

# MEDZINÁRODNÉ VZŤAHY

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Vedecký časopis pre medzinárodné  
politické, ekonomické, kultúrne a  
právne vzťahy

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## Obsah

 <b>ROLE STÁTU V EKONOMICE A STÁTNÍ KAPITALISMUS: PŘÍPAD ČÍNY A INDIE</b> DOC. ING. MARTINA JÍRANKOVÁ, PHD. – DOMINIK PROCH _____	347
 <b>PERSPEKTÍVY EURÓPSKEJ INTEGRÁCIE NA FUNGOVANIE KULTÚRY V SOCIÁLNO-EKONOMICKEJ KONŠTRUKCII EÚ</b> HORATIU DAN _____	376
 <b>VÝROBNÁ ZNAČKA AKO AKTÍVUM V MEDZINÁRODNOM OBCHODE</b> LIUBOV LUKIANENKO – VIKTORIA SHELEST _____	390
 <b>INTERVENCIA NA POZVANIE</b> PROF. JUDR. STANISLAV MRÁZ, CSC. – JUDR. KLAUDIA HRANÍKOVÁ PYTELOVÁ, PHD. _____	407
 <b>KAROL, SORBY ML.: DEJINY IRACKEJ MONARCHIE (1918 – 1941)</b> PROF. PHDR. EDUARD GOMBÁR, CSC. _____	420
INFORMÁCIE O ČASOPISE MEDZINÁRODNÉ VZŤAHY .....	424
INŠTRUKCIE PRE AUTOROV .....	426

## Content .....

 <b>THE ROLE OF STATE IN THE ECONOMY AND STATE CAPITALISM: THE CASE OF CHINA AND INDIA</b> MARTINA JIRANKOVA – DOMINIK PROCH .....	347
 <b>A EUROPEAN INTEGRATION PERSPECTIVE ON THE FUNCTION OF CULTURE IN THE SOCIO-ECONOMIC CONSTRUCTION OF THE EU</b> HORATIU DAN .....	376
 <b>TRADEMARK AS AN ASSET IN INTERNATIONAL BUSINESS</b> LIUBOV LUKIANENKO – VIKTORIA SHELEST .....	390
 <b>INTERVENTION BY INVITATION</b> STANISLAV MRAZ – KLAUDIA HRANIKOVA PYTELOVA .....	407
 <b>KAROL, SORBY JR.: THE HISTORY OF IRAQI MONARCHY (1918 – 1941)</b> MILOS MENDEL .....	420
ABOUT THE JOURNAL OF INTERNATIONAL RELATIONS .....	424
GUIDE FOR AUTHORS .....	426



## ROLE STÁTU V EKONOMICE A STÁTNÍ KAPITALISMUS: PŘÍPAD ČÍNY A INDIE

### THE ROLE OF STATE IN THE ECONOMY AND STATE CAPITALISM: THE CASE OF CHINA AND INDIA

*Martina Jiránková<sup>1</sup>, Dominik Proch<sup>2</sup>*

Navzdory zdánlivé podobnosti vykazují ekonomiky Číny a Indie značně odlišnou strukturu běžného a finančního účtu platební bilance. Cílem stati je detailněji zkoumat tyto dvě asijské ekonomiky právě z perspektivy běžného a finančního účtu, a to s ohledem na jejich vývoj a strukturu. Zatímco Čína je klasickým příkladem státního kapitalismu a čerpá výhod, jež zapojení do světové ekonomiky nabízí, Indie je v určité fázi přechodu od centrálně plánované k tržní ekonomice. Čína dlouhodobě vykazovala vysoké přebytky běžného účtu, tento trend se však postupně mění za probíhající reorientace k domácí poptávce. Vývoj indické platební bilance naopak indikuje relativně nízké zapojení ekonomiky do globálních reálných i finančních toků.<sup>3</sup>

Klíčová slova: státní kapitalismus, Čína, Indie, platební bilance

Despite the apparent similarity of China and India, a very different structure of their current and financial account has been found out. The purpose of the article is to examine these two economies from the perspective of current and financial accounts in more detail. China is a classic example of state capitalism but also it can use advantages which the global economy is offering. India is somewhere in the transition from a centrally planned economy to a market economy. China has shown high surpluses of its current account for a long time. This trend is gradually changing and China is reoriented to the domestic consumption. The balance of payments' development in India indicates relatively low involvement of the economy in both real and financial flows.

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<sup>3</sup> The article was written under IGS 13/2017 “State Capitalism in the Contemporary World”.

Key words: state capitalism, China, India, balance of payments  
JEL: F32, F42

## 1 INTRODUCTION

International Political Economy aims to study the relationship between states and markets, i.e. the relationship between policy and economy. This relationship has resulted in different models of capitalism in various countries, depending on a number of historical, cultural, religious and other factors. The model of a liberal state (US), a developing state (Japan) and a welfare state (Germany)<sup>4</sup> are being discussed, but there are other classifications at the same time. Similarly, there is often discussion about the role of the state in globalization processes, whether it is diminishing in the context of the establishment of other powerful actors aspiring to a normative role in the globalized economy (regional clusters, financial markets, multinationals, etc.), or vice versa, whether the role of the state is increasing, since the state can help increase the efficiency of economic entities located on its territory (support for science and research, provision of physical infrastructure, reduction of taxation of economic entities, provision of social consensus, etc.).

State intervention in the economy has been historically significant in China and India, and remains so. The purpose of this article is to examine these economies from the perspective of current and financial accounts in more detail, since both economies exist and naturally operate in the context of international economic relations. The possibility to use the global economy is a great challenge and an opportunity for both countries. The analysis is conducted about a similarity which could appear at first glance in the case of these two most populous Asian economies. While China's system is a classic example of state capitalism built intentionally by the country (Bejkovsky 2016), India is somewhere in the transition from a centrally planned economy to a market economy, still with very strong elements of state intervention in the economy (Bremmer 2014, p. 109).

Both China and India are still considered to be those of the most prospective economies. According to the IMF (2017a), using the GDP indicator in purchasing power parity (PPP), they are already the largest Asian economies, or the first and third largest economies in the world respectively, which have been evincing double-digit growth rates recently. Already by 2001, Goldman Sachs, headed by Jim O'Neil, integrated both countries (together with Brazil and Russia) into the de facto artificially formed group of economies with the most promising development in the first half of the 21st century, for which the BRIC acronym was established. At the same time, they are also significantly influencing the development (and parallel shape) of the world

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<sup>4</sup> Classification by Gilpin (2011).

financial and monetary system, which is evident from the participation of these countries in the establishment of institutions such as the New Development Bank (NDB) or the Asian Infrastructure Investment Bank (AIIB).

## **2 STATE CAPITALISM**

State capitalism is an important phenomenon of the contemporary world. It is a system where the state dominates markets seeking primarily political gain (Bremmer 2014). The American Chamber of Commerce (2013, State Capitalism, paragraph 1) defines state capitalism as an „increasingly common tool for managing economic development, giving rise to state-owned companies and, in some cases, privately owned companies that retain close political influence and financial ties to their governments“. The primary objective of this system is thus maintaining and strengthening political power at home and abroad, more than the effectiveness of economic transactions and market freedom.

State-capitalist systems are generally associated with countries such as China, Russia, Brazil, Saudi Arabia, United Arab Emirates (UAE), Egypt, Algeria, Ukraine, India, Mexico and other countries. According to CIA (2018) statistics, more than 3.35 billion people lived in these countries in the middle of 2017, which is almost half of the world population. The list of countries shows that they are very heterogeneous and, in case we would like to classify them, can be divided into large economies (China, Russia, India, Brazil) and small economies (UAE and Saudi Arabia); or economies based predominantly on extraction of raw materials, such as oil or natural gas (Russia, UAE and Saudi Arabia), and economies based on industry and production (China). According to the Democracy Index (2017), considering the total ranking of 167 countries, regimes in these countries are mostly classified as authoritarian (Russia 134th, Egypt 133rd, China 136th, UAE 147th and Saudi Arabia 159th), while other states, such as India (32nd), Brazil (51st) and Mexico (67th), are among „flawed democracies“.

State capitalism manifests through various instruments (Bremmer, 2014): ownership of oil and gas companies in the countries that extract these raw materials, foreign expansion in the name of securing raw materials in the spirit of so-called raw materialism, and state ownership of enterprises which are not engaged in raw materials extraction – financial institutions or companies in the automotive industry and others (e.g. China Development Bank or Dongfeng Motor Corporation). Another significant manifestation of state capitalism is the existence of sovereign funds, which are investment funds owned by states and which accumulate financial assets in foreign currencies in the form of shares, bonds, real estate, etc. At the beginning of 2018, the total amount concentrated in these funds amounted to approximately USD 7.58 trillion (SWFI, 2018) – for comparison – at the end of 2012, the total value of sovereign



wealth assets amounted to USD 5 trillion (Jiráňková – Žamborský 2014). The largest fund in terms of assets in 2018 was the Norwegian Government Pension Fund Global, which administered USD 998.93 billion, followed by the sovereign funds of the UAE, China, Saudi Arabia, Kuwait, Qatar, Singapore and other countries (SWFI 2018).

There is one aspect which is equally attributed to state capitalism and that is its pragmatism: unlike centrally planned economies that have been primarily concerned with ideology; the current systems of state capitalism, including the Chinese, where the Communist Party is in power, maintain the existence of the private sector. At the same time, some sectors are either owned by the state or „only“ governed, and economies are deeply rooted in the global political and economic order (McNally 2010). In contrast to the relative isolation of centrally planned economies (compared to market economies) that used to exist in the past, state capitalist regimes use all the benefits of the multilateral trading system (WTO membership), they are more or less open to investment and capital flows, and thus the influx of innovation, they also own financial assets that are globally allocated (sovereign funds), etc. Table 1 shows some indicators of economic "integration" of selected countries into the outside world.

Tab. 1: Economic „integration“ of countries into the outside world, selected indicators

	<i>Export + import/ GDP (% GDP)</i>	<i>Net FDI inflow (% GDP)</i>	<i>Net migration rate per 1,000 inhabitants 2010/2015 (%)</i>	<i>Internet users (% population) 2014</i>
<b>Russia</b>	50.7	0.5	1.6	73.4
<b>Brazil</b>	27.4	4.2	0.0	59.1
<b>Ukraine</b>	107.5	3.4	0.9	49.3
<b>China</b>	41.2	2.3	-0.3	50.3
<b>Egypt</b>	34.9	2.1	-0.5	35.9
<b>India</b>	48.8	2.1	-0.4	26.0
<b>UAE</b>	175.9	3.0	9.3	91.2
<b>Saudi Arabia</b>	72.5	1.3	5.7	69.6
<b>Algeria</b>	62.5	- 0.2	-0.8	38.2
<b>Mexico</b>	72.8	2.6	-0.9	57.4

Source: UNDP, 2016

Regarding sovereign funds, there are concerns about investments of these funds in the case of entry into strategic sectors such as defense, energy, transport networks, ports, telecommunications and others (Jiráňková 2012), since the security of such countries may be compromised. However, it does not have to be just strategic sectors. For example, purchases of equity interests in banks and other financial

institutions in the US and UK – in Citygroup<sup>5</sup>, Merrill Lynch, Morgan Stanley<sup>6</sup>, Barclays PLC, UBS, and Credit Swiss (UNCTAD 2009, SWFI 2008), led to their rescue at the time of the financial and economic crisis, but at the same time, these funds and their countries have the potential of destabilizing these institutions, for example by sudden mass sales, and thus by lowering the value of their shares. The purpose of this step can be both economic and political.

The fact that these economies are embedded in the existing global environment by their external ties gives these countries a number of advantages, but at the same time, the system of state capitalism is to a certain extent determined by these links together with other factors. An example is the dependence of state-capitalist regimes, such as Russia, the UAE and Saudi Arabia, on the price development of exported raw materials on world markets, or the dependence of export-oriented economies, such as China, on the development of consumer demand in advanced market economies (especially in the US and the European Union), or the economic dependence of the US and China, etc. Not being standard advanced market economies, these economies are not set to be adequately and flexibly responsive to ongoing changes and movements in the global economy: this would be possible in the case of some more developed and functioning commodity and capital markets, flexible exchange rates, standard banking systems, etc. State capitalism is thus able to concentrate resources more easily, but it can no longer awaken the creativity of economic subjects and allocate scarce resources as efficiently and effectively as in market conditions. The decisive role of the state is also related to other negative phenomena, such as high levels of corruption, clientelism, etc. China and India are joint-ranked 79th out of the 176 monitored countries in the Corruption Perceptions Index in 2016 (Transparency International 2017).

In the contemporary world, China is a typical representative of state capitalism. After years of limited foreign contacts, in 1978, the country switched to reforms of its economic system and to a strategy of opening up to the world: on the east coast, special economic zones were established, which should originally have served for Chinese export of goods, evinced low customs and tax duties and allowed foreign investors to enter the Chinese market; generally, China has explored the possibility of using market features through these special economic zones. The Chinese economy is based on relatively diversified production. In the economy, state-owned enterprises, such as China Mobile, Sinochem, State Grid, Chinalco, China National Petroleum, Sinopec and others, play an important part. The last two mentioned entities should operate internationally and supply oil and gas resources from abroad for the country's future development in the spirit of raw material nationalism. Some state-

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<sup>5</sup> Abu Dhabi Investment Authority acquired 4.9% stake in this bank (SWFI 2008).

<sup>6</sup> China Investment Corporation acquired 9.9% stake in this institution (SWFI 2008).

owned enterprises come under central government, others are under local governments. In addition to engagement in state-owned enterprises, these companies are also subsidized by the state, which naturally makes them more competitive compared to domestic private competition and competition abroad. The state is also engaged in the banking sector and has founded the sovereign funds of China Investment Corporation (CIC) and State Administration of Foreign Exchange (SAFE). The first fund's assets amounted to USD 900 billion at the beginning of 2018, and approximately USD 441 billion in the case of the second one (SWFI, 2018). Funds are raised through the pro-export orientation of the Chinese economy and the high surpluses of the Chinese current account (or the exchange rate regime respectively), which led to an accumulation of foreign exchange reserves (amounted to USD 3.3 trillion in June 2016). As Bremmer (2014, p. 126) states, „the leadership of the Chinese Communist Party believes that, to justify its monopoly of political power in the state, it has to create millions of jobs each year“. It is simply the pursuit of growth and employment, and so avoiding social upheavals, which has stood in the background of Chinese pro-export orientation, which was supposed to substitute weak domestic demand. The other side of this coin is the dependence of Chinese exports on economic development, especially in the US, the EU, and Japan.

Since its proclamation of independence in 1947, India applied a centrally planned system, operated by the Indian Planning Commission, until 1991. There were state-owned enterprises in the country, and there was also an effort to protect domestic businesses against foreign competitors by means of both tariff and non-tariff instruments (for example, tariffs in the automotive industry reached 100-200% by the 1990s), significant restrictions on the entry of foreign investors, and the strategy of import substitution in industry, leading to a further reduction in economic ties with foreign countries. Since 1991, the country has switched to a strategy of opening up to the world, indicative planning, deregulation, and the possibility of foreign capital. However, five-year plans are still in place in the economy and the state is engaged in the production of food, fuel, fertilizer, electricity and water; state-owned enterprises are competing with private entities in the petrochemical and gas industry, aeronautics, energy, metalworking, and defense. In India, there are 200 state-owned companies, while half of the 40 largest companies in the economy are state-owned (Bremmer, 2014).

According to Forbes 2017 ranking, 15 Chinese enterprises (including 1st, 2nd, 6th and 8th place for Chinese banks) and no Indian company ranked among the TOP 100 largest public companies in the world (the Reliance Industries company conducting research, production and processing of gas and oil was placed 106th) (Forbes, 2018). India has no sovereign fund – although, due to the size of the economy,

oil and minerals naturally play an important role in economic processes and trade flows (but especially from the import perspective – see below).

### **3 METHODOLOGY**

Following empirical part has a form of comparative study. As mentioned already in the introduction, China's and India's positions in the system of international economic relations are analyzed, compared and evaluated, with a focus on the role of the state in the economy and in interaction with foreign entities. In this respect, selected instruments are closely researched, such as a role of trade, its structure and balance (on goods and services), stocks and flows of foreign direct investment, exchange rate regime, level of protectionism, domestic savings and investment, state budget, etc. Authors use an inductive approach by examining individual aspects of external as well as internal economic processes so that generalizing conclusions can be drawn.

Based on introduction of the phenomenon of state capitalism and the role of the state in the economy, specifics and development of individual accounts of the balance of payments are analyzed by using an example of China and India. So that relevant data could be compared, datasets of international (economic) organizations are used as an input for further analysis (due to their unified methodology in terms of data collection, calculation, etc.). In the case of balance of payments' structure and development, database of International Monetary Fund (IMF), namely International Financial Statistics, is chosen as a reliable data source, supplemented by World Development Outlook Database published also by the IMF. Regarding related trade and investment exchange, the data are derived from World Development Indicators database managed by the World Bank as well as statistics database of the World Trade Organization (WTO), World Investment Report published by the United Nations Conference on Trade and Development (UNCTAD), datasets and outcomes of surveys conducted by the Organization for Economic Co-operation and Development (OECD), and others.

Since the balance of payments represents systematical and statistical statement of all economic transactions between residents and nonresidents of a specific country during a particular time period, authors use this prism to assess involvement of the analyzed countries in the world (globalized) economy, or to assess their ability to benefit from this involvement respectively. In order to comply with currently available data, the structure of balance of payments is considered according to the Sixth Edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6)<sup>7</sup> as displayed in Figure 1.

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<sup>7</sup> Besides others, one of the difference important for statistical appraisal resides in introduction of concept „net acquisition of financial assets“ and „net incurrence of liabilities“ instead of

Fig. 1: Overview of balance of payments' structure according to BPM6

<b>Balance of payments</b>			
<b>Current account</b>	Credits	Debits	Balance
Goods and services			
Primary income			
Secondary income			
<b>Capital account</b>			
Net lending (+) / net borrowing (-) (from current and capital accounts)			
<b>Financial account</b>	Net acquisition of financial assets	Net incurrence of liabilities	Balance
Direct investment			
Portfolio investment			
Financial derivatives			
Other investment			
Reserve assets			
Net lending (+) / net borrowing (-) (from financial account)			
<b>Net errors and omissions</b>			

Source: IMF, 2013

Given their significance in terms of a country's involvement in the system of international economic relations, mainly current account and financial account of the balance of payments are emphasized in this paper.

