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FRAGMENTATION OR INTEGRATION? ECONOMIC ASPECTS OF THE DEFENCE CAPABILITIES OF EU MEMBER STATES¹

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Abstract: This article deals with the economic dimensions of EU Member States' defence capabilities in the context of efforts to build European strategic autonomy. Despite a steady rise in defence spending, fragmentation, diverging strategic cultures, and limited standardisation hinder the EU's ability to transform economic resources into collective military power. Through a combination of statistical and comparative analysis, the study highlights how differentiated integration – manifested in uneven participation in joint initiatives and national procurement preferences – undermines operational coherence. The findings suggest that without enhanced coordination, the EU risks remaining a security consumer rather than becoming a unified and credible strategic actor.

Keywords: defence policy, differentiated integration, European Union, military expenditures, strategic autonomy

JEL: F52, H56, O52

Introduction

The security landscape in Europe has undergone significant changes over the past decade. The increasing assertiveness of the Russian Federation, the evolving foreign policy of the United States, the global resurgence of power politics, and growing uncertainty regarding the long-term sustainability of American security guarantees for Europe have compelled the European Union and its Member States to reconsider their approach to defence and security. At the same time, the EU is confronted with the question of to what extent it is capable of acting as an autonomous security actor and of effectively transforming its considerable economic resources into military capabilities. As such, the issue of defence readiness and its economic dimensions is more pertinent today than ever before.

In the case of the European Union (EU), it is frequently asserted that although EU Member States together constitute a bloc with the second-highest defence expenditure in absolute terms worldwide, their collective spending remains insufficient – within today's complex international security environment – to ensure their security and defence independently.² It must be noted at the outset that the field of defence is traditionally closely linked to the sensitive issue of national sovereignty – regardless of whether a country is an EU Member State or not. National sovereignty is, in turn, closely associated with the defence industry, which distinguishes the market for military capabilities from conventional markets for civilian goods and services. This is exemplified by the fact that the EU effectively consists of 27 separate armed forces, 27 defence ministries, and 27 national defence markets.

Another key factor that continues to impede effective military cooperation within the EU is the divergent perception of threats among its Member States. While Member States

¹ This work was supported by the Slovak Research and Development Agency under Grant “Slovakia in European Differentiated Governance Regime” APVV-21-0237 (SKEUDIFGOVRE).

² EPRS (2019). Europe's Two Trillion Euro Dividend: Mapping the Cost of Non-Europe, 2019-24.

European Parliamentary Research Service. ISBN 9789284646814. [online] Available at: [https://www.europarl.europa.eu/RegData/etudes/STUD/2019/631745/EPRS_STU\(2019\)631745_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2019/631745/EPRS_STU(2019)631745_EN.pdf).

from Central and Eastern Europe have long considered Russia to be the most serious security threat, those from Southern and Western Europe have tended to downplay this concern, focusing instead on the Middle East, North Africa, and international terrorism. Although these threat perceptions began to converge following the annexation of Crimea in 2014 and, more decisively, after the outbreak of Russia's full-scale military intervention in Ukraine on 24 February 2022, new lines of disagreement have emerged in light of domestic political developments in some Member States. As a result, the EU struggles to define common priorities and to build mutual trust – both of which are essential prerequisites for deeper defence cooperation. This inability is often attributed to the divergence of strategic cultures among Member States, which includes differing views on the purpose of armed forces, incompatible defence planning processes, and varying approaches to arms export regimes.³

The aim of this article is to examine how the defence expenditures of EU Member States translate into the development of a common military capacity, and to explore the extent to which fragmentation, diverging strategic cultures, and differentiated integration constrain the European Union's ability to achieve the objectives of strategic autonomy. The research questions guiding our analysis are as follows: *“How do differences in defence spending and participation in joint initiatives affect the EU's ability to build strategic autonomy under conditions of differentiated integration? To what extent does differentiated integration limit the effective transformation of EU defence expenditures into collective strategic capabilities?”* Methodologically, the article is based on a combination of approaches: a descriptive statistical analysis of selected economic indicators drawn from the SIPRI database (e.g. defence expenditure as a percentage of GDP, absolute defence budgets, and the breakdown of personnel versus capital expenditures); a comparative analysis among EU Member States, as well as contextual comparisons with the United States, China, and Russia; and a review of secondary sources, including academic articles, expert literature, reports, analytical documents, and other relevant materials.

1 Literature review

This part focuses on two interrelated conceptual frameworks that constitute the theoretical foundation of this study: European strategic autonomy and differentiated integration. The former captures the European Union's evolving ambition to act independently in strategic domains such as foreign policy and defence, while the latter offers an analytical lens for understanding the institutional and political fragmentation that shapes the EU's capacity to pursue such autonomy.

European strategic autonomy refers to the EU's ambition and capacity to set priorities and make decisions in foreign policy, security, defence, and other strategic areas to strengthen its ability to act independently with the necessary political, institutional, and material resources.⁴ It means the EU aims to set its own priorities, sometimes in cooperation with others, sometimes alone – so it can protect its interests and values without over-reliance on external powers. However, strategic autonomy in the EU should not be understood as a binary choice between dependence and independence or engagement and decoupling, but rather as a struggle

³ KOENIG, N. – SCHÜTTE, L. (2023): This Time It's Different. Defense Sitters. Transforming European Militaries in Times of War. Special Edition of the Munich Security Report on European Defense. Munich Security Conference. ISSN 23652187. [online] Available at: https://securityconference.org/assets/01_Bilder_Inhalte/03_Medien/02_Publikationen/2023/European_Defense_Report_-_Defense_Sitters/Defense_Sitters_European_Defense_Report_MSC.pdf.

⁴ LIPPERT, B. – VON ONDARZA, N. – PERTHES, V. (2019): European strategic autonomy: actors, issues, conflicts of interests. SWP Research Paper, 2019/RP 04. [online] Available at: <https://doi.org/10.18449/2019RP04>; WESSEL, R. – KASSOTI, E. (2023): Strategic Autonomy: The Legal Contours of a Security Policy Construct. European Foreign Affairs Review. [online] Available at: <https://doi.org/10.54648/eerr2023023>.

to manage external interdependencies.⁵ The EU's concept of strategic autonomy is still evolving, with France's and especially Emmanuel Macron efforts to include its nuclear deterrence and the potential transformation into "European sovereignty". This concept has become central to the European security debate, particularly after 2016, in response to Brexit, uncertainty about US security guarantees and the growing aggressiveness of the Russian Federation. However, strategic autonomy is not only a question of capabilities, but also of the EU's institutional ability to act as a single actor – an area where fundamental limits are evident.

One analytical framework that may help clarify the EU's constrained capacity to attain strategic autonomy is the idea of differentiated integration. Differentiated integration allows some countries to move ahead with deeper integration in certain policy areas, while others either opt out or participate later.⁶ When a member state chooses not to participate in a unified policy, it leads to "internal differentiation." Conversely, "external differentiation" takes place when non-EU Member States decide to join in.⁷ Additionally, the EU also showcases "vertical differentiation", implying differences in the level of centralization or integration across policy areas (some policies are more deeply integrated than others), and "horizontal differentiation", indicating differences in the territorial scope – some policies apply to all Member States, others only to a certain subset.⁸ Differentiated integration is a concept that helps clarify Europe's role in a changing and volatile global context, including initiatives within and outside the EU framework.⁹

Stubb identified three distinct concepts: multi-speed, variable geometry, and à la carte.¹⁰ These are associated with time, space, and matter in order to better understand differentiated integration within European integration.¹¹ According to the "multi-speed" model, a core set of states that are both willing and able to achieve particular objectives pursue them.¹² It is anticipated that Member States that are unable to meet these goals in the short term will eventually accomplish them. A more pessimistic viewpoint is provided by "variable geometry",

⁵ HELWIG, N. – SINKKONEN, V. (2022): Strategic Autonomy and the EU as a Global Actor: The Evolution, Debate and Theory of a Contested Term. *European Foreign Affairs Review*. [online] Available at: <https://doi.org/10.54648/eerr2022009>; KRÖGER, S. – LOUGHRAN, T. (2021): The Risks and Benefits of Differentiated Integration in the European Union as Perceived by Academic Experts. *JCMS: Journal of Common Market Studies*. [online] Available at: <https://doi.org/10.1111/jcms.13301>.

⁶ SCHIMMELFENNIG, F. (2019): Differentiated Integration and European Union Politics. *Oxford Research Encyclopedia of Politics*. [online] Available at: <https://doi.org/10.1093/acrefore/9780190228637.013.1142>; LERUTH, B. – LORD, C. (2015): Differentiated integration in the European Union: a concept, a process, a system or a theory?. *Journal of European Public Policy*, 22, 754–763. [online] Available at: <https://doi.org/10.1080/13501763.2015.1021196>; LERUTH, B. – LORD, C. (2017): Differentiated Integration in the European Union. [online] Available at: <https://doi.org/10.4324/9781315671345>.

⁷ LEUFFEN, D. – RITTBERGER, B. – SCHIMMELFENNIG, F. (2013): Differentiated Integration. Explaining Variation in the European Union. Basingstoke: Palgrave Macmillan, p. 18.

⁸ SCHIMMELFENNIG, F. – LEUFFEN, D. – RITTBERGER, B. (2014): The European Union as a system of differentiated integration: interdependence, politicization and differentiation. *Journal of European Public Policy*, 22, 764-782. [online] Available at: <https://doi.org/10.1080/13501763.2015.1020835>; LEUFFEN, D. – RITTBERGER, B. – SCHIMMELFENNIG, F. (2022): The European Union as a System of Differentiated Integration. *Integration and Differentiation in the European Union*. [online] Available at: https://doi.org/10.1007/978-1-137-28501-0_1.

⁹ RIEKER, P. (2021): Differentiated Integration and Europe's Global Role: A Conceptual Framework. *European Foreign Affairs Review*. [online] Available at: <https://doi.org/10.54648/eerr2021023>.

¹⁰ STUBB, A. (1996): 'A Categorization of Differentiated Integration', *JCMS: Journal of Common Market Studies*, 34(2), pp. 283–295. [online] Available at: [doi:10.1111/j.1468-5965.1996.tb00573.x](https://doi.org/10.1111/j.1468-5965.1996.tb00573.x).

¹¹ SCHIMMELFENNIG, F. (2019): Differentiated Integration and European Union Politics. *Oxford Research Encyclopedia of Politics*. [online] Available at: <https://doi.org/10.1093/acrefore/9780190228637.013.1142>.

¹² BELLAMY, R. – KROGER, S. – LORIMER, M. (2022): Flexible Europe: differentiated integration, fairness, and democracy. Bristol: Bristol University Press.

which is predicated on the idea that many shared objectives may be unattainable due to the extreme diversity of European states. It is expected that this strategy will produce a robust core of states that have made significant progress toward integration, as well as peripheral states that have made less progress. States are free to choose which policy areas they want to engage in under the “à la carte” approach. The matter variable in this case relates to various policy areas. Intergovernmental principles serve as the foundation for this approach.¹³

In this article, we argue that the differences within the defence sector are particularly notable, highlighting a significant paradox: while the EU aims for strategic autonomy, its internal framework seems to be moving toward fragmentation rather than consolidation.

2 Current state of defence and military capabilities of the EU and its Member States

The strategic and military capabilities of the European Union and its individual Member States are often compared to those of their NATO ally – the United States. However, the key to building a successful common EU defence policy lies in enhancing Europe’s independence from the U.S. Despite their collective potential, both individual Member States and the EU as a whole continue to exhibit substantial capability gaps when compared with the United States. Some sources suggest that the combined armed forces of all EU Member States can achieve only around 10% of the operational capacity of the U.S. military. Moreover, it is estimated that EU Member States develop three major defence projects in the time it takes the United States to complete one.¹⁴ The fragmentation of European military capabilities is further illustrated by the fact that, as of 2016, EU armed forces operated 178 different major weapons systems, compared to just 30 in the U.S. For example, EU Member States use 17 types of main battle tanks (compared to one in the U.S.), 29 types of destroyers and frigates (compared to four in the U.S.), and 20 types of fighter aircraft (compared to six in the U.S.). Despite this wide array of systems and high degree of differentiation, EU militaries still lack sufficient capabilities in critical domains such as long-range strategic airlift, in-flight aerial refuelling, suppression of enemy air defences, and C4ISR (Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance).¹⁵ Among other key capabilities of any militarily capable and sovereign state is robust air defence. Acknowledging this, Germany launched the European Sky Shield Initiative (ESSI) in 2022 in response to the war in Ukraine. ESSI, joined by 21 other European countries, aims to establish a coordinated, land-based air defence system composed of three layers: a high-altitude layer for ballistic missile defence (Arrow 3, an Israeli system), a medium-range layer (U.S.-made Patriot system), and a short-range layer (Germany’s IRIS-T system). While this initiative has been positively evaluated by defence experts, its contribution to building strategic autonomy in Europe is debatable, given that two out of its three core systems are produced by non-European defence firms. Particularly regrettable is the preference for the U.S. Patriot system over

¹³ STUBB, A. (1996): ‘A Categorization of Differentiated Integration’, *JCMS: Journal of Common Market Studies*, 34(2), pp. 283-295. [online]. Available at: doi:10.1111/j.1468-5965.1996.tb00573.x.

¹⁴ EPRS (2019): *Europe’s Two Trillion Euro Dividend: Mapping the Cost of Non-Europe, 2019-24*. European Parliamentary Research Service. ISBN 9789284646814. [online]. Available at: [https://www.europarl.europa.eu/RegData/etudes/STUD/2019/631745/EPRS_STU\(2019\)631745_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2019/631745/EPRS_STU(2019)631745_EN.pdf).

¹⁵ KUMP, I. – PAULY, J. (2023): *Money Can(t) Buy You Force*. Defense Sitters. Transforming European Militaries in Times of War. Special Edition of the Munich Security Report on European Defense. Munich Security Conference. ISSN 23652187. [online] Available at: https://securityconference.org/assets/01_Bilder_Inhalte/03_Medien/02_Publikationen/2023/European_Defense_Report_-_Defense_Sitters/Defense_Sitters_European_Defense_Report_MSC.pdf.

the Franco-Italian SAMP/T, which in many respects offers a comparably effective and high-quality alternative.¹⁶

The assessment of the implementation of the European Union’s strategic objectives, as outlined in the EU Global Strategy (EUGS) and the European Strategic Compass (EUSC), has been conducted annually since 2023 through a report published by the High Representative of the Union for Foreign Affairs and Security Policy. In the most recent report, the High Representative emphasizes that the second year of EUSC implementation has brought increased preparedness and improved capabilities in the areas of EU security and defence. Over the past two years – which have been particularly challenging for European security – the Strategic Compass has proven to be a reliable instrument, offering a clear vision and direction across all four thematic pillars.

Under the “Act” pillar, the EU has successfully delivered financial, advisory, military, civilian, and material assistance to countries in its immediate neighbourhood facing internal security instability and posing potential security challenges for the Union. These include Ukraine, Moldova, Armenia, the countries of the Sahel and the Gulf of Guinea, as well as the Red Sea and Persian Gulf regions. The report also highlights progress in enhancing EU instruments and institutions, such as the Rapid Deployment Capacity, the Military Planning and Conduct Capability, the Action Plan on Military Mobility, and the Civilian CSDP Compact.

In the “Secure” pillar, substantial progress has been achieved in strengthening the Single Intelligence Analysis Capacity, the EU Satellite Centre, the EU Hybrid Toolbox, the EU FIMI Toolbox, the EU Space Strategy for Security and Defence, and the EU Maritime Security Strategy and Action Plan. Improvements have also been noted in cybersecurity, defence resilience, the protection of critical infrastructure, and the fight against terrorism.

The “Invest” pillar remains the most critically assessed. Although EU Member States increased their collective defence spending from €240 billion (of which €58 billion were for investments) in 2022 to €290 billion (€92 billion for investments) in 2023, this still represents only 1.5% of the EU’s GDP – approximately 25% below the target set in the Strategic Compass. Furthermore, joint investment in defence stands at merely 18%, significantly below the target of 35%. The report also criticizes Member States for often procuring defence systems from third countries, which undermines the sustainable development of the European Defence Technological and Industrial Base (EDTIB). Improvements in this area are expected with the implementation of the upcoming European Defence Industrial Strategy (EDIS). On a more positive note, the launch of 11 new projects under the Permanent Structured Cooperation (PESCO) initiative, as well as Denmark’s accession as a new participating country, are highlighted.

In the “Partner” pillar, the High Representative praises the conclusion of a strategic partnership with NATO; continued strategic cooperation with the United Nations; reinforced collaboration with the OSCE; intensified engagement with the African Union; the launch of a Structured Dialogue on conflict prevention and peace mediation with the Economic Community of West African States (ECOWAS); and ongoing cooperation with ASEAN and the Gulf Cooperation Council. Among bilateral partnerships, the report highlights strong cooperation with the United States, Norway, Canada, the United Kingdom, Switzerland, and Iceland.¹⁷

¹⁶ HACKETT, J. – SCHREER, B. (2024): Building Defence Capacity in Europe: An Assessment. An IISS Strategic Dossier. The International Institute for Strategic Studies. [online] Available at: <https://www.iiss.org/globalassets/media-library---content--migration/files/publications/strategic-dossier-delta/building-defence-capacity-in-europe-an-assessment/pds-dossier-19.11.24.pdf>.

¹⁷ EUROPEAN EXTERNAL ACTION SERVICE (2024): Annual Progress Report on the Implementation of the Strategic Compass for Security and Defence. Report of the High Representative of the Union for the Foreign Affairs and Security Policy to the Council. [online] Available at: https://www.eeas.europa.eu/sites/default/files/documents/2024/StrategicCompass_2ndYear_Report_0.pdf.

The issue of building autonomous military capabilities, and particularly the inefficiencies in defence procurement, is also addressed in detail by Mario Draghi – former Governor of the European Central Bank and former Prime Minister of Italy – in his comprehensive report on the competitiveness of the European Union. Unlike most authors, who typically assess military capacity through the lens of defence expenditure as a percentage of GDP, Draghi emphasizes that in absolute terms, the EU’s military spending – measured as the combined expenditure of all Member States and EU institutions – is the second highest globally. From this perspective, the European defence sector appears highly competitive on a global scale, with substantial export volumes and an annual turnover of €135 billion in 2022. However, this positive indicator is not reflected in the strength of the EDTIB nor in the overall defence readiness of the EU. The continuously growing demand for defence industry output is not matched by sufficient supply capacities within the EDTIB. As a capital-intensive sector characterized by long investment cycles, the EDTIB requires large-scale orders, stable investment levels, long-term planning, and sustained cooperation with government and military institutions across EU Member States. A critical consequence of this supply shortage is the potential for intra-EU competition in the event of a sudden need to ramp up production. In such a zero-sum scenario, some Member States may face significant disadvantages in acquiring essential military equipment, thereby undermining the Union’s collective defence posture. According to Draghi, the fragmentation of the European defence industry – combined with insufficient standardization and low interoperability across national armed forces – seriously impairs the EDTIB’s ability to produce at scale and weakens the EU’s capacity to act as a credible global power.¹⁸

Analysts from the Dutch financial institution Rabobank argue that the changing global order and deteriorating international security environment will increasingly compel the European Union to place greater emphasis on strengthening its strategic independence. In their publication, they identify three key areas currently regarded as critical weaknesses of the EU and assert that efforts to build and reinforce European strategic autonomy will necessarily depend on overcoming these vulnerabilities. The first challenge is the EU’s dependence on external sources of energy and critical raw materials. The second structural weakness identified by the analysts is the decline of the European industrial sector, which has eroded the EU’s productive capacity and strategic resilience. The third and most serious vulnerability – referred to as the EU’s “Achilles’ heel” – is its insufficient military strength, excessive reliance on U.S. security guarantees, and the lack of adequate hard power capabilities. This structural deficiency prevents the EU from projecting power globally and undermines its credibility as a strategic actor. The authors argue that in an increasingly power-oriented world, soft power alone is no longer sufficient to achieve genuine strategic autonomy. They further note that developing hard power capabilities within the European context is particularly complex, time-consuming, and costly. Since the end of the Cold War, European security has been more dependent on the United States than on the EU’s own defence capabilities. As a result, Europe currently lacks the ability to independently defend itself or project military force externally without U.S. support – an asymmetry that has become especially evident in the context of the war in Ukraine since 2022.¹⁹

¹⁸ DRAGHI, M. (2024): The Future of European Competitiveness. Part A. A Competitiveness Strategy for Europe. [online] Available at: https://commission.europa.eu/document/download/97e481fd-2dc3-412d-be4c-f152a8232961_en?filename=The%20future%20of%20European%20competitiveness%20_%20A%20competitiveness%20strategy%20for%20Europe.pdf.

¹⁹ DE GROOT, E. – VAN GEFFEN, B. – EVERY, M. – WIJFFELAARS, M. (2023): Europe’s quest for strategic autonomy requires dealing with structural weaknesses. Research. Rabo Research. [online] Available at: <https://www.rabobank.com/knowledge/d011405319-europes-quest-for-strategic-autonomy-requires-dealing-with-structural-weaknesses>.

3 Economic aspects of the defence capabilities of EU Member States

One of the most frequently used indicators for assessing the development of military power is the percentage of military expenditure relative to a country's or international organization's gross domestic product (GDP). While in 2023, nine EU Member States fulfilled their commitment to allocate 2% of their GDP annually to defence and armed forces, the EU as a whole still falls short of this benchmark.²⁰ When compared with other global powers – where Russia allocates approximately 6% of its GDP to its armed forces, the United States over 3.5%, and China officially 1.7% (with some estimates placing the actual figure as high as 4.4%) – it becomes evident that the gap in military potential between the EU and other major actors is steadily widening.²¹ This disparity is further illustrated by data comparing the growth of defence budgets between 1999 and 2021. During this period, the United States increased its military budget by 65.7%, Russia by 292%, and China by 592%, while the cumulative defence budget of EU Member States rose by only 19.7%.²² The historically slow growth of European defence spending is also evident in data from the International Institute for Strategic Studies, which shows that between 2008 and 2014, annual defence expenditure growth in Europe averaged just 1%.²³ This phenomenon is often referred to among policymakers and analysts as Europe's prolonged enjoyment of the "peace dividend."

When examining the percentage share of military expenditure relative to GDP among EU Member States, significant differences can be observed across countries. In 2014, the three EU Member States with the highest military spending as a percentage of GDP were Greece (2.22%), Estonia (1.93%), and Poland (1.88%). That year, Greece was the only EU country to meet the NATO target of allocating 2% of GDP to defence and military capabilities. In contrast, the countries with the lowest defence spending in relative terms were Luxembourg (0.37%), Hungary (0.86%), and Lithuania (0.88%). However, the deteriorating regional and global security environment has led EU Member States to gradually increase their defence budgets, as evidenced by the comparison between 2014 and 2024 data. While only one EU member state met the 2% GDP threshold in 2014, by 2024 an estimated 16 Member States had achieved this target. Of these, four countries reached or exceeded 3% of GDP, and one country surpassed the 4% threshold. In 2024, Poland had the highest defence spending among EU Member States, reaching 4.12% of GDP, followed by Estonia with 3.43%, and Latvia with 3.15%. The countries with the lowest defence spending in 2024 were Spain (1.28%), and both Slovenia and Luxembourg at 1.29% of GDP.²⁴ A graphical comparison of defence expenditure as a share of GDP for EU Member States in 2014 and 2024 is presented in Figure 1.

²⁰ EDA (2024): Defence Data 2023-2024. ISBN 9789295238008. [online] Available at: <https://eda.europa.eu/docs/default-source/brochures/leda---defence-data-23-24---web---v3.pdf>.

²¹ ROBERTSON, P. – BEAVER, W. (2023). China's Defense Budget Is Much Bigger Than It Looks. *Argument. Foreign Policy*. [online] Available at: <https://foreignpolicy.com/2023/09/19/china-defense-budget-military-weapons-purchasing-power/>.

²² KUMP, I. – PAULY, J. (2023): Money Can(t) Buy You Force. *Defense Sitters. Transforming European Militaries in Times of War. Special Edition of the Munich Security Report on European Defense*. Munich Security Conference. ISSN 23652187. [online] Available at: https://securityconference.org/assets/01_Bilder_Inhalte/03_Medien/02_Publikationen/2023/European_Defense_Report_-_Defense_Sitters/Defense_Sitters_European_Defense_Report_MSC.pdf.

²³ HACKETT, J. – SCHREER, B. (2024): Building Defence Capacity in Europe: An Assessment. *An IISS Strategic Dossier*. The International Institute for Strategic Studies. [online] Available at: <https://www.iiss.org/globalassets/media-library---content--migration/files/publications/strategic-dossier-delta/building-defence-capacity-in-europe-an-assessment/pds-dossier-19.11.24.pdf>.

²⁴ NATO (2024): North Atlantic Treaty Organisation. *Defence Expenditure of NATO Countries (2014-2024)*. Press Release. [online] Available at: https://www.nato.int/nato_static_fl2014/assets/pdf/2024/6/pdf/240617-def-exp-2024-en.pdf.

Although data from the European Defence Agency (EDA) show slight discrepancies compared to NATO figures, the trend of increasing defence spending is evident in both cases. Between 2022 and 2023, the cumulative military expenditure of EU Member States rose by 10%, marking the ninth consecutive year of growth.²⁵ This 10% year-on-year increase followed a modest average annual growth of 1% between 2008 and 2014, an average of 3% between 2015 and 2022, and a 5% rise in 2023.²⁶ In 2023, total defence spending amounted to €279 billion, representing 1.6% of the EU's GDP. Data from the 2024 Coordinated Annual Review on Defence (CARD) further suggest that this figure may reach €326 billion in 2024, corresponding to an estimated 1.9% of GDP.²⁷ Maulny argues that the trajectory of future EU defence spending will largely depend on how the war between Russia and Ukraine concludes.²⁸ Should a peace agreement be reached and the European security order restored, the current increase in military expenditures is likely to be reversed in the short term. Conversely, if the conflict becomes a “frozen” war, perpetuating geopolitical tensions, elevated levels of defence spending by EU Member States are expected to persist in the longer term. Hackett and Schreer similarly assess the long-term outlook for increased military spending. According to them, the durability of defence budget growth will be contingent upon the terms and stability of any potential peace agreement between Ukraine and Russia. They further highlight additional strategic considerations that will influence EU spending: continued uncertainty about the credibility of U.S. security guarantees for Europe, rising strategic competition with China, and persistent instability in the Middle East. Taking all these factors into account, the International Institute for Strategic Studies (IISS) projects that European defence expenditure in nominal terms could reach USD 766 billion by 2039. This would represent a significant increase compared to USD 295 billion in 2014 and USD 436 billion in 2024. The authors also caution that reversing the upward trend in defence spending could, in the long run, undermine the progress made since 2014 and significantly increase the future costs of rearmament should the security environment deteriorate once again.²⁹

Although defence spending is most commonly expressed as a percentage of a state's GDP, this indicator does not always provide the most objective assessment of a state's actual commitment and robustness in investing in its defence capabilities. The explanatory value of this indicator is primarily dependent on the size of the economy, which means that smaller economies may exhibit a high ratio of military expenditure to GDP, yet their relatively low absolute spending may still be insufficient to support extensive defence programmes. Conversely, larger economies may allocate a lower percentage of GDP to defence, while still investing significantly more in absolute terms. Secondly, the military expenditure-to-GDP ratio does not account for the dynamics of GDP growth.

²⁵ EDA (2024): Defence Data 2023-2024. ISBN 9789295238008. [online] Available at: <https://eda.europa.eu/docs/default-source/brochures/1eda---defence-data-23-24---web---v3.pdf>.

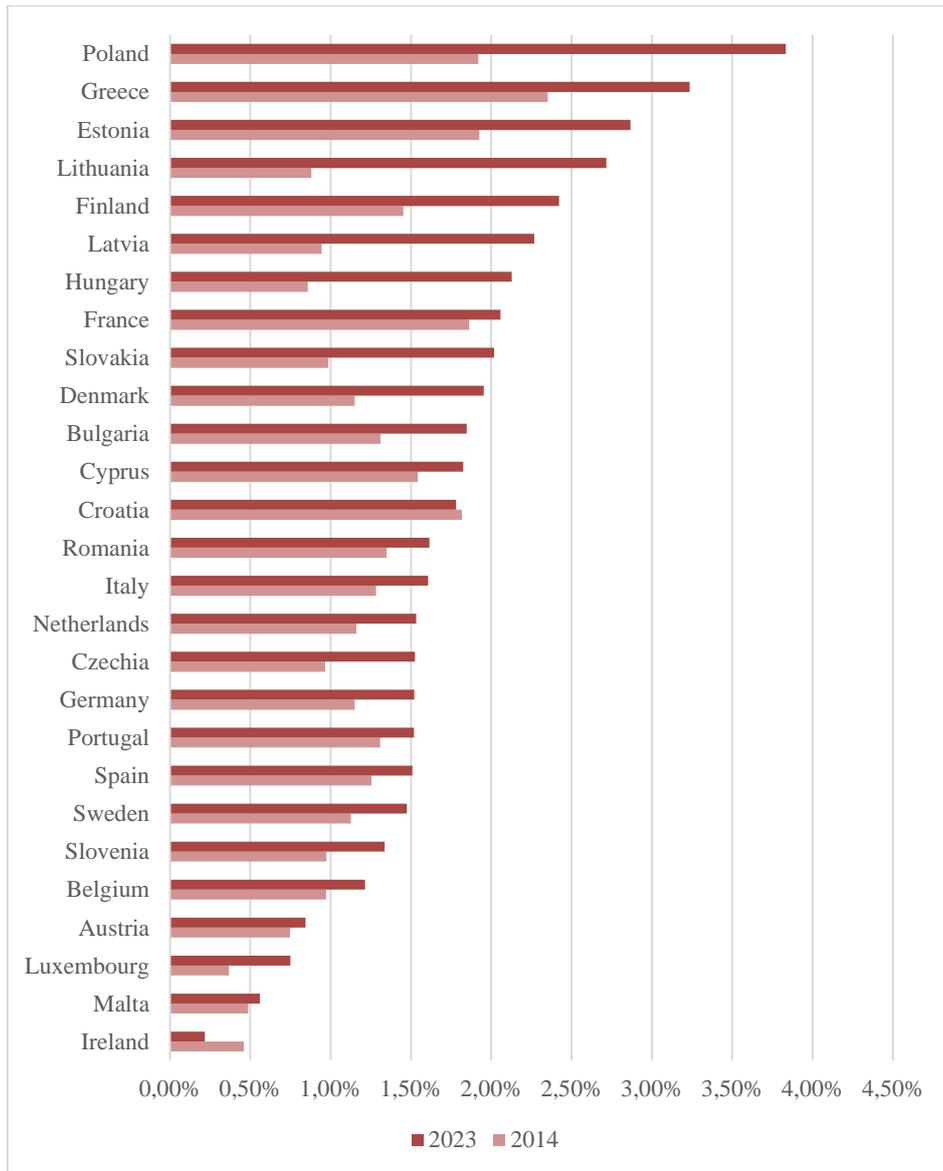
²⁶ HACKETT, J. – SCHREER, B. (2024): Building Defence Capacity in Europe: An Assessment. An IISS Strategic Dossier. The International Institute for Strategic Studies. [online] Available at: <https://www.iiss.org/globalassets/media-library---content--migration/files/publications/strategic-dossier-delta/building-defence-capacity-in-europe-an-assessment/pds-dossier-19.11.24.pdf>.

²⁷ EDA (2024): Defence Data 2023-2024. ISBN 9789295238008. [online] Available at: <https://eda.europa.eu/docs/default-source/brochures/1eda---defence-data-23-24---web---v3.pdf>.

²⁸ MAULNY, J. P. (2023): The Impact of the War in Ukraine on the European Defence Market. Policy Paper. IRIS. [online] Available at: https://www.iris-france.org/wp-content/uploads/2023/09/19_ProgEuropeIndusDef_JPMaulny.pdf.

²⁹ HACKETT, J. – SCHREER, B. (2024): Building Defence Capacity in Europe: An Assessment. An IISS Strategic Dossier. The International Institute for Strategic Studies. [online] Available at: <https://www.iiss.org/globalassets/media-library---content--migration/files/publications/strategic-dossier-delta/building-defence-capacity-in-europe-an-assessment/pds-dossier-19.11.24.pdf>.

Figure 1: Military Expenditure by Individual EU Member States as Percentage of Gross Domestic Product in 2014 and 2023



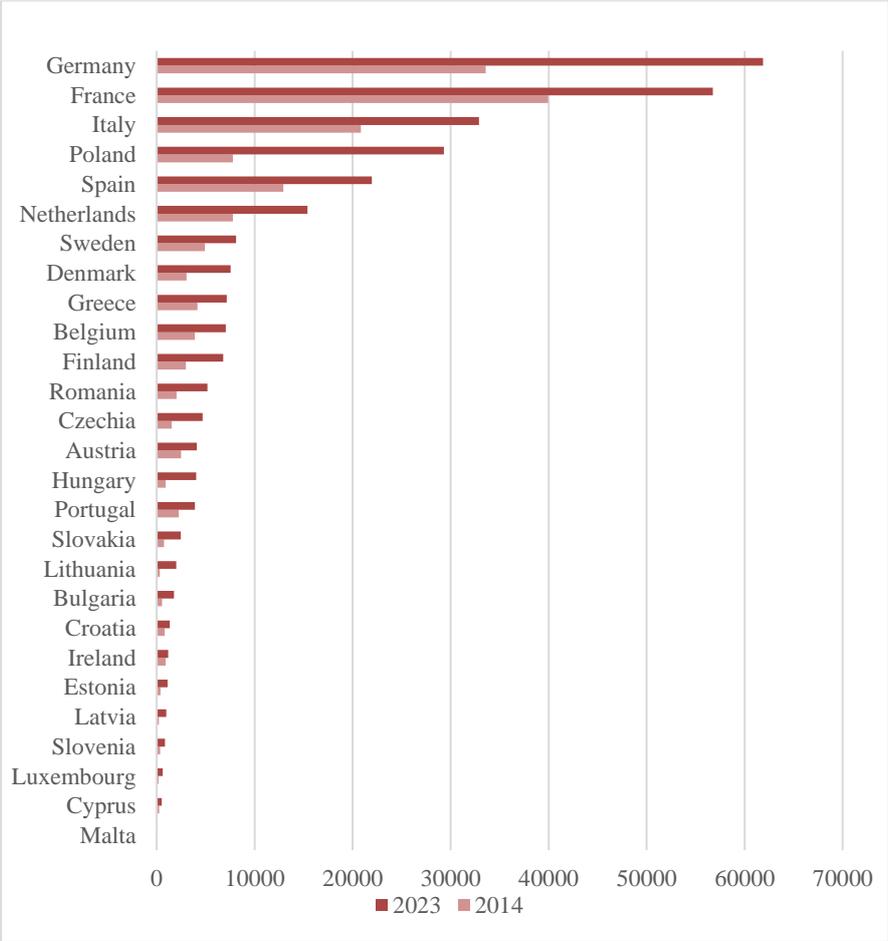
Source: Own compilation based on SIPRI Military Expenditure Database (2023).

During periods of rapid economic expansion, stagnant or only moderately increasing defence spending may result in a declining percentage share, whereas during times of negative economic growth, the ratio may increase despite the absence of actual growth in defence spending. A state's capacity to defend its territorial integrity, sovereignty, and population is, in many cases, contingent upon the size and overall capabilities of its armed forces. Therefore, when evaluating defence expenditure, it is essential to also consider the indicator of absolute military spending. This measure enables more accurate cross-country comparisons, untainted by the relative size of national economies, and provides a clearer picture of defence capabilities and the actual impact of military investment.

When examining the absolute military expenditures of EU Member States, it becomes evident that the highest levels of spending are recorded by the Union's largest economies. In 2023, Germany's absolute military expenditure exceeded €60 billion, France surpassed €55 billion, and Italy, ranking third, spent more than €30 billion. Conversely, smaller economies recorded the lowest values among EU countries, with figures generally remaining below €1

billion. Nevertheless, there were countries – such as Luxembourg and Ireland – which, despite not being among the smallest economies in the EU, ranked at the bottom in terms of absolute defence spending. Notable changes can also be observed in the development of absolute expenditures between 2014 and 2023. During this period, France lost its leading position to Germany, Poland overtook Spain in terms of absolute military expenditures, and Greece was surpassed by Denmark.³⁰ A graphical comparison of the absolute military expenditures of individual EU Member States for the years 2014 and 2023 is presented in Figure 2.

Figure 2: Military Expenditure by Individual EU Member States, in Millions of EUR at Current Prices and Exchange Rates in 2014 and 2023

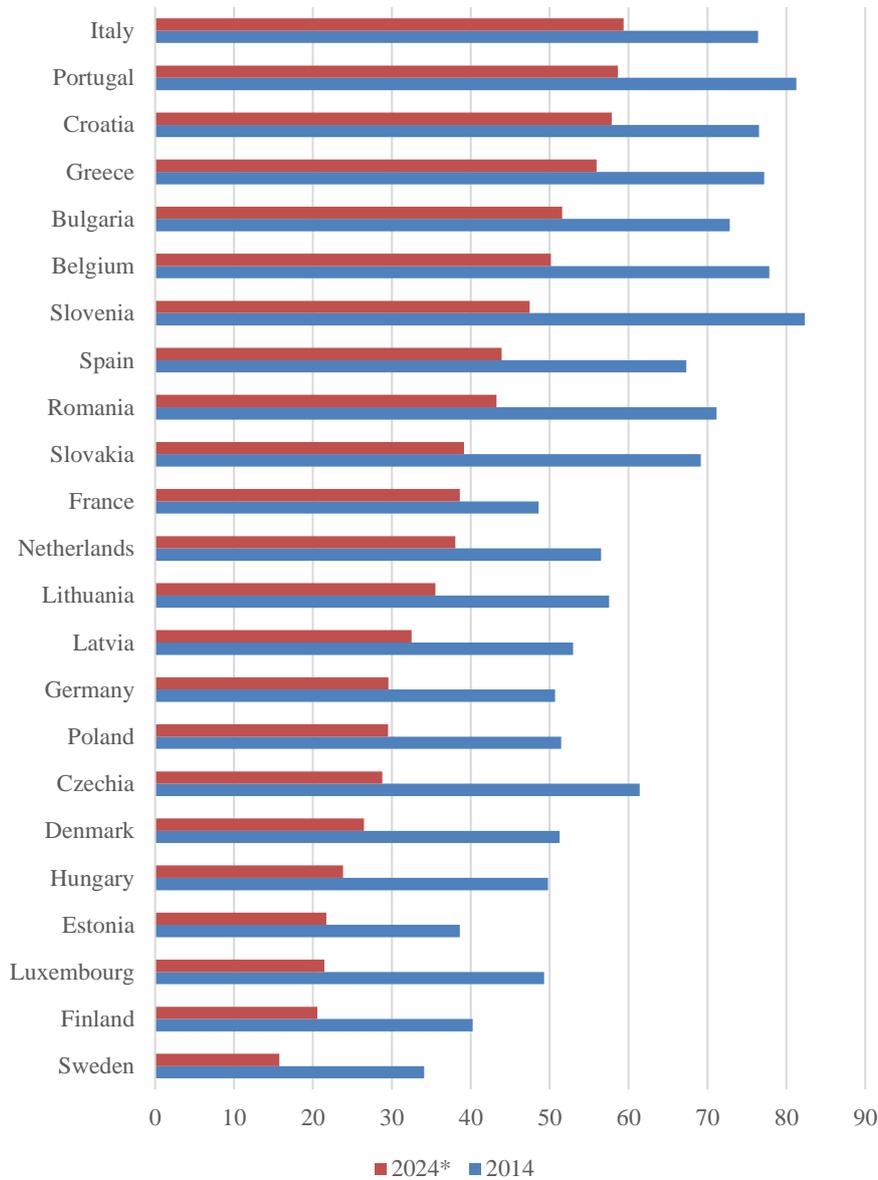


Note: The values are expressed in constant prices, in millions of EUR.
 Source: Own compilation based on SIPRI Military Expenditure Database (2023).

Cepparulo and Pasimeni point out that, for fiscal reasons but in the interest of fulfilling commitments to international partners, EU Member States tend to prioritize categories of military spending that yield the most immediate domestic benefits. Personnel expenditures are the most attractive option due to their direct employment-related advantages. This often comes at the expense of other defence budget categories – such as procurement and maintenance of military equipment or operational readiness – whose domestic benefits are less immediate.

³⁰ SIPRI (2023): SIPRI Military Expenditure Database. [online] Available at: <https://milex.sipri.org/sipri>

Figure 3: Comparison of the Percentage Share of Military Personnel Expenditures in Total Military Expenditures of Selected EU Member States in 2014 and 2024



Note: The data for the year 2024 are estimated values, as they may still be subject to consolidation at the time of writing this article.

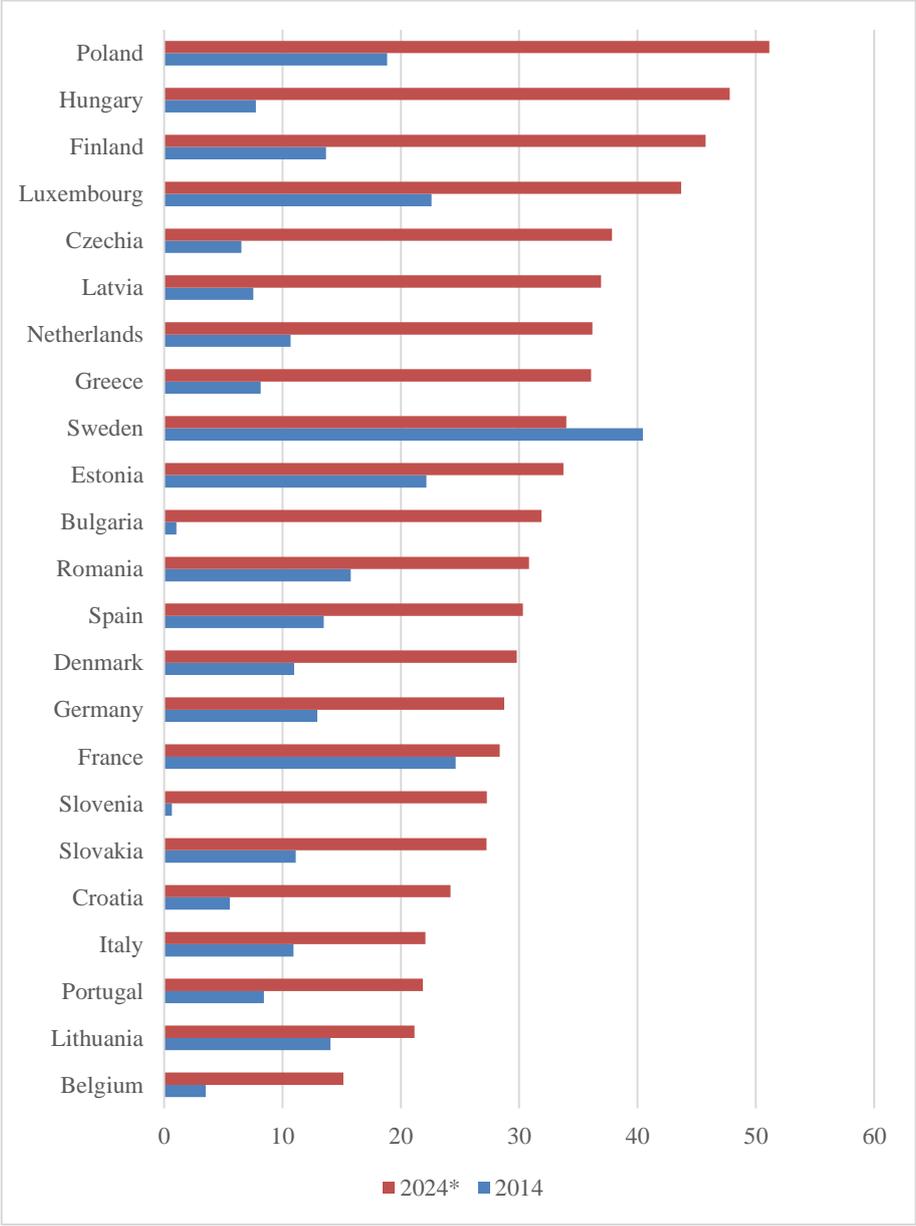
Source: Own compilation based on NATO (2024). North Atlantic Treaty Organisation. Defence Expenditure of NATO Countries (2014-2024). Press Release.

On average, personnel-related military expenditures represent approximately 50% of total defence spending across Europe.³¹ Data from 2024 confirm this observation, showing that Italy (59.36%), Portugal (58.63%), and Croatia (57.85%) rank among the EU countries with the highest share of military personnel expenditures. At the opposite end of the spectrum

³¹ CEPPARULO, A. – PASIMENI, P. (2024): Defence Spending in the European Union. Discussion Paper 199. European Commission. ISBN 9789268018170. [online] Available at: https://economy-finance.ec.europa.eu/publications/defence-spending-european-union_en

are Sweden and Finland, where the share of military personnel expenditures amounts to 15.76% and 20.56%, respectively. Luxembourg follows closely behind Finland, with 21.45%.³²

Figure 4: Comparison of the Percentage Share of Expenditures on Military Equipment Procurement in Total Military Expenditures of Selected EU Member States in 2014 and 2024



Note: The data for the year 2024 are estimated values, as they may still be subject to consolidation at the time of writing this article.
 Source: Own compilation based on NATO (2024). North Atlantic Treaty Organisation. Defence Expenditure of NATO Countries (2014-2024). Press Release.

Figure 3 presents a comparison of selected EU Member States in terms of this indicator in 2014 and 2024. When observing the development of this indicator over the past decade,

³² NATO (2024). North Atlantic Treaty Organisation. Defence Expenditure of NATO Countries (2014-2024). Press Release. [online] Available at: https://www.nato.int/nato_static_fl2014/assets/pdf/2024/6/pdf/240617-def-exp-2024-en.pdf.

it becomes evident that all the monitored EU Member States have significantly reduced the share of personnel expenditures within their total military budgets. Another important category of military expenditure for every state is spending on the procurement of military equipment. According to Cepparulo and Pasimeni, the share of procurement expenditures in total military spending is approximately 25%.³³ It aligns with the figure reported by the European Defence Agency.³⁴ In 2024, the highest shares of procurement expenditures were recorded in Poland (51.13%), Hungary (47.81%), and Finland (45.75%). Conversely, the lowest shares in this category were observed in Belgium (15.16%), Lithuania (21.17%), and Portugal (21.88%).³⁵ Figure 4 provides a graphical comparison of selected EU Member States with regard to this indicator in 2014 and 2024. Unlike the share of personnel expenditures, the trend in the share of procurement spending as a proportion of total military expenditure has shown a significant increase over the observed period.

One of the key conclusions drawn by Cepparulo and Pasimeni is that in the current context, a continuous and significant increase in military expenditure is insufficient unless carried out in coordination with other EU Member States. According to the authors, EU countries continue to act predominantly in isolation, leading to demand fragmentation, which in turn creates inefficiencies in resource use. The excess costs stemming from this lack of cooperation are estimated to range between €25 and €100 billion annually.³⁶ A 2019 study by the European Parliament similarly indicates that enhanced cooperation among EU Member States in military spending could result in annual savings of approximately €22 billion. Of these €22 billion, savings of €7.4 billion could be realized in military investments and infrastructure, €6.5 billion in military personnel expenditures, and over €8.2 billion in operations and maintenance.³⁷

Other studies suggest that potential long-term savings resulting from increased productivity through joint defence procurement could reach approximately 30%, or €13 billion annually. The broader application of standardized procedures from the civilian sector to the defence sector could yield additional savings ranging from 10% to 50% of total military expenditures. Improving the internal transfer of defence products among EU Member States could contribute another €3.2 billion in annual savings. The most ambitious of all proposed measures would be the full integration of EU Member States' land forces, which could potentially generate savings of up to €120 billion per year.³⁸

To address the excessive fragmentation of EU Member States' military capabilities, their procurement practices, and the European Defence Technological and Industrial Base

³³ CEPPARULO, A. – PASIMENI, P. (2024): Defence Spending in the European Union. Discussion Paper 199. European Commission. ISBN 9789268018170. [online] Available at: https://economy-finance.ec.europa.eu/publications/defence-spending-european-union_en.

³⁴ EDA (2024): Defence Data 2023-2024. ISBN 9789295238008. [online] Available at: <https://eda.europa.eu/docs/default-source/brochures/1eda---defence-data-23-24---web---v3.pdf>; CEPPARULO, A. – PASIMENI, P. (2024): Defence Spending in the European Union. Discussion Paper 199. European Commission. ISBN 9789268018170. [online] Available at: https://economy-finance.ec.europa.eu/publications/defence-spending-european-union_en.

³⁵ NATO (2024): North Atlantic Treaty Organisation. Defence Expenditure of NATO Countries (2014-2024). Press Release. [online] Available at: https://www.nato.int/nato_static_fl2014/assets/pdf/2024/6/pdf/240617-def-exp-2024-en.pdf.

³⁶ EPRS (2019): Europe's Two Trillion Euro Dividend: Mapping the Cost of Non-Europe, 2019-24. European Parliamentary Research Service. ISBN 9789284646814. [online] Available at: [https://www.europarl.europa.eu/RegData/etudes/STUD/2019/631745/EPRS_STU\(2019\)631745_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2019/631745/EPRS_STU(2019)631745_EN.pdf).

³⁷ Ibidem.

³⁸ BACHMANN, D. – BUNDE, T. – MADERSPACHER, Q. – OROZ, A. – SCHERF, G. – WITTER, K. (2017): More European, More Connected and More Capable. Building the European Armed Forces of the Future. Munich Security Conference. [online] Available at: https://securityconference.org/assets/02_Dokumente/01_Publikationen/MSCEuropeanDefenceReport2017.pdf.

(EDTIB) more broadly, many scholars and experts advocate for the standardization of technical specifications and requirements, production processes, and procurement procedures. Standardizing defence procurement processes alone has the potential to reduce total procurement costs by up to 30%. This 30% figure does not account for additional potential savings from improved interoperability between EU armed forces, cost reductions in joint military training, or reduced maintenance costs. The latter, according to various sources, may account for 30% to 70% of the total life-cycle costs of defence systems, depending on the type.³⁹ Assuming that the standardization of defence procurement processes across EU Member States could yield 30% savings, as estimated by Bachmann et al., this would translate to more than €27 billion in 2023 alone.

Another study on the standardization reform of European armed forces does not offer a definitive answer on whether standardization necessarily leads to financial savings, but it concludes that standardization does not, under any circumstances, increase procurement costs. The study further provides estimates of potential savings from standardized procurement, differentiated by type of defence capability. The highest potential savings – up to 50% – are expected in the procurement of space, air, missile, and electronic systems. More modest savings, ranging from 15% to 30%, are projected for conventional land and naval systems (Mollas-Gallart & Hawkins, 1999).⁴⁰

4 Synthesis

In this section, we aim to summarize how differentiated integration manifests in the development of defence capacities within the European Union and its Member States. Strategic cultures and threat perceptions vary significantly across the EU, impeding harmonization and leading to differentiated willingness to invest in specific capabilities or participate in joint projects. This creates the preconditions for both territorial and political differentiation. Regarding participation in initiatives such as ESSI or PESCO), Member States engage to varying degrees and in different projects. This constitutes a voluntary and selective form of cooperation – an archetypal case of differentiated integration. The fact that the EU essentially comprises 27 separate armed forces indicates the absence of full integration; this lack of harmonization represents a form of negative differentiation – that is, not merely divergence, but a lack of coordination. Another factor reinforcing economic differentiation is the Member States' preference for domestic investments, which hinders the emergence of a common market for defence capabilities.

In order to highlight the various forms and expressions of differentiated integration in the field of defence policy, we have proposed the following theoretical operationalization. We have developed a clear categorization (Figure 5), based on A. Stubb's typology (multi-speed, variable geometry, à la carte) and Schimmelfennig's dimensions (time, space, and matter).

³⁹ BACHMANN, D. – BUNDE, T. – MADERSPACHER, Q. – OROZ, A. – SCHERF, G. – WITTER, K. (2017): *More European, More Connected and More Capable. Building the European Armed Forces of the Future*. Munich Security Conference. [online] Available at: https://securityconference.org/assets/02_Dokumente/01_Publikationen/MSCEuropeanDefenceReport2017.pdf.

⁴⁰ MOLLAS-GALLART, J. – HAWKINS, R. (1999): *Standardisation Systems in the Defence Industries of the European Union and the United States*. Final Report submitted to: European Commission, Directorate General III. [online] Available at: <https://aei.pitt.edu/40273/1/A4667.pdf>.

Figure 5: Typology of Differentiated Integration in the Area of European Defence Policy

<i>Type of differentiation</i>	<i>Definition</i>	<i>Example/empirical manifestation</i>
Temporal	Member States integrate at different times due to domestic political, constitutional, or public opinion constraints.	Denmark joined PESCO only after lifting its opt-out clause in the 2022 referendum.
Territorial	Not all Member States permanently or long-term participate in specific EU policies or initiatives.	Not all EU Member States are part of the European Sky Shield Initiative (ESSI).
Political-Functional	It encompasses differences in political will and/or capacity to participate in and implement common policies. It combines intentional opt-outs with structural or institutional limitations.	Varying levels of defence investment; different degrees of participation in projects; low interoperability and coordination of defence spending; weak standardisation in the arms industry. E.g. Ireland does not participate in ESSI for reasons of neutrality (political). Greece has a high proportion of personnel expenditure, which limits its ability to procure modern systems (functional).

Source: Authors' compilation.

Conclusion

An analysis of the economic aspects of defence capabilities among EU member states reveals that, despite a significant increase in defence spending in recent years, the effective development of tangible military capacity and strategic autonomy within the EU remains limited. This confirms that although defence expenditures by EU member states have steadily increased over the past decade, the resulting impact – in terms of building real military power and strategic autonomy – is constrained by fragmentation, insufficient coordination, and a low degree of standardization. These factors hinder the EU's ability to translate its economic resources into a collective capability to act as a unified security actor.

Although the EU ranks among the global leaders in absolute terms of defence expenditure, these investments often fail to yield a commensurate return in the form of enhanced operational readiness, interoperability, or strategic mobility. Particularly problematic is the predominance of personnel expenditures over investments in research, development, and procurement, as well as the persistent national preferences in awarding contracts to domestic defence industries.

Looking ahead, it will be crucial for the EU to intensify efforts to coordinate defence spending, deepen cooperation within the PESCO framework, and effectively implement the goals outlined in the Strategic Compass and the forthcoming European Defence Industrial Strategy. Only through such measures can the EU generate synergies, eliminate redundant capacities, and enhance Europe's overall resilience and readiness to confront emerging security challenges. Defence capability thus remains not only a military issue, but also one of economic rationality, solidarity, and the political will to act collectively.

Our analysis shows that while EU Member States have increased their defence spending over the past decade, the translation of these investments into collective strategic capabilities remains limited. This limitation stems not only from fragmented procurement practices and diverging strategic cultures, but also from the structural effects of differentiated integration. Political-functional differentiation – reflected in varying national priorities, institutional capacities, and levels of participation in joint defence initiatives such as PESCO or ESSI – creates a fragmented defence landscape rather than a unified force. Consequently, differentiated

integration both enables flexible cooperation and constrains coherence, thus weakening the EU's collective ability to achieve strategic autonomy. Differences in spending priorities – such as the dominance of personnel costs in some states or national bias in defence procurement – further dilute the potential synergies. Without a stronger commitment to coordinated investment and institutional harmonisation, the EU risks remaining a security consumer rather than becoming a strategic actor.

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DIPLOMATIC PROTOCOL AS A MECHANISM OF INTERACTION IN MODERN INTERNATIONAL RELATIONS¹

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Abstract: Today, diplomacy is an important element in the process of state-building and consolidation. Although it has been influenced by various historical, political and social factors, its main function has always remained the promotion and protection of national interests. At the same time, it also plays an indispensable role in ensuring equality and solidarity between actors in international relations. This article focuses on analysing the theoretical background and empirical aspects of the diplomatic protocol and its norms. The aim is to provide a coherent theoretical framework and to highlight the specificities of approaches to the topic of diplomatic protocol in the literature.

Keywords: diplomatic protocol, diplomacy, protocol norms

JEL: K33, Z18

Introduction

The dynamic development of current international relations creates the conditions for the formation of a new global world order capable of ensuring sustainable development and security for all actors. However, this transformation process is taking place under conditions of considerable confrontation, which are associated with the emergence of new threats to the security of states and their citizens. The search for effective and stable mechanisms of cooperation between states at the diplomatic level in today's international relations has led to the conclusion of international treaties and agreements based on the principles and norms of international law.

Special attention should be paid to the fact that the foreign authorities of individual states as well as international organisations - both governmental and non-governmental - and UN institutions play a key role in building the new world order enshrined in international law. It is their work that creates the conditions for establishing a civilised framework for international communication in order to strengthen stability, peace and predictability in relations between states.

In the process of building sustainable international relations and ensuring peace and security, states resort to diplomatic instruments. In this context, the diplomatic protocol occupies a particularly important position, as it represents a specific category of internationally recognised rules and norms that ensure effective cooperation between international actors despite their differences of opinion and values.

Diplomacy and its protocol dimension thus play an indispensable role in overcoming differences and creating the conditions for effective and respectful dialogue at the global level, including in the current reality of international relations.

1 Theoretical Framework of Diplomatic Protocol

The word protocol comes from the Greek term *protolon* ("protos" - first, "kolla" - to stick), which referred to the first sheet of paper that was stuck to the beginning of

¹ This paper is part of the project: ESG 21 *Current relevance and prospects for the development of green cooperation between Australia and the European Union in the field of sustainable energy.*

a document and contained notes on its contents. Another variant translation of the word is consecutive, which referred to a prescribed sequence of actions.²

In the Middle Ages, the term protocol referred to the rules for recording and archiving documents. And in Byzantium, the term protocol referred to the first part of an official document, on which a list of the persons involved was given.

The American and French diplomats John R. Wood and Jean Serres define protocol as a set of rules of conduct for government officials in official and unofficial dealings.³

Over time, the word protocol became associated with diplomacy and the diplomatic service. Its meaning has expanded. In addition to the rules for drafting official documents, other essential aspects such as etiquette and ceremony were added to diplomatic protocol.

The term diplomatic protocol is defined in the literature in both a narrow and a broad sense.

According to Gull, the narrower definition of diplomatic protocol regulates the formal rather than the substantive aspect of international relations. According to the author, diplomatic protocol comprises formal rules of social behaviour, etiquette and ceremony that are applied in relations with diplomatic representatives of foreign states.⁴

Dömök characterizes diplomatic protocol as „*a set of written and unwritten rules of courtesy and formalized manners between the diplomatic representatives of the individual countries and between them and the authorities of the receiving state.*“⁵

In the Diplomatic Dictionary, the term diplomatic protocol is broadly defined and stands for „*a set of generally accepted rules, traditions and customs followed by governments, foreign ministries, diplomatic missions and officials in international communication.*“⁶

Balušek gives a similar definition of diplomatic protocol. According to the author, diplomatic protocol consists of „*a set of established, generally accepted norms, customs and traditions that are followed by representatives of state and government institutions, diplomats and members of their families in official dealings.*“⁷

Tóth understands diplomatic protocol as „*the totality of generally recognised international and national norms and customs that regulate the formal aspect of communication between official representatives of different states and diplomats, as well as the conduct of diplomatic events and ceremonies.*“⁸

In contrast to earlier authors, Lyadov defines diplomatic protocol as one of the generally recognized instrumental components of diplomatic activity, which should serve the successful realization of the goals and purposes of each country's foreign policy.⁹

Dreimann also sees the diplomatic protocol as a political instrument of diplomacy that forms the framework for diplomatic activities.¹⁰

The analysis of the literature has shown that, in our view, diplomatic protocol comprises established and generally accepted international and national protocol norms and rules, based on international law (written rules) and national specificities, traditions and customs (unwritten rules), which are formally followed by state representatives, diplomats and their family members in their official dealings.

² VESELÝ, Z. (2011): Diplomacie (teorie-praxe-dejiny), p. 235.

³ WOOD, J. R – SERRES, J. (1970): Diplomatic ceremonial and protocol, p. 18.

⁴ GULLOVÁ, S. (2013): Medzinárodný obchodní a diplomatický protokol, p. 162.

⁵ DÖMÖK, J. (2011): Diplomacia a diplomatický protokol, p. 115.

⁶ GROMYKO, A. a kol. (1984): Diplomatičeskij slovar, p. 327.

⁷ BALUŠEK, M. (1996): Umenie diplomacie, p. 91.

⁸ TÓTH, L. (2008): Úvod do diplomacie, p. 132.

⁹ LADOV, P. (2012): Diplomatičeskij protokol i protokol'naja služba, p. 125.

¹⁰ DREIMANN, D. (1981): Das diplomatische Protokoll, p. 13.

2 Norms and rules of diplomatic protocol

The norms of protocol are based on the principles of international courtesy and are closely related to the legal norms that govern international relations. It follows that the norms and rules of diplomatic protocol have an international character (international force).

The sources of the norms of diplomatic protocol are international and national law, as well as international customs, historical, cultural and religious traditions, customs and peculiarities of each state, which must be taken into account in international communication.

The norms of diplomatic protocol regulate relations between three categories of persons:

- 1) Between diplomats of different states
- 2) Between diplomats and official representatives of foreign states
- 3) Between officials of different states.¹¹

International diplomatic practice recognizes the norms of diplomatic protocol as binding in relations between states. A violation of the norms and rules in question, especially a willful violation, is generally considered not only a breach of international courtesy, but also a factor seriously damaging to the authority and reputation of the state. Deviation from the generally accepted norms of diplomatic protocol, their violation or arbitrary change by one party can lead to conflicts between states and the severance of diplomatic relations.

At the same time, it should be noted that the norms of the diplomatic protocol are currently flexible and states tend to simplify them. Depending on the closeness of relations between states, the declared foreign policy objectives and the specific situation, the diplomatic protocol may opt for a less or more ceremonial organization of the event, for a larger or smaller number of participants, for a greater or lesser representation of the country.¹²

In Slovakia and the Czech Republic, for example, the ceremony of presenting the credentials to the head of state includes a parade of honorary interns on the red carpet, accompanied by the national anthems of both countries. Despite regular meetings of the heads of diplomatic protocol of the countries of the European Union in an effort to harmonise protocol standards and rules, this solemn and pompous ceremony is not held in some Western European countries.

3 The Task and Significance of the Diplomatic Protocol in Practice

There are currently 195 countries involved in international relations. Each of these countries has its own social order, history, culture, customs, traditions, language, etc. Maintaining balance and communication „on an equal footing“ in such a diverse international community is impossible if all members do not respect the basic principles of mutual relations, such as: respect for sovereignty, equality, territorial integrity and non-interference in the internal affairs of another state. An effective instrument enabling states to put these principles into practice is essential.¹³

How can a state show that it respects another state as an equal partner without jeopardizing its prestige and national dignity? Many of these questions are answered by the diplomatic protocol, the effective instrument that has crystallized over many centuries of the development of international relations and diplomatic practice.

The norms of diplomatic protocol, which regulate respect for the national flag of a foreign state and the playing of the national anthem of a foreign state on official occasions, express the principle of the sovereignty of each state. The principle of equality of states is reflected in the norms of diplomatic protocol, which determine the order of precedence

¹¹ TÓTH, L. (2008): Úvod do diplomacie, p. 132.

¹² BORUNKOV, A. (2007): Diplomaticeskij protokol v Rosiji, p. 27-29.

¹³ BORUNKOV, A. (2007): Diplomaticeskij protokol v Rosiji, p. 23.

in which diplomats are presented to the official representatives of the receiving state, as well as the place in the seating order of delegations at international conferences or of diplomats at official social events.¹⁴ The equal size and height of national flags at international events also emphasizes the equality and sovereignty of all participating states.

Dreimann has aptly formulated the subject of diplomatic protocol and the areas of diplomacy that are governed by protocolary norms and rules:

1. (a) the forms of establishing diplomatic relations,
- (b) the procedure for granting agrégation when appointing a new head of a diplomatic mission,
- (c) the forms of termination of the activities of the head of a diplomatic mission,
- (d) the forms of establishment and termination of consular activities.
2. Official and other visits by heads of missions and official personalities of the State abroad (nature of visits, welcome ceremony on arrival and departure, courtesy visits and forms of negotiation, social undertakings, accompaniment of the visit during the stay, honors, gifts);
3. Diplomatic receptions (nature, forms of invitation, rights and duties of hosts and guests, speeches and toasts, welcoming guests, hymns, seating arrangements);
4. a) International meetings, conferences, congresses (form of invitation, question of chairmanship and external representation, order of participants, rules of procedure, prerogatives of participating states, formal obligations of the host state and participants),
b) Conclusion of international agreements and related formalities súvisiace □
5. Participation in the activities of international organizations (secondment and termination of secondment of permanent representatives, forms of contact with the bodies of international organizations);
6. (a) Diplomatic correspondence (various types of correspondence, including congratulations and expressions of sympathy, statements, communiqués, etc.)
(b) Mode of transmission of diplomatic correspondence;
7. Order and precedence (order of states, order of representatives of states, diplomatic corps, consular corps, positioning of persons at official and social events, arrangement of vehicles when official representatives are traveling, etc.)
8. State symbols and their arrangement, symbols of international organizations (flags, emblems, playing of anthems, expressions of respect to high representatives of the state, diplomatic and consular representatives, etc.)
9. Honors, their arrangement, wearing and presentation;
10. Addressing official personalities, official representatives and official foreign representatives.¹⁵

Indeed - as the eminent French diplomat Jules Cambon wrote, all is not so insignificant in these solemn trifles. „*Foreign representatives are representatives of something greater than themselves. The honours they receive are addressed to the head of the state of which they are representatives.*“¹⁶ The author also emphasizes that „*the protocol does not recognize victorious and defeated nations. It prescribes mutual respect between the belligerents, regardless of the ratio of their forces. This is, of course, a mere formality, which in fact decides nothing, but ... This formality testifies to respect for the dignity and independence of weak nations, and that is no small thing.*“¹⁷

According to Tóth, the main task and significance of diplomatic protocol is that “*by regulating the rules of the formal aspect of diplomatic relations with the official representatives of the authorities of the state of deployment and with the diplomats of other*

¹⁴ TÓTH, L. (2004): Diplomatický protokol, p. 50.

