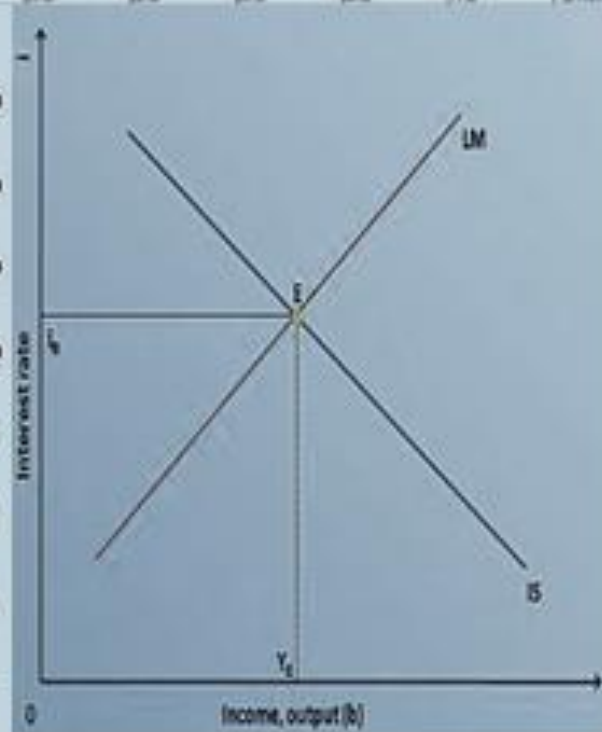


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THE KEYNESIAN THEORY AND THE THEORY OF CYCLE OF MONEY

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Abstract: *The Keynesian theory aims at issues that authorities are able to interact with the economy, to face crises and to administrate dysfunctions on the economy. The Keynesian theory uses the demand side effect and not the supply side effect on the economy. The government and the authorities provide financial liquidity solutions. But, the basic issue that authorities try to solve in that case is the inflation effect. Therefore, for this reason, is preferred by certain authorities the supply side effect economic solutions. Thence, according to the theory of cycle of money is plausible to proceed to with a different approach as there the authorities can use the supply side or the demand side according to their willingness. The theory of cycle of money can include any theory to its application, as maximizes the utility in any economic view making to each case the appropriate adjustments. The choice of policies is subject to the special needs and circumstances of the bank system, and of governments. In this paper is given an overall view of the Keynesian theory and of the theory of cycle of money. This study is about the way that the Keynesian approach could be included in the theory of the cycle of money.*

Keywords: the cycle of money, the velocity of liquidity, the velocity of savings, tax& public policy

JEL classification: B41, F40, F43, F62

I. Introduction

This paper analyzes some key points of Keynesian theory and of the theory of cycle of money giving the similarities and the differences between the two theories. Therefore, should be mentioned that exist some special characteristics about them. The Keynesian theory has some attributes that come from the idea of government intervention to the economy. The establishment of the IS-LM model is a thesis that comes from the Keynesian theory. The effect on the IS-LM model affects the demand side. Thence, the authorities try to solve a dysfunction to the economy through an increase in the demand side of the economy. Videlicet, the economy robust by the choice of the authorities to increase the financial liquidity to the public investments. On the other hand, there are and supply-side theories. But, in this paper is scrutinized the adoption of the Keynesian approach in the limits of the theory of the cycle of money.

II. Methodological application

This paper scrutinizes the issues about the Keynesian theory and about the theory of cycle of money. To this thesis is made an analysis to show the way that applies Keynesian theory in the field of the cycle of money. The Keynesian theory uses the IS-LM to clarify its model from the methodology of axiomatics. In addition, the theory of cycle of money is based on the velocity of liquidity, on the velocity of escaping and enforcement savings, using the Q.E. method (which could be viewed as multiple forms of axiomatics). Then, using these two theories we are able to determine an overall view when the governments enforce liquidity and as a result, then try to face issues about the fluctuations. The

government tries to solve issues about the unemployment and the low private investments by making public investments and therefore increasing the financial liquidity, applying with that way the demand side policies. The inclusion of the Keynesian approach to the scale of the theory of the cycle of money resolves the fluctuations and the extended need for demand-side policies. The methodological approach here pends on the scrutiny of these issues and to the identification of the conjunction points between the two theories.

The Keynesian theory is based on axiomatics and the theory of cycle of money on the Q.E. methodology. Both of them then have as root the axiomatics, as the Q.E. method is a kind of axiomatics method.

The axiomatics is the indicator for the determination of the reliability of a study. The axiomatics stands on the assumption that we don't know the result of one hypothesis. The hypothesis is used for the study of compliance with the results. The hypothesis is the axis for the further study of each economic model. Therefore, the axiomatics is giving the background of economic analysis and confirms that the initial hypothesis of the model is fine. If the hypothesis complies with the results then the model is reliable and the principles of the model are adequate to be used to further scientific researches. Thence, we identify two cases about the axiomatics:

- To the first case of the axiomatics the results agree with the hypothesis and according to that, the model is fine. To that case, the model doesn't need further examination and is considered reliable.
- To the second case, the model is not satisfied, because the hypothesis of the model does not comply with the results. Therefore, should be done more adjustments to the model. The role of feedback is crucial for these further modifications, as gives the chance to model to be reexamined with some changes.

Therefore, in this case, we conclude that the economic model is not sufficient. Then, the main concept of axiomatics stands on the correspondence of the initial hypothesis to the mathematical and economic result of the scrutiny. Inasmuch as is plausible to the scientist to clarify the theory about the chosen model.

The theme of the Q.E. theory is based on a methodology which stands on the determination of mathematic equations subject to conditions which also considered. One more important thing is the determination of the upper and the lower limit of the values of the independent variables. Forasmuch as, the dependent variable represents the behavior of the selected model, pending on a generator which produces random values to all the independent variables to configure the interaction between them and their behavior under different conditions. At least the basic study includes two facets which are:

- The analysis of the behavior of the model which stands on the scrutiny of the structural characteristics of each model accordingly, allowing with that way the extraction of general conclusions about the model which is under examination. There is plausible the analysis of data into a two and to a three-dimensional analysis pending on the case.
- The frequency analysis behavior scrutinizes the behavior of the dependent variables, but from the view of the number of appearances of a variable than another, estimating basically the impact that one independent variable has with one or more others independent variables.¹

The prior two key points permit the application of the Q.E. method, as show the behavior of the model. Hence, the Q.E. methodology follows as index four basic steps. These steps are described below:

- The first step is about the hypothesis. Thence, here at this stage, we have the scope and the aim of the analysis of each study.