#### 4 CHINA AND INDIA ON THE CURRENT AND FINANCIAL ACCOUNTS OF THE BALANCE OF PAYMENTS

Table 2 already shows the diametrically different position of the two countries in the system of international economic relations. A high surplus of balance on goods and a high deficit of balance on services is shown in the case of China, and vice versa for India. Both countries offer a higher outflow of returns on foreign direct investment (FDI) placed on their territories compared to the inflow of returns on the domestic investment placed abroad. China is still partly able to offset this phenomena by income from residents working abroad. China's current account was constantly in surpluses (Figure 2) between 2007 and 2016, although this surplus declined, and amounted to half the value in 2016 in comparison to 2008. High current account surpluses culminated in 2007 when the surplus amounted to 10.1% (OECD 2017a). In connection with the use of a fixed exchange rate, these surpluses have also led to an

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„credits an debits“ in terms of the financial account. Currently, a positive sign indicates an increase in assets or liabilities, and a negative sign indicates a decrease in assets or liabilities.

increase in foreign exchange reserves, which have become a pool of resources for the Chinese sovereign fund, SAFE. Due to the fact that 18.3% of Chinese exports are directed to the US, the undervalued exchange rate against the USD is a source of cautious criticism. India, by contrast, has used a floating exchange rate regime, namely in its controlled form since 2000, i.e. without a central parity or oscillation band, while allowing interventions of the central bank.<sup>8</sup>

Tab. 2: Current account structure in 2016 (million USD)

	<i>China</i>	<i>India</i>
<b>Current account</b>	196,380.0	- 12,113.7
<b>Balance on trade in goods</b>	494,077.0	- 107,475.5
<b>Balance on trade in services</b>	- 244,163.0	65,896.4
<b>Balance on primary income</b>	- 44,013.0	- 27,361.2
<b>Balance on income from FDI</b>	- 65,032.0	- 34,442.7
<b>Balance on workers' income</b>	20,672.0	1,212.0

Source: IMF, 2018

In terms of role of trade and according to WTO (2018a) statistics, India takes 20th place among the world's largest exporters of goods, and 14th place in terms of import<sup>9</sup> respectively. China is the largest exporter and second largest importer<sup>10</sup> of goods in the world (WTO 2018a), which is fully in line with common knowledge and from the figures' obvious export-oriented approach of the Chinese economy as opposed to the Indian economy, which is more import-oriented, also in relation to the role of consumption in India as the most important component in aggregate demand (India's share of world imports was 2.21% in 2016, China's was 9.78% and the US had 13.88%).

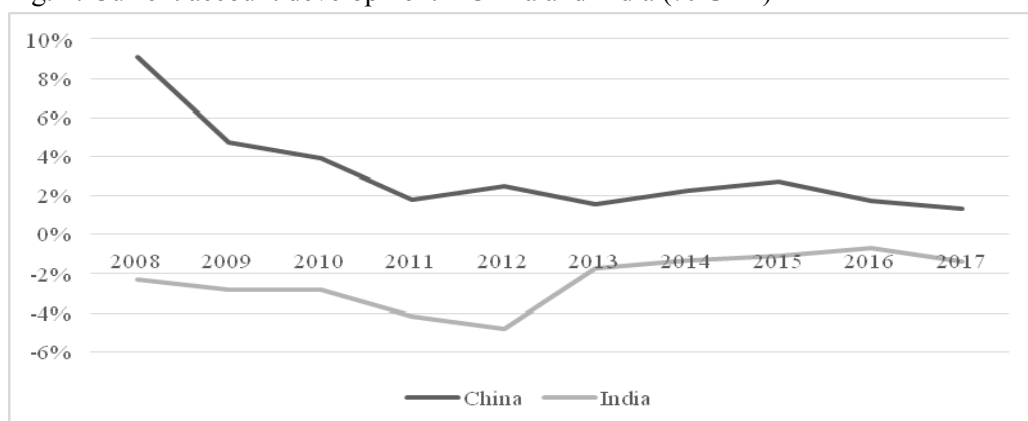
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<sup>8</sup> However, some authors (Shah and Patnaik 2011) denote the rupee as a currency de facto hung on the US dollar as most of the central bank's intervention purchases and sales on the foreign exchange markets are linked to the world's most important reserve currency.

<sup>9</sup> If we consider the EU as one economic entity, India would rank as the 14th largest exporter and the 9th largest importer in the world.

<sup>10</sup> If we consider the EU as one economic entity, China would rank as the third largest importer in the world.

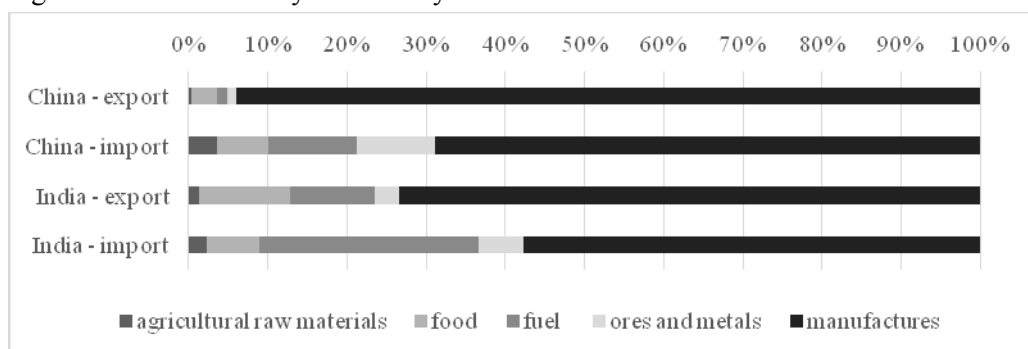
Fig. 2: Current account development – China and India (% GDP)



Source: IMF, 2017d

In direct comparison, India is also a significantly less industrialized country. While manufactured products account for around 95% of Chinese exports, it is only 73% in the case of India (see Figure 3). China, as the world’s number one exporter, accounted for 13.15% of world exports in 2016 (US 9.12% and India 1.65%) and its main export commodities are machinery products, such as automatic data-processing machines, radio-telephony transmission tools, line telephony electrical apparatus, electronic integrated circuits, etc. Electronic integrated circuits, oil and iron ore dominate then on the import side (WTO 2018a).

Fig. 3: Trade structure by commodity in 2016

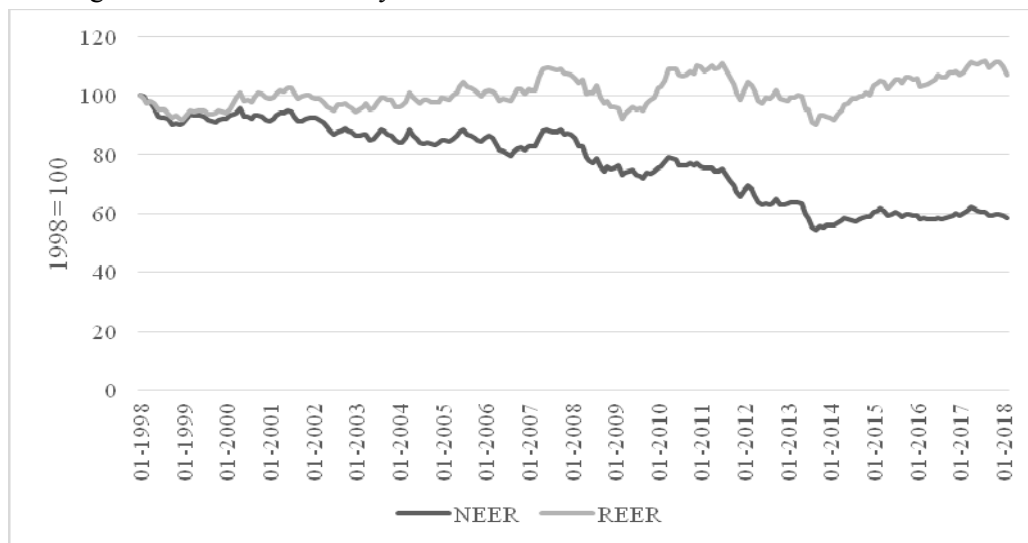


Source: WB, 2018

An important role in Indian foreign trade is played by fuels and minerals, which account for a third of total imports, with petrochemical products being the most important single item on the export side as well. India is a net importer of fuels, and oil imports are highly reflected in the current account deficit. Between 2006 and 2014,

crude oil accounted for 20-28% of total Indian imports, followed by non-monetary gold, pearls, precious stones and semi-precious stones, coal, and natural gas. Only telecommunication equipment and fertilizers protrude from fossils, raw materials and commodities. Between 2015 and 2016, crude oil evinced a share of 17.7%, or 16.7% respectively (UNCTAD 2017). The drop-in oil prices and restrictions on gold imports have significantly contributed to the diminishing current account deficit (see Figure 2). The high demand for gold (gold imports) was to a certain extent caused by the negative real interest rate, so economic subjects preferred gold instead of financial savings (this also has a historical background). Indian exports are composed of commodities from the primary sector to energy, machinery and transport, and the country has been successful in integrating into global value chains too. Since 2000, Indian exports have been steadily improving by up to a fifth annually, but have fallen due to the decline in foreign demand since 2008 (influenced by the financial crisis), real appreciation of the Indian currency and high customs duties (see below) (IMF 2017c).

Fig. 4: Long-term development of nominal (NEER) and real (REER) effective exchange rate of Indian currency



Note: indirect quote (higher value = appreciation), monthly averages, REER (CPI), own calculations.

Source: BIS, 2018

Moderate real appreciation has occurred in spite of the long-term nominal depreciation of the rupee, but in line with inflationary pressures triggered by the central bank's (partially sterilized) interventions on the foreign exchange markets (in particular application of the US dollar sales and purchases) which neutralize



development at nominal level, or contribute to real appreciation respectively (from a long-term perspective, it is rather a stable development of the real exchange rate) (Durčáková – Šíma 2015). This split is illustrated by the development of the nominal and real effective exchange rates of the Indian currency – see Figure 4. It can be concluded that the (positively) diminishing deficit of the current account is not due to exchange rate changes, or more precisely, the constant development of the real exchange rate is not a prerequisite for the increasing competitiveness of Indian production abroad.

Regarding the territorial structure, India's trade is well diversified. Over a long period, the EU has been India's most important trading partner, while also being the most important destination for Indian exports and the second largest source of Indian imports. In total, the EU is at the top, exceeding China as well as the US. With respect to the commodity structure and its effects on the current account, Arab states of the Persian Gulf are non-negligible trade partners, in particular the UAE or Saudi Arabia. In 2016, the UAE (assuming the EU as one entity) accounted for 11% of Indian exports, and together with Saudi Arabia reached roughly the same level in imports (each country with a 5.0-5.5% share) (WTO 2018a).

China's largest trading partners (from the perspective of Chinese exports) are predominantly the advanced market economies of the US (18.3% of total exports), the EU-28 (16.1%), Hong Kong (13.8%)<sup>11</sup> and Japan (6,1%), which fully corresponds with the commodity structure of Chinese exports based on the more sophisticated manufacturing products directed at the advanced economies. The structure of imports by territory follows accordingly: EU-28 (13.1%), Korea (10%), Japan (9,2%), Taiwan (8.8%) and USA (8.5%) (WTO 2018a). A higher level of advancement of the Chinese economy and gradual orientation towards domestic consumption is evident from the growing demand for high-tech goods also in Chinese imports, from around 20% to 55% over the past twenty years; on the other hand, demand for low-tech goods fell from 25% below 10% (OECD 2017a). The more favorable composition of Chinese exports is also due to the fact that the country has captured the trend of shaping global value chains. First, it became integrated into the lower stages, later also took part at higher stages of the manufacturing process, and currently is the leader in South and Southeast Asia. In this respect, an elaborate industrial policy has also been complemented by state investment in infrastructure.

Both countries are WTO members (India since 1995, China since 2001). Table 3 illustrates the average customs duties of individual commodity groups in China and India. It shows a much higher burden on imports in India than in China, especially in the agriculture and food sector, but also in industry, indicating relatively strong

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<sup>11</sup> Hong Kong serves for further reexports of Chinese goods.

protectionism, although on the basis of OECD (2018) statistical data, it can be argued that the Indian economy is gradually opening up: value added produced abroad and imported back has been around a third of the value of Chinese exports over the last 20 years; on the contrary, there was a strong dynamic in Indian exports – from 9.5% in 1995 to the current one quarter.

Tab. 3: Average customs duties of commodity groups (%)

	<i>China</i>	<i>India</i>		<i>China</i>	<i>India</i>
<b>Animal products</b>	14,9	106,1	<b>Minerals and metals</b>	8,0	38,3
<b>Dairy products</b>	12,2	65,0	<b>Crude oil</b>	5,0	-
<b>Fruit, vegetables, herbs</b>	14,8	100,0	<b>Chemicals</b>	6,7	39,6
<b>Coffee, tea</b>	14,9	133,1	<b>Wood, paper</b>	5,0	36,4
<b>Cereals</b>	23,7	115,3	<b>Textiles</b>	9,8	27,1
<b>Oil seeds, fats, oils</b>	11,1	169,7	<b>Clothes</b>	16,1	37,4
<b>Sugars and sweets</b>	27,4	124,7	<b>Leather, footwear</b>	13,7	34,6
<b>Spirits, tobacco</b>	23,2	120,5	<b>Non-electrical engineering</b>	8,4	28,6
<b>Cotton</b>	22,0	110,0	<b>Electrical engineering</b>	8,9	27,8
<b>Other agricultural products</b>	12,1	104,8	<b>Transport equipment</b>	11,4	35,7
<b>Fish products and byproducts</b>	11,0	100,7	<b>Manufactures</b>	12,2	34,0

Source: WTO, 2018b

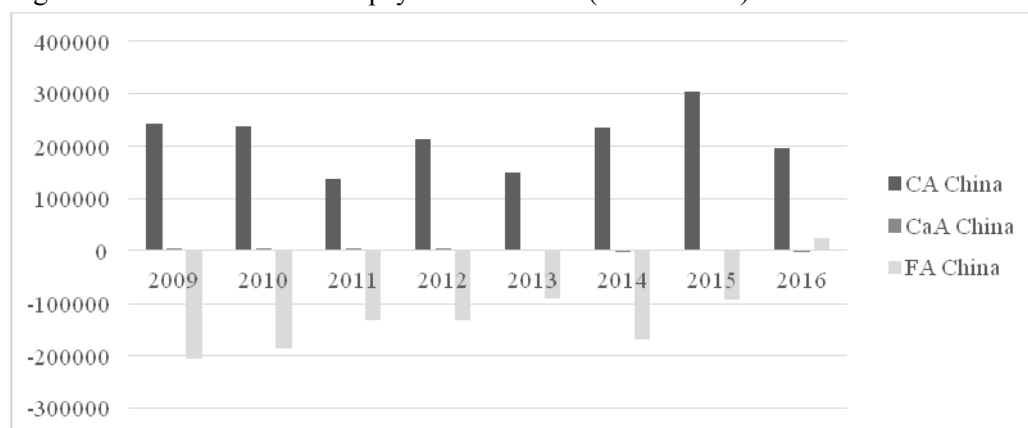
India is globally more significant player in the field of services, holding the position of the 5th largest exporter and 6th largest importer (WTO 2018a).<sup>12</sup> The beginning of this trend can be noticed as far back as in the 1980s, when the development of the entire tertiary sector was initiated, with further acceleration in the 1990s. In the first decade of the new millennium, the service sector showed more than 9% growth. Knowledge-oriented and higher added value categories (i.e. software, communications, or financial services) are at the forefront. Currently, the IT sector accounts for 7.7% of Indian GDP and represents the third largest IT market (exceeded by the US and the EU). In particular, the software industry is the largest contributor to the positive balance on services, which India has consistently achieved since 2004 – unlike the balance on goods (RBI 2017). India's success in delivering IT services has

<sup>12</sup> This position is valid considering the EU as one economic entity.

been strongly influenced by targeted state policy (related education programs or targeted partnerships with the private sector), supported by the comparatively higher level of English knowledge of the Indian population.

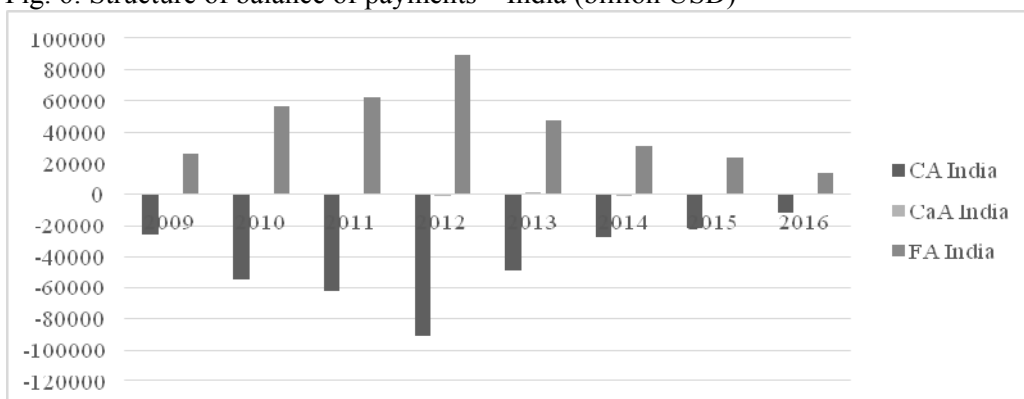
Contrary to the development of the balance on services in India, looking at statistics, the country's current account deficit in the period 2010-2013 is obvious, with an alarming deficit of 5% of GDP in 2012, after which the current account deficit has diminished (Figure 2). Excluding the inelastic demand for oil and gold imports, this phenomenon was significantly affected by the state of the domestic economy. The Indian economy has been paralyzed by the escalation of strong regulation, weak growth in industrial production, excessive state apparatus, including inefficient state-owned enterprises (SOEs), and a high inflation rate (over 10%) or problems of public finances (OECD 2014). These problems have plagued the Indian economy since the second half of the 20th century, with initial major efforts to eliminate them dating back to the 1990s, when former Finance Minister Manmohan Singh initiated fiscal stabilization, deregulation and liberalization of the economy, support for science, research, technology and the tertiary sector (in particular telecommunications and IT) or privatization of most economic sectors except those with increased state interest (Joshi – Little 1996).

Fig. 5: Structure of balance of payments – China (billion USD)



Source: IMF, 2018

Fig. 6: Structure of balance of payments – India (billion USD)



Source: IMF, 2018

China's financial account was practically closed before 2002. Between 2008 and 2016, there were steady outflows of capital with a declining tendency, and even with net inflows in 2016. Under the financial account, both direct and portfolio investment have evinced permanent outflows, with other investments showing the same development, with the exception of the years 2012 and 2014 to 2016. Foreign reserves steadily increased until 2014, then declined significantly between 2015 and 2016 and, according to IMF (2016) data, amounted to approximately USD 3,3 trillion in 2016. On the other hand, India's current account was permanently in deficit between 2008 and 2016 and also the financial account has reflected persistently low inflows of capital (liabilities) that all the sub-components of the financial account contributed to. The foreign exchange reserves then grew slightly.