¹⁵ DREIMANN, D. (1981): Das diplomatische Protokoll, pp. 15-19.

¹⁶ WOOD, J. R – SERRES, J. (1970): Diplomatic ceremonial and protocol, pp. 25-26.

¹⁷ Ibid.

states, diplomatic protocol creates favourable conditions for the dignified and smooth conduct and implementation of diplomatic relations (courtesy environment) and thus also favourable conditions for the implementation of the substantive aspect of the diplomatic mission, i.e. for the realisation of the objectives and purposes of the state's foreign policy.“¹⁸

The author also emphasizes that the importance of diplomatic protocol in today's diplomatic practice is perceived in two ways. On the one hand, there are views that do not appreciate the importance of diplomatic protocol - they consider the application of protocolary norms and rules unnecessary and historically outdated. On the other hand, there are views that overestimate the importance and mission of diplomatic protocol - they see its formality as an end in itself, protocol formalities and ceremonial customs are understood in isolation from content.¹⁹

Cambon supports this view, noting in his 1925 book *Diplomat* that „the rules of protocol seem a little old-fashioned today. There are still people who treat them with a certain respect, but there are also those who ridicule them. Both are wrong. It's in the nature of customs: If you criticize them, you still have to follow them. Not doing so is just as foolish as not taking off your hat when you enter a church or not seeing your shoes when you enter a mosque.”²⁰

As we can see, the norms of diplomatic protocol are not losing their significance in today's diplomatic practice, they are merely adapting to the new realities of the international arena.

Conclusion

As an integral part of diplomatic activity, diplomatic protocol today plays a key role in ensuring effective, dignified and respectful international communication between states. An analysis of theoretical and empirical approaches shows that while protocol is based on traditions and long-established norms, it also has a considerable degree of adaptability to the current needs of international relations. It makes it possible to maintain a balance between sovereign states, regardless of their cultural, political or ideological differences.

The norms and rules of diplomatic protocol are anchored in international law and are complemented by national characteristics and historical and cultural traditions. Their observance contributes to stability and predictability in the international environment. Formality, which some critics regard as a relic, is in fact an instrument for promoting mutual respect, security and peaceful coexistence.

In summary, it can be said that the importance of diplomatic protocol has not diminished, even under the conditions of a globalised world. On the contrary, it has confirmed its relevance as an instrument of international diplomacy that enables the creation of constructive dialogue and supports the implementation of the foreign policy objectives of individual states.

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¹⁸ TÓTH, Ľ. (2004): *Diplomatický protokol*, p. 133.

¹⁹ TÓTH, Ľ. (2004): *Diplomatický protokol*, p. 50.

²⁰ CAMBON, J. (1946): *Diplomat*, p. 53.

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CITIZENSHIP BY INVESTMENT IN THE EUROPEAN UNION: CASE C-181/23 COMMISSION V MALTA

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Abstract: In 2014, Malta started offering Maltese citizenship in exchange for investment. This drew criticism from the European Union (EU), as every citizen of an EU Member State also acquires EU citizenship and the rights that come with it. The European Commission took legal action against Malta, and on 29 April 2025, the Court of Justice of the EU ruled in case C-181/23 that Malta had introduced a transactional process of naturalisation in exchange for predetermined payments by granting citizenship to investors. This amounted to the commercialisation of conferring the nationality of a Member State and EU citizenship, which is contrary to EU law. The main objective of this paper is to analyse the circumstances of the case.

Keywords: European Union law, citizenship by investment, infringement, Malta

JEL: K39

Introduction

Citizenship by Investment (CBI) programmes, also known as "golden passports", are available in a number of countries around the world and are considered to be investment migration programmes. They are state legal mechanisms that allow third-country nationals to acquire the citizenship of a host country on the basis of a significant financial investment in its territory, under less stringent conditions than the standard procedures for acquiring citizenship through naturalisation. These programmes originated in the Caribbean in the 1980s, but have since spread to other countries, most of which are small, isolated islands.¹ Following the 2009 financial crisis, the scheme became part of citizenship legislation and was introduced in three European Union (Union or EU) Member States: Bulgaria, Cyprus and Malta, in order to attract investment. However, following criticism from the EU and its institutions, these programmes were abolished in Bulgaria and Cyprus. Malta is the only country to have had a CBI programme continuously since 2014. Despite changes to the Maltese programme, the EU has increased pressure to end it. In March 2023, the European Commission (Commission) brought an infringement case against Malta before the Court of Justice of the European Union (CJEU). On 29 April 2025, the CJEU ruled in favour of the Commission in case number C-181/23, determining that Malta's investor citizenship scheme, which granted nationality in exchange for financial contributions, violated EU law.²

The main objective of this article is to analyse the circumstances of the case both before and after the CJEU judgment was delivered. The research method used in this article is a qualitative one, using primary data sources obtained directly from official EU and Maltese websites and secondary data in the form of a literature review.

¹ CLERIDES, S. – COELHO, M. – KLEMM, A. – KOTSOGIANNIS, C. (2025): *Drivers and Effects of Residence and Citizenship by Investment*. [online]. International Monetary Fund, January 2025, p. 3.

² COURT OF JUSTICE OF THE EUROPEAN UNION (2025): Case C-181/23, Commission v Malta. Judgment of 29 April 2025.

1 CBI programme of Malta

In 2013, Malta introduced a new option for acquiring citizenship through an investment scheme. The Maltese Citizenship Act was amended that year to allow for the granting of a certificate of naturalisation to applicants participating in the Individual Investor Programme (IIP), which is subject to its own conditions and procedures.³ The IIP for individual investors was initially set out in the Individual Investor Programme of the Republic of Malta Regulations in 2014. This enabled Maltese citizenship by naturalisation to be granted to foreign individuals and their families "who contribute to the economic development of Malta".⁴ The IIP operated for seven years (2014–2020) until it reached its application cap of 1,800.⁵

In November 2020, Malta introduced a new programme. That year, relevant amendments were passed to the Maltese Citizenship Act⁶ and the Granting of Citizenship for Exceptional Services Regulations⁷ were adopted, with the aim of replacing the old IIP. Under the new Naturalisation by Direct Investment for Exceptional Services programme, a person who is "willing to contribute through an exceptional direct investment in the economic and social development of the Republic of Malta" may apply for citizenship.⁸ The number of applications accepted under this programme shall not exceed 400 per year or 1,500 in total.⁹

In accordance with Maltese law, foreign investors may apply for naturalisation through exceptional services by direct investment, provided they fulfil the following cumulative conditions:

- make contribution of either EUR 600,000 or EUR 750,000 to the Maltese economy; EUR 10,000 of this sum is payable as a non-refundable deposit with the residence application or eligibility form, while the remainder is payable following approval of the naturalisation application;
- acquire and hold a residential property in Malta with a minimum value of EUR 700,000 or take out a residential property lease in Malta with an annual minimum rent of EUR 16,000 for a minimum period of five years;
- donate a minimum of EUR 10,000 to a registered philanthropic, cultural, sport, scientific, animal welfare or artistic non-governmental organisation or society, or as otherwise approved by the authorities;
- have been a resident of Malta for a period of 36 months (where the contribution amounts to EUR 600,000), which may be reduced to a minimum of 12 months in the case of exceptional direct investment (where the contribution amounts to EUR 750,000);
- have passed the eligibility assessment carried out by the authorities and been authorised to submit the application for naturalisation.¹⁰

Matters relating to citizenship, including the right to regulate its acquisition in a manner that reflects the interests of EU Member States, fall within their exclusive competence. However, CBI programmes have generated controversy at EU level. EU institutions have

³ Maltese Citizenship Act (1964): Chapter 188 of the Laws of Malta, 21 September 1964, as subsequently amended and supplemented.

⁴ Individual Investor Programme of the Republic of Malta Regulations, 2014, Article 3(1).

⁵ Individual Investor Programme of the Republic of Malta Regulations, 2014, Article 12.

⁶ Maltese Citizenship Act (1964): Chapter 188 of the Laws of Malta, 21 September 1964, as subsequently amended and supplemented, Article 10 (9).

⁷ Granting of Citizenship for Exceptional Services Regulations (2020): Legal Notice 437 of 2020, 20 November 2020.

⁸ Granting of Citizenship for Exceptional Services Regulations (2020): Legal Notice 437 of 2020, 20 November 2020, Article 5(2)(d).

⁹ Granting of Citizenship for Exceptional Services Regulations (2020): Legal Notice 437 of 2020, 20 November 2020, Article 19.

¹⁰ Granting of Citizenship for Exceptional Services Regulations (2020): Legal Notice 437 of 2020, 20 November 2020.

criticised these programmes primarily because naturalised investors also become EU citizens, giving them access to the rights and privileges of EU citizenship. Furthermore, in 2019 the Commission issued a report on investor citizenship schemes that highlighted the inherent risks of such programmes, including concerns regarding security, money laundering, tax evasion and corruption.¹¹

2 Case Commission v Malta

On 20 October 2020, the Commission formally launched an infringement procedure against Malta under Article 258 of the Treaty on the Functioning of the European Union (TFEU)¹² by sending a formal notice regarding its investor citizenship scheme. The Commission considered that Malta may have violated EU law by granting its nationality, and thereby EU citizenship, in return for a fee without establishing a genuine link with the Member State in question. According to the Commission, investor citizenship programmes are "not compatible with the principle of sincere cooperation enshrined in Article 4(3) of the Treaty on European Union (TEU)¹³" and "undermine the integrity of the status of EU citizenship provided for in Article 20 of the TFEU".¹⁴ The Commission announced that it had decided to take further steps in the infringement procedure against Malta, sending an additional formal notice on 9 June 2021 and issuing a reasoned opinion on 6 April 2022. As Malta's response was deemed unsatisfactory, on 29 September 2022 the Commission informed that it had decided to refer the case to the CJEU.¹⁵ The case was brought before the CJEU on 21 March 2023.¹⁶

The cross-border nature of EU citizenship affects all EU Member States. Malta, which operates a CBI scheme, risks violating the principle of sincere cooperation. This principle, laid down by Article 4(3) TEU, obliges Member States to refrain from measures that could jeopardise the attainment of the Union's objectives.¹⁷ This principle "applies to the Member States even when they act within their own competences, or when they operate outside of the Treaty entirely".¹⁸

The Commission took Malta to the CJEU over its practice of granting citizenship to individuals in return for pre-determined payments or investments, without requiring a genuine link between Malta and those individuals. The Commission claimed that recipients of EU citizenship must show a genuine link to the country granting the passport, not just a financial commitment. The "genuine link" is a doctrine of public and private international law established in the 1955 *Nottebohm* case of the International Court of Justice.¹⁹ This doctrine "is invoked to establish or dispute the right of states to award their nationality and to grant

¹¹ EUROPEAN COMMISSION (2019): Investor citizenship and residence schemes in the European Union, Report from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. [online]. Brussels, 23. 1. 2019, COM(2019) 12 final.

¹² Treaty on the Functioning of the European Union (2016): Official Journal of the European Union, C 202, 7 June 2016.

¹³ Treaty on European Union (2016): Official Journal of the European Union, C 202, 7 June 2016.

¹⁴ EUROPEAN COMMISSION (2020): Investor citizenship schemes: European Commission opens infringements against Cyprus and Malta for "selling" EU citizenship. [online]. Press release, 20 October 2020.

¹⁵ EUROPEAN COMMISSION (2022): Investor citizenship scheme: Commission refers MALTA to the Court of Justice. [online]. Press release, 29 September 2022.

¹⁶ COURT OF JUSTICE OF THE EUROPEAN UNION (2025): Case C-181/23, *Commission v Malta*. Judgment of 29 April 2025.

¹⁷ EUROPEAN COMMISSION (2019): Investor citizenship and residence schemes in the European Union, Report from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. [online]. Brussels, 23. 1. 2019, COM(2019) 12 final, p. 6.

¹⁸ KLAMERT, M. (2014): *The Principle of Loyalty in EU Law*. New York: Oxford University Press, 2014, p. 24.

¹⁹ INTERNATIONAL COURT OF JUSTICE (1955): Judgment *Nottebohm (Lichtenstein v. Guatemala)*, 6 April 1955.

diplomatic protection or impose duties on individuals whom other states also claim as their nationals".²⁰ In the context of CBI schemes, investors are usually not required to live full-time in the EU country in which they have invested. Their aim is to acquire citizenship with more global rights, regardless of where they plan to live.²¹

On 4 October 2024, Advocate General Collins of the CJEU published an opinion that favoured the Maltese government's position. He dismissed the Commission's arguments, stating that, while a Member State may require proof of a genuine link, "EU law does not define, much less require, the existence of such a link in order to acquire or retain nationality".²² Although the CJEU usually follows the opinion of its advocates general, this was not the case here.

The CJEU, in its judgment of 29 April 2025, sided with the Commission and found that Malta had breached the principle of sincere cooperation in Article 4(3) TEU and the concept of Union citizenship in Article 20 TFEU by introducing a CBI scheme. Although EU Member States remain responsible for determining how nationality is granted, they must exercise this responsibility in accordance with EU law and its foundational principles. The CJEU noted that "there is nothing in the wording or the scheme of the Treaties to support the inference that their authors intended to lay down, as regards the grant of the nationality of a Member State, an exception to the obligation to comply with EU law".²³

While the CJEU agreed with the Commission that the Maltese CBI scheme infringed Article 4(3) TEU and Article 20 TFEU, it followed a different line of reasoning. The CJEU found that these articles had been violated, primarily because the commercialisation of nationality undermines the solidarity between Member States and their nationals, as well as the principle of mutual trust. This ruling reinforces the idea that EU citizenship should not be treated as a tradable asset.

EU citizenship guarantees the free movement within a common area of freedom, security and justice without internal frontiers, in which the free movement of persons is ensured. The creation and maintenance of this area is based on two fundamental principles of EU law: the principle of mutual trust between the Member States and the principle of mutual recognition of national decisions.²⁴ It should be noted that "the Member States are required to recognise the effects of the granting to a person, by another Member State, of the latter's nationality with a view to the exercise of the rights and freedoms arising from EU law".²⁵ According to CJEU case law, "the bedrock of the bond of nationality of a Member State is formed by the special relationship of solidarity and good faith between that State and its nationals and the reciprocity of rights and duties"²⁶ and "in accordance with Article 20(1) TFEU, the special relationship of solidarity and good faith between each Member State and its nationals also forms the basis

²⁰ BAUBÖCK, R. (2018): *Democratic Inclusion: A Pluralist Theory of Citizenship*, in BAUBÖCK, R. (eds.): *Democratic inclusion: Rainer Bauböck in dialogue*. Manchester University Press, 2018, p. 44.

²¹ SUMPTION, M. (2021): *Can Investor Residence and Citizenship Programmes be a Policy Success?*, in KOCHENOV, D. – SURAK, K. (eds.): *The Law of Citizenship and Money*. Cambridge University Press, 2021, p. 4.

²² COURT OF JUSTICE OF THE EUROPEAN UNION (2025): Case C-181/23, *Commission v Malta*. Opinion of Advocate General Collins of 4 October 2024, para 55.

²³ COURT OF JUSTICE OF THE EUROPEAN UNION (2025): Case C-181/23, *Commission v Malta*. Judgment of 29 April 2025, para 83.

²⁴ COURT OF JUSTICE OF THE EUROPEAN UNION (2025): Case C-181/23, *Commission v Malta*. Judgment of 29 April 2025, para 84-85.

²⁵ COURT OF JUSTICE OF THE EUROPEAN UNION (2025): Case C-181/23, *Commission v Malta*. Judgment of 29 April 2025, para 101.

²⁶ COURT OF JUSTICE OF THE EUROPEAN UNION (2025): Case C-181/23, *Commission v Malta*. Judgment of 29 April 2025, para 96.

of the rights and obligations reserved to Union citizens by the Treaties".²⁷ The CJEU explains, that "a Member State manifestly disregards the requirement for such a special relationship of solidarity and good faith, characterised by the reciprocity of rights and duties between the Member State and its nationals, and thus breaks the mutual trust on which Union citizenship is based, in breach of Article 20 TFEU and the principle of sincere cooperation enshrined in Article 4(3) TEU, when it establishes and implements a naturalisation scheme based on a transactional procedure between that Member State and persons submitting an application under that programme, at the end of which the nationality of that Member State and, therefore, the status of Union citizen, is essentially granted in exchange for predetermined payments or investments".²⁸ The CJEU explained, that "a programme of that sort amounts to the commercialisation of the granting of the status of national of a Member State and, by extension, Union citizenship, which is incompatible with the conception of that fundamental status that stems from the Treaties."²⁹

Following the ECJ's finding that Malta has breached EU law, Malta is now obliged to comply with the CJEU's judgment. However, if the Member State fails to comply with the original CJEU ruling within a reasonable timeframe, the Commission can initiate further proceedings against the Member State under Article 260(2) TFEU. This allows the Member State to be brought before the CJEU for a second time.

Following the CJEU's ruling, the Maltese government issued an official statement saying that it "respects the decisions of the courts, while at this moment the legal implications of this judgment are being studied in detail, so that the regulatory framework on citizenship can then be brought in line with the principles outlined in the judgment." However, the government clarified that decisions made under the current and previous legislative frameworks remain valid and that the wealth generated through the programme has contributed to national investment and savings.³⁰ Over 5,300 individuals obtained citizenship through the Maltese scheme (2014-2023), generating approximately EUR 1,6 billion in revenue.³¹

Malta was the last EU Member State to operate a CBI programme. The CJEU's ruling sets a precedent that investment-based citizenship programmes cannot operate within the EU legal framework without establishing meaningful connections between applicants and the naturalising state. Consequently, wealthy non-EU nationals must seek alternative ways to obtain EU citizenship.

While the ruling primarily concerns citizenship programmes, it raises significant questions about the compatibility of EU Member States' investment-based residence programmes, also known as "golden visas", with EU legal principles. It may prompt other EU countries, such as Cyprus, Portugal, Italy, to reconsider or reform their own residency-by-investment programmes, which have also been criticised by the EU.

Conclusion

This paper provides an overview of the EU's, and particularly the Commission's, action against Malta's CBI programme. The case was referred to the CJEU in 2023. The CJEU ruled that Malta had breached EU law. The CJEU considered the CBI programme to be the commercialisation of granting nationality, and consequently, citizenship of the Union.

²⁷ COURT OF JUSTICE OF THE EUROPEAN UNION (2025): Case C-181/23, *Commission v Malta*. Judgment of 29 April 2025, para 97.

²⁸ COURT OF JUSTICE OF THE EUROPEAN UNION (2025): Case C-181/23, *Commission v Malta*. Judgment of 29 April 2025, para 99.

²⁹ COURT OF JUSTICE OF THE EUROPEAN UNION (2025): Case C-181/23, *Commission v Malta*. Judgment of 29 April 2025, para 100.

³⁰ GOVERNMENT OF MALTA (2025). Press release, 29. 4. 2025.

³¹ CUMMINGS, J. (2025). Over 5,300 new citizens and €1.6 billion later - Malta's "golden passports". [online]. In: *Times of Malta*, 5. 5. 2025.

This judgment is significant as it reinforces the idea that EU citizenship cannot be treated as a commodity. While the judgment relates to the programme for granting citizenship to investors, it is also likely to affect residency-by-investment schemes in other EU Member States.

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Green Hydrogen as a Key Tool for the Energy Transformation of the Visegrad Group¹

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Abstract: Green hydrogen is a key tool for transforming energy and decarbonizing industry, transport and power. Production through electrolysis using renewable energy is sustainable and climate-neutral, with the potential to reduce greenhouse gas emissions and ensure energy independence. All Visegrad Group countries have adopted national strategies for developing the hydrogen sector to achieve climate neutrality by 2050. The support of European policies, such as the Green Deal and REPowerEU, emphasizes the importance of hydrogen in the global energy transition. This strategy aims to ensure a green future, enhance energy security, and create new economic opportunities.

Keywords: green hydrogen, energy transformation, decarbonization, renewable energy, Visegrad Group

JEL: F64

Introduction

Green hydrogen is increasingly regarded as a key tool for achieving a sustainable and low-carbon future in the current energy and environmental landscape. As the climate crisis and the rise in greenhouse gas emissions force countries to seek efficient and environmentally acceptable solutions, green hydrogen emerges as a promising alternative to traditional fossil fuels. Production via water electrolysis powered by renewable energy sources enables the creation of a climate-neutral energy carrier with the potential to decarbonize hard-to-electrify sectors such as transportation, metallurgy, and chemical industries. This article analyzes the current status and strategic directions of the development of the hydrogen sector in the Visegrad Group countries, emphasizing the challenges and opportunities associated with the rapid growth of the green economy within the European context.

1 The significance of green hydrogen and its ecological benefits

Worldwide reliance on fossil fuels substantially contributes to greenhouse gas emissions and air pollution, posing significant environmental and health hazards. As a result, it is essential to explore and adopt alternative energy sources. Green hydrogen, produced by water electrolysis powered by renewable energy, emerges as a promising climate-neutral option. Recent research increasingly highlights green hydrogen's potential as a clean energy alternative to fossil fuels, with water electrolysis offering a sustainable and environmentally friendly production method.²

At the outset of the research, we would like to provide some general information about hydrogen. Hydrogen (H) is the lightest element on Earth and is most commonly found in nature as diatomic molecules known as dihydrogen (H₂). The mass of one liter of hydrogen is about 90 mg (0.09 g), which is nearly 11 times lighter than air. In nature, hydrogen only exists

¹ This article was written as part of the project: ESG 21 *Current relevance and prospects for the development of green cooperation between Australia and the European Union in the field of sustainable energy.*

² MEDRANO-SÁNCHEZA, E. J. – MARÍN-JARA, E. (2024): Green Hydrogen and the Environment: a Review of Trends and Challenges in Scientific Production (2019-2023). In: *Cet Chemical Engineering Transactions*, 2024, Vol. 111, p. 697. ISBN 979-12-81206-11-3.

in compound forms - most frequently in water, but also mixtures of hydrocarbons and their derivatives, such as oil and natural gas. Today, these compounds form the basis for industrial hydrogen production. Unlike fossil fuels (like coal and natural gas), where energy is already stored and can be released through combustion, hydrogen can be produced by splitting other compounds using hydrogen technology. This process, however, requires an energy input, usually in the form of electricity or heat, and when used in fuel cells or through direct burning, the stored energy is released back.

The energy source and production method used to create molecular hydrogen determine the following types of classification:

- Green hydrogen is produced by water electrolysis powered by an electrolyzer connected to renewable energy sources.³
- Blue hydrogen is based on methane and involves carbon capture and storage (CCS) to reduce CO₂ emissions.
- Grey hydrogen also uses methane without capturing or storing carbon.⁴ According to the head of business development at Enel, hydrogen has been labeled a “climate killer” due to its predominantly grey production process. Hydrogen production through steam reforming and gasification is responsible for significant amounts of carbon emissions annually.⁵ It is important to note that grey hydrogen is not considered a low-carbon fuel.⁶
- Turquoise hydrogen also involves methane, but the process produces a solid graphite byproduct instead of CO₂.
- Pink hydrogen is produced using nuclear energy to split water.
- Black hydrogen is produced from black coal.
- Brown hydrogen is generated from brown coal.⁷
- Yellow hydrogen is produced by electrolysis using electricity from the grid.⁸

Among all the above-mentioned types of hydrogen, the production of green hydrogen appears to be the only truly sustainable process. This process is emission-free, producing only oxygen as a byproduct, with no greenhouse gases or other ancillary products. The global production of hydrogen via electrolysis requires a volume of electricity roughly equal to the total annual electricity generation in the European Union from all sources. However, to effectively utilize green hydrogen, this amount of electrical energy must be supplied exclusively from renewable energy sources.

Figure 1 presents information about the different types of hydrogen, the technologies used for its production, the raw materials and energy sources involved, and their carbon footprints.

³ SINAY, J. – JESNÝ, M. – WEITERSCHÜTZ, J. – BLAŠKOVITŠ, P. – SULÍK, R. (2021): Národná vodíková stratégia „Pripravení na budúcnosť“. [online]. [Cited 2. 05. 2025].

⁴ MAJEWSKI, P. – SALEHI, F. – XING, K. (2023): Green hydrogen. In: *AIMS Energy*, Vol. 11, No. 5, p. 879.

⁵ REDA, B. – ELZAMAR, AA. – ALFAZZANI, S. at al. (2024): Green hydrogen as a source of renewable energy: a step towards sustainability, an overview. In: *Environ Dev Sustain*, 2024. [online]. [Cited 24. 4. 2025].

⁶ YU, M. – WANG, K. – VREDENBURG, H. (2021): Insights into low-carbon hydrogen production methods: Green, blue and aqua hydrogen. In: *International Journal of Hydrogen Energy*, Vol. 46(41).

⁷ MAJEWSKI, P. – SALEHI, F. – XING, K. (2023): Green hydrogen. In: *AIMS Energy*, Vol. 11, No. 5, p. 879.

⁸ ARCOS, J.M.M. – SANTOS, D.M.F. (2023): The Hydrogen Color Spectrum: Techno-Economic Analysis of the Available Technologies for Hydrogen Production. In: *Gases*, 2023, Vol. 3, pp. 25-46. [online]. [Cited 2. 5. 2025].

Figure 1: Hydrogen classification and its use

PRODUCTION VIA FOSSIL FUELS			
Kind of Hydrogen	Technology	Feedstock / Electricity Source	GHG Footprint
Blue	Natural gas reforming, CCUS gasification + CCUS	Natural gas, coal	Low
Turquoise	Pyrolysis	Natural gas	Solid carbon (by-product)
Grey	Natural gas reforming		Medium
Brown	Gasification	Brown coal (lignite)	High
Black		Black coal	
PRODUCTION VIA ELECTRICITY			
Green	Electrolysis	Wind, Solar, Hydro, Geothermal, Tidal	Minimal
Pink/Purple		Nuclear	
Yellow		Mix-origin grid energy	Medium

Source: Own compilation based on GLOBAL ENERGY INFRASTRUCTURE (2021): *Hydrogen – data telling a story*. [online]. [Cited 2. 5. 2025]. Available online: <https://globalenergyinfrastructure.com/articles/2021/03-march/hydrogen-data-telling-a-story/>.

Green hydrogen is crucial in the transition toward a sustainable and low-carbon future. Table 1 presents several key reasons why green hydrogen is essential:

Table 1: Reasons for the importance of green hydrogen for energy transformation

Decarbonization	Green hydrogen is produced using renewable energy sources, such as solar and wind power. This type of hydrogen does not release carbon dioxide (CO ₂) emissions during its use or production, unlike other types of hydrogen made from fossil fuels. Additionally, green hydrogen offers a clean and sustainable alternative to conventional hydrogen production methods, supporting decarbonization and climate change mitigation efforts.
Energy storage	Green hydrogen is a key solution for energy storage. Surplus renewable energy produced during times of high generation can be transformed into hydrogen and stored for future use. This method addresses the challenges of the intermittency and fluctuation of renewable energy sources, providing a reliable and manageable way to store energy.
Sectoral decarbonization	Green hydrogen has great potential to decarbonize different parts of the economy that are challenging to electrify directly. These include sectors such as heavy industry, transportation, and heating. Replacing fossil fuels with hydrogen in these areas can lead to considerable emission reductions, advancing the shift toward cleaner and more sustainable energy systems.
Renewable energy integration	Green hydrogen facilitates the integration of renewable energy into existing energy infrastructure. Additionally, it offers a way to utilize surplus renewable energy by converting it into hydrogen, which can then be stored, transported, and used during periods of low production. This helps increase the share of renewable sources in the energy mix.
Energy independence and security	The production of green hydrogen reduces dependence on fossil fuel imports, thereby increasing the energy independence of countries.

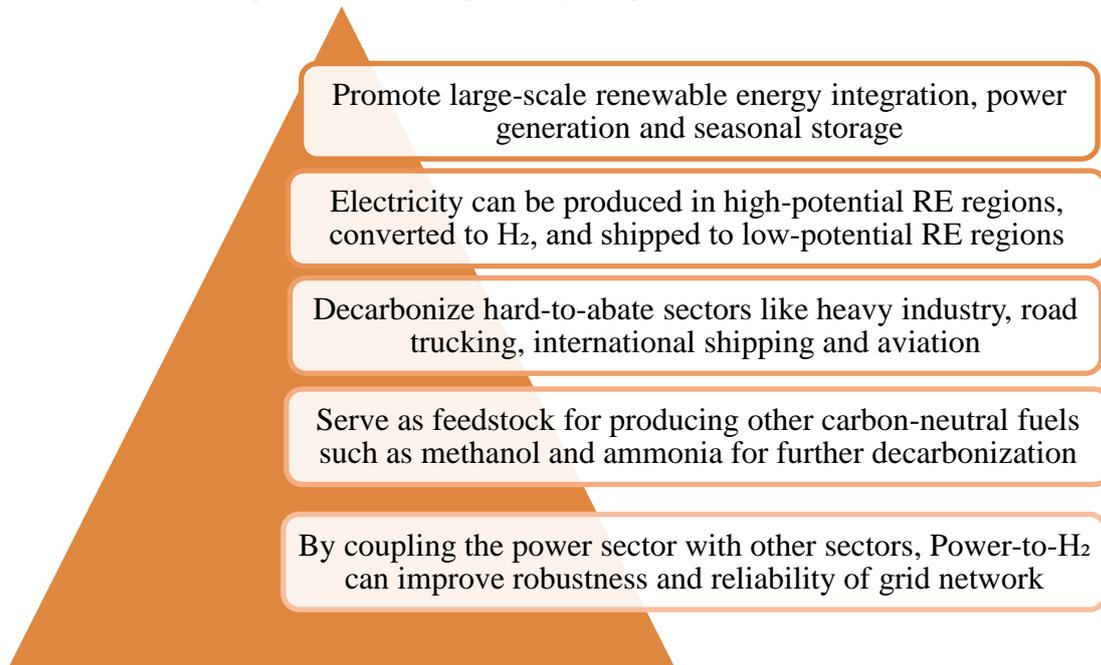
Job creation and economic growth	The development and implementation of green hydrogen technologies have the potential to create new job opportunities and stimulate economic growth. Building infrastructure for the production, storage, and distribution of hydrogen and research and development activities, will drive innovation, attract investments, and establish a green hydrogen industry, thereby generating new employment opportunities and supporting economic growth.
International cooperation	Countries with abundant renewable energy resources can export green hydrogen, boosting energy trade and supporting global energy transformation efforts.

Source: EL MAHDY, M. A. (2022): Green hydrogen and its role in renewable energy and sustainable development. In: *International Journal of Advances Engineering and Civil Research*, 2022, Vol. 2, No. 2, pp. 6-8. ISSN 2974- 4393.

Based on the above, it is clear that green hydrogen holds immense importance for a sustainable and low-carbon future. Its contributions to decarbonization, energy storage, industrial transformation, integration of renewable energy, energy independence, employment generation, and international collaboration position it as a vital instrument in combating climate change, lowering emissions, and fast-tracking the shift towards a sustainable and resilient energy system.⁹

The main points highlighted in Figure 2 emphasize the role of green hydrogen in a zero-emission future.

Figure 2: Role of green hydrogen in a net zero future



Source: Own compilation based on CHEN, Y. at al. (2024). Race towards net zero emissions (NZE) by 2050: Reviewing a decade of research on hydrogen-fuelled internal combustion engines. In: *The Royal Society of Chemistry*, 2024, p. 9027. Available online: <https://doi.org/10.1039/d4gc00864b>

Currently, the costs of producing hydrogen through water electrolysis powered by renewable energy sources are high. However, there is an increasing need to improve

⁹ EL MAHDY, M. A. (2022): Green hydrogen and its role in renewable energy and sustainable development. In: *International Journal of Advances Engineering and Civil Research*, 2022, Vol. 2, No. 2, pp. 6-8. ISSN 2974-4393.

efficiency and price competitiveness in renewable hydrogen production. One of the key barriers is the expense of hydrogen fuel cell systems for electric vehicles, which currently range from approximately USD 100 to USD 200 per kilowatt, making fuel cell electric vehicles (FCEV) 2 to 3 times more expensive than internal combustion engine (ICE) vehicles. However, it is essential to consider long-term cost savings and environmental benefits. Technological advancements are necessary to reduce these costs.¹⁰

Currently, the production costs of green hydrogen via electrolysis range from approximately USD 3.5 to USD 7 per kilogram, while natural gas costs around USD 1.5 to USD 2 per kilogram. Replacing steam reforming and methane-based processes with renewable hydrogen production to meet industrial demand faces technical challenges, including improving electrolysis efficiency, increasing hydrogen production capacity, storage, transportation, regulatory frameworks, partnerships, system integration, infrastructure investments, and achieving price competitiveness in the production, storage, and transportation of green hydrogen.¹¹ According to an IRENA analysis, the current price of green hydrogen is around EUR 5 per kilogram, which is not yet competitive. The EU has set a goal to reduce these costs to less than EUR 1.8 per kilogram by 2030. However, according to the think tank Agora Energiewende, an approximate production cost of EUR 1 per kilogram is necessary to increase the market attractiveness of green hydrogen.¹²

2 Global and European Policies Supporting Green Hydrogen

A well-developed strategy to support green hydrogen production ensures the achievement of long-term goals. Therefore, an important task is to carefully evaluate relevant factors in light of the country's unique circumstances and government objectives. The most commonly cited factors in the national strategies of various countries, including the Visegrad Group states, are listed below. Key factors includes achieving decarbonization targets, accelerating innovative industrial development, diversifying energy exports, increasing energy security, supporting long-term renewable energy storage, improving urban air quality, aligning with other strategic energy initiatives, and responding to international market dynamics. Each of these factors highlights the diverse role of hydrogen in addressing fundamental global challenges such as climate change, economic development, and others.

The global climate crisis and the limitation of temperature rise are increasingly seen as critical issues. Consequently, governments must intensify efforts to reduce or eliminate emissions from all economic activities. Solutions that only partially reduce emissions are insufficient to resolve this problem. For example, according to IRENA's World Energy Transformation Outlook, in the 1.5°C scenario, direct electric heating is planned to account for 51% of the total final energy consumption. The remaining energy needs must be met through other means, such as biomass, clean hydrogen (and its derivatives), and hydrocarbons with 100% carbon capture and storage.¹³

Complete decarbonization of certain sectors, such as industry and transportation, presents significant technical and socio-economic challenges, with very few solutions currently available for these "hard-to-decarbonize" sectors. Nevertheless, green hydrogen

¹⁰ JAYACHANDRAN, M. et al. (2024): Challenges and Opportunities in Green Hydrogen Adoption for Decarbonizing Hard-to-Abate Industries: A Comprehensive Review. [online]. [Cited 12. 5. 2025]. In: *IEEE Access*, 2024, Vol. 12. DOI 10.1109/ ACCESS.2024.3363869.

¹¹ NNABUIFE, S. G. et al. (2022): "Present and projected developments in hydrogen production: A technological review*," In: *Carbon Capture Science & Technology*, Vol. 3, 100042.

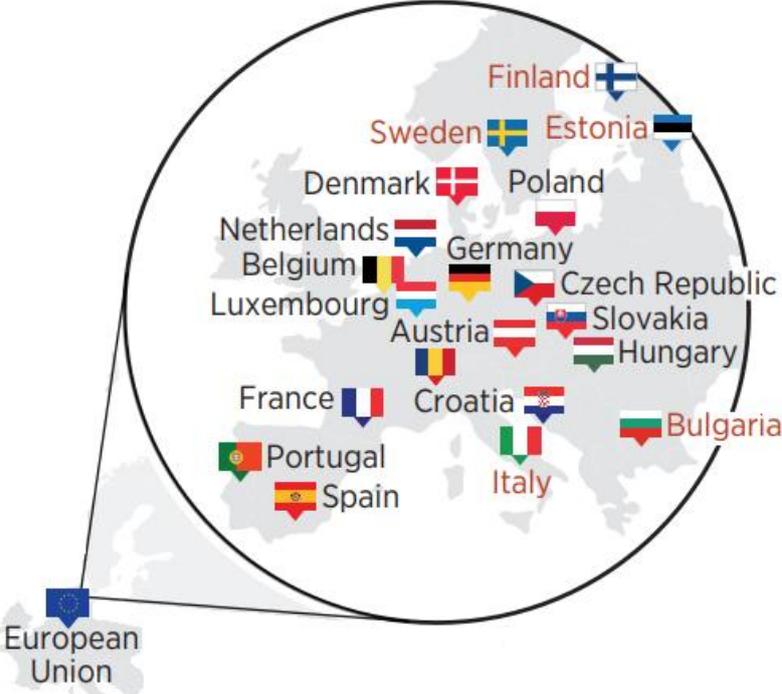
¹² SLOVENSKÁ INOVAČNÁ A ENERGETICKÁ AGENTÚRA (2022): *Urýchlenie prechodu na vodík*. [online]. [Cited 4. 5. 2025].

¹³ IRENA (2023): World energy transitions outlook 2023: 1.5°C pathway, In: *International Renewable Energy Agency*, Abu Dhabi. [online]. [Cited 10. 5. 2025].

and its derivatives offer a common solution for some of these demanding areas, serving as a key component in chemical and fuel production or as a clean energy source. Almost all hydrogen-related strategies share a common goal: to affirm its role in achieving decarbonization targets.

In 2024, 54 countries that have published their national hydrogen strategies and plans, approximately 90% have committed to reaching net-zero greenhouse gas emissions or climate neutrality by 2050. While commitments to zero emissions are often not entirely clear-cut or firmly established, without such commitments, there is significantly less motivation for countries to develop a national hydrogen strategy.¹⁴ The map of countries with published national hydrogen strategies is shown in Figure 3.

Figure 3: Map of countries with published national hydrogen strategies (May 2024)



Source: Own compilation based on IRENA (2024), Green hydrogen strategy: A guide to design. In: *International Renewable Energy Agency*, Abu Dhabi. ISBN: 978-92-9260-611-4.

In recent times, the main goal of European leaders has been to achieve climate neutrality by the middle of this century. Based on this, on July 8, 2020, the European Commission adopted a hydrogen strategy, as hydrogen is expected to become a key energy carrier in the EU’s efforts to create a new green “Green Deal” in Europe. The strategy’s primary objective is to support the development of renewable, green hydrogen so that by 2050, it will represent a fully emissions-free and widely accessible energy source within the EU. Currently, the European Commission recognizes that, in the short and medium term, developing the hydrogen market will also require enabling the use of other low-carbon forms of hydrogen across Europe, such as from fossil sources (extracted from fossil fuels in combination with carbon capture and storage – CCS) or produced via electrolysis using non-renewable sources. Low-carbon hydrogen is intended to be only a temporary solution, with the goal that after 2050, hydrogen without carbon - so-called carbon-free hydrogen - will be exclusively used. This strategy ranks among the most ambitious global initiatives for green hydrogen development, and it projects

¹⁴ IRENA (2024): Green hydrogen strategy: A guide to design. In: *International Renewable Energy Agency*. Abu Dhabi. ISBN: 978-92-9260-611-4.

the production of 40 GW of green hydrogen within the EU by 2030, making it the highest planned capacity in the world.¹⁵ To achieve the objectives set out in the European Green Deal, which aims to transform the EU into a modern and competitive economy that efficiently utilizes resources. This initiative will be financed with one-third of the total funding of €1.8 trillion invested through the NextGenerationEU recovery plan and the EU's seven-year budget.¹⁶

In addition to the "Green Deal," the European Union introduced the REPowerEU plan in March 2022. According to this plan, the EU aims to reduce European dependence on fossil fuels. Regarding hydrogen, the plan states that by 2030, approximately 10 million tons of renewable hydrogen should be produced annually within the EU, with another 10 million tons to be imported.

To achieve this goal, in 2022, 80 MW of electrolyzers were installed, doubling the capacity compared to the previous year. In July 2022, grants totaling €5.4 billion were awarded for the first hydrogen production project under the European Projects of Common Interest, to support electrolyser development. In 2020, hydrogen consumption in the EU reached around 8.6 million tons.

The growth of the electrolyser market will be a key factor in reaching these targets. Although the number of new projects is increasing exponentially, green hydrogen is likely to remain scarce (constituting less than 1% of the final energy demand) until 2030 in the EU and until 2035 globally. Exponential growth indicates that, although the pace is rapid, it begins quite slowly and needs time to reach significant volumes, similarly to what occurred with photovoltaics. However, expanding electrolyser capacities is more challenging due to current low installed capacities and market development uncertainties. Current activities also require developing supply, demand, and infrastructure, which is costly and carries the risk of overestimating green hydrogen's potential. Ensuring sufficient green electricity is crucial for expanding electrolyzers in Europe, which will require a massive increase in renewable energy production. Nonetheless, the efficiency of renewable energy use could be impacted by lower utilization of available sources.¹⁷

A rapid and decisive reconfiguration of the EU's energy system is necessary. The REPowerEU plan by the European Commission focuses on accelerating the green transition to eliminate dependence on Russian fossil fuels.¹⁸ This policy initiative has the potential to increase investments in renewable energy sources and sustainable solutions, especially in the Visegrad Group countries, which are striving to disconnect from Russia as quickly as possible.

3 Status and Potential of the Visegrad Group Countries

In connection with the adoption of the European Green Deal by the European Commission, the Visegrad Group countries committed to being part of this strategy. Therefore, in 2021, all V4 countries adopted their own hydrogen strategies at the national level.

On July 26, 2021, the Czech government approved the Hydrogen Strategy of the Czech Republic, which was updated in 2024. The strategy sets targets including the development of at least 400 MW of electrolyser capacity by 2027, streamlining processes by 2025, analyzing and adjusting subsidy programs by the end of 2024, creating hydrogen valleys in coal-bearing regions, establishing a legislative framework for the hydrogen economy in 2025-2026,

¹⁵ KOCHANEK, E. (2022): The Role of Hydrogen in the Visegrad Group Approach to Energy Transition. *Energies*, 2022, Vol. 15, 7235. [online]. [Cited 29. 4. 2025].

¹⁶ EURÓPSKA KOMISIA (2021): *Európska zelená dohoda*. [online]. [Cited 1. 5. 2025].

¹⁷ AJANOVIC, A. et al. (2024): On the future relevance of green hydrogen in Europe. [online]. [Cited 1. 5. 2025]. In: *Applied Energy*, 2024, Vol. 358. ISSN 0306-2619.

¹⁸ EUROPEAN COMMISSION (2022): *REPowerEU: A plan to rapidly reduce dependence on Russian fossil fuels and fast forward the green transition*. [online]. [Cited 5. 5. 2025].

and modernizing infrastructure for hydrogen transmission and storage. It also plans to support hydrogen mobility, cooperate on export missions, promote public awareness, and provide education on hydrogen technologies to expand and accelerate the development of the hydrogen economy in the Czech Republic.¹⁹

According to the European Hydrogen Observatory, the annual hydrogen production capacity in the Czech Republic is approximately 130 kilotons. Of this amount, 120 kilotons are produced through reforming processes, while 10 kilotons are by-products. No carbon capture and storage (CCS) technology is employed in hydrogen production. In 2022, actual hydrogen production reached 100 kilotons.

In 2023, the Czech Republic saw the commissioning of its first and thus far only green hydrogen production plant, located in Napajedla. This facility uses electricity generated from a small hydroelectric power plant, with an expected annual output of around 8 tons of green hydrogen.

Several projects for hydrogen production are currently being developed in the Czech Republic, mostly aimed at green hydrogen for transportation applications. The GreenGas program, part of the Modernization Fund, provides support for the financing of these initiatives. Additionally, hydrogen projects can also be funded through the Operational Program for Technologies and Applications for Competitiveness or via the National Recovery and Resilience Plan.²⁰

Hungary's national hydrogen strategy was adopted in 2021 to lay the groundwork for integrating low-carbon hydrogen into the economy by 2030.²¹ Additionally, the plan outlines a transition towards a hydrogen-based economy aimed at achieving decarbonization, enhancing energy security, and supporting economic growth. The vision promotes the development of a sustainable hydrogen ecosystem based on green hydrogen from renewable sources, focusing on research, industrial collaboration, and policies to support the value chain to maintain competitiveness and meet environmental commitments. It prioritizes deploying clean hydrogen technologies in industry, transportation, and energy sectors, emphasizing on decarbonizing industries such as petrochemical, chemical, and steel. It plans to develop fuel cell technologies and infrastructure in the transport sector. Key factors include establishing a regulatory framework, fostering international cooperation, and promoting public-private partnerships. Furthermore, Hungary aims to create regional hydrogen hubs and support education and research. After 2030, wide-scale hydrogen use across various sectors is expected, with infrastructure expanding and international integration ongoing, while progress will be regularly evaluated and strategies adjusted accordingly. The primary goals include:

- By 2030, Hungary aims to produce 36,000 tons of hydrogen annually, including 20,000 tons of low-carbon (blue/turquoise) hydrogen and 16,000 tons of green and other zero-carbon hydrogen. The target electrolysis capacity is 240 MW by 2030.
- Utilize 24,000 tons of hydrogen annually for industrial applications, with 20,000 tons of low-carbon hydrogen and 4,000 tons of green and zero-carbon hydrogen.
- Produce 10,000 tons of green and zero-carbon hydrogen annually for transportation.
- Deploy 20 hydrogen refueling stations with 40 fueling points.
- Introduce 4,800 hydrogen-powered vehicles.
- Develop hydrogen valleys to demonstrate ecosystems for hydrogen production, storage, and use.

¹⁹ MINISTERSTVO PRŮMYSLU A OBCHODU ČESKÉ REPUBLIKY (2024): *Vodíková strategie České republiky aktualizace 2024*. [online]. [Cited 5. 5. 2025].

²⁰ SKLENÁŘ, O. (2024): Role of green gases in the energy transition of v4 countries. [online]. [Cited 24. 4. 2025].

²¹ INTERNATIONAL ENERGY AGENCY (2021): National Hydrogen Strategy (NHS). [online]. [Cited 1. 5. 2025].

If these goals are successfully achieved, it will reduce CO₂ emissions, initial adoption of low-carbon hydrogen in petrochemical, chemical, and industrial heat sectors, and a gradual transition to green hydrogen by 2050 for full decarbonization of industrial processes. Moreover, applications of hydrogen will expand in the cement, steel, and transportation industries.²²

In 2024, the MOL Group launched operations in Százhalombatta to produce green hydrogen. This facility has an installed capacity of 10 MW and an annual capacity of 1,600 tons, making it the largest green hydrogen plant in Central and Eastern Europe. The produced hydrogen is used for refinery processes at a nearby refinery.

Hungary also plans to create two new hydrogen valleys by 2030:

- The Duna–Drava Hydrogen Ecosystem, which includes existing large hydrogen consumers as well as potential new users in sectors such as ironworks and steel plants (Dunaújváros) and cement factories (Beremend, Királyegyháza). The Paks nuclear power plant can provide a significant amount of zero-carbon electricity to support the development of the hydrogen value chain.
- The Northeast Hydrogen Valley, encompassing an industrial center with the cities of Miskolc, Tiszaújváros, and Kazincbarcika, which has well-developed chemical and petrochemical sectors and experiences a significant demand for hydrogen. Due to the concentration of industrial activities, this area has high potential for the development and utilization of hydrogen in various industrial applications.²³

In 2021, Poland adopted a hydrogen strategy to develop a comprehensive hydrogen economy as a tool to achieve climate neutrality and maintain industrial competitiveness. The strategy emphasizes the decarbonization of sectors with low electrifiability, such as transportation, industry, and power generation, through using low-carbon and renewable hydrogen. Poland, as the third-largest hydrogen producer in Europe with an annual production of approximately 1.3 million tons, aims to transition from fossil sources to sustainable production foundations. By 2030, it plans to implement a stable regulatory framework, promote innovation, and develop hydrogen infrastructure to establish the country as a leader in the European hydrogen economy, while simultaneously contributing to climate neutrality and transforming industry, energy, and transportation.²⁴

In Poland, several smaller projects for green hydrogen production are underway. The first hydrogen hub was launched in 2022 by Orlen in Trzebinia in southern Poland, supplying hydrogen fuel for public transportation in Kraków. Additionally, green hydrogen is produced for electricity storage from the Gaj Oławski 5 AHE pilot hybrid power plant, which combines wind energy and agrivoltaics. The installed capacity of this project is 5 MW.²⁵

According to the Polish Agency for Industrial Development, the construction of a green hydrogen production plant is planned in the southwestern Silesia region.²⁶ The European Commission has already approved public assistance of €143 million for the H2Silesia project by Polenergia. This project includes the construction of a green hydrogen facility with a capacity of 105 MW for heavy industry and transportation in Upper Silesia. The planned plant will be able to produce approximately 13,000 tons of hydrogen annually. Poland's hydrogen

²² GREEN HYDROGEN ORGANIZATION. GH2 Country Portal – Hungary. [online]. [Cited 29. 4. 2025].

²³ SKLENÁŘ, O. (2024): Role of green gases in the energy transition of v4 countries. [online]. [Cited 10. 04. 2025].

²⁴ GREEN HYDROGEN ORGANIZATION. GH2 Country Portal – Poland. [online]. [Cited 10. 04. 2025].

²⁵ SKLENÁŘ, O. (2024). Role of green gases in the energy transition of v4 countries. [online]. [Cited 10. 04. 2025].

²⁶ GREEN HYDROGEN ORGANIZATION. GH2 Country Portal – Poland. [online]. [Cited 10. 04. 2025].

strategy envisions that by 2030, there will be 2 GW of installed capacity for low-carbon hydrogen production facilities, along with the creation of five hydrogen valleys.²⁷

In May 2024, the Polish government introduced the "Hydrogen Act" legislative package, which forms the foundation for developing the green hydrogen market. It primarily supports achieving climate neutrality and enhances the competitiveness of the Polish economy in line with the country's hydrogen strategy.²⁸ Poland plans to invest 11 billion PLN in hydrogen technologies by 2030, with 9 billion PLN allocated to low- and zero-emission hydrogen production facilities. It is expected that planned offshore wind farms will be a key source of electricity for producing green hydrogen.²⁹

Similar to the three previous Visegrad countries, in 2021, Slovakia approved the Slovak National Hydrogen Strategy, which provides a framework for the development and integration of hydrogen technologies to achieve carbon neutrality by 2050. Additionally, the strategy emphasizes the production of green and low-carbon hydrogen for the decarbonization of key sectors such as industry, transportation, and energy. It supports the use of hydrogen as a versatile energy carrier. Currently, Slovakia is closely cooperating with the industrial sector and research institutions to accelerate the adoption of hydrogen technologies.³⁰

In 2022, the Slovak gas transmission operator Eustream initiated a pilot project for green hydrogen production, which is currently being carried out on a limited scale at the Veľké Kapušany compressor station.³¹

In 2022, SPP-distribúcia carried out a pilot project called H2Pilot, focused on distributing a mixture of natural gas and hydrogen to households in Slovakia. The pilot phase occurred in the village of Blatná na Ostrove, where more than 300 households were temporarily supplied. The project confirmed the safe operation of all connected equipment when using a mixture containing up to 10% hydrogen.

Slovakia has expressed interest in cooperating with India in key areas such as green hydrogen, research and development, heavy industry, wastewater treatment, and cybersecurity, said Ambassador Robert Maxian. In February 2024, a delegation of 20 Slovak companies, led by the Slovak Minister of Foreign Affairs, visited India with the aim of expanding discussions on collaboration opportunities in these strategic sectors.³²

The Slovak hydrogen strategy for 2030 plans to install electrolyzers with a capacity of 140 to 390 MW (annual production capacity of 410 to 1,140 GWh). It is expected that most of the produced green hydrogen will be used in industrial sectors, buildings, and transportation, with support for electricity generation being a less priority.³³

Hydrogen is gaining strategic importance not only at the national level but also within regional development. The Košice Self-Governing Region perceives hydrogen as a key energy carrier for the future and identifies the potential for cooperation with Ukraine in establishing a hydrogen corridor. It views the use of hydrogen as a crucial element for decarbonizing the steel industry, with US Steel, the largest steel producer in Central Europe, headquartered in Košice.³⁴

The implementation of their own strategies reveals a higher level of readiness and commitment among the Visegrad Group countries to expand the production of green and low-carbon

²⁷ SKLENÁŘ, O. (2024): Role of green gases in the energy transition of v4 countries. [online]. [Cited 10. 04. 2025].

²⁸ GREEN HYDROGEN ORGANIZATION. GH2 Country Portal – Poland. [online]. [Cited 10. 04. 2025].

²⁹ SKLENÁŘ, O. (2024): Role of green gases in the energy transition of v4 countries. [online]. [Cited 10. 04. 2025].

³⁰ GREEN HYDROGEN ORGANIZATION. GH2 Country Portal – Slovakia. [online]. [Cited 28. 04. 2025].

³¹ ESG-INVESTICE.CZ. Na Slovensku byla zahájena výroba vodíku z OZE. [online]. [Cited 15. 04. 2025].

³² GREEN HYDROGEN ORGANIZATION. GH2 Country Portal – Slovakia. [online]. [Cited 20. 04. 2025].

³³ NATIONAL HYDROGEN STRATEGY [online]. [Cited 17. 04. 2025].

³⁴ HALAMA, M. et al.: Vodíková stratégia Košického kraja. 2021. [online]. [Cited 15. 04. 2025].

hydrogen. Despite significant progress in planning and pilot projects, the main challenges remain high costs, lack of infrastructure, and the need for legislative reforms. At the same time, it is clear that regional cooperation and collaboration between the countries are key to effectively harnessing the potential of hydrogen, which will contribute to achieving climate neutrality by 2050.

Conclusion

Green hydrogen is currently regarded as one of the most important technologies on the road to a sustainable and low-carbon energy future. Its potential lies not only in its ability to significantly contribute to the decarbonization of the largest emission sources caused by industry, transportation, or the energy sector, but also in supporting energy security and independence for countries. Nevertheless, the costs of producing green hydrogen constitute a major barrier to its widespread use, making intensive investments in research, technological development, and infrastructure essential to reduce its price and make it competitive in the market. A key factor will be cooperation between countries, sectors, and the private sector to create an appropriate regulatory framework, support innovative projects, and ensure an adequate supply of green electricity.

Regional strategies of the Visegrad Group countries show that the intention to develop the hydrogen sector is strongly integrated with goals of decarbonization, economic growth, and the development of new industrial sectors. It is especially important to emphasize the need for coordinated actions with European initiatives such as the European Green Deal and the REPowerEU plans, which aim to accelerate the energy transition and eliminate dependence on Russian fossil fuels. Thus, Effective utilization of hydrogen requires technological innovations and reforms in legislation, financing, and international cooperation.

Based on current trends and plans, it is clear that a broader development of green hydrogen will require time and determination, but its long-term benefits for climate neutrality, economic vitality, and energy security are undeniable. Therefore, it is recommended to continue building strategic partnerships, support innovation, and ensure a transition to cleaner methods of production and use of hydrogen, which will gradually become a key energy carrier in the global economy of the 21st century.

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CHALLENGES OF THE SLOVAK GOVERNMENT IN 2025

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Abstract: The goal of this paper is to describe and analyze the recent challenges and problems of the current Slovak government. PM Robert Fico's 79-MP majority in parliament was fragile, especially after several MPs had broken away from their parties - three from Hlas-SD (a fourth remains in Hlas-SD, but coordinates with the defectors) and three from the SNS parliamentary caucus. Meanwhile, one of the Hlas-SD defectors joined the breakaway SNS group led by MP Rudolf Huliak. The coalition managed to secure a deal with Huliak's group of four MPs and PM Fico can count on at least 76 MPs - the narrowest possible majority - supporting his government. The other rebels have declared their backing for PM Fico's coalition, but it is far from guaranteed. Therefore, PM Robert Fico decided to be involved in this crisis and the ruling coalition signed an amendment to the coalition agreement, which essentially meant ministry reshuffling. Smer-SD has gained two more ministries, the Investment Ministry originally held by Hlas-SD, and the Sports and Tourism Ministry formerly held by SNS, reflecting that both have lost a few MPs. This was a first step in once again securing a stable majority of the ruling coalition in parliament, preferably the original 79-member majority. ballot. It also means that Slovak Prime Minister Robert Fico strengthened his hold over parliament winning back more rebel lawmakers to fully restore a lost majority, although we can talk about only a fragile majority.

Key Words: Slovakia, political parties, Prime Minister, coalition, government

JEL: N40

Introduction

Last September, Prime Minister and Smer-SD chair Robert Fico's coalition partners – the self-declared social democratic Hlas-SD party and the far-right Slovak National Party (SNS) – were in such serious conflict that the prime minister decided to break his silence and share his view. He tried to downplay the tensions between the two parties, largely fueled by SNS leader Andrej Danko's constant attacks on Hlas-SD ministers, and insisting there was no coalition crisis.

Since then, the three-party coalition has faced even deeper problems, with some coalition-supporting MPs – formerly associated with SNS and Hlas-SD – using their leverage to blackmail the government. Coalition problems have stalled the adoption of key legislation and appointments to various boards, amid fears of lacking a parliamentary majority. First, the representatives of Smer-SD denied any political crisis, describing the situation as merely “governance-related problems.”

1 Relations between the coalition partners

Since the assassination attempt, the Prime Minister Robert Fico has distanced himself from his political partners. In February an emotional letter from Slovak National Party (SNS) leader Andrej Danko has lent weight to reports circulating after the May 2024 assassination attempt that Prime Minister Robert Fico has distanced himself from coalition partners, SNS and Hlas-SD, as well as several high-ranking figures within Smer-SD, Fico's party.

Other politicians from the ruling coalition, speaking off the record after the attack, also noted that the prime minister had surrounded himself with an increasingly tight circle, making it difficult to reach him. Andrej Danko was the first politician to publicly speak about it.

A reaction like this following such a traumatic event – one that threatens one’s life – is not uncommon. According to some psychologists under immense stress, people can experience various difficulties, one of which can be a deep-seated distrust of those around them. The attacker fired five shots at Fico in Handlová in May 2024, four of which hit him. He spent 16 days in hospital, underwent multiple procedures, and remained under medical care even after returning home. Two and a half months after the attack, the prime minister posted a photo symbolically breaking his crutch, announcing that he would now walk without it. In his letter, Danko claims that Fico’s heightened suspicion and isolation have had a much longer-lasting impact on coalition governance, contributing to the current governmental crisis. He pointed out that for several months after the attack, it was impossible to talk to him and what is happening now in a coalition is not just the result of unfulfilled ambitions and desires of dissatisfied MPs. It is happening because the PM lives in political isolation and trust no one¹.

The truth is that nowadays, Robert Fico is primarily accompanied by his long-time associate and Defense Minister Robert Kaliňák (Smer-SD), as well as indicted former police chief and deputy parliamentary speaker Tibor Gašpar (Smer-SD), who has ties to the late businessman Miroslav Bödör, once closely connected to Fico. Among those in Fico’s inner circle are also younger Smer-SD members whom he elevated into high-level politics after the so-called “traitors” around Peter Pellegrini, who currently serves as Slovak president, split from the party.

The ruling parties, Smer-SD and Hlas-SD, have managed to halt the decline in their voter base, a trend that had persisted at least since autumn 2024, according to an average of party popularity measured by pollsters AKO, Focus, and NMS Market Research. However, Prime Minister Robert Fico’s Smer-SD has seen a significant drop in its most loyal supporters, to the extent that Progressive Slovakia—led by Michal Šimečka and the strongest opposition party—now leads in this metric.

The growing efforts of various political parties to mobilize voters since the start of the year are also reflected in opinion polls and electoral models. Notably, a February survey by AKO highlighted a sharp decrease in the number of voters who had previously been undecided about which party they would support in an election. The share of respondents who do not know or do not wish to disclose their voting preference fell by five percentage points in February compared to December².

The first parliamentary session of 2025, as legislators gathered in the debating chamber to debate and vote on key bills, for Prime Minister Robert Fico’s three-party coalition, it was an opportunity to prove it still had enough fuel – namely, MPs – to govern³.

Over recent months, the coalition’s once-comfortable majority has dwindled from 79 to a precarious figure that occasionally dips below the crucial 76 MPs required to keep parliament functional. Well aware of this fragility, the government was focusing solely on the most pressing legislation during the ongoing session: healthcare reforms to prevent a mass exodus of hospital doctors and a construction bill. So far, so good – both bills made it to the second reading and will now proceed under a fast-track legislative procedure.

The coalition party Hlas-SD took steps in late January to strengthen its caucus and shore up its numbers, expelling two of its most vocal internal critics, Samuel Migal’ and Radomír Šalitraš. However, it stopped short of ousting two others, Roman Malatinec and Ján Ferencák, in what has appeared to be a strategic move to divide the four rebels while maintaining a majority of 77 coalition MPs. This figure includes three other defectors who were elected on the slate of the far-right Slovak National Party (SNS) but quit its caucus last October, thus weakening the coalition’s position.

¹ HAJČÁKOVÁ, D. (2025): Who remains in PM Robert Fico’s inner circle?

² AKO (2025): Electoral Preferences February 2025.

³ KATUŠKA, M. (2025): Fico in trouble? Smer losing its most loyal voters, polls reveal.

At worst, Fico can count on just 72 MPs – well short of a majority. The first parliamentary session proved that the worst-case scenario is not so far-fetched. In a surprise announcement, Malatinec declared he was leaving Hlas-SD and joining the trio of MPs who had already defected from the SNS caucus. His new allies include the group’s controversial leader, pro-Russian MP, hunter and mayor of Očová, Rudolf Huliak. The two are said to have a longstanding connection, as they are from the same region.

Rudolf Huliak, who leads the nationalist National Coalition party, rewarded Malatinec with the post of deputy chair, putting him in charge of cultural policy – fitting for a man known as a critic of SNS’s Culture Minister and purge-master Martina Šimkovičová, as well as a keen folklore singer and dancer.

Officially, Malatinec left Hlas-SD because he lacked the space to advocate for regional issues and culture. However, the real reason might be that he was quietly ousted as Hlas-SD’s regional chair in Banská Bystrica, replaced by Lukáš Pellegrini – cousin of President Peter Pellegrini, who reportedly continues to wield considerable influence over the party he founded in 2020 after breaking with Fico’s Smer-SD. In a further twist, Malatinec’s parliamentary assistant is Lukáš Pellegrini’s wife, Lívia.

For now, both Malatinec and Huliak insist they will support the government – they even helped open the first parliamentary session, but the real winner in all this is Huliak himself. Thanks to Malatinec’s defection, he now holds significant leverage over the already fragile coalition: without the four National Coalition MPs, the coalition’s 75 seats would be insufficient to even open a session.

Huliak is making demands. His group wants a ministerial post – specifically, the Environment Ministry, which he was close to securing after the last election, until then-president Zuzana Čaputová blocked his appointment over his climate change denial. The ministry is currently held by SNS, which appears unwilling to cede control, and SNS chair Andrej Danko was refusing to negotiate with Huliak. That left PM Robert Fico with yet another coalition headache to solve.

One possible compromise? Huliak and his allies could be placated with positions in state institutions linked to the Environment Ministry – or at the Culture Ministry, which is also controlled by SNS. If they take these jobs, their seats in parliament would be filled by new MPs – potentially more reliable ones. This time the coalition remained on a knife-edge, and Fico’s ability to keep it together was tested in the coming days. Hlas-SD chair Matúš Šutaj Eštok, who appears to be struggling not just as party leader but also as interior minister, did not comment on Malatinec’s decision this time⁴.

The first parliamentary session of 2025 was never meant to be an extraordinary one. According to the schedule, February 4 was supposed to mark the start of the regular session, with a far more extensive legislative agenda. Moreover, thanks in part to 80-year-old Smer-SD MP Dušan Muňko, the session got off to a rather inauspicious start. Muňko, who has been “rented out” to the SNS party to keep its caucus alive – without him, it would not have enough MPs to qualify – failed to register his presence in time using the chamber’s device. As a result, only 75 MPs were officially present, meaning the session could not begin. Muňko later admitted he had simply made a mistake. He wasn’t the only one “missing”. Šalitraš, Migal’ and even Ferenčák – who remains a member of Hlas-SD – also failed to present themselves, both on the first attempt and the second. Eventually, 76 MPs were counted, just enough to open the session, with Muňko as the crucial 76th MP.

2 Cabinet reshuffle

Only days after the first parliamentary session Slovakia’s coalition parties – Smer-SD, Hlas-SD, and the Slovak National Party (SNS) – gathered to discuss ongoing instability

⁴ DLHOPOLEC, P. (2025): Fico’s deadline passes, but his partners come up empty.

within the coalition, among other issues. The meeting stretched on unusually long – several hours – and featured an unexpected guest: MP Rudolf Huliak, leader of the non-parliamentary National Coalition party, who is pushing for a greater share of government power. His faction in parliament has grown to four MPs, and if they choose to, they can easily disrupt Prime Minister Robert Fico’s business in parliament.