¹ See the paper: Challoumis, Constantinos, Analysis of Axiomatic Methods in Economics (April 24, 2018). Available at SSRN: <https://ssrn.com/abstract=3168087> or <http://dx.doi.org/10.2139/ssrn.3168087>

- The second step is about the generator, which produces the values for the independent variables. The generator randomizes numbers, which allow the clarification of the model. In this procedure is used an upper and a lower limit, which is important for the production of values through a randomization process. After a crucial number of iterations is plausible to determine the adequate mathematical equation. Then, is possible to have the behavior of the equation which is subject to examination.
- The third step is about the conclusions. Through the feedback, the conclusions are connected with the hypothesis. Then, these conclusions should be considered as the last stage of the research, except if the scientist obtains that they need further modifications. Thence, if needed further adjustments, the scientist uses feedback to solve the problem.
- The fourth step is about the feedback. The key element of feedback is the iterations and the appropriate adjustments of the model.

Therefore, we obtain that the Keynesian and the theory of cycle of money both use some kind of axiomatics procedures. The Keynesian theory through the confirmation of the initial hypothesis using the IS-LM diagrams obtains the behavior of the models. Moreover, the theory of the cycle of money, using the generator and the feedback is plausible to modify the model.

III. Keynesian principles

The Keynesian theory supports government interventions in the economy. According to the Keynesian theory, the government wants the extended production to be absolved, avoiding that way the unemployment. Proportionally the same could be when the demand is much more than the supply. To that second case, the government puts measures to stop the increased consumption. The authorities to succeed this put taxes. Thence, Keynes admits that the general equilibrium is not in balance to the case that we have full employment. The increase in demand which authorities choose to face unemployment is shown to the next schemes:

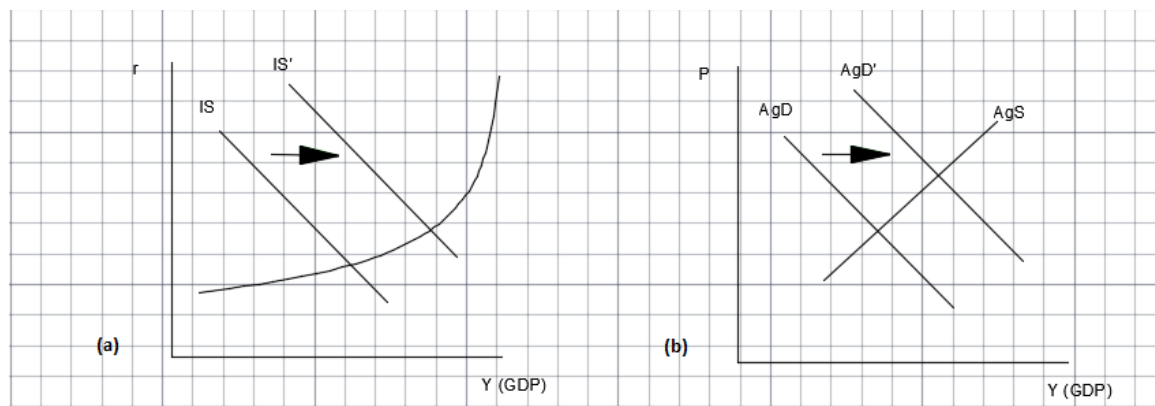


Figure 1: (a) IS-LM diagram (a) Aggregate demand-supply diagram

To the prior diagram and more precisely to figure 1 (b), we obtain that the increase in demand has an effect on the economic system because the aggregate supply has a positive slope. The effect of authorities to the public investments, which is showed with the change to the IS, increases the demand. The GDP is increased and the unemployment faced by the government using this economic tool. But, the same time has noticed an increase in prices showing that this economy has inflation. The inflation is caused by the movement of AgS to the left, but has not the same movement with the AgD, causing some inflation according to Keynes. This analysis is needed for the determination of its behavior with the theory of the cycle of money.

IV. The cycle of money principles and the effect of Keynesian policy

The theory of cycle of money represents the dynamic of the economy. It scrutinizes the structural characteristics of the economy and the appropriate behavior of authorities which are responsible for the public and the tax policy. Therefore, the dynamic of the economy is analyzed with the terms of savings. There has made a distinction between escaped savings and enforcement savings. The way that money of savings recycled or escaped from the economy affects the robustness of the economy. Then, the structural form and the decisions of the authorities on their economic units determine the dynamic of the economy. In the next units is analyzed the cycle of money and the forms that affect it, like the case of velocity financial liquidity and the velocity of escaped savings. These two economic velocities clarify the cycle of money. In the next scheme are used some symbols. The variable of c_m symbolizes the velocity of financial liquidity which being increased or decreased. The variable of c_α symbolizes the velocity of escaped savings. Therefore, the variable of c_y symbolizes the term of the cycle of money.² Thence, we have the following equation which determines the relationship between these economic velocities:

$$c_y = c_m - c_\alpha \quad (1)$$

$$c_y = f * Y \quad (2)$$

Therefore, we obtain from the equation (1) the relation between the economic velocities and from the equation (2) the relation between the production and the cycle of money. To the next scheme is the represented the form of the dependent variable of the cycle of money with its two independent variables. Inasmuch as we have that:

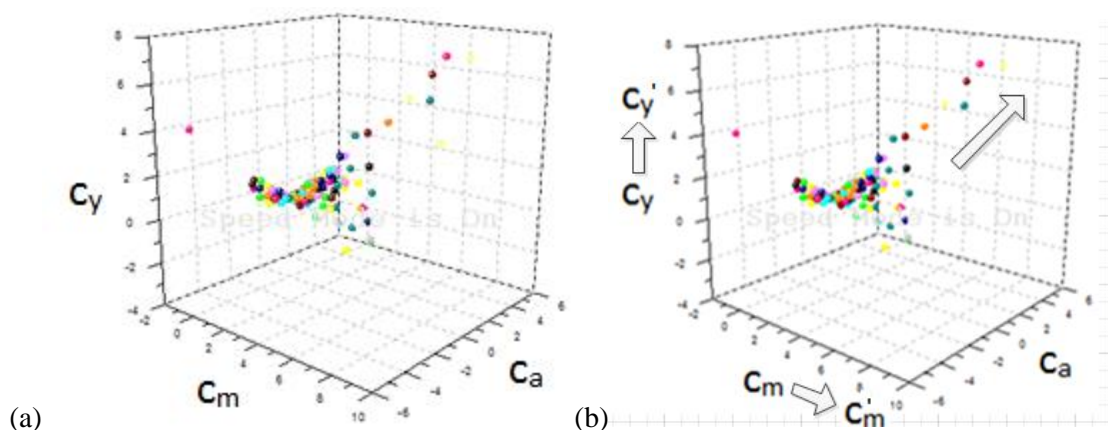


Figure 2: (a) Three-dimensional representation of the cycle of money (b) Three-dimensional representation of the cycle of money after the Keynesian influence

In figure 2 (a) is illustrated the case of the three-dimensional representation of the cycle of money. Then, we obtain from that diagram that c_y and the c_m have positive values, and c_α has basically negative values. Therefrom, we obtain that the controlled transactions of transfer pricing decline the cycle of money as we expected. The velocity of escaped savings diminishes the cycle of money and therefore we have weak positive cycle of money. The ideal economy is not a closed economy but an economy with fragments. The economy with fragments is that economy which maintains the financial liquidity through the decline of the escaped savings. Then, according to that mechanism is the cycle of money is enforced, with the investments and the consumption is in high level.

² See paper: "Challoumis, Constantinos, The Theory of Cycle of Money (March 25, 2018). SSRN: <https://ssrn.com/abstract=/>", as they use the same base for their analysis.

In figure 2 (b) is shown the cycle of money with the impact of the Keynesian policy. The combination of figure 1 (b) with figure 2 (b) reveals the relationship between the two theories. The conjunction point between these two approaches is the production Y (or GDP) which shows that the increase of GDP increases the velocity of liquidity and therefore the dynamics of the economy is increased.

According to Keynes, the AgS would be moved to the left, but no full equilibrium balance could happen. This procedure causes some inflation but contemporaneously faces unemployment through the investments of the private sector. The cycle of money increases the liquidity that is inside the economy, then robust the economy without to cause inflation as no entry of new money enter the market. Therefore, the government would be able to do not provide huge financial liquidity. Inasmuch as this situation with the cycle of money helps the structural elements of one economy and the supply side policies. Thence, the appropriate combination of Keynesian policy with the cycle of money achieves to face the unemployment and to enforce in general the economy without inflation effects.

Therefore, we are able to have some key points about the relation of the Keynesian theory and the theory of the cycle of money:

- The Keynesian policy achieves to face unemployment, but causes some inflation, because there we don't have a full equilibrium balance to the economy.
- The Keynesian theory is about demand-side policies.
- The theory of cycle of money is plausible to combine with any policy, wherever belongs to demand-side policy or supply-side policy or any other economic implementation.
- The theory of cycle of money enforces the structure of the economy and increases its dynamic with the economic units which have this economy.
- The combination of Keynesian theory and of the cycle of money permits the enrichment of the economy without having the inflation because the better mechanism of the economy allows having no need for too much liquidity increase.

Thence, we obtain that the two theories under the appropriate combination serve the scope of the public and tax authorities, without an extended financial liquidity increase and without inflation. From equation (2) we have the next diagram:

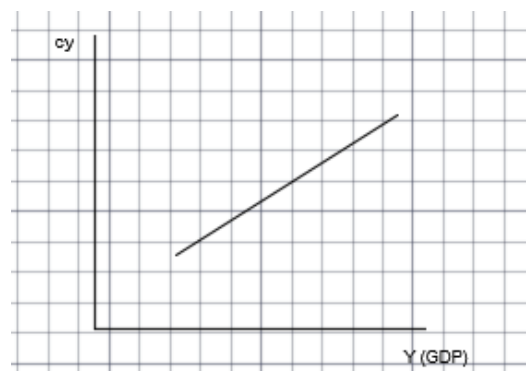


Figure 3: c_Y - Y diagram

The prior diagram shows that the theory of cycle of money can empower the economic indicators using and the existing liquidity of the economy. These doesn't mean that can't cooperate with supply side and with demand-side policies or any other kind of economic policy. Therefore, estimating the structural economic characteristics of the economy is able to avoid some effect, like the case of inflation or the case of stagflation.

V. Conclusions

This paper shows the connection between the Keynesian theory and the theory of the cycle of money. Both of them use the liquidity to robust the economy. The Keynesian theory enters the appropriate liquidity of the economy. The theory of cycle of money uses the liquidity whatever it comes from new financial enforcement or the remaining money in the economy. This special characteristic of the theory of cycle of money allows the combination of different policies.

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PILLARS OF INTEGRITY IN THE ROMANIAN POLITICAL - ECONOMIC CONJUNCTURE

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Abstract: *In a general approach, we can define as the pillars of integrity the four elements that can function in a circuit and sense that help to increase the integrity, respectively: accountability, transparency, legality and politics, the pillars that ensure the national security of a state. The article analyses all these four elements according to the theory in the field and practical aspects which were met in the world during the last decades. The interdependency between political determinants and economical effects is obvious. This is the reason why we want to analyse the complex connections with integrity, also governance and appeal the different studies done by the international institutions in the world to demonstrate it.*

Keywords: integrity, responsibility, transparency, law.

INTRODUCTION

Analyzing the political and economic conjuncture in our country, we can emphasize that the pillars of integrity as strategic elements in the development of society are: "elected legislative, honest and powerful executive, an independent and responsible judiciary system, an independent general auditor (subordinate to Parliament) of the people, a specialized and independent anti-corruption agency, an honest and unpolished stable (bureaucracy) service, an honest and efficient local government, independent and unrestrained media, a civil society capable of promoting public integrity, responsible and honest corporations, and a framework international for integrity".³

Pillars of integrity can be defined by actions that require a maximum of responsibility, by ensuring transparency in all measures and policies that affect state citizens through a constructive policy and by improving and simplifying the legislative system.