Tab. 4: Index of restrictions on FDI in 2016

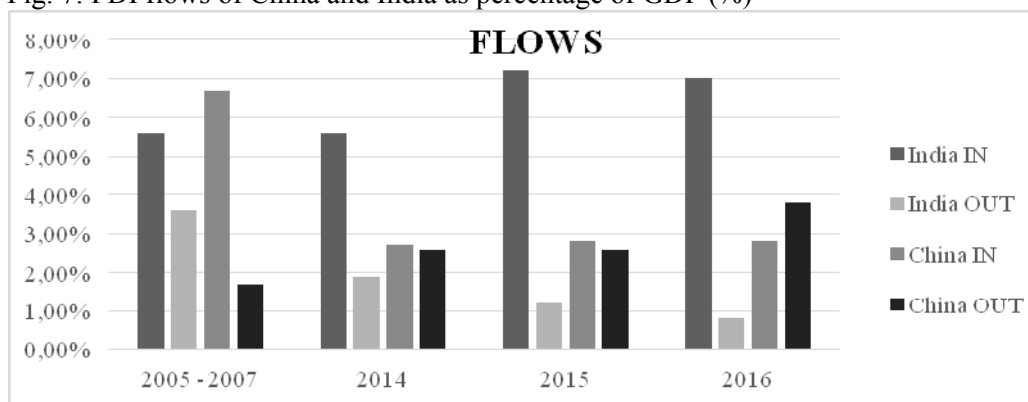
	<i>China</i>	<i>India</i>
<b>Primary sector</b>	0.373	0.213
<b>Production</b>	0.117	0.035
<b>Electricity</b>	0.440	0.064
<b>Electricity distribution</b>	0.650	0.000
<b>Transport</b>	0.538	0.093
<b>Media</b>	1.000	0.280
<b>Communication</b>	0.750	0.175
<b>Financial services</b>	0.493	0.279
<b>Trade services</b>	0.250	0.563
<b>Total</b>	0.327	0.212

Note: 1 = maximum regulation, 0 = no regulation

Source: OECD, 2018

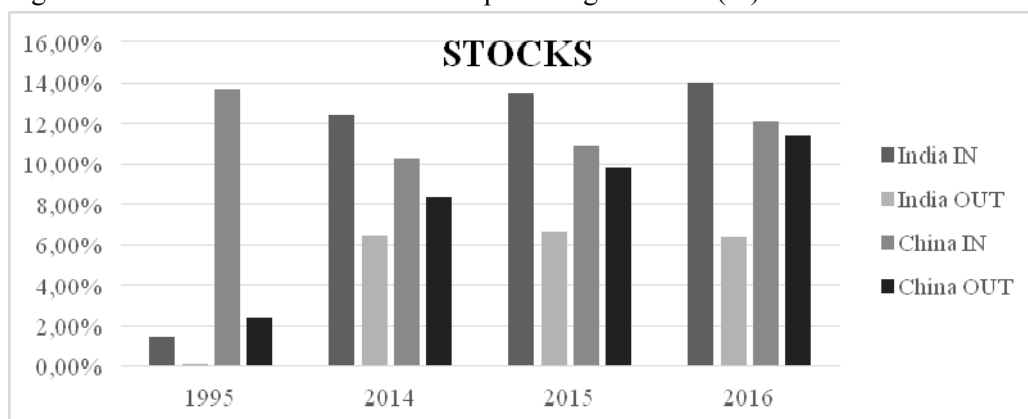
Table 4 illustrates the level of regulation for investors entering selected sectors in both countries. China evinces stronger regulation than India, especially in sensitive sectors such as media, communications, or distribution and electricity-related sectors. Yet, liberalization in the field of FDI is relatively high compared to portfolio investment and other investment. As stated by the IMF (2017a), outward investments have been liberalized since the 1990s in the context of the „Going Global 1999“ strategy, as well as an effort to move the global value chains to higher levels of the production processes and to mitigate the appreciation pressures of the Chinese currency. Since 2012, the Foreign Investment Guidance Catalogue has been in place in China. It contains information for foreign investors on the possibility of their entry (segmentation of supported, limited and forbidden production sectors). The main emphasis is put on innovation and technological upgrading (China Briefing 2011).

Fig. 7: FDI flows of China and India as percentage of GDP (%)



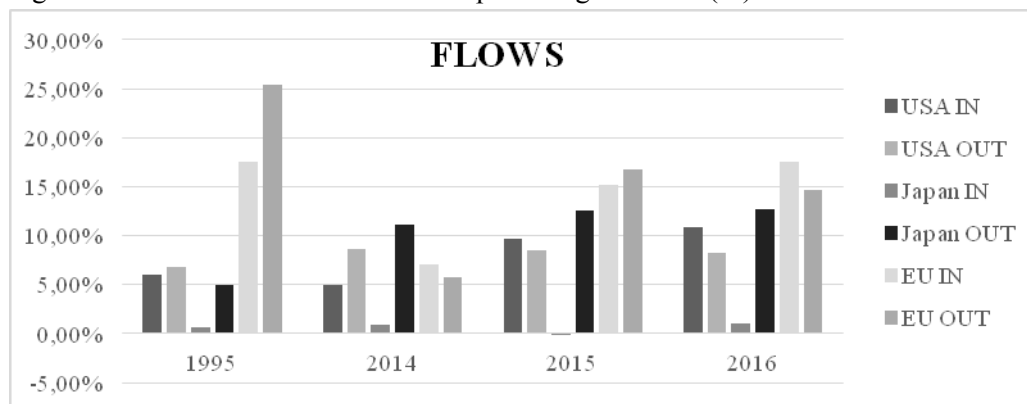
Source: UNCTAD, 2017

Fig. 8: FDI stocks of China and India as percentage of GDP (%)



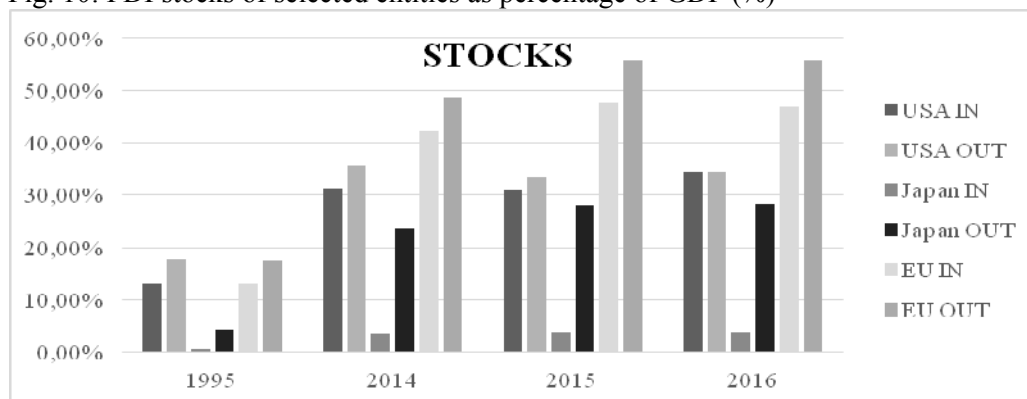
Source: UNCTAD, 2017

Fig. 9: FDI flows of selected entities as percentage of GDP (%)



Source: UNCTAD, 2017

Fig. 10: FDI stocks of selected entities as percentage of GDP (%)



Source: UNCTAD, 2017

Inward investment flows as percentage of gross capital formation were higher in India, and the same is valid also for stocks of these investments as percentage of gross capital formation, although figures in both countries are still multiply lower compared to the US or the EU, but higher than in Japan – as shown in Figures 7 to 10. As expected, outward investment of both countries is lower in both flows and stocks, which is typical sign of relatively less developed countries with a lack of equity. On the other hand, in developed countries, as can be seen in the case of the USA, the EU and mostly Japan, outward flows and stocks as percentage of gross capital formation predominate. World Investment Report 2017 (UNCTAD 2017) shows an increase in FDI inflows in Shanghai, Fujian, Guangdong and Zhejiang free trade zones by 80%, amounting to USD 13 billion in 2016. From the beginning, these special economic

zones have served China as experimental areas for verification of intended reforms. The increase in FDI inflows is attributed to reforms at local as well as global levels.

Around 18% (257) of the total number of state-owned multinational enterprises in the world were headquartered in China and 4% (61) in India in 2017. There are 4 Chinese companies among the 25 largest non-financial state-owned multinational enterprises, and, in the case of financial enterprises, there are 4 Chinese companies out of the 10 largest in the world, including, at first place, the Industrial & Commercial Bank of China (UNCTAD 2017). These state-owned companies are instruments for outward expansion in the spirit of „Go Global“, „One Belt, One Road“, „Made in China 2025“ or „RMB Internationalization“.

Portfolio investment, or access to the Chinese stock exchange respectively, were liberalized in China for qualified foreign institutional investors in 2002 and this liberalization was extended to the interbank market between 2015 and 2016. Since 2007, domestic institutional investors have been able to invest globally, cross-border loans were released between 2008 and 2010, qualified domestic investors have been allowed to provide their branches abroad with loans since 2009, and these branches have been able to get loans themselves since 2010 (IMF 2017a). From the aforementioned list, it is clear that the liberalization of the financial account is taking place gradually. The IMF (2017b) recommends prudence and the implementation of supportive reforms in the form of an effective monetary policy, a healthy financial system and exchange rate flexibility for further liberalization of the financial account. China is currently using a managed exchange rate regime with a link to the basket of currencies, or tries to reduce the link to the US dollar towards the basket of currencies respectively.

India has also been implementing a gradual liberalization of the financial account of the balance of payments since the 1990s, while this account was closed for FDI inflows in the 1980s. In August 2017, the Indian Ministry of Industry and Trade issued a „Consolidated FDI Policy“, which precisely defines sectors to which FDI may go with or without consent, sectoral limits<sup>13</sup>, prohibited sectors (tobacco products and byproducts, lottery, nuclear energy production, the real estate sector), approval procedures, etc. (Ministry of Commerce and Industry 2017a).

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<sup>13</sup> For example, foreign investors can automatically buy into insurance and pension companies up to 49% of the property value, up to 20% in the public banking sector with approval of the government, automatically up to 49% in the private banking sector and between 49% and 74% only with the consent of the government, etc. (Ministry of Commerce and Industry 2017a).

## 5 CONSUMPTION, INVESTMENT, GOVERNMENT REVENUE AND EXPENDITURE, CURRENT ACCOUNT

Current account development in both countries is determined by the relationship between consumption and investment, or state revenues and expenditures respectively. Elementary macroeconomic identity says that unnecessary spending is equal to leakage from the expenditure stream:

$$I + G + X = S + T + M, \quad (1)$$

after modification

$$(X - M) = (S - I) + (T - G), \quad (2)$$

where T represents net taxes.

Given the simplification of the current account to the difference between exports and imports ( $X-M$ ), current account surplus is attributed to the positive difference between savings and investments ( $S>I$ ), or the surplus of the state budget ( $T>G$ ), or both. Also, vice versa, the current account deficit is due to the excess of investment over savings ( $S < I$ ), or the deficit of the state budget, or both. A country with a current account surplus exports capital and in this way finances imports of a given business partner (own exports of goods and services), countries with current account deficits import capital to finance such imports.<sup>14</sup>

Figure 11 provides a look at the structure of gross national savings together with the total investment of China and India. For further analysis, one can notice the significant difference between the two countries, namely excess of savings over investment in China, and excess of investment over savings in India throughout the period under review.

High Chinese savings come primarily from households as a result of the one-child policy, lower social security, housing reform, and income inequality. It represents approximately 23% of GDP, which is a significant difference compared to the world average of 8% (IMF 2017a). Overall, high savings were first seen as a large current account surplus (see Figure 2 – years 2007-2008), and then, together with the current account surplus, they shifted towards high domestic investment, often with declining efficiency and rapid debt growth (IMF 2017a). In addition, high savings naturally reduce consumption in the country, unlike in India, where consumption is the key aggregate which most importantly contributes to GDP creation and which indicates import orientation to some extent. China itself has taken a number of steps to increase consumption (drop in interest rates, growth in social spending and progressive taxation, etc.), which has been reflected, for example, in the growth of imports and

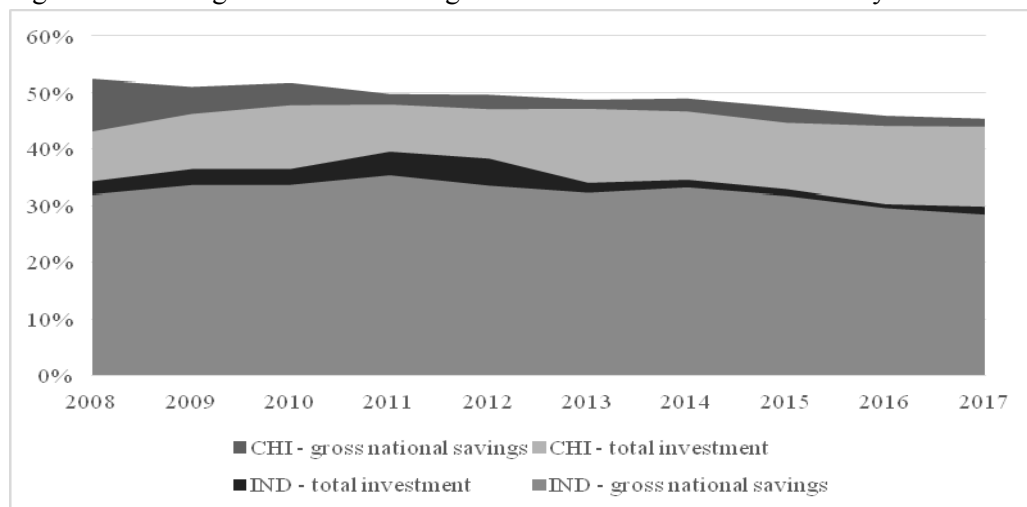
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<sup>14</sup> This is only valid if the state budget is balanced.



hence in the improvement of the current account, a decline in stocks, redirecting to domestic investment, etc. (IMF 2017b).

Fig. 11: Share of gross national savings and total investment in the country's GDP



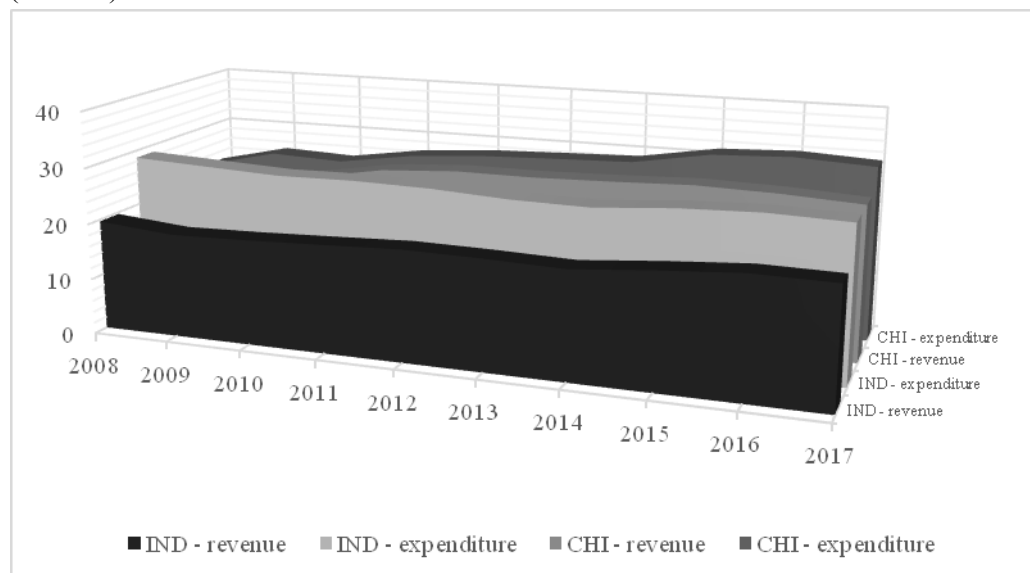
Source: IMF, 2017d

The overall level of Indian investment is under the Chinese level, yet, as stated by the OECD (2017b), there is potential for investment growth. Since 2007, however, investment rates have been steadily declining; households are the largest contributor to gross capital formation, fewer firms, and the lowest contribution comes from the public sector, which represents the potential for further growth of the previous two sectors. In this context, the OECD (2017b) recommends mainly public investment in energy and transport infrastructure (roads, railways, coal transport capacity, etc.). The next recommended step for public investment is to make electricity accessible to all and also to support private businesses (an ambitious plan by the Indian government promises this by 2019).

Figure 12 illustrates another determinant, namely the state budget, or its revenue and expenditure respectively. When comparing the two countries, it is obvious that both budgets must be deficit due to the excess of expenditure over revenue of the state budgets. It should be noted that these indicators are relative (to the country's GDP), so the figure does not offer a comparison of absolute values. Nevertheless, it is possible to observe that Chinese budget expenditure has been higher than Indian expenditure since 2012. While China is experiencing relative growth of this indicator and the gap between expenditure and revenue has been growing throughout the period under review, India evinces a significantly higher but stable relative difference. In 2008, the state budget of China ended up in a deficit of 0.41% of GDP, in 2016 the

deficit amounted to 3.8% of GDP (Trading Economics, 2018a), India successfully reduced the state budget deficit from an alarming 7.9% of GDP in 2009 to 3.5% of GDP in 2017 (Trading Economics, 2018b). These significant deficits also included subsidies to state-owned enterprises (Bremmer, 2014).

Fig. 12: Development of expenditure and revenue of state budgets – China and India (% GDP)



Source: IMF, 2017d

Considering the above-mentioned identity and based on excess of investment over savings and budget deficits, India should achieve a current account deficit with a related surplus on the financial account, which is also confirmed in reality. In the case of China, on the one hand, excess of savings over investment determines current account surplus, on the other hand, the long-term deficit of the state budget neutralizes this phenomenon. The final impact is illustrated in Figure 2, which shows the surplus of China's current account at about 1-3% of GDP between 2011 and 2017. The theoretically inferred Indian deficit is also confirmed graphically, oscillating at the level of 1% of GDP since 2013.<sup>15</sup>

<sup>15</sup> In IMF (2017d) data, the percentage difference between savings and investment is exactly equal to the current account balance as percentage of GDP. Budget deficit is thus included in savings as negative public savings, budget surplus as positive public savings.

## 6 STRATEGY IN EXTERNAL ECONOMIC RELATIONS FOR THE FUTURE

As evident from above, both countries are increasingly involved in the global economy. Since the special economic zones were established on the east coast of the country, China has benefited much more from this advantage. Even the name of the „Going Global“ strategy is evidence. Its first stage was launched in 2000, and the second phase has been in progress since 2014. While the objective of the first stage was to find resources and offshore markets, the second phase is focused on science, innovation, services and consumption (China Policy 2017).

Tab. 5: Going Global strategy

<i>Going Global 1.0</i>	<i>Going Global 2.0</i>
solving resource security	ensuring return on investment
buying whole value chains	stimulating global demand
buying majority stakes	switching to portfolio investment
seeking local political patronage	avoiding dividing political elites
projecting China Model	blending with local operators

Source: China Policy, 2017

Together with this strategy, a ten-year strategy for industry called „Made in China 2025“ was adopted in 2015, which aims to make China the leading country in the manufacturing industry. This strategy reinvigorates central state management, declares the intensification of a preferential policy for domestic firms against foreign entities and their financial support in selected sectors, and intends to create not only national but also global champions. Selected industries include IT, robotics, numerically controlled machines, space and aviation technologies, ship engineering, advanced railway technologies, energy saving equipment, new materials, biomedicine and agricultural engineering (U.S. Chamber of Commerce 2017).