What, if anything, Huliak and coalition leaders agreed on remained unclear first. It is entirely possible they reached no agreement at all. Still, following Hlas-SD MP Roman Malatinec’s defection to Huliak’s camp, even some ministers had begun to acknowledge – some more openly than others – that a cabinet reshuffle to accommodate Huliak might be on the cards.

For months, Huliak, whose small group left SNS’s parliamentary caucus last year and has been a thorn in the coalition’s side ever since, has been demanding a seat at coalition meetings. Until now, coalition leaders have resisted. Yet with the coalition parties Hlas-SD and SNS having lost several MPs in recent months, Huliak’s group is also pushing for at least one ministerial post.

The first analysis that which ministry they might secure remained uncertain, though it was highly unlikely to be the Environment Ministry – Huliak’s top preference. More plausible options included the Ministry of Investment and Regional Development (which could become vacant if current minister Richard Raši of Hlas-SD moves to the parliamentary speaker’s chair), the Sports and Tourism Ministry, or the Culture Ministry – both currently held by SNS. The Investment Ministry, in particular, would align with Huliak and Malatinec’s stated focus on supporting Slovakia’s regions.

The explanation why not the Environment Ministry: The Environment Ministry is led by Tomáš Taraba, with his deputies Štefan Kuffa and Filip Kuffa, all nominated by the SNS party. However, none of them is actually a member of SNS, despite entering parliament on its slate. If the coalition were to remove these three men from the ministry, they would return to parliament, where they could cause problems for the government. Given that Huliak and his faction are almost certain to remain in parliament to maintain their leverage over the coalition, adding another group of disgruntled MPs would only create further instability.

Why was the Culture Ministry possible: MP Malatinec has long been critical of Culture Minister Martina Šimkovičová’s work – and he is far from alone. Experts, opposition figures, artists and members of the public have all voiced concerns. However, the real issue may not be Šimkovičová herself, nominated by the SNS party, but her chief of staff, Lukáš Machala, who is widely seen as the one truly in charge of the ministry. It remains unclear whether Huliak’s faction is demanding Machala’s removal in exchange for supporting the coalition.

We also have to add Huliak’s earlier vision: MP Huliak outlined his idea for changes in government as early as December 2024. He claimed that the most comfortable solution for the coalition would be for Tomáš Taraba, Štefan Kuffa, Filip Kuffa and Martina Šimkovičová to return to parliament. The SNS had technically lost the right to its own parliamentary group in October when Huliak’s faction broke away, leaving it short of the required eight MPs. However, the coalition circumvented parliamentary rules by having Smer-SD temporarily “loan” an MP to SNS, allowing the party to keep its caucus intact.

Now, however, even Robert Fico seemed to have had enough of the infighting, which threatens his government admitting that resolving the coalition crisis takes up a lot of his energy. Hlas-SD and SNS had until February 17 to secure the coalition’s long-term stability and ensure a working majority of at least 76 MPs in parliament. If they failed to persuade seven rebel MPs to pledge allegiance to the coalition, PM Fico himself would step in and resolve the situation through a government reshuffle – potentially stripping SNS and Hlas-SD of some ministries.

As a last resort, Fico hinted at the possibility of a snap election if the government proves unable to fulfil its commitments. However, he remained dismissive of such an outcome adding that the elections are far away. SNS leader and Deputy Speaker of Parliament Andrej Danko

was not pleased with Fico's announcement, criticizing the prime minister for a lack of empathy and suggesting that his proposed plan would violate the Coalition Deal. Danko accuses Fico of legitimizing the rebel MPs by engaging with them on their demands, shifting the blame onto Fico rather than himself. Despite this criticism, Danko extensively praises Fico in other parts of his statement. He also takes the opportunity to list how many times in the past he has had to politically "save" Robert Fico. Hlas-SD leader Matúš Šutaj Eštok, like Danko, rejected the idea of a snap election., although his decision to expel two Hlas-SD MPs from the party weakened Fico's coalition, with another Hlas-SD MP leaving soon after⁵.

In a fact it was clear that Prime Minister Robert Fico's coalition partners, Slovak National Party (SNS) leader Andrej Danko and Hlas-SD leader Matúš Šutaj Eštok, had failed to meet the premier's deadline of February 17 to reach agreements with six rebel MPs who have quit their parliamentary caucuses in recent weeks and months. Without securing their support, the coalition's majority remains unstable. Without these six MPs, Fico's coalition could rely on only 73 MPs, falling short of the 76 required to be able to pass legislation in parliament. As a result, the legislature remained paralyzed, with no regular parliamentary session held since December⁶.

Since the two-party leaders have failed, Fico himself was now expected to resolve the coalition crisis, as suggested by his statement on social media and by Environment Minister Tomáš Taraba (SNS nominee). As promised, Fico met President Peter Pellegrini—his former protégé turned "traitor", though the details of their discussion remained unknown. Due to the fact that the next parliamentary session is not scheduled until late March, giving Fico roughly a month to put an end to the coalition crisis.

However, after PM Fico's intervention the ruling parties Smer-SD, Hlas-SD and SNS have agreed to amend the coalition agreement. Smer-SD has gained two more ministries, the Investment Ministry originally held by Hlas-SD, and the Sports and Tourism Ministry formerly held by SNS. The change has been implemented as an amendment to the coalition agreement. The reshuffling reflects that both Hlas-SD and SNS have lost a few MPs. Smer-SD used the political influence to stabilize the ruling coalition and once again to regain the majority in the parliament. PM Robert Fico admitted that he has yet to reach an agreement with the rebel MPs and has not restored the original 79-member majority in parliament. Although this is a step forward in negotiations, it cannot be said when the coalition crisis will end.

3 PM Robert Fico restores his coalition's parliamentary majority

At the end of February, after the cabinet reshuffle and the problems to have majority in the parliament, Prime Minister Robert Fico (Smer-SD) called a meeting with his colleagues to find a way to make Slovak laws take precedence over EU legislation and international treaties when it comes to cultural issues. In addition, PM Fico wants the Constitution to recognize only two genders – male and female – and to ensure that only heterosexual married couples can adopt children.

The prime minister must have been well aware that his plan was highly unlikely to succeed. The entire push to amend the Constitution appears more like political theatre, designed to distract from his coalition's internal struggles and Slovakia's real problems, from soaring prices to the dire state of public finances. In parliament, PM Fico could count on 76 MPs that time, but to change the Constitution, he needs 90 – a feat that would require nothing short of a miracle⁷.

PM Fico also met with President Peter Pellegrini, his former protégé and coalition partner (although he reportedly still wields influence over Hlas-SD, his political offspring),

⁵ BEŇO, M. (2025): One step forward to resolve coalition crisis.

⁶ REUTERS (2025): Slovak PM Fico proposes minister change to win back parliamentary majority.

⁷ SILENSKÁ, N. (2025): Fico reinforced from government reshuffle, but coalition crisis persists.

to inform him that four rebel MPs from the non-parliamentary National Coalition party, led by Rudolf Huliak, will support his coalition. Fico delivered their signatures along with a proposal to appoint Huliak – an avid hunter and a climate change denier – as Minister for Sports and Tourism. Pellegrini was expected to meet with Huliak, leaving the extent of Huliak’s efforts to convince him yet to be seen. So far, Pellegrini did not offer much resistance to Robert Fico. Meanwhile, Fico still needs to win over three more rebel MPs to restore his coalition’s parliamentary majority of 79 seats⁸.

While PM Fico cobbles together a coalition and takes shots at NGOs and opposition leader Michal Šimečka, the head of his office – and “one of Smer-SD’s wolves” – Juraj Gedra has drafted a “Code of Conduct for Public Officials.” “The document grants the prime minister, currently Robert Fico, the power to morally assess public officials. He is to act as the arbiter of their behavior, holding them accountable for adhering to the ethical code. If they lose his trust, they are to be stripped of their position. Ironically, Robert Fico and his coalition would likely struggle to abide by the very code, which emphasizes transparency, decency, and openness. The document also references NGOs, specifically stating that politicians should not be associated with them.

Juraj Gedra is the person, who apologized in a pro-Russian media outlet for Slovakia’s vote at the UN General Assembly on its resolution, which designated Russia as an aggressor. His apology came despite Foreign Minister Juraj Blanár (Smer-SD) standing by Slovakia’s vote. According to Gedra, the Government Office instructed Slovakia’s representatives to vote in favor of the US-drafted resolution but without the EU-proposed amendments. It seems that even members of Smer-SD are not entirely sure just how pro-Russian they are supposed to be. Slovakia’s vote had already been criticized by the coalition’s pro-Russian Slovak National Party.

Not long time ago, President Peter Pellegrini said he would not like a minister who would want Slovakia to leave the EU and NATO to serve in the ruling government. Despite of it, he named one at the beginning of March. Rudolf Huliak, formerly of SNS and now leader of the small, Russia-friendly National Coalition party that wants Slovakia to leave the EU and NATO, as the Tourism and Sport Minister.

This marks as another in the long series of defeats for Andrej Danko and his SNS party. Huliak defected from last October. Together with two other MPs (Ivan Ševčík, Pavel Ľupták) they ditched the party caucus and pushed for more recognition. The SNS party has been hovering way below electoral threshold, in the 2024 EP elections did not get even two percent of votes, Danko himself unsuccessfully ran for president, among other things. And now, Huliak got just the ministry upon which SNS conditioned its entry into the coalition. However, SNS offered the ministry to Smer-SD as part of the ministerial reshuffle to secure stability.

Rudolf Huliak was nominated for the post by Smer-SD. Together with the other two MPs, they claimed they would not support the ruling coalition unless they are given a ministry and be part of the coalition council. PM Robert Fico wants to once again secure majority in the parliament, something he has had troubles with recently⁹.

After the 2023 election, Huliak was to become the environment minister, but then president Zuzana Čaputová decided to not appoint him, saying that he was not fit for the job because he questions Slovakia's long-term environmental policy and international commitments and is a climate change denier. Nevertheless, after he left SNS in 2024, Huliak asked for the post.

During the meeting in a Presidential Palace, Andrej Huliak assured President Pellegrini that neither he nor his party would promote foreign policy priorities that would be in conflict with Slovakia's EU and NATO membership. He also said that his previous comments regarding

⁸ BEŇO, M. (2025): Names of new ministers hinted at, President Pellegrini to know them this week.

⁹ HORNÁK, D. (2025): Slovakia’s Fico Set to End Parliament Deadlock With New Majority.

Slovakia's EU, NATO memberships were part of the election campaign and should not be considered now.

Criticism of the opposition was immediate. For example, SaS said that although the president convinces Slovakia it is part of EU and NATO, his appointing of Huliak shows otherwise as the latter now 'gained the president's blessing'. Progressive Slovakia said that Huliak has nothing in common with sport and tourism, and he will not help Slovakia's youth to live healthier and have better conditions for sport activities. The Slovensko movement claims the appointment is evidence that PM Fico doesn't care about the future of Slovakia in the EU¹⁰.

Minister Huliak will be replaced in the parliament by Miroslav Radačovský, who was on the SNS slate during the 2023 election. He claims he will support the ruling coalition and "will not make any problems" as he doesn't want snap elections. Between 2019-2024 he was a MEP for the far-right ĽSNS party. Besides, former sports and tourism minister Dušan Keketi should become a new vice-governor of Slovakia's central bank (NBS) and the government has already approved Finance Minister Ladislav Kamenický's (Smer-SD) proposal in this regard. The proposal is yet to be approved by the parliament and president.

However, Radačovský's confirmation did not go smoothly. Slovakia's ruling coalition could not confirm its newest MP – but got help from an unexpected source: the main opposition party. Miroslav Radačovský – a far-right former MEP who once released a dove inside the chamber of the European Parliament, and who was now supposed take up a seat in the national parliament to replace Rudolf Huliak – could not take his seat until he was sworn in. But the coalition lacked the bare majority needed to convene parliament, which must be in session to formally accept his oath. Huliak's elevation to a ministerial post meant he was no longer an MP – so the government was down to only 75 seats, one short of the 76 (out of 150) it needed¹¹.

However, Progressive Slovakia (PS), the main opposition party, inadvertently provided the governing coalition with a way out. It had submitted a request to call a special parliamentary session to overturn the government's controversial financial transaction tax. Some argue Radačovský could be sworn in at the special session, thus breaking the deadlock. The dispute has heightened tensions among the opposition, with Slovensko movement, another opposition party, accusing PS of throwing the government a lifeline.

Finally, the situation was solved, when Samuel Migal' and Radomír Šalitroš, two former rebellious Hlas-SD MPs, struck a deal with PM Robert Fico (Smer-SD), the latter thus securing their backing for his government. The details remained undisclosed at the time, with some only to emerge the next day.

In March, President Peter Pellegrini appointed Migal' as the new Investments Minister, replacing Richard Raši from Hlas-SD. The coalition party relinquished the ministry in February as part of the government reshuffle in an attempt to stabilize the governing coalition.

This comes after both MPs dismissed claims that it is a ministerial post they were after. Instead, they wanted to remain in the parliament so that they could have an influence on the coalition laws. In fact, over the last few months, there were several that both refused to back, including Migal's refusal to approve an SNS proposal regarding financing of sport and NGOs, among others. Neither will have any chance to influence the laws from the ministry.

According to Migal' the agreement was made to 'prevent people like [the Slovensko movement chair] Igor Matovič from getting into the government or MPs that are close to extremism returning to the parliament'. However, the details of the agreement remain unclear. Migal' claims that he and Šalitroš will be independent executive members and will thus be free from political agreements. Nevertheless, the Investment Ministry belongs to Smer-SD and Migal' is the party's nominee. It remains to be seen how Smer-SD will oversee the ministry.

¹⁰ SILENSKÁ, N. (2025): Fico secures fragile ruling majority, waits for president's approval.

¹¹ DLHOPOLEC, P. (2025): Fico's coalition is in a mess. The opposition might (accidentally) help it out.

Radomír Šalitroš will become the state secretary at the ministry. In the parliament, both will be replaced by loyal Hlas-SD MPs, with one being Richard Raši and the other either the former state secretary at the ministry Michal Kaliňák if the government does dismiss him, or businessman Marek Dragula who was on the Hlas-SD slate and should support the governing coalition. Should they have remained in the parliament, the coalition would have only a narrow majority of 76 certain votes.

With Migal' and Šalitroš out of the way, who Hlas-SD had ousted earlier this year, only Hlas-SD MP Ján Ferenčák remains from the original rebellious group¹².

Conclusion

At the end of February, the ruling coalition signed an amendment to the coalition agreement, which essentially meant ministry reshuffling. Smer-SD has gained two more ministries, the Investment Ministry originally held by Hlas-SD, and the Sports and Tourism Ministry formerly held by SNS, reflecting that both have lost a few MPs. This was a first step in once again securing a stable majority of the ruling coalition in parliament, preferably the original 79-member majority.

Slovak Prime Minister Robert Fico has reached an agreement with dissenting lawmakers, aiming to restore the parliamentary majority and end the legislative deadlock that has hindered his agenda. The ruling coalition has faced internal conflicts in recent months, with junior partners questioning the alliance's direction. This discord has resulted in legislative stagnation in Slovakia, a member of the European Union, as the lack of a majority led to halted meetings and blocked bill passages.

Two of the opposing lawmakers are now expected to assume leadership of the Investment Ministry, as part of a deal to stabilize the ruling coalition's majority. The premier's office announced the agreement, which will see the lawmakers' seats filled by government-loyal members, thereby restoring the coalition's 79-seat majority in the 150-member chamber¹³. A similar arrangement was proposed to another group of dissatisfied lawmakers. One member has accepted the role of head of the Tourism and Sports Ministry, and a loyal replacement is anticipated to support Fico's government in parliament.

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¹² SCHEPKOV, V. (2025): Slovak prime minister secures deal to restore parliamentary majority.

¹³ TERENZANI, M. (2025): Fico regains his strength. Or does he?

- Available at: <https://spectator.sme.sk/politics-and-society/c/news-digest-fico-s-coalition-is-in-mess-the-opposition-might-accidentally-help-it-out>
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THE ISLAMIC ECONOMIC MODEL IN THE CONTEXT OF THE ISLAMIC REPUBLIC OF IRAN

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Abstract: The change that struck Iran in 1979 also affected the development of the Islamic economy and the financial sector. Elements of a religious nature began to be promoted in these key areas as well. In this paper, we focus on the extent of the use of elements of the Islamic economic model in Iranian conditions. The result is the finding that the Islamic economic model is not currently fully applied in Iran.

Keywords: islamic economic model, Islamic Republic of Iran, islam

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Introduction

The Islamic economic model is a concept that has only been developed in Islamic societies as part of economic policy and the financial sector since the 20th century. After the Islamic Iranian revolution in 1979, one of the few countries that attempted to imply it within its terms became the Islamic Republic of Iran. The aim of the present paper is to identify to what extent the Islamic economic model is applied in Iran. In this regard, we focus on the research on the predominantly banking sector as the most visible example of the establishment of Islamic economics in the system. At the same time, in the first part of the paper, we clarify the concept of Islamic finance and its related background. From a methodological point of view, the paper will mainly focus on a qualitative analysis of selected documents.

1 Islamic economic model

Unlike monotheistic religions such as Christianity and Judaism, Islam is the only one that explicitly defines conditions in its doctrine for trade and financial transactions. From the point of view of the conception of an economic model based on the foundations of the Islamic faith, it is possible to define several important specific features that distinguish it from a capitalist or socialist system of planned economy. The key premise of this model lies in the limitation of human activity to such an extent that the individual's actions do not benefit only himself but also society as a whole.¹ In this respect, Islamic economic theory presents a number of restrictions of a religious, moral and legal nature designed to prevent unjust actions contrary to the teachings of the Qur'an and Sharī'ah law. Among the basic specifics may be included the rejection of interest, market speculation, gambling, monopoly, and accumulation of property and wealth.²

The teachings of the Prophet Muhammad, as captured in the sacred books of the Qur'an and Sunnah, have, since its inception, exhorted Muslims to live in accordance with the will of Allah and to contribute to the well-being of the entire community through their actions. The Qur'an explicitly depicts manners of behaviour not only in areas of a spiritual nature, but also in the social and economic spheres. This belief motivated the early Islamic community to place emphasis on the economic sphere. The foundations of the Islamic economic model

¹ JANČÍKOVÁ, E. – JANUBOVÁ, B. – KARAS, M.: *Islamské financie a bankovníctvo vo svete*. 2021, p. 13.

² QASMI, M. N. A.: *Economy: The Islamic Approach*. 2009, pp. 28-29.

were thus already laid during the reign of the first so-called orthodox caliphs as successors of the Prophet Muhammad.³ This thinking subsequently evolved with the development of Islamic legal scholarship until it was formed into a specific discipline within the economic sciences in the 20th century.⁴

Masulud Alam Choudhury presents the four basic means employed by the Islamic economic model to fulfill the fundamental objectives of Islamic doctrine in the economic sphere. Among these basic specifics he includes the following:

1. the absence of interest rates in the form of *riba*,
2. the use of the institution of *mudaraba*,
3. the restriction of excessive wastage known as *israf*,
4. a form of religious tax known as *zakat*.⁵

The functioning of the banking and financial sector is significantly affected by the absence of the first factor mentioned, namely the use of interest or profit without producing effort - the so-called *riba*, which is forbidden by the Qur'an itself.⁶ The negative impact of the interest rate is seen by Islamic experts as a disproportionate level of risk on the part of the borrower and the lender,⁷ as well as destabilising the very redistribution of wealth in the economy.⁸ Another important issue is the prohibition of *gharar*, which is the rejection of the kind of trade and transactions that entail uncertainty and risk, in order to avoid disadvantaging one of the parties on the basis of future, often unforeseeable, circumstances.⁹ The prohibition of gambling - *maysir* - can also be defined in terms of the rejection of such speculation, which consists of a rejection of making a profit on the basis of contingent circumstances.¹⁰ At the same time, financial institutions providing various types of services must be guided by a number of other principles that can be summarised under the concept of *halal*, i.e. activities that do not contravene Islamic law itself and its creed.¹¹ In order to preserve these important religious principles, various types of trades and transactions have been profiled which, by their nature, do not violate these principles. These include various types of business partnership such as *mudaraba* and *musharaka*, interest-free lending *qard al-hassan*, and Islamic insurance based on mutual support of both parties - *takaful*.¹²

2 Islamic economics in the context of Islamic republic of Iran

The economy of the Islamic Republic of Iran has been undergoing a turbulent development since 1979, influenced by a series of sanctions imposed as a result of the country's change in foreign policy orientation. With the political ascension of the clerical leaders to the leadership of the Islamic Republic of Iran, the concept of applying religious elements to the economic sphere has gradually begun to develop, alongside a change in the country's economic priorities. The process of gradual abstraction from partnership with Western countries can also be seen in the change in the field of foreign trade, linked to a significant departure from cooperation with the long-standing partners of the pre-revolutionary monarchy, led by the

³ SIDDIQI, M. N.: *An Islamic approach to economics*. 1988, pp. 165-166

⁴ ISLAHI, A. A.: "The Genesis of Islamic Economics" Revisited. 2014. In: *Islamic Economic Studies*, p. 2

⁵ CHOUDHURY, M. A.: Principles of Islamic Economics. 2014. In: *Islamic Economics: Critical Concepts in Economics*, pp. 177-180.

⁶ AL-SBENATY, A.: *Korán s vysvetlivkami a výkladom*. 2016, p. 84.

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¹⁰ ČECH, E.: *Vybrané otázky islamského ekonomického modelu v súčasnom svete*. 2021, pp. 33-34.

¹¹ ETI, S.: Predicting the Role of Islamic Banking on Sustainable Economic Development: An Analysis for Turkey With ARIMA Model. 2020. In: *Handbook of Research on Creating Sustainable Value in the Global Economy*, p. 149.

¹² ČECH, E.: *Vybrané otázky islamského ekonomického modelu v súčasnom svete*. 2021, pp. 36-40.

pro-Western policy of Shah Mohammad Reza Pahlavi. The process of de-Westernization cannot be seen only in the context of the country's change in foreign policy orientation. Indeed, in post-revolutionary Iran, significant changes have also been introduced at the national level. The change in socio-economic discourse was also reflected in the subsequent development of the Iranian economy after 1979, which can be specified in the following key specificities:¹³

1. a move away from deepening cooperation with the West
2. a large-scale process of nationalisation of strategic areas of the economy
3. land reform
4. the implication of the doctrines of Shi'ite Islam within the Iranian economy

In the early period after the victory of the Islamic Revolution, we observe a differentiation of opinion in Iran on the application of Islamic ideas in the economic sphere. Alongside the currents of opinion concerned with traditional Islamic values, one can see in post-revolutionary Iran a growing number of voices inclined towards left-wing socialist politics.¹⁴ This disunity of opinion on the part of leading revolutionary ideologues has resulted in the absence of a unified concept that would guarantee a complete transformation of the Iranian economy along the lines of the Islamic economic model.¹⁵ Despite this difference of opinion, several changes related to the implication of Islamic values have been applied in the Iranian context.

2.1 National economic policy

The political change in Iran has also introduced a new dimension in the state's management of the economic process. The post-revolutionary period can be defined in this respect by a fundamental determining factor influencing the Iranian economy, namely the strengthening role of the state. The emphasis on the strong role of the state in the economy and the related state ownership is based on the fundamental principles of Islam related to the promotion of the prosperity of Muslim society as a whole. Article 44 of the Constitution of the Islamic Republic of Iran allows for three types of ownership - state, cooperative and private. The State is the dominant player, controlling most strategic sectors such as the parent industries, foreign trade, key mineral resources, banking and insurance, electricity generation, radio and television, postal, telegraph and telephone services, and infrastructure and transport. However, only economic activity that does not harm society, brings economic growth and does not contravene the basic principles of Islamic Sharī'ah law is permitted under private ownership.¹⁶ It was also on the basis of this legislation that strategic areas such as agricultural holdings, the extractive and manufacturing industries and the banking and insurance sectors were nationalised after 1979.¹⁷ The state also plays an important role in controlling Iran's financial sector, namely the Tehran Stock Exchange. This interconnectedness stems from his position as the head of the Tehran Stock Exchange's High Council, who is also the head of the state-controlled and dominated Central Bank of Iran.¹⁸

An important area influenced by Islamic law, especially in terms of the absence of interest rates - *riba* - is the monetary policy of the state. The key institution in this respect is the Central Bank of Iran, also referred to as the Markazi Bank. In the conduct of monetary policy, it is bound by legislation adopted after 1979 to observe the principles of the Islamic

¹³ EHTESHAMI, A.: *Iran: Stuck in Transition*. 2017.

¹⁴ MALONEY, S.: *Iran's Political Economy since the Revolution*. 2015. p. 80.

¹⁵ BEKKIN, R.: Iran: experimenting with the Islamic economy. 2006. In: *Central Asia and the Caucasus*.

¹⁶ Constitution of Islamic Republic of Iran [cit. 2024-22-03]. Available online: https://www.constituteproject.org/constitution/Iran_1989

¹⁷ EHTESHAMI, A.: *Iran: Stuck in Transition*. 2017, p. 44.

¹⁸ CURTIS, G. E. – HOOGLUND, E.: *Iran a country study*. 2008, p. 196.

legal order and to apply them in its activities.¹⁹ The change in base interest rates linked to the amount of money in circulation is considered a key way of influencing price stability in countries with conventional banking. The absence of interest rates creates a necessity for monetary policy under the Islamic model to apply new ways of regulating the level of inflation in the country that are not in contradictory relationship with Sharī'ah law. Meanwhile, the Islamic economic model offers several ways that are used as an alternative way of regulating the price level.²⁰ The CBI's monetary policy relies on two basic ways of achieving price stability. Firstly, it is a set of instruments of a supportive nature (indirect instruments) through which the CBI attempts to influence, in particular, the amount of savings of individual economic agents (encouraging an increase in deposits under interest-free qard al-hassan loans, exemptions from various types of bank charges, etc.). The second is the actual regulation of the volume of financial products that are provided to customers by individual banks, as well as influencing the rates of expected profit of individual banks in the provision of financial products.²¹

The pragmatism typical of the Shi'ite branch of Islam has also manifested itself in the area of state fiscal policy, specifically within the tax system. The theorists of the Islamic economic model consider the religious tax - zakat - to be the key instrument of the state's fiscal policy in terms of the application of Islamic economics.²² However, the position of the Iranian governmental regime in relation to this issue after 1979 did not differ fundamentally from the approach of secular societies, and although religious tax - i.e. zakat and khum - is considered the basic type of tax in the Muslim world, the post-revolutionary theocratic regime continued to advocate a system of preserving the collection of the state tax. This position is perceived by many clerics to be wrong, especially in relation to building a new society in the spirit of Islamic values.²³

2.2 Banking sector

The fundamental influence of Sharī'ah elements and the Islamic economic model can be observed in the banking sector. In the 1980s, the Iranian banking sector was nationalised as part of a plan to strengthen the role of the state in the economy. The majority of the banks thus came under the administration of the state itself. Today, the Central Bank of Iran (CBI) and a network of state-owned and commercial banks make up the Iranian banking system. However, the activities of the commercial banks are currently restricted by law.²⁴ The activities of foreign banks operating in Iran were banned in 1980, although a number of them have subsequently reopened branches in the country, but on condition that they offer a limited range of financial products and operations.²⁵ Efforts to implement the Islamic economic model in the banking sector were manifested by the adoption of the Riba-Free Banking Act (RFBA) of 1983, which was subsequently implemented in the Iranian economy

¹⁹ ZARROKH, E.: Iranian Islamic banking. 2010. In: *European journal of law and economics*.

²⁰ PUTRA, H. M. – SOLEHUDIN, E.: Fundamentals of Economic and Monetary Policy in Islam. 2022. In: *Al-Falah: Journal of Islamic Economics*.

²¹ MAYSAMI, R. C.: Islamic Banking and the Conduct of Monetary Policy: Lessons from the Islamic Republic of Iran. 2011. In: *Islamic Finance: Local Challenges, Global Opportunities: Proceedings of the Third Harvard University Forum on Islamic Finance*, pp. 44-45.

²² KURAN, T.: The Economic System in Contemporary Islamic Thought. 2014. In: *Islamic Economics: Critical Concepts in Economics*, p. 154.

²³ MALONEY, S.: *Iran's Political Economy since the Revolution*. 2015, pp. 109-110.

²⁴ CURTIS, G. E. – HOOGLUND, E.: *Iran a country study*. 2008, pp. 194-196.

²⁵ MAKIYAN, N.: Islamic Banking System in Iran: Its Experience in Lending Operations. 2003. In: *Iranian Economic Review*, p. 32.

in 1984.²⁶ The absence of interest rates thus became part of Iran's post-revolutionary banking system, following one of the basic tenets of the Islamic economic model - the prohibition of interest, known as *riba*. Under this law, banks were required to go interest-free within one year and also to begin applying financial operations that comply with Islamic law within three years.²⁷ It is in the nature of the products offered by the various banks to their customers that the pervasiveness of the principles of Islamic Shari'ah law in this sector is most evident.

There are certain specificities in the conditions of the Iranian financial and banking sector that distinguish it from the approach of Sunni financial institutions.²⁸ From this perspective, the following peculiarities can be included among them:

- the basic legal framework for the Iranian financial sector is the Ja'far Mazhab, which, unlike most countries applying elements of the Islamic economic model, promotes a view of this area through the prism of the teachings of the Shi'ite faith

- legal regulation of banks by the state in the form of the RFBA represents an element absent in most Islamic countries and thus constitutes a peculiarity for the Iranian Islamic economic model in particular.²⁹

- The RFBA also represents an element significantly limiting and disabling the activities of conventional banks based on the provision of products linked to interest rates. In this respect, the Islamic Republic of Iran differs significantly from other countries promoting Islamic elements within the economy, where Islamic and conventional banks coexist.³⁰

- The Shi'ite concept of the insurance sector allows conventional ways of providing these services, while Sunni financial institutions prefer to use *takaful* as an alternative to the traditional insurance system, which is considered by the Sunni side to be a product contrary to Islamic law. *Takaful* only appeared in the Iranian financial system in 2021.³¹

- The Iranian Islamic model allows for the possibility of selling a debt at a discount known as *bai' al dain*, which is considered by most Sunni legal schools to be contradictory to Islamic Shari'ah law and is likened to the prohibition of interest – *riba*.³²

- within Iranian banks, it is not customary to transfer a certain portion of the profits made to charity in the form of a religious tax - *zakat*, which is typical of banking institutions in the Sunni environment.³³

- within Islamic financial institutions, the supervisory body overseeing compliance with the principles of Islamic Shari'a law is the so-called "Shari'a". The Shari'ah Supervisory Board. Each such institution has its own Supervisory Board. In Iran, however, the situation is different and within the financial system the key institution overseeing the implementation of Islamic Shari'ah law is the Central Bank of Iran (CBI).³⁴

The most limiting component preventing the full application of the Islamic economic model in the Iranian context is the contradictory approach of the reformist and conservative governments, alternating in power, to the issue of economic reforms. The changes adopted

²⁶ ASHRAF, S. H. – GIASHI, A. A.: Islamic Banking in Iran - Progress and challenges. 2011. In: *Kuwait Chapter of Arabian Journal of Business and Management Review*, p. 38.

²⁷ BEKKIN, R.: Iran: experimenting with the Islamic economy. 2006. In: *Central Asia and the Caucasus*.

²⁸ NILI, F.: Iran: Islamic Banking and Finance. 2014. In: *The Islamic Finance Handbook*.

²⁹ Ibid.

³⁰ MEISAMY, H. – GHOLIPOUR, H. F.: Challenges Facing Islamic Banking in Iran: Evaluation and Policy Implications. 2020. In: *Journal of Islamic Monetary Economics and Finance*.

³¹ ALSHAMMARI, A. A. – ALTARTURI, B. H. M. – ALTWIJRY, O. I.: How *Takaful* Started in Middle East. 2022. In: *Journal of Legal, Ethical and Regulatory Issues*, p. 7.

³² Islamic Markets: *Bai' Al Dain*. [cit. 2024-07-04]. Available online <[https://islamicmarkets.com/ education/bai-al-dain](https://islamicmarkets.com/education/bai-al-dain)>

³³ NILI, F.: Iran: Islamic Banking and Finance. 2014. In: *The Islamic Finance Handbook*.

³⁴ ARSYIANTI, L. D.: The Role of Shariah Supervisory Board in Islamic Financial Industry (Case Study: Iran, Malaysia, and Indonesia). 2010. In: *Jurnal Ekonomi Islam Al-Infaq*, pp. 75-76.

by reformist leaders such as Presidents Akbar Hashemi Rafsanjani, Muhammad Khatami and Hassan Rouhani have involved a departure from the values of Islamic ideas in the economy, particularly in the area of social balance. The liberalization of the Iranian economy in the 1990s and the beginning of the second decade of the 21st century relied primarily on the adoption of illiberal measures in order to stabilize the Iranian economy and to renew cooperation with international institutions such as the International Monetary Fund (IMF) and the World Bank (WB) by foreign investors. These changes have necessitated a temporary reduction in living standards, accompanied by criticism mainly from conservative leaders. At the same time, during the reform periods, the position of private banks and insurance companies has been strengthened, free market elements have been introduced as well as benefits for religious organisations - bonyads - have been curtailed.³⁵ Under President Khatami's rule, there has been an expansion of private companies not only in the banking and insurance sectors, but also in other strategic areas of the economy, such as energy, construction, and transport and telecommunications services.³⁶

Conclusion

Despite the fact that a significant number of religious elements can be seen within the Iranian economy, and particularly in the financial and banking sectors (by banning interest rates in the *riba*), the Iranian economy increasingly employs elements that are more typical of a capitalist rather than an Islamic model of economy. We assume that Islamic economic theory itself does not allow for the implication of Western (capitalist) values within its system. In post-revolutionary Iran, however, the pervasiveness of neoliberal tendencies inherent in the Iranian economy is visible. Based on these peculiarities of the Islamic Republic of Iran's economic development, it can be concluded that the country's current economic status cannot be described as an Islamic economic model in its entirety.

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³⁵ TORBAT, A. E.(2020): Problems of Economic Liberalization in Iran. In: *Topics in Middle Eastern and African Economies Proceedings of Middle East Economic Association*. 2020.

³⁶ VALADBAYGI, K.: Hybrid Neoliberalism: Capitalist Development in Contemporary Iran. In: *New Political Economy*. 2021, p. 319.

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UKRAINE – V4 TRADE RELATIONS

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Abstract: During the second decade of the 21st century, trade relations regarding goods and services between Ukraine and the V4 countries were steadily developing with the increase in mutual trade in both goods and services. The objective of this paper is to review the evolution of Ukraine's foreign trade in goods and services with V4 countries during the second decade of the 21st century presenting brief literature review and sector reports. From the point of view of V4 countries, Poland is by far the largest trading partner of Ukraine in both goods and services. We conclude that the literature on this subject is quite scarce and there is a large gap which should be covered by further research on mutual trade between Ukraine and V4 countries.

Key words: EU, Ukraine, goods, services, exports, imports

JEL: F10, L60, L80

Introduction

Ukraine's foreign trade with the V4 countries (Czech Republic, Hungary, Poland and Slovakia) and the European Union is of key importance for the Ukrainian economy. The EU as a whole is Ukraine's largest trading partner, with the V4 countries playing a significant role in this context due to their geographical proximity and historical links. The EU accounted for over 50% of Ukraine's trade in goods in 2024. On the other hand, Ukraine is the EU's 16th biggest trading partner, accounting for 1.3% of the EU's total trade in goods in 2024. Total trade in goods between the EU and Ukraine reached EUR 67.2 billion in 2024, meaning that trade in goods has more than doubled since the entry into force of the DCFTA in 2016. As for the services, Ukraine is not an important trading partner of the EU with the share in EU's exports of services of 1% ranking 21st and with the share in imports of services of 0.3% ranking 27th. In 2023, the EU exported services with an overall value of EUR 1.43 trillion (from which exports to Ukraine totaled EUR 12.5 billion; and imported services worth EUR 1.27 trillion (of which Ukraine's share was EUR 3.83 billion). Trade in goods and services between the EU and Ukraine was steadily growing in the past decade, however, COVID-19 pandemics and especially the Russian invasion in February 2022 fundamentally disrupted Ukraine's trade flows. The blockade of Black Sea ports and the fighting in the east and south of the country's territory severely restricted Ukrainian exports. On the other hand, the EU and the V4 countries played a key role in sustaining the Ukrainian economy through trade liberalization, humanitarian aid and military support. The EU has lifted tariffs on imports from Ukraine helping Ukrainian exporters to maintain access to the European market. The V4 countries have been actively involved in logistical support for the transport of Ukrainian goods through their territories.

The objective of this paper is to review the evolution of Ukraine's foreign trade in goods and services with V4 countries during the second decade of the 21st century presenting brief literature review and sector reports. Sector reports present export and import data for goods and services, category all, without further decomposition into subcategories.

1 Literature review

Literature review indicates few relevant research papers on the Visegrad Group and Ukraine relations, emphasizing mainly political and historic background with general observations on economic development and recovery from current war.

The Ukraine subject, the war going on, especially in the light of recent geopolitical circumstances is widely present, in the media, numerous expert analyses and scientific articles. However, as Puzikova¹ states, there is no specific strategy and goals that are generally accepted as relevant solutions for getting out of the current crisis and recovering the Ukrainian economy. The author reflects on two nation models who passed recovery path during 1990s, East Germany and Visegrad Group. Concise overview on the Visegrad Group historical development, important events and official international documents by Koltsov and Lomzhets² implies cultural development and citizens approach as maybe most important outcome of the Group realization. Additional influence is recognized through the lenses of mediator between Ukraine and Brussels concluding that Visegrad Group development model can be a role model for Ukraine path towards European Union membership. The importance of introducing the new model of collaboration between Ukraine and Visegrad Group is analyzed by Rostetska and Naumkina³ presenting the figures of foreign trade relations having the main partners Poland and Hungary. One can lead to inequalities of economic prosperity for rest of the Visegrad Group members and potential disputes among them.

Regarding literature dealing with the issue of Ukraine's foreign trade in services, it is quite scarce in recent years. From 2010 we found 4 relevant articles dealing with the trade in services in Ukraine with no articles identified as dealing with the trade relations with the V4 countries. Kushniruk and Ivanenko⁴ analyzed trends and prospects for development of export and import of goods and services by enterprises of Ukraine at the regional level. They argue that export of goods and services by enterprises of Ukraine at the regional level plays a key role as a significant inflow of foreign currencies ensuring both financial stability of the economy as well as attractiveness for foreign investors. They draw following conclusions: low competitiveness of domestic industrial products; critical financial condition of most industrial enterprises; insufficient development of domestic systems of certification and quality control of export goods; low world rating of Ukraine's credibility for loans and investments affecting foreign trade. On the other hand, a significant expansion of the geography of export trade and import supplies was revealed, which positively influenced the balance of foreign trade in goods and services. They also point out that in order to build more efficient economy of the Ukraine, foreign economic activity of enterprises at the regional level (or exports of these companies) should focus more on the export of finished products rather than exporting raw materials. While this may be true for foreign trade in goods, the situation is different in trade in services which are, by their nature, finished when being consumed. Although the authors analyze foreign trade in both goods and services, the bulk of the article is devoted to trade in goods. As for trade in services, this section is mainly devoted to the analysis of companies operating in the Mykolaiv region in the period 2010-2016. This region, in terms of services exports, ranked 3rd among all Ukrainian regions in the period under review, with a share of 4.4% in Ukrainian services exports.

¹ PUZIKOVA, V. (2024): Restoring Ukraine: Parallels between Visegrad Group and East Germany in the 90s.

² KOLTSOV, V. – LOMZHETS, Y. (2020): Foreign policy imperatives for the development of the Visegrad Group and Ukraine.

³ ROSTETSKA, S. – NAUMKINA, S. (2019): Paradigms of European integration processes in the EU, Visegrád Group, and Ukraine

⁴ KUSHNIRUK, V. – IVANENKO, T. (2017): Analysis of trends and prospects for development of export and import of goods and services by enterprises of Ukraine at the regional level.

Penchuk and Tur⁵ focused on the development of foreign trade relations between Ukraine and Turkmenistan, since Turkmenistan is one of important foreign trade partners of Ukraine. Similar to the previous article (Kushniruk and Ivanenko, 2017), trade in services between Ukraine and Turkmenistan is rather a marginal issue. The authors state that as far as mutual trade relations between Ukraine and Turkmenistan are concerned, they are based on a number of treaties and agreements, the first of which was the 1994 Free Trade Agreement. By the end of the second decade of the 21st century, the authors identified new opportunities arising from Turkmenistan's position as the "heart of the Silk Road", particularly in terms of developing cooperation in the field of international transport. The authors mention trade relations as one of the priority areas of cooperation between the two countries with significant potential for further development, concluding that the most important part of mutual cooperation is the energy sector (especially natural gas supply). On the other hand, they also note that non-energy sectors also have the potential to deepen trade relations. In their opinion, in the services sector it is mainly information services and the information services market in Turkmenistan, where they see significant potential for further growth of exports of this sector from Ukraine to Turkmenistan.

Tsygankova et al.⁶ focused on further developments of Ukraine's foreign trade policy stating that it should focus on the expansion of the scope of current and future regional trade agreements to the sector of services, e-commerce and investments giving Ukraine the opportunity to become a significant player in a number of markets for services and trade in digital products. The authors analyzed the total number of active regional trade agreements that have been concluded as of November 2022, noting that of the total number of agreements, only 0.6% relate exclusively to trade in services and up to 47% relate exclusively to trade in goods. On the other hand, more than half of these agreements cover both goods and services. The authors also report that, in terms of world regions, Europe is the leader in regional trade agreements, with an overall share of 62.5% of all agreements. The authors also predict the future development of Ukraine's foreign trade volume, but again only in terms of trade in goods, since, as they point out, only 4 of the 19 FTAs that Ukraine has signed contain articles on trade in services. On the other hand, they state that Ukraine's negotiation of new FTAs should be a priority in Ukraine's current foreign trade policy, particularly in the services and e-commerce sectors. However, as they point out, it is possible that some of the agreements may be reconsidered due to the Russian-led war in Ukraine.

The most recent article was written by Obolenska et al.⁷ focusing on international trade in tourist services in case of Ukraine under current conditions and the possibilities of post-war recovery of this sector. The authors analyzed the sector over the period 1995-2023, concluding that while global annual growth was 4% from 1995-2020, it was only 2.46% over the entire period, driven primarily by the COVID-19 pandemic. On the other hand, however, they predict that in a post-war recovery of this sector in Ukraine, approximately 61 million tourists could visit Ukraine annually. This article is also the only one to address to some extent the relations with the V4 countries (although not directly) by formulating a strategy to support this sector and Ukraine in the CEE region. The authors suggest that one of the world regions that has significant growth potential is the Eastern European region, especially those countries that were part of the former Soviet bloc. In particular, they identify improvements in transport infrastructure and the high number of historical, architectural and cultural monuments as the dominant factors for growth in this region. They compare the countries of the region with regard to their competitiveness in this sector.

⁵ PENCHUK, H. – TUR, O. (2020): Development of foreign trade relations between Ukraine and Turkmenistan.

⁶ TSYGANKOVA, T. et al. (2022): Free Trade agreements in the world trade system: benefits and models.

⁷ OBOLENSKA, T. et al. (2024): Features of the development of international trade in tourist services.

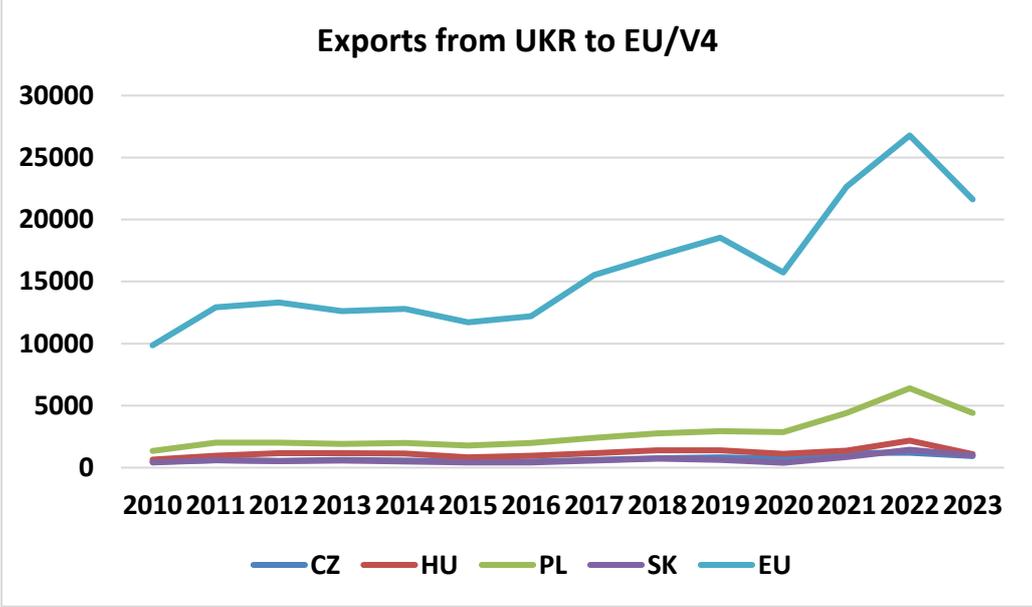
From this brief literature review regarding the trade in services, there is a visible gap when trying to focus on trade relations in services between Ukraine and the V4 countries.

2 Results

Our analysis uses data from the Center for International Trade’s Trademap database⁸ for trade in goods and Eurostat database⁹ for trade in services. We draw on data for the period 2010-2023 for trade in goods and 2014-2023 for trade in services (data for Slovakia were not available for 2010-2013). In this section, we identify the main developments in Ukraine’s trade in goods and services with the V4 countries.

Visegrad Group is important trade partner for Ukraine especially in the field of agriculture and metallurgy as analyzed by Gerasymchuk and Andros¹⁰. Export of goods from Ukraine to V4 countries indicates Hungary and Poland as most important export markets with steady growth throughout the years. A decrease is marked in 2023 for all partner countries can be connected to the general disputes between Poland, Slovakia and Hungary with Ukraine regarding high quantities of grains exported causing reduced grain prices in national markets. It is interesting to note that Slovakia is taking higher market share in exports in the period from 2021-2023. Poland plays a dominant role as import market for Ukraine while rest of the V4 countries keep the steady flow throughout analyzed period. Poland exports refer much to the machinery, namely explosive ammunition, electronics and vehicles.

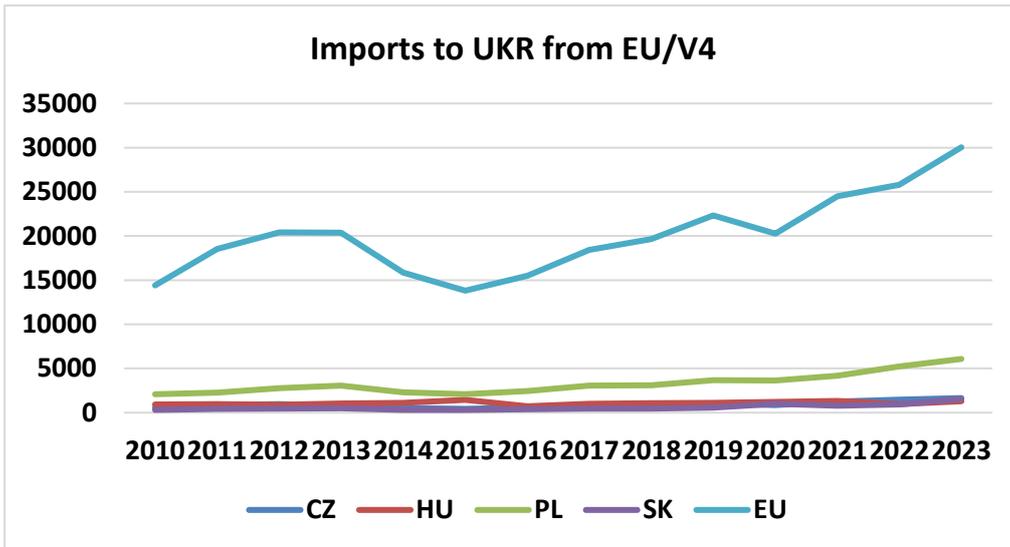
Figure 1: Exports and imports of goods from Ukraine to/from V4/EU, EUR million



⁸ ITC (2025): Trademap. [online].

⁹ EUROSTAT (2025): Total services, detailed geographical breakdown by EU Member States (since 2010) (BPM6). [Online].

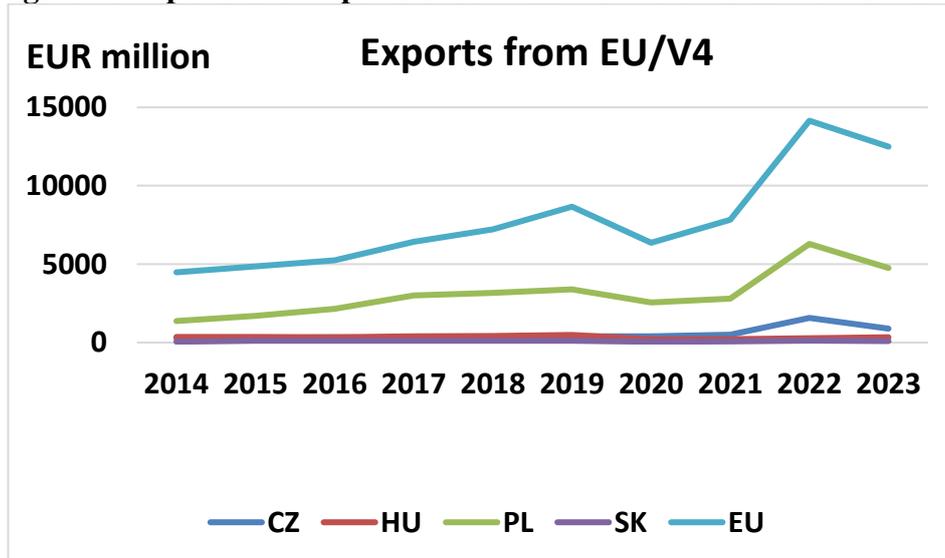
¹⁰ GERASYMCHUK, V. – ANDROS, S. (2023): Economic relations of Ukraine and the Visegrad Group countries: achievements, problems, prospects.

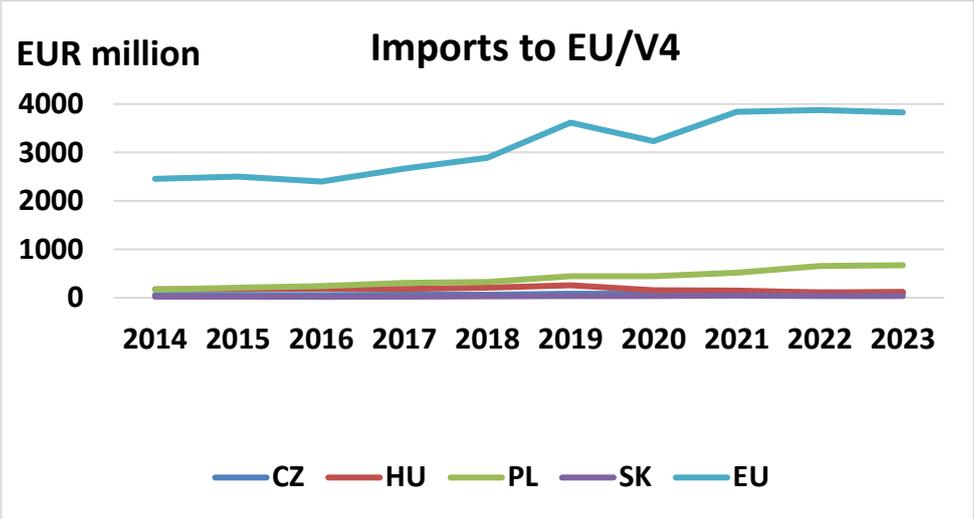


Source: authors, ITC (2025).

As for the trade in services, the overall development of mutual trade between Ukraine and the V4 countries is shown in following figures. Regarding exports of services from V4 to Ukraine, we can see a steady growth in volumes for all the countries since 2014. The highest volume of services was exported by Poland reaching its maximum at EUR 2.8 billion in 2021 (prior the war in Ukraine). There was a sharp increase in services provided to Ukraine in 2022 (EUR 6.3 billion) with a decline in 2023, which was due to the ongoing war conflict. Primary factors may include disruption of Ukraine’s service capacities as well as increased demand for services supporting war effort, humanitarian needs, and the continued functioning of the Ukrainian state and economy. Poland also became a key logistical hub for aid and trade with Ukraine as its geographical neighbor. Similar situation can also be seen in imports of services from Ukraine, where again there is a steady grow in the case of Poland, while other members of the V4 grouping imported far less services.

Figure 2: Exports and imports of services from V4/EU to/from Ukraine

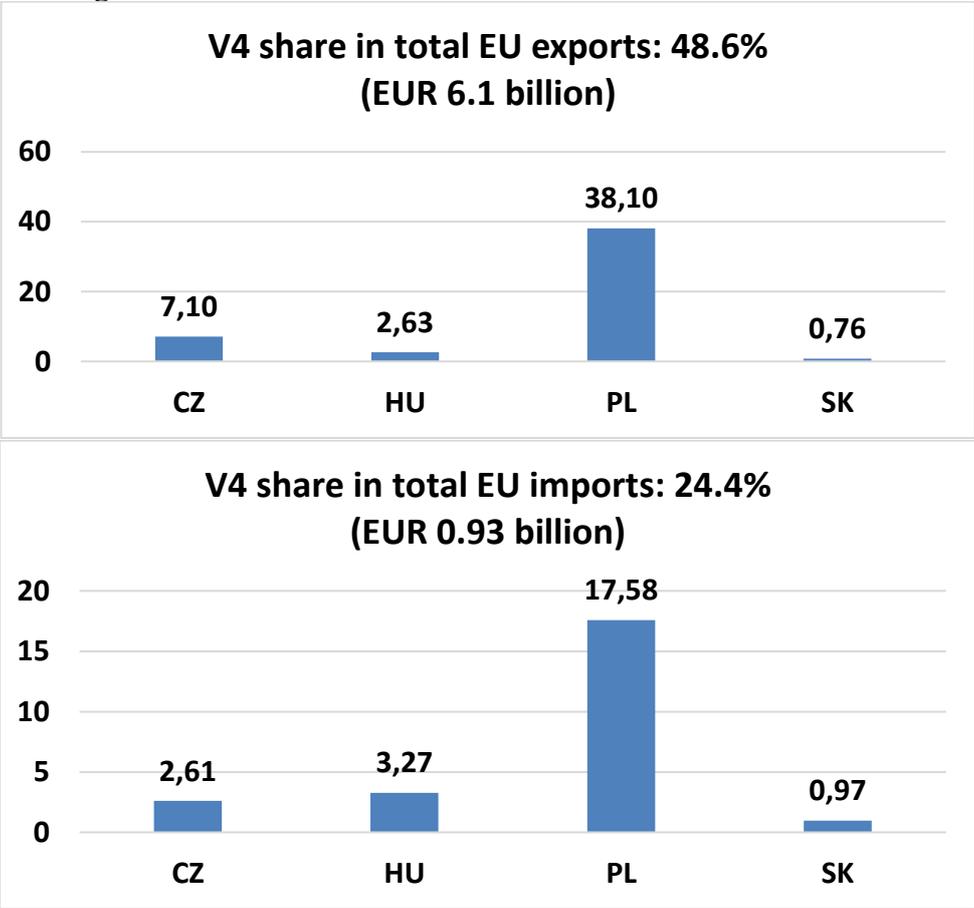




Source: authors, EUROSTAT (2025).

We observe high correlation between the exports of services from the EU and Poland to Ukraine in previous figure. The reason for this is high share of V4 in total EU exports of services to Ukraine as presented in the following figure. Almost half of the services that were exported to Ukraine in 2023 originated in the V4 region with Poland having a share of 38% of total EU exports. However, the situation is quite different in imports of services to the EU. Total V4 share was only 24.4% with Poland's share of total EU imports at 17.6%.

Figure 3: Share of V4 in EU-Ukraine trade in services in 2023



Source: authors, EUROSTAT (2025).

Based on the figures above, we state that the region of the V4 countries play a vital role in mutual trade in services between EU and Ukraine and therefore needs to be analyzed more closely regarding not only the overall trade in services, but also in regard to individual services groups as defined in the BPM6 to identify the future potential development in this sector between Ukraine and V4 countries.

Conclusion

As Ukraine is a very close geographical partner of the V4 countries and has signed free trade agreements with the EU, it is important to examine the mutual trade relations between Ukraine and the V4 countries. However, our analysis shows that despite the relatively brisk trade in goods and services, this issue is not sufficiently elaborated in scientific literature, which provides an opportunity for further exploration of mutual trade relations. In particular, in terms of identifying comparative advantages in mutual trade that would enable further growth in trade in both goods and services. We conclude that the literature on this subject is quite scarce and there is a large gap which should be covered by further research on mutual trade between Ukraine and V4 countries.

Poland is Ukraine's most active trading partner among the V4 in both goods and services. This is particularly evident in trade in services, where Poland strongly dominates not only within the V4 but also across the EU, accounting for almost 40% of all EU services exports and almost 20% of all imports to and from Ukraine.

For further research on the above issue and as far as the limitations of our research are concerned, we recommend that further research should focus on various sub-sectors of goods and services as per the Balance of Payments and International Investment Position Manual classification. As well as their share in export and import flows in Ukraine's foreign trade in goods and services with the V4 countries in order to identify Ukraine's and V4 countries' comparative advantages in trade in goods and services and to formulate recommendations for further development of this sector in the Ukrainian and V4 economies.

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SEA LEVEL RISE AND ITS IMPACT ON THE DELINEATION OF MARITIME ZONES

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Abstract: The article addresses the issue of the potential impact of sea level rise on the position of the baseline lines from which the breadth of the territorial sea and other maritime zones are measured. This is a topic that may have legal as well as economic consequences, especially in the context of rights exercised within the relevant maritime zones and the delimitation of boundaries between neighboring states. The contribution offers an introductory overview of the issue, presents the basic legal foundations, and outlines some expert opinions on the question of the stability of maritime boundaries in the context of changing conditions. The article also serves as a basis for further research and discussion on the possible consequences of climate change in the field of international law of the sea.

Keywords: baseline, UNCLOS, sea level rise

JEL: K33

Introduction

Sea level rise has a fundamental impact on the determination of maritime boundaries, as it alters the position of the baseline from which the breadth of maritime zones is measured. This directly affects the exercise of state sovereignty, sovereign rights over natural resources, navigational regimes, and, in extreme cases, even the very existence of a state.

Maritime zones differ in the scope of rights exercised by coastal states – from full sovereignty in internal waters and the territorial sea (limited only by the right of innocent passage), through the exclusive economic zone and the continental shelf, where the coastal state enjoys exclusive sovereign rights over natural resource exploitation, to the high seas, which are governed by the regime of international freedoms.

From the perspective of navigational rights, distinctions can be drawn between the right of transit passage through straits used for international navigation, the right of innocent passage through the territorial sea and archipelagic waters, the complete freedom of navigation on the high seas, and the partially limited freedom of navigation in the exclusive economic zone, where the coastal state exercises certain regulatory powers.

Sea level rise may also result in the widening of straits beyond 24 nautical miles. In such cases, the more restrictive legal regime applicable to international straits (even if under the regime of the contiguous zone) would shift to the more permissive regime of the exclusive economic zone, with its associated freedoms.

In the context of threats to sovereignty, small island states are particularly vulnerable, as their state territory – the fundamental element of statehood – faces the risk of shrinking or complete submergence due to sea level rise. Such developments pose a potential threat to their continued existence under international law as sovereign states.

More than 70 States, representing over one-third of the current members of the international community, are likely to be directly affected by sea level rise, and many others are likely to be indirectly affected (for example, through the displacement of people or loss of access to resources).¹

¹ ICJ (2023): Sea-level rise in relation to international law. [online].

However, UNCLOS contains no provisions addressing the alteration of baselines as a result of environmental changes.

1 Definition of the Baseline

The baseline could be characterised as “the legal expression of a state’s coast.”² The baseline is defined in the United Nations Convention on the Law of the Sea (hereinafter “UNCLOS”) in Article 5 as the low-water line along the coast as marked on large-scale charts officially recognized by the coastal State. It is recommended that such charts be drawn at a scale between 1:50,000 and 1:200,000.³

The baseline serves a dual or even triple function – it separates the legal regime of internal waters from the territorial sea, provides the basis for measuring maritime zones under national jurisdiction, and also plays a key role in the delimitation of boundaries between adjacent or opposite States.

The International Law Association Committee on Baselines under the International Law of the Sea concludes that “the legal normal baseline is the actual low-water line along the coast at the vertical datum, also known as the chart datum, indicated on charts officially recognized by the coastal State.”⁴

UNCLOS does not specify whether the baseline is to be considered fixed or ambulatory, and different views exist on this matter. Nor does the Convention contain any explicit provision requiring States Parties to update their baselines and the outer limits of their maritime zones in response to coastal changes resulting from sea level rise.

For reefs and islands situated on atolls, Article 6 defines the baseline as the low-water line of the reef, as shown by the appropriate symbol on charts officially recognized by the coastal State.

The baseline defined in Article 5 is the normal baseline for measuring the breadth of the territorial sea. The wording “except where otherwise provided in this Convention” implies that UNCLOS allows for other methods of establishing baselines as well.

2 Straight Baselines

A specific category of artificially defined baselines is that of straight baselines. These are used in cases of deeply indented coastlines or where there is a fringe of islands located in the immediate vicinity of the coast. Unlike normal baselines, straight baselines do not follow the coastline but instead cut across the water.

This category also includes straight baselines drawn across the mouths of rivers and deltas. Where the coastline is highly unstable due to natural conditions such as river deltas, the relevant points may be selected along the furthest low-water line, and despite any further recession of the shoreline, the straight baselines will remain valid unless modified by the coastal State in accordance with UNCLOS.

If a low-tide elevation (a naturally formed area of land that is above water at low tide but submerged at high tide) is located in waters near the coast, it is not taken into account when drawing straight baselines - unless a lighthouse or similar permanent structure is built on it and remains above sea level. If such an elevation lies wholly or partially within the territorial sea, the low-water line on it may be used as a baseline for measuring the breadth of the territorial

² INTERNATIONAL LAW ASSOCIATION (2012): Sofia Conference 2012: Baselines under the International Law of the Sea, p. 4.

³ OFFICE FOR OCEAN AFFAIRS AND THE LAW OF THE SEA (1989): Baselines: An Examination of the Relevant Provisions of the United Nations Convention on the Law of the Sea, p. 2. New York, 1989, 70 p. ISBN 92-1-133308-2.

⁴ INTERNATIONAL LAW ASSOCIATION (2012): Sofia Conference 2012: Baselines under the International Law of the Sea, p. 25.

sea. Conversely, if the elevation lies entirely beyond the territorial sea, it cannot generate its own territorial sea, nor serve as a baseline.

Under UNCLOS, if an island or atoll is surrounded by a reef, the baseline for measuring the territorial sea is the low-water line along the outer edge of the reef, as marked by the appropriate symbol on charts officially recognized by the coastal State.

Waters enclosed by straight baselines are subject to the regime of *internal waters* under Article 8 of UNCLOS. However, there is a modification: if areas that would not otherwise qualify as internal waters are enclosed by straight baselines, the right of *innocent passage* still applies within them. Internal waters are subject to the full sovereignty of the coastal State, and for the purposes of navigation, they share a similar legal regime to that of land territory or ports. The right of navigation in internal waters is not guaranteed, and all foreign vessels—whether commercial or governmental - wishing to enter internal waters (even without intending to call at a port) must first obtain permission from the coastal State. This requirement applies equally to all foreign vessels, including merchant and state-owned ships.

This issue is particularly important in the context of navigation through the Northwest Passage and the Northern Sea Route, where the United States holds a position differing from that of the coastal States—arguing that these routes are subject to the regime of international straits.

The key legal distinction is that navigation through international straits is governed by the *right of transit passage* under Article 38 of UNCLOS and subsequent provisions, whereas innocent passage, applicable to territorial seas and internal waters enclosed by straight baselines, is more restrictive. Under innocent passage (Article 17 and following), foreign vessels are subject to limitations: submarines must surface, ships may not launch or land aircraft, conduct fishing, marine scientific research, or any other activity not directly related to passage. In contrast, during transit passage, such restrictions generally do not apply (except where a strait connects an island of a coastal State to its mainland and there is a route of similar navigational convenience through the high seas or an exclusive economic zone).

Transit passage is defined by UNCLOS as the exercise of the freedom of navigation and overflight solely for the purpose of continuous and expeditious transit between one part of the high seas or an EEZ and another part of the high seas or an EEZ.

In the case of internal waters, all foreign vessels - naval, commercial, or private - wishing to enter or transit through the waters of the Arctic Archipelago would need Canada's consent, and the right of transit passage would not apply.

The Russian Federation considers four key straits of the Northern Sea Route - Kara Gate, Vilkitsky Strait, Dmitry Laptev Strait, and Sannikov Strait - as part of its internal waters.⁵ The former Soviet Union established straight baselines in these areas. However, even under the 1958 Convention on the Territorial Sea and the Contiguous Zone, the right of innocent passage is preserved where straight baselines enclose areas adjacent to the territorial sea or the high seas. Such waters can only be classified as internal waters if a claim to historic waters is accepted.⁶

Straight baselines may not be drawn in a way that cuts off the territorial sea of another State from the high seas or an exclusive economic zone.