Thus, to ensure national security, we must increase the integrity of citizens and build a system that ensures integrity and diminishes corruption.

„Where it hits the law, we must judge things according to the needs of reason and equity.”

^{1***}, 2013, *Consolidarea integrității și reducerea corupției în forțele armate-Culegere de practice exemplare*, Centrul de la Geneva pentru Controlul Democratic asupra Forțelor Armate (DCAF), Editura Arc, Chișinău, Moldova

1. RESPONSABILITY

Responsibility is one of the pillars of governance, an important part of integrity, defined as "the obligation to do something, to answer, to account for something, to accept and bear the consequences; responsibility, function, responsibility".⁴

Responsibility is associated at all levels with the notion of accountability, being a lever of control, both at the macroeconomic level and in the structures below the central level. Through the actions taken, each citizen has to focus his attention on the responsible and efficient completion of all these actions.

Responsibility has several forms, namely: social responsibility, educational responsibility, democratic accountability ("democracy is not a gift, it is a responsibility"⁵), financial responsibility.

Responsibility can be seen in two ways, the responsibility of others towards us and our responsibility towards other people.

The simplest form of responsibility derives from the care of others towards us by the custom made, manifested by the care of the parents, the poets, the superiors, the governors. Larger form occurs when responsibility has to be maintained in the opposite direction.

Another concept is that of social responsibility, known since the beginning of the 19th century, which marks the emergence of the first corporations, and their owners participated in the construction of dwellings, schools, libraries, assuming responsibility within the community.

Archie Carroll and Ann Bucholtz said that "economic, legal, ethical, and philanthropic responsibilities make Corporate Social Responsibility (CSR)"⁶, aspect also found in practice. Thus, any corporation must, in order to achieve its objectives, comply with corporate social responsibility and always act in accordance with legal provisions, provide security to all investors and shareholders, conduct ethical conduct towards all parties involved, a positive impact on the community.

Another definition describes social responsibility as "engaging business environments that contribute to sustainable economic development in collaboration with employees, the social community and society as a whole to improve the quality of life and find opportunities for growth and society development".⁷

The European Union defines social responsibility as a concept through which a company voluntarily integrates all initiatives and concerns about social and environmental issues into business operations and interaction with stakeholders.

An element of responsibility can be associated with the notion of good governance.

According to the definition in the explanatory dictionary of the Romanian language, the notion of good governance is "Action to govern; management of a state or administrative unit. Popular advices are the most democratic form of government in our people's history".⁸

In "Making sense of governance: the need for involving local stakeholders", Goran Hyden, Julius Court and Kenneth Mease are surprised by the essence and the issue of good governance. They express their concerns about good governance in Making sense of governance: "Why, why and how can governance make a difference in the way a country develops?"⁹

⁴Dicționarul explicativ al limbii române - editia 2016, Univers Enciclopedic, Academia Romana

⁵Dalton Trumbo, 2007, *Johnny Got His Gun Hardcover*, Citadel – Kensington, ASIN: B00HTJRIFK

⁶ Archie B. Carroll and Ann B. Buchholtz, 2001, *Business and Society: Ethics and Stakeholder Management*, fourth edition Teaching Business Ethics, USA

⁷***, *Consiliul Mondial de Afaceri pentru Dezvoltare Durabilă (WBCSD)*

⁸<https://dexonline.net/definitie-guvernare>

⁹Goran Hyden, Julius Court, Kenneth Mease, 2003, *Making sense of governance: The need for involving local stakeholders*, Working and discussion papers, USA

Governance has appeared since ancient times, being analyzed by Aristotle in his work entitled "The Athenian State." Aristotle studied the old constitutions that existed in the ancient times, where lawmaking was made through the *smotheti*, they kept the text of the law and made it available to judges. This study shows us a way of sharing divided between nobles belonging to the aristocracy, state functions were handled by lottery and time-limited mandates, based on degrees.

Aristotle clearly conveys the idea that for the good governance an important role has the people, but equally important is the effect of the law. The essence of the term of good governance is given by the common good of citizens, and Aristotle has a certain preference to govern to the middle class of society.

In the 1980s in the World Bank's writings, Good Governance appeared for the first time, having been exposed in the debates of developing countries uncovered from the socialist system after the communist era was considered a precondition for the allocation of international financial aid.

In 1989 the World Bank in the preface of the study "Sub-Saharan Africa - From Crisis to Sustainable Growth", the notion of "good governance" is published through a conceptual archeology outline. In 1991, the World Bank supported the first conference on the theme of "the economy of development".

In 1992, the notion of good governance outlines a form expressed in the Governance and Development report: "a decisive factor in creating and strengthening an environment that fosters solid and equitable development, which is also an essential complement to robust economic policies." The information contained in this report refers to public sector reform and political accountability. The criticism of this report led to the emergence of the notion of "governance crisis".

The governance crisis, also called poor governance, includes:

- the failure of public and private delimitation, which led to the diversion of public funds to private gain;
- the lack of predictable governance and a legal legal framework;
- excessive attitude to the need for regulation;
- outstanding priorities for resource allocation;
- decisions in a resting context without ensuring transparency.

The World Bank considered that the stagnation of the development of developing countries in Africa is due to the lack of qualified staff, corruption and history, the mentality and legacy of the colonial past.

In the content of the Development in Practice Governance report, the World Bank issued in 1994 the principles of good governance:

- "predictive, open, informed decision-making process (a transparent process);
- a bureaucracy with professional ethical standards;
- an executive responsible for its actions; and a robust civil society involved in public affairs;
- the most important being the rule of law".

Analyzing the phenomenon of responsibility with reference to the idea of good governance, we can conclude that we must always have a predictable action plan that respects the lawfulness of all the actions undertaken.

"The world will not end because of those who do evil, but because of those who look at them and do nothing" Albert Einstein

2. TRANSPARENCY

In order to gain confidence and to make the integrity process more efficient, the second pillar comes in place, namely transparency.

Transparency is "clarity, intelligibility, clearness".¹⁰

Transparency must be ensured:

- in the act and program of government;
- in all social measures and policies;
- in the financial and fiscal sphere.