An important part is the Belt and Road Initiative, which includes the Silk Road Economic Belt and the Maritime Silk Road, both being aimed at the development of economic activities from the east coast to the inland and west, also linking infrastructure, business, investment and human ties to Eurasia (China Policy 2017).

Current development in India is largely influenced by the policy of the new Indian Prime Minister, Narendra Modi, who was appointed to the office in 2014, and who has initiated (partly already implemented) an array of economic reforms, including: support for the business sector through liberalization, growth boost and achieving its long-term sustainability, fiscal consolidation and reform of the banking sector, or trying to attract foreign capital. One of the main features of his reform effort is the symbolic opening up to the world through the deregulation of entry of foreign entities, incentives for foreign capital, and endeavors to encourage trade.

The most tangible is the reform of the tax system, which aims to establish a single Goods and Services Tax (GST). It should make the multi-level and fragmented system of central and federal taxes more transparent, since transfers of goods and services among federal states have been difficult up to now. Effectiveness should be backed up by the actual creation of an internal market, whose existence has so far been weakened by the fragmented tax system. Benefits of the movement of goods and services within the internal market flow not only to foreign firms but also positively influence the competitiveness of domestic enterprises.

An effort to increase the autonomy of individual states and territories in preferential access and investment incentives has the opposite effect. Sometimes it is also called competitive federalism, which is based on the „competition“ of individual administrative areas for foreign investors based on different approaches of authorities to the labor market and other areas. It depends on the willingness to reform existing conditions in the given state, or on the appropriately chosen means to attract foreign investment respectively.

The symbol of opening up to the world, called „Make in India“, has become the initiative of Prime Minister Modi. It responds to the relatively low development of the secondary sector and aims to attract foreign producers to start their production on Indian territory. Foreign capital and technology inflows should bring job creation and the upgrading of industrial production. The idea of an economy based on exports of manufacturing industry products is a paradigm shift in an economy which is mainly based on services (CNB 2015). However, the taken measures are a logical response to extremely low productivity in both industry and services.

In order to correct the direction of the unfavourable development (firms in the manufacturing industry are very small, unproductive and do not offer enough quality job opportunities, which reduces the share of processed products in export), a whole range of measures have been taken, and dozens of minor and larger interventions are planned. These include, in particular, electrification of contacts with authorities, extension of validity and standardization of official documents, removal of the need to apply for authorization for selected operations, simplification of payment transactions, or elaboration of clear maps with marked claims to foreign entities in the territory (Ministry of Commerce & Industry 2017b). The program's authors have also outlined more than two dozen specific sub-sectors in which a business entity in the Indian market finds the most advantages compared to other countries and is properly supported by the government.<sup>16</sup>

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<sup>16</sup> For illustration, there is not just the manufacturing industry, but also the automotive industry and automotive components, aviation and space research, biotechnology, the chemical industry, construction, arms, electronics and systems, food, IT and BPM, leather, mining and

One must not forget the construction of five industrial and economic corridors between major Indian megalopolises, with an emphasis on the planned urbanization and long-term sustainability of not only industrial but also residential areas. The importance of infrastructure projects is enormous, due to the necessity to raise the poor level of infrastructure.

## 7 CONCLUSION

Despite the apparent similarity of both Asian countries – China and India – in terms of population, geographical location or strong role of the state, a very different structure of their current and financial account has been found out. At the same time, the balance of payments, in its concentrated form, reflects the involvement of these countries in the global economy.

For years, China has evinced very large current account surpluses, which were determined (above all) by an above-average level of savings, exceeding the level of investment. This has been reflected in the export orientation of the Chinese economy, supported by the whole system of state capitalist instruments from thoughtful industrial policy, state investment in infrastructure to engagement in global value chains, and so on. High current account surpluses – while using the fixed exchange rate regime – then found their reflection in the concentration of resources in Chinese sovereign funds. These current account surpluses, especially in relation to the United States, were often subject to criticism as well as the relatively strong dependence of the Chinese economy on consumer demand in the US and the development of the US currency. Currently, an effort to re-orient the population towards an increase in domestic consumption tends to reduce the large current account surpluses, which would also eliminate some of the above-mentioned dependencies.

In the meantime, China is trying to internationalize its currency (renminbi). Trade related payments have been fully liberalized and financial account transactions are being gradually released; China is also broadening the band for exchange rate development, and the Chinese currency reached the top ten most traded world currencies in 2013 and has been involved in the basket of main world currencies along with the US dollar, the British pound, the euro and the Japanese yen since October 2016. The financial account itself, both in China and India, is subject to regulation with a clear tendency toward a gradual opening.

China began its journey to opening up to the world in 1978, and in the past 40 years, it has greatly increased its economic strength and advancement. From the aforementioned list, it is obvious that China is increasingly integrated into the global environment: it selects very precisely what this environment provides and what is not

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pharmaceuticals, petrochemical, entertainment, tourism, the hospitality and spa industry, textiles and carpets, thermal energy and renewable resources, railways, ports or shipping.

offered yet, while the economic expansion is supported by direct central management, an absence of democracy and, last but not least, a size of economy that generates a number of benefits.

India (with its comparatively similar size) is very different at this level of comparison: it is the largest democracy in the world, it consists of small administrative units with relatively high autonomy, which can compete with the federal level, and (most importantly) has not opened itself up to globalization too much yet (Bremmer, 2014). Fragmentation and the inability of the country to use its market size seem to be an obstacle to follow the Chinese way of implementing a strong role of the state at this stage of development. The balance of payments' development indicates relatively low involvement of the economy still in both real and financial flows, which is reflected in the low competitiveness of domestic producers. Prime Minister Modi's reforms have a clear objective: to develop the manufacturing industry, to reform the tax system, and to introduce investment incentives for investors.

Definitely, China, as a state-capitalist country, is making much greater use of the benefits of the globalizing economy than India, which is still awaiting an actual opening up.

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## **PERSPEKTÍVY EURÓPSKEJ INTEGRÁCIE NA FUNGOVANIE KULTÚRY V SOCIÁLNO-EKONOMICKEJ KONŠTRUKCII EÚ**

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### **A EUROPEAN INTEGRATION PERSPECTIVE ON THE FUNCTION OF CULTURE IN THE SOCIO-ECONOMIC CONSTRUCTION OF THE EU**

*Horatiu Dan*<sup>1</sup>

Cieľom článku je koncepčne preskúmať vzťah medzi integračným procesom a kultúrou a prispieť k lepšiemu pochopeniu komplexného (vnútorného a vonkajšieho) prostredia Európskej únie. Príspevok analyzuje úlohu kultúry v architektúre EÚ a zároveň zohľadňuje vnímanie občanov EÚ v súvislosti s ich vlastnou kultúrnou identitou. Cieľom je taktiež poskytnúť relevantný pohľad, ktorý možno aplikovať v procese navrhovania verejných politík s možnosťou zlepšenia procesu európskej integrácie.

Kľúčové slová: európska identita, európska kultúra, európska integrácia

This paper aims to conceptually explore the relation between the integration process and culture and to contribute to the better understanding of the complex (internal and external) environment of the European Union. More precisely, it analyzes the role of culture in the EU's architecture, while also taking into consideration the perception of EU citizens regarding their self-perceived cultural identity. The purpose of the papers is to provide relevant insight that could be used in the process of designing public policies aimed at improving the European integration process.

Key words: european identity, european culture, european integration

JEL: H1, Z1

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## 1 INTRODUCTION

The European integration process is perhaps one of the most complex political and socio-economic phenomenon of our times, with what it seems to be an ever growing number of factors, both internal and external, constantly influencing its course. It is consequently no wonder that ample research efforts are dedicated to various aspects of this wide topic, in an attempt to better understand and more effectively and efficiently influence integration related outcomes. In this context, this paper focuses on culture and the role that it plays in the integration process, aiming at providing an improved understanding of the culture-integration relationship that could act as a stepping stone for other, more specialized, research activities in this field.

After decades of sustained integration both at regional and global levels, decades in which the forces of globalization have shaped social, economic and political interactions contributing to deepening cooperation, redefining communication and accentuating interdependencies, the last years have meant a sharp increase in divisive forces, with numerous voices requiring less integration and a return to an approach that focuses on the nation state. The causes are multiple and the reactions explainable, even one does not share them. Whether we search for cause in the acute the economic crisis broke out in 2007 and soon caught the whole world, or whether we analyze the rising geo-political tensions, the immigration crisis or the development of a climate of high insecurity in areas previously deemed as extremely safe, many elements can be identified that underpin the growing mistrust, feeding these disintegrating forces that seem to become more and more intense, culminating with the vote “Brexit” and the rise of different Eurosceptic groups.

In this context, many wonder what will happen with the European project and its ambitious social, political and economic system designed to develop a genuine supra-state structure with the aim to better cope with the challenges of globalization and to facilitate a better global positioning of Europe. The current shape of the European Union, although it has often faced obstacles that have not yet been completely overcome, is the product of an accelerated development, that has paved the way in a relatively short time to a relatively high level of integration, despite the failure to adopt a constitutive treaty or the inefficiencies that can be observed in the EU’s structure of governance. At this point, however, development is not only considerably slowed, almost stagnant, but is even faced with real possibilities of canceling out the progress made and embarking in a process of disintegration.

As stated before, the purpose of this paper is to conceptually explore the relation between the integration process and culture and to contribute to the better understanding of the complex (internal and external) environment of the European Union. Consequently, as a preliminary step, some conceptual clarifications regarding the term of „culture“ are required, whose multiple valences and, implicitly, different

uses, both in the academic literature, as well as in colloquial forms of communication, contribute to the increase of the level of ambiguity in the way it is perceived and understood, generating the danger of a sort of terminological ambiguity that negatively influences the accuracy of the scientific approach. So, without challenging the validity of other perspectives on the concept, clarifications on the understanding of the term which underpins this paper must be made. In the second half of the nineteenth century, Taylor (1871) defined culture as „that complex whole which includes knowledge, belief, art, morals, law, custom, and any other capabilities and habits acquired by man as a member of society“. The decades that followed have brought numerous additions to Taylor's vision, without however fundamentally altering its content. Out of these, we observe the additions made by the definitions given by Yucel and Dagdelen (2010), whose vision of culture includes elements that belong to the spheres of political and economic philosophy, religion (a useful nuance to Taylor's simple mention of faith), language and the educational system, or that of UNESCO (2001), which explicitly nominates both art and literature, while observing the central role of culture in the contemporary identity debate, in ensuring social cohesion and in the development of a knowledge-based economy. Also, we turn our attention to Hofstede's formulation, which, without contradicting Taylor's vision, clarifies the aspects regarding the causal relationship between collective and individual cultural values, defining culture as „the collective programming of the mind“ which ensure the differences between the members of different groups (Hofstede 1980).

This vision centered on the individual assures the understanding of only half of a wider cultural process, namely how the individual, a member of society, is modeled by its cultural characteristics. And yet, observing the cultural environment reveals a second sense of interaction that flows from the convergence from individual to collective. In this context we note the definition proposed by Mulholland (1991), which understands culture as „a set of shared and enduring meaning, values, and beliefs that characterize national, ethnic, or other groups and orient their behaviour“. Thus, culture is seen as going beyond the process of modeling the individual through social interaction and its structural role is recognized: through the individual's belonging to the collective, the collective behavior is modeled by the common cultural elements of individuals.

## **2 CULTURE AND THE EUROPEAN UNION'S CORE ARCHITECTURE – AN ELEMENT OF OMISSION?**

The European Union project, which for the first time took shape following the Treaty of Paris in April 1951, when Robert Schuman's plan materialized in the emergence of the European Coal and Steel Community (ECSC), is the fruit of an initiative born in the ashes of World War II from an acute need to promote a climate of

peace and cooperation and to avoid the conflicts that devastated Europe in the first half of the century, remaining to this day one of the most ambitious political and economic constructs in history. The initial goals have been largely economic, both the ECSC and the European Economic Community (EEC), created by the 1957 Treaty of Rome, focusing on economic cooperation between the six Member States (the Federal Republic of Germany, France, Italy, Belgium, Netherlands and Luxembourg), even if, since the 1<sup>st</sup> of January 1958, the management of these structures was to be ensured by a series of common institutions of a political nature. With the election of General De Gaulle as President of France, the pressures of creating a political union outside the sphere of American-British influence have grown. Three years later, the French administration's efforts led to a high level meeting held in Paris in 1961, which recognized the need to ensure an additional dimension, eminently political, and to set up a commission tasked with identifying concrete ways of implementing such an extension. Subsequent negotiations have resulted in failure as a result of the antagonistic positions of France on the one hand and the other five Member States on the other (Sauron 2000, pp. 52-54). However, political cooperation has become more and more intense since the 1960s, culminating with the Treaty of Lisbon in 2007, during which time the powers of the European institutions have steadily increased, significantly enhancing economic and legislative integration. Consequently, in 2004, Tommaso Padoa-Schioppa, one of the major economists involved in defining and implementing the single currency project, notes that, despite the predominantly economic nature of its content, the European Union is primarily political, with the political dimension being crucial, including for the understanding of the economic and monetary integration processes (Padoa-Schioppa 2004, p. 1).

The vision is shared by most observers and is accurately synthesized by the observation of Archik (2015), who regards the European construction as a political and economic partnership materialized in an unprecedented form of cooperation between sovereign states. However, the question remains whether this „unprecedented“ cooperation is enough to ensure the optimal functioning of the EU and an effective interaction between its two main elements: economic and political cooperation. Indeed, the current environment, characterized by the existence of an economic and monetary union and, at the same time, a very small degree of fiscal integration – and the low level of political integration deriving from it, as shown in Fuest and Peichl (2012) – raises a series of questions about the future of the Union, a series of analyzes, among which AlphanDéry (2013), Vetter (2013), Dan (2014) indicating the need of accelerating the integration process on the fiscal component. This state of affairs will either contribute to changing the political attitude towards this subject and facilitate decisive steps in the direction of economic integration, or, in the absence of a broad political will, will push towards the implementation of an economic and political

system based on differentiated integration where Member States are no longer equal in rights and obligations.

In this context, beyond identifying the problem and outlining potential solutions, consistent views on the implementation phase, which cannot ignore the extremely heterogeneous cultural environment that represents more than just simple diversity, could underpin the European construction through their crucial role in shaping multiple interactions of social, economic and political nature. This can support the idea according to which the European construction should have begun by paying more attention the process of cultural integration, thus strengthening the foundation for the development of economic and political components. However, it must be recognized that the European project started in the years following the Second World War was not a „laboratory“ experiment, carried out in a controlled environment, but a genuine project pioneered and implemented in a real environment characterized by a series of political tensions and other economic and social factors that have made it even more complex. Therefore, any kind of discussion centered on post-factual recommendations generates few useful conclusions and the analysis should instead focus on identifying the inefficiencies within the integration process which is currently underway, while proposing viable solutions for their elimination.

Without denying the existence of bivalent relationships between the culture-economy couple and political culture, it should be stressed that the cultural environment is much more stable than the political-economic one, thus being more resistant to change, especially if such change is promoted from the outside. Therefore, the effects of cultural elements on the political and economic environment are faster and more intense than those generated in the opposite direction, situation that advocates the use of various public policy instruments in the attempt to promote economic and political goals.

This being said, one can identify a need to intensify research focused on the cultural component and the effects it has on the economic and political integration processes, starting with the premise that, in the absence of a certain level of cultural integration, the active management of differences and cultural peculiarities is a prerequisite for the success of economic and political actions designed to transform the European Union into a fully functional supra-national entity, which is able to impose itself in the long term as one of the main actors within a highly complex world order.

At the same time, the effort to create a true European identity that acts as a natural extension of the national identity, invalidating the perception that those who belong to other European nations are assimilated to foreigners, must be promoted as one of the main items on the agenda of European integration. In this context, it should be emphasized that the simple statement of objectives of a cultural nature is useless if

the acceptance of its necessity is not ensured, a difficult thing precisely because of the fragmented identity environment and the increasing intensity of the Euro-skeptical forces that apply disintegratory pressures.

Surprisingly or not, the concept of culture is just briefly outlined in the treaties that stand at the base of the European Union. A first reference from the cultural area appears in the Treaty of Rome of 1957, but from an economic perspective, as it states that certain cultural goods of national interest are not subject to the free movement of goods, a provision aimed at protecting the cultural heritage. A more consistent reference can be found about two decades later in the Tindemans Report, which identifies the need to strengthen the idea of „European identity“ (however without defining or indicating the link between it and culture) in the context of the political interaction with international partners (Tindemans 1975, p. 15, 18). The Treaty on the European Union, signed in Maastricht in 1992, though using general formulations, pays more attention to the importance of culture in construction Europe. Thus, as far as the objectives are concerned, it stipulates the development of both a the national cultures of Member States and, at the same time, the common cultural heritage, while it is noted that cultural elements will also be taken into account in the application other provisions of the Treaty. These provisions are present also in the Treaty of Lisbon (2007) and the rights to free artistic expression and respect for cultural diversity are mentioned in the Charter of Fundamental Rights of the European Union (2007, art. 13, 22), a document that produces legal effects that are binding for all Member States since 2009. However definitions of culture and cultural elements are still missing from all the documents underlying the functioning of the EU and its institutions.

The cultural approach of the European Union is centered around a defining element, namely that the responsibility for the creation and implementation of cultural policies lies with the Member States, the actions of the European Commission being only a series of instruments related to cultural policies promoted at national level, meaning that a common cultural policy is abandoned in favor of a series of potential common cultural approaches resulting from joint efforts that could lead to a partial synchronization of cultural policies across Member States. In other words, in a highly complex socio-cultural context marked by the anxiety generated by the idea of a potential loss or mitigation of national e cultural identity, the cultural field has been included in the area of support competences, according to article 6 of the Consolidated version of Treaties, corresponding to the lowest level of intervention by the European institutions, which do not have legislative powers in this field and therefore can only intervene to support, coordinate and complement the actions of the Member States (European Union legislation on division of competencies).

In these circumstances characterized by the lack of a common cultural policy, it is difficult to ensure an effective use of cultural instruments to achieve political,



economic and social objectives expressed at a European level. However, culture seems indispensable both for the consolidation of a European identity capable of providing the foundation of the continuation of the integration process, and for the development and implementation of optimal public policies in order to make the European integration process more efficient.

The idea of using culture as a means of consolidating a common European identity, with the implicit implications for the integration process, are based on the causal link between culture and identity. This relationship, which can be considered to be the basis of such an approach, is very well synthesized by Jandt's interpretation of the findings in the field the neurosis generated by the research of Damasio (2010), according to which culture has the function of regulator of human life and identity (Jandt 2013, p. 5). However, at the level of the official documents regulating the functioning of the European Union, whether one is referring to the Treaties, the resolutions of the European institutions or the documents governing the implementation of the Culture program, the problem is only tangentially touched.