UNCLOS allows States to choose among different methods and to alternate between them. Straight baselines are applied in the Arctic by Norway, Denmark, Canada, and the Russian Federation. Of the five Arctic coastal States, only the United States prefers to follow the low-water line as the baseline.

⁵ ROSSIJSKAJA FEDERACIJA (2021): Postanovleniye Pravitel'stva Rossiyskoy Federatsii ot 16.11.2021 g. № 1959. [online].

⁶ SOLSKI, J. J. (2020): New Russian legislative approaches and navigational rights within the Northern Sea Route (NSR) (earlier version of the article published in *The Yearbook of Polar Law*, Vol 12, 2020 by Brill Nijhoff). [online].

Norway has drawn straight baselines along its entire mainland coast and has repeatedly revised not only the coordinates of the end points but also the configuration of its lines to expand its maritime zones. Although the coast of Jan Mayen is not notably indented nor fringed with islands, Norway has also applied straight baselines there and around the Svalbard archipelago.

Denmark primarily uses straight baselines along the coast of Greenland. Canada has drawn straight baselines along the Canadian Arctic Archipelago, while Russia has used them to enclose certain Arctic straits. Unlike Denmark (in Greenland), Norway, and Canada, which have consistently applied the straight baseline method in the Arctic Ocean, Russia uses the method only in selected instances.⁷

3 Ambulatory vs. Fixed Baselines under UNCLOS

According to Article 16 of UNCLOS, the baselines from which the breadth of the territorial sea is measured - established in accordance with Articles 7 (straight baselines), 9 (mouths of rivers), and 10 (bays) - as well as boundaries derived therefrom, and delimitation lines determined pursuant to Articles 12 (roadsteads) and 15 (delimitation between States with opposite or adjacent coasts), must be shown on nautical charts of a scale or scales adequate for ascertaining their position. Alternatively, a list of geographical coordinates of points, based on geodetic data, may be substituted for such chart representation. These data are then deposited with the Secretary-General of the United Nations. The publication of these data ensures legal transparency and helps to prevent disputes between States concerning maritime boundaries.

The criteria for determining straight baselines are not entirely clear - UNCLOS does not specify the minimum number of islands required to constitute a "fringe of islands," nor does it define what constitutes a "deeply indented coast" or "immediate vicinity." Unlike the outer limits of the continental shelf defined in Article 76 of UNCLOS, there is no provision that limits the length of straight baselines.

The rules governing the establishment of straight baselines are so abstract that they may lead to excessive maritime claims.⁸ In its judgment in the case of *Qatar v. Bahrain*, the ICJ emphasized that straight baselines are an exception and should only be applied under certain conditions and in a restrictive manner. These conditions include either a deeply indented and cut-into coastline or the presence of a fringe of islands in the immediate vicinity of the coast. The mere fact that a State considers itself a multi-island or de facto archipelagic State does not entitle it to deviate from the general rules on baseline determination unless the relevant criteria are fulfilled.⁹

UNCLOS does not contain any explicit provision that regulates or confirms the ambulatory nature of normal baselines. The only clearly fixed boundary line is the outer limit of the continental shelf, delineated pursuant to Article 76(9). The maps and geodetic coordinates deposited with the UN Secretary-General permanently establish the outer limits of the shelf. Therefore, even in the event of the retreat or shift of the baseline and the maritime zones derived from it, the outer boundary of the shelf remains intact.

In discussions regarding the impact of sea-level rise on the baselines of coastal States, two main approaches have emerged: the ambulatory and the fixed approach. Even among members of the International Law Commission (ILC), there is no consensus. Some members consider the baseline under Article 5 of UNCLOS to be inherently ambulatory, while others observe that the Convention is silent on whether baselines must be regularly updated. Some

⁷ MORGUNOV, B. – ZHURAVLEVA, I. – MELNIKOV, B. (2021): The Prospects of Evolution of the Baseline Systems in the Arctic. [online]. *Water 13*, 1082.

⁸ TANAKA, Y. (2019): *The International Law of the Sea*. (3rd ed.). Cambridge: Cambridge University Press. p. 60. ISBN 9781108545907

⁹ ICJ (2001): *Maritime Delimitation and Territorial Questions between Qatar and Bahrain (Qatar v. Bahrain)* (Merits).

argue that Article 5 clearly implies an ambulatory character, whereas others believe the provision allows for multiple interpretations.¹⁰

Under the ambulatory approach, which adheres to the original intent of UNCLOS, baselines follow the natural changes of the coastline caused by erosion or sea-level rise. Proponents argue that this approach maintains the Convention's balance, as maritime zones would shift landward but retain their breadth. Coastal States would lose portions of territory, but not their maritime entitlements.¹¹

On the other hand, some experts warn that adopting fixed baselines could have serious legal consequences. Fixing baselines might affect the rights of third States—especially regarding the right of innocent passage through territorial seas—which could expand at the expense of international waters. Such a shift would represent a fundamental change to the established rules of the law of the sea. Despite these concerns, several ILC members have emphasized that a fixed approach is necessary to ensure legal certainty and predictability in maritime claims. Moreover, it has been suggested that not only baselines should be fixed, but also the outer limits of maritime zones, in order to protect the current legal status and maintain the stability of the international maritime order.¹²

The International Law Association Committee on Baselines under the Law of the Sea supports the view that normal baselines are dynamic and that their location adjusts in response to changes in coastal configuration. They may move seaward due to natural processes such as accretion or uplift of land, as well as through the construction of artificial installations linked to port infrastructure, coastal protection, or land reclamation. Similarly, they may shift landward due to erosion or sea-level rise.¹³

In extreme cases, these negative changes can lead to a complete loss of state territory, resulting in the disappearance of baselines and the loss of maritime zones derived from them. The current legal framework concerning normal baselines does not provide an adequate solution to this potentially existential challenge.

Sea-level rise inevitably affects the validity and location of maritime zones, as it alters both the position and, in some cases, the very existence of baselines and coastal features that determine maritime entitlements. According to Árnadóttir, this is “why rebus sic stantibus is a necessary safety-valve which should be applied to facilitate equitable changes to maritime boundaries in times of shifting coastlines.”¹⁴

Conclusion

Sea level rise represents a fundamental challenge for the international law of the sea, particularly with regard to the determination and stability of baselines from which maritime zones are measured. Due to the absence of clear provisions in the United Nations Convention on the Law of the Sea (UNCLOS), the question of whether baselines should be regarded as fixed or ambulatory remains the subject of legal debate and differing interpretations.

The vulnerability of small island states, in particular, which may lose part or even all of their territory, highlights the need for legal certainty in the delineation of maritime boundaries.

¹⁰ INTERNATIONAL LAW COMMISSION (2021): Report on the work of the seventy-second session (2021): Chapter IX Sea-level rise in relation to international law. [online].

¹¹ INTERNATIONAL LAW COMMISSION (2023): Report on the work of the seventy-fourth session (2023): Chapter VIII Sea-level rise in relation to international law. [online].

¹² INTERNATIONAL LAW COMMISSION (2023): Report on the work of the seventy-fourth session (2023): Chapter VIII Sea-level rise in relation to international law. [online].

¹³ INTERNATIONAL LAW ASSOCIATION (2012): Sofia Conference 2012: Baselines under the International Law of the Sea, p. 31.

¹⁴ ÁRNADÓTTIR, S. (2016): Termination of Maritime Boundaries Due to a Fundamental Change of Circumstances. [online]. *Utrecht Journal of International and European Law*, 32(83), p. 94-111.

The current ambiguity of the legal framework therefore requires not only theoretical discussion, but also practical solutions that reflect the reality of a changing environment.

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IMPLEMENTATION OF RECOVERY AND RESILIENCE PLAN IN EUROPEAN UNION

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Abstrakt: The European Union has established the EU Recovery and Resilience Facility and the Recovery and Resilience Mechanism as a response to the consequences of the Covid-19 crisis. The article focuses on the future financing of the facility and the implementation of the mechanism in the current period. The article analyses the effectiveness of the implementation of the recovery plans of the EU Member States, which were to address the consequences of the COVID-19 pandemic as a priority. We describe the risks of financing and implementing the recovery plans using expert articles focused on the analysis of the recovery plans of the EU Member States. These analyses are supported by the report of the European Court of Auditors.

Keywords: recovery and resilience plan, financing, implementation,

JEL: F34, F37, F63

Introduction

Council Regulation (EU) 2020/2094 of 14 December 2020 established the European Union Recovery Instrument to support recovery from the COVID-19 crisis, financed with up to EUR 750 billion in 2018 prices. The support of up to EUR 384.4 billion in 2018 prices in the form of non-repayable support and repayable support through financial instruments was distributed as set out in Table 1. To this amount should be added funds of up to EUR 5.6 billion (in 2018 prices) for the provisioning of budgetary guarantees and related expenditure for programmes supporting investment operations in the field of internal Union policies.

Table 1: Distribution of funds from the European Union Recovery Instrument to support recovery from the COVID-19 crisis

Programs	Allocated amount to (in billion EUR)
structural and cohesion policy programmes of the multiannual financial framework 2014-2020 in its reinforced form until 2022, including support through financial instruments	47,5
a programme to finance recovery and economic and social resilience through support for reforms and investments	312,5
civil protection programs	1,9
research and innovation programmes, including support through financial instruments	5
programmes supporting territories in their transition to a climate-neutral economy	10
for the development of rural areas	7,5
Total	384, 4

Source: Council regulation.¹

¹ COUNCIL REGULATION (EU) 2020/2094 of 14 December 2020 establishing a European Union Recovery Instrument to support the recovery in the aftermath of the COVID-19.

Article 3 Implementation of the budget of the aforementioned Regulation 2020/2094 states that "an amount of EUR 384.4 billion in 2018 prices from the resources referred to in Article 2(1) of this Regulation constitutes external assigned revenue of Union programmes."²

The Recovery and Resilience Facility was established by Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 in response to the consequences of the COVID-19 crisis. The outbreak of COVID-19 in early 2020 changed the economic, social and budgetary outlook of the Union and the world and required an urgent and coordinated response at both Union and national level to address the huge economic and social consequences, as well as the asymmetric impacts on Member States.³ As a result, the Next Generation EU financial instrument was established to complement existing financial instruments to implement the sustainable growth strategy and support climate objectives.

The Recovery and Resilience Facility focused on policy areas of European relevance, divided into six pillars (hereinafter referred to as the 'six pillars'), namely: the green transition; the digital transformation; smart, sustainable and inclusive growth, including economic cohesion, jobs, productivity, competitiveness, research, development and innovation and a well-functioning internal market with strong small and medium-sized enterprises; social and territorial cohesion; health and economic, social and institutional resilience, including to enhance crisis preparedness and response; and policies for the next generation, children and youth, such as education and skills.⁴ It should be noted that the word "pandemic" is not mentioned in its entirety in the text of the regulation, only the phrase "crisis caused by the disease COVID-19." Similarly, Regulation 2020/2024 uses the term crisis, but the introduction states that the World Health Organization declared COVID-19 a pandemic on March 11, 2020.⁵

1 Financing recovery plans

The financing of recovery plans has several rules – 37% of the allocated funds must be allocated to measures related to the green transition and 20% should be allocated to measures for digital spending.

Support the achievement of the objectives in the individual pillars, EUR 312.5 billion was allocated as non-repayable financial support in the form of grants and EUR 360 billion was allocated in the form of loans. It follows from the above that the funds will be provided to the EU Member States as non-repayable financial assistance, similar to what is stated when providing funds for the implementation of European projects financed through financial funds. Also, all documents issued by the EU state these funds as grants, which gives the impression that these funds are in fact non-repayable, i.e. the Member States "will not have to return these grants". The funds allocated from the instrument may be complemented by support provided from other Union programmes and instruments, but they must not overlap in the purpose for which they are to be used. Duplication of project funding appears problematic in the assessment of projects and should not be confused with the principle of additionality.

The allocation of funds is divided into 2 stages - the first part of 70% of the allocated funds for the Member State will be made available by 31 December 2023 and the remaining 30% by 31 December 2024. All payments should be made by 31 December 2026. The deadline by which final milestones and targets for both investment projects and reforms must be met is

² COUNCIL REGULATION (EU) 2020/2094 of 14 December 2020 establishing a European Union Recovery Instrument to support the recovery in the aftermath of the COVID-19 crisis.

³ REGULATION (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility.

⁴ REGULATION (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility.

⁵ COUNCIL REGULATION (EU) 2020/2094 of 14 December 2020 establishing a European Union Recovery Instrument to support the recovery in the aftermath of the COVID-19 crisis.

set for 31 August 2026. Short implementation time can be another critical point in the correct way of financing.

One of the criteria for allocating funds from the mechanism was the population of the member state (in addition to the inverse of GDP per capita, the unemployment rate over the last 5 years to the EU average unemployment rate and the decline in GDP between 2020 and 2021), and therefore we compared the amount of allocated funds in the form of "grants" and as a ratio to GDP. According to the number of inhabitants, we list only 2 member states that have approximately the same number of inhabitants as the Slovak Republic. Such a comparison serves to illustrate the ratio of funds in the form of grants, which are practically borrowed money, to the total GDP of the member state. We also listed the total debt of the listed states as one of the SGP (Stability and Growth Pact) criteria.

Table 2: Amount of allocated funds in 3 selected Member States with the same population and their deficit/surplus at the time of allocation

Member state	Population (in million)	Amount of allocated contributions as "grants" (in billion EUR)	Amount of allocated contributions as "grants" as a % GDP	Amount of allocated contributions as "grants" as a total surplus/deficit as % of GDP
Slovakia	5,43	6,41	5,21	-5,3
Finland	5,22	1,95	0,71	-4,4
Denmark	5,43	1,63	0,43	4,5

Source: European Commission⁶

Repayment of the grants will start on 1 January 2028 and will continue until 31 December 2058, i.e. it is spread over 30 years. To finance the NextGenerationEU (NGEU) instrument, the European Commission (on behalf of the European Union) borrows on the markets at more favourable interest rates than most Member States and redistributes these funds.

As the European Commission finances the Recovery Plans through loans, the EC has therefore proposed additional new own resources, based on the Emissions Trading System and the Border Offset Mechanism. The final package includes a new temporary statistical own resource based on corporate profits. In addition, the own resource based on the share of residual profits of multinationals, which will be redistributed among EU Member States according to the OECD/G20 agreement on the redistribution of taxing rights ("first pillar"), is maintained.⁷ This means that the repayment of loans will be paid by the Member States through an increase in their own contributions to the EU budget. On the one hand, it is planned to reduce the weight of the GNI-based resource and on the other hand, it is planned to introduce more diversified and resilient types of own resources that are directly related to the EU's powers, objectives and priorities. Based on such an approach, we can assume that the EC will direct the structure of budget revenues in such a way that it can call them real own resources. The current own revenues are actually contributions from the Member States to the common EU budget.

⁶ EUROPEAN COMMISSION (2025): Recovery and Resilience Scoreboard.

⁷ EUROPEAN COMMISSION(2025): The next generation of EU own resources COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS An adjusted package for the next generation of own resources.

There is concern that a domestically financed medium-term debt reduction programme is unlikely to generate the same level of positive commitment and national ownership as a debt reduction plan financed with additional resources from the EU budget.⁸ The finances provided from the recovery plan are not considered by many interested actors as standard loans, which leads to such a lax attitude towards the debt created in this way, the statements of the representatives of the EU and member states in connection with the use of the meaning of the word grant, which gives the impression of a non-returnable contribution to the member states without any obligation to repay it, probably also contribute to this.

The same concern is raised by the European Court of Auditors in its May 2025 report, which states categorically that the debt raised to finance RRF grants will be repaid from the EU budget. Although the Commission planned to introduce new own resources to finance the repayment of RRF grant-related debt by early 2023, there is no political agreement on this yet. Together with the significant increase in the cost of financing NGEU loans compared to initial estimates, this will put significant pressure on future EU budgets and borrowing creates additional risks.⁹ At the same time, the report states in specific procedures that the RRF's framework for compliance with regulations and rules for the protection of the EU's financial interests are not sufficiently reliable.

2 Implementation of recovery plans

The funds from the mechanism are implemented through Recovery and Resilience Plans, which Member States submitted by 30 April 2021. Member States were to focus their plans on relevant reforms and investments to address the economic and social impacts of the COVID-19 crisis, taking into account the 6 pillars set out and the specificities of the Member State. The Regulation allows EU Member States to submit a reasoned request to amend the Recovery and Resilience Plan during the implementation period, if justified by objective circumstances. During the implementation, all Member States requested to amend their Recovery and Resilience Plans at least once.¹⁰ Before the approval of the Member States' Recovery and Resilience Plans, their effectiveness, efficiency and coherence were examined.

Reform proposals that were part of the recovery and resilience plans of the Member States were influenced by the party affiliation of the national executive authorities and thus politically controversial reforms did not appear in many plans. For example, the Italian government led by M. Draghi incorporated a large number of reforms in the recovery plan that were supposed to address the EC recommendations. On the contrary, the German, French and Spanish governments responded with their plans in a way that satisfied all partners in the government and, in principle, avoided pressure for reforms from the EC.¹¹ Due to the need to correct existing economic vulnerabilities and their specialization in tourism, they have diversified – e.g. Italy and Spain – into categories such as labour market, education and skills; research and development and innovation; economic, social and territorial cohesion; health; culture and tourism. They will therefore spend significant amounts from the mechanism on the sector that was most affected during the “Covid” period, namely tourism.

The mechanism and its tool should serve to eliminate the consequences of the crisis caused by the COVID-19 disease and at the same time the national recovery plans should be in line with the EC recommendations stated in the evaluation in the six-month semesters.

⁸ ZEITLIN, J. – BOKHORST, D. – EIHMANNIS, E. (2023): *Governing the RRF: Drafting, Implementing, and Monitoring National Recovery and Resilience Plans as an Interactive, Multilevel Process*, p. 64.

⁹ EUROPEAN COURT OF AUDITORS (2025): *Review 02/2025: Performance-orientation, accountability and transparency – lessons to be learned from the weaknesses of the RRF*, p. 53.

¹⁰ EUROPEAN COMMISSION (2025): *Recovery and Resilience Scoreboard*.

¹¹ BORGHETTO, E. – QUAGLIA, L. – GUARDIANCICH, I. (2025): *Reform Agendas in National Recovery and Resilience Plans: Partisan Politics and Domestic Usages of Europe*, p. 13.

However, in the proposed structure for the creation of national recovery plans, the emphasis was dominated by the so-called "green solutions" over social priorities, which should be among the main priorities at the domestic level, especially in the context of the pandemic. The importance of social priorities was only partially emphasized.¹² Therefore, one cannot help but wonder whether the National Recovery Plans were a missed opportunity to set spending limits for the implementation of the European Pillar of Social Rights (despite the fact that Member States must report on how their National Recovery Plans will contribute to the implementation of the EPSR), especially in the context of ongoing crises affecting Europe (the war in Ukraine, the energy crisis).¹³

On the other hand, assessing the implementation of reforms and investments linked to national fiscal and structural plans would be a complex and controversial process that would require a multi-level system of diagnostic monitoring and review, aimed not only at overseeing whether projects are progressing towards the timely achievement of agreed milestones and targets.¹⁴

It is debatable whether the countries have addressed the main problems they face or whether the reforms and funding will be sufficient to achieve the desired goal. On the other hand, cohesion policy will offer additional funding to help countries achieve the goals and objectives set by the country and the EU.¹⁵ On the one hand, the process of assessing the achievement of milestones and targets has become extremely cumbersome and bureaucratic, often focusing more on document verification than on the underlying purpose and results of the reforms and investments themselves. On the other hand, to meet all the requirements of sound financial management enshrined in the RRF, national authorities still have to go down to the invoice level in their control and monitoring processes to ensure that every cent has been spent correctly.¹⁶

The European Court of Auditors points to several shortcomings in implementation, the most serious of which is that the disbursement of funds to Member States does not mean that they have reached the final beneficiaries and the real economy. It also states that they have achieved limited results in addressing structural challenges and contributing to EU objectives, especially in labour market measures.¹⁷

Conclusions

The aim of the article was to point out the method of financing and implementation of the EU Instrument and the Recovery and Resilience Mechanism as a response to addressing the consequences of the Covid-19 crisis. Based on the above, the instrument for eliminating the consequences of the Covid-19 crisis and its mechanism have at least two critical points - the first critical point is its financing. The unresolved problem remains the way in which the loan provided to the European Union will be repaid by the Member States, since new sources of the common EU budget have not been resolved at present. The second critical point is whether and how effectively the borrowed funds are invested and therefore are the reforms and investments to which the funds from the recovery plan are directed really the consequences of the Covid-19

¹² CERON, M. (2023): The National Recovery and Resilience Plans: Towards a Next Generation of Fiscal Coordination?, p. 336.

¹³ THEODOROPOULOU, S. – AKGÜÇ, M. – WALL, J. (2022): Balancing objectives? Just transition in national recovery and resilience plans, p. 30.

¹⁴ ZEITLIN, J. – BOKHORST, D. – EIHMANNIS, E. (2023): Governing the RRF: Drafting, Implementing, and Monitoring National Recovery and Resilience Plans as an Interactive, p. 64.

¹⁵ NATEA, M. D. A. (2021): New European Philosophy on Recovery and Resilience. The Recovery and Resilience Facility and the Impact over Member States, p. 54.

¹⁶ ZEITLIN, J. – BOKHORST, D. – EIHMANNIS, E. (2023): Governing the RRF: Drafting, Implementing, and Monitoring National Recovery and Resilience Plans as an Interactive, Multilevel Process, p. 65.

¹⁷ EUROPEAN COURT OF AUDITORS (2025): Review 02/2025: Performance-orientation, accountability and transparency – lessons to be learned from the weaknesses of the RRF, p. 53.

period or are they long-term unresolved problems of the economies of the Member States, for which the Member States are borrowing and increasing their debt? Preliminary analyses support critical views on the content and scope of the reforms contained in the recovery plans of the EU Member States.

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CYBERSECURITY AS A KEY ELEMENT IN INTERNATIONAL RELATIONS¹

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Abstract: This article analyses the growing importance of cybersecurity within contemporary international relations. It focuses on cyber threats as a novel challenge to state sovereignty and emphasizes the need to integrate cybersecurity into global security strategies. The study applies a descriptive-analytical method, historical-comparative analysis, and case studies of recent cyberattacks. Particular attention is paid to the legal vacuum in cyberspace and the lack of universally accepted international norms. The findings confirm that cybersecurity is a fundamental component of both national and collective security, requiring a comprehensive, coordinated, and multilateral approach.

Keywords: Cybersecurity, International Law, Cyber Threats, Cyberspace

JEL: K33, K24, F51

Introduction

In recent decades, the field of international security has undergone a profound transformation. Whereas in the past, security was primarily understood as the protection of the state from military threats posed by other states, today's security environment is significantly more complex and includes new dimensions—one of the most prominent being cyberspace. Cyberspace can no longer be perceived solely as a technological or infrastructural category; rather, it has become a geopolitical and strategic domain in which an increasing number of hostile activities are concentrated.

Cybersecurity has become increasingly relevant within the broader context of security studies. It now stands as one of the fundamental pillars supporting national sovereignty, political stability, and the overall functionality of the modern state. Unlike in the past, today's environment requires states to protect not only their territory, population, and military forces, but also their digital infrastructure. Any disruption in this domain can lead to tangible consequences comparable to those caused by conventional attacks. The specific nature of cyber threats, marked by anonymity, asymmetry, global scope, and the potential for rapid escalation, presents distinct and complex challenges for international law, defence structures, and diplomatic engagement.

A fundamental problem remains the absence of universally accepted norms governing state behaviour in cyberspace. Unlike traditional military conflicts, which are subject to the rules of international humanitarian law, cyber operations often occupy a grey zone between peace and war, between attack and espionage, and between state and non-state actors. Cyberspace, therefore, not only introduces new threats but also raises critical questions about how to ensure its stability, transparency, and predictability.

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This article focuses on examining cybersecurity as an increasingly important element of international security. It defines the key concepts associated with cyberspace, discusses the historical context of its militarization, and maps current trends in cyberattacks, with a particular emphasis on developments in 2025. Special attention is paid to the interplay between technological advancement, strategic state behaviour, and efforts to establish a functional framework for global cyber governance. The objective is to demonstrate that without adequately integrating cybersecurity into international structures, sustainable security in the 21st century cannot be achieved.

1 Definition of Terms

Compared to previous periods, international security — understood as the mutual security of states — has taken on a new dimension. States, as traditional subjects of international law, now bear the additional responsibility of safeguarding their security not only in inter-state relations but also against phenomena and threats closely linked to technological and scientific progress. Negative activities in cyberspace, involving a wide range of actors, are a clear example.

In recent years, we have increasingly witnessed a shift in the domain of operations, the “ammunition” used, and the intended targets. The migration of numerous activities into cyberspace exemplifies this transformation. Some experts even warn that certain cyber operations signal the reality of an ongoing cyber war — perceived only by those not living in the “illusion of peace.”²

Historically, humanity operated in two physical domains — land and sea. Later, with technological advancement, airspace and outer space were added. Today, we recognize a fifth domain: cyberspace. Unlike the others, cyberspace has a global character, blurs national boundaries, transcends political systems, and is populated by a diverse range of actors — from individuals and groups to states.³

Threats no longer emanate solely from states or criminal and terrorist organizations, but increasingly from hackers or ideologically motivated individuals (“hacktivists”). Cyber technologies and skills are relatively easy and cheap to acquire, enabling even weak states or non-state actors to inflict significant damage on powerful conventional military forces. The financial aspect is one of the key advantages of cyber threats—some authors claim a cyber warfare campaign could be conducted for the price of replacing tank treads, making it an attractive option for states.⁴

Consequently, the position of individual states is increasingly challenged. This is exacerbated by the interconnected nature of emerging threats, particularly hybrid threats — those combining political, military, economic, social, and informational tools, often involving both state and non-state actors. These threats frequently disrupt state functions, necessitating stronger international cooperation — predicated, however, on suitable political conditions.⁵

As in the physical world, the “cyber world” is subject to security threats including hacking, DDoS attacks, data theft, terrorist or extremist exploitation of the internet, psychological operations, and cyber espionage. These activities show that cyberspace is not immune to danger, a fact increasingly reflected in state security strategies. However, not every cyber operation qualifies as a cyberattack. According to Rule 30 of the Tallinn Manual, a cyberattack is “a cyber operation, whether offensive or defensive, that is reasonably expected

² VAN PUYVELDE, D. (2019): *Cybersecurity: Politics, governance and conflict in cyberspace*, p. 145.

³ VALUCH, J. (2022): *Armed conflicts and cyber threats as challenges for international law in the 21st century*, p. 98.

⁴ LEVICKÝ, D. (2024): *Kybernetická bezpečnosť a jej aplikácie*, p. 38.

⁵ AKADÉMIA POLICAJNÉHO ZBORU V BRATISLAVE (2019): *Aktuálne výzvy kybernetickej bezpečnosti (v podmienkach bezpečnostných zložiek) – zborník príspevkov z vedeckej konferencie*, p. 8.

to cause injury or death to persons or damage or destruction to objects.” This definition is significant because the term “attack” carries specific legal restrictions in the law of armed conflict—such as the protection of civilians and civilian infrastructure. This also applies in cyberspace, as affirmed by the Tallinn Manual.⁶

The Manual refers to Article 49(1) of the First Additional Protocol to the Geneva Conventions, which defines an attack as “acts of violence against the adversary, whether in offense or defense.” The determining factor is the violent consequence of the act. Non-violent cyber operations — such as psychological operations or espionage — do not qualify as cyberattacks but rather cybercrime or cyber threats. Given our dependency on digital infrastructure, ensuring cybersecurity is now a fundamental precondition for state functioning and service delivery. In a world of rapid technological advancement, “absolute security” remains an illusion. Nevertheless, international cooperation brings us closer to this ideal.⁷

The growing number of cyber operations affecting the security of states, institutions, and individuals has made “cybersecurity” an increasingly relevant concept. In cyberspace, not only states but also non-state actors and individuals play active roles. Cybersecurity is generally understood as the ability to defend against malicious activity in the digital domain. It is now an integral component of national security strategies. Cyberattacks can disrupt national security, endanger sovereignty, and threaten state functions and public services. Thus, cybersecurity has become a key factor in maintaining state stability.

Though cyberspace lacks physical borders, its protection primarily falls under national jurisdiction. A comprehensive approach to cybersecurity involves effective strategies and security measures covering a wide range of threats; a clear legislative framework defining institutional responsibilities during cyber incidents; and precise national-level competencies to ensure effective response and foster international cooperation.

Cyber threats can originate from various sources and manifest as disruptive activities targeting individuals, critical infrastructure, public and private institutions, or national governments. Their main characteristics include transnationality, ambiguity, decentralization, anonymity of actors, low entry costs, and the capacity to strike from a distance without physical presence—all of which give these threats long-term potential.

Cyber threats frequently transcend borders and blur the lines between public and private, military and civilian spheres. Traditional geographic boundaries, historically fundamental to national sovereignty, lose relevance in cyberspace. As a result, national security is increasingly dependent on international cooperation. One of the most crucial concepts in the current security landscape is “cyberspace.” International legal scholars' understanding of this domain is shaped by how various spaces are treated under international law.

The term “cyberspace” was first used by W. F. Gibson in his 1982 short story *Burning Chrome* and later in his 1984 novel *Neuromancer*. Since then, the term has gained global traction amid the relentless expansion of digital networks. Cyberspace has evolved into a distinct communication network with a unique status, not entirely subject to any one country, legal system, or jurisdiction. In the digital age, the assertion by philosopher Karl Jaspers — that one cannot be heard in public while remaining unseen — no longer holds. On the internet, users can be both heard and hidden simultaneously.⁸

Other scholars define cyberspace as a globally interconnected network of digital information and communication infrastructures, including the internet, telecommunications systems, computer networks, and embedded information systems. According to the 2006 U.S.

⁶ AKADÉMIA POLICAJNÉHO ZBORU V BRATISLAVE (2020): *Aktuálne výzvy kybernetickej bezpečnosti: Special edition 2020 – zborník príspevkov*, p. 4.

⁷ SCHMITT, M. N. et al. (2017): Tallinn Manual 2.0 on the International Law Applicable to Cyber Operations, p. 56.

⁸ KOLOUCH, J. (2019): *CyberSecurity*, p. 40.

National Military Strategy, cyberspace is a domain defined using electronic and electromagnetic spectrum to store, modify, and exchange data across networks and associated physical infrastructures.⁹

Security institutions, including armed forces, treat cyberspace as a battlefield. The U.S. Department of Defence defines it as “a global domain within the information environment consisting of the interdependent network of information technology infrastructures and resident data, including the Internet, telecommunications networks, computer systems, and embedded processors and controllers.” Alongside land, sea, air, and space, cyberspace is now recognized as the fifth domain of warfare. Unlike traditional domains, however, it is man-made and lacks fixed boundaries.¹⁰

IT experts assert that absolute security in cyberspace is unattainable. Historically, control over physical domains required material superiority — dominance at sea, for instance, required a powerful navy. In cyberspace, superiority depends not on numbers, but on technological capabilities, knowledge, and access to information. Human behaviour and user interaction play an essential role.¹¹

Cybersecurity depends not only on technological tools but also on social dimensions — such as user behaviour and their ability (or failure) to respond to cyber threats. According to the *Tallinn Manual 2.0*, cyberspace consists of three layers: physical, logical, and social. The physical layer includes tangible components like cables, routers, servers, and computers. The logical layer comprises the interconnections and protocols that facilitate data exchange. The social layer encompasses the individuals and groups engaged in cyber activities.¹²

2 The Development of Cybersecurity in Historical Perspective

In recent years, the topic of cybersecurity has received growing attention both due to global security threats and in connection with specific incidents. Cybersecurity has been evolving for approximately forty years, constantly adapting and advancing alongside the development of modern technologies.¹³

The origins of cybersecurity can be traced back to the 1970s, during the time of ARPANET, the predecessor of the modern internet. Early models of malicious software and principles for protecting information systems were not described until decades later. In 1983, Fred Cohen introduced a program capable of replicating itself across systems by concealing itself within a regular application. This marked the beginning of the era of computer malware. The first malware infection affecting a larger number of computers was identified in 1988, impacting around ten percent of all systems connected to ARPANET. In the United States during the 1980s, there was a significant increase in high-profile attacks targeting national laboratories and private companies. The year 1983 also saw the first known use of a Trojan horse virus. In 1987, the first commercial antivirus software was introduced, although there are differing opinions regarding its original developer. That same year, programmers Andreas Lining and Kai Figge released antivirus software for the Atari ST, which became known as the Ultimate Virus Killer.¹⁴

Slovak programmers were also active in this field during the same period. In 1987, Peter Paško and Miroslav Trnka developed a program designed to detect the first computer virus

⁹ VALUCH, J. (2022): Armed conflicts and cyber threats as challenges for international law in the 21st century, p. 103.

¹⁰ VAN PUYVELDE, D. (2019): Cybersecurity: Politics, governance and conflict in cyberspace, p. 54.

¹¹ U.S. DEPARTMENT OF DEFENSE (2018): Joint Publication 3-12: Cyberspace Operations, p. 6.

¹² SCHMITT, M. N. et al. (2017): Tallinn Manual 2.0 on the International Law Applicable to Cyber Operations, p. 14.

¹³ LEVICKÝ, D. (2019): Úvod do kybernetickej bezpečnosti, p. 15.

¹⁴ SINGER, P. W. (2014): Cybersecurity and Cyberwar: What Everyone Needs to Know, p. 82.

within an information system. At that time, they had no idea that they would later become leading figures in Slovakia's antivirus software market. Their program was named NOD, which stood for "Nemocnica na okraji disku" (Hospital on the Edge of the Disk), inspired by a popular television series in former Czechoslovakia.¹⁵

The field of cybersecurity began to develop more intensively in the second half of the twentieth century as the internet and digital technologies expanded. The first cyber incidents typically involved individuals attempting to access or disrupt computer systems. In more recent decades, however, cyber operations have increasingly become instruments of geopolitical competition.

One of the first widely known state-sponsored cyberattacks occurred at the beginning of the twenty-first century. Among the most notable incidents was the Stuxnet attack targeting Iran's nuclear facilities. This operation has been attributed to the United States and Israel. Since then, cyber campaigns have become a standard feature of geopolitical confrontation, frequently targeting governments, financial institutions, and critical infrastructure.¹⁶

Stuxnet was a computer worm discovered in 2010, although it was likely developed several years earlier. It caused real physical damage to industrial systems. The worm specifically targeted SCADA systems produced by Siemens, which controlled various industrial processes. In this case, the malware attacked uranium enrichment centrifuges at Iran's Natanz nuclear facility. Of approximately 45,000 infected systems, around sixty percent were located in Iran, strongly suggesting that Iran was the primary target. Similar infections were later identified in Indonesia and India.

Experts have noted that the complexity of Stuxnet indicates it was a government project with a military purpose. Most sources attribute its development to the United States and Israel. In 2011, other variants of similar malware were discovered, including DuQu, which has been referred to as Stuxnet 2.0. Unlike the original, DuQu was intended for espionage and the theft of intellectual property from industrial control systems. It also attempted to compromise certification authorities.

Stuxnet was the first known example of a cyber weapon specifically designed to cause physical damage to another country's infrastructure. It was most likely developed by democratic governments and established a new precedent in the domain of cyber warfare.¹⁷

3 Cyberattacks in 2025

Although the year 2025 is far from over, and we are currently only in its first half (May 2025), it is already evident that this is an exceptionally dynamic period in the field of cybersecurity. From the perspective of international relations, cyberspace is increasingly becoming a central arena of geopolitical confrontation, involving the interests of state actors, intelligence services, and non-state entities.

State-sponsored actors, particularly from the People's Republic of China, the Russian Federation, the Democratic People's Republic of Korea, and the Islamic Republic of Iran, remain the primary sources of globally coordinated cyber operations. One of the most significant incidents was the breach of Morocco's National Social Security Fund by hackers linked to Algeria. This attack led to the exposure of personal and financial data of nearly two million individuals from more than 500,000 companies. In the United States, the email accounts of 103 banking regulators at the Office of the Comptroller of the Currency (OCC) were compromised, allowing attackers to access over 150,000 emails containing highly sensitive financial information. The attackers gained access through a compromised administrator account, and their identities have not yet been officially confirmed.

¹⁵ LEVICKÝ, D. (2019): Úvod do kybernetickej bezpečnosti, p. 37.

¹⁶ SINGER, P. W. (2014): Cybersecurity and Cyberwar: What Everyone Needs to Know, p. 104.

¹⁷ VAN PUYVELDE, D. (2019): Cybersecurity: Politics, governance and conflict in cyberspace, p. 60.

Chinese cyber units were detected during U.S. Cyber Command's "hunt forward" operations, which revealed the presence of Chinese malware in the networks of partners in Latin America. In parallel, Chinese actors continued espionage campaigns targeting governmental, telecommunications, and media sectors in Southeast Asia, Hong Kong, and Taiwan. These operations often involved hiding within cloud services such as Dropbox. Within China, reports indicated a wave of foreign cyberattacks, with more than 1,300 incidents targeting fourteen key sectors during 2024 alone.¹⁸

North Korean cyber operatives expanded their activities into Europe, targeting government and defence entities. They gained access by impersonating remote contractors, which enabled them to collect sensitive data and even blackmail former employers. At the same time, North Korea carried out the largest cryptocurrency theft in history, stealing 1.5 billion USD in Ethereum from the ByBit exchange and laundering at least 160 million USD within 48 hours.

Iranian hacker groups focused on government networks in Iraq and the telecommunications sector in Yemen. They used custom backdoors and unique command-and-control methods. Several attempts were also made to compromise nuclear facilities in Israel, along with continued espionage activities across the Middle East. Across Europe, cyber incidents were often linked to the foreign policy positions of EU member states. In Germany, Russian hackers compromised the email accounts of the ruling Social Democratic Party. Similar intrusions occurred in Poland and the Czech Republic. Romania experienced repeated attacks on its electoral system, and Italy was targeted following a meeting between the Prime Minister and the President of Ukraine.

The United Kingdom faced a significant data breach involving military personnel, with Chinese groups suspected of being behind the attack. In Canada, a disinformation campaign targeted Deputy Prime Minister Chrystia Freeland. In France, a massive data leak from the national health system affected nearly half of the population. Several high-profile incidents demonstrated how cyberattacks are increasingly intertwined with international political narratives. One such case was the public accusation against Russia for disrupting Ukraine's tax and communication infrastructure, along with the systematic surveillance of Kyiv's air defence systems through compromised webcams.¹⁹

These developments clearly show that cybersecurity is no longer merely a technological issue but a critical component of international security and diplomacy. In the current global context, security policy cannot be effectively developed without recognizing the growing impact of cyber threats. Cyberspace has become a strategic arena in which states test their capabilities to protect institutions, citizens, and critical systems.

Cyber operations are no longer limited to wartime activities; they are now a routine element of ongoing geopolitical rivalry. This makes it essential to embed cybersecurity systematically into national security strategies, defence doctrines, and multilateral frameworks such as NATO, the European Union, and the United Nations.²⁰

Cybersecurity today represents a new form of national sovereignty. A state's ability to protect its digital infrastructure, respond to incidents, and resist hybrid threats is becoming one of the key pillars of modern geopolitics. In a world marked by rising tensions and increasing technological interdependence, cyberspace must be recognized not only as the domain of IT experts but also as a political and strategic space of the twenty-first century.

One of the most pressing challenges of the current international system is the absence of universally accepted rules and norms that regulate the behaviour of states and other actors in

¹⁸ CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES (2025): Significant Cyber Incidents, april 2025, p. 5.

¹⁹ CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES (2025): Significant Cyber Incidents, april 2025, p. 4.

²⁰ RIORDAN, S. (2019): Cyberdiplomacy: Managing security and governance online, p. 126.

cyberspace. While traditional forms of armed conflict are governed by international conventions – such as the Geneva Conventions – and institutional frameworks, cyber operations still occur in a legally diffuse and strategically unbalanced environment.

Although several significant initiatives exist, including the 2001 Budapest Convention on Cybercrime, which remains one of the few multilateral legal instruments in the cyber domain, their scope is mainly focused on criminal law, and they lack universal acceptance. For example, countries such as Russia, China, and several others are not signatories to this agreement.²¹

International organizations such as the United Nations, NATO, and the European Union are actively working to develop frameworks and instruments for the protection of critical infrastructure and the sharing of best practices in cyber defence. However, their effectiveness remains limited due to diverging strategic interests, asymmetry in technological capabilities, and fundamentally different value systems among states.

Another major challenge is the fact that cyberattacks often operate in a grey zone between peace and war. States increasingly use cyber tools for espionage, public opinion manipulation, election interference, or economic weakening of adversaries, all while maintaining plausible deniability. This complicates the attribution of responsibility at the international level and slows down the development and enforcement of binding norms.

The situation is further complicated by the rapid pace of technological development, particularly in areas such as artificial intelligence and quantum computing. These technologies are transforming the nature of potential cyber threats – from algorithm-driven disinformation campaigns to possible attacks on quantum communication networks. States that fail to invest in adapting and developing their own cyber defence capabilities in time may find themselves in a strategically vulnerable position.

As a result, experts increasingly emphasize that the future of cybersecurity will inevitably depend on the quality and scope of international cooperation. Establishing trustworthy and transparent multilateral platforms for incident response, information exchange, terminological alignment, and the adoption of common ethical principles for cyber warfare are key prerequisites for sustainable global stability.²²

Without such steps, cyberspace risks becoming a lawless domain in which stronger actors can systematically undermine the sovereignty of weaker states without any effective means of defence or international accountability. Ultimately, it becomes evident that cybersecurity is not merely a technical issue but an existential security concern for every state. It must be fully integrated into both national and international security strategies.

Conclusion

The analysis of cyber threat evolution shifts in the security paradigm, and the current level of vulnerability clearly demonstrates that cybersecurity has become an essential component of today's security environment. Given the nature of cyberspace—its global reach, lack of regulation, technological accessibility, and the diversity of actors—cybersecurity represents a fundamental challenge for both national and supranational institutions.

Findings indicate that states which historically dominated through conventional military power no longer hold a guaranteed advantage in the cyber domain. On the contrary, it is increasingly evident that small states and even non-state actors are capable of inflicting significant damage at minimal cost. The asymmetry of cyberattacks, their covert origins, and

²¹ SCHMITT, M. N. et al. (2017): Tallinn Manual 2.0 on the International Law Applicable to Cyber Operations, p. 31.

²² EUROPEAN UNION INSTITUTE FOR SECURITY STUDIES (2014): Riding the digital wave: The impact of cyber capacity building on human development, p. 78.

the frequent inability to attribute responsibility undermine traditional concepts of accountability in international law.

The year 2025, even in its first half, has already made it clear that cyber operations have become a routine part of international reality. These operations span espionage, economic disruption, and direct interference in the internal affairs of states. This trend repeatedly confirms that national security strategies must adapt, innovate, and reflect new conditions in which an invisible attack can lead to visible consequences.

A key insight is that national security can no longer be ensured by domestic means alone. Cybersecurity is increasingly becoming a matter of international cooperation, including intelligence sharing, the development of joint defence mechanisms, and the harmonization of legal frameworks. In this context, it is crucial to strengthen the role of international organizations such as the United Nations, NATO, and the European Union, which can serve as platforms for knowledge exchange, negotiation of behavioural norms in cyberspace, development of international standards and laws, and coordination of responses to cyberattacks. In conclusion, this study affirms that cybersecurity is no longer a mere subfield of information security or a technical issue for IT departments. It has become an integral part of state power, national defence, and international politics. Ensuring cybersecurity requires not only technical tools but also political will, a robust legal framework, and binding multilateral commitments. In the twenty-first century, a state that cannot protect its cyberspace will not be able to protect its sovereignty.

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REGIONAL INNOVATION PERFORMANCE IN THE SLOVAK AND CZECH REPUBLICS

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Abstract: The paper analyzes regional innovation performance in the Slovak Republic and the Czech Republic, examining how individual regions contribute to the overall innovation output of both countries. Special attention is given to the position of regional innovation ecosystems, their structure, key actors, and interconnectivity within each country. The aim of the paper is to compare the state of regional innovation ecosystems and to identify their differences and similarities across the selected countries.

Keywords: innovations, regions, regional innovation ecosystem, regional innovation performance, Slovak Republic, Czech Republic

JEL: O30

Introduction

In recent years, the regional dimension of innovation policy has gained increasing importance, as individual regions play an increasingly active role in the creation and dissemination of innovative solutions. In this context, the analysis of regional innovation performance becomes more relevant, representing the ability of regions to generate, adopt, and effectively utilize innovations to support regional development. This paper focuses on a comparison of regional innovation performance in the Slovak Republic and the Czech Republic, examining how individual regions contribute to the overall innovation profile of their respective countries. Through this comparative analysis, it is possible to identify differences and similarities in the structure of regional innovation ecosystems in relation to their innovation performance, based on data published by the European Commission, specifically through the assessment of the Regional Innovation Scoreboard at the level NUTS 2.

1 Theoretical foundations of regional innovation ecosystems

The Slovak Republic defines the concept of innovation as a new or improved product, a new or improved service, or a new or improved process that is applicable to the market and based on the results of research and development or business activity.¹

In the Czech Republic, the definition of innovation is enshrined in the Act on the Support of Research and Development. It is defined as the implementation of new or significantly improved products, processes, or services into practice, distinguishing between process innovation and organizational innovation:

- Process innovation refers to the introduction of a new or significantly improved method of production or service delivery, including substantial changes in technology, equipment, or software.

¹ Act No. 172/2005 Coll. on the Organization of State Support for Research and Development and on the Amendment of Act No. 575/2001 Coll. on the Organization of Government Activities and the Organization of Central State Administration, as amended, Section 2, paragraph 5.

- Organizational innovation refers to the implementation of a new method in the organization of business practices, workplace arrangements, or external relations.²

Both legislative definitions of the term innovation are based on the OECD definition, which defines innovation as a new or improved product or process (or a combination thereof) that differs significantly from the unit's previous products or processes and that has been made available to potential users (product) or put into use by the unit (process). Innovations are concrete solutions – such as new technologies, business models, policy practices, approaches, partnerships, and knowledge – that effectively address persistent development challenges and barriers to empowerment, with the aim of improving the lives of the poorest and most vulnerable. Development-oriented innovations enable actors to explore new ways of addressing current and future development challenges.³

Innovations can be implemented across various sectors, thereby contributing to their development. Currently, innovations are also being introduced in the field of regional policy, creating opportunities to map actors who support regional innovation and simultaneously develop their own ecosystems. Among the most important factors that can lead to the economic development of a region are demographic trends, innovation, clusters, policy and its quality, localization, geographical, cultural and historical conditions, the number and structure of enterprises and their interrelations, the industrial structure of the region, education and universities, and foreign investments.⁴ It can be stated that the concept of the innovation ecosystem has evolved from relationships oriented towards strategy, innovation, and entrepreneurial activity.⁵ Oh et al. examine the definitional foundations of the concept of the innovation ecosystem in their study and outline its various advantages and limitations. It can be concluded that one of the most significant limitations of the innovation ecosystem terminology is the assertion that it is an ecosystem based solely on entrepreneurship, which contradicts the philosophy of open innovation.⁶ The innovation ecosystem can also be applied in the context of regional policy, where its actors, in addition to the private sector (entrepreneurs), include universities and public administration. The Triple Helix model, introduced by Etzkowitz and Leydesdorff in 1997, is based on collaboration among three key actors: firms, government, and universities. They argue that the relationships between these actors are shaped by the development level of a specific territory (region), thereby determining the region's competitiveness. This model is widely used to examine the territorial dimension of innovation and to gain a comprehensive understanding of the interactions among the various actors.⁷ A comprehensive definition of a regional innovation system is provided by Ručinská, who describes it as a set of economic, political, and institutional relationships occurring within a specific territory. Within this system, collective learning processes take place, facilitating the exchange of knowledge among regional actors.⁸

The European Union aims to become more innovative and thereby support European innovation ecosystems, as specifically outlined in Regulation (EU) 2021/695 of the European

² Act No. 130/2002 Coll. on the Support of Research and Development from Public Funds and on the Amendment and Supplementation of Certain Related Acts (Act on the Support of Research and Development), Section 2, paragraph 1(c).

³ OECD (2018): Oslo Manual 2018: Guidelines for Collecting, Reporting and Using Data on Innovation, 4th Edition, The Measurement of Scientific, Technological and Innovation Activities, p. 34.

⁴ RUČINSKÁ, S. (2008): Competitiveness of regions with an emphasis on innovation: Innovation transfer, p. 184.

⁵ BRAVAGLIERI, S. et al. (2025): Multi-actor rural innovation ecosystems: Definition, dynamics, and spatial relations: Journal of Rural Studies.

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⁷ FARINHA, L. et al. (2020): Regional Helix Ecosystems and Economic Growth: Regional Helix Ecosystems and Sustainable Growth.

⁸ RUČINSKÁ, S. (2008): Innovation management in the regional innovation system: Innovation transfer, p. 25.

Parliament and of the Council, which establishes Horizon Europe – the framework programme for research and innovation, titled “Innovative Europe.” For the period 2021–2027, the European Union has allocated a budget of €459,000,000 for the activities of European innovation ecosystems.⁹ The European innovation ecosystem connects actors or entities with the aim of ensuring technological development and innovation at both the local level and the level of the European Union. The European Union identifies the main barriers that hinder the optimal performance of European innovation ecosystems, which include:

- organizational, regulatory, and cultural barriers that affect interactions among innovation actors;
- barriers related to strengthening innovation systems through coordination, clear focus on specific goals, and impact.¹⁰

To improve and support the implementation of innovations in European Union countries, a measurement tool has been developed based on selected indicators of innovation performance of individual countries. The European Commission annually publishes the overall innovation performance scores of EU countries as well as regional innovation performance scores at the level NUTS 2. This tool enables the analysis of innovation performance trends within individual countries, allowing for the adjustment of activities and policies to foster regional development. A region can drive economic development based on various factors, among which the impact of innovations is included. Simultaneously, the region’s activities and outcomes influence national competitiveness, thereby determining the living standards of its inhabitants.¹¹

Based on the achieved innovation performance scores, the European Union categorizes its member states as follows:

- Innovation Leaders (performance above 125% of the EU average)
- Strong Innovators (100–125% of the EU average)
- Moderate Innovators (70–100% of the EU average)
- Emerging Innovators (less than 70% of the EU average)

Since innovation performance measurement began in 2017, the overall innovation performance of the European Union improved by 10% in 2024, with 15 member states showing increased innovation performance. It is important to note that 11 member states experienced a decline in innovation performance during the same period. In 2024, Denmark was recognized as the most innovative member state.¹²

The Slovak Republic and the Czech Republic, as member states of the European Union, prioritize the implementation of innovations within their regions and are improving their innovation performance. According to the 2024 European Innovation Scoreboard, Slovakia ranked 28th and is classified as an Emerging Innovator with a score representing 65.1% of the EU average in 2024. Compared to 2017, Slovakia’s innovation performance increased by 2.6 points. Significant growth since 2017 was observed in indicators such as direct and indirect support for research and development (R&D), business R&D, broadband penetration, and public-private co-publications. However, notable declines were recorded in R&D expenditure in the public sector, environment-related technologies, and new doctorate graduates. The Czech Republic ranked 19th with an index of 89.7% of the EU average in 2024, categorizing it as a Moderate Innovator. Its score increased by 15.6 points compared to 2017. Strong growth since 2017 was noted in venture capital expenditures, the proportion of foreign doctorate students relative to all doctorate students, and innovation expenditures per person employed.

⁹ Regulation (EU) 2021/695 of the European Parliament and of the Council, Article 12 Budget, paragraph 1(c).

¹⁰ Regulation (EU) 2021/695 of the European Parliament and of the Council – Annex II European Institute of Innovation and Technology (EIT).

¹¹ RUCĪNSKÁ, S. (2008): Regional competitiveness with a focus on innovation: Innovation transfer, p. 184.

¹² EUROPEAN COMMISSION (2025): European innovation scoreboard-European innovation scoreboard 2024.

Conversely, significant decreases were observed in R&D expenditure in the public sector, direct and indirect government support for business R&D, and design applications.¹³

Based on the most recent available data (2023), it is possible to examine innovation performance at the regional level between Slovakia and the Czech Republic from 2017 onwards. The methodology for calculating the regional innovation performance score has changed since 2016, specifically through adjustments in the weighting of certain indicators, which means that changes in the methodology may slightly distort the results. The regional innovation score uses data for fewer indicators- 21 compared to 32 used in the European Innovation Scoreboard.¹⁴ Indicators of the regional innovation score are categorized into four groups: framework conditions, investments, innovation activities, and impacts, which are composed of values from specific indicators. Based on the values achieved within these four groups, Slovak and Czech regions were analyzed in 2023 as follows.

In the category of framework conditions, the metropolitan regions Praha and Bratislavský kraj dominate. The most prominent indicator in this category is international scientific co-publications, which reach the highest value in the Praha region, closely followed by Bratislavský kraj. Another significant indicator is the share of the population with tertiary education, where Bratislavský kraj and Praha again rank highest. Slovak and Czech regions exhibit approximately similar values in this respect. It is noteworthy that, apart from these regions, the highest concentration of tertiary-educated inhabitants in Slovakia is found in Východné Slovensko, while in the Czech Republic it is in the Jihovýchod region. Besides the dominant centers, the Jihovýchod region in the Czech Republic also demonstrates significant potential. In the area of digital skills, Praha stands out again, followed by the Juhozápad region, while in Slovakia the highest values are recorded in Bratislavský kraj and Stredné Slovensko.

Regarding investments, specifically public sector R&D expenditures, the dominant regions in the Czech Republic are Praha and Jihovýchod, while in Slovakia it is Bratislavský kraj. The lowest values are recorded in Severozápad (ČR) and Západné Slovensko (SR).

In the business sector, the Czech region Stredné Čechy invests the most in research and development, with values higher than those in Praha. In Slovakia, Bratislavský kraj leads again, with the lowest expenditures in Východné Slovensko. For innovation expenditures outside of R&D, significant regions in Slovakia are Východné and Západné Slovensko. In the Czech Republic, Severozápad and Moravskoslezsko dominate, where expenditures reach up to twice the values recorded in Slovak regions. Regarding employment in the ICT sector, Praha and Bratislava exhibit the highest and equal values, while Západné Slovensko shows the lowest values, comparable to the Czech regions Juhozápad and Středná Morava.

The most prominent indicator in innovation activities is the number of public-private co-publications. In the Czech Republic, Praha and Jihovýchod lead, while in Slovakia Bratislavský kraj and Východné Slovensko stand out. The indicator values in this category are significantly higher in Czech regions than in Slovak ones, with Praha and Jihovýchod dominating in the Czech Republic. Innovation activities of small and medium-sized enterprises (MSP) are most pronounced in Praha and Moravskoslezsko, which achieve high values in product innovation implementation. The Jihovýchod region also holds significant importance. In Slovakia, innovation cooperation and implementation in the MSP segment is prominent in Stredné Slovensko.

The highest values in the impacts category, specifically in indicators such as sales of new innovations on the market and sales of new innovations within enterprises, are attained by the Praha and Severovýchod regions. Important indicators in this category also include employment in knowledge-intensive activities and employment in innovative enterprises.

¹³ EUROPEAN COMMISSION (2024): European Innovation Scoreboard 2024, p. 75.

¹⁴ EUROPEAN COMMISSION (2023): Regional Innovation Scoreboard 2023 Methodology Report, p. 3.

Slovak regions are less prominent in employment in innovative enterprises, where values are up to 50% lower compared to Czech regions.

Czech and Slovak regions exhibit significant differences in innovation performance, with Praha and Bratislavský kraj dominating in all four categories (framework conditions, investments, innovation activities, and impacts). The Czech Republic as a whole achieves higher values in nearly all indicators, especially in scientific publications, R&D investments, sales of innovations, and employment in innovative sectors. Slovakia shows pronounced regional disparities, with Bratislavský kraj achieving approximately comparable values to Czech regions across most indicators.¹⁵¹⁶

2 Regional innovation performance in the Slovak Republic

Regional innovation performance in the Slovak Republic is measured at the level NUTS 2 across four regions: Bratislavský kraj (SK01), Západné Slovensko (SK02), Stredné Slovensko (SK03), and Východné Slovensko (SK04).

Table 1: Regional innovation performance at level NUTS 2 in the Slovak Republic from 2016 to 2023

Year	Bratislavský kraj	Západné Slovensko	Stredné Slovensko	Východné Slovensko
2023	91,3	56	61,7	62,1
2022	96,4	57,4	62,8	61,2
2021	95,1	58	60,6	60,3
2020	99,2	59,8	57,9	58,9
2019	98,6	60,2	56	58,3
2018	93,7	54,8	56,6	60
2017	98,8	56,4	59,7	63,2
2016	97,1	52,7	58,1	62,9

Source: own processing¹⁷

According to the Regional Innovation Scoreboard of 2023, the Slovak Republic as a whole is classified among emerging innovators. Despite the overall low innovation performance in the European context, there are distinct regional disparities. Bratislavský kraj achieved the highest innovation performance, placing it in the category of moderate innovators, while Západné Slovensko was identified in 2023 as the least innovation-performing region in Slovakia, falling into the emerging innovators category. Similarly, Stredné Slovensko and Východné Slovensko are also classified as emerging innovators. The results indicate that Bratislavský kraj has been the long-term regional leader in innovation performance in Slovakia since 2016.

Table 2: Difference in regional innovation scores in the Slovak Republic between 2016 and 2023 at level NUTS 2

	2023	group	2016	difference
SK01 Bratislavský kraj	91,3	Moderate Innovator	97,1	-5,8
SK02 Západné Slovensko	56	Emerging Innovator	52,7	3,3
SK03 Stredné Slovensko	61,7	Emerging Innovator	58,1	3,6

¹⁵ EUROPEAN COMMISSION (2025): Country regional profile - Slovak Republic.

¹⁶ EUROPEAN COMMISSION (2025): Country regional profile - Czech Republic.

¹⁷ EUROPEAN COMMISSION (2025): Country regional profile - Slovak Republic.

SK04 Východné Slovensko	62,1	Emerging Innovator	62,9	-0,8
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Source: own processing¹⁸

In terms of the greatest change since 2016, the region SK03 Stredné Slovensko recorded the most significant increase in innovation performance, indicating potential for development, provided that it is supported by appropriate policies and investments in research, education, and innovation infrastructure.

3 Regional innovation performance in the Czech Republic

Regional innovation performance in the Czech Republic is measured at the level NUTS 2 across 8 regions.

Table 3: Regional innovation performance at level NUTS 2 in the Czech Republic from 2016 to 2023

Year	Praha	Střední Čechy	Jihozápad	Severozápad	Severovýchod	Jihovýchod	Střední Morava	Moravskoslezsko
2023	127,6	88,6	81	66	88,4	101	88,2	86,9
2022	121,8	97,2	82,2	54,9	88,2	100,7	82,5	85,3
2021	119,1	94,8	78,5	52	85,8	96,4	80	81,6
2020	118	82,1	77,4	58,5	82,5	89,2	82,1	76,6
2019	114,9	78,8	75,9	57	80,2	86,3	74,6	75,7
2018	114,6	75,7	70,5	53,3	82,9	86,9	77,9	68,9
2017	113,8	75	71,2	54	84,1	87,3	78	68,2
2016	114,4	76,3	72,2	52,6	83,7	87,3	76,9	68,5

Source: own processing¹⁹

Although the Czech Republic as a whole is classified as a Moderate Innovator, there are differences in innovation performance among its regions. The most innovation-performing region in 2023 is the capital city Praha (CZ01), which falls into the category of Innovation Leaders. The least innovation-performing region in 2023, classified as an Emerging Innovator, is Severozápad (CZ04).

Table 4: Difference in regional innovation scores in the Czech Republic between 2016 and 2023 at level NUTS 2

	2023	Group	2016	Difference
CZ01 Praha	127,6	Innovation Leader	114,4	13,2
CZ02 Střední Čechy	88,6	Moderate Innovator	76,3	12,3
CZ03 Jihozápad	81	Moderate Innovator	72,2	8,8

¹⁸ EUROPEAN COMMISSION (2025): Country regional profile - Slovak Republic.

¹⁹ EUROPEAN COMMISSION (2025): Country regional profile - Czech Republic.

CZ04 Severozápad	66	Emerging Innovator	52,6	13,4
CZ05 Severovýchod	88,4	Moderate Innovator	83,7	4,7
CZ06 Jihovýchod	101	Strong Innovator	87,3	13,7
CZ07 Střední Morava	88,2	Moderate Innovator	76,9	11,3
CZ08 Moravskoslezsko	86,9	Moderate Innovator	68,5	18,9

Source: own processing²⁰

The greatest change in innovation performance since 2016 was observed in the region Jihovýchod, which advanced from the category of Moderate Innovator to Strong Innovator. This increase signals a positive development in research, innovation, and collaboration between businesses and scientific research institutions.

Conclusion

Regional innovation performance is a significant factor in shaping the competitiveness of individual countries. From this perspective, a comparative analysis of the regional innovation performance of the Slovak Republic and the Czech Republic is particularly interesting because they are neighboring countries with similar historical, economic, and political backgrounds, yet their regional profiles are evolving differently. The Czech Republic indicates higher innovation performance at the national level compared to the Slovak Republic. However, differences are more pronounced at the regional level (NUTS 2), where uneven regional innovation performance can be observed.

The aim of this paper is to examine the level of innovation performance in the Slovak Republic and the Czech Republic at the NUTS 2 level and to identify differences and similarities within the selected countries.

The highest innovation performance in the Czech Republic is recorded in the region Praha (Innovation Leaders), followed by the region Jihovýchod (Strong Innovators). Five Czech regions are categorized as Moderate Innovators, and one region is classified as an Emerging Innovator, placing it in a comparable position to Slovak regions outside Bratislavský kraj.

In both countries, the capital city dominates regional innovation performance, which also supports the overall innovation ranking of the countries. Despite this common feature, a key difference is that Praha is an innovation leader at the European Union level, whereas Bratislavský kraj is classified as a moderate innovator. The Czech Republic exhibits a much more balanced regional innovation performance, as most regions belong to the middle performance category and show systematic improvement. In contrast, the Slovak Republic's innovation capacity is concentrated in a single region.

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THE PACIFIC ALLIANCE'S PLACE IN THE GLOBAL ECONOMY

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Abstract: The paper focuses on the position of the Pacific Alliance in the global economy and its involvement in international trade. The aim of the article is to characterize the Pacific Alliance's role in the world economy and international trade, with an emphasis on cooperation with the Asia-Pacific region, and to analyze the development of internal trade among the member states of the Alliance. The Pacific Alliance places greater emphasis on interregional cooperation than on the development of an internal market among its members. One of the most dynamic partnerships is cooperation with Singapore, but strong trade and investment ties with the world's largest and most developed economies continue to persist.

Key words: Pacific Alliance, Colombia, Chile, Mexico, Peru, international trade

JEL: F10, F13, F15

Introduction

The Pacific Alliance, as a regional integration initiative, was established on April 28, 2011, by Chile, Mexico, Peru, and Colombia. It is a free trade zone aimed at achieving the free movement of goods, services, people, and capital; promoting growth, development, and the competitiveness of member economies; ensuring prosperity; reducing social inequalities; and fostering social inclusion. Furthermore, it serves as a platform for further political, economic, and trade integration not only within the region but also across regions, with a focus on the Asia-Pacific region.¹ Costa Rica became the fifth member state at the end of 2024, with its accession process officially beginning a decade earlier.

The Alliance describes itself as a strategic partnership focused on modernity and pragmatism, with a commitment to addressing the challenges of the international economic environment. The Pacific Alliance is currently advancing cooperation and innovative initiatives in the following areas: free movement of people, environmental protection and respect, the creation of a scientific research network on climate change, academic and student exchanges, cultural promotion, integration of securities markets, establishment of joint trade offices and participation in fairs and exhibitions in shared spaces, as well as improving the competitiveness and innovation of micro, small, and medium-sized enterprises, and tourism.

The aim of this paper is to characterize the position of the Pacific Alliance in the global economy and international trade, with an emphasis on cooperation with the Asia-Pacific region and to analyze the development of internal trade among its members. The first part of the paper analyzes the framework for cooperation within the Pacific Alliance, agreements with other integration blocs and states that are strategically important for the Alliance. This is followed by a brief overview of the member states, their involvement in international trade. Finally, we analyze the current state and development of intra- and interregional trade of the Pacific Alliance. Intraregional trade is defined as trade exchange between members of the same region; in our case, this refers to trade between Pacific Alliance members. On the other hand, interregional trade involves the exchange of goods and services between different regions of the world.

¹ PACIFIC ALLIANCE (2025): What is the Pacific Alliance?

1 The Position of the Pacific Alliance in the World Economy

The Pacific Alliance has 64 observer countries, specifically 33 from Europe (Armenia, Austria, Azerbaijan, Belgium, Belarus, Croatia, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Malta, Netherlands, Norway, Poland, Portugal, Romania, Serbia, Slovakia, Slovenia, Spain, Sweden, Switzerland, Turkey, Ukraine, United Kingdom), 13 from the Americas (Argentina, Canada, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Panama, Paraguay, Trinidad and Tobago, United States, Uruguay), 13 from Asia (P.R. China, India, Indonesia, Israel, Japan, Kazakhstan, Korea, Pakistan, Philippines, Saudi Arabia, Singapore, Thailand, United Arab Emirates), 2 from Africa (Egypt, Morocco), and 2 from Oceania (Australia, New Zealand), which enables relatively active engagement in the global economy. Singapore has even acquired associate member status, and association negotiations have been initiated with South Korea. On January 26, 2022, representatives of the four Pacific Alliance member states and Singapore signed a Free Trade Agreement encompassing 25 chapters, including market access for goods, sanitary and phytosanitary measures, rules of origin, technical barriers to trade, economic and trade cooperation, trade facilitation, investment, e-commerce, cross-border trade in services, maritime services, telecommunications, temporary entry of business persons, state-owned enterprises, public procurement, competition policy, good regulatory practices, gender equality, SMEs (small and medium-sized enterprises), and legal and institutional matters.² This represents a significant milestone for interregional cooperation, as Singapore became the first partner state of the Alliance.