Analyzing the institutional structure of the rule-of-law bodies, we can note that the citizens of this state are increasingly expecting and calls for transparency at all levels through all means of communication.

An extremely important aspect derives from the desire for social rights outlined through educational aspects that create knowledge, respect and trust. By ensuring a satisfactory level of transparency, with respect for public integrity, citizens of the rule of law need knowledge, respect and trust.

The assurance of transparency was also achieved through the objectives and outcomes of the Anti-Corruption National Strategy 2012-2015.

Several general objects and specific objectives have been defined in the structure of the National Strategy.

One of the overall objectives of the strategy was to prevent corruption in public institutions, resulting in more specific objectives and implementing measures.

One of the specific objectives was "Remedying the vulnerabilities specific to public institutions by systematically implementing preventive measures". This Objective had specific measures as the material substance, namely the most important introduction of a unitary corruption risk assessment methodology at the level of the public institutions as a prerequisite for the development of internal integrity plans. The evaluation report identified several implementation structures that did not have unitary coordination, and the number of employees counseled by the Ethics / Integrity Councilor in the ministries indicates that at least in quantitative terms in different ministries (including the subordinate agencies) and in most independent institutions, the self-reported counseling activity was zero or no information was provided and the ethics counselors' missions are in principle formal and many representatives of local governments do not even know that this counselor exists in institutions.

Another specific objective addressing the phenomenon of transparency is "increasing institutional transparency by increasing the availability of open public data made available by public authorities" has involved measures both in ensuring compliance with the provisions on access to public information and information on transparency of the decision-making process and the development of e-government solutions, e-administration and e-justice as platforms for accessing public services by citizens.

Another element needed to increase integrity and integration into the pillar, called transparency, can be harnessed by employee knowledge of the ethical rules governing the exercise of public office or dignity, service duties, internal rules of various public institutions, working procedures and applicable sanctions are essential prerequisites for institutional integrity.

In other words, the promotion of integrity and ethics in public life cannot be achieved without the contribution and active role of citizens as beneficiaries of public services. Rejecting corruption by citizens, reporting irregularities or abuses are manifestations of civic spirit and respect for the rule of

¹⁰*Dicționarul explicativ al limbii române - editia 2016, Univers Enciclopedic, Academia Romana*

law. These values, however, need to be promoted and explained thoroughly, starting from early educational years and doubled by easy access to public information.

The implementation of the law on access to public information (adopted in 2001) has benefited from a rather favorable assessment at the start of the National Anticorruption Strategy.

It has been found that almost half of the monitored public institutions have failed to publish their activity reports for the year 2014. A number of tools have also been developed to provide access to information, such as the public hospital budget monitoring tool, payment systems and tracking of documents, publication by the High Court of Cassation and Justice of anonymous integral texts of all decisions made by this court, opinions of the National Immigration Agency regarding the interpretation of some legislative provisions, the broadcasting of the sittings local councils through local television, and the publication of open-data information from the institution's own initiative.

An important role in ensuring transparency and integrity is largely based on the implementation of the distinct integrity strategy in the judiciary, namely: "Strengthening the integrity and transparency of the judiciary by promoting anti-corruption measures and professional ethics standards."

Analyzing the specific objective "Strengthening Integrity, Efficiency and Transparency in Local Government" resulted in measures to simplify the administrative procedures for issuance of certificates and authorizations, the establishment of cost standards and the adequacy of organizational structures by reference to cost standards and population served.

3. POLITICS

The political element has a maximum weight at this stage, developing both positive elements and negative elements in the process of integrity, so politics is a basic pillar of integrity.

Politics is "the science and art of governing a state; form of organization and leadership of human communities, which maintains the internal order and guarantees the external security of the respective communities".¹¹

Analyzing the general and specific objectives contained in the national anticorruption strategy, we can mention as a specific objective "Increasing Transparency in the Financing of Political Parties and Electoral Campaigns", mainly based on the implementation of the recommendations made during the third GRECO evaluation round, adopted in the year 2010. The evaluation report found that the recommendations outlined in the Action Plan of the National Anti-Corruption Strategy were implemented satisfactorily, as follows:

- the introduction of the legal requirement that the annual political parties' statements to be submitted to the Permanent Electoral Authority (hereafter, AEP) should be independently audited prior to their submission;
- the AEP receives all responsibility for monitoring the compliance of the financing of the activity of political parties and electoral campaigns with Law no. 334/2006 on financing the activity of political parties and electoral campaigns
- extension of the limitation period applicable to violations of Law no. 334/2006 on financing the activity of political parties and electoral campaigns. Romania has only partly implemented the following recommendations:
 - introducing the obligation for political parties to transmit centralized financial statements to EPAs and to make publicly available appropriate summaries;
 - establishing the legal obligation that all donations be recorded and included in the accounting documents of political parties and electoral campaign participants;

¹¹*Dicționarul explicativ al limbii române - editia 2016, Univers Enciclopedic, Academia Romana*

- Introducing the legal obligation that all donations exceeding a certain ceiling be made through the banking system (the current threshold is 10 minimum gross wages, ie more than 23,000 UER, which is quite a lot);
- sanctioning all violations of the Law no. 334/2006 on Financing the Activity of Political Parties and Electoral Campaigns with Effective, Proportional and Dissuasive Punishments.

From a political point of view it was considered as a specific objective "Strengthening Integrity among Members of Parliament", this objective has, according to the Evaluation Report, limited progress.

When analyzing this pillar we will also explain the elements that arise from the financing of political activities, namely the funding of political parties and electoral campaigns.

Under Law no. 334/2006 on the financing of the activity of political parties and electoral campaigns, republished, as subsequently amended and supplemented (hereinafter referred to as Law No. 334/2006), of the Methodological Norms for the application of Law no. 334/2006 on financing the activity of political parties and electoral campaigns, approved by the Government Decision no. 10/2016 and the Regulation on the Organization and Functioning of the Permanent Electoral Authority, the report on the activity carried out by the Department for Controlling the Financing of Political Parties and Electoral Campaigns in 2017.

