies in several countries under observation (especially Estonia, as well as Slovenia and the Czech Republic and Portugal) are quite respectable when compared with countries of similar



wealth levels, yet the innovation capability cannot be realised in the economic outcomes due to the low positions in the international value chains.

The weak position in the value chains is apparently one of the reasons why the positions of the semi-periphery countries viewed as a whole have deteriorated rather than improved in global rankings. The CEE countries especially have placed high stakes on exports, but figuratively speaking they have been trapped as producers in unpromising links of value chains.<sup>27</sup>

- It can be stated in general that the specific features of semi-periphery countries, despite the aforementioned differences, exists nevertheless and therefore it makes sense to continue using the category of semi-periphery and analyses based on it. There is currently no ground allowing for forecasting whether the polarisation in the world economy into periphery and core economies will continue or even increase and the emergence of the semi-periphery will remain somewhat anomalous or whether a stronger emergence of the semi-periphery would occur. The world has seen in the past two or three decades cases of some countries, although not large economies, having moved from the semi-periphery to the core; one very large country, China, has recently moved on from the periphery to the semi-periphery and is continuing its progress. The latter process may turn into a geo-economic game-changer. However, **the analysis of European developments taking place during the past ten years does not provide for optimism about a European semi-periphery country being able to make it to the “top league” within the predictable future.**

### Some theoretical conclusions

- Wallerstein's World Systems Theory, which proceeds from the postulate of an inert hierarchic structure, claims that when ascending from one hierarchic “layer of economy” to another, the higher one is extremely difficult, while an opposing hypothesis based on the “catching-up” mindset postulates that the economies' development gaps will inevitably shrink in “normal conditions” under an international free market and that economies will conform. Actual developments can provide evidence to support either theory, and therefore it should be practical to carry on with both hypotheses, asking in either case what the factors are due to which the theoretical premises under observation are not realised or are realised very slowly. When testing the catching-up-type logic, we can ask which factors inhibiting mechanisms operated to obstruct the convergence and how we could make the theory more adequate by including these mechanisms in it. We could also act the opposite way and start from the concept that moving from one layer to a higher one is practically impossible for certain reasons. Having witnessed that some countries have succeeded in it, we have to substantiate this aberration from the hypothesis of the closedness of layers, to show the limitations of the closedness hypothesis. In either case the initial theoretical platform is modified towards greater realism. It cannot be ruled out that this will eventually lead to the formulation of a new synthetic platform.
- The catching-up mindset in its purest form, which argues that all it takes to catch up with the advanced economies is the implementation of free market policies and elementary institutions for ensuring order, is a huge and not-too-credible simplification. The more or less mainstream mindset is represented by the theory that an economic system passes through various stages in its development, and moving from one stage to another requires additional reorganisation efforts, including state support. As Michael Porter argues, in order to transit from the less sophisticated, efficiency-driven stage of development to innovation-based development, a knowledge economy, certain rearrangement of the

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<sup>27</sup> The outcomes correspond quite well to somewhat pessimistic conclusions recently reached by Roman Stöllinger (Stöllinger R., 2018. Change in Functional Specialisation Patterns: Key to Escaping the Semi-Periphery Trap WIIW Spring Seminar, 12 April 2018), namely that Europe's semi-periphery countries have quite closely integrated into the European production networks but they are highly dependent on foreign firms. The hierarchical relationship between the countries of the core and periphery persists. The number of global players among semi-periphery countries is minuscule. This results in the CEE countries being trapped in low value creation and in the semi-periphery. At the presently functioning specialisation pattern the catching-up process is obstructed and these countries no longer have opportunities to break through into the core.



education system, state-supported innovation policies and other measures are necessary. This can essentially be seen as modernisation and further development of the catching-up mindset. In other words: it is sufficient for succeeding if you adapt to the international market, but will develop more sophisticated institutions and carry out an amplified innovation policy. The expert opinions organised by the World Economic Forum and the regular Global Competitiveness Reports have been based on such a mindset. The introduction of Michael Porter's logic of stages<sup>28</sup> is unquestionably an important step ahead, but it also seems that the logic of this analysis has still underestimated the difficulties related to achieving a better position in international value chains. The analysis provided in this article shows as well that the countries whose (key) enterprises do not control these chains as a rule cannot find activities there that would enable higher productivity. The established international value chains are some the most rigid elements among the factors limiting opportunities for economic development. Therefore the theories based on hierarchic structure of the economic system, including that of Wallerstein, add the necessary elements of realism in concepts of developmental economics. Using the category of semi-periphery economies has an important place in such reasoning.