The Pacific Alliance is also intensifying its cooperation with regional blocs such as Mercosur, the European Union, ASEAN, and the EEC (Eurasian Economic Commission/Euroasian Economic Union). In 2018, the presidential leaders of the Pacific Alliance and Mercosur (Southern Common Market) signed an Action Plan to deepen mutual trade and other relations, including the removal of non-tariff barriers, trade facilitation, regulatory cooperation, support for SMEs, the digital agenda, inclusive trade and gender equality, culture, tourism, etc.³

Since 2015, the EU and the Alliance have also been developing closer cooperation aimed at strengthening their relationship and achieving the free movement of people, goods, services, and capital in the long term. Collaboration is being reinforced in areas such as the environment, science, technology and innovation, and support for small and medium-sized enterprises (SMEs). Further areas of common interest have been identified, including financial integration, regional development, education and student mobility, people movement, digital strategies, green growth, innovation, and science and technology. At that time, Federica Mogherini, the High Representative of the European Union for Foreign Affairs and Security Policy, described the Pacific Alliance as a driving force of regional integration in Latin America, with which the EU shares not only a strong friendship but, above all, "*common fundamental values, a strong belief in multilateralism, and a shared commitment to supporting the 2030 Agenda and its Sustainable Development Goals.*"⁴

With ASEAN (Association of Southeast Asian Nations), closer cooperation has been developing since 2014, with a new action plan for 2021–2025 adopted, covering the Fourth Industrial Revolution, trade and investment, SMEs, education, science, technology and innovation, the digital economy, gender equality, and sustainable development.⁵

The Pacific Alliance also welcomes cooperation with the Eurasian Economic Union (Russia, Belarus, Kazakhstan, Armenia, and Kyrgyzstan), particularly in areas of regional

² PACIFIC ALLIANCE (2025): Pacific Alliance – Singapore.

³ PACIFIC ALLIANCE (2025): Pacific Alliance – MERCOSUR.

⁴ EUROPEAN UNION (2019): The European Union and Pacific Alliance commit to deepening their partnership.

⁵ PACIFIC ALLIANCE (2025): Pacific Alliance - Association of Southeast Asian Nations ASEAN.

economic integration and trade facilitation, and in promoting ties between business communities of the Commission’s member states and those of the Pacific Alliance.⁶

Additionally, the Pacific Alliance has adopted joint declarations with Japan and the OECD (Organisation for Economic Co-operation and Development). The declaration signed with Japan reflects the shared interest in facilitating the free movement of goods, services, capital, and people. Areas of cooperation identified include science, technology and innovation, trade and investment, disaster risk reduction, green growth and sustainable development goals, and SMEs. Cooperation with the OECD focuses on synergy between the Pacific Alliance’s economic integration process and the political dialogue and analytical tools developed within the OECD. It also covers areas of mutual interest such as connectivity, the digital economy, global value chains, international regulatory cooperation, and support for SMEs.

It is evident that the Pacific Alliance's deeper cooperation with other blocs focuses on similar areas, taking into account current developments in the global economy. The Pacific Alliance is also engaged in various cooperation projects with observer states.

2 Intraregional and interregional trade

Currently, the Alliance consists of five countries; however, due to Costa Rica’s recent accession and the availability of statistical data, some of the analyses will focus only on the four original members. The economies of Colombia, Mexico, Peru, and Chile together form the eighth-largest economy in the world and the eighth-largest exporter globally. The Alliance accounts for 38% of Latin America's GDP and 50% of the region’s total trade, attracting 45% of the region’s foreign direct investment.⁷ The four original members represent a population of over 239.5 million people, equivalent to 2.9% of the world’s population. Including Costa Rica, the bloc has only about 5 million more people, but with relatively high purchasing power within the region. Moreover, the median age in all five countries is around 30 years (lowest in Mexico and highest in Chile), meaning the bloc has a relatively young and at the same time skilled labor force (Table 1). Additionally, the purchasing power of the population is increasing.

Table 1: Population in the Pacific Alliance

	Population (in million)	Eq. to the total world population	Median age	GNI p.c.
Chile	19.8	0.24%	36.9	15,800
Mexico	131.8	1.60%	29.6	11,980
Colombia	53.4	0.65%	32.5	6,810
Peru	34.5	0.42%	30.2	7,090
Costa Rica	5.1	0.063%	35.2	14,260

Source: WORLDOMETER (2025): Costa Rica Population. / Colombia Population./ Chile Population./Mexico Population./ Mexico Population.
 WORLD BANK (2025): GNI per capita, Atlas method (current US\$) - Costa Rica, Colombia, Chile, Mexico, Peru.

Within the Pacific Alliance, Mexico reports the highest trade turnover, followed by Chile. In contrast, Peru recorded the lowest trade turnover with the other members in 2024 (excluding Costa Rica, which was not yet a full member during this period). Given the size of the economies and their export capacities, Mexico’s dominance is expected to continue in the future. Costa Rica is also expected to see an increase in trade once the free trade agreement with the Pacific Alliance members enters into force. Among the group, Peru lags the most behind in trade with the other members (Table 2).

⁶ PACIFIC ALLIANCE (2025): Pacific Alliance - Eurasian Economic Commission (EEC).
⁷ PACIFIC ALLIANCE (2025): What is the Pacific Alliance?

Table 2: Current trade turnover between members (2024, in US Dollar thousand)

	Chile	Colombia	Costa Rica	Mexico	Peru	All members
Chile	X	2,220,849	425,668	3,916,190	4,204,150	10,766,857
Colombia	2,220,849	X	464308	5201713	2042077	9,928,947
Costa Rica	425,668	464308	X	1850924	241718	2,556,950
Mexico	3,916,190	5201713	1850924	X	2581159	13,549,986
Peru	4,204,150	2,042,077	241,718	2,581,159	X	4,864,954

Source: ITC (2025): Trademap.

Since 2011, intra-alliance trade within the Pacific Alliance has declined by more than 6%.⁸ Member states are largely oriented toward external trade partners in the global economy. Mexico stands out as the only member that serves as one of the most significant trade partners for the rest of the bloc, primarily as an importer. Conversely, for Mexico, the remaining Pacific Alliance countries do not constitute major trade partners. Most members of the Alliance maintain strong economic ties with the United States, China, European countries, and the Asia-Pacific region (see Table 3). Among the members, Chile demonstrates the strongest focus on intraregional trade. Notably, it has experienced the smallest decrease in internal trade flows—just 2% since 2011.⁹

Table 3: Trade partners of the Pacific Alliance members

	Export	Import
Chile	China, USA, Japan, Brazil, South Korea, Peru (7 th), Mexico (9 th), Colombia (14 th)	China, USA, Brazil, Argentina, Germany, Mexico (6 th), Peru (7 th), Colombia (13 th)
Colombia	USA, Panama, India, China, Mexico, South Korea (9 th), Peru (10 th), Chile (11 th)	USA, China, Brazil, Mexico, Germany, Peru (16 th), Chile (17 th)
Costa Rica	USA, Netherlands, Guatemala, Belgium, Nicaragua, Mexico (10 th)	USA, China, Mexico, Brazil, Guatemala, Japan (8 th), Colombia (11 th)
Mexico	USA, Canada, China, Germany, Taiwan, Japan (7 th), South Korea (8 th)	USA, China, Germany, Japan, South Korea
Peru	China, USA, India, Canada, Japan, Chile- (8 th), South Korea (10 th), Colombia (14 th), Mexico (16 th)	China, the USA, Brazil, Argentina, and Mexico, Colombia (7 th), Chile (9 th)

Source: ITC (2025): Trademap.

Japan and South Korea rank among the Pacific Alliance's largest trade partners from the Asia-Pacific region. The Alliance has increasingly focused on strengthening relations across the Pacific. Between 2011 and 2023, the volume of trade between the Pacific Alliance and Japan grew by nearly 12%, with the most significant increases observed in Japan–Mexico and Japan–Peru trade flows. In the case of South Korea, the 32% increase in trade volume with the Pacific Alliance is largely attributable to Mexico, as the trade volume between South Korea and Mexico rose by more than half over the same period. A notable increase in trade has also been recorded

⁸ Own calculation based on ITC. (2025): Trademap.

⁹ Own calculation based on ITC. (2025): Trademap.

with Singapore. As a bloc, the Pacific Alliance expanded its trade volume with Singapore by 70%, with Peru reporting an increase of more than 169%, Mexico 87%, and Chile over 50%.¹⁰

In terms of foreign direct investment (FDI), the member states of the Pacific Alliance primarily orient themselves toward the world's largest economies, particularly the United States and China. At the same time, investment flows from Asia-Pacific countries are steadily increasing. The Alliance actively promotes trade exchange and offers investment opportunities to the world's most advanced and economically powerful nations. It provides a competitive environment for foreign direct investment, especially in sectors such as mining, forestry resources, energy, agriculture, the automotive industry, fisheries, and manufacturing.

Conclusion

The Pacific Alliance primarily functions as a platform for negotiations with the external international environment, with a particular focus on the Asia-Pacific region. Through a unified approach, member states gain trade advantages, especially in relations with Singapore and South Korea. In contrast, intra-regional trade among the Pacific Alliance member states has stagnated, with a slight decline in trade volume observed in recent years. This trend is largely attributable to the similar competitive advantages shared by the member economies, with the exception of Mexico, which stands out as a significant exporter of industrial products. Consequently, Mexico serves as a major importer for the other Pacific Alliance members. Mexico's position within the Alliance is the strongest, due not only to the relative size and strength of its economy but also because it is the second-largest economy in Latin America and the most industrially developed in the region, granting it a competitive edge. Within the bloc, Peru lags behind the other members, though it has made substantial progress in recent years toward improving the socio-economic conditions of its population.

The Pacific Alliance represents a unique regional grouping within Latin America. It currently consists of five permanent members, with the free trade zone extended to include Singapore. The Alliance's objectives are significantly more oriented toward interregional cooperation than those of other Latin American associations, which tend to emphasize intra-regional trade development—often more in theory than in practice. In this regard, the Pacific Alliance can be understood as a relatively young and modern organization operating in a region that has long struggled with the stagnation of deeper economic integration.

Future research should focus on a more detailed analysis of the foreign trade patterns of individual Pacific Alliance members, both among themselves and with other global regions. Such research is warranted not only from the perspective of territorial trade structure but also in terms of commodity composition. Exports from Pacific Alliance member states are heavily concentrated in primary products, which in turn shapes their geographic trade orientation. A planned in-depth analysis will provide more detailed conclusions regarding the issues discussed.

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POWER SHIFT: THE EU'S ENERGY FUTURE THROUGH COOPERATION WITH NORTH AFRICAN COUNTRIES¹

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Abstract: This paper explores how cooperation with North African countries can contribute to reducing energy dependency of the EU. It examines the geopolitical, infrastructural, and environmental dimensions of this partnership, highlighting both its opportunities and challenges. Through integrated infrastructure, regulatory alignment, and joint investment in renewables and hydrogen, North Africa could become a cornerstone of a sustainable and independent European energy future. The aim of this research is to identify the key opportunities and challenges in EU–North Africa energy cooperation and evaluate the role of existing and planned infrastructure in supporting Europe's energy diversification and climate policy objectives.

Key words: European Union, Algeria, Energy, North Africa,

JEL: F5, Q4

Introduction

The European Union's longstanding reliance on Russian energy exports — particularly natural gas — has presented significant strategic risks, which were starkly revealed following Russia's 2022 invasion of Ukraine. As geopolitical tensions intensified, energy security emerged as a critical vulnerability for Europe, necessitating an urgent reassessment of energy sources, supply routes, and international partnerships. This crisis has catalyzed a broader transformation in European energy policy, characterized by a drive for diversification, sustainability, and strategic autonomy.

In 2023, German Foreign Minister Annalena Baerbock said that Algeria possesses significant potential for collaboration in the energy sector, with a particular emphasis on green and renewable energy sources.² In this context, the North African region has re-emerged as a vital yet underutilized partner in Europe's pursuit of energy independence. Countries such as Algeria, Morocco, Tunisia, Egypt, and Libya possess significant reserves of natural gas, as well as substantial potential for solar and wind energy, owing to their geographic proximity to Europe. Several of these nations also benefit from existing infrastructure that connects them to European energy markets, including pipelines and undersea electricity interconnectors. In addition to traditional hydrocarbons, the region offers considerable potential for the development of renewable energy and green hydrogen—resources that are consistent with the European Union's climate objectives as outlined in the European Green Deal and the REPowerEU strategy.

The increasing use of investment mechanisms, particularly in the energy sector, as a means to diversify supply and enhance national security raises important questions about the nature of strategic economic action. This context invites a conceptual distinction between two complementary approaches to safeguarding national security. We can divide them in „active“ and „passive“. To put simply, a passive dimension is focused on the protection of domestic assets from external influence, and an active dimension, which is characterized by outward

¹ This paper is part of the project I-24-106-00 'Changes in the positions of global actors in economic relations with Africa'

² EFE, A. (2023): *Baerbock highlights Algeria's potential to build a "green energy bridge over the Mediterranean* – Atalayar.

engagement, such as construction of resilient supply chains through foreign investment and infrastructure development.

For example, in this particular EU-North Africa situation, passive measures, e.g. the EU's 2019 FDI-screening regulation, aim mainly to block or monitor foreign take-overs of critical assets. They reduce immediate coercive leverage but do little to diversify supplies.

Active measures go a step further: they project European capital and standards outward to build new, secure supply networks. Recent EU-backed investments in North-African pipelines, solar complexes, and the planned SouthH₂ hydrogen corridor exemplify this proactive logic. By underwriting or de-risking these projects (often through Global Gateway, REPowerEU funds, or state-supported utilities like ENI, Siemens Energy, and EDF), Europe is not merely guarding the home front; it is shaping the neighbourhood - creating diversified, low-carbon energy corridors that strengthen long-term resilience.

Energy cooperation between the European Union and North African countries presents several challenges, including political instability, infrastructural limitations, and regulatory misalignments. Nevertheless, the mutual benefits of such collaboration are considerable. For North African nations, enhanced energy exports and collaborative renewable energy projects have the potential to stimulate economic growth, generate employment opportunities, and attract foreign investment. For Europe, a diversified and more sustainable energy portfolio would mitigate strategic vulnerabilities while facilitating the green transition.

This article examines the potential of North African countries in contributing to Europe's energy independence from Russia. It analyzes the geopolitical, economic, and environmental dimensions of EU-North Africa energy cooperation and explores the policy frameworks, trade mechanisms, and infrastructural developments needed to realize this potential. By reassessing the Euro-Mediterranean energy relationship in the context of global instability and climate imperatives, the paper argues that enhanced cooperation with North Africa could serve as a cornerstone of Europe's long-term energy resilience.

1 Dependence Issue

The European Union's heavy dependence on Russian energy, particularly natural gas, has been a long-standing economic and geopolitical reality. This reliance has been shaped by geographical proximity, existing pipeline infrastructure, and historical trade relationships. The 40% figure in 2021³ represents a substantial portion of the EU's energy mix, highlighting the bloc's vulnerability to supply disruptions and price fluctuations originating from Russia. This dependency has engendered substantial geopolitical ramifications, constraining the EU's foreign policy and has had far-reaching implications for EU-Russia relations and European energy security. It has influenced diplomatic negotiations, economic policies, and strategic decision-making within the EU.

The 2022 invasion of Ukraine compelled the EU to address the risks associated with energy dependence as a risk to national security, thereby necessitating an urgent transition towards diversification and autonomy in energy sourcing. Member states have grappled with balancing the need for affordable energy with concerns over political leverage and energy security. In response, the EU has pursued diversification strategies, including developing alternative energy sources, expanding liquefied natural gas (LNG) infrastructure, and promoting renewable energy technologies. However, the deeply entrenched nature of this energy relationship has made rapid changes challenging, necessitating long-term planning and significant investments in energy infrastructure and technology.

Over time, imports from Russia decreased significantly, declining from over 150 billion cubic meters (bcm) in 2021 to less than 52 bcm in 2024. This reduction was primarily offset by increased imports from other partners. Specifically, imports from the United States rose from

³ EUROPEAN COUNCIL (2025): Where does the EU's gas come from?

18.9 bcm in 2021 to 45.1 bcm in 2024. Similarly, imports from Norway increased from 79.5 bcm in 2021 to 91.1 bcm in 2024. Additionally, imports from other partners grew from 41.6 bcm in 2021 to 45 bcm in 2024. LNG and pipeline gas combined Russia holds approximately 19% of total EU gas imports in 2024.⁴

2 European Investment in North Africa

Over the past decade, and particularly since the 2022 energy crisis, European countries have significantly expanded their investments in North Africa's energy infrastructure. These investments have included both state-backed and private sector initiatives, spanning fossil fuel pipelines, liquefied natural gas (LNG) facilities, and renewable energy megaprojects. Germany, France, Italy, and Spain have been at the forefront of energy initiatives. Germany, through its development bank KfW, has financed green hydrogen and renewable energy projects in Morocco and Tunisia.⁵ Italy's ENI has intensified its activities in Egypt, Libya and Algeria, to help boost energy production, securing gas contracts and exploration rights.⁶ France has invested in renewable energy and hydrogen infrastructure, including projects in southern Algeria and Western Sahara.⁷

Beyond bilateral efforts by EU member states, the European Commission itself plays an increasingly proactive role through the Global Gateway Investment Package, which allocates up to €150 billion in investment toward sustainable infrastructure, with energy transition as one of its key pillars.⁸ Under the Global Gateway framework, funding is directed toward building cross-border electricity interconnectors, expanding solar and wind capacities, and supporting green hydrogen production. Projects in Morocco, Egypt, Algeria, and Tunisia have already been targeted for technical and financial cooperation. This reflects the EU's strategic shift from simply importing energy to co-investing in the creation of resilient, low-carbon energy corridors. The Global Gateway thus serves not only as an economic development tool, but also as an instrument of strategic autonomy and external energy diplomacy.

3 African pipelines

Europe's energy diversification strategy, while prioritizing renewable sources, recognizes the continued importance of natural gas as a transitional fuel. This approach allows for a gradual shift towards cleaner energy while maintaining energy security and stability. Natural gas, with its lower carbon emissions compared to coal and oil, serves as a bridge between fossil fuels and renewable energy sources, providing a reliable baseload power supply as renewable technologies mature and expand.

In this transitional landscape, North Africa's role as a strategic energy partner for Europe has gained prominence. The region's geographical proximity to Europe, coupled with existing pipeline infrastructure and substantial gas reserves, positions it as an attractive alternative to traditional energy suppliers. Countries like Algeria, Libya, and Egypt possess significant natural gas resources and have established export capabilities. The presence of multiple pipelines connecting North African producers to European markets not only facilitates the physical transfer of gas but also offers Europe a geopolitical advantage by reducing dependence on Russian energy routes. This diversification enhances Europe's energy security, provides leverage in negotiations with other suppliers, and contributes to the continent's long-term goal of achieving a more sustainable and resilient energy system.

⁴ EUROPEAN COUNCIL (2025): Where does the EU's gas come from?

⁵ KfW (2025): A new undersea power cable is to connect Tunisia with Sicily; KfW (2024) Energy of the Future.

⁶ LANDINI, F. (2025): Italy's Eni to invest \$26 billion in North Africa over next four years, CEO says, Reuters.

⁷ HERNANDEZ, A. (2024): TotalEnergies studies Moroccan project to export green ammonia to Europe, Reuters; METZ, S. (2024) France announces new investments in disputed Western Sahara, Associated Press.

⁸ EUROPEAN COMMISSION (2025): EU-Africa: Global Gateway Investment Package.

2.1 Existing Infrastructure and Capacity

The **Trans-Mediterranean Pipeline (TransMed)** and **Medgaz** pipeline represent crucial components of the energy infrastructure linking North Africa and Europe. The TransMed, with its impressive capacity of 33-35 billion cubic meters (bcm) per year, has been a cornerstone of natural gas supply from Algeria to Italy for decades.⁹ This pipeline's route through Tunisia adds a layer of geopolitical complexity to its operations, as it involves transit agreements and potential diplomatic considerations. On the other hand, the Medgaz pipeline (9 bcm per year)¹⁰, which directly connects Algeria to Spain under the Mediterranean Sea, offers a more streamlined approach to gas delivery, avoiding potential complications associated with transit countries.

A third major pipeline, the **Maghreb–Europe Gas Pipeline (MEG)** or also known by its French acronym - GME, originally transported Algerian gas through Morocco to Spain and Portugal. However, in late 2021, Algeria discontinued its use due to diplomatic tensions with Morocco, reducing overall supply options to the Iberian Peninsula.¹¹ This decision also highlighted the geopolitical complexities inherent in transnational energy infrastructure. The closure of this major pipeline, which had been operational since 1996, forced Spain and Portugal to seek alternative sources of natural gas, potentially increasing their reliance on more expensive liquefied natural gas (LNG) imports or necessitating the development of new pipeline routes.

While the Greenstream pipeline, connecting Libya to Italy, once offered additional supply capacity, its operations have been hindered by political instability and declining production levels in Libya's post-2011 context. The pipeline, which once provided a crucial link between Libya and Italy, has seen its operations significantly impacted by security concerns, infrastructure damage, and declining production levels. This reduction in capacity not only affects Libya's export potential but also contributes to the broader energy security concerns of Southern European countries. These developments collectively emphasize the need for diversified energy sources and highlight the intricate relationship between geopolitical dynamics and energy infrastructure in the Mediterranean region. Moreover, Libya's capacity is limited for obvious reasons, the first of which is its political instability. The country only recently saw the end of the civil war in 2020, yet there has been a strong political rivalry since 2022.

In the Libyan oil and gas sector, upstream bid rounds — a competitive process wherein governments allocate exploration and production rights to companies — have not occurred for an extended period, remaining closed for over 17 years. It is noteworthy that 70% of Libya's total land area and more than 65% of its territorial waters have yet to be explored.¹² In March of 2025, after a long time, the new bid was finally announced. The effort to fast-track this bidding round reflects Libya's determination to swiftly revive upstream investments, thereby augmenting its gas production capacity. Also, substantial portion of Libya's natural gas production must be allocated to the domestic market, primarily to mitigate the acute shortages experienced by the power sector. *“Libya’s NOC is targeting a challenging natural gas production level of 4 billion cubic feet a day within three to five years, or the equivalent of over 40 billion cubic metres (bcm) annually. This ambitious target is more than three times the country’s 2023 marketed gas production.”*¹³ Hence, Libya's ability to export gas is significantly limited due to the increasing demand for gas within its own borders, a decline in field

⁹ BUTT, H. (2023): Algerian gas flows to Europe shrink, but Italy gains as trade ties strengthen, S&P Global.

¹⁰ Ibidem.

¹¹ OUKI, M. (2021): Gazoduc Maghreb Europe (GME): another gas transit headache for Europe?, pp. 2-3.

¹² NATIONAL OIL CORPORATION (2024): Bengdara: 70% of Libya's Land Unexplored, Bid Round to Reopen Soon.

¹³ OUKI, M. (2025): North Africa Gas: Producers aim to preserve export role.

production, ongoing internal political turmoil, and a pause in investments from international oil and gas firms.

These pipelines not only facilitate the flow of natural gas but also serve as tangible symbols of economic and energy interdependence between North Africa and Europe. The varying levels of utilization observed in these infrastructures reflect the dynamic nature of the global energy market, influenced by factors such as changing demand patterns in Europe, competition from other energy sources, and geopolitical developments. The continued operation and potential expansion of these pipelines could play a significant role in Europe's energy diversification strategies, particularly as the continent seeks to reduce its reliance on Russian gas supplies. Furthermore, the existence of this established infrastructure positions North African countries, especially Algeria, as key players in the European energy landscape for the foreseeable future.

4 Solar and Wind Energy

North Africa is endowed with exceptional natural resources conducive to renewable energy generation, particularly solar and wind energy. The region's high solar irradiance allows for extended solar energy collection during daylight hours compared to Europe. Additionally, its vast and sparsely populated landscapes provide ample space for the installation of solar panels. In particular, Northern Africa receives an average solar irradiance of 2,000–3,000 kWh/m²/year, which ranks among the highest levels of solar radiation globally. In contrast, Germany, with approximately 1,000 kWh/m²/year, has over 59 GW of installed solar capacity.¹⁴ Africa also has strong wind corridors, especially along the coasts and deserts. These geographic advantages, coupled with increasing regional and international investments, have positioned North Africa as a critical partner in Europe's strategy to diversify energy sources and reduce reliance on Russian fossil fuels. Interesting fact is that allocating merely 1% of the Sahara Desert, which encompasses approximately 9 million km², to solar energy could cover an area of 90,000 km²—comparable to the size of Portugal. With solar panels operating at an efficiency of 20%, this configuration could generate 20 Terawatts (TW) of energy annually, a capacity sufficient to satisfy the global electricity demand multiple times over.¹⁵

According to the Global Solar Council (2024), “...in 2024, North Africa installed 31% of the total new installation in continent. Egypt contributed with more than 94% through the commissioning of two utility-scale power plants representing 700 MW. Furthermore, small additions by Morocco (34 MW) and Algeria (10 MW) were also notable”.¹⁶ Solar and wind farms are already proliferating south of the Mediterranean, with Morocco's Noor and Egypt's Benban solar farms are among the largest in the world.

As reported by the Moroccan Agency for Sustainable Energy (Masen), the solar capacity installed in 2024 is 857 MW. This capacity is expected to grow significantly by 2028, with several large-scale projects gradually becoming operational. In light of market trends, GSC Market Intelligence anticipates that Morocco will add over 2.2 GW of new solar capacity during the medium growth scenario forecast period from 2025 to 2029.¹⁷ According to the same report, Algeria, although currently lagging in solar power production, possesses significant potential and intends to initiate new solar projects in 2025.

¹⁴ AFRICA DIGEST NEWS (2025): Why Africa Isn't Harnessing Its Desert Sunlight for Electricity And What It's Costing the Continent.

¹⁵ AFRICA DIGEST NEWS (2025): Why Africa Isn't Harnessing Its Desert Sunlight for Electricity And What It's Costing the Continent.

¹⁶ ECHARD, L. – LATHIGARA, A. – ELISHA, F. (2025): *Africa Market Outlook for Solar PV 2025-2028*, p. 13.

¹⁷ ECHARD, L. – LATHIGARA, A. – ELISHA, F. (2025): *Africa Market Outlook for Solar PV 2025-2028*, p. 13.

Libya is presently focusing on gas supply-side actions, as it is more difficult in an internal political conflict situation to introduce domestic energy demand-side reforms. The priority now is to address the electricity supply problems it is facing due not only to gas supply shortages, but also because of a constrained aging and partly damaged power infrastructure. For completeness, it should be mentioned that Libya is also planning to develop renewable energy projects and has set an ambitious target for renewable energy comprising 20 per cent of its total energy mix by 2035. Apart from some off-grid solar panels, there is no electricity being generated from renewable sources of energy and supplied through Libya's electricity grid at the moment.¹⁸

As of wind power, according to IRENA, Africa has a technical wind potential of 461 GW with Algeria being among the countries with the highest potential.¹⁹ North Africa leads in terms of total installed capacity due to the influence and early onset of renewable energy programs in Egypt and Morocco which saw initial utility-scale wind project commissioning in 1988 and 2000 respectively. Top 5 Projects by capacity are:²⁰

- 580MW Jabal al-Zeit Wind complex, Egypt
- 544MW Zafarana Wind Complex, Egypt
- 301MW Parc Eolien Boujdour, Morocco
- 301MW Parc Eolien de Tarfaya, Morocco
- 262.5MW Ras Gharib Wind Farm, Egypt

North Africa's growing renewable energy capabilities present a viable path for the European Union to strengthen its energy security while advancing climate goals. Solar and wind energy exports from North Africa could complement domestic European generation and help stabilize regional energy prices. Moreover, cooperation in renewable infrastructure enhances geopolitical ties and encourages technology transfer, employment generation, and investment flows across the Mediterranean. However, challenges remain, including financing gaps, grid integration, and the need for stable regulatory frameworks on both sides.

5 Other Projects

Another country rich in natural resources, but located too far from Europe, in Sub Sahara, which could help to diversify the EU's energy, is Nigeria. And thus, the ***Trans-Saharan Gas Pipeline*** project was conceived as a strategic initiative to address energy needs and promote economic cooperation across North and West Africa. This ambitious undertaking aims to transport natural gas from Nigeria's abundant reserves through Niger and Algeria, ultimately reaching European markets. The federal government has entered into agreements with Algeria and Niger to advance the Trans-Saharan Gas Pipeline (TSGP) project, which is intended to enhance gas exports to Europe. Representatives from the three nations formalized these agreements on Tuesday, February 11, 2025, during a meeting held in Algiers, the capital city of Algeria. "*The Trans-Saharan Gas Pipeline, designed to span 2,565 miles across the Sahara Desert, will connect Nigeria's Warri hydrocarbon fields to Algeria's Hassi R'Mel hub on the Mediterranean coast. Algeria's segment alone will stretch 1,435 miles, over half the pipeline's total length.*"²¹ The project's capacity is The pipeline is anticipated to transport approximately 30 billion cubic meters annually.²² By connecting to existing Algerian pipelines such as the Trans-Mediterranean, Maghreb-Europe, Medgaz, and Galsi, the TSGP would integrate West African gas supplies into the European energy network, thereby enhancing energy security and diversification for the European Union.

¹⁸ ECOFIN (2024): "*La Libye vise 4 GW de capacité installée d'énergies renouvelables d'ici 2035*".

¹⁹ REGLOBAL (2023): Status of wind power development in Africa.

²⁰ GWEC (2023): Status of Wind in Africa Report, p. 14.

²¹ ESIFIHO, F. (2025): FG signs new deal to revive Trans-Saharan Gas pipeline, BusinessDay.

²² FUTURE (2022): Algeria, Niger, & Nigeria revive talks on Saharan Gas Pipeline.

Despite its potential benefits, TSGP faces several challenges, including security risks in the Sahel region and high construction costs. Moreover, the project's success depends on sustained political will, regional cooperation, and the ability to attract international investment.

Another ambitious project is the green hydrogen pipeline – *SouthH2 Corridor*. This project is a planned hydrogen transport infrastructure initiative connecting North Africa to Central Europe. Initiated in mid-2024 by Italy, Germany, and Austria – with Algeria and Tunisia officially endorsing it in early 2025 – the project envisions a 3,300 km pipeline designed to transport green hydrogen produced in North Africa into industrial hubs across Italy, Austria, and Germany. The route begins in Algeria's Hassi R'Mel region, proceeding through Tunisia, under the Mediterranean Sea to Southern Italy, then continuing via Austria's TAG/GCA networks and ending in Germany (e.g., Bavaria). It plans to repurpose large portions of existing natural-gas infrastructure by retrofitting them for hydrogen transport – significantly reducing both capital expenditure and permitting timelines.²³ The European Union aims to produce 10 million metric tons and import 10 million tons of green hydrogen by 2030 in a bid to replace fossil fuels, which emit planet-warming gases when burned.²⁴ Construction is expected to be complete around 2030, matching Europe's renewable hydrogen import targets. With an import capacity of 4 Mt per annum, the corridor is projected to fulfil approximately 40% of the European Union's green hydrogen import target for the year 2030.²⁵

In summary, it seems that in the year 2030-35 numerous projects are planning to start their operation, like SouthH2 Corridor, TSGP, or underwater cables to transfer electricity from North Africa to Europe, like Xlinks²⁶ or ELMED.²⁷

6 National Security Considerations

Energy has proved to be a foundational pillar of national security for European Union. The previous overdependence on Russian energy exports constituted a direct vulnerability, enabling geopolitical leverage that could compromise internal cohesion and external policy autonomy. Consequently, investing in diversified supply routes and energy sources in adjacent regions has become a critical security objective. By engaging with North Africa, the EU not only ensures supply diversity but also enhances resilience based on geographical proximity. The reduced physical distance of North African pipelines and cable connections diminishes exposure to maritime disruptions and facilitates more rapid energy transmission. Moreover, collaborative investments in green hydrogen and solar power can contribute to securing Europe's future energy mix, which will increasingly rely on clean, predictable imports rather than fossil fuels.

Nevertheless, these energy investments must be understood not merely as commercial ventures but as geostrategic instruments. Infrastructure such as the TransMed or the future SouthH₂ Corridor creates long-term interdependence, and thus, several security concerns warrant consideration. Firstly, there is no guarantee that a situation akin to that with Russia will not recur. While procuring resources from Norway is one matter, sourcing from external suppliers presents different challenges. The current situation with the United States has demonstrated that even a nation perceived as democratic can be susceptible to political populism. Political regimes in North Africa are not inherently allies of the European Union, which implies that this interdependence not only enhances mutual economic benefits but also introduces political and security responsibilities. These responsibilities include the necessity to support political stability, regulatory governance, and infrastructure protection in the partner countries.

²³ The SouthH2 Corridor official website.

²⁴ LANDINI, F. et al. (2024): Italy, Germany, Austria sign cooperation deal on southern hydrogen link, Reuters

²⁵ The SouthH2 Corridor official website.

²⁶ PEARCE, F. (2023): In Scramble for Clean Energy, Europe Is Turning to North Africa.

²⁷ EUROPEAN INVESTMENT BANK (2024): Tunisia: Team Europe commits €472 million to support the ELMED electricity project and its ecosystem.

European national security has evolved to encompass a broader range of concerns beyond traditional military threats. Hybrid threats, which combine conventional and unconventional tactics, along with potential supply chain disruptions, have expanded the scope of security considerations. This shift has led to a greater focus on the interconnectedness of European security with that of external partners and infrastructure, particularly in regions critical to resource supply.

North Africa's energy assets have become a focal point in this expanded security landscape. The region's importance as an energy supplier to Europe means that any disruption to its infrastructure could have significant ramifications for European energy security. Potential risks include sabotage by state or non-state actors, political instability leading to production or export interruptions, and environmental challenges that could impact resource extraction or transportation. As a result, European policymakers and security experts are increasingly viewing the protection of these assets as integral to their own national security strategies, necessitating closer cooperation with North African partners and a more holistic approach to regional stability.

7 Comparative Analysis

The European Union's strategy for energy diversification involves two parallel pathways in its engagement with North African countries: short- to medium-term cooperation on natural gas, and long-term transformation through renewable energy and hydrogen trade. Each of these tracks offers distinct advantages, limitations, and strategic implications. In the short to medium term, collaboration in natural gas remains crucial. Existing infrastructure, including the TransMed, Medgaz, and Greenstream pipelines, enables relatively immediate diversification of supply, particularly from Algeria, Libya, and Egypt. Planned initiatives, such as the Trans-Saharan Gas Pipeline (TSGP), aim to integrate West African resources through North Africa into the European grid, thereby reinforcing the region's role as a transitional supplier. However, this model faces challenges, including political instability in some transit countries, high domestic consumption in exporting nations, and the long-term incompatibility of fossil fuel reliance with the EU's climate goals. In contrast, renewable energy and green hydrogen initiatives, for example Morocco's Noor Solar Complex, Egypt's Benban Solar Park, and the planned SouthH₂ Corridor, represent Europe's long-term vision of a decarbonized energy future. These projects capitalize on North Africa's exceptional solar irradiance and wind potential and aim to supply clean energy to European industrial hubs. Unlike gas, these exports align fully with the EU Green Deal and REPowerEU objectives. Yet, they also face substantial barriers, including high initial investment costs, grid integration limitations, and the need to avoid a neocolonial model of green energy extraction that neglects local development. Ultimately, a hybrid model may be most effective in the near term: using gas infrastructure as a transitional tool while scaling up renewable generation and green hydrogen for the long-term.

Notably, among the North African countries, Algeria appears to be the most strategically positioned for deepening energy cooperation with the European Union. The majority of existing natural gas pipelines connecting North Africa to Europe, such as the TransMed, Medgaz, and the former Maghreb-Europe pipeline, either originate in or transit through Algeria. Additionally, the proposed Trans-Saharan Gas Pipeline (TSGP), designed to transport Nigerian gas to Europe, is planned to terminate in Algeria, further consolidating its role as a regional energy hub. Beyond hydrocarbons, Algeria also possesses significant untapped potential in renewable energy, particularly solar and wind, which could position the country as a key partner in the EU's long-term transition to sustainable energy sources.

Conclusion

The European Union's energy crisis, precipitated by Russia's 2022 invasion of Ukraine, has catalyzed a strategic pivot toward diversified, secure, and sustainable energy sourcing. In

this context, North African countries have emerged not only as alternative suppliers but as essential partners in a broader transformation of the EU's energy landscape.

This paper has demonstrated that North Africa's dual potential—through established gas infrastructure and emerging renewable and hydrogen initiatives—can play a pivotal role in reducing European dependency on Russian energy. Key countries such as Algeria, Morocco, Egypt, and Tunisia possess both natural endowments and logistical proximity that make them indispensable to Europe's energy transition.

However, successful cooperation requires more than economic alignment. It demands long-term political stability, regulatory harmonization, targeted infrastructure investment, and a commitment to equitable energy development. EU-North Africa energy relations must avoid reproducing asymmetrical, extractive models of the past. Instead, they must be grounded in mutual benefit, technological collaboration, and inclusive growth.

Ultimately, the EU's energy future may depend not on isolation or self-sufficiency, but on forging resilient and reciprocal partnerships. North Africa, if engaged constructively, could serve not only as an energy supplier but as a co-architect of a sustainable, secure, and interconnected Euro-Mediterranean energy system.

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ALTERNATIVE AND MAINSTREAM MEDIA IN SLOVAKIA: TOPICS AND COVERAGE¹

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Abstract: This paper analyses Slovak media space with the goal of comparing mainstream and alternative media in terms of their news topic selection. The paper seeks to determine whether there are features in terms of topic selection that are characteristic to alternative media. In order to answer this question, a content analysis of a sample of articles from selected media outlets was performed. The analysis shows that while there is a similarity among the mainstream media in terms of their topics selection, the alternative media exhibit a great degree of diversity, with some media selecting topics similar to mainstream while some having a different structure of topics. This leads to a conclusion that there are no characteristics in terms of topic selection that are common to alternative media that differ from the mainstream media.

Key words: alternative media, mainstream media, news topics, Slovakia

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Introduction

There is an ongoing scholarly discussion about the nature and the character of alternative media. Because of the constant flux in alternative media, even the most basic issues, such as the definition are hotly contested. Other, deeper issues are even more unclear, including how the alternative media function, what theories can explain their coverage and what the policy towards alternative media should be from the point of view of policymaking. Despite, or because of this lack of consensus on what the alternative media is, and how it functions, the concept remains one of the most discussed topics in social sciences, with a simple Google Scholar search for “alternative media” returning more than two million entries for the past ten years.

In this article, I will be focusing on a particular aspect of alternative media, namely its coverage in terms of topics. The method chosen to do this is content analysis. The contention that this paper seeks to confirm is that there is no sharp distinction between what is generally considered alternative and mainstream media in terms of coverage, and topics that the editors choose to include. Should this hypothesis prove to be correct, we could make an argument to try to incorporate alternative media into general theories of media analysis.

1 Literature Review

As mentioned in the introduction, one of the main topics when it comes to alternative media is its definition. I will not be discussing the issue in great detail here, except for pointing out that many scholars have written about difficulties with scientific definition of the phenomenon.^{2,3} The overall thrust of the argument in this paper is for moving away from trying to separate alternative from the mainstream media and seek to incorporate the concept into

¹ This article was written as part of the project “Alternative Media in Slovakia and Their Coverage of Economic and Political Issues” (I-24-101-00) funded by the Bratislava University of Economics and Business through the ESG Grant scheme of the EU.

² FUCHS, CH. (2010): Alternative Media as Critical Media.

³ SANDOVAL, M. – FUCHS, CH. (2010): Towards a Critical theory of Alternative Media.

general media theory. Other scholars dealing with the issue of defining alternative media include Holt et al.⁴ Rauch⁵ and Waisbord.⁶

Apart from the definition of alternative media, scholarly work has been on their users, the impact it has and its relationship with the mainstream media. When it comes to users and communities. When it comes to users, Schwartzenegger is the most cited scholar. In his 2021 paper, he interviews alternative media users across ideological spectrum and find mainly ambivalences with no clear patterns. In his 2022 paper, he creates a typology based on five main categories depending on how the alternative media users select, sort, and use the alternative media.

When it comes to studying the impact of alternative media, the focus is on diversity and democracy. Traditionally, alternative media have been viewed positively from both of these viewpoints. This has somewhat changed in the past decade with the emergence of alt-right media as the main alternative media. Strömbäck finds that rather than being an instrument of democracy, alternative media represent a challenge to democratic societies.⁷ Freudenthaler and Wessler present an analysis of topics and perspectives offered by alternative media and mainstream media. This analysis is similar in focus to the one presented in this paper. They found that mainstream media offer higher topic diversity, while the speaker diversity is similar.⁸

When it comes to the relationship between alternative media and the mainstream media, we can observe some ambivalence in scholarly literature. As I mentioned before, many researchers are still trying to discern some essential features of alternative media in order to make a distinction between them and the mainstream. At the same time, many scholars talk about convergence between the alternative and the mainstream. This ambivalence is best highlighted by previously mentioned work by Rauch, who highlights this convergence and at the same time claims that alternative media are “less commercial, produce more critical content, and are more committed to social change”.⁹

In Slovak academic context, alternative media have received limited attention. There is a linguistic analysis by Patráš¹⁰ focused on colloquiality and stylistics in alternative media. A more politically oriented work is from Uličný, who analyses presence of hoaxes in alternative media during the pandemic,¹¹ Solík and Holáň, who analyse pro-Russian propaganda in alternative media and Seresová, who analyses migration discourses in a Slovak alternative web medium.

2 Methodology

The goal of this paper is to compare selected mainstream and alternative media in terms of the topics of their news coverage. Following is the research question that this paper seeks to answer: What are the differences between mainstream and alternative media in terms of topics of their news coverage? I have chosen to use a convenience sample that includes the following print and web media: Denník N, Aktuality.sk, Pravda, Štandard, Hlavné Správy, Zem a Vek, Infovojna. Among these, three are considered mainstream, one is sometimes considered alternative and three are traditionally considered alternative media in the general discourse. This determination is not based on any scientific criteria. The method chosen to compare these media

⁴ HOLT, K. – FIGENSCHOU, T. – FRISCHLICH, L. (2019): Key Dimensions of Alternative News Media.

⁵ RAUCH, J. (2016): Are There Still Alternatives? Relationships Between Alternative Media and Mainstream Media in a Converged Environment.

⁶ WAISBORD, S. (2022): Alternative Media/Journalism and the Communicative Politics of Contestation.

⁷ STRÖMBÄCK, J. (2023): Political Alternative Media as a Democratic Challenge.

⁸ FREUDENTHALER, R. – WESSLER, H. (2022): How Alternative Are Alternative Media? Analyzing Speaker and Topic Diversity in Mainstream and Alternative Online Outlets.

⁹ RAUCH, J. (2016): Are There Still Alternatives? Relationships Between Alternative Media and Mainstream Media in a Converged Environment, p. 756.

¹⁰ PATRÁŠ, V. (2019): Colloquiality and stylistics of online alternative news media.

¹¹ SERESOVÁ, T. (2024): The Image of Migration in Alternative Media. Case of "Earth and Age" (Zem a Vek).

is content analysis. Analyzed text includes all articles for a similar timeframe for the selected media. Ideally, the timeframe would be the same, but for some of the sources, the timeframe was expanded in order to achieve a relevant amount of articles to code. This was done with care not to expand the timeframe too much so as the outside context did not change, since this would influence the results. The articles chosen were all taken from the main feed of the online version of the medium to make the comparison as relevant as possible.

Table 1: Sample of Articles

	DN	AK	PR	ŠT	HS	IN	ZV
Number of articles	230	245	204	153	236	205	119
Timeframe	17.4.2024	17.4.2024	17.4.2024	17.4.2024	17.4.2024	17.4.2024	17.4.2024
	- 20.4.2024	- 22.4.2024	- 22.4.2024	- 4.5.2024	- 22.4.2024	- 9.5.2024	- 9.5.2024

The unit of coding for this project was the individual article. The goal of the content analysis was to code each article in terms of the topic of the article. The logic was mostly deductive, since I knew what topics to expect. However, inductive logic was also implemented when I found topics that were not part of the original coding frame. In table 2, you can find the final coding frame as a combination of pre-established codes and codes generated during the process of coding.

Table 2: Coding Frame

Categories	Codes
1. domestic	Politics
	Economy
	Environment
	Corruption
	Culture
	Catastrophy/Accident
	Crime
	Human Interest/Personal Stories
	Other
2. foreign	f. – Politics
	f. – Economy
	f. – Environment
	f. – Corruption
	f. – Culture
	f. - Catastrophy/Accident
	f. – Crime
	f. - Human Interest/Personal Stories
	f. – Other
3. other	Health
	Science

The coding was done manually using QDAminer. The coding was exclusive in the sense that only one code could be used for one article. This created some problems in the process of coding, since some articles can deal with more than one of the topics that were coded. In these cases, the topic that was considered dominant in the article was given precedence.

3. Results and Discussion

Results of the content analysis show that while some patterns emerge, there is no discernible difference between alternative and mainstream media in terms of the topics of their news coverage. Table 3 shows the code system with code frequencies. The table shows percentage share of articles that cover a particular topic.

Table 3: Code System with Code Frequencies

category	code	DN	AK	PR	ŠT	HS	IN	ZV
foreign	foreign – politics	25.5	36.7	36.6	20.7	22.6	42.0	64.7
	foreign – economy	11.9	6.5	0.5	8.7	4.0	5.4	8.6
	foreign – crime	6.8	2.4	5.4	2.7	0.9	2.0	0
	foreign – enviro	2.0	2.0	2.0	1.3	0	1.5	3.4
	foreign – corruption	0.3	1.2	1.0	0	0	0	0
	foreign – human int	0.7	0.4	0.5	4.0	1.3	0.5	0.9
	foreign – culture	0.7	0.8	0	3.3	0	0.5	0
	foreign – cat/acc	3.4	1.6	4.5	0	0.4	0	0
	foreign – other	0	0	1.0	0.7	0	0	0
		foreign total	51.3	51.6	51.5	41.4	29.2	51.9
domestic	politics	27.9	12.2	19.8	25.3	38.1	40.0	12.9
	economy	8.5	9.8	5.4	13.3	4.9	2.0	2.6
	Crime	0.7	4.1	6.9	4.7	8.0	1.5	0.9
	Enviro	1.4	1.6	2.5	0.7	5.6	0	2.6
	corruption	2.0	3.7	1.5	0.7	2.8	0.5	0.9
	human int	2.0	2.4	1.5	3.3	1.8	0	0
	culture	2.4	2.4	2.5	7.3	1.8	2.0	2.6
	cat/acc	0.7	4.9	3.5	0	2.2	0	0
	Other	0	2.4	3.0	1.3	1.3	0.5	0
		domestic total	45.6	43.5	46.6	56.6	66.5	46.5
other2	science	2.4	0.8	0.5	0	0.9	1.0	0
	Health	0.7	3.7	1.5	2.0	2.2	1.0	0
	petition	0	0	0	0	0.4	0	0

Source: own data

One of the most interesting things that the results show is the remarkable similarity between the three mainstream media that were analysed. This goes both for domestic news and foreign news as the main categories. The individual topics are also quite similar. On the other hand, the trend for alternative media is the opposite, since the differences that emerge in their selection of topics are quite significant. The most significant difference is between Zem a Vek and Hlavné Správy, with their total percentages for domestic and foreign news almost reversed. On the other hand, Infovojna has a selection that is very close to mainstream media in terms of total numbers.

When it comes to individual topics, small differences between mainstream and alternative media emerge. For example, if we include Štandard among the mainstream media, all mainstream media focus significantly more on economy compared to alternative media. This goes for both the foreign news and domestic news. Furthermore, there could be an expectation that the mainstream media would focus more on the issue of corruption when compared with alternative media due to their general ideological outlook, and also because of their greater investigative resources. Even though we can observe a small difference in the total numbers for alternative and mainstream media, the results are not significant in this regard. For example, Hlavné Správy, which are generally considered an alternative medium, have the second highest share of domestic news focused on corruption. Hlavné správy are also an outlier when it comes

to crime coverage with an eight percent share for domestic crime news. This was not the case for other alternative media.

The main conclusions that we can draw from the analysis is that while there is a striking similarity between the three main mainstream media selected for this analysis in terms of the topics they select for their news feed, there is no pattern that can be discerned when it comes to alternative media. This means that in the area of news topic there is no common feature of alternative media that could be used as part of the definition of the phenomenon. The most significant trend that can be observed in relation to alternative media is that they are much more diverse than the mainstream media when it comes to their topic selection. While this observation gives some credence to the notion of alternative media, it brings us no closer to a consistent definition. The overall picture that this analysis paints is that the media landscape in Slovakia is more of a continuum in terms of topics selected for coverage than a dichotomy between alternative and mainstream media.

If similar results can be arrived at in other areas of interest, such as ideology, style, structure and sources, we can make an argument to move away from attempting to define alternative media by some core common characteristics that are different from the characteristics of the mainstream media, and move towards integrating the so-called alternative media into the existing theoretical framework. For example, it would be interesting to see how alternative media fit into political economy of media coverage. The future work on alternative media could try to figure out how do the alternative media fit into the indexing approaches to policy-media relations. Maybe even more promising would be to look at social constructivist theories of media to find a theoretical framework that does away with the distinction between alternative media and mainstream media.

This does not necessarily mean that the concept of alternative media should be abandoned. There are still approaches that could yield distinct characteristics of this concept, such as analysis of ideological basis of mainstream and alternative media. It is conceivable that in fact, the main difference between mainstream and alternative media is in their ideological outlook. The challenge lies in finding any common features of this ideology that work across the spectrum of alternative media. Moreover, in order for the definition of alternative media to be relevant, the common features of alternative media need to go beyond Rauch's assertion that they are "more critical" and "more open to social change".¹²

Conclusion

This paper presented a content analysis of Slovak media with the goal of identifying differences between media that are generally considered mainstream and media that are generally considered alternative. A sample of articles from their main feed of online versions of the selected media showed that there are no features in the domain of topic selection that are common to alternative media that at the same time differ from mainstream media. The analysis shows a significant diversity among the so-called alternative media, with some having the structure of topics selected for coverage very similar to mainstream media (Hlavné Správy) and some having a very different structure (Zem a Vek). These findings reinforce the idea of treating (Slovak) media space as a continuum, even though the mainstream media showed a remarkable similarity in terms of the analysed concepts. Finally, the analysis presented here can inform future research by suggesting that the future research be more focused on trying to incorporate alternative media into existing theoretical frameworks instead of trying to define alternative media in opposition to the mainstream. This can be attempted, for example, by refining indexing approaches to policy-media relations, or developing new social constructivist frameworks for media analysis.

¹² RAUCH, J. (2016): Are There Still Alternatives? Relationships Between Alternative Media and Mainstream Media in a Converged Environment, p. 756.

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EUROPEAN PRACTICE OF DEVELOPING UKRAINE'S ANTI-CORRUPTION MECHANISM IN THE CONTEXT OF ENSURING THE COUNTRY'S ECONOMIC SECURITY

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Abstract: Despite the battle, Ukraine's anti-corruption mission is nevertheless moving forward at a remarkable rate. Nevertheless, this article contends that tackling some of the fundamental barriers to anti-corruption must be balanced with an emphasis on institutions and enforcement. The article offers suggestions to strengthen some of the societal underpinnings for anticorruption and introduces the idea of constructive prevention, which is about creating incentives to promote anticorruption. Authors recommend systematization of foreign experience in legal support of state economic security. The practical part of the work is represented by an economic and statistical analysis of the results of NABU activities in a dynamic sequence for 2023-2024. The article highlights the features of the State Anti-Corruption Program for 2023-2025, developed by the National Agency for Corruption Prevention. The program is aimed at solving the problems identified in the Anti-Corruption Strategy for 2021-2025.

Keywords: anti-corruption program, anti-corruption policy, economic security, corruption, NABU activity results, European integration, state and society.

JEL: E02, F52, G18, O17

Introduction

One of the biggest obstacles to Ukraine's advancement in the contemporary development of Ukrainian statehood is perceived to be corruption and the shadow economy, which pose a serious threat to national security. The greatest obstacle to raising the standard of living for the populace, promoting economic growth, fostering civil society, and combating organized crime is corruption and the shadow economy, which threaten the state's very existence. The emergence of corruption in Ukraine is one of the biggest barriers to attracting international investment and advanced technologies for the country's economy. Corruption permeates every aspect of the national economy and state administration, and the shadow economy's high level of development makes it difficult to implement pertinent reforms and hurts Ukraine's appeal to investors. These factors greatly impede the advancement of these processes and lessen the efficacy of the reforms that are put in place, which only take on a formal character. The development and execution of an analysis quality system and the evaluation of corruption risks in the area of public administration should be among the top priorities of Ukraine's governmental anti-corruption policy. The shadow economy and corruption are intimately related and mutually reinforcing.

Security as a system of fundamental, typical properties of any country embodies all spheres of various spheres in life and development of man, society, state and nature. In general, security can be defined as a qualitative characteristic of an object (system), the ability of the object to exist and develop, its protection from internal and external threats. The place, role and priority for each of the security elements are determined by the circumstances that

actually arise for a certain period inside and outside the object. With a change in the situation, its various properties can objectively acquire vital importance.¹

World experience indicates that without an active regulatory role of the state there cannot be an effective, socially oriented market economy, not to mention the effectiveness of ensuring the economic security of the country. There is not a single country with a highly developed economy where the state has removed itself from regulating key socio-economic processes. After all, the economic security of the state is a equilibrium state and socially oriented development of the national economic system, which is achieved by implementing a set of forms and economic policy methods. An adequate level of economic security is achieved by implementing an unified state policy, supported by a system of coordinated measures adequate to internal and external threats.²

Without such a policy, it is impossible to get out of the crisis, stabilize the economic situation in Ukraine, and create effective mechanisms for social protection of the population. Therefore, it is obvious that ensuring the economic security of Ukraine is one of the important directions of modern state policy.

2 Literature review

Several conceptions of corruption can be found when looking at texts pertaining to international law. Numerous scientific works offer numerous theoretical and practical aspects of combating corruption, particularly those authored by lawyers, economists, political scientists, and government workers.

Many scholars are interested in the research of effective anti-corruption measures as part of the legitimacy of Ukraine's economic security system. A broad range of topics related to research on governmental regulatory obligations to address systemic corruption in the country's economy. For example, Humenyuk L. (2009) examined the theoretical and sociological examination of corruption as a danger to Ukraine's national security. Bereza O. (2014) focused on the characteristics and development of the institutional foundation of Ukraine's anti-corruption policy. Beglitsia V. (2015) discussed the various experiences of European nations in developing anti-corruption strategies. In publications, Voloshenko A. (2015) discussed his research on creating plans for the quick identification and removal of corruption risks. Vasilyeva O. (2019) focused her attention on public entities global anti-corruption experiences. The international retrospective of the development of anti-corruption standards in Ukraine's economic security system was investigated by Karpenko L. (2023). Karpenko L. (2025) is working on the issues of anti-corruption mechanism and means of de-shadowing relations in the social sphere in the coordinates of ensuring the economic security of Ukraine.

Despite the sufficiently high level of scientific output and the interest of both domestic and foreign researchers in the selected topic in the process of forming the state anti-corruption policy, the mechanism of corruption preventing the occurrence in state authorities, which is the primary reason for belonging to the most corrupt countries in the world, is still not sufficiently researched. The inefficiency of the current systems necessitated the creation of new forms and methods of state control over the implementation of the state's anti-corruption strategy, as well as enhancements to existing ones.

3 Research goal, methods and research base

The purpose of the article is to study the practice of fighting corruption in European countries in order to borrow it into Ukrainian realities on the path to European integration.

¹ BEREZA, O. (2014): Formation and features of the institutional basis of anti-corruption policy of Ukraine. *Scientific notes of the Institute of Legislation of the Verkhovna Rada of Ukraine*, No. 4, pp. 116-122.

² VOLOSHENKO, A. (2015): Ways to timely detection and neutralization of corruption risks. *Actual problems of the economy*, N.12 (174), pp. 312-321.

The objectives are to analyse key aspects of the experience of successful European countries a number in combating corruption; to identify those forms and methods in combating corruption abroad that Ukraine could use in its own country; to improve the anti-corruption mechanism in the coordinates of ensuring the country's economic security.

To accomplish the objectives and address the issues, the work makes use of both specialised and broad scientific research methodologies. In order to uncover and clarify general theoretical propositions that reveal the essential nature, peculiarities, and nuances of scientists perspectives on the interpretation of the corruption category, these methods include: terminological analysis and operationalisation of concepts; scientific abstraction and concretisation; and the author's formulation of the fundamental type of corruption, which compares the magnitude of the subsistence minimum in Ukraine using statistical and economic methodologies.

The legislative and regulatory acts that establish an effective anti-corruption policy as a component of the legitimacy of Ukraine's public administration system, international organisations sources, the scientific works and monographs of both domestic and foreign economists and civil servants, and periodicals with specialised scientific literature comprise the research information base.

4 Data and methodology

Modern approaches to understanding the essence of economic security and the formation of appropriate management strategies for it do not exhaust the entire complexity of such a systemic phenomenon, which it is, since they most likely reflect individual aspects of security as a complex phenomenon and therefore can be considered as different types of economic security. This means that when focusing on certain aspects of economic processes in the country, a number of varieties of economic security can be distinguished:

- 1) anti-crisis;
- 2) in peacetime;
- 3) in military conflicts with the use of the Armed Forces;
- 4) in conditions of fierce economic confrontation with a certain state;
- 5) in conditions of isolation or, conversely, in conditions of a high degree of integration into the world economy, which, obviously, with certain large-scale and essential differences, must also operate at the regional level.³

Let us consider the specifics of the activities of the National Anti-Corruption Bureau of Ukraine as a subject of ensuring the state economic security. The established trend of increasing the number of threats to the economic security of the state creates unfavorable conditions for the development of the country's economic potential and, accordingly, a further decrease in the level of its competitiveness in various spheres of international relations. There is no doubt that one of such real threats is corruption, as a result of which there is a destructive impact on the course of certain economic processes in the state.⁴

The relationship between corruption and economic security is manifested through a number of negative consequences of economic development, which in the context of globalization have an extremely destructive effect on the country's economy. The main ones are the expansion of the shadow economy, disruption of competitive market mechanisms, the emergence of inefficient private owners, inefficiency of redistribution and use of budget funds, deterioration of the investment climate, increase in prices for social services, etc.

³ ZAVHORODNIY, V. (2012): Foreign experience of participation of public organizations in anti-corruption measures. *Scientific Bulletin of the Dnipropetrovsk State University of Internal Affairs*, No. 1, pp. 295-307.

⁴ KARPENKO, L. – IZHA, M. (2023): International Retrospective of the Anti-Corruption Standards Development in the Economic Security System of Ukraine. *Journal of Public Policy and Administration*. USA. Vol. 7, No. 1, 2023, pp. 18-24.

It is obvious that the above range of corruption threats, if implemented, will impede the normal functioning of the national economy and, accordingly, inhibit any of its development. In conditions of intensive infiltration for corruption practices into the sphere of economic relations, the need to introduce a system of effective institutional mechanisms aimed at forming guarantees aimed at minimizing the implementation of existing corruption risks is acute.⁵

One of such particularly important fundamental guarantees is an effective anti-corruption policy of the state, which, in particular, provides for the existence of specialized anti-corruption institutions and proper structured organizational and legal support for their activities. Among all these subjects, a special role is assigned to law enforcement agencies aimed at preventing, detecting, stopping, investigating, and exposing corrupt acts. Moreover, in this context, first of all, we are talking about counteracting corrupt acts committed by senior officials authorized to perform state or local government functions, and which may pose a real threat to the economic security of the state.

In view of the above statement, attention is required to the issue of studying the activities of the National Anti-Corruption Bureau of Ukraine as one of the subjects of ensuring such security. After all, the systematic proper functioning of the specified institution, on the one hand, will become a factor that will influence the reduction of the level of corruption, and on the other hand, in the medium and long term, it will weaken the already existing macroeconomic imbalances, creating the prerequisites for the economic development of the country and the social well-being of its population.⁶

We can say that the presence of independent anti-corruption elements in the system of state institutions is one of the obligations of the country, the implementation of which will positively affect the functioning of not only the economic system, but also state security as a whole. In this context, it is necessary to agree with the position that one of the ways to increase the effectiveness of combating corruption is the institutional reform of institutions that carry out pre-trial investigation and criminal prosecution in cases of corruption offenses. Therefore, the parliament approved the creation of a new autonomous area (outside the system of existing law enforcement institutions), the main function of which will be to identify and investigate corruption crimes that pose a particular public danger. After all, there is no doubt that in today's complex political and socio-economic conditions, the existence and, undoubtedly, the effective functioning of this specialized anti-corruption institution is an urgent need for Ukraine.

The main task of NABU is significantly narrowing the range of existing corruption offenses, speaking of countering purely criminal corruption offenses committed by senior officials authorized to perform state or local government functions and posing a threat to national security. In our opinion, this is due to the need to minimize the manifestations of this type of socially dangerous acts among representatives of the highest echelons of power, while simultaneously creating pressure on officials representing the middle and lower levels.

5 Key research findings

Analyzing foreign experience in detail, first of all, let's get acquainted with the theoretical, methodological and legal aspects of this phenomenon in the United States of America, since even the very appearance of the term economic security belongs to the 26-th President of the United States of America - Theodore Roosevelt and is defined as a set

⁵ KARPENKO, L. – IZHA, M. (2023): Functional direction of anti-corruption policy tools in the system of the national economy detinization. Theory and practice of public administration: Materials of the International Scientific-Practical Conference, (27th Edition), May 19, 2023 / scientific committee: Palihovici Serghei (chairman) [et al.]. Chisinau: [s. n.], 2024 (CEP USM), pp. 520.

⁶ TRANSPARENCY INTERNATIONAL (2024): The Global Anti-Corruption Coalition.

of conditions that reliably ensure national sovereignty, protection of strategic interests and full development of society, life and health of all its citizens.

During the first 100 days of T. Roosevelt`s presidency, 15 laws were adopted, which became the basis for further development of measures. They were aimed at overcoming the crisis and restoring the economic power of the state. T. Roosevelt renounced the classical practice of state non-interference in economic life and advocated the optimal combination of market motives and state participation in economic processes. One of the reasons for such a combination was the need to influence the social climate in society, because the economic interests of the individual are realized through the social policy of the state. It is worth noting that the existence of different approaches logically determines the presence of certain features in the countries - their representatives⁷ (see Table 1).

Table 1: Systematization of foreign experience in legal support of state economic security

Country	Characteristics
Western European Countries	
I. Germany	There is no special legislative framework for ensuring economic security. The main issues on this issue are reflected in the directives of the Ministry of Defense, which regulate the most important areas of market activity and determine the control functions of the state. Methods are used to ensure economic security, aimed at supporting civilized market relations, ensuring economic and social progress, preventing monopolies in certain industries, creating conditions for fair competition and stability of the national currency, and protecting against economic blackmail.
France	There is no special legislative framework for ensuring economic security. Certain provisions on economic security (creating conditions for increasing national welfare and strengthening the country`s economic potential) are reflected in the Law "On National Security". Methods for ensuring economic security are aimed at reducing the vulnerability of the country`s economic system, maintaining the independence of foreign policy, eliminating disparities in the level of economic development in economic entities; preventing excessive external dependence in the most important sectors of the economy, minimizing risks associated with dependence on the outside world.
Great Britain	There is no special legislative framework for ensuring economic security. Certain norms regulating economic security are contained in regulatory legal acts in the area of defense policy. They are based on assessments of national interests and are implemented through their protection. Methods for ensuring economic security are related to the prediction and prevention of the most dangerous external and internal risks. When developing and implementing decisions related to ensuring economic security, the emphasis is on specialized organizations representing the interests of industrialists and entrepreneurs.
Spain	The legislative framework for ensuring economic security is flexible, it clearly defines the functions of administrative institutions and organizations in this area, which are used to develop special economic development programs. Regulatory and legal acts for ensuring economic security are linked to relevant EU legislation. Methods for ensuring economic security protect the interests of priority industries, and are also aimed at stimulating investment, ensuring currency control, and developing legislation on joint-stock companies.