Contravention sanctions were found in order to be sanctioned by Law no. 334/2006, which addressed non-compliance issues:

- the legal provisions regarding the organization of the parties' accounting, according to the accounting provisions in force;
- the obligation to make the requested documents available to the control teams;
- the legal provisions regarding the obligation for the political parties to publish in the Official Gazette of Romania, Part I, the mandatory data regarding the sources of financing obtained in the fiscal year 2015 or 2016;
- the legal provisions on obtaining income from other sources;
- legal provisions regarding loan financing;
- non-observance of the legal provisions regarding donations and discounts that exceed 20% of the value of the goods or services offered;
- the obligation to carry out election expenses only through bank accounts opened for this purpose;
- legal provisions whereby contributions to election campaigns are considered donations;
- parties' obligations to report quarterly debts recorded in electoral campaigns;
- the political party's obligation to return to the election candidates the amounts reimbursed by the Permanent Electoral Authority and unspent amounts;
- the obligation of the political parties to submit the data for drawing up or updating the fiscal register of the political parties.

Non-contraventional deviations were related to accounting errors, the failure to draw up income tax forms (contributions, donations), the transmission of inaccurate situations regarding the sources and amounts of income obtained by political parties to the Permanent Electoral Authority.

In order to repair the identified deficiencies, besides the sanctions applied, a series of general or specific recommendations were formulated which consisted of:

- the permanent observance of the provisions of Law no. 334/2006 and the Methodological Norms for the application of Law no. 334/2006 on financing the activity of political parties and electoral campaigns;

- organizing and managing the accounting according to the provisions of the Accounting Law no. 82/1991, republished, as subsequently amended and supplemented;
- Compliance with the Accounting Regulations for legal entities without patrimonial purpose, approved by the Order of the Minister of Economy and Finance no. 1969/2007, as amended and supplemented;
- the observance of the Norms regarding the organization and performance of the inventory of the assets, debts and capital items approved by the Order of the Minister of Public Finance no. 2634/2015 on financial accounting documents.

4. LEGALITY

A fourth pillar of integrity is that of legality.

Legality is "strict adherence to laws, a legal order that ensures the life and activity of a society, a state".¹²

Applying legislation, principles and good practices as well as focusing on improving legally binding measures, prevention tools and anti-corruption mechanisms lead us into national security and defense.

The national security of a state is closely related to formal justice, "impartial and consistent administration of institutions regardless of the substantive / fundamental / essential principles."¹³

Failure to comply with the law raises the responsibility of those involved, so citizens of a state must show rational behavior that leads them to the most eloquent positive outcomes in relation to social justice.

"An interesting example is found in Ostrom, 2007 (p.81): access rights to common land were granted only to a household unit, and not to individuals as such. As a result, families with many members were at a disadvantage in accessing common goods. Population growth was very slow.

Perhaps, on the contrary, the rules of an institution are built in such a way as to be in disagreement with the interests of rational actors and other fundamental institutions. Thus, actors choose to avoid the costs associated with the rule by corrupting the formal administration of the rule."¹⁴

In 1999, in the book "A Theory of Justice" John Rawls expresses the idea of justice in the structure of social legality and makes a difference between the rules, institutions and citizens that make up the social structure. He believes justice can be assumed by rational, free and equal individuals.

Thus, legality is contradictory to corruption and is associated with integrity.

Loss by citizens and public institutions of interest in the need to comply with the law leads to the loss of legitimacy. Thus, corruption gains ground against the security of national security.

CONCLUSIONS

The four pillars of integrity must be focused on improving legally binding measures, prevention tools and preventive mechanisms in the sphere of national security and defense.

Thus, good anticipation, understanding, and development of an integrated, balanced, fair response capacity leads to the mitigation of the risks and threats of the rule of law.

¹²Dicționarul explicativ al limbii române - editia 2016, Univers Enciclopedic, Academia Română

¹³Radu Nicolae, 2010, *Corupția și politicile anticorupție*, Polirom

¹⁴Idem

The pillars of integrity in the current political-economic conjuncture in Romania are based on knowledge and education and, last but not least, on legislation. The purpose of building a system of integrity is to develop adequate systems of timely discovery of dangers, risks and threats, with a view to preventing their production by combining both military and civilian instruments, is imperative.

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HOW EFFECTIVE IS EU IN PROVIDING SECURITY? ANALYSIS OF THE COREPER AND PSC IN THE DEVELOPMENT OF EU'S DIPLOMACY

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Abstract: *The European Union represents a unique form of cooperation between 28 Member States, which accessed this economic and political partnership on a voluntary basis. The EU enlargement process has been perceived by the EU, as an opportunity to further and deepen the integration process of the continent through peaceful means. EU has proven a transformational polity, providing proper political mechanisms beyond the state, which leads to the question whether there exist proper mechanisms for a diplomacy beyond the state, thus transforming the EU into a complex international actor. To the national diplomatic system was added the institutionalized system in the field of EU's Common Foreign Security Policy (CFSP). The level of institutionalization and the manner of delegating competencies at supranational level allowed the development of a diplomatic governance of the Community. Put under a magnifying glass, the progress of EU integration is influenced by two major groups of diplomats, that represent the central crafting of a new European security space on behalf of the Member States: the Committee of Permanent Representatives II (also known as COREPER) and the Political and Security Committee (PSC). COREPER is focused around internal security issues, while the PSC concentrates its attention around solving external security and crisis situation issues. Cooperation in the field of internal affairs is an area of high importance in the current international relations. Border management, migration, asylum, the fight against organized crime and terrorism are topics of interest to the challenges that EU's diplomacy is facing today. This article analyses the institutional framework of COREPER and PSC and their effectiveness in today's turbulent political and economic climate, in the attempt to answer the question: "Who is EU representing, or on whose behalf is EU acting?"*

Keywords: COREPER, PSC, international relations, EU's diplomacy, common security

JEL Classification: F02, F50, H77

Introduction

Being a unique form of cooperation between 28 Member States, the European Union represents an economic and political partnership on a voluntary basis. The EU enlargement process has been perceived, by the EU as an opportunity to further and deepen the integration process of the continent by peaceful means (Archik, 2013, p. 1). EU has proven a transformational polity, providing proper political mechanisms beyond the state, which leads to the question whether there exist proper mechanisms for a diplomacy beyond the state, transforming the EU into a complex international actor (Bátora, Hocking, 2008, p. 1). However, the progress of EU integration is influenced by two major groups of diplomats, that represent the central crafting of a new European security space on behalf of the Member States: the Committee of Permanent Representatives II (also known as COREPER) and the Political and Security

Committee (PSC). COREPER is focused around internal security issues, while the PSC concentrates its attention around solving external security and crisis situation issues (Davis Cross, pp. 1-2.)