Regarding the treaties on which the functioning of the European Union is based, the consolidated version reinforces, on one hand, the desire to strengthen the identity of Europe (but through a common foreign and security policy and not through a common cultural policy), and, on the other hand, the commitment to respect national and religious identities in the Member States (Consolidated version of Treaties). However, the provisions are formulated in a general manner, without providing, like in the case of culture, a definition of the concept of identity and without detailing a specific framework that would underpin the process of identity consolidation. Furthermore, no specific reference is made to cultural identity, even if there are obvious links between it and national and religious identities.

A more consistent mention on the link between culture and identity can be found in a Council Resolution on the European Agenda for Culture. The Act was adopted at the proposal of the Commission based on the belief that „culture and its specificity, including multilingualism are key elements of the European integration process based on common values and a common heritage – a process which recognizes, respects and promotes cultural diversity and the transversal role of culture“ (Council Resolution of 16 November 2007), setting out a series of better articulated (but at the same time only indicative) objectives for cultural development. Thus, although one of the specific objectives refers to „promoting intercultural dialogue as a sustainable process contributing to European identity, citizenship and social cohesion, including by the development of the intercultural competences of citizens“, the same document redefines the already stated objectives as simple „common guidelines“ part of a flexible and optional framework, which „do not preclude the definition and implementation by Member States of their own national policy objectives“ (Council

Resolution of 16 November 2007). Of course, it is inconceivable that any provision that would have entered in contradiction with the classification of the cultural field as a part of the sphere of support competencies would be anything else than null and void. However, it is difficult not to notice the tone somewhat hesitant, which seems to be consistent with the subsequent work of the European institutions in the field of culture.

The situation regarding the concept of culture described above is even more acute in terms of European identity, a concept that seems to be placed at the edge of the taboo area, being often insinuated in European documents, but rarely explicitly named and never defined. That being said, one must not overlook a number of elements from the text of the resolution that may represent the first steps towards a revision (unlikely at the time of the drafting of this paper) of the European cultural strategy which, in the event of a possible revision of the Treaties, could tend towards a common cultural policy by including the cultural field in the scope of the shared competences.

The first such element consists in recognizing the transversal role of culture, which influences a wide range of domains and processes, thus constituting an important variable in the integration equation. Moreover, this recognition of the transversal character of culture represents a step that, although incipient, is an indispensable element in designing and implementing a real common European policy approach to policies from the cultural sector.

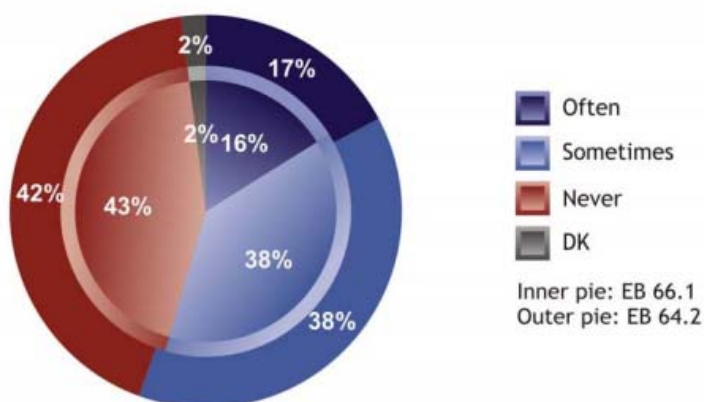
The second element is related to the function of intercultural dialogue in the process of defining European identity and belonging. In addition to being one of the few direct mentions to the desideratum of defining a European identity, the document identifies intercultural dialogue as one of the means to achieving this goal. Also, it must be noted that the text does not stop at the role which intercultural dialogue (and implicitly culture) in the identity and belonging equation, but goes further with reference to social cohesion, a central element of the European integration process, which is stemming from the sense of belonging to a common identity, but which corresponds to a deeper level.

### **3 THE CULTURAL PERCEPTION OF EU CITIZENS**

Let us now place the official position of the European Council on this matter in the context of the popular perception within the EU. Thus, we will proceed by first analyzing the results of Eurobarometer 66 (2007), published in the same year as the Council Resolution, which reveals that 43% of the citizens of the European Union never define themselves as Europeans, while 38% do so only at times and only 16% do it with an increased frequency. Moreover, only 59% of EU citizens were proud that they are Europeans. The results are shown in Figure 1.

Figure 1: National vs. European feeling, spring 2015 and autumn 2014 (EU 28)

Question: QA30. Do you ever think of yourself as not only (NATIONALITY), but also European? Does this happen often, sometimes or never?



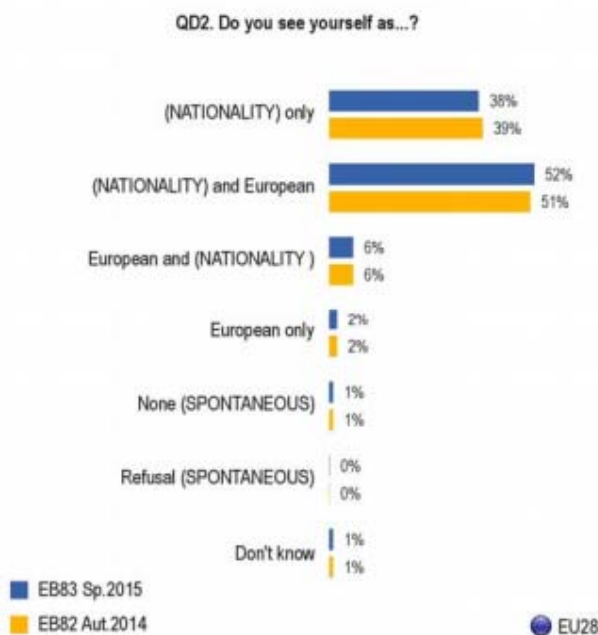
Source: Standard Eurobarometer 66.

However, one can observe improvement in the situation in the following years, the Standard Eurobarometer 83 (2015), which contains a slightly changed question compared to the proposed version respondents in 2006, pointing out that 38% of EU citizens are defining themselves only on the basis nationality, 52% primarily on the basis of nationality and subsidiary on the basis of European citizenship, while only 8% put European citizenship first, with or without a component national identity (Figure 2).

However, the results must be interpreted in the context of the evidence that a strong national identity leads to less support towards the European Union (Carey 2002). Thus, although the situation emerging from the 2015 survey indicates an increase of the European sentiment, the results may be somewhat misleading in terms of the identity feeling because of the way Eurostat sociologists have formulated the question, which refers, on one hand, to nationality, a concept that includes an extremely powerful identity component, and, on the other hand, to European citizenship (and not to European identity) in the conditions in which citizenship is a legal concept that includes identity elements only tangentially.

Subsequently, Eurobarometers 85 and 86, based on questionnaires applied 2016, indicate, despite the increase in intensity of nationalist and populist rhetoric, a similar picture regarding the self-perception of European citizens in this respect, as shown in the charts below.

Figure 2: National vs. European feeling, spring 2015 and autumn 2014 (EU 28)



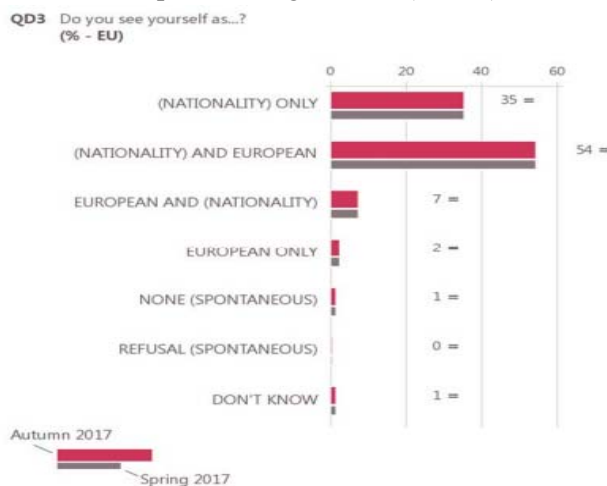
Source: Standard Eurobarometer 83.

We underline the lower percentage of respondents from the Non-Euro Zone Member States who consider themselves European citizens, namely 50% of them, compared to 64% of respondents from countries that have already adopted the single currency (Standard Eurobarometer 85, 2016). In this context, the question is to what extent are results indicative of a causal relationship and, if so, if the belonging to the Euro Zone determines the increase of the European sentiment or, vice versa, the Member States whose citizens feel to a greater extent Europeans are more likely to be integrated into the monetary union. Without the aiming in this paper to deepen the investigation into the link between European and national identity in the context of the extensive process of European integration, we consider useful to emphasize the increased importance of understanding this link in the context of the calibration of integration process and the determination of the optimal road to be followed for the completion of the European project.

Looking at the results of the Standard Eurobarometer 88 (2017), the latest with fully published results at the time of drafting this paper, one can find elements that suggest a positive dynamics of the European feeling, with the percentage of those who identify themselves only by referring to their nationality dropping to 35% and the percentage of citizens identifying themselves as being European only or primarily

European (with the nationality in the subsidiary) reaching 9%. This situation is illustrated in Figure 3.

Figure 3: National vs. European feeling in 2017 (EU 28)



Source: Standard Eurobarometer 88

Regarding the dynamics of the results from the Euro Zone membership perspective, Eurobarometer 88 (2017) reveals a substantial increase in the European sentiment of citizens from Member States outside the Euro Zone (56%, compared to 50% in the spring of 2016), doubled by an increase also in the percentage of those who consider themselves European citizens and are coming from Member States that have already adopted the single currency (66%, compared with 64% indicated by the results from the spring of 2016 and the spring of 2017).

#### 4 CONCLUSION

An analysis of the structure of the European Union, as stemming from its underlying treaties and other legal documents that lay down its principles of construction and operation reveal that, beginning with the documents pertaining to the creation of the first European structures after the Second World War and continuing with the treaties that have ensured the deepening of integration along a wide range of vectors, the focus has always been on economic and political elements, while issues pertaining to the field of culture have been only tangentially, at best, approached. More precisely, the consolidated version of the European Union’s treaties reinforce the intention to create a stronger European identity while committing to respecting the national and religious identities of the Member States (Consolidated version of Treaties), without however providing with more details on how the process should

unfold, an absence that, in practice, fails in providing European institutions (and especially the European Commission, whose goal is to look after the interests of the EU as a whole) a clear basis for policy actions aimed at achieving this very general objective. Furthermore, as highlighted before in this paper, no specific reference is made to cultural identity, even if it exhibits obvious links with national and religious identities. On the other hand, the fact that a more recent Council resolution, namely the Council Resolution of 16 November 2007, has tackled elements that recognize the enhanced role of culture and its transversal function in the European integration process could be interpreted, at least by euro-enthusiasts, as a sign of potentially increasing efforts for the design and implementation of a real common European policy approach to policies from the cultural sector.

This structural picture is to be interpreted in the light of the recent dynamic of the European cultural perception among EU citizens, as depicted in Eurostat's Standard Eurobarometers, whose slightly positive change indicates that the Euro-skeptical trend that can be observed in numerous European political environments is limited. Moreover, one must note the substantial increase in the European sentiment of citizens from Member States outside the Euro Zone (56% in the spring of 2017, compared to 50% in the spring of 2016), an element that could consist in a non-economic argument for accelerating the Euro adoption process.

In the 2018 state of the union speech to the European Parliament, European Commission President Jean Claude Juncker stated that „to love Europe is to love its nations. To love your nation, is to love Europe“ (Juncker 2018). This very pro-European sentiment needs however to be doubled by clear policy actions that aim at strengthening the role of European culture and identity within the EU's construction.

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## VÝROBNÁ ZNAČKA AKO AKTÍVUM V MEDZINÁRODNOM OBCHODE

### TRADEMARK AS AN ASSET IN INTERNATIONAL BUSINESS

*Liubov Lukianenko<sup>1</sup>, Viktoria Shelest<sup>2</sup>*

Článok sa zaoberá významom predmetov duševného vlastníctva ako ziskových podnikateľských aktív. Posudzujú a špecifikujú sa podmienky rozpoznávania predmetov duševného vlastníctva (najmä výrobných značiek) ako nehmotného majetku a mechanizmus ich hodnotenia. Príspevok skúma podstatu výrobných značiek ako predmetu účtovníctva a duševného vlastníctva. Venuje sa aktivitám právnických osôb, ktorí žiadajú registráciu práv výrobných značiek na Ukrajine a vo svete. Predstavuje sa úloha nehmotného majetku, najmä výrobných značiek, s cieľom zabezpečiť konkurenčné fungovanie a rozvoj podnikov. Odôvodňuje sa aj potreba správy nehmotného majetku. Analyzujú sa organizačné a metodické prístupy k analytickému a syntetickému účtovníctvu s nehmotným majetkom s prihliadnutím na aspekty ich prijímania a využitia.

**Kľúčové slová:** nehmotné aktíva, výrobná značka, hodnotenie nehmotných aktív, správa nehmotných aktív

Paper deals with the significance of intellectual property objects as a profitable business asset. Conditions of recognition of intellectual property objects (in particular trademarks) as intangible assets and the mechanism of their evaluation are considered and specified. Paper investigates the essence of the trademark as an object of accounting and intellectual property as well. Analysis on the activity of the applicants concerning the registration of trademark rights in Ukraine and internationally are also conducted. The role of intangible assets, in particular trademarks, is disclosed to ensure the competitive functioning and development of enterprises. The necessity of management of intangible assets is substantiated. Organizational and methodical approaches to analytical and synthetic accounting of operations

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with intangible assets are analyzed, taking into account the aspects of their reception and usage.

Key words: intangible asset, trademark, valuation of intangible assets, management of intangible assets

JEL: O32, G12, M41

## 1 INTRODUCTION

Contemporary world economic development is characterized by such a phenomenon as globalization. Such processes develop controversially. In the current conditions, globalization has a significant impact on all spheres of society's life, in particular on the economy. Globalization represents interconnection of economies of different countries of the world. When the economic processes taking place in one country are reflected in other countries, the whole world appears as one universal economy. Globalization of the world economy creates new conditions for the functioning of international economic relations in general, and national economies in particular. The transformation of the world creates a single zone where free-moving factors of production require changes in economic activity.

There are new approaches to doing business and making managerial decisions internationally. In addition to traditional approaches of enterprise management, much attention has been given to strategic decision-making, taking into account the impact of the external environment. In these new economic conditions, the functioning of enterprises makes trademarks an important management tool that is strategically important nowadays. Trademarks stimulate demand and promote the successful implementation of goods and services by individualizing them with respect to other goods and services presented on the market by competitors.

In the process of globalization, the "brand" category acquires a new meaning. It expresses the interests of the company itself, and is one of the main sources of profit in the long term. From a simple mark on a product, a brand becomes a key element of a wide corporate strategy. In the modern global economy, the movement of the brand is not limited to the sphere of consumption. With the increasing complexity of relationships between enterprises in different countries, the creation of global companies, brands create uniform standards for production, distribution, marketing and consumption worldwide. All this determines the current area of research.

Problem aspects of the use of a trademark in business, from its creation and use to display in the financial statements, were studied by a number of scientists and economists. In particular, the essence of the trademark, while revealing its components and functions, was studied by Kotler (1995). The trademark was characterized by Evans and Berman (2002) as well. Own interpretation of the essence of the brand and its relationship with the product and consumers was introduced by Keller (2005).

Features of the reflection of intangible assets directly in the assets of the enterprise were revealed by Edvinsson and Malone (1997). Lev (2002), for instance, emphasizes the complexity of the reflection in the account of internally generated intangible assets. Practical aspects of the use of intangible assets as objects of accounting and reporting were introduced by Plekhan (2015). Syzosenko (2006) investigated the criteria for the recognition of intellectual property objects as intangible assets. The problem of improving the accounting of intangible assets was studied by Banasco (2009).

At the present stage of development, traditional accounting systems and economic analysis of intangible assets do not provide information in all those analytical sections that are necessary for making managerial decisions. The existence of a large number of unresolved issues regarding the recognition of trademarks as intangible assets of the enterprise and their assessment and order of reflection in the enterprise's accounting system requires urgent resolution and indicates the relevance of the chosen research direction.

The purpose of this study is to analyze the intellectual property rights of the trademark. The analysis on the current state of the trademark market in Ukraine and the position of trademarks in the world economy were conducted as well. For reaching the purpose of the paper the generalization of regulatory requirements regarding the recognition of intellectual property objects (in particular trademarks) for intangible assets was made as well as improvement of accounting methods and the formulation of separate approaches for problem solving.

## **2 TRADEMARKS AS AN OBJECT OF INTELLECTUAL PROPERTY**

For different enterprise of all forms of ownership, the transition process of Ukraine from planned economy to market relations, a number of issues were created, including such common question as what products should be produced, in what amount, at what price and what costs will be incurred?

In the process of globalization, the "brand" category acquires a new meaning. It becomes an expression of the interests of the company, one of the main sources of profit in the long term. From a simple mark on a product, a trademark becomes a key element of a wide corporate strategy.

The market for goods and services today offers many opportunities for consumers, stimulates business development and the competitiveness of the environment, and provides a variety of products and a wide range of services. Every producer seeks to satisfy the needs of consumer by maintaining a positive image of his own brand. To increase the sales volume producer is trying to acquire the appropriate status or name on the market. Consequently, one of the key conditions for the presence of goods on the market is to give them a certain name and designation in order to make the goods of one owner to be different from the goods of the same category of another

owner or from other goods in general. Thus, in the modern world, one of the main tools designed to create a difference between the goods and services of different companies is a sign for goods and services – trademark. Companies invest a huge share of their budget into development and promotion of their signs for goods and services, so that their designations are associated with high quality, traditions or innovations and have a high degree of recognition among consumers.

Trademark, as an object of intellectual property, is regulated by a number of international legal acts, including global agreements like Paris Convention on Protection of Industrial Property, Madrid Agreement Concerning the International Registration of Marks, or regional treaties like Association Agreement between Ukraine and the European Union. On the regional basis, the national legislation of Ukraine is applied – the Civil Code of Ukraine or special legislation on intellectual property, in particular the Law of Ukraine “On the Protection of Rights to Trademarks for Goods and Services”.

In accordance with Article 492 of the Civil Code of Ukraine, a trademark can be any designation or any combination of designations suitable for distinguishing goods or services produced or provided by one person from goods or services produced (provided) by others (Supreme Council 2003). According to Article 1 of the Law of Ukraine “On the Protection of Rights to Marks for Goods and Services”, a sign is a designation in which the goods and services of some persons differ from the goods and services of others. However, if similar designations are registered as marks for goods and services, this may lead to a decrease in their main ability to give distinction and help identify goods and services.

As mentioned above, there is confusion in the legislation regarding the name of the sign. According to the Civil Code it is a trademark but according to the law it is the mark for goods and services. In our study we use these terms as synonyms.