⁷ NATIONAL ANTI-CORRUPTION BUREAU OF UKRAINE (2024): *Work reports*

Italy	There is no special legislative framework for ensuring economic security. In its activities to ensure economic security, Italy is guided by the international agreements it has concluded. Methods for ensuring economic security are aimed primarily at protecting the interests of national producers in the domestic and foreign markets.
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Source: formed by the authors on the base of Transparency International (2024). The Global Anti-Corruption Coalition. [online]. Available at: <http://www.transparency.org/>

European integration involves effective interaction between the state and society, in which every person, who is recognized as the highest social value, can fully realize himself, and it also requires openness and transparency in decision-making from officials at different levels. All this is possible only if the country has significant progress and efficiency in the fight against corruption, which in Ukraine takes place both at the level of state authorities and local self-government. However, our country is no exception in this state of affairs, because most countries on the path to democracy go through a stage in the fight against corruption and become full-fledged participants in the European community. Ukraine, as a country with an as yet unestablished democracy, is trying to prove that we are worthy of being in the family of civilized, democratic European nations. On this European integration path, there are number of barriers that the country must overcome.⁸

One of such significant barriers for Ukraine is the effective fight against corruption within the country. The country has been on this path for over ten years, but although we have made some progress in solving this problem, for the last five of them we have been in the stable range of 33–35 points out of 100. The introduction of new institutions in the fight against corruption, as well as the creation of a separate and integral anti-corruption infrastructure (SAP, NABU, NACP, etc.) although has a certain positive effect, it is not significantly reflected in the dynamics of the country’s rating in this area. At the same time, the introduction of such institutions is encouraged and supported in the European community on the path to European integration of Ukraine. Given the fact that countries are making progress in the fight against corruption, we are not the only ones on this path. Therefore, in order to effectively fight corruption, we should study the experience of European countries in overcoming this phenomenon.

One of the successful countries that has developed a successful mechanism in combating corruption, which may be of interest to Ukraine, is Estonia. Despite the fact that this country did not create a separate anti-corruption infrastructure, the fight against corruption was quite successful. One of the key factors for such success was the desire of the political elite and society to overcome this phenomenon through open and transparent mechanisms for the functioning of the state apparatus. In addition, the success of the Estonian model was facilitated by the introduction of its own language in public positions, as a result, former Soviet employees lost their positions along with their corrupt schemes, and young, non-corrupt Estonians took their place.⁹

In Estonia, a separate program “Open State” was introduced, which covered several ministries in the issue of effective interaction with the public. The rise of the Estonian economy made it possible to increase spending on the state apparatus and, accordingly, increase the salaries of civil servants, which contributed to their non-corruption. That is, the Estonian experience shows that it is not necessary to have a separate special anti-corruption infrastructure to overcome corruption in the country, it is enough to have an elite focused on overcoming this phenomenon, effective work of existing law enforcement agencies and an active civil society.

⁸ Integrated compliance management - The Future of Compliance Programs; Denmark Corruption Report; last updated: september 2020.

⁹ BEGLITSIA, V. (2015): Experience of European countries in the formation of an anti-corruption strategy. Scientific works. Issue 252. T. 263. State administration, pp.17-23.

The experience of Lithuania, on the contrary, shows that it is advisable to create separate anti-corruption institutions. Thus, in this country a Special Investigation Service was created, which is created by the president in cooperation with the parliament, and is also responsible to these institutions. Such mutual accountability of the said Service to the highest elected institutions is aimed at preventing influence on it by any official, and also indicates that the importance of the fight against corruption is at the highest state level.

Finland is quite successful in overcoming and preventing corruption. Unlike some EU countries, Finland did not create separate anti-corruption bodies, but delegated the powers to monitor and fight corruption to two officials - the Chancellor of Justice and the Parliamentary Ombudsman.

Given the fact that the introduction and effective investigation of corruption cases in state and local government bodies is precisely the reporting of citizens, each country creates and implements its own witness protection program. The most effective witness protection programs, as a result of citizens reporting corrupt actions of officials, are in Romania, Slovenia and Luxembourg. For example, in Romania, the person who reported the corrupt actions of a particular official to law enforcement agencies is not disclosed. This is enshrined at the legislative level so that there is no retaliation by the official against the whistleblower. In addition, in Romania there is a National Anti-Corruption Directorate, which selects and appoints independent Chief Prosecutors and investigators.¹⁰

An important factor in the investigation of corrupt actions in officials is the study of their declarations of assets and debts. For example, in Latvia, a special state institution, such as the Bureau for the Prevention and Fight against Corruption, is engaged in the study of assets. In Bulgaria, this function is performed by the Audit Office, which stores such declarations of officials. In Lithuania, there is an Ethics Commission, to which officials submit their declarations. In order not to overload the responsible institution with secondary cases, only declarations of officials of the highest level, as well as those where the risk of corrupt actions is the highest, are under consideration in the relevant Commissions, Bureaus, Offices. In all other, less serious and more numerous cases, such cases are under consideration by the police. In many countries, a separate body prosecutes a suspected person for corruption. This is not always the anti-corruption prosecutor's office. For example, in Croatia there is a separate organization, namely the Office for Combating Corruption and Organized Crime, which is endowed with separate powers and is engaged in prosecuting officials for corruption. Since 2015, representatives from the Ministry of Justice, European and Foreign Affairs, Economy and Public Administration, the Supreme Court and other non-governmental institutions and organizations have joined this Office in the fight against corruption.

At the same time, responsibility for corruption offenses is a serious crime in Croatia. If an authorized person holding a particular position has immunity, then in this case he or she can lose it if this is supported by the parliament upon the proposal of the relevant anti-corruption organization. In addition to investigative actions in the fight against corruption, it is quite important to anticipate it and carry out prevention, starting with the education of the younger generation. Thus, in Lithuania there is a Special Investigation Service, which creates educational materials for educational institutions for reasons of preventing corrupt actions in the future. In addition, internal departments have been created in Lithuania to prevent corruption offenses at the level of state authorities and local governments.

One of the most successful European countries in overcoming corruption is Denmark. Having transparency in the actions of state organizations, freedom of the media and an active civil society, etc., all this leads to positive experience in the fight and prevention of corruption

¹⁰ HUMENYUK, L. (2009): Theoretical and sociological analysis of corruption as a threat to the national security of Ukraine. *Scientific Bulletin of the Lviv State University of Internal Affairs*, Vol. 2 (economic series), Lviv, pp. 100-110.

and high indicators in the anti-corruption rating. Another successful example in the fight against corruption is France. The French pay a significant role to the preventive component in preventing corrupt actions by officials. In addition, French legislation quite clearly defines the participants in the electoral process and their role in it, which contributes to reducing the level of corruption in the political area. However, the French model relies more on administrative than on criminal legislation regarding punishment for corruption offenses, since the emphasis of state policy is more on prevention than on punishment.

Quite successful progress in the fight against corruption took place in Slovakia. Thus, in this country the following were introduced: publication of information on the availability of property among officials; sanctions for violations of the financial law on political parties; transparent financing of political parties; availability to the public of regular reports on the financial situation of political parties; information about the reasons for the abuse of power by politicians or representatives of state authorities.

Separately, we can highlight the UK Bribery Act/UKBA in the United Kingdom, which came into force on July 1, 2011, and has a fairly wide scope. This law deals with the bribery of foreign officials, which includes both foreign officials themselves and employees of foreign government structures, public international organizations or their representatives. It is in connection with the entry into force of the UKBA that companies, including Ukrainian ones, need to pay special attention to ways to minimize corruption risks. The UKBA applies to all companies registered within the country, as well as those that fully or partially conduct their business on its territory. What is meant by “partial conduct of business” is a rather debatable issue. Most experts argue that the presence of representative offices, branches or other separate units in the UK is sufficient to extend the jurisdiction of the UKBA to such a company. Therefore, if a Ukrainian company carries out its activities at least partially in this territory, then it is subject to the provisions of the UKBA, and therefore, liability for committing offenses provided for by this law.¹¹

Practical part of the article. 2024 became the time of changes, tests and results for the National Anti-Corruption Bureau of Ukraine (NABU), which outlined new horizons of work. Transformation of approaches to the organization, expansion of the team, introduction of new working methods and overcoming internal crises laid the foundation for a confident entry. The public demand to fight corruption is a key driving force behind our activities. Ukraine, which is waging a war for its existence, needs institutions capable of ensuring the inevitability of punishment for corruption crimes, even at the highest echelons of power. This is precisely the mission of NABU, and it is this challenge that we face every day.¹²

Last year, NABU demonstrated significant results. In 2024, 658 new proceedings were initiated, of which 95 were in the defense sector, 37 in the energy sector, and 101 in relation to law enforcement and supervisory bodies. Among the high-profile cases are investigations into former deputies, ministers, customs and tax officials involved in multi-million-dollar losses. The amount of losses established during the year exceeded 26 billion UAN. Thanks to our efforts, we managed to return 823 million UAN to the state, as well as seize assets worth 6.8 billion UAN.

Transformation of approaches to the organization, expansion of the team, introduction of new working methods and overcoming internal crises laid the foundation for a confident entry into 2025. NABU is not only focusing on high-profile cases, but also introducing new approaches to work. Prioritization of key areas, implementation of the i-Case system, digitalization of processes, as well as institutional development contribute to increasing efficiency.

¹¹ VASILYEVA, O. (2019): Foreign experience of anti-corruption activities in public authorities. *Investments: practice and experience*. 2019, No. 13, pp. 62-65.

¹² UKRSTAT (2024). *Statistics*.

Currently, the Bureau is undergoing a large-scale staffing, which is accompanied by new performance assessment protocols. At the same time, 2024 reminded us that development is impossible without overcoming challenges. The crisis experienced by NABU strengthened the organization, demonstrated the importance of open communication in the team and institutional independence. In the fall of 2024, an audit of NABU's activities began. It was the first in 10 years of operation. This audit is an important step towards ensuring transparency and trust in the country's anti-corruption bodies. Transparency and effectiveness in the fight against corruption are the basis for building a strong and democratic state.¹³

In 2023, the Government adopted the State Anti-Corruption Program for 2023-2025 (SAP), developed by the National Agency for Corruption Prevention (NACP). However, the document cannot be fully implemented during wartime. Therefore, in 2024, to ensure the effective implementation of the SAP, the NACP conducted thorough work involving 85 institutions, which reached a consolidated position during 30 expert meetings.

The goal of the program is to achieve significant progress in preventing and combating corruption, ensuring coherence and systematic anti-corruption activities of all state institutions and local governments, as well as a proper process of post-war reconstruction of Ukraine. The implementation of the Program will contribute to further work on Ukraine's accession to the EU, the North Atlantic Treaty Organization (NATO), and the Organization for Economic Cooperation and Development (OECD).

The program is aimed at solving the problems identified in the Anti-Corruption Strategy for 2021-2025:

1. State anti-corruption policy is not always based on complete, objective and reliable data; the efforts of various state bodies, local governments and the public are not sufficiently coordinated.

2. Unsystematic changes to legislation in the area of preventing and combating corruption negatively affect the effectiveness of law enforcement.

3. The provisions of regulatory legal acts and their drafts require further improvement to eliminate possible corruption-generating factors.

4. The Institute of Authorized Units (Persons) for the Prevention and Detection of Corruption does not fully realize its potential due to insufficient guarantees of autonomy.

5. In many areas of public life, the use of corrupt practices is a more convenient, more efficient, more effective, and sometimes the only way to meet the needs of individuals and legal entities compared to meeting such needs in a legal manner.

The financing of the Program in terms for the implementation by the National Agency of measures to implement the Program, coordination and monitoring of its implementation, and assessment of the effectiveness for the Program implementation is carried out at the expense of state budget funds, in particular those provided for under the budget program "Implementation of Anti-Corruption Strategies", as well as other sources not prohibited by law, in particular funds from international technical assistance. The Program's financing in terms of implementing measures by those responsible for its implementation is carried out at the expense of state and local budgets, as well as other sources not prohibited by law, in particular international technical assistance funds.

Effective implementation of the Anti-Corruption Strategy until 2025, which was one of the conditions for granting Ukraine the status of a candidate for EU membership, and the Anti-Corruption Strategy will allow to significantly reduce the level of corruption in Ukraine in the areas that contain the greatest corruption risks. In addition, this is an important

¹³ UKRAINE FINANCE MINISTRY (2024): *Living wage in Ukraine 2024*.

factor for Ukraine's European integration and accession to the OECD.¹⁴ The main goal is to build a successful future for Ukraine, despite any external factors, by adapting to changes. In October 2024, the Cabinet of Ministers in Ukraine adopted the resolution introducing comprehensive amendments to the Anti-Corruption Strategy. The need to make changes is caused by the full-scale invasion, the need to update the expected strategic results established by the Anti-Corruption Strategy, which was developed even before the war.

Conclusion

Thus, the experience of a number of countries in the fight against corruption shows that they use both their own practices and implement the best practices of other countries. The process of improving the fight against corruption is constantly in dynamics. Ukraine is no exception to this process. Although our country has already made some progress in the fight against corruption, it may be interesting for us to use the experience of a number of successful countries: the Netherlands in identifying potential corruption-prone areas in the interaction between the state and citizens; Germany, Latvia and Bulgaria, in particular in the aspect of declaring income and their expenses among high-ranking officials, as well as their monitoring by law enforcement agencies; Romania and Slovenia in implementing a witness protection program; Lithuania, in particular in the aspect of implementing a bribery prevention policy, starting to educate the younger generation in educational institutions in the spirit of decency and openness.¹⁵

Thus, one of the obstacles to the proper functioning of the economic component for state security remains corruption offenses, as a result of which there is a destructive impact on the course of individual economic processes in the country. In today's difficult conditions, the need for the existence and effective operation of specialized anti-corruption institutions is acute, one of which is the National Anti-Corruption Bureau of Ukraine. It is this entity that is endowed with a wide range of powers in the area of countering those corrupt acts, the possible consequences of which pose a real threat to the economic security of the state. Therefore, the satisfactory work of this law enforcement agency, in the short term, should contribute to reducing the level of crime associated with corrupt acts, which, in turn, will weaken the existing destructive pressure on all spheres and links of the national economy.

2025 will be extremely important for the NACP team of Ukraine, responsible for the development and implementation of anti-corruption policy, as there will be many challenges. It is necessary to complete the effective implementation of the current Anti-Corruption Strategy and the Anti-Corruption Strategy both as an executor of measures and as a coordinator of other state bodies. In addition, it is important to analyze existing problems in the areas of public life most affected by corruption, including on the basis of sociological and expert research data, and propose ways to solve them. This will become the basis for a new Anti-Corruption Strategy until 2030.

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¹⁵ KARPENKO, L. – VERBYTSKYI, D. – POPOVYCH, D. (2025). Anti-corruption mechanism and means of de-shadowing relations in the social sphere in the coordinates of ensuring the economic security of Ukraine. *Current issues in modern science (Series "Pedagogy", Series "Law", Series "Economics", Series "Public Administration", Series "Technology", Series "History and Archaeology") journal*. No. 2(32), 2025, pp. 218-231. Available at: <http://perspectives.pp.ua/index.php/sn/article/view/20122>

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THE AFRICAN COURT ON HUMAN AND PEOPLES' RIGHTS AND THE PROHIBITION OF CORPORAL PUNISHMENT: A JURISPRUDENTIAL ANALYSIS IN THE FRAMEWORK OF INTERJUDICIAL DIALOGUE

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Abstract: This article examines the evolving jurisprudence of the African Court on Human and Peoples' Rights (AfCHPR) on corporal punishment, with a particular focus on its 2024 judgment in *Kabalabala Kadumbagula and Daud Magunga v. Tanzania*. The judgment addresses critical issues of juvenile justice, the right to legal representation, and the compatibility of life imprisonment and corporal punishment with human dignity and the best interests of the child. Through a close doctrinal analysis, the article demonstrates how the AfCHPR interprets regional human rights instruments in light of international standards, including the Convention on the Rights of the Child (CRC), the International Covenant on Civil and Political Rights (ICCPR), and comparative jurisprudence from the European and Inter-American systems. The article argues that the Court's reasoning in *Kadumbagula* represents a significant consolidation of its approach to the absolute prohibition of corporal punishment and contributes meaningfully to an emerging transregional consensus on the protection of children from violence. It further explores the Court's methodological engagement in interjudicial dialogue and assesses the judgment's potential impact on future African human rights litigation and legislative reform.¹

Keywords: African Court of Human and Peoples' Rights, corporal punishment, human rights, juvenile justice, human dignity, interjudicial dialogue, children's rights best interests of the child, inhuman or degrading treatment, comparative human rights law

JEL: K33, K38, H77

Introduction

Corporal punishment, defined by the United Nations Committee on the Rights of the Child as *any punishment using physical force intended to cause some degree of pain or discomfort, however light*,² constitutes a contested and evolving concept within contemporary international human rights law. Historically employed as a tool of discipline and penal sanction—frequently in military, judicial, and carceral contexts³—its continued use, particularly against children,⁴ has increasingly come under normative scrutiny. The progressive

¹ The author is a PhD. student at Faculty of Law, Charles University; he works for University College Prague. As a non-native speaker of English, the author used ChatGPT to improve the linguistic character of the text.

² UNCRC (2006): General Comment No. 8 (2006).

³ ADAMS, R. (1998): The abuses of punishment. GATES, J. – MARAFIOTI, N. (2014): Capital and corporal punishment in Anglo-Saxon England; GELTNER, G. (2014): Flogging others: corporal punishment and cultural identity from antiquity to the present; JARVIS, B. (2004): Cruel and unusual : punishment and US culture.

⁴ DONNELLY, M. – STRAUS, M. (2005): Corporal punishment of children in theoretical perspective; FITZ-GIBBON, J. (2017): Corporal Punishment, Religion, and United States Public Schools; GERSHOFF, E. T. et al. (2015): Corporal Punishment in U.S. Public Schools : Legal Precedents, Current Practices, and Future Policy; HAN, S. (2017): Corporal Punishment in Rural Schools: Student Problem Behaviours, Academic Outcomes and School Safety Efforts; SAUNDERS, B. J. et al. (2019): Corporal punishment of children: comparative legal and social developments towards prohibition and beyond. STRAUS, M. – DONNELLY, D. (1994): Beating

consolidation of international standards on the rights of the child, most notably through the 1989 *Convention on the Rights of the Child* (CRC),⁵ has precipitated a paradigmatic shift in how corporal punishment is assessed under international law.⁶ Article 19 of the CRC imposes an affirmative obligation upon States Parties to take comprehensive legislative, administrative, and educational measures to protect the child from all forms of physical or mental violence, including when inflicted by parents, legal guardians, or other caregivers. This provision has been further elaborated by the Committee's General Comments, which interpret any form of corporal punishment as incompatible with the child's right to dignity and protection from violence.

In this evolving legal and interpretative context, the abolition of corporal punishment—particularly in domestic and educational settings—has emerged as a central objective of both international and regional human rights mechanisms. The 1990 *African Charter on the Rights and Welfare of the Child* (ACRWC)⁷ together with the *African Charter on Human and Peoples' Rights*,⁸ alongside the African Court on Human and Peoples' Rights (AfCHPR),⁹ play a critical role in advancing this normative agenda within the African continent.¹⁰ This article undertakes an analysis of the AfCHPR's developing jurisprudence concerning corporal punishment, with a particular focus on the 2024 judgment in *Kabalabala Kadumbagula and Daud Magunga v. The United Republic of Tanzania*¹¹ (hereinafter *Kadumbagula and Magunga v. Tanzania*). The case raises profound legal questions regarding the sentencing of a minor to life imprisonment, specifically in relation to the prohibition of inhuman and degrading treatment and the application of principles of juvenile justice under both regional and international human rights instruments. By engaging with the AfCHPR's legal reasoning and interpretative approach, this study aims to assess the extent to which the AfCHPR contributes to the consolidation of human rights norms prohibiting corporal punishment in Africa and to the broader interjudicial dialogue on children's rights.

1 Context of the Case and Key Findings of the Court

This section analyses the facts and legal conclusions of the AfCHPR in the *Kadumbagula and Magunga v. Tanzania* case. The case raises fundamental issues concerning the protection of juvenile offenders, the right to legal assistance, and the evolving standards of human dignity under African human rights law.

The applicants, Kabalabala Kadumbagula (First Applicant) and Daud Magunga (Second Applicant), both Tanzanian nationals, were originally charged with abduction and gang rape before the District Court of Kibondo in 2000. Although acquitted of the initial charges, they

the devil out of them: corporal punishment in American families; TURNER, S. (2002): Something to cry about: an argument against corporal punishment of children in Canada.

⁵ UNITED NATIONS (1989): Convention on the Rights of the Child.

⁶ COUNCIL OF EUROPE (2005): Eliminating corporal punishment: a human rights imperative for Europe's children.

⁷ ORGANIZATION OF AFRICAN UNITY/AFRICAN UNION (1990): African Charter on the Rights and Welfare of the Child.

⁸ ORGANIZATION OF AFRICAN UNITY /AFRICAN UNION (1981): African Charter on Human and Peoples' Rights.

⁹ ORGANIZATION OF AFRICAN UNITY /AFRICAN UNION (1998): Protocol to the African Charter on Human And Peoples' Rights on the Establishment of an African Court on Human and Peoples' Rights.

¹⁰ SSENIONJO, M. (2012): The African regional human rights system: 30 years after the African Charter on Human and Peoples' Rights; EVANS, M. – MURRAY, R. (2008): The African Charter on Human and Peoples' Rights : the system in practice, 1986-2000; UMOZURIKE, U. (2007): The African Charter on Human and Peoples' Rights: Suggestions for More Effectiveness; FAIX, M. – JAMALI, A. (2022): Is the African Court on Human and Peoples' Rights in an Existential Crisis? JAMALI, A. – FAIX, M. (2023): Human Rights Litigation in Africa Under Attack: Analysis of Backlash against Regional and Sub-Regional Courts.

¹¹ AFRICAN COURT OF HUMAN AND PEOPLES' RIGHTS (2024): Application 031/2017 – Kabalabala Kadumbagula & another v. United Republic of Tanzania.

were found guilty of rape. The First Applicant, regarded as the principal offender, was sentenced to 40 years' imprisonment. The Second Applicant, who was 16 years old at the time of the offence, received a sentence of 30 years as an accomplice.

Upon appeal, the High Court reclassified the offence as gang rape and imposed life imprisonment on both individuals. This sentence was upheld by the Tanzanian Court of Appeal in 2009. Subsequently, the Second Applicant filed a request for judicial review, which was rejected in 2017. The Applicants then jointly seized the AfCHPR, alleging violations of their fair trial rights and seeking redress.

While both Applicants raised procedural and substantive complaints, the Court ultimately declared the First Applicant's case inadmissible due to the excessive delay in filing, finding that he had not justified the lapse of more than seven years after the exhaustion of domestic remedies. In contrast, the Second Applicant's claims were declared admissible, owing to his continued efforts to seek judicial review and the relatively prompt filing upon learning of the Court's existence.

The AfCHPR focused exclusively on the Second Applicant's claims, addressing the following central questions:

1. Whether the Second Applicant's right to defence, as protected under Article 7(1)(c) of the African Charter and Article 14(3)(d) of the ICCPR, was violated due to the lack of legal representation during criminal proceedings;
2. Whether the imposition of a life sentence on a minor was compatible with regional and international human rights obligations, in light of subsequent amendments to Tanzanian law providing for lighter penalties for juvenile offenders;
3. Whether the domestic courts had sufficiently considered the Second Applicant's age and the rehabilitative aims of juvenile justice when determining the sentence;
4. Whether the introduction of corporal punishment as an alternative sentence violated the prohibition of inhuman and degrading treatment under Article 5 of the African Charter.

The AfCHPR found that the Second Applicant was indigent, charged with a serious offence carrying a potential life sentence, and was not provided with legal assistance at any stage of the proceedings. It held that the Respondent State's failure to guarantee such assistance constituted a breach of his right to a fair trial and effective defence. In examining the sentencing, the AfCHPR observed that an amendment to the Tanzanian Penal Code, adopted in 2007—after the offence but prior to the final judgment—provided for corporal punishment in lieu of life imprisonment for juvenile offenders. Although Tanzanian law explicitly disallowed retroactive application, the Court emphasized that international human rights law obliges States to apply the more lenient penalty when legal norms change prior to the conclusion of proceedings. The Court concluded that the domestic courts had erred in failing to do so. However, the AfCHPR also reaffirmed its established position that corporal punishment itself is incompatible with human dignity, constituting a violation of Article 5 of the Charter. Finally, the AfCHPR underscored the normative standards applicable to juvenile justice, particularly Article 17(3) of the African Charter on the Rights and Welfare of the Child (ACRWC) and Article 40(1) of the Convention on the Rights of the Child (CRC). These provisions call for penalties that promote the reformation and reintegration of child offenders. A sentence of life imprisonment, the Court reasoned, is inherently irreconcilable with these aims.

The AfCHPR found multiple violations on the part of the Respondent State, including:

- the denial of legal assistance in violation of Article 7(1)(c) of the Charter;
- the failure to apply a more lenient sentence in violation of Article 15(1) of the ICCPR;

- the imposition of life imprisonment on a minor, contrary to the rehabilitative standards of the African Charter on the Rights and Welfare of the Child (ACRWC) and CRC;
- and the maintenance of corporal punishment in law, violating Article 5 of the Charter.

As a remedy, the Court:

- ordered the immediate release of the Second Applicant;
- awarded him 1,000,000 Tanzanian shillings in moral compensation;
- and directed the amendment of domestic laws, including the Interpretation of Laws Act, to align with international standards.

In contrast, the First Applicant's claims were dismissed at the admissibility stage, and the Court did not proceed to examine the merits of his allegations.

The AfCHPR, in its ongoing development of jurisprudence, has consistently addressed the issue of corporal punishment, articulating a clear stance on its incompatibility with fundamental human rights principles. In the *Kadumbagula and Magunga v. Tanzania* judgment, the AfCHPR unequivocally affirmed that corporal punishment constitutes a violation of Article 5 of the African Charter on Human and Peoples' Rights (the Charter), which enshrines the right to dignity and freedom from inhuman or degrading treatment or punishment. This pronouncement reflects a consolidation and reaffirmation of evolving case law.

The AfCHPR, in its judicial reasoning, explicitly referenced its prior decision in *Yassini Rashid Maige v. United Republic of Tanzania*.¹² In *Maige*, the AfCHPR had previously determined that corporal punishment contravenes the provisions of Article 5 of the Charter. This reliance on precedent serves to underscore the consistency and coherence of the Court's legal position on this matter. Furthermore, the AfCHPR's legal analysis is enriched by its engagement with the jurisprudence of the African Commission on Human and Peoples' Rights. The AfCHPR also cited *Doebbler v. Sudan*,¹³ a communication adjudicated by the African Commission on Human and Peoples' Rights, in further support of its conclusion that corporal punishment infringes upon the right to dignity. This inter-institutional dialogue between the AfCHPR and the African Commission demonstrates a unified approach within the African human rights system towards the eradication of corporal punishment.

In essence, the *Kadumbagula and Magunga v. Tanzania* judgment, within the context of evolving case law, reinforces the following key principles:

- The prohibition of corporal punishment is firmly grounded in Article 5 of the African Charter.
- The AfCHPR consistently upholds this prohibition, as evidenced by its reliance on prior jurisprudence.
- The AfCHPR's interpretation is informed and supported by the decisions of the African Commission, contributing to a holistic and integrated body of African human rights law.

This evolving jurisprudence signifies a progressive trajectory towards the unequivocal condemnation and elimination of corporal punishment within the African continent. The *Kadumbagula and Magunga v. Tanzania* judgment provides a crucial doctrinal consolidation regarding the rights of juvenile offenders under African human rights law

¹² AFRICAN COURT OF HUMAN AND PEOPLES' RIGHTS (2023): Application 018/2017 – Yassini Rashid Maige v. United Republic of Tanzania.

¹³ AFRICAN COURT OF HUMAN AND PEOPLES' RIGHTS (2003): Comm. No.236/2000 (2003) – Curtis Francis Doebbler v. Sudan.

and lays the foundation for a broader discussion of how regional human rights courts engage in cross-jurisdictional dialogue—a topic addressed in the following section.

2 The Judgment in Interjudicial Context

This section examines the *Kadumbagula and Magunga v. Tanzania* judgment within the broader framework of international and regional human rights jurisprudence, identifying points of convergence and divergence between the AfCHPR's approach and that of other influential courts and tribunals. This comparison highlights the AfCHPR's unique contribution to the ongoing dialogue on juvenile justice and the prohibition of corporal punishment.

To effectively contextualize the AfCHPR's jurisprudence, it's particularly insightful to consider the European human rights system, which, through the 1950 *European Convention on Human Rights*¹⁴ (ECHR) and the *European Social Charter*¹⁵ (ESC), and the European Court of Human Rights (ECtHR) and the European Committee of Social Rights (ECSR), respectively, provides a robust framework for the prohibition of corporal punishment, especially concerning children. The ECtHR has developed a substantial body of case law on juvenile justice and the prohibition of inhuman and degrading treatment. Key themes include a strong emphasis on the best interests of the child, the need for age-appropriate treatment of juvenile offenders, and the importance of evolving standards of decency in evaluating punishment. For instance, in cases involving the life imprisonment of minors, the ECtHR has consistently stressed the necessity of the possibility of review and release, acknowledging the significant developmental changes that occur during youth. In relation to corporal punishment, the ECtHR has unequivocally condemned it as a violation of Article 3 of the European Convention on Human Rights (prohibition of torture, inhuman or degrading treatment or punishment), interpreting Article 3 progressively to encompass this prohibition, as demonstrated in cases like *Tyrer v. UK*¹⁶ (1978) and *A v. UK*¹⁷ (1998). The *Wetjen and Others v. Germany*¹⁸ (2018) judgment further emphasized the importance of prevention, with the ECtHR stating it was "commendable" for states to prohibit all forms of corporal punishment in law to avoid any risk of ill-treatment and degrading treatment of children.

Complementing the ECtHR's work, the ESC, with Article 17 focusing on the protection of children, and the European Committee of Social Rights (ECSR), which monitors compliance, further strengthens the European stance. The ECSR's jurisprudence emphasizes that compliance requires states to enact explicit legislation prohibiting all forms of corporal punishment of children in all settings, a stance that has driven legislative reform in several European states through collective complaints like those initiated by the Association for the Protection of All Children (APPROACH).¹⁹

Comparing this to the *Kadumbagula and Magunga v. Tanzania* judgment, a significant resonance emerges in the AfCHPR's emphasis on the minor's age, the need for rehabilitation, and its rejection of corporal punishment. Both the AfCHPR and the ECtHR underscore the importance of considering the evolving capacity of the child and the potential for reform.

In the *Kadumbagula and Magunga v. Tanzania* judgment, the AfCHPR strategically invoked the ACRWC to substantiate its legal reasoning, specifically referencing Article 17(3)

¹⁴ COUNCIL OF EUROPE (1950): Convention for the Protection of Human Rights and Fundamental Freedoms.

¹⁵ COUNCIL OF EUROPE (1961): European Social Charter.

¹⁶ EUROPEAN COURT OF HUMAN RIGHTS (1978): Application no. 5856/72 – Case of *Tyrer v. The United Kingdom*.

¹⁷ EUROPEAN COURT OF HUMAN RIGHTS (1998): Application no. 25599/94 – Case of *A. v. the United Kingdom*.

¹⁸ EUROPEAN COURT OF HUMAN RIGHTS (2018): (Applications nos. 68125/14 and 72204/14) – Case of *Wetjen and Others v. Germany*.

¹⁹ E. g. EUROPEAN COMMITTEE OF SOCIAL RIGHTS (2014): Complaint No. 93/2013 – *Association for the Protection of All Children (APPROACH) Ltd. v. Ireland*.

of the said Charter which delineates the fundamental objectives that should govern the treatment of children within the juvenile justice system. These objectives are explicitly articulated as the reformation of the child offender, reintegration of the child offender into their family unit, and social rehabilitation of the child offender. The AfCHPR, in its judicial analysis, employed Article 17(3) of the ACRWC as a normative framework for evaluating the propriety of the sentence imposed upon the Second Applicant, who was legally defined as a child at the time of the commission of the offense.

The AfCHPR posited that the imposition of a life imprisonment sentence on a child fundamentally contravenes the core tenets of reformation, reintegration, and social rehabilitation enshrined in Article 17(3) of the ACRWC. The Court cogently argued that the imposition of a life sentence effectively precludes the child offender's successful reintegration into society and impedes their capacity to assume a constructive societal role.

Furthermore, the AfCHPR contextualized its interpretation of Article 17(3) within the overarching juridical principle of the "best interests of the child," a foundational tenet of international children's rights law. This principle mandates that all decisions and actions pertaining to children must prioritize their optimal well-being. Consequently, the AfCHPR's deliberate consideration of Article 17(3) of the ACRWC played a pivotal role in the Court's determination that the domestic judicial bodies had failed to adequately factor in the Second Applicant's chronological age and the imperative to foster his reformation and societal reintegration.

Several similarities mark the legal reasoning of the AfCHPR and the European human rights system. Both demonstrate a strong commitment to the principles of juvenile justice, emphasizing rehabilitation and protecting child offenders' rights. They also recognize the evolving nature of human rights standards, interpreting legal norms dynamically to reflect contemporary understandings of human dignity and child development. The explicit rejection of corporal punishment as inherently inhuman and degrading is a significant shared stance.

However, some differences exist. The AfCHPR operates within the specific context of the African Charter and the African regional system, which may involve unique socio-cultural considerations influencing the application of universal principles. While both systems draw upon international human rights law, they may give different weight to certain sources or interpret them through a regional lens. Furthermore, the AfCHPR's jurisprudence is still developing compared to the ECtHR, which has a longer history and a more extensive body of case law, and the distinct approach of the ESC/ECSR system, allowing for more established trends and precedents.

Within the context of the evolving interjudicial dialogue pertaining to international human rights norms, a salient point of convergence is discernible also between the African and Inter-American regional human rights systems in their respective juridical treatments of corporal punishment. The AfCHPR, while its judgment in *Kadumbagula and Magunga v. Tanzania* does not explicitly reference it, nonetheless aligns with the jurisprudence of the Inter-American Court of Human Rights (IACtHR), most notably exemplified by the latter's decision in *Caesar v. Trinidad and Tobago*²⁰ (2005), both courts having articulated a firm condemnation of corporal punishment as violative of fundamental human rights. Though operating within their distinct regional legal frameworks, both tribunals concurrently underscore the inherent inhumanity and degrading nature of this punitive practice, rejecting its compatibility with the enshrined principles of human dignity and the right to physical integrity. This shared articulation of legal principle contributes to the discernible trajectory towards the global abolition of corporal punishment, reflecting a growing consensus across disparate juridical spheres.

²⁰ INTER-AMERICAN COURT OF HUMAN RIGHTS. (2005): Series C No. 123 – Case of Caesar v. Trinidad and Tobago.

The *Kadumbagula and Magunga v. Tanzania* judgment makes a notable contribution to the interjudicial dialogue. First, the AfCHPR explicitly condemned the imposition of life imprisonment on a minor, reinforcing its incompatibility with the goals of juvenile justice, aligning with and adding weight to the growing international consensus, as evidenced by the ECtHR's jurisprudence. Second, the judgment highlighted the obligation of states to apply more lenient penalties retroactively, aligning African jurisprudence with evolving international standards on the application of criminal law, a principle also upheld in the ECtHR's case law. Third, the AfCHPR underscored the inherent inhumanity and degrading nature of corporal punishment, even as an alternative to imprisonment, contributing to the broader global movement towards its abolition, a position strongly supported by both the ECtHR and the ECSR.

The *Kadumbagula and Magunga v. Tanzania* judgment thus demonstrates the AfCHPR's willingness to actively engage with international human rights law, such as the ICCPR and the CRC, and to incorporate those standards into its interpretation of the African Charter, enriching the cross-fertilization of legal ideas across jurisdictions. Finally, within the African context, where corporal punishment may still be widely practiced or legally sanctioned, the *Kadumbagula and Magunga v. Tanzania* judgment provides a strong legal precedent for its abolition and for the advancement of children's rights, potentially influencing legislative and judicial reforms across the continent, much like the ECSR's jurisprudence has driven legislative change in Europe.

Discussion and Conclusion

The *Kadumbagula and Magunga v. Tanzania* judgment constitutes a pivotal development in the evolving jurisprudence of the AfCHPR, particularly in its treatment of the rights of juvenile offenders and the absolute prohibition of corporal punishment. The AfCHPR not only reaffirmed its unwavering commitment to the protection of human dignity—especially in the context of children in conflict with the law—but also articulated a methodologically rigorous and normatively robust interpretative position grounded in both regional and international human rights instruments.

This short article has undertaken a comprehensive analysis of the case, addressing, however shortly, both its procedural and substantive dimensions. It has demonstrated that the AfCHPR's reasoning was informed by the failure of domestic courts to account for the applicant's age, the rehabilitative aims of juvenile justice, and relevant legislative reforms introducing more lenient penalties. Moreover, the AfCHPR's principled rejection of corporal punishment as an acceptable alternative sentence reflects its alignment with an emerging global consensus that all forms of violence against children—regardless of intent or severity—are irreconcilable with the right to dignity. In reaching these conclusions, the AfCHPR drew selectively on comparative jurisprudence, most notably that of the ECtHR, thereby engaging in a meaningful interjudicial dialogue that reinforces both doctrinal coherence and transregional norm convergence.

From a jurisprudential perspective, the *Kadumbagula* judgment represents a significant doctrinal consolidation. It affirms the AfCHPR's enhanced capacity to interpret regional instruments in harmony with universal human rights norms, particularly in areas such as juvenile sentencing, non-retroactivity, and the prohibition of cruel, inhuman, or degrading punishment. Crucially, this engagement did not entail the uncritical transplantation of foreign legal standards; rather, the Court demonstrated how African human rights instruments, especially the African Charter on the Rights and Welfare of the Child (ACRWC) can align with and substantively enrich the normative frameworks developed in other regions. In doing so, the Court solidified its role as a regional judicial institution capable of influencing international legal discourse while maintaining fidelity to the specificities of the African context.

The broader implications of this decision extend well beyond the immediate facts of the case. In aligning its interpretative approach with that of other regional human rights systems—particularly the European and, implicitly, the Inter-American ones—the AfCHPR contributes to a growing transregional convergence around the principle that children enjoy an inalienable right to protection from corporal punishment in all its forms. At the same time, the AfCHPR’s emphatic reaffirmation that such punishment is inherently degrading underscores its potential to serve as a catalyst for legal and institutional reform across the African continent, especially in jurisdictions where corporal punishment remains legally permissible or socially entrenched.

Nevertheless, while the judgment establishes a compelling standard in relation to corporal punishment and juvenile sentencing, further jurisprudential development is both necessary and expected. Areas such as the rights of children deprived of liberty in conflict-affected regions, access to legal aid in juvenile proceedings (and/or the lack thereof), and the intersection of punitive practices with structural inequality and social marginalization remain largely unexplored in the AfCHPR’s case law. Similarly, the AfCHPR’s future engagement with soft-law instruments—such as General Comments of treaty bodies and guidelines issued by African Union institutions—could strengthen its capacity to refine and operationalize the principles articulated in *Kadumbagula and Magunga v. Tanzania*.

Moreover, as the interjudicial dialogue expands to encompass not only European but also Inter-American jurisprudence, further opportunities will arise for the Court to deepen its comparative approach while reinforcing the distinctiveness of the African normative framework. In this respect, the AfCHPR stands well-positioned to contribute to the global discourse on the rights of the child not merely as a recipient of transnational legal norms, but as an active participant in their construction.

In conclusion, *Kadumbagula and Magunga v. Tanzania* transcends the confines of a case on sentencing policy. It crystallizes the AfCHPR’s evolving and sophisticated understanding of core legal concepts such as dignity, proportionality, and the best interests of the child, while simultaneously engaging in a jurisprudential conversation that cuts across regional boundaries. As such, it offers both a principled and progressive framework for the ongoing development of African and international human rights law. The judgment underscores the inherent potential of regional courts not merely to reflect international legal standards, but to meaningfully shape and advance them in an era increasingly characterized by normative interdependence and judicial cross-fertilization.

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CHANGES IN THE LABOUR MARKET IN SELECTED EU COUNTRIES CAUSED BY MIGRATION

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Abstract: Migration has a significant impact on the functioning of the labour market in the European Union, and its consequences are multifaceted and depend on the specific context of each country. The paper analyses the positive and negative impacts of migration on employment, wage levels, workforce structure and economic integration of migrants. Based on case studies from selected EU countries, it is shown how migration contributes to addressing demographic challenges and labour shortages, but also puts pressure on labour market segmentation, wage competition and social inequality. The aim of the article is to bring closer the complexity of the impacts of migration and to point out the need for a targeted integration policy as well as to provide a theoretical basis for further research.

Key words: migration, labour market, employment, integration of migrants, EU

JEL: J61, J15, F22, O15

Introduction

Migration and the labour market are two interlinked areas that have a significant impact on each other. Migration, as the movement of people between countries or regions, changes the structure and dynamics of the workforce in the destination countries, and at the same time has an impact on the countries of origin of migrants. The labour market, as an economic mechanism in which supply and demand for labour meet, responds to migration by changing employment, wages, productivity or the structure of employment. In theory, there are several approaches that explain the reasons for migration, its economic consequences and how it affects the balance in the labour market.¹

1 Theoretical framework

Migration is one of the most important phenomena in the contemporary world and its impact on the economy and the labour market is one of the most discussed aspects within the European Union (EU). Demographic change, globalisation, technological progress and geopolitical conflicts are fundamentally changing migration flows, while putting pressure on the flexibility, inclusiveness and performance of European labour markets. Migration affects the labour market in many ways, from changes in the structure of labour supply to wage dynamics, to social cohesion and public policies.² However, this impact is not one-sided, as the current academic and political debate shows that migration brings with it positive effects such as economic growth, addressing labour shortages, boosting productivity, but also negative phenomena such as pressure on wages in low-skilled sectors, job insecurity or temporary, labour market segmentation and challenges in the integration of migrants.³

¹ OECD (2020): *International Migration Outlook 2020*. Paris: OECD Publishing, ISBN 9789264382947.

² BORJAS, G.J. (2014): *Immigration Economics*. Cambridge, MA: Harvard University Press ISBN 9780674068396.

³ EUROPEAN COMMISSION (2019): *Labour Market Integration of Migrants in the EU*. In: *DG Employment Report, Brussels: European Commission*

2 Positive effects of migration on the EU labour market

One of the most significant benefits of migration is the increase in the available workforce, especially in countries facing an ageing population. In many Western European countries, such as Germany, France, Belgium and Sweden, the number of people of working age is decreasing, while the number of pensioners is increasing. Working age migrants not only increase the number of economically active people, but also alleviate the pressure on pension systems and ensure the smooth running of basic services.⁴ Many migrants find employment in market segments that are unattractive for the domestic workforce in the long term, especially low-paid, physically demanding or low-profile professions. For example, in Italy, Spain and Portugal, migrants work massively in agriculture, construction, care services or domestic work. Without their presence, many of these sectors would be in a critical situation in terms of the availability of workers. A similar situation is also evident in the countries of northern Europe in the Netherlands and Denmark, migrants fill jobs in seasonal and flexible positions, often in food, logistics or cleaning services.⁵

Migration contributes to the growth of gross domestic product, as a larger number of people in work means higher production and higher consumption. In addition, migrants increase the demand for goods and services upon arrival in the country, expanding the market and creating new business opportunities. This multiplier effect has a long-term positive impact on the performance of the economy. In Germany, for example, after 2015, when the country took in a large number of refugees, a modest positive impact on economic growth has been demonstrated over the course of several years, although integration challenges have become apparent in the short term.⁶

Migrants, especially those with higher education, bring new skills, perspectives and innovation potential. In areas such as research, information technology, engineering or healthcare, they can be a key contribution to the development of the knowledge economy. An example is Sweden, which systematically supports the migration of skilled professionals, while using ethnic entrepreneurship as one of the tools for the development of local communities. Migrants here become employers, not just employees. In some cases, migrants contribute to the revitalisation of rural or dying areas. Migrants there often cover jobs in retail, logistics or agriculture. Similarly, in Germany, immigrants settle in areas with low population density, where they help maintain basic services such as education and healthcare.⁷

3 Negative effects of migration on the EU labour market

One of the main concerns of the public is that the presence of migrants causes wage reductions, especially in low-skilled sectors. Several studies confirm that in the short term, migration can lead to a slight decline in wages in certain sectors, especially if the number of migrants is large and concentrated.⁸ Examples are the construction industry in Norway or France, where the presence of cheaper labor from Eastern Europe has increased competition and reduced the bargaining power of domestic workers. This effect, usually local and temporary, stabilizes wages in the long term.⁹

⁴ OECD (2019): *Working Better with Age*. Paris: OECD Publishing, 2019. ISBN 9789264493662.

⁵ FASANI, F. – MAZZA, J. (2020): *Immigrant Key Workers: Their Contribution to Europe's COVID19 Response*. Bonn: IZA.

⁶ EUROPEAN COMMISSION (2016): *An Economic Take on the Refugee Crisis*.

⁷ GINN, T. (2023): *Labor Market Access and Outcomes for Refugees*. Washington, D.C.: World Bank – UNHCR Joint Data Center, JDC Quarterly Digest.

⁸ DUSTMANN, C. – FRATTINI, T. – PRESTON, I. P. (2013): *The Effect of Immigration on Native Wages and Employment*. In: *The Review of Economic Studies*.

⁹ BRATSBERG, B. – RAAUM, O. – RØED, K. (2014): *Immigration and Wages: Evidence from Construction*. In: *Labour Economics*

Migrants are often employed in unstable employment relationships on temporary contracts, in informal employment or through intermediaries. While this form of employment has the advantage of flexibility, it also leads to lower labour protections, weaker social rights and greater vulnerability. In Spain and Italy, this phenomenon is pronounced, with many migrants working in the so-called shadow economy without contracts, with minimal security. The result is social insecurity, lower access to pensions and a higher likelihood of poverty despite employment. In many EU countries, migrants are concentrated in certain sectors of the labour market, creating both vertical and horizontal segmentation. Vertical segmentation means that skilled migrants also often work in less skilled positions, such as a doctor from Algeria working as a paramedic in Belgium.¹⁰

Horizontal segmentation refers to the concentration of migrants in certain sectors such as hospitality or cleaning. The consequence is the waste of human capital, also known as brain waste, reduced motivation and systemic inequality, when migrants do not have a real opportunity for professional growth.¹¹ Migrants are more affected by economic recessions, especially because they work in cyclical sectors such as construction, tourism or manufacturing. In times of economic downturn, they are the first to lose their jobs and at the same time face difficulties in getting back to work. For example, during the 2008 financial crisis, unemployment among migrants in Spain rose significantly faster than among the native population, and it took significantly longer to recover.¹²

If migrants fail to successfully integrate into the labour market, long-term problems of social inclusion arise, including poverty, ghettoisation or generational transmission of disadvantages. In addition to the economic consequences, this also creates social tensions that can be politically abused and polarize public opinion. Examples from France, Belgium and Sweden show that the lack of integration in the labour market is one of the main factors leading to the marginalisation of migrants and their descendants, which has a negative impact on the cohesion of society.¹³

4 Changes in the labour market of selected EU countries

Migration has a long-term and multi-layered impact on the structure of labour markets in the countries of the European Union. The influx of foreign workers responds to changing labour demand, demographic challenges and imbalances in national labour markets. While migrants often play a key role in filling labour shortages and supporting economic activity, they also face structural inequalities such as lower wages, higher unemployment rates, job instability and labour market segmentation.¹⁴

In Germany, one of the most striking features of the labour market is the pay gap between domestic workers and new immigrants. New migrants earn about one-fifth less when they enter the labour market than native Germans with similar qualifications. However, this difference is not static in nature, since it decreases over time, indicating improving economic integration. Initially, immigrants find employment mainly in low-skilled and lower-wage sectors, but with increasing residence and the acquisition of language and professional competences, they are gradually moving to more qualified segments. The German case thus

¹⁰ EUROPEAN UNION AGENCY FOR FUNDAMENTAL RIGHTS (2015): Severe Labour Exploitation: Workers Moving within or into the EU.

¹¹ MIGRATION POLICY INSTITUTE (2021): Leaving Money on the Table: The Persistence of Brain Waste among Immigrants. In: *Migration Policy Institute*.

¹² EUROPEAN COMMISSION (2016): An Economic Take on the Refugee Crisis. In: *Economy and Finance*.

¹³ GINN, T. (2023): Labor Market Access and Outcomes for Refugees. Washington, D.C.: World Bank – UNHCR Joint Data Center, JDC Quarterly Digest. In: *World Bank Group*.

¹⁴ OECD (2025): Labour Shortages and Labour Market Inequalities. Paris: OECD Publishing. In: *OECD*.

highlights the dynamics of adaptation and integration, which has both economic and social dimensions.¹⁵

Spain represents a country with a historically strong influx of foreign labor. Immigrants play an important role in addressing structural labour shortages, particularly in sectors such as agriculture, construction and domestic services. However, the high level of temporary and informality of employment contracts among migrants leads to their vulnerability. During economic crises, they face higher unemployment rates than domestic workers, as a result of their overrepresentation in cyclically vulnerable sectors. This trend is also reflected in Italy, where migrants have become an essential part of the workforce in essential sectors, facing precarious working conditions, often without social security. Both of these cases indicate that the contribution of migrants to the labour market is significant, but their vulnerability remains high.¹⁶

Belgium is characterised by persistent inequality in employment between migrants and natives, including for second-generation migrants. Workers from non-European countries, especially women and those with lower qualifications, have consistently lower employment rates. Another problem is the overqualification of migrants, who are often forced to work in professions that do not correspond to their education. This form of stratification reinforces labour market segmentation and keeps immigrants in low-income sectors such as cleaning services, construction and retail.¹⁷ Similar trends are observed in the Netherlands, where migration has increased the diversity of the workforce, but has also deepened segmentation. Migrants are mainly concentrated in short-term and seasonal jobs, providing flexibility for employers, but at the same time facing limited opportunities for upward mobility.¹⁸

In Luxembourg, migration plays a fundamental role in demographic and economic development. Currently, foreigners make up almost half of the population, which is a unique case within the EU. This trend is not only a consequence of classic immigration, but also the influence of cross-border workers who commute daily to work from neighboring countries, especially from France and Germany. The presence of this form of mobility has an impact on employment, transport and public services. At the same time, it turns out that long-term migrants are successfully integrating into the labour market and their participation is increasing.¹⁹

Portugal faces challenges in relation to the untapped potential of immigrants. Many migrant workers are overqualified for their positions, and this mismatch between education and the type of work they do is particularly pronounced among women, where up to half of them work below their level of qualifications. Migrant work in Portugal is also highly gender-segregated: men dominate in manual industries, women are mainly employed in households, often without employment contracts. This situation increases the risk of social exclusion and limits long-term integration opportunities.²⁰ In France, migration has made a significant contribution to sustaining labour force growth, especially in the context of demographic ageing of the population. Immigrants form an important element in sectors such as construction, hospitality and domestic services, which have long relied on cheaper and accessible labour.

¹⁵ IMF WORKING PAPER (2016): The labor market performance of immigrants in Germany - Centre for European Economic Research. In: *IMF Working Paper 16/06*.

¹⁶ HEINRICHBÖLLSTIFTUNG (2015): Migrant crop pickers in Italy and Spain. In: *Heinrich-Böll-Stiftung*

¹⁷ CORLUY, V. - HAEMELS, J. - MARX, I. - VERBIST, G. (2015): The labour market position of secondgeneration immigrants in Belgium. Working Paper Research 285. Brussels: National Bank of Belgium. In: *National Bank of Belgium*.

¹⁸ SEO AMSTERDAM ECONOMICS (2019): Labour Migration in the Netherlands: Barriers and Opportunities. Amsterdam: SEO Amsterdam Economics. In: *SEO Amsterdam*.

¹⁹ OECD (2023): OECD Skills Strategy Luxembourg. Paris: OECD Publishing. In: *OECD*.

²⁰ PEIXOTO, J. (2009): New Migrations in Portugal – Labour Markets, Smuggling and Gender Segmentation. In: *International Migration*.

However, these sectors are also places where working conditions are less stable and turnover is high, which increases the risk of some increase in job insecurity among migrants.²¹

Denmark represents a country where, despite strict immigration legislation, measures for the integration of migrants and refugees are applied. Particular emphasis is placed on employment as a key tool for social integration. There are initiatives to promote the employment of refugees in low-skilled sectors, which are also the most vulnerable to labour shortages. Special policies also target migrant women who face combined barriers in the form of gender, language and cultural barriers.²² In Norway, migration has affected the labour market mainly through wage polarisation and segmentation by type of work. Migrants are concentrated in less prestigious and lower-paid sectors, creating a dual labor market. In addition to economic inequality, social inequality is also increasing, as immigrants face barriers to moving to better-paid and more stable sectors. This leads to the long-term marginalisation of part of the workforce and undermines social cohesion.²³

Conclusion

Migration is a complex phenomenon with significant implications for the labour market in the European Union. As this paper shows, migration is not only a source of labour, but also a driver of changes in employment structure, productivity and overall economic performance. On the positive side, migrants help mitigate the effects of demographic ageing, fill jobs in sectors with a shortage of domestic workers and support GDP growth. Their presence can also be an impetus for innovation and development of local communities, especially if they are educated and qualified individuals. On the other hand, however, several risks that migration brings with it cannot be overlooked. These include downward pressure on wages in certain market segments, increased levels of job instability, weak labour protections and the inability to fully exploit the human capital of migrants in the so-called brain waste.

Labour market segmentation is also an important problem, which can lead to long-term marginalisation of migrants, especially if adequate integration policies are not adopted. Case studies of countries such as Germany, Spain, Belgium and Denmark show that the successful integration of migrants depends not only on their individual abilities, but also on the quality of public policies in the areas of education, retraining, access to services and the fight against discrimination. For example, Germany shows a positive trend of gradual economic integration of migrants, while Belgium and Portugal face challenges in the field of overqualification and low employment of migrants. From the point of view of public policymaking, it is therefore essential that migration is not only seen as an economic variable, but also as a social challenge requiring comprehensive, long-term and multidisciplinary approaches.

Policies should be differentiated according to the type of migration (labour, humanitarian, seasonal), the characteristics of migrants (age, education, gender) and the specificities of national labour markets. Only in this way can it be ensured that migration will benefit the economy and at the same time will not be a source of social tensions or inequalities. In conclusion, migration is not a solution to all labour market problems, but if properly managed, it can be an important part of it. It also requires consistent political attention, accurate data, flexible institutions, and a public willingness to accept cultural and occupational diversity as a natural part of the current global environment.

²¹ SOCIAL FIELDWORK RESEARCH (2019): Protecting migrant workers from exploitation in the EU.

²² BREDGAARD, T. - LUND THOMSEN, T. (2018): Integration of Refugees on the Danish Labor Market. In: *Nordic Journal of Working Life Studies*. In: *ResearchGate*.

²³ SLETTEBAK, M. H. (2020): Labour migration and increasing inequality in Norway. In: *ResearchGate*.

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COMPARATIVE ANALYSIS OF ORIGINALITY OF PRODUCT AND PROCESS INNOVATIONS IN ENTERPRISES OF THE SLOVAK REPUBLIC IN 2024¹

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Abstract: The innovation activities of enterprises are an important factor for their competitiveness and long-term sustainability. This study focuses on the analysis of the level of originality of product and process innovations in enterprises. The research uses a quantitative method based on a questionnaire survey in which respondents rated the originality of their innovations on a Likert scale ranging from 1 (local) to 5 (global) for both product and process innovations. The questionnaire was distributed from September 2024 to December 2024 in 170 innovative companies operating in the Slovak Republic in different business sectors. The statistical analysis focuses on comparing the level of originality of the two types of innovations using descriptive statistics (frequency tables) and Wilcoxon's test for dependent samples, which tests the difference between the two variables. The results suggest that firms tend to achieve higher levels of originality for product innovations than for process innovations, but the significance of this difference is subject to testing. The study concludes by providing practical recommendations for firms in the strategic management of innovation and emphasises the need for a balanced approach between product and process innovation.

Keywords: innovation activities, product innovation, process innovation

JEL: O31, O32, L25

Introduction

Innovation is a key driver of business growth, sustainability and competitiveness. This response examines the impact of process and product innovation on innovation activities and draws insights from a variety of studies. The discussion is structured into key sections, each of which examines different aspects of innovation and their interrelationships. Product innovation refers to the introduction of new or improved goods and services, while process innovation involves the implementation of new or improved production methods, logistics or support activities.² These two forms of innovation are often interdependent and can have complementary effects on firm performance. Research suggests that firms that engage in both product and process innovation simultaneously can achieve higher returns than those that focus on only one type of innovation. For example, a study of UK SMEs found that a combination

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² OECD (2018). Oslo Manual.

of product and process innovation leads to higher employment growth and better performance outcomes.³ Similarly, another study on Spanish firms highlighted strong complementarities between product and process innovations, suggesting that their combined effect enhances business performance.⁴ Green product and process innovations are increasingly important for sustainability. A study on green business orientation found that firms that prioritize environmental protection through green innovations achieve better sustainability in triple dimensions.⁵ Another study highlighted the role of green innovation strategies in fostering sustainable competitive advantage, with green process innovation playing a key role.⁶ Several factors drive innovation activities, including investment in R&D, knowledge transfer, and organizational design. R&D is a critical driver of both product and process innovation. A study of Latin American firms found that R&D investment significantly influences both product and process innovation outcomes.⁷ Similarly, a study on Colombian SMEs found that R&D investment, knowledge transfer and technology adoption are key drivers of product innovation.⁸ Components of organizational design, such as process orientation, can influence both operational performance and innovation. A study in the financial services sector found that organizational design and process improvement support both operational performance and innovation.⁹ Another study highlighted the importance of organisational innovation in driving technical innovation with a stronger impact on product innovation compared to process innovation.^{10,11,12} Green technology adoption is a significant driver of green innovation. A study on Bangladeshi manufacturing companies found that green technology adoption and dynamic capabilities significantly influence green product innovation and competitive advantage.¹³ Innovation activities vary across regions and industries, with different drivers, outcomes and policy implications. A comparative study of EU and non-EU countries found that the positive association between process innovation and product innovation is stronger in EU countries. However, other dimensions of process innovation, such as new logistics and distribution, did

³ COWLING, M. – VORLEY, T. – LIU, W. – RAHMAN, S. (2024): Are product and process innovations supermodular? Complementary returns to product and process innovations. *Economics of Innovation and New Technology*, p. 10.

⁴ AYLLÓN, S. – RADICIC, D. (2019): *Product innovation, process innovation and export propensity: persistence, complementarities and feedback effects in Spanish firms*, pp. 3656.

⁵ COELHO, A. – FERREIRA, J. – PROENÇA, C. (2023): *The impact of green entrepreneurial orientation on sustainability performance through the effects of green product and process innovation: The moderating role of ambidexterity*. *Business Strategy and The Environment*, pp. 3194.

⁶ HAYAT, K. – ZHANG, Q. (2024): *The synergistic effects of green innovation strategies on sustainable innovative performance with the mediation of green innovative competitive advantage*. *Corporate Social Responsibility and Environmental Management*, pp. 4172.

⁷ HENRÍQUEZ, R. – CRESPO, F. – GELDES, C. – FERREIRA, T. A. – CASTILLO-VERGARA, M. (2023): *Impact of R&D on the Innovation of Products and Processes in Latin Countries*. *Axioms*, pp. 1.

⁸ CHANG-MUÑOZ, E. – GALLEGO-NICHOLLS, J. F. – SANTOS-ROJO, C. – ORTIGOSA-BLANCH, A. (2023): *Innovation Activities and Their Impact on Product Innovation Results: Evidence from a Sectorial Study*. *Sustainability*, pp. 1.

⁹ LEYER, M. – STUMPF-WOLLERSHEIM, J. – PISANI, F. (2017): *The influence of process-oriented organisational design on operational performance and innovation: a quantitative analysis in the financial services industry*, pp. 5266.

¹⁰ COZZARIN, B. P. (2016): *Impact of Organizational Innovation on Product & Process Innovation*, pp. 6.

¹¹ KOSTA, – BUSHO, (2019). pp. 445.

¹² ZHU, Y. – ZHANG, H. – SIDDIK, A. B. – ZHENG, Y. – SOBHANI, F. A. (2023): *Understanding Corporate Green Competitive Advantage through Green Technology Adoption and Green Dynamic Capabilities: Does Green Product Innovation Matter? Systems*, pp. 14.

¹³ ZHU, Y. – ZHANG, H. – SIDDIK, A. B. – ZHENG, Y. – SOBHANI, F. A. (2023): *Understanding Corporate Green Competitive Advantage through Green Technology Adoption and Green Dynamic Capabilities: Does Green Product Innovation Matter? Systems*, pp. 15.

not show significant associations in any region.¹⁴ A study on Latin American firms found that R&D investment affects both product and process innovation with significant regional variation in innovation outcomes.¹⁵ In Pakistan, organisational innovations had the strongest impact on labour productivity, followed by process innovations. However, product innovation had a negative impact unless they are paired with process or organizational innovations.¹⁶ Organizational and managerial innovations play a key role in driving technical innovation. Organizational innovation positively influences both product and process innovation. A study using data from Canadian firms found that organizational innovation has a stronger impact on product innovation compared to process innovation.¹⁷ Another study highlighted the importance of organizational innovation in fostering learning capabilities and product innovation.¹⁸ Management innovation involving new internal organizational methods can promote the success of firms. A study in the service sector found that management innovation activities promote the adoption of learning capabilities and product innovation, which indirectly affects financial performance.¹⁹ Eco-innovation is increasingly important for achieving sustainability and competitive advantage.

A study on Iranian firms found that green artificial intelligence positively influences green organizational learning and green process innovation, which in turn increases green competitive advantage. However, green artificial intelligence did not have a significant effect on green product innovation.²⁰ A study on Chinese firms found that green innovation strategies, including green product, process and service innovation, enhance sustainable innovation performance. Integrating eco-innovation strategies into corporate social responsibility (CSR) initiatives strengthens competitive advantage.²¹ Policies should encourage firms to simultaneously pursue both product and process innovation to maximize their benefits. Governments should support green innovation strategies and provide financial support to firms adopting green technologies.²² Policymakers should create an environment that fosters organizational innovation as it has a stronger impact on technical innovation.²³

In conclusion, product and process innovation are critical drivers of company performance, sustainability and competitiveness. Their complementarities, drivers and regional differences highlight the complexity of innovation activities.

2 Research design

This study uses a quantitative approach based on a questionnaire survey, the aim of which was to examine and compare the level of originality of product and process

¹⁴ KOSTA, B. – BUSHO, N. (2019): *The effects of process innovation's dimension into product innovation – a comparative firm level analysis from eu and non-eu countries*, pp. 447.

¹⁵ HENRÍQUEZ, R. – CRESPO, F. – GELDES, C. – FERREIRA, T. A. – CASTILLO-VERGARA, M. (2023): *Impact of R&D on the Innovation of Products and Processes in Latin Countries*. *Axioms*, pp. 7.

¹⁶ POLDER, M. – LEEUWEN VAN, G. – MOHNEN, P. – RAYMOND, W. (2010): *Product, Process and Organizational Innovation: Drivers, Complementarity and Productivity Effects*, pp. 27.

¹⁷ COZZARIN, B. P. (2016): *Impact of Organizational Innovation on Product & Process Innovation*, pp. 6.

¹⁸ NIEVES, J. (2016): *Outcomes of management innovation: An empirical analysis in the services industry*. *European Management Review*, pp. 16.

¹⁹ NIEVES, J. (2016): *Outcomes of management innovation: An empirical analysis in the services industry*. *European Management Review*, pp. 17.

²⁰ SALEHZADEH, R. – JAVANI, M. – ESMAILIAN, H. (2024): *Leveraging green artificial intelligence for green competitive advantage: testing a mediated moderation model*, pp. 5.

²¹ HAYAT, K. – ZHANG, Q. (2024): *The synergistic effects of green innovation strategies on sustainable innovative performance with the mediation of green innovative competitive advantage*. *Corporate Social Responsibility and Environmental Management*, pp. 4172.

²² COELHO, A. – FERREIRA, J. – PROENÇA, C. (2023): *The impact of green entrepreneurial orientation on sustainability performance through the effects of green product and process innovation: The moderating role of ambidexterity*. *Business Strategy and The Environment*, pp. 3195; Hayat & Zhang, 2024, pp. 4173.

²³ COZZARIN, B. P. (2016): *Impact of Organizational Innovation on Product & Process Innovation*, pp. 17

innovations in innovative companies operating in the Slovak Republic. The data were collected through a pre-prepared standardized questionnaire, which contained two main questions focused on the originality of innovations – originality of an exceptionally innovative product and originality of an exceptionally innovative process. Respondents rated the level of originality using a Likert scale from 1 to 5, with each value representing a different geographical level of originality: 1 – local; 2 – national; 3 – Central European; 4 – European; 5 – global. The questionnaires were distributed among 170 innovative enterprises operating in different sectors of the Slovak economy between September 2024 and December 2024. The collected data were processed in the statistical software JAMOVI. Due to the non-normal distribution of the data (verified by the normality test - shapir-wilkinson test), a non-parametric statistical test – Wilcoxon test for dependent samples was chosen to test the differences between the level of originality of product and process innovations in the same enterprises. The results were supplemented with frequency tables.

Research assumption

We assume that innovative enterprises operating in the Slovak Republic in 2024 achieve a higher level of originality in product innovations compared to the originality of process innovations. This assumption is based on the premise that product innovations tend to be more visible, more market attractive and more strategically preferred by firms, and thus firms may tend to invest more effort and resources in these types of innovations.^{24,25}

Research question

Do the innovative firms operating in the Slovak sample analysed in 2024 show differences in the level of originality between product and process innovations?

Following the research question, 2 hypotheses were set:

H₀: There is no statistically significant difference between the originality of product and process innovations in enterprises operating in Slovakia.

H₁: There is a statistically significant difference between the originality of product and process innovations in enterprises operating in Slovakia.

3 Results

We set a research hypothesis and two research hypotheses, which we empirically test. In the next part of the partial analysis and conclusion construction to test the research hypotheses, we examined each variable using descriptive statistics.