The institutional EU architecture relies on bodies where topical discussions can be undertaken: alongside the European Council, European Parliament and EU Council – foreign Council of Ministers, the COREPER and the PSC represent instruments that help create the work agenda and, based on co-operation, address internal and external EU diplomatic issues.

What is COREPER and how does it work?

Each EU Member State is entitled to a national delegation sent to Brussels, that acts as a national embassy in relations with the European Union. These delegations are headed by senior diplomats, also known as the "permanent representative" (Buonanno, Caviedes, Dowley, Nugent, 2013, p.11), ranked as Ambassador Extraordinary and Plenipotentiary. All these diplomats form the Committee of Permanent Representative (COREPER). The main task of COREPER is to act as a Secretary for the EU Council, preparing its working agenda and deals with issues concerning politics, finance and foreign policy. COREPER also coordinates the work of 250 committees and working parties regarding technical issues (DAC, 2012, p.10). The COREPER Members are, basically, the extension of the national government of Member States in Brussels, coming from Departments of the Foreign Services of their countries, or from other Government Departments, such as: Agriculture, Trade and Industry, Finance, Employment, etc. The designated individuals rely on a high experience and contacts in their domestic countries and their field of work, alongside being familiar with the EU decision-making mechanisms, thus creating a link between the domestic and EU-level, based on policy co-ordination. COREPER relies on a high number of employees – acting as the COREPER staff, that provides help on a daily basis. One criticism of the COREPER action-taking within the EU's decision-making mechanism is the creation of an erosion in distinguishing between national and EU policy-making, enabling an "Europenisation" of the domestic governance (Blair, n.d., pp. 2-3).

From a historical perspective, COREPER was founded in 1958, after the Coordination Committee (COCOR) model and in 1967, Article 4 of the Merger Treaty allowed the merger of the two bodies. Even if it belongs to the EU institutional architecture, COREPER is not an EU institution or a decision-making body, but it is "*responsible for preparing the work of the Council and for carrying out the tasks assigned to by the Council*" acting as an auxiliary body of the Council (***, COREPER: Tasks and working Method, p.1).

The COREPER acts like a filter, allowing a positive coordination of the horizontal policies between the Member States, parallel with consulting actions for Member States. As a mediator between the EU and its Member States, COREPER has facilitated the consolidation of diplomats as mediators between their home state and other external actors, emphasizing on the importance of cross-national relations (Bátora, 2003, p. 14). COREPER consists of diplomats of the Member States, and its successful actions – as a policy-making instrument – are reflected by the low percentage of decisions that are taken at Ministerial level – only 10-15% (Quinn, 2011, p. 31), leaving the remaining 85-90% of decision-making for the COREPER, despite the pressure emerged from the high number of national interests.

After the Lisbon-Treaty – 2009 – the European External Action Service – EEAS and the HR/VP share the competence of ensuring horizontal coherence in the field of CSFP, the COREPER becomes less relevant (Helwig, Ivan, Kostanyan, 2013, p. 16).

What is PSC ?

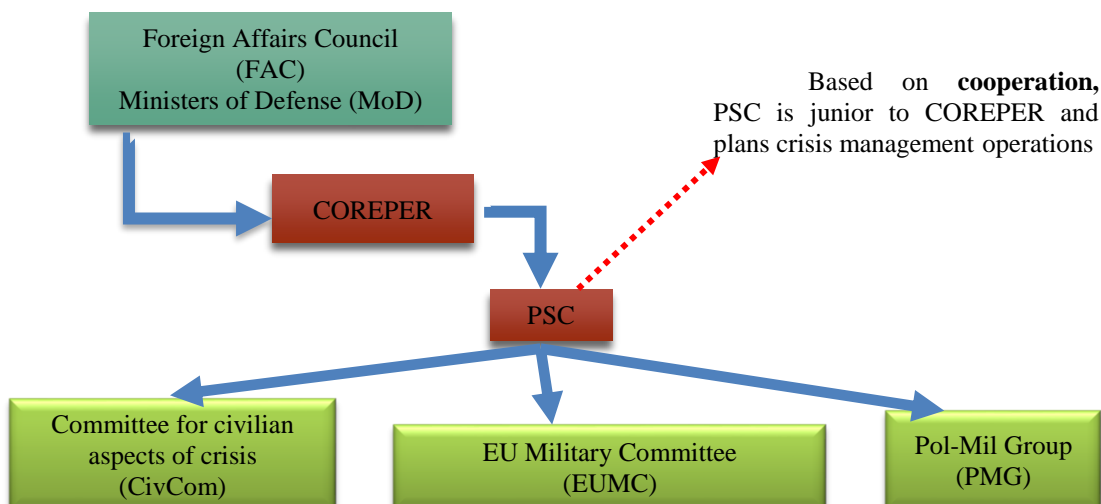
The Political and Security Committee – PSC consists of one representative from each Member State, ranked as an Ambassador, and one representative from the European Commission. Their formal meetings are twice a week, alongside other informal meetings. It was created on March 2000 as an interim institution, that on April 2001 became permanent. Its scope is to monitor the international situation in areas linked to the CFSP, drafts opinions for the Council of the European Union, thus contributing to policy-making. The PSC has also a supervising function, since it oversees the implementation of the

agreed policies (Howorth, 2010, p.4, 6). PSC members are focused around expediency rather than real deliberation and the institution is more acts more on a persuasive level rather than on bargaining, proving a weaker institution, compared to COREPER (Davis Cross, p. 17.). According to Nice Treaty, PSC may be authorized by the Council to take the appropriate decision itself, in case of a crisis, for crisis-management operation and for the duration of the crisis. PSC prepares the agenda for the General Affairs and External Relations Council (***, Committees and working parties, 2016, p.3) and the issues prepared by PSC have to pass the COREPER that addresses also the Foreign Affairs Council – FAC – issues, that are non-crisis and non-security related (Helwig, Ivan, Kostanyan, 2013, p. 26).