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<sup>28</sup> Porter M.E., 1990. *The Competitive Advantage of Nations*. New York: The Free Press and Macmillan Press, 1990.

Table 1. Statistics for testing the homogeneity of the European economic semi-periphery.

	Nature of competitive advantage (estimation, ranking), 2006 and 2017	Value chain breath (estimation, ranking), 2006 and 2017	Control of international distribution (estimation, ranking), 2006 and 2017	State of cluster development (estimation, ranking), 2006 and 2017	Production process sophistication (estimation, ranking), 2006 and 2017	Innovation index (ranking), 2006 and 2017	Inward FDI stock compared to GDP (2017)	Proportion between inward and outward FDI stock (end of 2017)	Estimation of the positive role of inward FDI (rankings), 2006 and 2017	Export of goods and services from GDP, 2017	Mean years of schooling (UNESCO, 2015 or 2016)	Quality of education system (from economic aspect, estimation, ranking)	25-64 years old with tertiary education (short-cycle tertiary excluded), 2015 or 2016	Quality of institution from the viewpoint of economy (ranking), 2006 and 2017	Competitiveness index, 2017 (ranking)	Dynamics of competitiveness index between 2006 and 2017	GDP per cap (PPP) 2006, thousands of USD and ranking	GDP per cap (PPP) 2017, thousands of USD and ranking
Czech Rep.	53 from 27 to 42	52 from 27 to 42	from 91 to 37	52 from 23 to 31	from 28 to 36	72%	Inward 6.5 times higher	from 10 to 30	79.5%	12.7 years	59	24%	from 60 to 52	31	minus 2	22.0/36	36.9/34	
Slovenia	from 29 to 36	77 from 21 to 62	from 35 to 41	33	from 34 to 35	34%	Inward 2.3 times higher	from 108 to 83	82.2%	12.3 years	from 52 to 52	23%	from 43 to 56	48	minus 15	23.4/33	34.8/35	
Slovakia	from 90 to 75	57 from 35 to 52	from 85 to 75	57 from 54 to 30	from 42 to 67	58%	Inward 16 times higher	from 5 to 16	96.3%	about 13 years	118	22%	from 53 to 93	59	minus 21	18.4/42	32.1/38	
Estonia	from 61 to 54	73 from 36 to 54	from 56 to 59	73 from 36 to 52	from 30 to 30	90%	Inward 2.7 times higher	from 8 to 43	78.0%	about 13 years	23	32%	from 30 to 24	29	minus 4	20.3/39	31.6/40	
Lithuania	from 33 to 65	94 from 25 to 49	from 31 to 40	94 from 35 to 42	from 50 to 41	38%	Inward 3.4 times higher	from 94 to 32	81.3%	13.2 years	73	40%	from 59 to 92	41	minus 1	15.3/45	32.1/39	
Poland	from 38 to 100	64 from 39 to 64	from 75 to 61	64 from 49	from 44 to 59	46%	Inward 8.5 times higher	from 88 to 37	53.4%	12.3 years	72	30%	from 73 to 72	39	plus 9	14.4/47	293/44	
Hungary	from 44 to 59	90 from 26 to 98	from 92 to 66	90 from 39 to 84	from 31 to 62	67%	Inward 3.1 times higher	from 16 to 48	90.1%	11.9 years	111	23%	from 46 to 101	60	minus 19	17.5/43	28.3/46	
Latvia	71 from 43 to 53	98 from 43 to 53	from 59 to 50	98 from 54	from 66 to 83	58%	Inward 9 times higher	from 51 to 80	60.5%	about 13 years	from 35 to 68	31%	from 50 to 82	54	minus 18	16.0/44	27.6/49	