To protect the ability of marks to give distinction for goods and services, a restriction has been placed on registering similar designations as marks for goods and services. According to the specified legal acts (Supreme Council 1993, Supreme Council 2001), if a designation is identical or similar so it cannot be registered as a mark for goods and services in following cases: with signs previously registered or applied for registration in Ukraine by the name of another person for the same or related goods and services; with signs of other persons, if these signs are protected on the basis of international agreements to which Ukraine is a signing party (international signs that are protected in Ukraine according to the Madrid agreement or signs recognized as well known in Ukraine). In addition, no legal protection can be given to signs that are deceptive, or that can be misleading in relation to a product, service or person producing the goods or providing the service. The verification of a designation claimed for registration for compliance with these requirements is carried out by the

State Enterprise – Ukrainian Institute of Intellectual Property (Ukrpatent) during the examination of the application in essence (qualification examination).

In September 1, 2017 the Association Agreement between Ukraine and the European Union (Supreme Council 2014) entered into force. Speaking in its volume and thematic coverage, the largest international legal document in the history of Ukraine, the Association Agreement provides for an in-depth and comprehensive free trade area between Ukraine and the EU. In defining the legal basis for the free movement of goods, the Association Agreement places an important emphasis on the legal field of the use of intellectual property rights, in particular trademarks.

In connection with the ratification of the Association Agreement with the EU, Ukraine has undertaken a number of commitments to amend the legislation on trademarks. One of the key obligations is the opening for public access of an electronic database of submitted applications for trademark registration. Similar bases are open today in many countries including United States, UK, Austria, and many others. It makes possible to track applications that are submitted in violation of the rights; timely submit to the opposition against the registration of those trademarks that the company regards as filed in violation of its rights; at minimal cost, assess the possibility of registering a new trademark, as well as the risks of being accused of violating rights when introducing a product to the market.

Therefore, a trademark is an important competitive factor for a business entity. On a global scale, the picture of filing applications for signs of goods and services is slightly different. According to the World Intellectual Property Organization (WIPO 2018) an estimated of 7 million trademark applications were filed worldwide in 2016, 16.4% more than in 2015. This marks the seventh consecutive year of growth. There are now almost three times as many trademark applications being filed around the world than in 2001. Number of applications has increased every year with annual growth exceeded 10%. In 2016, 55% of all trademark submissions – measured in class counts – occurred at the top five countries. The office of China alone received over a third of total global trademark submissions, primarily from Chinese residents. The other countries among the top five, each accounted for between 3% and 6% of the total submissions.

Such dynamics in submission activities of trademark registration for goods and services indicates that the business actively apply trademarks in enterprise activities. Consequently, the trademark is one of the factors that influence the profitability of a business. This statement (Brand Finance 2018) is confirmed by a study conducted by Brand Finance (2018) – the world's leading independent business brand evaluation and strategy consultant body.

According to the study presented in the Table 1, Amazon is the world's most valuable brand ahead of Apple and Google in the Brand Finance Global 500.

The e-commerce brand's value has increased by 42% year by year to a whopping 150.8 billion USD. Although, Apple defended 2nd place in the ranking, with brand value rebounding to 146.3 billion USD after the 27% decline last year its future looks bleak. Google, for instance, has dropped from 1st to 3rd position, recording a relatively slow brand value growth of 10% to 120.9 billion USD.

Table 1: Application submissions for a trademark for goods and services

<i>Rank 2018</i>	<i>Rank 2017</i>	<i>Brand name</i>	<i>Country</i>	<i>Brand value (billion USD) 2018</i>	<i>Brand value (billion USD) 2017</i>	<i>% change</i>
1	3	Amazon	USA	150.811	106.396	+ 42
2	2	Apple	USA	146.311	107.141	+ 37
3	1	Google	USA	120.911	109.470	+ 10
4	6	Samsung	South Korea	92.289	66.218	+ 39
5	9	Facebook	USA	89.684	61.998	+ 45
6	4	AT&T	USA	82.422	87.016	- 5
7	5	Microsoft	USA	81.163	76.265	+ 6

Source: Brand Finance 2018, Global 500

For the first time since the introduction of the Brand Finance Global 500 study, technology brands claim all top 5 places in the league table. Samsung (4th, 92.3 billion USD) and Facebook (5th, 89.7 billion USD) both recorded impressive year-on-year brand value growth of 39% and 45% respectively, overtaking AT&T (6th, 82.4 billion USD). Change at the top is reflective of a wider global trend as the technology sector accounts for more than twice as much brand value as telecoms. Brand Finance's annual research has revealed that 52% of the world's business value is intangible and almost 80% is totally undisclosed. It has profound effects on companies' ability to manage their assets, and for investors, to make informed decisions on where to put their money (Teresa de Lemus Managing Director, Brand Finance Spain).

According to the statistics of Ukrpatent in 2017, situation in the submission of applications for signs of goods and services under the national procedure has changed due to national and foreign applicants. If in 2016 there was a high activity of national applicants that exceeded the indicators of all previous years, in 2017 the activity of foreign applicants increased, while the activity of the national applicants remained unchanged from the previous year (Table 2). The activity from foreign applicants has increased more than 27% within the framework of the Madrid system. The leading countries that applied for trademarks and service marks under the national procedure in 2017 are presented by United States (17.7%), Cyprus (16.4%), Switzerland (6.6%), and China (4.6%).

Table 2: Receipt of applications for a sign for goods and services

	2013	2014	2015	2016	2017	2016-2017, % change
<b>Total</b>	34393	27280	32621	35605	37817	106.2
According to the national procedure:	24471	18796	24652	29600	30183	101.9
From national applicants	19769	15141	21245	26064	26276	100.8
From foreign applicants	4702	3655	3407	3536	3907	110.4
<b>According to the Madrid system</b>	9922	8484	7969	6005	7634	127.1

Source: UIPV 2018 “Industrial property in numbers”

During the reporting year, the most active in filing applications for trademarks for goods and services among the national applicants were LLC “Distillery”, LCC “Prime”, PJSC “Kyivstar”, PE “Golden Age”, and LLC “Nestle Ukraine”. Cyprus company “GSH Trademarks Limited”, which owns a number of trademarks as “Khortytisia”, “Medovuhha”, “Morosha”, “EcoBrand” (63 applications), Austrian pharmaceutical company Farmak International Holding GmbH (44 applications), and Japanese tobacco company “Japan Tobacco Inc.” (22 applications) were among most active foreign applicants in national submission procedure.

Among foreign applicants, according to the international procedure, the most active were the world's largest cosmetics company “L'Oréal” (107 applications), “American technology company” that designs and develops consumer electronics, software and online services, “Apple” Inc. (68 applications), and one of Korea's largest telecom companies – “Huawei Technologies Co. Ltd.” (51 applications). Therefore, the main areas of applicants’ activities are management activities, communications, real estate and financial transactions, agricultural products and services, pharmaceuticals, health, cosmetics, leisure, education, training, scientific research, information and telecommunication technologies (UIIP 2018).

Based on the foregoing, it can be argued that trademarks play an important role in the economic activity of the enterprise positively affecting the competitiveness and profitability of the business, and the formation and capitalization of the brand. An important issues here are strategy of managing trademarks, forming a portfolio of brands and managing them.

### 3 METHODOLOGY OF THE TRADEMARK’S ACCOUNTING

The clarity, authenticity and completeness of the information provided by the financial statements plays an important role both for internal and external users. The qualitative characteristics that provide the usefulness of information are largely dependent on the assessment of elements of financial statements.

It is worth noting that the presence of intangible assets as a resource of an enterprise contributes to increasing its market value, its competitiveness and, in

general, makes the company more attractive for investment. To effectively manage such strategically important assets of an enterprise as an intellectual property object, an efficient system of their accounting must be developed to provide the necessary information for management decisions. Availability of an effective system of information management of trade marks management of the enterprise will allow developing a complex of measures for preservation of their value and in general will increase the efficiency of functioning of enterprises in the dynamic and changing conditions of development within the modern market environment.

Today, enterprises can significantly increase their value, using high-tech assets in the process of their activities. According to P(S)BO8 “Intangible Assets”, an intangible asset is a non-monetary asset that is non-material and can be identified. One of the main features of assigning an asset to intangible assets is the presence of a document certifying the right to use or dispose of such an object (patent, certificate, and license). In accounting, intangible assets are part of non-current assets, and the latter, in turn, are part of the assets of the balance sheet. We propose the following refined key features of this concept, namely:

- non-monotony;
- lack of physical substance;
- identification;
- provision of future economic benefits;
- control of the enterprise as a result of past events;
- possibility of simultaneous use by several subjects of use;
- the ability to bring economic benefits by interacting with other resources, due to the synergistic effect.

The question of valuation of intangible assets is extremely important issue. The assessment is a specific way through which the accounting elements are translated from the natural measure to the cash in order to reflect on the accounts in financial statements. The requirements for the valuation are formed by international standards of financial reporting, national accounting standards and special legislative acts (Ministry of Finance 1999, Supreme Council 2012).

Given the nature of intangible assets, a significant part of them, as already noted, is not reflected in the accounting records, and the company is not able to control them. Creating value for the enterprise in the process of economic activity, they do not have such a values, because the value refers to the contribution to the total value of the enterprise.

The peculiarities of valuation of intangible assets are influenced by source of income and types of assets and their place in the process of economic activity.



Intangible assets can be purchased for funds from legal entities or individuals, and their value is determined by the actual costs of acquiring and bringing to a state suitable for use in business activities; can enter the enterprise as a contribution to the authorized capital, at fair value (guided by the agreement of the shareholders of the enterprise); arrive under the terms of the contracts not in monetary form (at the cost of the property that was transferred in exchange); as a result of the creation of their own forces – are estimated at the actual cost of creation; can be obtained from legal entities and individuals on a royalty-free basis, while the cost of posting is established by independent experts.

For accounting purposes and for the purpose of accurate reporting, the valuation of intangible assets is clearly regulated by P(S)BO 8 “Intangible assets” (Ministry of Finance 1999). Hence, intangible assets are reflected in the balance sheet at their original cost (according to Art. 10 P(S)BO 8). Depending on how these assets are received, different approaches are used to determine the initial value.

Three main approaches to evaluation are distinguished: income approach, cost approach and comparative approach. It should be noted that such approaches are recommended in international standards of assessment. The cost approach is based on the principle of utility and replacement, and therefore the cost of expenditures in the course of creating and replacing valuation objects is calculated in current prices, with subsequent adjustments to depreciation deductions.

Generally, an expense approach is used in the case of the objective impossibility of applying income and comparative approaches. The objects of evaluation are usually an inefficient and non-profit enterprises. This method allows to reflect the actual costs incurred by the company, thus allowing the seller to obtain an acceptable price, since the value of assets is taken into account and potential returns are not considered. However, when applying the cost approach, there are a number of limitations, in particular, the complexity of deducting the size of moral aging, ignoring future expectations, as the result of a determined value of the object does not correspond to real market value.

In practice, a comparative approach is often used, which is to compare the prices at which such assets were sold, and, based on this information, the intangible asset itself is valued. At the heart of this approach there is the principle of substitution, by which the buyer will not pay for the object more than the cost of a similar object available for purchase. That is, the cost of similar objects serves as a rather reliable type of source information that is used in the calculation of the value of a particular object of intangible assets.

The income approach comes from the principle of expectations and is manifested through the conversion of future cash flows generated by intellectual property objects into real value. If there is a real possibility of obtaining income from

the use of intellectual property, a profitable approach is used. The most widespread methods of income approach are the method of discounted earnings and the method of direct capitalization.

According to the abovementioned data of the State Intellectual Property Service of Ukraine (2018), for the last years, the trademark has a stable tendency of quantitative prevailing among other objects of industrial property, both among the submitted applications and among issued security documents for such objects. Therefore, we consider it appropriate to consider in detail the peculiarities of evaluating such an industrial property object as a trademark.

In accordance with clause 9 of the P(S)BO8, “Intangible assets”, costs for the creation of trademarks are not recognized as intangible assets, but are to be reflected in the expense of the reporting period (Cabinet of Ministers 1999). Trademarks are recognized as intangible assets and are subject to assessment only if they are received from the outside. Thus, existing regulations limit the possibility of reliable marking of trademarks.

In the process of determining the benefits of using a trademark, the following methods are used: the definition of net cash flow, share in profit, exemption from royalty, 25 percent, price premium (Raleigh 2005). The description of each method regarding the specifics of the trademark assessment is presented further.

When assessing the trademark by the method of net cash flow allocated to the profit of the enterprise, which directly affects the sign, the value is determined based on the expert opinion of the appraiser. The lack of development of the process of evaluation of intellectual property rights objects in comparison with other objects of evaluation in the domestic market of valuation activity generates a situation where expert opinion is not substantiated.

The method of allocating a share in profit in relation to the signs is mainly theoretical. This method considers the comparison of profits with and without the use of a trademark. However, we believe that the weaknesses of the method, determining only the current status of the mark, not taking into account future events and the difficulty of defining the basis for comparison, make it impossible to use it in marking the trademark in practice.

In the process, appraisers often apply a royalty-free method, which is based on the assumption what it would be if the trademark in question was not owned by the current owner. In this case, there is a need for license fees in favor of the owner of the mark. The size of the imaginary annual license fee is determined by multiplying the annual proceeds from sales of products using the estimated mark on the average rate of royalty. Therefore, the calculated savings are considered as additional profits created by the estimated sign.

The method of “25 percent”, or as it is also called “rule of thumb” or “rule of the runner” is quite similar to the previous method, however, unlike the latter, does not involve market analysis and income tax before income tax is used. According to the “25 percent” method, the benefits of using the rated sign are distributed between licensor (25%) and licensee (75%).

The method of determining a price premium, which is calculated as the difference between marked and similar, but not marked products, is quite popular in evaluating a trademark. However, the complexity is caused by a large number of assumptions and limitations in the process of choosing the evaluated unmarked goods, reduces the authenticity of the marks obtained, and makes this method difficult to implement.

According to the results of the analysis of the application of various methods of income approach in the process of evaluation of the trademark, we consider that the refusal of labor-intensive methods of constructing a real effect from the use of a trademark (the method of discounting cash flows, and the method of direct capitalization) in favor of methods that consist of artificial simulation of such an economic effect (determination of net cash flow, share in profit, exemption from royalties, 25 percent, price premium) reduces the validity of the assessment.

The above methods are used in assessing the trademark that came from outside. It is appropriate to use methods of cost approach to assess intra-generic signs. An important condition for the effectiveness of the application of this approach is the reliability of the definition of the stage of the life cycle, which is the estimated mark (marketing research, legal protection, industrial development, product introduction to the market, batch production, mass production, saturation of the commodity market and decline in production). The maximum reliability of a trademark assessment is achieved at the stage of development and obtaining legal protection. The main difficulty in assessing intangible assets is the difficulty of developing a universal method for assessing such assets.

#### **4 TRADEMARK AS AN INTANGIBLE ASSET IN ACCOUNTING**

Innovative tendencies of economic development determine the informational and technological orientation of domestic enterprises. The latest technology in this process is a priority. However, special attention is paid to the way these technologies are received, giving preference to their own developments in comparison with the purchase of finished products. The success of the process of internal generation of the results of innovation activity depends not only on technical and personnel support, and on the correct reflection of such developments in the accounting. The question remains about the cost of research and development. According to US GAAP, such expenses

are not subject to capitalization, while P(S)BO and IFRS permit their capitalization, but only at the stage of development.

Problem is the isolation from the entire set of costs incurred in the process of creating intangible assets, the expenses that form the cost of such assets. A significant proportion of the costs incurred is for obtaining a document certifying the ownership of the object of intellectual property. In order to solve this problem, the distribution of the incurred expenses while passing the procedure for obtaining security documents for objects of intellectual property rights is proposed. The peculiarity of the passage of this procedure is that, in the case of non-compliance with the application for legal protection of the requirements of regulatory acts, the costs incurred do not relate to the cost of intangible assets. We consider it necessary to determine the list of additional procedures that must be performed before the filing of an application for obtaining a security document on the object of intellectual property rights in the state examination institution. The need for additional costs incurred by the enterprise for the said procedures is explained by the Resolution 1716 (Cabinet of Ministers 2004). According to this, in the case of non-compliance of the object of intellectual property rights, the receipt of the security document for which the application is filed and fees are paid by the enterprise, is not a subject to return to the applicant.

Based on the foregoing, we consider it is necessary to expand the list of expenses of the enterprise in the course of passing the procedure for obtaining security documents on objects of intellectual property rights (trademarks):

- information search on the application;
- search for symbols on the identity and similarity of Ukrainian databases;
- search for symbols identical to the one under study, for all classes of the NCL;
- application for registration of the mark for goods and services.

The above actions must be carried out in order to increase the certainty that the object of industrial property rights will receive legal protection and the costs set forth in Resolution 1716 and incurred during the course of such procedure will be effective. Services for these procedures may be provided by special patent offices if they are created at the enterprise, they have the necessary resources and professional skills, however, they are more likely to turn to certified patent attorneys or organizations specializing in providing intellectual property rights enforcement services. At first glance it may seem that the proposed actions are not rational costs, nevertheless, in the case of serial production of goods, the refusal of the examination institution to provide a security document may entail significant losses due to the delay in the launch of production. If the competitor, moreover, has taken advantage of such a waiver, filed an

identical application for the receipt of a security document, but taking into account the requirements of the legislation, in that case, the company also loses its competitiveness on the market. We believe that these costs should be attributed to the cost of an intellectual property object, which is recognized as an intangible asset, since it directly affects the future economic benefits from the industrial use of such an object.

According to the legally approved sizes of existing fees, the cost of obtaining security documents for signs for goods and services for the first 10 years is 1235 UAH. We consider it necessary to attribute the above expenses to the cost of the corresponding object. In accordance with the existing norms of domestic and foreign legislation and practical research, the algorithm of the procedure for the valuation of intangible assets is proposed:

- studying documentation on the state and prospects of using OPIV taking into account the strategy of the enterprise;
- studying the conditions for the operation of OPIV in a market environment;
- identify opportunities for using traditional approaches to assess and evaluate the real value of an object of evaluation;
- choice of assessment methodology taking into account factors influencing from the outside;
- assessment and formation of corresponding reporting documents.

Compliance with this algorithm will provide reliable data on the value of the assessed objects, on the basis of which the reporting is generated, reflecting information about the financial position of business entities for internal and external users.

An enterprise may transfer rights to intellectual property objects to any natural or legal person. All processes, business transactions carried out at the enterprise, must be reflected in the accounts of accounting. Based on the specifics of the nature of intangible assets, accounting for the inflow and movement of such assets has its own peculiarities. The reflection of intangible assets in accounting accounts depends on the ways in which such assets are transferred to the enterprise. According to Article 10 P(S)BO 8 intangible assets at their receivable should be measured at their original cost, with the approach to determining the original cost depending on the method of receipt.

The feature of accounting for intangible assets received on a royalty-free basis is that they are valued based on the original cost, which in turn is equal to the fair value. Proceeding from the norms of the Tax Code, after acquiring intangible assets, the targeted enterprises have included incoming VAT in the tax credit under condition

purchased intangible assets will be used in business transactions which are the subject to VAT and on the basis of the VAT invoice presented by the supplier.

Possibility of introducing property rights to objects of intellectual property in the authorized capital is determined by Part 1 of Article 86 of the Commercial Code of Ukraine and Part 2 of Article 115 of Civil Code.