By means of descriptive statistics we analyzed the current state of innovation processes and products in the studied sample in enterprises of different sizes in the Slovak Republic. Table 1 shows the frequency levels of product originality and their percentage representation in the sample. Table 2 shows the frequency levels of originality of the innovated processes and their percentage representation in the surveyed sample. Table 3 displays the results of Wilcoxon's t-test, which statistically verified the relationship between product and process originality in the sample under study.

²⁴ ANKUSH CHOPRA (2021).

²⁵ MCKINSEY AND COMPANY. (2015).

Figure 1 Frequency table for upgraded products

The originality of the extremely innovative product is second to none:	Counts	% of Total	Cumulative %
European	30	17.6%	17.6%
local	34	20.0%	37.6%
national	29	17.1%	54.7%
Central European	24	14.1%	68.8%
World	40	23.5%	92.4%
none (not innovating)	13	7.6%	100.0%

Source: own processing based on Jamovi results

Figure 2 Frequency table of upgraded processes

The originality of the extremely innovative process is second to none:	Counts	% of Total	Cumulative %
European	36	21.2%	21.2%
local	38	22.4%	43.5%
national	45	26.5%	70.0%
Central European	20	11.8%	81.8%
World	20	11.8%	93.5%
none (not innovating)	11	6.5%	100.0%

Source: own processing based on Jamovi results

Figure 3 Wilcoxon test results

Paired Samples T-Test

		Statistic	p
Products (%) extremely innovative	Products (%) extremely innovative	Wilcoxon W	4392 ^a
			<.001
<p>Note. $H_a: \mu_{\text{Measure 1}} - \mu_{\text{Measure 2}} \neq 0$</p> <p>^a 62 pair(s) of values were tied</p>			

Source: own processing based on Jamovi results

Based on the results of the frequency analysis of the level of originality of product innovations in the surveyed companies, several significant tendencies can be identified. The highest share of enterprises (23.5%) reported the originality of their product innovations at the global level, which indicates that a significant part of Slovak enterprises are able to develop products that are competitive and original at the global level. The second most frequently represented group (20.0%) is made up of enterprises reporting a local level of originality, indicating that a number of enterprises focus primarily on the local market, where innovations reflect local needs or specificities.

The European level of originality was reported by 17.6% of enterprises, indicating the ability of a significant proportion of Slovak enterprises to compete in the wider European

market. The originality of product innovations at national level was indicated by 17.1% of enterprises, which may indicate that a part of Slovak enterprises primarily direct their product innovations to the national market. Originality at the Central European level was mentioned least frequently, namely by 14.1% of enterprises, which could indicate a less pronounced strategic focus on this region. No product innovation was mentioned by 7.6% of enterprises, which could be due to different strategic priorities or limited capacity for innovation. Overall, Slovak enterprises show ambitious attitudes in the originality of their product innovations, with the most prominent group being enterprises that can successfully innovate products up to world-class level.

The results of the frequency analysis of the level of originality of process innovations of Slovak enterprises show a significantly different tendency compared to product innovations. The highest share (26.5%) of enterprises reported that the originality of their process innovations reaches the national level, which indicates that enterprises prefer to innovate processes that are primarily adapted to the Slovak market or national specifics of the business environment. The second most frequent level was originality at the local level (22.4%). This group of enterprises indicates an orientation towards process innovations with a local or regional impact, while these innovations may be easier to implement or less demanding in terms of investment and resources. There is also a significant representation of enterprises that rate their process innovations as original at European level (21.2%), indicating the ability of some enterprises to adapt process innovations that can be effectively implemented and applied in a wider European context. On the contrary, significantly fewer enterprises (11.8%) indicated the level of originality of their process innovations as world-class, which indicates less willingness or ability of Slovak enterprises to establish themselves in the global context in the field of process innovations. Similarly, 11.8% of enterprises indicated a Central European level of originality of process innovation, indicating a lower strategic priority or fewer opportunities in this region. The smallest group is represented by enterprises reporting no process innovation (6.5%), which may indicate a lack of current need, capacity or orientation towards this type of innovation.

The obtained results clearly document that Slovak enterprises tend to innovate processes predominantly at lower geographical levels (national and local), which may be influenced by the higher complexity, financial or time costs associated with the expansion of process innovation to wider markets.

4 Discussion

On the basis of the conducted research on the originality of innovation activities of Slovak enterprises in 2024, it can be stated that there are clear differences in the level of originality of product and process innovations. Detailed frequency analyses obtained with the help of Jamovi statistical software have shown interesting tendencies that point to the strategic preferences of Slovak enterprises in the field of innovation.

In the area of product innovations, enterprises most frequently reported the highest – world-class level of originality (23.5%).

This finding indicates that a significant part of Slovak enterprises perceive their product innovations as competitive also outside the European continent, i.e. on the global market. However, originality at the local level was also highly represented (20%), which may indicate the existence of a large number of enterprises that focus primarily on local markets in product innovation.

Furthermore, the European level of originality (17.6%) and the national level of originality (17.1%) were represented. These values indicate that enterprises are able to successfully deliver products that are also competitive in the wider European market. The Central European originality level was reported by 14.1% of the enterprises surveyed, which can be interpreted as a relatively lower preference for this market level. A small but not

insignificant number of enterprises (7.6%) reported no product innovation, which may reflect a different strategy or a current lack of resources or ambition to innovate products.

When assessing the originality of process innovations, a different picture can be seen. The largest proportion of enterprises reported the originality of their process innovations at national level (26.5%). This finding points to the tendency of Slovak enterprises to develop process innovations primarily in the context of the national economy, which may be a consequence of the lower costs and risks associated with the adaptation of new processes. The local level of originality of process innovations was represented relatively high (22.4%), which may indicate a more limited ability of enterprises to transfer these innovations to wider markets or a preference for local or regional specificities in processes. The European originality level was indicated by 21.2% of enterprises, suggesting that a significant proportion of enterprises are able to implement process innovations effectively in a wider European context. The lower levels - global and Central European - had an equal representation of 11.8% each, confirming the less pronounced ambitions of Slovak enterprises in the international expansion of process innovation. The share of enterprises without any process innovation was 6.5%.

These differences between product and process innovations were statistically confirmed by the Wilcoxon test for dependent samples, which identified a statistically highly significant difference between the originality of product and process innovations (Wilcoxon $W = 4392$; $p < 0.001$). This result supports the research hypothesis that Slovak enterprises prefer originality of product innovations to originality of process innovations.

In practical terms, these results highlight the need for a strategic balance between the two types of innovation. Although product innovations bring higher added value in the short term, systematic process innovations can be a critical factor for the sustainability and long-term competitiveness of enterprises.

Conclusion

Verification of research hypotheses and answer to the research question

Based on the Wilcoxon test conducted, we can state:

We **reject** the hypothesis H_0 - , there is no significant relationship between firm size and process innovation.

Hypothesis H_1 - we **accept**, there is a significant statistical relationship between firm size and adoption of product innovations.

Based on the analysis we can answer the research question - *Do enterprises in Slovakia in 2024 show differences in the level of originality between product and process innovations?*

The analysis showed that Slovak enterprises in 2024 show statistically significant differences in the level of originality between product and process innovations, with the originality of product innovations being statistically significantly higher than the originality of process innovations (Wilcoxon $W = 4392$; $p < 0.001$).

The results show that Slovak enterprises are significantly more active and ambitious in achieving originality in product innovations than in process innovations. These findings are confirmed by the Wilcoxon test, which showed a statistically significant difference ($p < 0.001$) between the originality of both types of innovations. From a practical point of view, these results suggest that companies should not only pay strategic attention to product innovation, but also systematically develop process innovation, which is important for overall competitiveness and efficiency.

Research limitation

Although the research findings provide valuable insights into the nature of innovation in Slovak enterprises, it is necessary to mention potential limitations that may distort and influence the results of the paper:

1. Sample size and nature

The research was carried out on a research sample of 170 enterprises, which is relatively limited number in relation to the total number of active innovative firms in Slovak republic. Moreover, the representation of individual sectors may not be even, which may affect the comparability of the results.

2. Method of data acquisition

Data collection was conducted online through questionnaires sent to potential respondents. This method may have had an impact on selection bias, as businesses with a higher digital competence or more proactive approach to innovation may have participated in the survey in preference to those with a higher level of digital competence.

3. Subjectivity of answers

The assessment of the originality of innovations was based on the respondents own judgement, which may introduce a degree of subjectivity. The degree of originality could have been over-or underestimated depending on individual perceptions.

4. Timeframe for data collection

The research was conducted between September 2024 and December 2024, which is a relatively short period and may be affected by seasonal factors or current economics events.

5. Failure to consider the qualitative aspects of innovation

The research focused primarily on quantitative evaluation of the originality of product and process innovations. However, it did not include qualitative interviews or case studies that would allow for a deeper understanding of innovation mechanisms in firms.

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THEORETICAL PERSPECTIVES ON FDI: ARE TRADITIONAL MODELS STILL RELEVANT?¹

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Abstract: The study of foreign direct investment (FDI) has evolved considerably, reflecting changes in global economic conditions, technological advances, and institutional developments. Early neoclassical theories provided basic insights but struggled to explain FDI flows among advanced economies or account for market imperfections. Subsequent theories introduced firm- and location-level dynamics, although each had its limitations. A key advance was Dunning's eclectic paradigm, which integrated the advantages of ownership, location, and internalization into a unified framework. While existing theories offer a solid foundation, they need to adapt to contemporary challenges, including geopolitical tensions, digital globalization, and current sustainability trends. The aim of this contribution is to provide a brief overview of FDI theories and to assess their conceptual strengths and limitations. To assess the strength of individual theoretical ideas about FDI, we also use an empirical basis in the form of existing studies. We point out the problem of the relevance of existing theoretical frameworks, which are not always suitable for explaining current issues such as geopolitical risks, digitalization or achieving sustainability.

Keywords: FDI theories, OLI paradigm, recent FDI patterns, institutional determinants.

JEL: F21, G11

Introduction

One of the core branches of economic theory that studies choices regarding the allocation of resources to produce new capital assets is theory of foreign direct investment (FDI). Foreign investment theory has changed significantly over the last century to reflect new technology advancements and the socioeconomic climate of the time. Thus, beginning with theoretical concepts associated with neoclassical economics and concluding with Dunning's eclectic theory, we will seek to both outline and examine the evolution of foreign direct investment theories. It is important to note that we are disregarding theories of portfolio investment and just discussing ideas of foreign direct investment. The classification of several theories of foreign direct investment and their evolution over time is complicated by the perception that, until the 1950s, FDI was a subset of indirect investment, i.e. portfolio investment.² It should be underlined that the categorization of FDI theories is crucial for a methodical comprehension of the problem and its evolution, given the steady accumulation of theoretical knowledge and empirical findings. The evolution of FDI theories consists of two parts, namely descriptive political analysis and later empirical analysis.³ This two approaches to study FDI will help to draw conclusion if the existing theoretical models are still relevant to explain allocation of capital abroad.

Up to 1950s international capital mobility was restricted to portfolio investments due to the realities of the global economy. This was primarily caused by the lack of multinational

¹ This conference paper was written as part of the project No. 09I03-03-V04-00505 entitled "Contemporary Trends in FDI Regulation and Promotion", funded by the Slovak Recovery and Resilience Plan.

² NAYAK, D. – CHOUDHURY, R. N. (2014): A selective review of foreign direct investment theories. [online].

³ VASYECHKO, O. (2012): A review of FDI theories: an application for transition economies. In: *International Research Journal of Finance and Economics*, 2012, Vol. 89.

corporations' worldwide operations.⁴ The evolution of FDI theories was impacted by two limiting considerations. Firstly, the macroeconomic level of study, which aimed to explain investment flows at the country level rather than taking into account the involvement of multinational corporations, has limited theoretical concepts regarding FDI. Secondly, FDI theories could not naturally evolve as a distinct category due to the global dominance of portfolio investment. Some categories of theoretical perspectives on FDI were developed as a result of these limitations. These are theories of FDI and portfolio investment. The latter will be not included in our analysis as they cover the topic that is out of scope of this contribution.

This contribution seeks to accomplish two primary objectives. Firstly, to present a concise synthesis of FDI theories. Secondly, to critically evaluate their conceptual merits and shortcomings. Our analysis incorporates empirical evidence from existing research to substantiate the examination of various theoretical perspectives. A central focus of our discussion highlights the growing disconnect between conventional theoretical frameworks and contemporary global challenges, particularly in addressing emerging phenomena such as geopolitical uncertainties, digital transformation, and sustainable development imperatives.

1 Traditional FDI theories: limitations and empirical verification

International trade theories served as the foundation for the first theoretical explanation of FDI. The *differential rate of return hypothesis*, rooted in the Heckscher-Ohlin model and neoclassical economics, explains FDI as driven by international differences in interest rates and capital endowments. It suggests that capital-rich countries invest in capital-scarce ones to seek higher returns, with firms raising funds in strong-currency countries and investing in weaker-currency economies. Over time, the hypothesis expanded to include currency risks and capital endowment disparities.⁵ However, the theory has significant limitations, including its assumption of perfect, risk-free markets and its focus solely on profit maximization. In reality, firms may prioritize economies of scale, domestic expansion, or competitive pressures over profit maximization.⁶ The model also fails to explain FDI flows from developing to developed countries or between advanced economies, and it overlooks imperfections in capital markets in developing nations.⁷ Empirical tests have yielded mixed results, with some studies supporting the hypothesis and others finding no significant link between FDI and return differentials.⁸ These findings underscore the hypothesis's limitations in explaining the complexities of global investment flows.

The *portfolio diversification hypothesis*, originating in the 1950s,⁹ emphasizes that firms consider both return rates and risk when making FDI decisions. Unlike the differential rate of return theory, this hypothesis highlights that investors diversify their portfolios to mitigate risks, which negatively impact foreign investments. Risk is often measured using variables like the variance or standard deviation of return rates.¹⁰ However, the theory does not explain why firms prefer FDI over portfolio investments. Some argue that imperfect financial markets in developing countries push firms toward FDI, as it allows direct control over assets, reducing

⁴ GRANČAY, M. – DUDÁŠ, T. – GREŠŠ, M. (2014): *Teórie medzinárodných hospodárskych vzťahov*, pp. 350.

⁵ ALIBER, R.Z. (1970): A Theory of Direct Foreign Investment. In: KINDLEBERGER, C. P. (ed.): *The International Corporation: A Symposium*. Cambridge, MA: MIT Press, 1970, 426 pp.

⁶ AGARWAL, J. P. (1980): Determinants of Foreign Direct Investment: A Survey. In: *Weltwirtschaftliches Archiv*, 1980, Vol. 116, No. 4, pp. 739-773.

⁷ LALL, S. (1979): Transfer pricing and developing countries: some problems of investigation. In: *World development*, 1979, Vol. 7, No. 1, pp. 59-71.

⁸ See WEINTRAUB (1967); BANDERA AND WHITE (1968); BANDERA AND LUCKEN (1972).

⁹ See TOBIN (1958) and MARKOWITZ (1959).

¹⁰ BAJRAMI, H. – ZEQRIRI, N. (2019): Theories of foreign direct investment (FDI) and the significance of human capital. In: *International journal of business & management*, 2019, Vol. 7, No. 1, pp. 11-24.

risks associated with market failures.¹¹ Despite its theoretical appeal, empirical evidence supporting this hypothesis is weak and inconclusive.¹² Challenges in testing include reliance on ex-post data, inaccurate profitability measures due to internal financial manipulations, and difficulties in reliably measuring risk. Nevertheless, risk remains a significant factor in FDI decisions.

The *market size theory* posits that FDI volume and direction are influenced by the size of the host country's market, often measured by GDP or GNP (Majeed and Ahmad, 2008). Larger markets attract more FDI, as firms invest to meet growing demand, similar to domestic investment logic. Some studies also consider income growth rates or differences between home and host country growth rates.¹³ The *output size hypothesis*, closely related to market size, focuses on the firm's production or sales volume as a determinant of FDI. Both hypotheses are often examined together, as they reflect similar factors from different perspectives. Empirical studies generally support the market size hypothesis,¹⁴ though some argue that market growth, rather than size, is more relevant.¹⁵ However, these theories have limitations. For instance, they do not distinguish between FDI aimed at domestic markets versus export-oriented production, where market size may be irrelevant. Additionally, the output size hypothesis, based on domestic investment theories, may not fully apply to FDI, which includes financial assets. Another issue is that firms often invest more in countries with existing infrastructure or subsidiaries, while new markets receive less capital.

A pioneer in theoretical views of FDI assuming market imperfections was the Canadian economist Stephen Hymer. Hymer highlighted that foreign firms face disadvantages such as higher costs, lack of information, and cultural or legal barriers when entering foreign markets.¹⁶ To overcome these barriers, foreign firms must possess specific competitive advantages, such as patented technology, economies of scale, or superior management skills. However, this theory doesn't fully explain why firms choose FDI over alternatives like exporting or licensing. Other theories, such as internalization hypothesis, oligopolistic reaction hypothesis or location hypothesis provide further insights, although each theory has limitations, and empirical evidence often yields conflicting results.

The *internalization theory* explains that firms internalize markets to reduce costs and risks associated with external transactions, such as management, marketing, or knowledge transfer.¹⁷ This process facilitates the growth of multinational companies and FDI flows. However, critics like Rugman argue that the theory lacks empirical applicability and precise assumptions.¹⁸ The *oligopolistic reaction theory*¹⁹ focuses on how firms in oligopolistic markets mimic competitors' FDI decisions to maintain market share. While this theory explains competitive behavior, it fails to address why the first firm in an industry decides to invest abroad and overlooks alternative market entry strategies like exports or licensing. Agarwal, for instance, notes that increased competition from FDI can diminish the oligopolistic reaction

¹¹ RAGAZZI, G. (1973): Theories of the Determinants of Direct Foreign Investment. In: *IMF Economic Review*, 1973, Vol. 20, pp. 471-498.

¹² See AGARWAL (1980); HUFBAUER (1975); LIZONDO (1990).

¹³ LIZONDO, J. S. (1990): Foreign direct investment. [Online.]

¹⁴ See BANDERA AND WHITE (1968); SCAPERLANDA AND MAUER (1969).

¹⁵ GOLDBERG, M. A. (1972): The determinants of US Direct Investment in the EEC: Comment. In: *The American Economic Review*, 1972, Vol. 62, No. 4, pp. 692-699.

¹⁶ HYMER, S. H. (1976): *The International Operations of National Firms: A Study of Direct Foreign Investment*. 275 pp.

¹⁷ BUCKLEY, P. J. – CASSON, M. (1976): *The Future of the Multinational Enterprise*. London: Macmillan, 1976, p. 116.

¹⁸ RUGMAN, A. M. (1986): New theories of the multinational enterprise: An assessment of internalization theory. In: *Bulletin of economic research*, 1986, Vol. 38, No. 2, pp.101-118.

¹⁹ See KNICKERBOCKER (1973) and GRAHAM (1975).

effect.²⁰ The *location hypothesis* emphasizes that FDI is influenced by differences in production factor prices, such as wages and natural resource availability, between countries. Empirical studies show mixed results: some support the hypothesis, linking lower wages to higher FDI,²¹ while others²² find negligible or opposite effects.

In the mid-1960s, Raymond Vernon introduced the *product life cycle theory* to explain not just global trade patterns but the location of foreign investments as well. Vernon identified three phases: the new product phase, the maturity phase, and the standardized product phase.²³ In the new product phase, production occurs in high-income home countries, where firms can easily access inputs and adapt products to local markets. At this stage, demand is price inelastic, and firms export to other developed countries without making FDI. During the maturity phase, as the product becomes more standardized and competition increases, firms relocate production to other developed countries via FDI to reduce costs, access markets, and avoid trade barriers. Vernon argued that firms invest abroad when domestic production and transportation costs exceed potential foreign production costs. In the standardized product phase, production shifts to developing countries to leverage lower labor costs, as the technology becomes widely available.

Empirical studies conducted in 1970-1980s support Vernon's theory, particularly for FDI from the U.S. and Western Europe.²⁴ However, advancements in communication technology and globalization have reduced the theory's relevance. Modern multinational companies often produce and market products in developing countries first, then import them to their home markets. This shift is attributed to better market awareness, reduced income gaps, and technological convergence between developed and developing economies. As a result, the traditional product life cycle no longer fully aligns with current global trade and FDI practices.

2 Eclectic approach to study FDI

Since the middle of 20th century, numerous theories have attempted to explain FDI, but most offered only partial or narrow perspectives. This limitation was addressed in the late 1970s when British economist John H. Dunning introduced the *eclectic theory*, also known as the *OLI paradigm*.²⁵ Dunning's approach integrated three key perspectives mentioned in the previous section (industrial organization theory, internalization theory, and location theory) providing a comprehensive framework for understanding FDI at both microeconomic and macroeconomic levels. Dunning's eclectic theory thus provides a holistic explanation for FDI decisions, combining firm-specific, location-specific, and internalization factors.

The OLI paradigm identifies three factors influencing FDI decisions. Firstly, it is ownership advantages – firm-specific assets like technology, brand, or know-how that enable competitive advantages and higher revenues abroad, offsetting cross-border operational costs. Secondly, it is location Advantages – country-specific factors such as labor costs, raw material availability, and socio-political conditions that make a host country attractive for investment.

²⁰ AGARWAL, J. P. (1980): Determinants of Foreign Direct Investment: A Survey. In: *Weltwirtschaftliches Archiv*, 1980, Vol. 116, No. 4, pp. 739-773.

²¹ LOVE, J. H. – LAGE-HIDALGO, F. (2000): Analysing the determinants of US direct investment in Mexico. In: *Applied Economics*, 2000, Vol. 32, No. 10, pp. 1259-1267.

²² YANG, J. Y. Y. – GROENEWOLD, N. – TCHA, M. (2000): The determinants of foreign direct investment in Australia. In: *Economic Record*, 2000, Vol. 76, No. 232, pp. 45-54.

²³ VERNON, R. (1966): International Investment and International Trade in the Product Cycle. In: *The Quarterly Journal of Economics*, 1966, Vol. 80, No. 2, pp. 190-207.

²⁴ AGARWAL, J. P. (1980): Determinants of Foreign Direct Investment: A Survey. In: *Weltwirtschaftliches Archiv*, 1980, Vol. 116, No. 4, pp. 739-773.

²⁵ DUNNING, J. H. (1977): Trade, Location of Economic Activity and the MNE: A Search for an Eclectic Approach. In: OHLIN, B. – HESSELBORN, P. O. – WISKMAN, P. J. (ed.): *The International Allocation of Economic Activity*. London: MacMillan, 1977.

Finally, it is internalization advantages or the choice of the firm between external markets and internalization – creating internal systems or subcontracting networks. Firms prefer internalization when host country markets are inefficient or nonexistent.

According to eclectic approach, for a firm to invest abroad, all three advantages must align: the firm must possess competitive assets, the host country must offer favorable production conditions, and internalization must be more efficient than external markets. If any of these elements are missing or unfavorable, the firm may opt for alternative strategies, such as exporting or licensing.

While comprehensive, OLI paradigm face criticism for its few weaknesses. Firstly, its versatility – incorporating numerous factors – makes it difficult to develop robust econometric models with strong predictive power. However, many of these factors are supported by other empirically validated FDI theories. Secondly, the paradigm assumes that the three key factors (OLI) are independent, which may not always hold true. For instance, changes in a firm's internal processes could influence its decisions about where to locate subsidiaries abroad, indicating interdependence among the factors. These limitations highlight the challenges in applying the OLI framework universally.

3 Institutional determinants of FDI allocation

In the 1980s, *institutional factors* became increasingly significant in explaining foreign direct investment (FDI) inflows and outflows. These factors encompass the political, social, and legal environments of both source and recipient countries. While most research focuses on the institutional frameworks of recipient countries, some studies also examine the conditions of source countries. Institutional determinants, such as political stability (instability), social and legal environments, and economic openness, are critical for attracting FDI, often outweighing state measures aimed at drawing investments. Conversely, barriers like profit repatriation restrictions, uncooperative state authorities, and rigid labor laws can deter FDI.

Political stability is a key determinant of FDI inflows, with instability leading to reduced investments and profit redistribution. Factors like changes in the legal environment, tax regimes, or political crises contribute to this instability. Empirical studies on political stability's impact on FDI have yielded mixed results, with qualitative research generally showing a negative effect, while quantitative studies are less conclusive. Challenges in measuring qualitative factors, time lags, and omitted variables in econometric models contribute to these inconsistencies.

Recent research, such as Gokceli's study on OECD countries, highlights that economic freedom and institutional quality positively impact FDI inflows, particularly in countries with lower institutional quality.²⁶ However, institutional quality is not a significant predictor for countries with already high institutional standards.

Tax policy also influences FDI decisions, affecting net returns and the relative profitability of domestic versus foreign investments. While theoretical literature suggests a negative impact of taxation on FDI, empirical studies show mixed results. Some studies find that high tax rates do not deter investments, while others emphasize the importance of a stable business environment over tax incentives.

State incentives, such as tax exemptions, play a role in attracting FDI, particularly for smaller firms in developing countries. However, these incentives can sometimes backfire, as excessive restrictions or poorly designed support systems may discourage investors. Overall, the effectiveness of state incentives remains ambiguous, contributing to varied outcomes in empirical research.

²⁶ GOKCELI, E. (2023): Institutional quality and foreign direct investment: evidence from OECD countries. In: *Economic magazine*, 2023, Vol. 71, No. 3, pp. 222-257.

4 Discussion

Among the theoretical ideas on FDI that assume perfect markets, we can include the differential rates of return hypothesis, portfolio diversification hypothesis, and market size hypothesis that is comparable to output size hypothesis. These theoretical views represent the classical understanding of the allocation of capital abroad and assumes perfect, risk-free markets, with some of them taking into account profit maximization as a core stimulus to invest abroad. In reality, firms may prioritize scale, domestic growth, or competition over pure profits. It also doesn't explain FDI from developing to advanced economies or address capital market imperfections. Empirical evidence is mixed, with some studies supporting it and others finding no strong FDI-return correlation. On other side, theories assuming market imperfections that are mostly covered by Eclectic paradigm reflects different nuances and determinants of FDI patterns, although having its own limitations and weaknesses. Core assumptions and limitations of particular FDI theories are summarized in table 1.

Table 1: Selected FDI theories and their comparison

	<i>Neoclassical theory</i>	<i>Product life cycle theory</i>	<i>Monopolistic advantage theory</i>	<i>Eclectic theory</i>
Author (year)	Mundell, R. (1957)	Vernon, R. (1966)	Hymer, S. (1976 [1960]), Kindleberger, Ch. (1969)	Dunning, J.H. (1977)
Key question	<i>Why capital move abroad?</i>	<i>Where and when should production move as a product matures?</i>	<i>Why can a firm be competitive abroad?</i>	<i>Why, where, and how should firm invest abroad?</i>
FDI driver	FDI flows from capital-abundant to capital-scarce countries due to higher returns	Stages of product life cycle (new product, maturity, standardization)	Firm-specific monopolistic advantages (technology, brand, economy of scale, capital access).	Ownership (O), Location (L), and Internalization (I) advantages
Assumptions	-Perfect competition -goods have a different factor intensity -countries have a different factor abundance	- Predictable product life cycles - cost reduction FDI - Innovators innovate and imitators imitate	- Firm have monopolistic power to offset domestic firms - strong firms dominate weak markets (zero-sum game)	- Firm rationally weigh OLI factors - FDI vs. exports or licensing
Applicability	Explains capital flows from advanced to developing countries	Explains investment to manufacturing	Explains monopolistic position of a firm	Universal to all types of goods and services
Limitation/Weakness	- Ignores firm-specific advantages and market imperfections - do not explain FDI between advanced economies with similar rates of return	- Ignores simultaneous global R&D - not relevant for services	- Ignores location determinants - do not explain how investment is made	- Overlaps between O, L and I - FDI time is neglected - multiple predictors that reduce the quality of estimates
Theoretical contribution	First systematic link between macroeconomic conditions and cross-border investment	Introducing dynamic comparative advantage model	Early theory of FDI, foundation for later models	Integrates multiple theories like transaction cost theory and internalization theory

Source: processed by author.

Existing theories of foreign direct investment, which we have briefly summarized in the previous chapters, provide a robust framework for understanding many aspects of FDI patterns. However, they may not fully capture the complexity and nuances of today's global investment environment, which includes not only economic but also increasing institutional and political frameworks. Here, we should mention a few key points emerging from recent studies examining FDI allocation. New trends and challenges accompanying foreign investment include the rise of global value chains, the dynamization of intangible assets and the related development of the digital economy, increased geopolitical tensions and the shift from globalization to regionalization or last but not least the pursuit of sustainable economic growth. The OLI paradigm, for instance, remains useful but must incorporate geopolitical risk factor or digital asset as location advantage factor. Future research should focus on dynamic models that blend existed theories with real-time data on sanctions, technology disruption, and climate policies. Traditional FDI theories must evolve to explain today's investment landscape where politics, data, and climate are as critical as profits or risk.

Conclusion

The study of foreign direct investment (FDI) has evolved significantly over the past century, reflecting shifts in global economic conditions, technological advancements, and institutional developments. Early theories, rooted in neoclassical economics, focused on perfect market assumptions—such as the differential rate of return, portfolio diversification, and market size hypotheses—but struggled to fully explain the complexities of FDI flows, particularly between developed and developing economies. The emergence of market imperfection theories, including Hymer's competitive advantage framework, internalization theory, and Vernon's product life cycle model, provided deeper insights into firm behavior and location choices, though each had limitations. Dunning's eclectic paradigm marked a significant advancement by integrating ownership, location, and internalization advantages into a unified framework. While this model remains influential, its broad applicability and assumptions of factor independence have drawn criticism. Additionally, modern FDI determinants, such as institutional quality, political stability, and tax policies, further complicate traditional explanations, with empirical studies yielding mixed results.

In conclusion, while existing FDI theories provide a strong foundation, they must adapt to incorporate contemporary factors such as geopolitical shifts, intangible assets, global value chains, and sustainability goals. Future research should focus on refining theoretical models to better capture the dynamic, multi-dimensional nature of FDI in an increasingly interconnected and sustainability-driven world. Policymakers and firms alike must consider these evolving dynamics to navigate the complexities of global investment flows effectively.

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SHAPING INVESTMENT TRENDS THROUGH THE AFRICAN CONTINENTAL FREE TRADE AREA AND ITS INVESTMENT PROTOCOL IN AFRICA¹

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Abstract: In an era of rapid economic transformation and increasing regional integration, Africa is poised to redefine its role in the global economy. This article examines the relevance of the African Continental Free Trade Area (AfCFTA) and its Investment Protocol on foreign direct investment (FDI) and economic integration in Africa. We concluded that AfCFTA is set to play a pivotal role in reshaping Africa's economic landscape and accelerating its development trajectory. Furthermore, our findings indicate that while the AfCFTA Investment Protocol presents promising opportunities, its overall impact remains limited by slow implementation and the persistence of overlapping international treaties.

Keywords: African Continental Free Trade Area, Protokol on Investment, Foreign Direct Investments, Africa

JEL: N17, F21, O16

Introduction

Various economic, institutional, and policy factors determine the attractiveness of a host country to foreign investors. Market size, infrastructure quality, governance, and regulatory frameworks are important alongside international agreements that provide legal certainty and investment protections. Despite the potential benefits, foreign investors often face risks such as expropriation, restrictive regulations, and limitations on profit repatriation, which can deter capital inflows. To address these concerns, countries typically engage in bilateral or multilateral investment agreements designed to create a more stable and predictable investment environment.

Regional agreements such as the AfCFTA facilitate FDI through trade and investment benefits. Theoretical assumptions are underway that regional trade agreements lead to increased FDI from external regions, mainly due to the market enlargement effect. Deeper integration under the AfCFTA should increase Africa's attractiveness for FDI. This effect will be due to an increase in market size, strengthening trade regulations and the implementation of investment protocols. Non-African investors will also be able to benefit from similar benefits. Research shows that FDI is significantly influenced by non-trade areas of the agreements, such as investment protections, with stricter rules increasing investor confidence. Trade liberalization under the AfCFTA is expected to lower barriers to entry, reduce regulatory risk and promote competition, thereby improving the overall environment for FDI. Despite Africa's relatively small share of global FDI, the AfCFTA Investment Protocol has the potential to enhance the continent's attractiveness to investors, strengthen its economic integration, and drive long-term sustainable growth.²

¹ This paper is part of the project I-25-102-00 named: Student migration and networking for academic mobility and inclusive cross-border cooperation.

² AGARWAL, P. et al. (2024): Exploring data on foreign direct investment to support implementation of the AfCFTA protocol on investment, pp. 68-69.

1 Overview of the African Continental Free Trade Area

The African Continental Free Trade Area acknowledged as the largest free trade area worldwide, represents an initiative that brings together all 55 African Union member states and eight major regional economic communities within a single market framework. Its primary objective is to facilitate the unhindered movement of goods and services across national boundaries, thereby enhancing Africa's competitiveness in the global arena. One of the central principles behind the AfCFTA is that removing import tariffs could raise intra-African trade by approximately 52.3 percent. Additionally, reducing other trade barriers might even double this projected growth. At present, companies face an average tariff rate of 6.1 percent when conducting business within Africa, a factor that can impede commerce. Through the gradual removal of these tariffs, the AfCFTA aims to establish a smoother trade framework that promotes growth and cooperation across the continent.³

Following extensive negotiations initiated in 2012, the agreement formally entered into force on May 30, 2019, when 24 AU member states submitted their ratification instruments. It was officially launched at the 12th Extraordinary Session of the AU Assembly in Niamey, Niger, in July of the same year, and actual trading under the AfCFTA framework began on January 1, 2021. Recent indicators highlight the agreement's transformative potential: 54 countries have signed on, 48 have deposited their ratification instruments, and projections suggest that the AfCFTA could lift as many as 30 million individuals out of extreme poverty. By 2035, it may also contribute an estimated US\$450 billion to Africa's collective income, translating into a 7% increase. In this way, the AfCFTA represents a cornerstone in Africa's pursuit of deeper economic integration, widespread industrial progress, and a more influential role on the world stage.⁴

Economic integration theory, originally proposed by Bela Balassa, outlines stages from free trade areas to customs unions, common markets, and economic unions. This model asserts that integration promotes trade creation among member states while also leading to trade diversion as preferential policies shift commerce away from non-members. It is driven by better market access, the elimination of tariffs, and the alignment of economic policies. In the context of AfCFTA, this framework underscores the advantages of lowering trade barriers and increasing intra-African commerce.⁵ According to World Economic Forum over 70% of inter-African exports consist of primary commodities, while manufactured goods account for approximately 45% of intra-African trade. We suggest that this heavy reliance on raw materials makes African trade highly dependent on global commodity price fluctuations. However, the relatively higher share of industrial goods in intra-African trade compared to Africa's trade with the rest of the world suggests a potential shift toward structural transformation. The IMF suggests that removing non-tariff barriers could be up to four times more effective in boosting trade than lowering tariffs.⁶

The figure 1 provides overview of key policy areas covered by various regional economic communities and trade agreements across Africa. It compares the regulatory scope of organizations such as the East African Community, the Common Market for East and South Africa, the Southern African Development Community, and others, including the African Continental Free Trade Area. This comparative overview highlights the varying degrees of economic integration across Africa's trade blocs.

This comparison illustrates the extent to which these agreements address essential trade related aspects. While certain areas, such as tariff liberalization and customs procedures, are covered, other aspects, including public procurement and labor market policies, remain less

³ AFRICAN UNION (2024): Purpose of the AfCFTA.

⁴ AFRICAN UNION (2024): About AfCFTA.

⁵ KAMOBI, O. G. – USIFOH, K. S. – EJEFBIHI, U. F. (2024): Macroeconomic Policy Implications of African Continental Free Trade Area (AfCFTA) for Nigeria, p. 286.

⁶ MUNYATI, CH. (2022): How Africa's free trade area is an opportunity for recovery and development.

consistently addressed. AfCFTA incorporates several key trade-related provisions but does not currently include certain policies that are present in some subregional agreements, such as state aid or environmental laws.

Figure 1: Scope of Policy Areas in Africa’s Subregional PTAs and AfCFTA

	East African Community (EAC)	Common Market for East and South Africa (COMESA)	South African Development Community (SADC)	Economic Community of West African States (ECOWAS)	West African Economic and Monetary Union (WAEMU)	South African Customs Union (SACU)	Economic and Monetary Community of Central Africa (CEMAC)	African Continental Free Trade Area (AfCFTA)
Tariffs on manufactured goods	✓	✓	✓	✓	✓	✓	✓	✓
Tariffs on agricultural goods	✓	✓	✓	✓	✓	✓	✓	✓
Export taxes	✗	✓	✓	✗	✓	✗	✓	✓
Customs	✓	✓	✓	✓	✗	✓	✗	✓
Competition policy	✓	✓	✓	✗	✓	✓	✓	✓
State aid	✓	✓	✓	✗	✗	✗	✓	✗
Antidumping	✗	✓	✓	✓	✗	✗	✓	✓
Countervailing measures	✗	✓	✓	✗	✗	✗	✗	✓
STEs	✗	✗	✗	✗	✗	✗	✗	✓
TBTs	✓	✓	✓	✗	✗	✓	✓	✓
GATS	✓	✓	✓	✓	✓	✗	✓	✓
SPS measures	✓	✓	✓	✗	✗	✓	✓	✓
Movement of capital	✓	✓	✗	✓	✓	✗	✓	✓
Public procurement	✓	✗	✗	✗	✗	✗	✗	✗
IPRs	✓	✗	✗	✗	✗	✗	✗	✓
Investment	✓	✓	✓	✗	✗	✗	✗	✓
Environmental laws	✓	✓	✗	✓	✗	✗	✓	✗
Labor market regulations	✓	✓	✗	✗	✗	✗	✗	✗

Source: WORLD BANK (2020): *The African Continental Free Trade Area: Economic and Distributional Effects*.

When comparing AfCFTA with subregional PTAs, it becomes clear that while AfCFTA has a more comprehensive structure than most existing agreements, certain policy areas as shown in the figure 1 are not yet included in its framework. These areas include public support (subsidies), environmental regulations, labor market policies, and public procurement. Although AfCFTA does not currently cover these issues, there is nothing preventing member states from agreeing on common rules in the future. At the same time, this does not interfere with the commitments that countries have already made under their subregional agreements. As illustrated in the figure 1, a key question is how potential conflicts or overlaps between different levels of jurisdiction, whether subregional or continental, will be managed. In this context, Article 19 of the AfCFTA Agreement plays an important role, as it addresses conflicts and inconsistencies with other regional agreements. Specifically, Article 19(1) states that, unless otherwise agreed, AfCFTA takes precedence in cases of conflict. On the other hand, Article 19(2) acknowledges that some regional economic communities, trade agreements, or customs unions may have a higher level of integration. In such cases, member states can maintain these advanced levels among themselves. While AfCFTA provides a framework for greater economic integration across Africa, subregional agreements remain relevant, and their coexistence will likely continue to evolve through further discussions and negotiations.⁷

2 The Economic Significance of the AfCFTA

The AfCFTA is designed to stimulate Africa's economic advancement by establishing a vast, integrated market that bolsters trade, industrial production, and the mobility of people and services. A significant aspect of this initiative is its capacity to attract investments

⁷ WORLD BANK (2020): *The African Continental Free Trade Area: Economic and Distributional Effect*, p. 18.

in manufacturing, thereby decreasing dependency on imports and positioning Africa as a key player in global production. Nevertheless, several challenges may impede these objectives. Many African nations struggle with supply-side limitations, including governance issues, corruption, and insufficient infrastructure, which can disrupt effective trade connectivity. Additionally, achieving the stringent international standards required for exporting goods, especially in the food sector, remains a major hurdle. The elimination of tariffs, while beneficial for trade, poses concerns regarding revenue loss for Least Developed Countries that rely on these duties. Inconsistencies in political commitment have historically undermined similar trade agreements, and enduring internal divisions continue to complicate negotiations with major external partners such as the EU, USA, and China.⁸

For years, fragmented markets have undermined Africa's ability to compete globally by hampering efficiency and slowing economic progress. A recent push to create a single, integrated market across the continent aims to break down these barriers, making it easier for goods, services, capital, and labor to move freely. This approach holds promise for reducing operational costs and boosting investment. However, the real test is whether this unification can significantly strengthen the competitive edge of African economies. This integration could lower production costs through economies of scale, boost cross-border trade, and attract foreign direct investments. In turn, increased investment and the development of regional value chains may enable local businesses to transform raw materials into finished products, paving the way for a "Factory Africa" that integrates with global supply networks. However, whether these reforms can substantially enhance overall competitiveness remains an open question, as many nations still face major challenges in updating their institutions and infrastructure in an era of rising protectionism.⁹

2.1 The AfCFTA and the Redefinition of FDI in Africa

AfCFTA is set to transform Africa's economic landscape by reducing trade barriers, enhancing competitiveness, and expanding foreign direct investment opportunities. A key aspect of this initiative is its ability to strengthen Africa's role in global value chains by fostering industrialization in sectors such as automotive, agro-processing, pharmaceuticals, and logistics. By eliminating trade barriers and fostering economic integration, AfCFTA is poised to increase Africa's investment potential across various industries. Historically, FDI inflows have been hindered by fragmented markets and regulatory inconsistencies, limiting Africa's role in regional and global value chains. However, the AfCFTA Private-Sector Engagement Strategy identifies key investment sectors: automotive, agriculture, pharmaceuticals, and logistics. The automotive industry, in particular, will gain from a unified market that facilitates cost-effective local assembly and sourcing while attracting global investors. Reduced tariffs and harmonized value-added thresholds will further incentivize production relocation to Africa, ensuring that economic value remains within the continent rather than being lost through raw material exports.¹⁰

According to World Bank projections, AfCFTA has the potential to boost Africa's share of global exports by 32% and drive FDI growth by between 111% and 159% by 2035. This substantial increase in trade and investment could fundamentally alter the continent's economic outlook. By moving away from the traditional reliance on colonial resource extraction, AfCFTA offers an opportunity to diversify Africa's growth sectors and export base. In turn, this

⁸ OLORUNTOBA, S. – NSHUMBI, CH. (2023): The AfCFTA: promise for globally competitive continent and Africa's development, pp. 354-355.

⁹ FOFACK, H. (2018): A Competitive Africa: Economic integration could make the continent a global player.

¹⁰ SIGNÉ, L. – MUNYATI, CH. (2023): AfCFTA: A New Era for Global Business and Investment in Africa, pp. 4-6.

diversification is expected to set in motion a positive cycle of sustained economic expansion, ultimately broadening the tax base and strengthening fiscal and debt sustainability across the region.¹¹

3. The AfCFTA's Protocol on Investment

Foreign direct investment is essential for stimulating growth in host economies by supplying foreign capital, generating jobs, and facilitating technology transfer. It also benefits domestic firms through improvements in technology and through partnerships with foreign companies. That said, FDI comes with its own risks, including expropriation, regulatory challenges, preferential treatment for local firms, and restrictions on repatriating profits, all of which can deter investors. As a solution, many nations have adopted investment treaties to address these concerns.¹²

As indicated in the section concerning the AfCFTA, the agreement began operating in January 2021, and by October 2022, eight African countries had started trading under its rules through the Guided Trade Initiative. As part of Phase II of the AfCFTA agreement, after a year of negotiations, the AU Heads of State approved the Draft Protocol on Investment during their 36th Summit in February 2023.¹³ On February 19, 2023, the Member States of the African Union adopted the Investment Protocol under the African Continental Free Trade Area, marking a major step in reshaping the continent's investment landscape. This Protocol aims to harmonize existing national, bilateral, and regional investment frameworks by replacing 173 bilateral investment treaties with a single, unified standard.¹⁴ As stated in the AfCFTA Protocol on Investment, foreign direct investment is essential for sustainable development and economic resilience in African countries. The protocol, adopted in Accra, Ghana, emphasizes the need for a clear and predictable investment framework to attract and retain FDI, helping African nations secure a larger share of global investment flows.¹⁵

A central element in Africa's economic trajectory is establishing an environment that encourages foreign direct investment and enhances intra-African capital flows. This requires the adoption of policies that simplify administrative processes and improve transparency, thereby lowering entry barriers for foreign investors. As highlighted in Article 7(1) of the Investment Protocol, governments are obligated to promote investments that not only drive economic growth but also align with sustainable development goals as outlined in the UN's 2030 Agenda. By offering specific inducements for FDI that meets these sustainability criteria, this strategy aims to deliver reciprocal benefits for both local authorities and international investors, ensuring that FDI plays a critical role in advancing the continent's development.¹⁶

Among its key innovations, the Protocol replaces the traditional Fair and Equitable Treatment (FET) principle with an Administrative and Judicial Treatment (AJT) approach, strengthens environmental protections, and balances the rights and responsibilities of both states and investors. It also allows governments to file counterclaims against investors, reflecting a more comprehensive and equitable approach to international investment. By introducing these reforms, Africa is not only modernizing its own investment treaties but also setting a new global benchmark for fair and sustainable investment practices. Signatories

¹¹ FOFACK, H. (2024): The Future of African Trade in the AfCFTA Era.

¹² AYELE, Y. – BELETE, M. – VELDE, D. (2023): The AfCFTA Protocol on Investment: issues and potential impacts, p. 13.

¹³ *Ibid.*, p. 5.

¹⁴ BOWNES, J. (2024): The AfCFTA Investment Protocol.

¹⁵ EDIT (2023): AfCFTA Protocol on Investment.

¹⁶ MBENGUE, M. et al. (2024): Investment facilitation under the AfCFTA Protocol on Investment, p. 6.

must align any future bilateral agreements with the Protocol's provisions an example already followed by Angola in its recent agreements with China, the European Union, and Japan.¹⁷

3.1 Fragmented Decision-Making within AfCFTA Investment Landscape

With so many nations involved in the largest trade agreement by membership, it is crucial for Africa to adopt a unified stance in global negotiations. A collective strategy would enhance the continent's influence in trade discussions. Additionally, stronger coordination among member states could support the creation of regional value chains. This shift would enable Africa to move beyond its historical reliance on resource extraction, a model that has often been costly and ineffective in driving long-term economic growth.¹⁸

The Protocol is likely to have only a modest practical impact, given that intra-African foreign direct investment is relatively small compared to non-African foreign direct investment in Africa, and most investor-state dispute settlement claims against African states have been brought by non-African investors. Moreover, while bilateral investment treaty protections for African Union investors in African Union member states will be scaled back, those for non-African investors will remain unchanged.¹⁹

Other regional or bilateral treaties may continue to operate alongside the AfCFTA Investment Protocol, with the latter taking precedence in cases of inconsistency or to fill gaps. Foreign companies may engage in treaty shopping and parallel dispute proceedings, which would place additional strain on public institutions. This could complicate the foreign investment climate, introducing greater uncertainty for states regarding the interpretation and enforcement of their treaties, making the investment environment potentially less attractive. While the AfCFTA's Investment Protocol aims to harmonize the investment framework within Africa, international treaties with non-African countries could still influence FDI flows. These older-generation treaties often offer enhanced protections for foreign investors, which could give non-African investors a competitive advantage over African businesses.²⁰

Conclusion

The African Continental Free Trade Area was created to transform the way African nations engage in global commerce and to restructure their economies for enhanced global participation. At its core, the agreement promotes free trade by eliminating tariffs and non-tariff barriers among African Union member states, thus laying the foundation for a unified market. This unified approach is essential for driving industrialization, expanding service sectors, and fostering innovation across the continent. AfCFTA is a key element of the African Union's long-term vision for continental integration and sustainable development. By consolidating the market, it is expected to boost intra-African trade significantly, encourage investments in manufacturing, and shift economies from relying on raw material exports to producing higher value-added goods.

The AfCFTA has the potential to reshape Africa's trade landscape and significantly increase foreign direct investment. However, slow national adoption and persistent challenges in infrastructure and financial systems demonstrate that its implementation remains incomplete. As a result, businesses and investors should anticipate a gradual rather than immediate realization of AfCFTA's economic and FDI opportunities.²¹ The positive impact of the AfCFTA on

¹⁷ BOWNES, J. (2024): The AfCFTA Investment Protocol.

¹⁸ FOFACK, H. (2024): The Future of African Trade in the AfCFTA Era.

¹⁹ GENEST, A. – BUSSO, L. (2024): The AfCFTA's Investment Protocol: the bell tolls for first-generation intra-African BITs and their more conventional investor protections.

²⁰ UNECA (2021): Towards a Common Investment Area in the African Continental Free Trade Area: Levelling the Playing Field for Intra-African Investment. Chapter 3: The AfCFTA Investment Protocol, pp. 92-93.

²¹ IRWIN-HUNT, A. (2024): The Five Hurdles to Africa's Continental Free trade Area.

FDI is expected to stem from higher income, larger market size, and more predictable investment regulations.²² Recent studies by international organizations highlight its potential to catalyse structural transformation and improve socio-economic conditions, including job creation and poverty reduction. By strengthening collective bargaining power, the agreement not only enhances Africa's trade prospects but also positions the continent as a player in global trade negotiations. Overall, AfCFTA is set to play a pivotal role in reshaping Africa's economic landscape and accelerating its development trajectory.²³

The AfCFTA Investment Protocol is a major step toward a unified investment framework in Africa, replacing fragmented treaties with a single, transparent standard which aims to attract FDI. However, its immediate impact may be limited due to low intra-African FDI and overlapping international treaties, which could create legal uncertainties. Despite challenges, the Protocol sets a new standard for fair and sustainable investment, shaping Africa's economic future.

The findings suggest that while AfCFTA and its Investment Protocol offer significant advantages, including market expansion, reduced regulatory risks, and improved investment conditions, their overall impact remains limited. This is primarily due to the slow pace of implementation and the continued existence of overlapping international investment treaties, which create complexities in the regulatory landscape and may hinder the full realization of AfCFTA's investment potential.

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²² AYELE, Y. – BELETE, M. – VELDE, D. (2023): *The AfCFTA Protocol on Investment: issues and potential impacts*, p. 3.

²³ OLORUNTOBA, S. – NSHUMBI, CH. (2023): *The AfCFTA: promise for globally competitive continent and Africa's development*, pp. 354-355.

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CHINA'S TRADE AND INVESTMENT TRENDS IN EUROPEAN BELT AND ROAD INITIATIVE (BRI) COUNTRIES: A DESCRIPTIVE OVERVIEW¹

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Abstract: This study offers a detailed descriptive overview of China's trade and investment engagement with 26 European countries participating in the Belt and Road Initiative (BRI). Utilizing data from the ITC Trade Map and the China Global Investment Tracker, the research examines the sectoral composition, geographic patterns, and strategic dimensions of China's economic footprint in Europe between 2013 and 2024. The findings reveal enduring trade asymmetries, selective sectoral engagement, and an uneven distribution of Chinese foreign direct investment influenced by political alignment, institutional capacity, and regulatory context. While infrastructure development and digital connectivity have advanced under the BRI framework, concerns over transparency, debt exposure, and strategic dependence have grown. The paper argues that the trajectory of the BRI in Europe reflects a broader transition—from early enthusiasm to cautious pragmatism—highlighting the need for more balanced, rules-based cooperation going forward.

Keywords: Belt and Road Initiative (BRI), China–Europe economic relations, foreign direct investment (FDI), trade, connectivity, regulatory governance

JEL: F14, F21, F55

Introduction

The Belt and Road Initiative (BRI), launched in 2013, has evolved into China's most ambitious vehicle for international economic engagement, integrating infrastructure investment, trade expansion, and financial diplomacy across multiple continents. Europe—although geographically peripheral to the original Silk Road vision has emerged as a key region in this strategy, with 26 countries across Western, Central, and Eastern Europe having formally joined through bilateral memoranda and cooperation agreements.²

These countries vary in income level, institutional capacity, and political alignment. While states such as Hungary and Serbia have actively embraced Chinese engagement, others—including Germany and France—have adopted more cautious approaches due to regulatory concerns and geopolitical sensitivities.³

China's economic presence in Europe is shaped primarily by trade and foreign direct investment. The trade relationship remains structurally asymmetric, favoring Chinese exports of machinery and electronics, while investment flows have targeted both infrastructure and advanced sectors such as telecommunications and renewable energy, often channeled

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² NEDOPIL, C. (2025): *China's Belt and Road Initiative (BRI) Investment Report 2024* (2025).

³ MATURA, T. (2018): The Belt and Road Initiative depicted in Hungary and Slovakia' (2018) 7 *Journal of Contemporary East Asia Studies*, 174-89; PELAUDEIX, C. (2021): The rise of China and EU vulnerability. *SSRN Electronic Journal*.

through state-owned enterprises and policy-driven financing tools.⁴ Prominent projects include the China–Europe Railway Express and COSCO’s port acquisitions in Greece and Italy.⁵

Beyond physical assets, China’s presence extends into digital and discursive domains. Through the Digital Silk Road, investments in 5G, smart infrastructure, and digital connectivity have grown—often provoking debates over data sovereignty and cyber security.⁶ Simultaneously, China has promoted soft power through cultural institutions and media diplomacy, though its reception across Europe has become increasingly fragmented, with growing skepticism in Western media narratives and greater receptivity in parts of Eastern and Southeastern Europe.⁷

This study adopts a mixed-methods approach, combining trade and investment data from the ITC Trade Map and the China Global Investment Tracker (CGIT) with peer-reviewed literature published between 2015 and 2024, to provide a descriptive and comparative account of China’s engagement with the full set of European BRI countries. The paper avoids focusing on a single subregion and instead traces broader patterns and strategic shifts that have implications for European sovereignty, regulatory coherence, and global value chain integration.

1 Trade Dynamics Between China and European BRI Countries

Trade constitutes a central pillar of China’s engagement with European Belt and Road Initiative (BRI) countries. While bilateral trade volumes have increased notably since 2013, the relationship remains structurally imbalanced, with European countries persistently importing more from China than they export in return.⁸

The analysis focuses on five core product groups (HS 85, 84, 87, 30, 27), selected for their relevance to both sides of the trade flow. China’s export profile is dominated by high-tech manufactured goods—especially electronics and mechanical equipment—where it holds a strong competitive edge. In contrast, European exports to China remain limited in scale, even in sectors where they exhibit comparative advantage, such as pharmaceuticals and precision machinery.⁹

This asymmetry is not merely quantitative but also structural: European BRI partners often serve as importers of Chinese finished goods while supplying intermediate components or raw materials. Despite infrastructural advances like the China–Europe Railway Express,

⁴ MA, D. – LEI, C. – ULLAH, R. – ULLAH, R. AND BALOCH, Q. B. (2019): China’s on OneBelt and One Road Initiative and Outward Chinese Foreign Direct Investment in Europe. (2019). 11 *Sustainability*, pp. 7055.

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HENDERSON, J. – FELDMANN, M. – N. DE GRAAFF (2021): The Wind from the East: China and European Economic Development. (2021). 52 *Development and Change*, pp. 1047-65.

⁵ GUROL, J. – RODRÍGUEZ, F. (2022): Contingent power extension and regional (dis)integration: China’s Belt and Road Initiative and its consequences for the EU. (2022). 20. In: *Asia Europe Journal*, pp. 441–56.

⁶ COSTA, C. M. – LI, YICHAO (2023): China and European Union countries: Do Chinese partnerships boost cooperation results? (2023) Vol. 14. In: *JANUS.NET e-journal of International Relations*.

⁷ MIAO, J. T. (2021): Understanding the soft power of China’s Belt and Road Initiative through a discourse analysis in Europe. (2021). 8 *Regional Studies, Regional Science*. pp. 162-77.

MATURA, T. (2018): The Belt and Road Initiative depicted in Hungary and Slovakia.

⁸ CIEŚLIK, E. (2020): Cross-Sectoral Inter-Country Linkages under the Belt and Road Initiative: Chinese ICT Services Value Added Inflows to Manufacturing Exports in the New Eurasian Land Bridge Economies. (2020). 12 *Sustainability*, pp. 8675.

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⁹ SZYPULEWSKA, A. – PORCZYŃSKA, A. (2025): The Belt and Road Initiative as a tool for promoting EU-China trade. Poland’s case; International Trade Centre, ‘ITC Trade Map.

the potential for deeper value chain integration remains constrained by logistical and institutional bottlenecks, particularly in Eastern and Southeastern Europe.¹⁰

Trade data from 2024 indicate that European BRI countries account for a modest portion of China's overall exports and imports—about 5–7%—with substantial variation by sector. Vehicles and pharmaceuticals exhibit relatively higher integration into China's import portfolio, though overall participation remains underdeveloped compared to global trade capacities.¹¹

Persistent non-tariff barriers—including product certification requirements, customs complexity, and intellectual property constraints—further limit European market access in China.¹² Meanwhile, China's state-capitalist model and ability to engage bilaterally with fragmented European states enable it to negotiate more favorable terms, sometimes bypassing EU-level regulatory oversight.¹³

Public discourse around BRI-related trade reflects these tensions. While Central and Eastern European countries have welcomed Chinese trade as a diversification opportunity, Western media increasingly frame it as a threat to strategic autonomy and industrial competitiveness.¹⁴

In sum, although trade volumes have grown, they are marked by persistent imbalances, sectoral asymmetries, and institutional vulnerabilities. These dynamics underscore the need for a more coordinated European approach if BRI-related trade is to support mutual gains rather than deepen dependency or undermine policy coherence.

2 Chinese FDI and Strategic Partnerships in European BRI Countries

Foreign direct investment (FDI) has served as a strategic instrument in China's Belt and Road Initiative (BRI) engagement with Europe, complementing trade and infrastructure initiatives. Between 2013 and 2024, Chinese investment exceeded \$60 billion across 26 European BRI countries, with a heavy concentration in transport and energy sectors.¹⁵ The investment profile reveals a multi-tiered strategy: hard infrastructure in Southeastern and Central Europe; financial and logistics capital in the West; and limited but growing interest in technology and innovation in high-income EU members.¹⁶

Serbia has emerged as a core hub, receiving over \$19 billion in Chinese capital, primarily for transport, utilities, and metals. Hungary, with more than \$7 billion invested—especially in rail and battery sectors—has become a prominent showcase of BRI success in Central Europe.¹⁷ Meanwhile, countries like Portugal and Luxembourg have attracted finance- and service-oriented investments, reflecting China's adaptation to more advanced regulatory contexts.

¹⁰ FILIPOVIĆ, S. – IGNJATOVIĆ, J. (2021): Chinese Investment in Central Eastern Europe and the Western Balkan. In: *Kultura polisa*, pp. 73-86.

¹¹ INTERNATIONAL TRADE CENTER, 'ITC Trade Map'.

¹² HENDERSON, J. – FELDMANN, M. - DE GRAAFF, N. (2021): The Wind from the East.

¹³ COSTA, C. M. – LI, YICHAO (2023): China and European Union countries; GUROL, J. – RODRÍGUEZ, F. (2022): Contingent power extension and regional (dis)integration: China's Belt and Road Initiative and its consequences for the EU.

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¹⁵ AMERICAN ENTERPRISE INSTITUTE AND THE HERITAGE FOUNDATION (2025): China Global Investment Tracker (CGIT).

¹⁶ GUROL, J. – RODRÍGUEZ, F. (2022): Contingent power extension and regional (dis)integration; DA FROTA, C. L. A. (2024): Exploring Chinese Investments in Europe: Scope and Governance Dynamics. 48 *Asian Perspective*, pp. 71-93.

¹⁷ MATURA, T. (2018): The Belt and Road Initiative depicted in Hungary and Slovakia.

Sectorally, three pillars define Chinese FDI:

1. Infrastructure, including railways, ports, and highways—often facilitated by Chinese state-owned enterprises and loans from policy banks;
2. Manufacturing, particularly in automotive and electronics, targeting locations with industrial capacity and cost advantages (e.g., Hungary, Czechia, Poland);
3. Technology and innovation, which although limited in volume, hold high strategic significance. Investments in telecom (Huawei, ZTE), renewable energy, and surveillance technologies have raised security and regulatory concerns, prompting tighter screening by EU members.¹⁸

China's partnerships have been formalized through a mix of bilateral memoranda and regional initiatives, notably the 16+1 platform. However, the effectiveness of such frameworks has declined. Several member states, including Lithuania, Estonia, and Italy, have withdrawn due to transparency concerns and geopolitical tensions.¹⁹

Criticism of Chinese FDI in Europe focuses on four major challenges:

- Opacity, with non-transparent infrastructure contracts, especially in non-EU states;²⁰
- Limited local economic impact, as Chinese firms often import labor and materials;
- Political leverage, exemplified by the perceived alignment of recipient governments with Chinese foreign policy positions;²¹
- Regulatory backlash, including EU-level investment screening and national-level restrictions on acquisitions in sensitive sectors.²²

In recent years, Europe has moved from enthusiasm to caution, adopting a “de-risking” approach. The European Commission’s 2019 Strategic Outlook identified China as a systemic rival, and subsequent shifts in national policies—such as Italy’s BRI exit and tighter screening across Germany and France—indicate a broader strategic realignment.

Taken together, China’s FDI in Europe illustrates both opportunities and constraints. While it has enhanced physical connectivity and supported industrial cooperation, the long-term effects remain ambiguous. The current trend suggests a redefinition of engagement—one that balances economic interests with geopolitical and regulatory safeguards.

3 Infrastructure, Soft Power & Strategic Challenges

Infrastructure development remains the most visible and symbolic dimension of China’s Belt and Road Initiative (BRI) in Europe. Flagship projects such as the China–Europe Railway Express, the Budapest–Belgrade high-speed rail, and COSCO’s stake in the Port of Piraeus exemplify China’s ambition to establish overland and maritime corridors linking production hubs in Asia with consumption markets in the European Union. These initiatives have undeniably enhanced physical connectivity, reduced transit times, and supported the diversification of supply chains. However, they have also triggered significant debate regarding debt sustainability, opaque financing arrangements, and non-compliance with EU procurement standards.²³

Chinese infrastructure investments are especially concentrated in Central, Eastern, and Southeastern Europe, including several non-EU countries such as Serbia, Montenegro,

¹⁸ HENDERSON, J. – FELDMANN, M. – DE GRAAFF, N. (2021): *The Wind from the East*; COSTA, C. M. – LI, YICHAO (2023): *China and European Union countries*.

¹⁹ GUROL, J. – RODRÍGUEZ, F. (2022): *Contingent power extension and regional (dis)integration*.

²⁰ FILIPOVIĆ, S. – IGNJATOVIĆ, J. (2021): *Chinese Investment in Central Eastern Europe and the Western Balkan*. In: *Kultura polisa*.

²¹ PELAUDEIX, C. (2021): *The rise of China and EU vulnerability*.

²² BARTSCH, B. – WESSLING, C. (2023): *From a China strategy to no strategy at all*.

²³ GUROL, J. - RODRÍGUEZ, F. (2022): *Contingent power extension and regional (dis)integration*; MATURA, T. (2018): *The Belt and Road Initiative depicted in Hungary and Slovakia*.

and Bosnia and Herzegovina. In many cases, contracts are awarded through non-transparent, state-to-state agreements, bypassing competitive bidding processes that are standard within EU practice. This has raised concerns from both European institutions and local civil society organizations about the erosion of governance norms, the undermining of democratic accountability, and the reinforcement of clientelist political structures.²⁴ Furthermore, while such infrastructure projects often promise modernization and logistical efficiency, their local economic benefits are unevenly distributed. Chinese firms frequently import their own labor and materials, limiting job creation and technology transfer in host countries.

Alongside material infrastructure, China's engagement with Europe includes a growing emphasis on soft power and digital diplomacy. Through Confucius Institutes, cultural initiatives, and media engagement, China has attempted to frame the BRI as a model of inclusive globalization.²⁵ The "Digital Silk Road," a subcomponent of the broader initiative, has introduced large-scale Chinese-led investments in digital infrastructure—including 5G networks, smart city technologies, e-commerce platforms, and data centers. These ventures have expanded China's technological footprint across Europe, but they have also sparked growing apprehension regarding data sovereignty, cybersecurity risks, and potential surveillance activities.²⁶

Public reception of China's growing presence in Europe has been highly uneven. In parts of Central and Eastern Europe, BRI-linked initiatives are often interpreted as development opportunities, especially where EU funds are limited or delayed. Countries like Serbia and Hungary have positioned themselves as key BRI gateways into Europe. By contrast, Western European states tend to adopt more cautious or even confrontational stances, emphasizing national security, regulatory integrity, and strategic autonomy. France, Germany, and the UK—although not active BRI members—have consistently framed China's growing influence through a geopolitical lens, raising concerns about dependencies and dual-use infrastructure.²⁷

These dynamics have brought to light a number of systemic challenges. Key among them are the lack of transparency in infrastructure agreements, limited technology spillovers, the risk of long-term debt dependence, and the instrumentalization of foreign direct investment (FDI) for geopolitical leverage. In some countries, China's economic presence has correlated with more favorable foreign policy positions toward Beijing, raising questions about political influence and asymmetrical partnerships.²⁸

In response to these challenges, the European Union has sharpened its policy stance. Through its "strategic de-risking" approach, the EU is strengthening investment screening mechanisms, promoting regulatory convergence, and seeking to reduce critical dependencies in areas such as digital infrastructure, energy, and transport. The Global Gateway initiative, launched in 2021, aims to mobilize €300 billion by 2027 to finance sustainable infrastructure globally—explicitly positioning itself as a democratic and transparent alternative to the BRI.²⁹

Ultimately, while the BRI has facilitated substantial capital inflows, infrastructure development, and regional connectivity in Europe, its implementation remains deeply contested. Its top-down, state-led governance model often clashes with European norms of transparency, market competition, and environmental due diligence. The long-term trajectory

²⁴ FILIPOVIĆ, S. – IGNJATOVIĆ, J. (2021): Chinese Investment in Central Eastern Europe and the Western Balkan.