Croatia	from 39 to 60	120 from 59 to 76	from 58 to 70	120 from 61 to 74	106	43.00%	Inward 4.5 times higher	from 106 to 111	51.3%	11.3 years	112	?	from 66 to 102	74	minus 13	13.4/51	25.3/54	
Portugal	44 from 34 to 33	39 from 34 to 33	from 48 to 57	39 from 36	32	60%	Inward 2.5 times higher	from 33 to 15	43.10%	9.2 years	32	25%	from 34 to 43	42	minus 12	19.0/41	32.2/37	
Spain	37 from 42 to 25	36 from 42 to 25	from 42 to 31	36 from 32	42	46%	Inward 1.1 times higher	from 39 to 31	34.10%	9.8 years	67	25%	from 25 to 54	34	minus 8	27.4/26	38.1/33	
Greece	48 from 48 to 72	121 from 48 to 72	from 57 to 58	121 from 58	58	75	Inward 1.7 times higher	112	33.20%	10.3 years	106	29%	from 40 to 87	87	minus 40	24.0/32	27.9/48	
Cyprus	38 from 43 to 40	82 from 43 to 40	from 34 to 65	82 from 59	59	53	About 700%	from 93 to 79	63.80%	12.1 years	55	?	from 37 to 51	64	minus 18	23.0/35	34.5/36	
Malta	29 from 53 to 32	34 from 53 to 32	from 53 to 54	34 from 29	29	38	About 2%	from 18 to 17	140.00%	11.3 years	19	?	from 39 to 38	37	plus 2	21.3/38	39.5/30	
Core economies:																		
US	15 4	4 from 6 to 1	1 from 6 to 1	1 9	2	40%	equal	5	11.9%	13.4 years	4	35%	20	2		43.8/6	59.5/11	
Germany	11 7	7 4	2 4	10 10	5	26%	Outward 1.7 times higher	11	47.2%	14.1 years	9	27%	21	5		31.9/20	50.7/16	
UK	9 6	6 8	8 6	12 12	12	69%	equal	7	30.5%	13.2 years	22	36%	12	8		31.8/21	43.9/24	
Netherlands	6 8	8 4	4 5	4 4	6	200%	Outward 1.5 times higher	9	86.5%	12.2 years	7	34%		5		32.1/19	52.9/14	
Switzerland	1 3	3 6	6 6	1 1	1	147%	Outward 1.1 times higher	12	65.00%	13-14 years	1	31%	12	1		34.0/13	65.0/8	
Sweden	7 5	5 3	3 16	5 5	7	60%	Outward 1.1 times higher	14	45.3%	12.4 years	20	32%	11	7		33.2/18	50.1/18	
Japan	2 1	1 5	5 11	2 2	8	4%	Outward 7.7 times higher	25	16%	12.8 years	36	more than 39%	17	9		33.1/16	43.9/25	
Breakthrough economies:																		
Finland	14 19	19 11	11 17	6 6	4	35%	Outward 1.4 times higher	42	38.6%	12.4 years	3	31%	1	10			45.2/23	
Ireland	19 20	20 26	26 20	14 14	19	270%	equal	from 2 to 1	120.0%	11.3 years	7	30%	19	24			76.3/5	
Israel	4 16	16 14	14 32	15 15	3	37%	Inward 1.3 times higher	6	30.5%	13.0 years	25	36%	29	16			38.4/31	
Singapore	17 14	14 25	25 10	16 16	9	369%	Inward 1.8 times higher	from 1 to 2	173.00%	10.1 years	2	?	2	3			93.9/3	
Taiwan	20 21	21 39	39 2	21 21	11	14%	Outward 4.3 times higher	from 28 to 35	Less than 70%	about 11 years	31	?	30	15			about 49.8	
Korea	22 23	23 9	9 28	24 24	18	12%	Outward 1.8 times higher	55	43.1%	12.1 years		more than 45%	58	26			38.3/32	
China	from 74 to 30	29	29	from 89 to 39	from 46 to 28	24%	Inward 1.9 times higher	from 104 to 49	19.80%	7.8 years	29	?	from 46 to 41	27			16.8/76	

Sources: World Economic Reports, WB, US CIA Factbook, OECD, UN

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