According to ... the PSC keeps track of the international situation in areas linked to CFSP, provides guidelines for other Committees and acts as a co-ordination and supervision body for the working groups. It leads the political dialogue and, under the auspice of the Council, it takes responsibility for the political direction and development of military capabilities. In a situation of a crisis, the PSC is the body that deals with it, by examining the options of EU's response to the crisis, without affecting the decision-making process inside the three pillars (***, Council Decision, 2001, p. 2).

Basically, PSC is the junior to COREPER and acts in terms of subordination and co-operation, as Figure No. 1 describes it below.

Figure 1: COREPER and PSC schematic interaction



Source: Own conception, based on Roux, P., 2012, *EU Capability Development Pooling and Sharing*, European Union External Action, EU Military Staff, March, slide no. 3, available on: <http://slideplayer.com/slide/740994/>, [May 4th 2017]

The Department of Political Affairs, created in 2012, works closely with the PSC and includes the chair of the PSC, ensuring a close co-operation with the chairmen of the working groups. From a functional perspective, this department is the equivalent of the political departments of National Ministries of Foreign Affairs, having a vital importance for the future policy direction of the EEAS (Helwig, Ivan, Kostanyan, 2013, p. 16).

EU's security at a glance

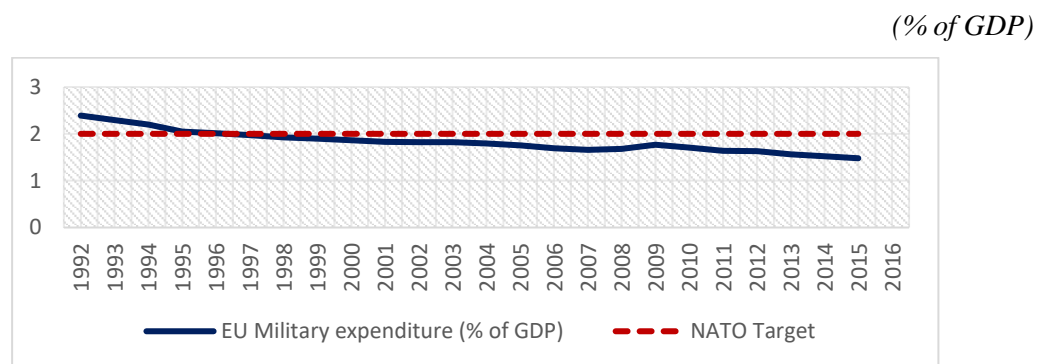
The conceptual framework for EU's common foreign security policy is embedded in the *European Security Strategy* – EES – a document adopted by the European Council in December 2003. The EES analyses the threats that EU is confronted with, takes into consideration the need to reinforce security in EU's neighbor countries and reinforces the importance of effective multilateralism for the establishment of new world order (Heusgen, 2004, p. 7). The progress made by EU towards creating a

coherent foreign policy and an effective crisis management stresses out the need for action and the importance of bilateral and multilateral cooperation and the creation of a defence agency (Solana, 2004, p. 53) that acts to the benefit of the entity.

According to World Bank Database definition on military expenditure, the data provided are derived from NATO definition and "include all current and capital expenditures on the armed forces, including peacekeeping forces; defense ministries and other government agencies engaged in defense projects; paramilitary forces, if these are judged to be trained and equipped for military operations; and military space activities" (World Bank Database, 2017).

The selected data are have a yearly frequency, starting from 1992 – the year of the Maastricht Treaty signing – to 2015 – the last series available. They are expressed as a percentage of GDP and includes all Member States of EU. The data are compared to *NATO's 2% of GDP defence expenditure target*, which represents an aim, rather than a binding commitment (***, GDP-based Targets in International Organisations, p. 2). EU's military expenditure have a descendent trend, with the exception of 2009, when, at communitary level, 1.77% of GDP was allocated for this area. This data shows a paradox: during the global economic and financial crisis, the trend was descendent, with the exception of the year 2009, leading towards the conclusion that Member States were focused on facing the economic and finanacial challenges derived from the crisis, alongside the awareness of critical political situations, as a consequence of the economic one.

Figure 2: EU's military expenditures



Source: Own conception, based on data from World Bank,
<http://databank.worldbank.org/data/reports.aspx?source=2&series=MS.MIL.XPND.GD.ZS&country=#>,
 [May 4th 2017]

As an entity, the EU shows a sluggish evolution in meeting the NATO target, however, there has been an increase in the defence expenditure of CEEC's, while the Western Member States have registered declines, relying mainly on the help of NATO, in case of a military crisis.

Diplomacy within the EU relies on a set of rules and norms that regulates the states' interaction inside the EU borders, contrary to the Westphalian diplomacy – a regulatory system allowing the nation-states to interact and survive in an environment that is dominated by anarchy. The foreign ministers of the Member States maintain the priorities of their national security agenda, adding the co-operation inside the Common Foreign Security Policy – CSFP and NATO to fight against transnational threats such as: terrorism, illegal arms proliferation, organized crime (Bátora, 2003, p. 12).

Conclusion

Agreements are more effectively reached through the multilateral negotiations in COREPER, resulting in a higher number of intergovernmental decisions, that are concluded inside COREPER, adding thus, a novelty to diplomatic fashion (Quinn, 2011, p.31). The PSC focuses on solving military crisis and cooperates with COREPER members. However, in a turbulent economic and political

environment, EU's Member States have proven a closer attention to ones own security policy, rather the common one, relying on the help provided by NATO or by other Member States, in case of a security emergency. This type of diplomatic approach referes to a realistic point of view for each Member State, despite EU's functionalist orientation of diplomacy, with a starting point within the liberal theory.

At EU level, the importance of close co-operation between Member States in the area of CFSP is constantly stressed, the main scope being to provide security inside and outside EU borders. From an institutional point of view, the close co-operation of COREPER with PSC offers a safe environment on paper, but the diplomatic actions required for the recent crisis management, make it difficult for these bodies to help provide security. After the Lisbon-Treaty, EU kept promoting its' values: democracy, peace, cooperation, sustainable economic growth, solidarity and the global economic and financial crisis has not diminished the EU's commitment towards democracy and human rights.

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