In the case of self-creation of an intangible asset, this process is regulated by the schedule and technical design requirements. The process of scientific and technical work does not always end with positive results. In case of a positive result, expenses are reflected in the account 154 “Acquisition (creation) of intangible assets”. If the result does not meet the set requirements and the goals with which such work was carried out, the incurred expenses are attributed to the costs of the reporting period in which they were made, that is, to account 941 “Research and development costs”. Guided by the principle of prudence, the cost of research work the company accumulates in the account 39 “Costs of future periods”, and then subtracting them depending on the result, on capital investments in intangible assets or on expenses of the period. We consider it acceptable to accumulate the costs incurred in passing the procedure for obtaining a security document in the account 39 “Costs of future periods” with the opening of a second-tier account 391 “Costs of future periods associated with the receipt of a security document”, and in order to distribute such costs to those, which are included in the cost and those that are written off for expenses of the reporting period, we consider it appropriate opening of the accounts of the third order, namely 3911 “Capital expenditures of future periods for obtaining a security document concerning intellectual property” and 3912 “Current prepaid expenses of protection for intellectual property on the object”.

Depending on the goals and specifics of the accounting and analytical activity of the enterprise, in the context of the procedure for obtaining security documents for objects of intellectual property right recognized as intangible assets, further detailing of information on the above subaccounts is possible, thus ensuring control over the rational use of funds in the process of passing such procedures.

At the same time, we note that there are a number of difficulties that arise from the reflection of trademarks in accounting and are inherent in asymmetric legislation. Thus, in accordance with clause 5 P(S)BO 8, the right to purchase a trademark is recognized as an intangible asset, whereas, based on clause 9 P(S)BO 8, the costs incurred for internal generation of the trademark are not recognized by the asset (Cabinet of Ministers 1999). All costs associated with the promotion of a trademark are written off to current expenses, observing clause 9 of the P(S)BO 8. Such features of the registration of operations with trademarks in accounting require further thorough research and improvement.

Today, intangible assets, in particular trademarks, are a factor of economic stability, without which it is simply impossible to further develop market processes. The maintenance of the company's competitive position in the market and the achievement of strategic goals require the active use of such objects of intellectual property rights as trademarks.

#### 4 CONCLUSION

In the current conditions of the global economy, the movement of the trademarks is not mediated only by the sphere of consumption. With the complication of interconnections between enterprises in different countries and the creation of global companies, it becomes an element of the whole process of reproduction. The corporate orientation of the company to a certain extent determines the types of brands, approaches to their creation and market strategies.

For accounting purposes, the cost allocation has been developed and proposed in the course of passing the procedure for obtaining security documents for objects of intellectual property (trademarks for goods and services). For those objects that are recognized as expenses of the reporting period and for expenses related to the cost of the created object of intellectual property, which is recognized as an intangible asset. The peculiarities are analyzed, advantages and disadvantages of using cost, comparative and income approaches in the process of valuation of intangible assets are determined. The methods of the income approach in the process of evaluating such a specific object of intellectual property right, as a trademark, are substantiated. An algorithm of the procedure for evaluating intangible assets is proposed, observance of which will provide reliable data on the value of the assessed objects, on the basis of which the reporting is formed, reflecting information about the financial position of business entities for internal and external users.

The state of reflection of the processes of receipt and movement of intangible assets at the enterprise as a result of economic activity is analyzed. In order to make informed accounting decisions regarding the reliability of the display of intangible assets in the accounts, it is proposed to use the recommended detail of sub-accounts 124 "Rights to industrial property objects" and 154 "Acquisition of intangible assets".

The procedure of displaying transactions with trademarks in the register, the practice of which is constantly growing, is investigated and analyzed, acting as a driving factor for strengthening competitive positions, maintaining existing consumers and attracting new ones.

Integration of Ukraine into the European environment requires appropriate changes in accounting practice. The transition to International Accounting Standards offers many opportunities for enterprises, so attention should be paid to the

peculiarities of legislation acts, the level of economic development, the methods and all the necessary standards.

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## INTERVENCIA NA POZVANIE INTERVENTION BY INVITATION

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*Stanislav Mráz<sup>1</sup>, Klaudia Hraníková Pytel'ová<sup>2</sup>*

Intervencia na pozvanie je stále kontroverznou otázkou. Piliermi medzinárodného práva sú jeho základné princípy, napríklad zásada nezasahovania, zákaz hrozby a použitia sily v medzinárodných vzťahoch. Cieľom článku je identifikovať intervenciu na základe pozvania v súvislosti s klasifikáciou ozbrojeného konfliktu a uplatňovaním medzinárodných noriem humanitárneho práva.

Kľúčové slová: ozbrojený konflikt, medzinárodné humanitárne právo, občianska vojna, zahraničná intervencia

The intervention by invitation is still a controversial issue. The pillars of international law are its basic principles, such as the principle of non-interference and the prohibition of the threat and use of force in international relations. The article aims to overcome the problem of identifying intervention by invitation in relation to the classification of armed conflict and the application of international humanitarian law standards.

Key words: armed conflict, international humanitarian law, civil war, foreign intervention

JEL: K33

### 1 INTRODUCTION

Since the end of the Second World War, the international community has been facing an increasing number of national conflicts. National conflicts have become the dominant form of conflict, with many countries justifying their participation in a national armed conflict by inviting one of the warring sides. This raises the issue of the ability to consent to intervention by the national authorities. Another issue in

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connection with an intervention by invitation is the question whether it is intervention or collective self-defense. In any case, consenting to military intervention is a controversial justification.

The theory of international law uses the term non-international armed conflict instead of the concept of national conflict. International humanitarian law or the law of armed conflict is, by its very nature, bound to the situation of armed conflict as such. The majority of its standards are exclusively applied during the conflict, while the minor part can also be applied in peacetime. But there is always a link to armed conflict; some standards are designed to prepare conditions for a conflict outbreak or to remove the consequences of the conflict. The definition of armed conflict and the determination of whether or not the signs of the term are present in specific cases are of the fundamental importance. „The protection which is offered by international humanitarian law in international or inter-state armed conflict is much wider than the protection offered in non-international armed conflict or armed conflict within the one country, although suffering remains the same or is even more difficult in a national armed conflict“ (Verhoeven 2007).

## **2 THE CONCEPT OF ARMED CONFLICT, NON-INTERNATIONAL ARMED CONFLICT AND INTERNATIONAL CONFLICTS**

The term *armed conflict* is significantly wider than the concept of war. It does not only cover international armed encounters, it requires a high level of combat and does not require a formal statement. Armed conflicts can be classified in different ways. For humanitarian law the classification between international conflicts and national conflicts is relevant. There are two different views on what criterion this distinction actually reflects. The first view is to the criterion of a territorial extent, according to which – if the conflict takes place in the territory of one country, it is national and if it is in the territory of two or more states then it is international. The second opinion is based on the criteria of the parties to the conflict, and therefore, if they are states – the conflict is international in nature, and if one of the parties, non-state insurgent army – this is a national conflict (Zagveld 2002). The distinction between the two basic types of armed conflicts is of fundamental importance in international law. For each type, a different legal regime applies. While international armed conflicts are governed by all four Geneva Conventions 1949, the 1977 Additional Protocol I and all Hague Laws, for non-international armed conflicts only the joint Article 3 of the Geneva Conventions, some Hague Laws and, in the event of a more violent conflict –Additional Protocol II of 1977 can be applied.

The position of their participants is different in both types of conflicts. In international armed conflicts, there is a clear distinction between combatants and civilians. Combatants have the right to participate in the fight, and they cannot be

prosecuted for this participation, while being understood as the legitimate aims of military action. Non-combatant civilians enjoy the protection of international humanitarian law and must not be attacked. In the case of capture, the combatants become prisoners of war. In the case of national armed conflicts, the status of combatant or prisoner of war does not exist.

Important military conflicts at present are so-called civil wars (which can be included to national armed conflicts). Under this designation, conflicts of varying kinds may vary, depending on their intensity, the actors involved, the reasons for the beginning, the goals, and so on. These national armed conflicts have taken place over the last period in many countries, Mozambique, Lebanon, Yemen, Syria, Nigeria, Angola, Chad, Afghanistan, Somalia. In many of these countries, at some stage, internationalization occurred on the basis of foreign intervention or intervention by UN units, so their regime was not unambiguous.

International humanitarian law has not had a united opinion on national armed conflict. Based on Article 3 of the Geneva Conventions international humanitarian law defines armed conflicts as non-international / national armed conflicts, in which one or more non-state armed groups are involved. The basic requirements for classifying the situation as a non-international armed conflict are:

- hostile actions must reach a degree of intensity (for example, if government is forced to intervene against rebel groups by military force, not police forces);
- non-state armed groups involved in the conflict must be considered as „party of the conflict“ as far as they are organized – and therefore under a certain command structure (having a responsible commander) and are capable of conducting military operations.

Second Additional Protocol complements and develops the common Article 3 without modifying the existing conditions by introducing a territorial control requirement. The Protocol provides that non-state armed groups must exercise such territorial control to „enable them to carry out uninterrupted and concerted military operations“. The Second Additional Protocol explicitly applies only to armed conflicts between government armed forces and dissident armed forces or other organized armed groups. The Protocol does not apply to armed conflicts occurring only among non-state armed groups. However, the definition of „non-international armed conflict“ (as set out in Article 1 of the protocol) can serve as a guideline on the extent of violence. Non-international armed conflict has a negative definition, it is not a „situation of internal riots and tensions such as rioting, isolated and sporadic acts of violence and / or other acts of a similar nature“ (Gleditsch 2002). Therefore – sporadic,

unorganized, non-political, violent riots – do not constitute an internal armed conflict. Based on the Correlates of War Project (COW), a civil conflict is understood to be a conflict in which at least 1,000 lives are lost in one year. The concept of internal armed conflict can be understood as a violent conflict where violence occurs primarily within the borders of one country (Brown 1996). And this type of dispute subsequently escalates in the form of lasting and extensive violence between two or more disparate factions, which calls into question the effective preservation of government power in that state.

The International Criminal Tribunal for the former Yugoslavia (1995) in the Tadic case described a national armed conflict as „long-lasting violence between governmental authority and organized groups or between such groups within a single state“. The ICTY definition contains three characteristics that must be met together. It is the intensity of the combat, its long-term nature and the organized character of the parties in the conflict. With these signs, national armed conflicts are differentiated from internal riots and demonstrations. In essence it is, „situations in which, without being an armed conflict in the true sense of the word, there are encounters in the territory of a particular country for meetings that are characterized by a certain degree of seriousness and duration and are associated with violence“ (Moreillon 1973). They can acquire a certain degree of seriousness and be oriented against the central government of the state as well as against another group within the state. In this situation, identifiable time and space-related manifestations of violence, the deployment of armed forces to suppress them, mass arrests, and other forms of endeavor to eliminate violence. Until the moment of identifying the situation as an internal armed conflict, it is covered by national law (though often largely repressive), as well as human rights protection (which is constantly in force). In relation to the intensity of combat – sufficient intensity is reached just only through open struggles of collective character which requires the deployment of the army or other armed forces, and which subsequently results in more casualties. Therefore, it must be manifestly more extensive than in the case of public unrest, isolated and sporadic violence, or actions of a similar nature. The long-term nature criterion reflects the attempts of international law to respond only to those phenomena that in some way prove their effective durability (or repetitive character) and, on the other hand, exclude of those which have only temporary nature. Under the organized character, it can be understood that the parties to the conflict have an armed force similar to a regular army, subject to internal discipline and responsible direction.

In essence, it can be said that a national armed conflict is a „military-type conflict that has a certain intensity and has a collective character because it affects the life of the entire society within the state“ (Kolb 2003). The application of international humanitarian law does not require the exercise of territorial control by a non-state rebel

group or its formal recognition as a fighting party. In contrast to international armed conflicts, the threshold for the applicability of international humanitarian law is increased, which is mainly related to the traditional fears of states that the civil war does jeopardize their sovereignty and over-interfere with their internal affairs.

National armed conflicts are also internally divided according to the combating sides, the intensity and the legal regime. According to the struggling parties, we know the vertical conflict, in which one of the fighting parties is the legal government and the other are insurgents, and the horizontal conflict, in which only armed groups of non-state character fight against each other. According to their intensity, national conflicts are divided into conflicts of higher intensity and lower intensity. In higher-intensity conflicts, the non-state rebel group controls part of the state's territory. Conversely, in conflict with lower intensity – there is no need for territorial control. Under the legal regime, it is possible to distinguish the conflicts governed by Article 3 of the Geneva Conventions, whether horizontal or vertical, which are generally less intense, and conflicts subject to the legal regime of the Second Additional Protocol (which are always vertical and have a higher intensity).

At the interface between national and international armed conflicts there are internationalised armed conflicts. These are conflicts that are in origin national in nature, but at certain point factual or legally internationalised changes occurred, resulting in the application of the standards created for international armed conflicts or, where applicable, the mixed legal regime. In a broader sense, it is possible to distinguish the subjective internationalization that occurs from the will of all sides of the conflict, and the objective internationalization, which is the result of the factual change of the form of armed conflict. The first group includes nowadays the less-used Institute of Recognition for the Fighting Party and the conclusion of special agreements. These agreements foreseen by Article 3 of the Geneva Conventions and Article 19 of the Hague Convention on the Protection of Cultural Monuments during Armed Conflict allow the parties to the conflict to extend to a particular national conflict the validity of some or all of the provisions in force during the international conflict. In the narrower sense, only those that have been subjected to objective internationalization are among the internationalized armed conflicts. The most frequent reason is the intervention of a foreign state or states, and / or the involvement of UN units, and / or the breakup of the state.

### **3 CONFLICTS WITH THE FOREIGN INTERVENTION**

Conflicts with foreign intervention are also armed conflicts in which „one or more states interfere with their armed forces in favor of one of the combating groups of a national conflict“ or „two or more States intervene with their armed forces each for another party“ (Verri 1988). Although, interference to the internal affairs of other

states has taken place in the past, in the bipolar world this number has risen sharply. Third-country engagement in civil wars continues, what is confirmed by events in the former Yugoslavia, the Democratic Republic of Congo, Libya, Yemen and Syria.

By the sources of international humanitarian law – the conflicts with foreign intervention are not specifically regulated. At the end of the last century, the focus was on the legality of the intervention as such, on aspects of *ius ad bellum*, and later moved on to the aspects of *ius in bello*, that is, to the legal regime applied to the conflicts. In this direction three main approaches have been gradually formed. The first insists on preserving the regime of national armed conflicts, the other advocates full legal internationalization of the conflict, and the third advocates a mixed regime. The greatest support has been given to a third approach which the conflict with foreign intervention for the purposes of legal qualification divides into a bundle of bilateral conflicts, and it means:

- the conflict between the government and the alien state that intervenes on the part of the insurgents for which the regime of armed international conflict applies;
- the conflict between insurgents and foreign governments intervening on the side of the government, which is of a national nature;
- and the conflict between two foreign states intervening on different sides of the conflict, which is of an international nature.

This approach was supported by the International Court of Justice in 1986 in the case of „Military and Paramilitary Activity in and Against Nicaragua“ (ICJ 1986). As part of this approach, in Nicaragua the situation was identified as the national conflict between the government and the units of „contras“ and as the international conflict between Nicaragua and the US. The advantage of this procedure is that it reflects the real situation on the battlefield and allows for taking into account both foreign intervention and the participation of non-state actors. Its disadvantage lies in the complexity of the legal regime which was introduced (and it also requires the parties to the conflict) to distinguish between different groups of persons among enemies / combating parties. There is also a risk that combatants, in order to avoid applying a more rigid regime, may be manipulated (for example, the intervening state can create a so-called „puppet government“ in the territory of the other state, which will assume responsibility for his conduct).

These disadvantages are one of the main reasons why lately part of the doctrine, as well as some international bodies, abandon a mixed approach and prefer its alternatives. For example, the ICTY Appellate Body used the model of full internationalization in the case of Bosnia and Herzegovina in the case of Tadic, and

stated that an armed conflict that breaks out into one country and is prima facie national can become international if:

- (a) another State interferes with the conflict by its units or alternatively,
- (b) where some of the participants in a national armed conflict act on behalf of that other State (ICTY 1999).

However, this attitude is not without problems, because some institutes of the legal regime of international armed conflicts, the institute of combatants and war prisoners – is very difficult to apply to the relations between the government and the rebels without further adaptation. In addition, in practical terms, the vision of internationalization, and hence the strengthening of legitimacy, could lead the rebels to pick an external intervention by themselves.

It seems that the mixed approach to the conflict with foreign intervention still dominates. It remains a question of whether this trend will intensify and result, for example, into the complete internationalization of a given type of conflict, or vice versa, the mixed approach will be weakened and reintroduced. Other ambiguousness relates to the definition of the term „foreign intervention“, which is sometimes narrowed only to the open engagement of foreign troops (Kosovo 1999, Afghanistan 2001). Sometimes the term is also used to broadcast military advisers if they are directly involved in military operations on the basis of the authority of their state or the support of paramilitary or terrorist groups operating on the territory of the State by other states.

#### **4 INTERVENTION BY INVITATION?**

In modern international law, the basic principle is that no state can use armed force against another. The ban on the threat and use of force in international relations has two legal exceptions, namely self-defense of the state and the use of military force adopted by the UN Security Council. However, it is possible to speculate that there is one more possible exception – humanitarian intervention, eventually military intervention on the basis of the invitation or consent of a government that is generally in need of assistance in combating opposition forces in its territory. However, many states intentionally justify military intervention in the territory of foreign states by their consent. In some cases, the reasoning was convincing, e.g. the interventions of France<sup>3</sup> or the United Kingdom<sup>4</sup> in the former colonies, even though the invitation in question

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<sup>3</sup> France has intervened several times in its colonies in Africa, in particular with the aim of restoring order after the military crashes.

<sup>4</sup> In 1964, the UK intervened in Tanganyika, Uganda and Kenya in order to help the government to suppress local unrest and revolt within the armed forces.



was provided by state bodies that have lost power in the state. However, on the other hand, it can be said that such, though „more convincing“ interventions are a potential form of abuse of power. In other cases, the reliance of the intervening State on the consensus has manifested itself as to be entirely unconvincing. For example, when the Soviet Union invoked the principle of state consent to the invasion of Hungary in 1956, to Czechoslovakia in 1968 or to Afghanistan in 1979 (consent was in this case forced or provided by the USSR itself). Developments in the years to come (especially after the Cold War) point to the increasing importance of the protection of individuals in international law and, above all, to the development of international human rights protection mechanisms. International human rights protection has become an argument for humanitarian intervention, partly for military intervention on invitation. Intervention, if not carried out under the aegis of the UN Security Council, involves interference with territorial sovereignty, interferes with internal affairs and is also a violation of the ban on threats and the use of force in international relations. On the other hand, it can now be said that the Security Council (as a guarantor of peace) fails and do nothing when it is needed and even necessary. So the fact remains that the regime created by the UN Charter, which is based on a ban on the use of force (without the approval of the UNSC) and the ban on intervention, fails. „This failure shows that double commitments – sovereign rights and sovereign responsibility – built up under the post-war international law system (after World War II) are often deeply contradictory“ (Hathaway 2013). The international legal theory has been divided into two camps in this respect. One group emphasizes the greater value and protection of human rights at the expense of state sovereignty and for that reason also advocates other than the two exceptions to the ban on the use of force. The second group of authors is inclined to sovereignty and rejects humanitarian interventions without the UN Security Council's approval, calling them illegal. Over the last decades, the debate over the term "sovereignty as a responsibility" has taken place in the international community, which is understood as an argument allowing for intervening by violating the sovereignty of another state (on which territory is suspicion of a humanitarian crisis).

What needs to be considered in relation to intervention on the invitation is the fact that violent intervention (by using force) can be more easily identified than nonviolent (only political intervention itself in internal affairs). The distinction between violent and non-violent interventions is mainly of legal significance, as different legal regimes apply to both of these interventions. However, both types are subject to the fundamental principle of international law, namely the principle of non-interference. In terms of scope, the intervention does not have to be as extensive as the war conflict. According to Higgins (1994), it does not matter what „short-term, limited or temporary“ is the act of intervention, and in terms of violent means of intervention,

„simple air strikes“ are enough to violently violate the territorial integrity of the state. Such armed actions are carried out on behalf of the state – if they are carried out by its regular armed forces or by other forces dispatched by the State, or in its name crossed the border. Violent action by one state actually involves consent from that state, eventually silent tolerance of offenses committed by non-state actors (supported by that state), including armaments and training of opposition forces (if they are occurred and then understood as indirect violent acts). In Nicaragua Case, the financial transfer itself was considered to be a violation of the principle of non-intervention, in support of certain groups, but this was not considered as an indirect use of force.

To a certain extent, it is necessary to distinguish between humanitarian intervention and intervention by invitation. Humanitarian intervention may be understood as „a threat or use of force beyond the borders of a State (or group of states) to prevent or end the extensive and gross violation of the fundamental human rights of individuals other than its own citizens without the permission of the State in whose territory the force is used“ (Holzgrefe – Keohane 2003). This definition essentially covers three elementary conditions for the classification of humanitarian intervention. Firstly, humanitarian interventions are interventions with the use of military force. These violent interventions need to be distinguished from the broader category of humanitarian actions that include related concepts of peaceful interference in the internal affairs of states such as peacemaking, peacekeeping or peace enforcement. Secondly, humanitarian interventions are carried out without the consent (and especially against the will) of the state on whose territory the force is used. And this approach distinguishes humanitarian intervention from military actions carried out with the consent of the legitimate government of the state (for example a UN mission led by the Australian Government in East Timor in 1999 with the Indonesian Government's official approval). Thirdly, military action has a clear humanitarian intention. However, we need to add that humanitarian intervention is a response to violations of fundamental human rights and freedoms (ie universal ones admitted on a global scale) and not violations of human rights as such.

The doctrine of intervention on invitation or consent is not exclusively embedded in any document, but is generally based on the UN Charter and the Draft Statute of the Commission on International Law on State Responsibility drawn up by the 2001 International Law Commission as well as on the legal conclusions of recognized experts. The consent of one State given to another State to use force within its territory is understood to be an expression of its sovereignty and is capable of being a circumstance excluding the unlawfulness of such an act and weakening the abovementioned principle of the use of force in *ius ad bellum*. Thus, if consent is valid, the use of force does not violate „territorial integrity or political independence“, but is,

by contrast, a manifestation of the sovereignty of the state and its political independence.

The presence of the doctrine of military intervention with the state's consent was explicitly mentioned in the DASR. The International Law Commission (ILC), in its commentary on individual articles, set out the conditions that states must comply so that consent and intervention itself can be considered as legitimate. From the point of view of ILC, valid consent requires compliance with conditions such as that: „Consent must be clearly defined and freely given. Consent must be genuinely expressed by the State, not only on the assumption that it would have agreed with that State if it had been asked to do so. Moreover, consent may be invalid due to fraud, corruption, misconduct, or use of coercion. Such concept is also hidden in the definition of „quest“ which „must be a manifestation of the will of the requesting State and its acceptance of the terms and procedures of military assistance“ (Institut de Droit International 2011).

Because the state is an abstract entity, there is a fundamental question – who is entitled to state the State's willingness to intervene? In many cases, the answer is clear and simple. Under international law, only a legally recognized state government may request and subsequently consent to the intervention on behalf of the state. In the case of Nicaragua, the ICJ said that „the intervention is permissible at the request of the government“, but the court also noted that „at the request of the opposition groups, the intervention of force in the territory of a foreign state is not allowed“. However, the problem arises in cases of conflict – in particular civil wars where violations of human rights are often widespread, and in the territory of one country – and where there are several entities seeking the status of a legally recognized government.

## **5 CONCLUSION**

Armed conflicts generally do not have a static character. These factual transformations pressure international humanitarian law to face new international challenges. Nowadays, new types of conflict are the most difficult to tackle, namely hostilities and conflicts with the fight against terrorism. These conflicts show some distinct features that differ from classical international and national armed conflicts. For this reason, it is sometimes difficult to incorporate them into traditionally used classifications.

New types of conflict are collectively referred to as two distinct types of national armed conflicts that arose after the end of the Cold War. These are identitarian and anarchic conflicts. Identitarian armed conflicts are armed encounters, in which large groups, based on a common identity, fight against each other, associating persons of the same race, nationality or religion. These groups use extreme means, such as ethnic cleansing or genocidal-type actions whose ultimate goal is elimination of an enemy group, including non-combatants. Anarchist armed conflicts are taking place in an

environment of disintegrating states, i.e., territorial entities that have lost the attribute of statehood – the government. The disintegrating state brings with it the state of anarchy, in which the various groups assert on the territorial limited part of the state territory. These groups do not have a responsible leadership or a clear agenda, and they mostly do not pursue political goals, just trying to use the chaotic situation to consolidate their own status, or enrich.

These conflicts create two major problems. The first concerns the applicability of international humanitarian law, when the low level of organization of the parties involved and the relatively low intensity of the fighting, the applicability appears to be controversial. The second problem is related to enforcing compliance with international humanitarian law. In a situation where the civilian population becomes the target of the fighting parties and they become also the ideal victims, the reasons for breaking the norms must be understood differently than in traditional civil wars, and control mechanisms must also be designed.

The concept of domestic armed conflicts is still „in diapers“. This is a logical complement parallel to armed international conflicts. Like a national conflict, internationalization can be achieved by the intervention of an external actor, so the international conflict can also „interiorized“ by withdrawing such an actor. As a rule, this occurs in conflicts that began as international meetings, and after the overwhelming victory of one state and the change of government in another – these fights are ended and are replaced by civil war. This includes the troops of the first state, but who continue to remain in the territory of the other state with his consent, or at the invitation of his government, which he himself had previously set up. A direct example is the situation in Iraq and Afghanistan.

Interiorized armed conflicts should be subject to national conflict regimes. However, it is questionable, when to do so and what weight should be added to the consent, respectively to the invitation by the new government. In the first point, it is possible to consider the moment of the formal formation of a new government, the moment of the first free elections, or the moment when the real power in the country gets to the political hands which are (somehow) connected to the foreign state. The second point can be dealt with in such a way that the foreign state remains an occupier, and the government which is placed there, is a puppet that has no right to act on behalf of the occupied state, or that such government is, since its affirmation in free elections, a legitimate representative of a state, and in its territory can tolerate the presence and activities of the troops without re-establishing the state of war.

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## **KAROL, SORBY ML.: DEJINY IRACKEJ MONARCHIE (1918 – 1941)**

### **KAROL, SORBY JR.: THE HISTORY OF IRAQI MONARCHY (1918 – 1941)**

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*Eduard Gombár*<sup>1</sup>

S publikacemi slovenského historika a arabisty PhDr. Karola Sorbyho, Ph.D. ml. se pravidelně setkávám od dob, kdy obhájil svou doktorskou disertační práci v Ústavu orientalistiky SAV, již jsem byl oponentem. Mezi jeho monografie patří *Arabi, islām a výzvy modernej doby* (2007), *Arabský svet v premenách času* (2009), kde byl editorem, *Blízky východ v medzinárodnej politike (1971–1990)* (2011), již vydal jako spoluautor se svým otcem Prof. PhDr. Karolem R. Sorbym, DrSc. V angličtině vydal monografii *Iraqi Politics in the Shadow of the Military (1936–1941)* (Dresden 2014). Pravidelně v angličtině i slovenštině publikuje vědecké články a studie věnované moderním a soudobým dějinám států Úrodného půlměsíce, zejména Iráku a Sýrii. Tato aktivita je velmi záslužná, neboť na Slovensku se zatím jen málo odborníků zabývá vědeckým výzkumem dějin arabského světa, kam patří i problematika Iráku. Je třeba rovněž zdůraznit, že z této publikační činnosti těží i odborná veřejnost v České republice.

Do tohoto rámce se řadí i recenzovaná Sorbyho rozsáhlá monografie *Dejiny irackej monarchie (1918-1941)*, která byla vydána nakladatelstvím Slovak Academic Press v Bratislavě. Tato práce završuje autorovu přípravu v podobě vědeckých článků i úžeji zaměřených monografií a umožňuje seznámit s výsledky Sorbyho badatelské činnosti odborníky i širší veřejnost nejen na Slovensku, ale i v zemích, kde je slovenština srozumitelná a zejména v České republice.

Výzkum vývoje zemí Blízkého východu v období mezi první a druhou světovou válkou je stále aktuální. Arabský Východ se v rámci nestabilního versailleského systému mocenské rovnováhy ocitl v područí vítězných evropských dohodových velmocí, tj. Velké Británie, Francie a Itálie, které jevily o toto teritorium

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intenzivní zájem již v rámci „východní otázky“ (1774 – 1918/23). Irák je přímo učebnicovým příkladem uplatňování britského vlivu nejprve prostřednictvím mandátu Společnosti národů a poté spojeneckou smlouvou. V Iráku se zřetelně projevila snaha vytvořit probritskou politickou elitu, založenou na dynastii mekkánských Hášimovců a armádních důstojníků původně seskupených za osmanské vlády v arabské nacionalistické organizaci Slib. Tyto relativně izolované elity původně neměly v Iráku zázemí a byly tak na Britech závislé. Proti tomuto vývoji se stavěly různorodé vlastenecky orientované kontraelity z řad sunnitských i ší'itských politiků, duchovních i kmenových vůdců, jakož i příslušníků střední vrstvy. V tomto období rovněž krystalizovaly základní komtuzy irácké politické kultury, do níž patřila i aktivita armádních důstojníků v podobě klasických vojenských převratů, jež se pak staly charakteristické pro arabský svět v období po druhé světové válce. Autorovi se podařilo i na poměrně známé tematické přinést nová fakta do zkoumané problematiky. Autor je mistrem detailu, zároveň se dokáže soustředit na klíčové období a klíčové události. Hluboká až intimní znalost problematiky je výsledkem důkladného studia i osobních zkušeností autora z dlouhodobých pobytů na arabském Východě včetně Iráku. Je třeba ocenit i důsledný a vysoce spolehlivý vědecký přepis arabských osobních jmen. Vzhledem k množství osobností pro snadnější orientaci dobře slouží jmenný rejstřík.

Karol Sorby ml. ve své práci využívá bohatou heuristickou základnu: seznam použitých pramenů a literatury svědčí o mimořádně širokém záběru autora a je pro případného zájemce spolehlivým vodítkem pro další výzkum. Je třeba zejména ocenit práci nejen s arabskými prameny, ale i s bohatou literaturou v arabštině, jež zahrnuje 70 titulů. V předmluvě se autor věnuje kritice použitých pramenů a literatury. V následném úvodu rozebírá průběh první světové války na Blízkém východě a zejména na území dnešního Iráku, kde válečné aktivity britské armády předznamenaly i budoucí politický vývoj země. Poté autor přechází k vlastnímu jádru zkoumané problematiky, které je rozvrženo do dvou částí a celkem devíti kapitol řazených na základě chronologického přístupu.

První část knihy se soustředila na období britského mandátu nad Irákem. V první kapitole se Karol Sorby ml. věnuje období po skončení první světové války, kdy v Iráku setrvaly britské okupační síly. Protibritský odpor vyvrcholil v roce 1920 iráckým povstáním, jež nutilo Brity nalézt novou strategii v rámci britského mandátu. Ve druhé kapitole se autor věnuje nové britské politice na Blízkém východě formulované na Káhirské konferenci v březnu 1921. Návazná třetí kapitola pak analyzuje četné britské snahy uzavřít spojeneckou dohodu, která by nahradila mandát a zároveň udržela britskou hegemonii. Ve čtvrté kapitole autor zaměřuje pozornost na budování struktur mladého státu složeného z málo kompatibilních oblastí osídlených ší'itskými Araby, sunnitskými Araby a Kurdy. Závěrečná kapitola první části



monografie se zabývá britským i iráckým diplomatickým úsilím, které bylo posléze korunováno ukončením britského mandátu, vyhlášením formální nezávislosti a vstupem Iráku do Společnosti národů.

Druhá část knihy obsahuje období formální nezávislosti od roku 1932 do povstání „*zlatého čtverce*“ na jaře 1941. Začátek tohoto nestabilního období byl poznamenán náhlým úmrtím všeobecně uznávaného krále Fajsala I. v září 1933. Nové období za vlády mladého krále Gházího, analyzované v šesté kapitole, se neslo ve znamení protestů proti vládnoucí elitě uplynulého období. Sedmá kapitola je věnována vojenskému převratu z října 1936 pod vedením generála Bakra Sidqího a sleduje následný politický vývoj inspirovaný vlnou iráckého nacionalismu až do zavraždění generála Sidqího v srpnu 1937 a následné rezignaci premiéra Hikmata Sulajmána. Vnitropolitický chaos v Iráku vedl kromě aktivizace levicových sil k novým politickým metodám a formám politické kultury. Iniciativu převzali důstojníci irácké armády, kteří v roce 1936 jako první zahájili období vojenských převratů v arabském světě. Protibritsky orientovaní důstojníci se spojili s reformní skupinou *al-Ahálí*, aby se chopili moci v zemi. Generál Bakr Sidqí se rozhodl pro pochod na Bagdád po vzoru Mussoliniho pochodu na Řím. Mezi důstojníky oblíbený ministr obrany Dža'far al-Askarí se vypravil sám vstříc blížícím se jednotkám. Byl však zajat a zastřelen. Významní politikové Núrí as-Sa'íd, Rašíd 'Alí al-Kajlání a Jásín al-Hášimí byli vývojem zcela zaskočeni a prchali za hranice. Novou vládu vytvořil Hikmat Sulajmán, jenž sliboval celou řadu opatření od daňové reformy a podpory průmyslu až k rozdělení státní půdy rolníkům a usazování beduínů. Diktatura Hikmata Sulajmána však záhy ztratila veškeré sympatie veřejnosti. Dne 11. srpna 1937 byl generál Bakr Sidqí zavražděn na mosulském letišti probritským poddůstojníkem. Mosulská posádka poté vyhlásila povstání proti vládě a vzápětí Hikmat Sulajmán rezignoval. Historický význam vojenského převratu spočíval v tom, že byla odstraněna vláda umírněných nacionalistů, kteří udržovali rovnováhu mezi panarabismem a iráckým patriotismem, armáda se stala novým faktorem politického života země, a reformisté poprvé získali příležitost uskutečnit svůj program.

V osmé kapitole autor analyzuje politický vývoj země v období před vypuknutím druhé světové války, kdy otěže moci stále drželi přívrženci Velké Británie. Trvalým faktorem v irácké politice zůstala armáda, jejímiž reprezentanty byla skupina "*sedmi důstojníků*", jež pojíil sunnitský původ, panarabská vize budoucího Iráku a přesvědčení o nutnosti vlády pevné ruky a disciplíny. První "*trojka*" byla probritská, zatímco další čtyři plukovníci, kteří tvořili známý "*zlatý čtverec*", byli protibritští. S důstojnickou "*čtyřkou*" sympatizoval Rašíd 'Alí al-Kajlání a také král Ghází. Ve svých protibritských postojích však objektivně podporovali sílíci proněmecké a fašizující tendence. Vnitropolitickou událostí, která otrásla veřejným míněním, byla 3. dubna 1939 záhadná smrtelná nehoda krále Gházího, jenž se těšil

značné oblibě mezi prostým lidem. Situaci v Iráku jitřila rovněž přítomnost politických emigrantů z jiných arabských zemí, zejména ze Sýrie a Palestiny. Ústřední postavou profašistických sil v Iráku se stal jeruzalémský velký *muftí* Hádždž Amín al-Husajní, jenž zahájil nenávisnou protibritskou kampaň. K němu se připojili iráčtí panarabisté v čele s al-Kajláním a důstojníky "*zlatého čtverce*".

Poslední kapitola zahrnuje období po vypuknutí druhé světové války. Autor se podrobně zabývá dramatickými událostmi, jež vedly k aktivizaci nacionalistických sil a ke známému povstání „*zlatého čtverce*“ počátkem dubna 1941, násilně potlačenému britskými silami v květnu 1941. Úspěchy generála Erwina Rommela v Libyi a německé tažení na Balkáně inspirovaly irácké přívržence Hitlera k akci. V noci z 1. na 2. dubna 1941 došlo v Bagdádu k převratu, známém jako povstání "*zlatého čtverce*". V historiografii se též uvádí název "*Kajlániho povstání*", "*třicetidenní válka*" a "*Kajlániho revoluci*". Po úspěšném převratu iráčtí důstojníci dosadili vládu "národní obrany", v jejímž čele stanul Rašíd °Álí al-Kajlání. Regent °Abd al-Iláh a probritští politikové v čele s Núrí as-Sa°idem uprchli do Zajordánska. Pro Velkou Británii měl Irák obrovský strategický význam, a proto se britský premiér Churchill rozhodl k energickým opatřením. V britské letecké základně aš-Šu°ajba nedaleko Basry byli vysazeni parašutisté a poté následovalo vylodění expedičního sboru. Porážkou povstání "*zlatého čtverce*" 30. května 1941 udrželi Britové na dlouhou dobu svou přítomnost v Iráku. Panarabisté označovali následné období jako „druhou britskou okupaci“. Autor se v závěru kapitoly zamýšlí nad historickým významem povstání a poukazuje na skutečnost, že důstojníci, kteří provedli úspěšný vojenský převrat v červenci 1958, se považovali za dovršitele nesplněného úkolu z roku 1941 a zbavili svou zemi britské přítomnosti.

Práce *Dejiny irackej monarchie (1918-1941)* splňuje veškeré požadavky kladené na monografii tohoto charakteru. Sorbyho kniha představuje kvalitativní obohacení naší historické literatury a kromě specialistů v daných oblastech určitě zaujme i širší odborné kruhy. Recenzovaná monografie je výborná historická práce, jež značně převyšuje běžnou úroveň zpracování tematiky arabských zemí a nepochybně se zařadí do širšího vědeckého výzkumu dějin Blízkého východu ve 20. století.

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