²⁵ MIAO, J. T. (2021): Understanding the soft power of China's Belt and Road Initiative through a discourse analysis in Europe.

²⁶ COSTA, C. M. – LI, YICHAO (2023): China and European Union countries; BARTSCH, B. – WESSLING, C. (2023): From a China strategy to no strategy at all.

²⁷ MATURA, T. (2018): The Belt and Road Initiative depicted in Hungary and Slovakia; HENDERSON, J. – FELDMANN, M. – DE GRAAFF, N. (2021): The Wind from the East.

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²⁹ BARTSCH, B. – WESSLING, C. (2023): From a China strategy to no strategy at all.

of China–Europe cooperation under the BRI will therefore hinge on both sides’ ability to reconcile economic interests with political and normative alignment. A shift is needed from transactional engagement to a model of strategic reciprocity, underpinned by mutual trust, institutional compatibility, and sustainable development goals.

Conclusion

The Belt and Road Initiative (BRI) has introduced new dynamics into China–Europe relations by offering financial alternatives, infrastructure development, and economic diversification opportunities—particularly for less-developed countries in Central and Eastern Europe. However, these opportunities are counterbalanced by challenges such as structural trade imbalances, limited local spillovers, and misalignment with European regulatory and strategic frameworks.

For BRI engagement to be mutually beneficial, Europe must reinforce transparency, regulatory oversight, and alignment with broader EU strategies, including environmental sustainability and digital resilience. This also entails strengthening investment screening mechanisms and ensuring that local economies benefit through labor participation, technology transfer, and SME integration.

Strategic cohesion is essential. A fragmented, bilateral approach reduces Europe’s bargaining capacity. The path forward requires coordinated policies and a shared narrative grounded in democratic values and reciprocity. The future of BRI in Europe depends not on withdrawal, but on recalibrating the partnership—moving from dependency toward balanced, rules-based cooperation that supports long-term prosperity and strategic stability.

Moreover, the EU must take a more proactive stance in offering credible development alternatives to BRI, particularly in regions where Chinese influence has grown due to financing gaps and institutional weaknesses. Enhancing coordination between EU-level initiatives such as the Global Gateway and member state strategies could help build a more consistent, value-based engagement model. A future-oriented vision—one that is both pragmatic and principled—will be critical for Europe to navigate the evolving landscape of China’s global economic diplomacy.

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FROM OPENNESS TO SELECTIVITY: POST-BREXIT SHIFTING MIGRATION PATTERNS

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Abstract: This article examines the transformation of the UK's immigration system in the aftermath of Brexit, concentrating on the shift from an open and supportive free movement to a selective, points-based system. The study draws on migration theories and implements official UK migration statistics, visa issuance data and longitudinal nationality trends. The study emphasises the impact of legal reforms and policy discourses on migration flows, particularly on the decline of EU migrants and the rise of non-EU skilled entrants. Findings reveal that mobility is significantly shaped by institutional design rather than labour demand and identify emerging asymmetries and exclusion of dependants. It concludes that the UK's migration policy represents a global turn towards selective and economically motivated migration governance.

Keywords: points-based immigration system, Brexit, UK migration policy

JEL: F22, J61

Introduction

The enlargement of the European Union in 2004 constituted a significant milestone in European integration. This historical event was marked by 10 new member states entering the Community of European Union, including the Slovak Republic, the Czech Republic, Poland, and other countries of Central and Eastern Europe (CEE). In response to this enlargement, the majority of the existing member states (EU15) introduced transitional measures restricting access of workers to their labour market. However, the United Kingdom, together with the Republic of Ireland and Sweden, represented an exception and chose a contradictory approach of openness. They decided to immediately open their labour markets for inhabitants of these newly entered countries with no restrictions applied.¹ This decision of the British government was not unanimously accepted by all the Cabinet members, as they warned against and dreaded the possible negative impacts. It led to an unexpected influx of migrants from the new member states, exceeding the estimated numbers valued at 13,000 per year. Indeed, as early as 2004, the number of incoming individuals reached 87,000, and in 2007 they marked an even more substantial influx equaling 750,000. This massive migration influenced the British public and politics, reflected in the rise of Euroscepticism on the British political and public scene. As a result, the leading Eurosceptic party UKIP succeeded in mobilizing the public to participate in the referendum about withdrawal from the European Union in 2016 and resulting in the final leave in 2021.² The binding withdrawal took the legislative form in the Trade and Cooperation Agreement that came in force in January 2021. As migration was excluded from the Agreement, the United Kingdom introduced the new form of the points-based immigration system that came into effect in the same year.³

¹ KAHANEC, M. – ZAICEVA, A. – ZIMMERMANN, K. (2009): Lessons from Migration after EU Enlargement, p. 23.

² MIGRATION OBSERVATORY. (2023): EU Migration to and from the UK. [online]. In: Migration Observatory

³ HOME OFFICE (2020): The UK's points-based immigration system: information for EU citizens. [online]. In: Government UK Official website.

The primary objective of this article is to analyze the shifting migration patterns after Brexit in the United Kingdom, with emphasis on the transition from openness to selectivity. Specifically, the analysis focuses on the evolution of net migration by region of origin (British citizens, EU nationals and non-EU nationals) and on trends in applications for visas within the categories of skilled labour and health and care workers. The article also examines the influence of the new migration measures on migration structures and their possible socio-political impacts. Concerning the applied methodology, the article implements a qualitative analysis of the secondary sources from open data sets of the Office for National Statistics (ONS) and the Home Office. The data sets encompass the time series from 2012 to 2024, while the metrics of net migration and visa applications are elaborated on a quarterly basis. The data are visualised in the form of line graphs and a table, illustrating the main trends and shifts in migration flows. The analysis draws on a theoretical framework of migration theories and selectivity while also considering the broader context of post-Brexit political transformation. This article contributes to the understanding of the impacts of political decisions on migration patterns and their influence on the labour market demographic structure of the United Kingdom. The findings may serve as a basis for the development of effective and balanced policy in the post-Brexit period.

1 The significance of migration theories in context of Brexit

A thorough understanding of the implications of the new points-based immigration system introduced by the United Kingdom requires an approach that incorporates the application of relevant migration theories. These migration theories serve as a theoretical framework for understanding the reasons, mechanisms, and impacts of this reform. The chosen approach allows for the qualification of theories based on the micro, meso, and macro levels, along with their affiliation with academic disciplines, contributing to a deeper understanding of migration dynamics in the post-Brexit context.

Table 1: Selected migration theories by level of analysis

Level	Theory
Micro level	E. Lee- Push and Pull Theory Star, Bloom- New Economics of Labour
Meso level	Massey- Network Theory of Migration Migration Schiller, Levitt- Transnational Migration Theory
Macro level	Piore- Dual Labour Market Theory Wallerstein- World Systems Theory Ravenstein- Laws of Migration Hollifield a Castles- Political Theory of Migration

Note: Autohor's own elaboration. Source: GALANSKÁ, N. (2014): Selected concepts and theories of international migration and their application to current migration flows, p. 25.

Migration theories play a critical role in either facilitating or constraining migration. Drawing on Castles et al., the presence of established migrant communities reduces the costs and risks associated with relocation.⁴ However, these bonds were disrupted and weakened in the aftermath of Brexit; as a result, some community structures either deteriorated or were

⁴ CASTLES, S. – MILLER, M. J. – AMMENDOLA, G. (2005): The Age of Migration: International Population Movements in the Modern World, pp. 539-540.

relocated to other EU countries. Last but not least, the macro level incorporates broader factors such as economic cycles, legal norms, and geopolitical correlations. Brexit, as an international political event, significantly affected immigration patterns at this level. The United Kingdom lost its membership in the common market and replaced free movement with the points-based immigration system, which favours highly skilled workers from non-EU countries. As Ruhs and Anderson point out, migration policies create an architecture of selectivity that fundamentally determines who can and cannot migrate.⁵ These three levels of analysis enable us to identify a network of factors that influence the structure and volume of migration to the United Kingdom after Brexit. At the same time, they clearly indicate that decisions concerning migration are never made unilaterally. They emerge through the interaction between strategies and structural constraints.

Besides the analytical level (Table 2), its relevance reflects the classification of migration theories by their affiliation with academic disciplines. This perspective, as represented by Bijak, offers a multidisciplinary framework for a more accurate understanding of the complexity of migration processes. It's important to point out that migration theories are not an exclusive domain of a single discipline. They emerge from a variety and combination of demography, economics, sociology, political science, and anthropology – each emphasising different aspects of migration.

Table 2 Selected migration theories by affiliation with academic disciplines

Concept	Theory
Demographic	Ravenstein- Laws of Migration
Socio-economic	Wallerstein- World System Theory
Sociological	Massey - Network Theory of Migration Hollifield - Political Theory of Migration E. Lee - Push and Pull Theory
Macroeconomic	Piore - Dual Labour Market Theory
Unifying	Schiller, Levitt -Transnational theory
Microeconomic	Stark, Bloom - New Economics of Labour Migration

Note: Author's own elaboration. Source: BIJAK, J. (2006): Forecasting international migration: Selected theories, models, and methods, p. 5.

Demographic approaches, such as Ravenstein's Laws of Migration, were among the first systematic attempts to understand migrant behaviour. Nevertheless, due to their simple structure, many of the observations remain relevant today, such as the tendency to migrate over shorter distances, the dominance of economic reasons, and the younger age of migrants. All these characteristic features have also manifested in Central and Eastern European (CEE) migrants in the United Kingdom before and after Brexit. Socio-economic and macroeconomic theories, e.g. Wallerstein's World Systems theory⁶ and Piore's Dual Labour Market theory,⁷ deal with persistent structural inequities among global areas. Brexit may be perceived

⁵ RUHS, M.– ANDERSON, B. (2010): Who Needs Migrant Workers? Labour Shortages, Immigration, and Public policy, pp. 1-6.

⁶ WALLERSTEIN, I. (2011): The modern World System 1 Capitalist Agriculture and the origins of the european World-Economy in the sixteenth century.

⁷ PIORE, M. J. (2009): Birds of Passage Migrant Labour and Industrial Societies.

as a calculated effort to reposition the UK within the global landscape aims to reduce dependence on low-wage labour from the EU by shifting its migration policy towards more economically advantageous migrants outside the EU. This policy change led to significant labour shortages in essential sectors such as healthcare, agriculture, and logistics, which had historically relied on a steady stream of EU labour. Sociologically, ideas such as Massey's Network Migration model⁸ and Hollifield's Political Migration theory⁹ underscore the impact of social structures, institutions, and governance systems on migration patterns. The decision to withdraw from the EU, coupled with the revision of the UK's immigration policy, transformed the legal framework for migrants, as well as their collective sense of belonging, trust in the host system, and confidence in their long-term prospects in the UK.¹⁰ Microeconomic and behavioural theories, notably Stark and Bloom's New Economics of Labour Migration,¹¹ examine migration as a method used by households to diversify income sources and mitigate economic risks. Post-Brexit, the uncertainty and rising costs associated with relocating to the UK have likely dissuaded several households-particularly from CEE-from pursuing such endeavours. Ultimately, integrative or transnational theories, especially those developed by Schiller, Levitt, and others, portray migrants as dynamic agents who maintain links across multiple states. Brexit and its consequences, including increased limits on remittances, mobility, and institutional access, have resulted in a decline of these transnational links, which previously had a substantial impact on migrant experiences and bolstered diaspora groups. As a result of these international bonds being broken, the question of migrant racism has been raised and is perceived by Benson as another important consequence of Brexit.¹²

2 Structural shifts in migration patterns

Migration decisions are not solely a product of individual choice. They depend on the interactions between structural factors and individual strategies. This empirical analysis reflects on the changes caused by the political decision to withdraw from the European Union, followed by the introduction of a new points-based immigration system. The core of the analysis lies in data from the Office for National Statistics (ONS) and the UK Home Office, which are illustrated in charts and a table. They enable the identification of key trends, changes in the regional origin of migrants to the UK, and the relationship to the issuance of visas concerning the new conditions of the immigration system. In the context of the presented migration theories, the focus is primarily on changes in migration structures and their impacts on the United Kingdom. The United Kingdom's departure from the EU triggered a significant shift in its migration landscape, predominantly affecting the regional distribution of migrants. Prior to the 2016 referendum, the freedom of movement facilitated a consistent influx of migrants from CEE countries, who primarily filled low- and medium-skilled vacancies in sectors such as agriculture, construction, hospitality,

⁸ MASSEY, D. et al. (1993): Theories of International Migration: A Review and Appraisal.

⁹ HOLLIFIELD, J. H. – JACOBSON, D. (1993): Migration and the State.

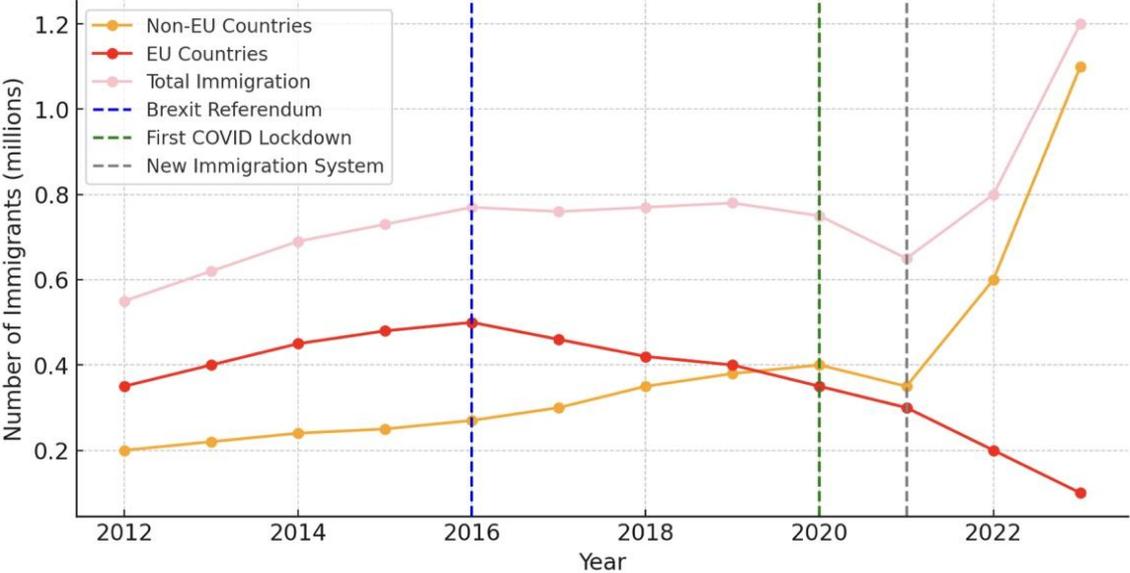
¹⁰ RANTA, R. – NANCHEVA, N. (2019): Unsettled: Brexit and European Union nationals' sense of belonging, pp. 4-6.

¹¹ STARK, O. – BLOOM, D. E. (1985): The New Economics of Labour Migration, pp. 173- 178.

¹² BENSON, M. – LEWIS, C. (2019): Brexit, British People of Colour in the EU-27 and everyday racism in Britain and Europe, pp. 221-223.

and services.^{13,14,15,16} This trend, however, has been reversed in the political and institutional overhaul following Brexit with the implementation of the new points-based immigration system in January 2021. Figure 1 illustrates a visual representation of this transformation, highlighting the sustained decline in immigration from EU countries. Since the Brexit referendum in 2016, migration from non-EU countries has experienced a sharp rise. This divergence signals a deliberate restructuring of the UK’s migration regime, which increasingly favours high-skilled migrants. These observed patterns align with the theoretical framework of Hollifield’s Political Migration theory, which conceptualises immigration as a policy-driven phenomenon, shaped predominantly by the interests and constraints of the receiving state. As the UK redefined its migration objectives post-Brexit, the political instruments, such as visa categories and eligibility thresholds, were aligned with the labour needs and broader economic goals.

Figure 1 The changes in the regional structure of the migrants to the UK 2012-2023



Note: Author’s own elaboration. Source: ONS. (2023), Long-term international migration, provisional year ending December 2023.

The emerging trends align with Wallerstein’s World System theory, which underlines structural asymmetries in the global economic system. The presented diversion from EU-centric mobility patterns to non-EU skilled migration represents the UK’s renegotiation of its role as a core economy. Labour is strategically drawn from peripheral and semi-peripheral states like India, Nigeria and Pakistan (Table 3), which benefit from remittances and transnational ties. As Walsh points out, the new immigration systems bridged the differences between EU and non-EU nationals, levelling the playing field by introducing stricter criteria for low-skilled

¹³ ROLFE, H. – HUDSON-SHARP, N. (2016): The impact of free movement on the labour market: case studies of hospitality, food processing and construction. [online]. In: NIESR, 2016, pp. 8-9.
¹⁴ FOOD STANDARDS AGENCY (2024): The impact of labour shortages on UK food availability and safety. [online]. In: FS430887.
¹⁵ UK DEPARTMENT FOR ENVIRONMENT, FOOD & RURAL AFFAIRS (2023): *Independent review into labour shortages in the food supply chain* [online]. In: *Independent Review*.
¹⁶ WADSWORTH, J. – DHINGRA, S. – OTTAVIANO, G. – VAN REENEN, J. (2016): Brexit and the Impact of Immigration on the UK, pp. 2-3.

migrants.¹⁷ Home Office migration metrics confirm that countries as India and Nigeria have overtaken traditional EU countries in work visa issuance.¹⁸ Piore’s DDual Labour Market theory is also valid in the case of Brexit, as it differentiates between primary and secondary labour markets. The new regime supports the demand from the primary market, which is constituted by highly-skilled positions in sectors like health care, finance or technology, which has been met by recruitment from non-EU countries. In contrast, secondary market positions, which were previously filled by EU workers, have witnessed growing labour shortages caused and exacerbated by mobility restrictions and demands of the new immigration system.^{19,20} The shift is further corroborated by longitudinal data on the most prevalent migrant nationalities residing in the UK. As illustrated in Table 3, in 2011 and 2016, EU nationals-particularly from Poland, Romania, and Ireland-featured prominently among the top ten nationalities. By contrast, data for 2021 and 2024 show a striking increase in the representation of non-EU nationals, led by India, Nigeria, Pakistan, and China. These patterns reinforce the interpretation that Brexit not only restricted mobility from EU countries but also restructured the demographic composition of the UK’s migrant population in favour of non-European countries with strong labour-sending dynamics. The presence of India at the top of the list throughout the entire period reflects the UK's enduring bilateral migration ties with former Commonwealth states, which were further reinforced under the new immigration framework.

Table 3 Migrant population in the UK by nation (2011, 2016, 2021, 2024)

The ten most prevalent nationalities among migrant population in the UK								
	2011	Number	2016	Number	2021	Number	2024	Number
1.	India	~70 000	Poland	~74 000	India	~100 000	India	~120 000
2.	Poland	~65 000	Romania	~72 000	Nigeria	~66 000	Nigeria	~95 000
3.	Pakistan	~40 000	India	~53 000	Pakistan	~52 000	Pakistan	~65 000
4.	Ireland	~35 000	Ireland	~32 000	China	~49 000	China	~50 000
5.	Nigeria	~28 000	Pakistan	~30 000	Philippines	~45 000	Phillipines	~48 000
6.	Bangladesh	~26 000	Italy	~27 000	Romania	~39 000	Zimbabwe	~42 000
7.	South Africa	~24 000	Portugal	~23 000	Bangladesh	~35 000	Bangladesh	~40 000
8.	China	~22 000	Spain	~21 000	Hong Kong	~33 000	Ghana	~38 000
9.	Germany	~20 000	China	~20 000	Iraq	~29 000	Sudan	~36 000
10.	Somalia	~17 000	France	~18 000	Afghanistan	~28 000	Somalia	~33 000

Note: Author’s own elaboration. Source: ONS (2011, 2016, 2021, 2024), Long- term international migration.

These figures underscore a strategic realignment of the UK’s migration policy, one that prioritises global talent acquisition over geographical proximity. The result is a more globalised,

¹⁷ WALSH, P. W. (2021): Policy Primer: The UK’s 2021 points-based immigration system. [online]. In: Migration observatory.

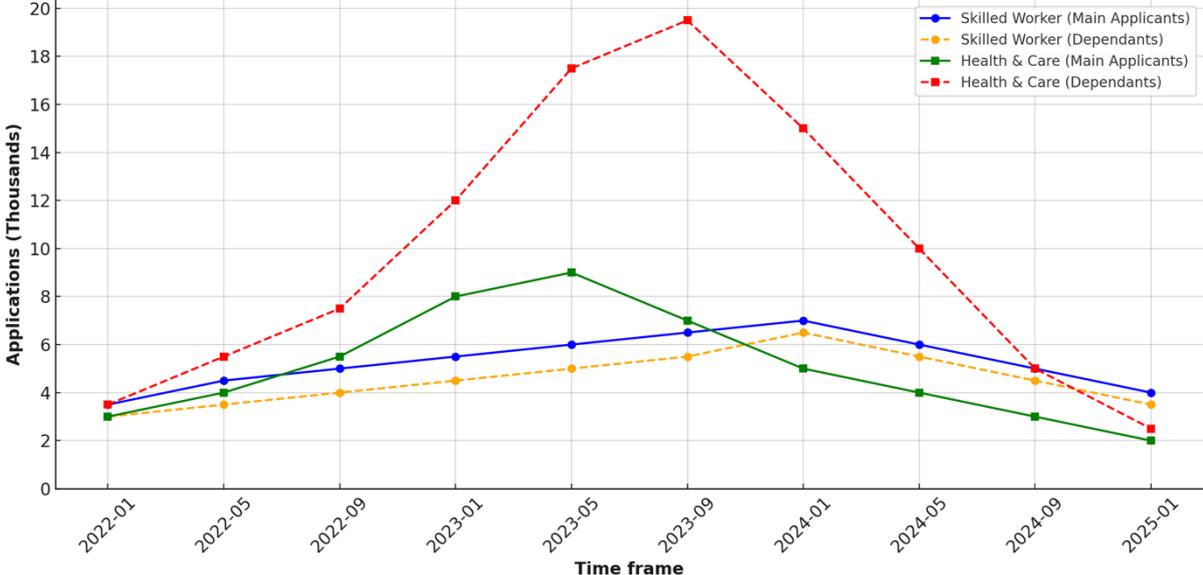
¹⁸ MIGRATION OBSERVATORY (2024): Work visas and migrant workers in the UK. [online]. In: Migration Observatory.

¹⁹ PORTES, J. – SPINGFORD, J. (2023): The impact of the post-Brexit migration system on the UK labour market, pp. 132-149.

²⁰ SUMPTION, M. – BRINDLE, B. (2024): Work visas and migrant workers in the UK. [online]. In: Migration Observatory.

yet increasingly selective, immigration model that reflects both state-driven policy objectives and broader global inequalities in labour mobility.

Figure 2 The number of visa applications 2022-2025 of skilled and health and care workers



Note: Author’s own elaboration. Source: ONS (2024), Long-term international migration, provisional: year ending December 2024.

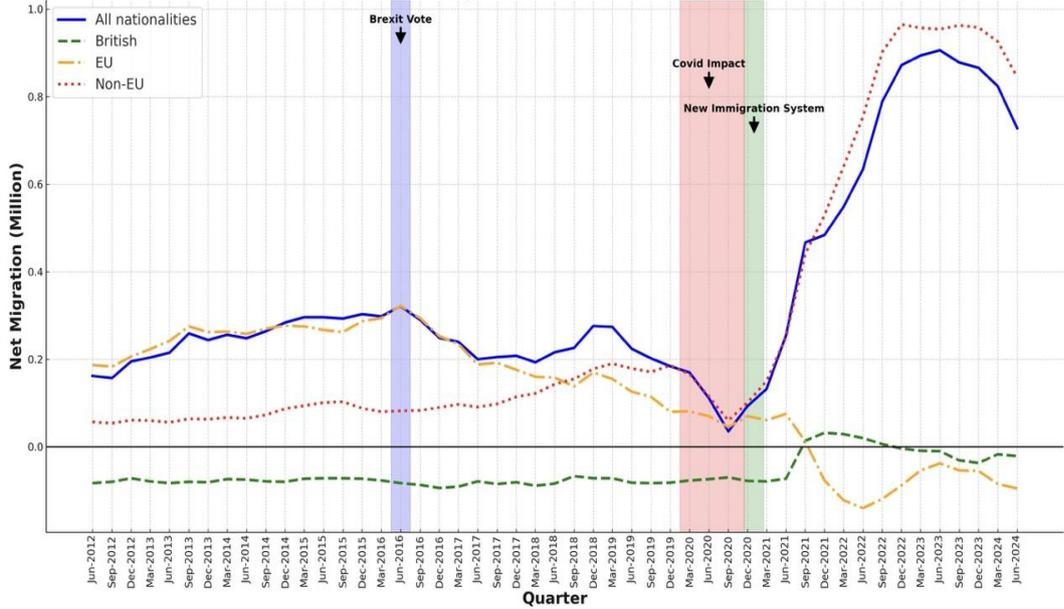
While the restructuring of migration flows post-Brexit is evident in demographic terms, its tangible effects can be observed in the issuing of work visas, especially in strategically important sectors such as healthcare and skilled occupations. Figure 2 displays the number of applications for Skilled worker and Health and care visas for both applicants and their dependants in the timeframe 2022-2025. The trend observed from 2022 to the start of 2024 is marked by an increase of applicants in Health and care sector, with dependants constituting to a significant portion of the total. This rise reflected not only labour shortages in the National Health Sector (NHS) but also lower income threshold for health and care workers, who were recognised as being in shortage. Therefore making their roles eligible for streamlined immigration under the Skilled Worker visa system formalised through the Shortage Occupation List (SOL)-NHS(2025)–Impacts of the changes to the UK immigration policy.²¹ However, beginning in 2024, the UK government introduced a series of restrictive policy measures including a ban for social workers to bring their dependants and a significant raise in the minimum salary threshold for Skilled Worker visa from £26,200 to £38,700 and narrowing the list of eligible job roles as well as increased minimum salary to sponsor someone for a spouse/partner was increased from £18,600 to £29,000.²² The intention behind these reforms was to reduce overall migration and respond to increasing political pressure, reflected in a notable decline in visa applications, particularly among care workers and their families, as illustrated by the steep drop in the red and green lines after the first quarter of 2024. This evidence aligns with both Piore’s Dual Labour Market theory, which emphasises the segmented demand for high- and low-skilled foreign labour, and Hollifield’s Political Migration theory, which underscores the instrumental role of state institutions in regulating the types of migrants and the conditions under which they are allowed to migrate. The UK

²¹ NHS EMPLOYERS (2024): Recruitment of overseas doctors and dentists. [online]. In: NHS Employers.
²² ONS (2024): Long-term international migration, provisional: year ending June 2024. [online]. In: ONS.

government’s efforts to attract high-skilled migrants while deterring dependents and low-wage entrants exemplify this duality. According to the Migration Observatory, female migrants remain overrepresented in care and social work, emphasising the sector’s reliance on migrant labour.²³ The recent restrictions on dependent visas and their decline may exacerbate existing retention problems, as many migrant caregivers face economic and social burdens without their extended family support. The temporal correlation between policy changes and application trends demonstrates that migration is not simply a supply-driven phenomenon; it is heavily shaped by legal frameworks, economic incentives, and perceived institutional stability. Since the UK continues with an increasingly selective approach, the ability to reconcile labour market needs with political pressures will remain a crucial challenge for future development.

In addition to the sector-specific evolution of work visa issuance and the demographic reconfiguration of migrant nationalities, macro-level patterns of net migration offer an important insight into how political developments and reforms have shaped the UK’s migration regime. As illustrated in Figure 3, the chart represents quarterly net migration data from 2012 to 2024, distinguished by nationality groups: British, EU and non-EU and marked by three important milestones: the Brexit referendum in 2016, Covid- 19 pandemic in 2020 and the introduction of the new points-based immigration system in 2021.

Figure 3 Structural Inflexions in EU and Non- EU Net Migration 2012-2024



Note: Author’s own elaboration. Source: ONS (2024), Long-term international migration, provisional: year ending June 2024.

Figure 3 represents a clear reversal in trend lines for EU and non-EU migration starting around the time of the Brexit referendum. Net migration of EU nationals, until mid-2016, positive and relatively stable, experienced a visible fall following the referendum. The decline exacerbated significantly after the introduction of the new immigration system, which ended the free movement in 2021, reaching near-zero levels by late 2022. This corresponds with the expectations connected to institutional rupture and legal uncertainty as discussed by Kilkey and Ryan.²⁴ In contrast, net migration from non-EU countries rose significantly, especially after

²³ MIGRATION OBSERVATORY (2024): Migrants in the UK Labour Market: An Overview. [online]. In: Migration Observatory
²⁴ KILKEY, M. – RYAN, L. (2020): Unsettling Event: Understanding Migrants’ Responses to Geopolitical transformative Episodes through a Life- Course Lens, pp. 234-238.

Q2 2021, reaching its peak in 2022. This sharp increase corresponds with the introduction of new visa categories for skilled workers and the expansion of recruitment ties with India, Nigeria, and the Philippines. This inversion of patterns reflects the re-scaling of British immigration policy from regional to global level and the institutionalisation of selectivity as the new guiding trend. Interestingly, the net migration of British nationals remained negative through the period, and the minor increases in 2020-2021 suggest just temporary pandemic-induced return migration. These data align with research on re-migration trends among British retirees and mobile professionals, often overlooked in migration literature.²⁵

Taking into account the theoretical perspective, the trends depicted in Figure 3 align with the following migration theories:

- a) Hollifield's Political Migration Theory highlights the centrality of state-driven mechanisms. The UK's rapid shift in the immigration system, from openness to selectivity, illustrates how policy acts not merely as a regulatory filter but as a tool that restructures the opportunity landscape for migrants;
- b) Wallerstein's World System Theory is reflected in the growing dependency on labour from non-EU peripheries, driven by asymmetric economic relations and heightened labour demand in high-value sectors;
- c) Piore's Dual Labour Market Theory is supported by the selective nature of net migration increases. The growth is concentrated in sectors tied to primary labour dynamics, predominantly the health and care sector and information technology, while low-wage sectors experience stagnation.

The temporal alignment between policy interventions and observable shifts in migration flows suggests that UK migration is predominantly state-structured rather than demand-led. The Figure 3 provides clear evidence that institutional trust, legal stability, and signalling effects (e.g. salary thresholds, eligible occupations lists) are now dominant forces in shaping not only migration levels but also the composition and temporality of inflows. The empirical data presented throughout this chapter corroborates a fundamental transformation of the UK's post-Brexit immigration system. It confirms its shift from an open, geographically proximate system reliant on intra-EU labour to a highly selective and globally focused framework characterised by economic utility and political discretion. The observed shift in the origin of migrants, the relocation of visa categories, and the temporal alignment between policy interventions and net migration flows all support the growing centrality of the state in shaping mobility. Moreover, it underscores that migration patterns in post-Brexit United Kingdom are not determined by demand alone but by a combination of regulations, perceptions, and institutional trust.

Conclusion

Contemporary migration patterns in the United Kingdom reveal a state-driven transformation of mobility regimes, characterised by increasing selectivity, securitisation, and economic instrumentalism. Following the rupture of EU membership and the abolition of free movement, the UK repositioned itself within the global migration system not through isolation, but through recalibration thus favouring skilled migrants from outside Europe while simultaneously curtailing access for lower-paid and regionally mobile groups. This shift is not simply a reactive response to labour market demands; it reflects a deeper reconstitution of political authority over migration. In alignment with Political Migration theory, the UK government reasserted its control through legal and administrative instruments, redefining eligibility, purpose, and desirability within its borders. Theoretical perspectives such as the dual labour market and world-systems approaches remain essential for understanding how this

²⁵ GINER, J. – HALL, K. – BETTY, C. (2015): Back to Brit: Retired British Migrants returning from Spain, pp. 1-2.

selectivity is embedded in structural economic hierarchies and global core-periphery dynamics. Net migration trends, declining EU inflows, the expansion of non-EU skilled routes, and restrictions on dependants all point toward a governance model that prioritises fiscal utility over social cohesion. Yet this policy turn has generated unintended asymmetries—labour shortages in essential and undervalued sectors, disrupted care infrastructures, and weakened transnational support systems. The exclusion of migrant dependants and the erosion of institutional trust among EU citizens exemplify how legal reform can recalibrate not only movement but also belonging. These developments underscore the need for migration research to move beyond volume- or border-centric analyses and attend to the layered consequences of institutional transformation. Future inquiries should explore how migrants interpret and adapt to this evolving regime through strategies of mobility, resistance, or withdrawal. Additionally, the return migration of British nationals, often eclipsed in mainstream debates, merits greater scholarly attention given its demographic and symbolic significance in the post-Brexit landscape. Ultimately, the UK’s approach illustrates the shifting logics of twenty-first-century migration governance: neither open nor closed, but selectively porous, selectively productive, and persistently unequal. Whether such a model can reconcile political constraint with demographic necessity remains an open and urgent question.

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THE IRON SILK ROAD IN IRAN

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Abstract: The aim of this paper is to establish the position of Iran in the southern corridor of the Iron Silk Road, notably the projects constructed and operated in Iran under this initiative. After a brief look at the background of the Iron Silk Road, attention will shift to the role and expectations of Iran in this initiative. After that, the key projects of this initiative in Iran will be examined. The main conclusions are that the ISR in Iran is currently underdeveloped, with several projects stalled or delayed, and with a high reliance on co-opted projects rather than new ones tailored to the needs of Iran and its ISR partners. The principal methods used were the study and analysis of internet sources, mainly online portals of organizations and media pertaining to rail transport, Iranian and international politics and economic development.

Keywords: Belt and Road Initiative, China, Iran, Iron Silk Road, rail transport

JEL: F15, F63, R40

Introduction

Throughout history, Iran has been a focal point on the trade and transport routes connecting the eastern and western portions of Eurasia, as evidenced by its central location on the original Silk Road from antiquity to the late medieval era. Today, however, when China has resurrected the Silk Road under the name of the Belt and Road Initiative (BRI), Iran is not at the forefront of connectivity projects within this initiative.¹ This is despite the fact that Iran is one of the countries that stand to benefit the most from the goal of the BRI, i.e. increased connectivity throughout Eurasia, due to its position bordering several Eurasian regions, e.g. the Middle East, Central Asia, South Asia, the Caucasus, as well as its outlets on the Persian Gulf and Caspian Sea. The inadequate status of Iran relative to its potential is visible in one of the most tangible components of the BRI, the Iron Silk Road (ISR). The aim of this article is therefore to present the position of Iran in the Iron Silk Road, specifically in the southern corridor of this initiative. The principal methods used in the writing of this article were the study and analysis of online sources, mainly internet pages of relevant media focusing on the subject. Following an introductory overview of the ISR and the southern corridor itself, the paper will analyze the interest of Iran in being involved in this corridor and the broader initiatives of the ISR and BRI more generally. Attention will then focus on the specific projects being developed, or at least planned, on the territory of Iran. Among them is the only operational rail transport link which is designated as part of the BRI in Iran, that being the Istanbul–Tehran–Islamabad railroad. Other projects will also be discussed, such as the electrification of certain railroad segments in the country or the construction of high-speed railways. The conclusion summarizes the challenges for Iran in taking the maximum possible advantage the ISR has to offer to the country.

1 Overview of the Iron Silk Road

To determine Iran's position in the ISR, it is necessary to define the Iron Silk Road itself. The ISR is simply the term to describe the connectivity projects within the BRI related to the construction or reconstruction of railway infrastructure, such as railways, stations, land

¹ SHOKRI, U. – NAJJARI, U. (2023): China Leaves Iran Out Of Major Investment Projects.

ports, transloading facilities, intermodal hubs, etc. The ISR is divided into three corridors – northern, middle and southern. The northern corridor connects China to Europe through Russia, whether directly (through Manchuria and then using the Trans-Siberian Railroad) or through Mongolia or Kazakhstan.² This has long been the dominant corridor, due to the historically established railway connections and the relatively fewer borders that need to be crossed, thereby saving time. The middle corridor starts in Western China and continues through Kazakhstan to the port of Aktau on the Caspian Sea³ (with a branch going to the port of Turkmenbashi in Turkmenistan),⁴ where the trains are loaded onto ferries that cross to Alyat near Baku in Azerbaijan, and thence through Georgia and Turkey to Europe. This is the most dynamically growing corridor, for two main reasons. The first is due to the northern corridor falling into disfavor with freight companies and other international businesses after the Russian invasion of Ukraine and the resulting sanctions placed on Russia by Western countries which made it difficult or impolitic to do business in Russia.⁵ The second is the strong support, both financial and declarative, provided by Turkey to this middle corridor, which it wants to use to further its influence in the Caucasus and the Turkic countries of Central Asia.⁶ By contrast, the southern corridor of the ISR is the least developed, existing mostly on paper as a collection of plans than as a viable or profitable alternative to the other two. The corridor also starts in Western China, moving into either Kazakhstan or Kyrgyzstan before converging in Uzbekistan and continuing through Turkmenistan, Iran and Turkey, from where it enters the EU. The precise length cannot be determined due to the many alternative possible routes, starting and ending points, as well as the incomplete character of this corridor, but it averages at over 10 000 km. This would make it shorter than the dominant Northern corridor, with an estimated possibility of cutting down about 900 km on the distance and 8 days compared to the northern option.⁷ There are several reasons for the lack of development of this corridor compared to the northern and middle one, some of which are shared with the other corridors, others which are specific to the southern one.

One important obstacle is the fragmentation of the railway networks. This issue is shared with the middle corridor, though it is more pronounced in the southern one. These two corridors need to deal with a variety of separate railway regimes and border crossings, which can lead to significant delay and inefficiencies due to clogging of the routes as well as administrative red tape when crossing into another country.⁸ Another drawback of these two corridors is the orientation of the railway tracks in Central Asia, which generally run in a north-south direction as opposed to east-west which would benefit the ISR corridors. This is a legacy of the Imperial Russian and Soviet eras, when railways were oriented towards Moscow. Yet another issue common to all three corridors is the need to change gauge at the borders of the former Soviet Union, which used broad-gauge tracks compared to the standard gauge used in Europe, the Middle East and China. Finally, it must be kept in mind that Iran is under severe sanctions from Western countries. This decreases the attractiveness of Iran as a partner for foreign companies which may be penalized if they also want to continue doing business with those countries abiding by the sanctions. Chinese companies, have become more wary of investing in Iran as well, and that includes the state-owned enterprises responsible for infrastructure investment to create the BRI and the ISR specifically.⁹

² KENDERDINE, T. – BUCSKY, P. (2020): Rail Freight Use on China's Iron Silk Road Underdelivers

³ RAIL CARGO GROUP (2020): First Silk Road train from Turkey to China.

⁴ TAVSAN, S. (2017): 'Iron silk road' threatens to sidetrack Russia.

⁵ SEKHNIASHVILI, A. (2017): The Iron Silk Road's Centerpiece.

⁶ AAMIR, A. (2020): Turkey, Iran, Pakistan rail link to China's Belt and Road.

⁷ PUTZ, C. (2024): China-Kyrgyzstan-Uzbekistan Construction to Begin in October, Kyrgyz President Says.

⁸ Ibid.

⁹ SHOKRI, U. – NAJJARI, U. (2023): China Leaves Iran Out Of Major Investment Projects.

2 Iran in the ISR Southern Corridor

Iranian interest in the ISR has an internal and external dimension, which are interlinked in the country's attempt to develop in spite of the sanctions regime foisted on it by Western countries. Internally, the government of the Islamic republic has been planning and attempting to modernize its railways since the 1990s, but amidst the need for reconstruction after the Iran-Iraq War of 1980-1988 and perennial Western sanctions, it could never muster the necessary funds to carry out the project on its own. Reliance of foreign capital and know-how had limited potential due to the economic sanctions placed on Iran by Western countries. It was only when China emerged as an important player in the spheres of trade, investment in infrastructure, and economic development generally that Iran found a partner with both the necessary wealth to finance the various infrastructure projects and the political willingness to circumvent Western sanctions to accomplish the financing. This is connected to the external dimension of Iran's interest in the southern corridor ISR, namely, to circumvent the sanctions and boost trade with the countries involved in the ISR and BRI.¹⁰ This too has two sub-dimensions, a local one and a more distant one. On the local level, Improved railway connectivity with neighboring countries would enable a more vibrant cross-border trade, in which it is more difficult to enforce sanctions than is the case for more large-scale foreign trade further abroad – compounded by the fact that bilateral cross-border trade can be more easily conducted using national currencies instead of the US Dollar or other global currencies which can be monitored by Western banks and international financial institutions. On a more long-distance level, China and Russia have become the key partners of Iran in circumventing Western sanctions, and a more integrated and updated railway network in the country and in Central Asia generally would only help in developing these partnerships.

The geographical aspect of regional geopolitics must also be considered, i.e. the fact that transportation links between Iran and its main partners that traverse Central Asia are less vulnerable to hostile disruption than the otherwise dominant sea lanes of maritime trade and transport. Especially the chokepoint of the Strait of Hormuz between the Persian Gulf and the Arabian Sea of the Indian Ocean is vulnerable to being closed off, thus cutting the vital oil and natural gas export lanes that go through the strait and crippling the economies of the countries surrounding the Persian Gulf, whether it be Iran, Iraq or the Sunni monarchies on the southern coast of the gulf. But this consideration as a more practical economic aspect as well – cargo transported between Iran and China by rail, even from a city near the eastern coast of China like Yiwu, can make the journey in 14 days, compared to 45 days by maritime transport.¹¹ Furthermore, as unlikely as it may seem given the sanctions regime imposed on Iran, the country has ambitions to become a regional transportation hub and crossroads, not only from east to west along BRI but also from south to north in accordance with plans by India, Russia and Azerbaijan to develop their own connectivity network.¹² Modernizing the domestic railway network, even better with Chinese aid and investment, would only help Iran to edge closer to fulfilling this ambition.

3 The Istanbul–Tehran–Islamabad Railroad

As is frequently the case with BRI projects elsewhere, China often plays up the success of its initiatives by co-opting projects which are already in development or have been completed, not even necessarily by Chinese companies. This tendency is especially visible with railways in Iran, where about half a dozen projects have been formally agreed upon by private and state-owned companies of the two countries, which have however moved forward into the

¹⁰ AAMIR, A. (2020): Turkey, Iran, Pakistan rail link to China's Belt and Road.

¹¹ RAMACHANDRAN, S. (2016): Iran, China and the Silk Road Train.

¹² Ibid.

construction phase only in fits and starts, resulting in massive delays, or have not moved forward at all.

As a result, the only currently operational railway project in Iran which is declared to be part of the southern corridor of the ISR is a railway which was already completed in 2009, pre-dating the Chinese initiatives. This is the Istanbul–Tehran–Islamabad (ITI) railroad, connecting the three cities. The ITI railroad was built as a connectivity project of the Economic Cooperation Organization (ECO), originally including the three countries in which the namesake cities are located (i.e. Turkey, Iran, Pakistan), and later expanding to include the post-Soviet republics of Central Asia as well as Azerbaijan and Afghanistan. It was originally only a freight transport corridor, operating as the ITI Container Train Service. However, the railroad proved uneconomical, and freight transport ceased after only two years. It was Chinese interest in the region, and especially its railway infrastructure, as part of China's BRI ambitions that revitalized the ITI railroad. In 2020, the three countries and China agreed to relaunch the train service between the three cities as part of the BRI and thus the ISR¹³ – this time not only as a freight service, but also potentially as a passenger transport corridor. The first freight train of the renewed ITI railroad commenced its journey on December 21 2021,¹⁴ thereby making the southern corridor of the ISR a reality. The main benefit that attracted China to this old and formerly unsuccessful project was the time saved in the duration of the voyage – the trip from Istanbul through Tehran to Islamabad should take ten days under optimal conditions, compared to the 21 days needed to travel between Istanbul and Islamabad by sea. As for the length, the route between the three cities stretches for 6 540km, spanning over one sixth of the globe's circumference. Of this length, 2 600 km are located in northern Iran and another 1 950 in Turkey, both these stretches being relatively unproblematic in their construction parameters and operation. The issue limiting the development of the ITI railway to reach its full potential lies in the 1 990 km located in Pakistan's Baluchistan province, where the railway tracks have not been renovated in over a century. Yet it is precisely Pakistan's position in the Asian rail networks that led China to resurrect The ITI railroad – Chinese ambitions are to connect the this rail corridor to the Main Line 1 (ML-1) railway, which Chinese companies have been building in Pakistan from its main port in Karachi to Peshawar, and potentially to the Pakistani border with China's Xinjiang Uyghur Autonomous Region. When (or if) completed, this project would link two corridors of the BRI: the China–Central Asia–West Asia Economic Corridor (which copies the ISR southern corridor) and the China–Pakistan Economic Corridor (CPEC).¹⁵ This would bring a large boost to the southern corridor of the ISR, since the CPEC is one of the most developed and most strategically important corridors of the BRI. Yet Beijing and Islamabad are increasingly at odds concerning further investment in Pakistan, with China reluctant to keep financing such megaprojects and handing out favorable loans to projects with dubious return on investment, and Pakistan wary of becoming too reliant on Chinese funds and becoming too heavily indebted to China. This leaves Iran in a precarious position – the success of the ambitions for the ITI as the main trunk of the southern corridor of the ISR lies in the willingness and ability of Pakistan to sort out its internal problems, while the Pakistani government is free to prioritize other projects in the CPEC over the ITI railroad. At the same time, Iran's other ITI partner, Turkey, is more interested in developing the Middle corridor and thereby extending its influence in the Caucasus and the Turkic-speaking countries of Central Asia.¹⁶ Iran is therefore the weakest partner in the ITI project.

There are other potential problems for the ITI railway as well, most notably profitability – since the project has already failed once, there is no guarantee that it will be attractive and

¹³ AAMIR, A. (2020): Turkey, Iran, Pakistan rail link to China's Belt and Road.

¹⁴ CRADLE NEWS DESK (2021): Islamabad-Tehran-Istanbul railway project relaunches after decade long hiatus.

¹⁵ AAMIR, A. (2020): Turkey, Iran, Pakistan rail link to China's Belt and Road.

¹⁶ AAMIR, A. (2020): Turkey, Iran, Pakistan rail link to China's Belt and Road.

profitable this time around, even with the additional boost of Chinese commerce, especially due to the competition from the other two ISR corridors as well as maritime transport, all of which vie for Chinese attention, finance and commerce within the BRI framework. To this must be added Iran's status as a heavily sanctioned country, somewhat isolated from regional trade networks. Another challenge is the volatility of the Baluchistan region split between Iran and Pakistan, and plagued by Baluchi insurgencies in both countries.

4 Other Iron Silk Road Projects in Iran

Of the other ISR projects that China has been eyeing in Iran to further develop the southern corridor and make it a viable alternative to the other two, all but one have either stalled or remain merely on paper. The one that has received the largest amount of attention, and can be considered the flagship railroad project that China has intended to pursue in Iran, is the electrification of the Tehran–Mashhad Railway. This rail corridor is located in the Northeast of the country, between the capital city and the regional metropolis of Mashhad, the second largest city in Iran, near the border with Turkmenistan. As such, it is poised to become an important node in any potential rail connection between the Central Asian countries and the Middle East.¹⁷ Even outside of these grand plans, it is a major rail corridor connecting the two largest cities in the country over a distance of 926 km, as one of the few double-track railroads in Iran, and by far the longest. As a consequence of the electrification, the speed of trains journeying along the railroad should increase from 160 km/h to 200 km/h.¹⁸ But once again, to fulfill its potential in Iranian domestic as well as regional infrastructure plans, it needs to be renovated for modern needs. However, Iran itself could never provide the necessary funding, while foreign partners had little interest in subjecting themselves to the opprobrium of Western nations by cooperation with a sanctioned country. This impediment was briefly lifted after the Joint Comprehensive Plan of Action (JCPOA) regulating Iran's nuclear activities was agreed upon by Iran and the P5+1 countries (the five permanent members of the United Nations Security Council and Germany) in 2015. The lifting of sanctions resulted in the Italian company Geodata winning a contract to electrify the railroad.¹⁹ This prospective solution came to naught after the new US administration of president Donald Trump abandoned the JCPOA and re-imposed sanctions on Iran, which led to the withdrawal of the Italian company. Following that, a Chinese company, the China National Machinery Import and Export Corporation (CMC), stepped in to take the place of the Italians.²⁰ However, the Chinese also withdrew in 2021 due to the economic considerations of working in Iran. The project remained stalled until 2024, when talks between Iran and China once again commenced on the conditions of the possible involvement of Chinese investors, but the talks had apparently fallen through by April 2025.²¹

Another facet of Iranian railway development that China is interested in for its potential contribution to the southern corridor of the ISR is the construction of high-speed railroads. Of these, the most relevant for Chinese BRI ambitions and for broader regional connectivity is the Tehran–Qom–Isfahan high-speed railway. This 410 km long rail corridor, intended for passenger transport, connects the capital (and its main air transport gateway, the Imam Khomeini Airport) with the nearby holy city of Qom and the city of Isfahan in central Iran.²² A further rail expansion to the southern Iranian city of Shiraz is envisaged,²³ from where it can be

¹⁷ MAPNA GROUP (s. a.): Tehran-Mashhad Railway Electrification Project.

¹⁸ MEHR NEWS AGENCY (2021): China quits Tehran-Mashhad railway electrification project.

¹⁹ ITRANSPORTE (2017): First High-Speed Line between Tehran and Mashhad.

²⁰ JALILI, S. (2017): Iran, China Team Up on New Silk Road Project.

²¹ TOTALLMANAGER (2025): Electrification of railway line crucial for Khorasan Razavi Province.

²² RAI (2016): Tehran – Esfahan line should be TSI-compliant, RAI tells Chinese contractors.

²³ DEHKORDI, A. E. (2023): The implementation of the Tehran-Qom-Isfahan high-speed train project will bring its technical knowledge into the country.

connected to the ports on the Persian Gulf coast. At the same time, it would connect to the ITI railway and the Tehran-Mashhad railway through Tehran.²⁴ The train speed along this railroad is expected to reach 300 km/h (up from the original plan of 250 km/h).²⁵ The construction itself is being carried out by a Chinese–Iranian consortium of companies led by the Chinese state-owned company China Railway Engineering Corporation (CREC),²⁶ the second largest infrastructure contractor in the world.²⁷ While Iranian plans for this railway project go back to 1990, construction only started in 2015, after China got involved within the framework of the BRI. The finalization of construction was originally slated for 2021, but due to delays, the railway is now expected to be finished by the end of 2025.²⁸ As such, this has so far been the only railroad project within the southern corridor of the ISR that China has constructed in Iran that has not only commenced, but is also nearing completion and should be operational in the near future.

A smaller-scale high-speed railroad project is the Arak-Qom high-speed railway, connecting these two cities, 135 km apart.²⁹ This double-track passenger service project will push the extent of Iran's modernized railroads west, nearer to the border with Iraq, with the possibility of using extant rail networks to cross into Iraq or once again go south to the Iranian ports on the Persian Gulf. As with the electrification of the Tehran–Mashhad Railway, construction of this high-speed railway was originally supposed to be carried out by an Iranian-Italian consortium based on an agreement signed in mid-2017,³⁰ but after the new US sanctions took effect, the Italian partner, the state railway company Ferrovie dello Stato, had to withdraw from the project. Once again, a group of Chinese investors stepped in to take over the Italians' role in the consortium in 2020,³¹ making this yet another example of a project that was co-opted by China to suit its needs in the ISR southern corridor, the broader BRI and its strategic economic cooperation with Iran.

Conclusion

The Iron Silk Road as it is being developed in Iran suffers from all the drawbacks of the southern corridor of the ISR generally, with the additional problems posed by Iran's position as a country heavily sanctioned by the Western countries. This status as a global economic pariah of sorts deters many foreign companies (even Chinese ones) from entering into partnerships with Iran to help develop its infrastructure or from transporting goods through Iranian territory, as seen with the entry and exit of various foreign partners within the projects aiming to electrify railway segments or construct high-speed railroads. Apart from the specific problems caused by Iran's own political and economic situation, however, there are also general problems with the southern ISR corridor. Among them is the poor state of railway infrastructure in Central Asia, combined with a north-south orientation towards Moscow rather than an east-west orientation suitable for China's BRI needs, all of which necessitates extensive reconstruction and modernization of the region's railway networks. Added to this is the incompatibility of Iran's standard-gauge railway tracks with the soviet broad-gauge tracks used in the Central Asian countries; however, this is a problem shared by all the ISR corridors, though it does not make things any easier for the southern corridor. Another issue, due to the

²⁴ TASNIM ISFAHAN NEWS AND PROVINCIAL NEWS (2023): Proposal to integrate the Isfahan-Tehran-Mashhad high-speed train.

²⁵ RAI (2016): Tehran – Esfahan line should be TSI-compliant, RAI tells Chinese contractors.

²⁶ Ibid.

²⁷ LEUTERT, W. (2024): *China's State-Owned Enterprises*, p. 115.

²⁸ IRNA Reporter ID 936 (2022): The high-speed train "Tehran, Qom, Isfahan" will be put into operation by the end of the 13th government.

²⁹ ROGERS, D. (2017): Italy agrees €1.2bn deal to build Iranian railway.

³⁰ FINANCIAL TRIBUNE (2017): Iran, Italy Sign High-Speed Rail Deal.

³¹ IRAN DAILY (s. a.): Chinese firms to build Qom-Arak railway line.

number of countries involved, is the plethora of railway regimes the corridor must traverse, which make coordination difficult. All this means that the ISR projects in Iran have been poorly developed since the BRI was proclaimed, with many projects remaining on paper, and any progress being slow and subject to numerous delays or lengthy periods of stagnation depending on the political climate between Iran, its regional partners and the global powers. The result is that the southern corridor of the ISR depends to a greater extent than other ISR or BRI corridors on co-opted projects, inherited from rather than new “green-field” ones designed and constructed from scratch based on Iran’s and the broader region’s current needs or China’s ambitions. Furthermore, Iran remains in a precarious position within the southern corridor, as its regional partners have their own priorities when it comes to cooperation in infrastructure construction and development with China, with many of these priorities being more promising to the involved parties than the southern ISR corridor – whether it be the Middle Corridor for Turkey and the Turkic Central Asian countries, the Northern corridor for Kazakhstan and Russia, or the China–Pakistan Economic Corridor for Pakistan. It is up for debate to what extent these issues are solvable by Iran, especially without a massive shift in its foreign relations. But in any case, many of the problems are outside of Iran’s influence, and these will necessitate intensive coordination between Iran, China and the other regional partners to solve and thereby to make the southern corridor of the ISR a more viable alternative within the ISR as a whole and the BRI itself.

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ASSESSING THE BENEFITS OF SHORTENING THE SETTLEMENT CYCLE OF SECURITIES IN EUROPEAN UNION FROM T+2 TO T+1 REGIME

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Abstract: European Commission is proposing a transition towards T+1 settlement cycle of securities. Although the proposition of T+1 was already accepted and implemented in other countries, it is important to evaluate the potential impact within the European Union itself, and challenges that may arise with such transition. Some empirical data from external actors suggest that the impact is very limited and hence it should not pose any risk and could be mostly beneficial. However, some stakeholders expressed their concerns with regard to the transition that would force them to proceed with clearing and settlement within one business day, which could increase the operational costs. This paper evaluates both points of view taking into account the empirical evidence already available and concludes whether the transformation could bring some temporary or long-term market disruption or strong positive implications.

Keywords: stock market, securities, European union, T+1, clearing, capital market union
JEL: H54, G15, G54

Introduction

In February 2025 the European Commission proposed to amend the Regulation (EU) No 909/2014 [*of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories*], changing the maximum amount of business days for securities settlement cycle. This decision was likely, and partially, taken as a response to global trends, taking into consideration that the same transition was carried out in USA, Canada, Mexico, China, India and is considered to be implemented in Switzerland and UK. Additionally, this amendment comes also based on the recommendation from ESMA (*European Securities and Market Authority*) report (*Assessment of the shortening of the settlement cycle in the European Union*) of November 2024. In this report ESMA evaluated the possibility of implementing T+1 for EU market as well, and provided a guide for European Commission, with definition of potential challenges and benefits and explanation why such transition may be necessary.

Using ESMA introductory notes - which simply define *the settlement cycle* as “*the time between the execution of a transaction and its settlement*”, while here we speak specifically of securities transaction on capital markets (e.g. stocks, or stocks as part of ETF) - it is true that this legislative is timely and important, when looking deeper into the structures within the process of such complex transactions. Hence here, we would be in agreement that it is crucial, when dealing with securities and investments in this scale, that thorough supervision and regulation is required, which in fact, for the most part, has been applied in European Union. A *report on clearance and settlement* recommended to standardize settlement periods throughout international markets in 1989, while at that time already suggesting, that the ultimate goal should be “same day settlement” also referred to as T+0. First regulation to harmonize the

legislative within securities settlement time was Central Securities Depositories Regulation¹ (CSDR) in 2014. “At that time, CSDR introduced for the first time in the EU a requirement for all transactions in transferable securities which are executed on trading venues to be settled by no later than the second business day after the trading takes place which is now commonly referred to as a “T+2” settlement cycle.”²

Therefore, the overall change that can be anticipated is more likely to be visible only within the operational institutions and not so much for retail investors on a daily basis. Nevertheless, the proposed change to already existing operation processes (T+2), is expected to provide some, and mostly, security benefits on capital markets which can lead to other positive trends in long term runs. However, the evaluation of overall risks seemed to be limited and was not referring to much empirical evidence that could be observed within countries that already undertook this transition.

Methodology

This paper analyses the transition of settlement cycle from T+2 format to T+1 format, which defines the time, that clearing companies along with depositories have, to settle the transaction of securities on capital markets. It aims to define the key features, mechanisms and actors within them, as well as potential challenges or benefits of such transition. In order to provide this outcome, several documents published either by European Union institutions or external institutions/media involved within problematics, are synthesized. Corner stone of this analysis is a publication (i.e. report) by the European Securities and Market Authority (ESMA) - *Assessment of the shortening of the settlement cycle in the European Union*, which was preceded by primary research in a form of survey and interviews with stakeholders (i.e. Feedback statement) - *Call for evidence on shortening the settlement cycle*. This report along with feedback provides real life interviews with stakeholders, as well as rational evaluation of potential challenges and benefits after the amendment and implementation of T+1 to Central Securities Depositories Regulation (CSDR). It is then compared with some (although very limited) empirical evidence from United States, which underwent this transition in May 2024 and China. The process of amendment is then analyzed, changes within CSDR (regulation) are defined as to understand the scale, based on the Regulation itself, Amendment proposal from European Commission, and European Parliament Committee on Economic and Monetary Affairs (ECON) report proposal.

1 Hypothesis of Precursor for Faster Settlement Cycle Proposal

At the beginning, before digital era, securities transactions were held in physical form. Naturally, this type of clearing and handling took much longer, than what current technologies can offer. To settle the securities transaction in “paper era” would take significantly more effort and time. The settlement itself would usually take more than 5 days, sometimes even weeks, while regulation was limited compared to today standards. A first better standardisation occurred in 1970s, when most jurisdiction accepted the T+5 regime, requiring the clearing houses and central depositories to settle the securities transaction within 5 business days.³ The move towards shorter settlement cycle was also triggered by several crisis in the period preceding the adaptation, such as the “Paperwork crisis” on Wall Street, during which “*back offices could not keep up with the flow of customers’ orders and the industry was brought to a*

¹ REGULATION: (EU) No 909/2014 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012.

² ESMA (2024): ESMA assessment of the shortening of the settlement cycle in the European Union.

³ CCP GLOBAL (2025): Primer on the Global Shortening of the Settlement Cycle.

virtual standstill until the log jam was broken by the introduction of new methodology and more sophisticated electronic data processing equipment.”⁴ With ongoing advancement of technology and effectivity of settlement itself, countries shifted towards the T+3 cycle by the early 1990s⁵ and then a further reduction to T+2 in 2017 (while the process of transition began in 2012 in US and 2014 in Europe⁶). As the digital era fully replaced the paper era and settlement approached near-perfect efficiency, it was expected that the cycle would be further reduced.

Although T+2 was considered quite effective and rather sufficient for the time being and technological possibilities, some events lead to faster reconsideration and move towards adaptation of faster settlement cycle. Among those, repeatedly mentioned and put into correlation with T+1 transition by several sources, would be the GameStop market episode in 2021, which was defined by huge market volatility, insecurity, high risk period and margin calls. Specifically, the risk occurred between the time of execution of trade and transaction of security and its clearing. Under normal circumstances, the clearing company and depository can comfortably process requests, as the trust between institutions is high and the trade itself is in fact agreed upon beforehand. However, during the period of this significant price volatility and trading volume, some retail brokers (mainly Robinhood) experienced a significant margin calls, meaning they had to secure a significant amount of money for clearing house, as a provision guaranteeing the performance of trades.^{7,8,9,10} Additionally, the assumption that GameStop saga has driven the faster adaptation, was partially confirmed by the Chair of SEC in his statement; *“For everyday investors who sell their stock on a Monday, shortening the settlement cycle will allow them to get their money on Tuesday. Shortening the settlement cycle also will help the markets because time is money and time is risk. It will make our market plumbing more resilient, timely, and orderly. Further, it addresses one of the four areas the staff recommended the Commission address in response to the GameStop stock events of 2021.”*¹¹

This event further puts a spotlight to a fragility of some aspects of financial systems, where at first, a rather insignificant group of retail investors within one specific event contributed (if not driven) the reconsideration and amendment of certain regulation.

Looking forwards, even with T+1 there is still a visible space for improvement of settlement cycle and risk reduction. The perception of imaginary finish line is considered to be T+0, which would mean that almost all settlements of securities would be carried out within the same business day of request. Notably however, the current regulation (transition towards T+1) did not aim, as some challenges are still present with such short time frame for full security settlement, as defined in further text within this paper.

Seemingly, this chapter deviated from key focus on EU adaptation, however, described events that took place in US had, as proven within this paper, a direct impact on adaptation of T+1 within EU as well.

⁴ NEW YORK TIMES (1977): Changes Come to Wall Street.

⁵ CCP GLOBAL (2025): Primer on the Global Shortening of the Settlement Cycle.

⁶ INVESTMENT COMPANY INSTITUTE: Shortened Settlement Cycle Resource Center.

⁷ WADDELL, M. (2021): T+1 Inches Closer After Robinhood GameStop Frenzy.

⁸ FINANCIAL MARKETS ASSOCIATION (2024): Could T+1 Have Changed the Game for Gamestop?

⁹ FREYDEFONT, G. (2024): T+1 in Europe is GameStop’s butterfly effect.

¹⁰ THE TRADE (2024): GameStop Saga one year on: a stark difference between the US and European financial market infrastructures but...

¹¹ U.S. SECURITIES AND EXCHANGE COMMISSION (2024): SEC Chair Gensler Statement on Upcoming Implementation of T+1 Settlement Cycle.

2 Current Regulation and New Amendment

As already mentioned, the key moment within the process of this amendment and adaptation within the EU was the proposal of EU Commission to change the EP Regulation (EU) No 909/2014 (on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012) also known as CSDR (Central Securities Depositories Regulation).

Within this amendment, the proposed change does not alter the CSDR in any way, other than change of single paragraph, and within it a single word, that directly defines the period during which the securities transactions need to be settled.¹² The amendment occurs as followed;

Current wording of CSDR - Article 5, paragraph 2

“As regards transactions in transferable securities referred to in paragraph 1 which are executed on trading venues, the intended settlement date shall be no later than on the second business day after the trading takes place. That requirement shall not apply to transactions which are negotiated privately but executed on a trading venue, to transactions which are executed bilaterally but reported to a trading venue or to the first transaction where the transferable securities concerned are subject to initial recording in book-entry form pursuant to Article 3(2).”

Proposition of EU Commission for amendment - Article 5, Paragraph 2

“As regards transactions in transferable securities referred to in paragraph 1 which are executed on trading venues, the intended settlement date shall be no later than on the first business day after the trading takes place. That requirement shall not apply to transactions which are negotiated privately but executed on a trading venue, to transactions which are executed bilaterally but reported to a trading venue or to the first transaction where the transferable securities concerned are subject to initial recording in book-entry form pursuant to Article 3(2).”

Eventually, if the European Parliament together with Council were to agree with the Commission proposition, T+1 should fully apply from is 11th October 2027. By that, it aims to provide at least 2 years transitional time for the parties involved to carry out the transition and secure the necessary equipment or staff in order for them to be able to operate under T+1 regime effectively and securely.

The European Parliament ECON committee initial report suggested adaptation of its position at first reading, taking over the Commission proposal; however, several amendments were tabled and later agreed upon within committee vote.¹³

3 Expected Benefits and Risks

Commission argued for the necessity of acceptance of T+1 by defining, that (in 2025) “each day, more than 4 trillion EUR of securities were settled in EU central securities depositories (CSDs)”. Meaning that the longer settlement takes;

- a) the longer the risks faced by buyers and sellers last

¹² EUROPEAN COMMISSION (2025): Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Regulation (EU) No 909/2014 as regards a shorter settlement cycle in the Union.

¹³ EUROPEAN PARLIAMENT (2025): REPORT on the proposal for a regulation of the European Parliament and of the Council amending Regulation (EU) No 909/2014 as regards a shorter settlement cycle in the Union.

- b) the longer investors have to wait to receive the money or the securities they are owed – if the settlement doesn't fail
- c) the more, that opportunities to enter in other transactions are reduced.

“Hence, fast, efficient and reliable settlement is therefore an essential pre-condition for developing the Savings and Investments Union (SIU)”.¹⁴

On the other hand, the European Securities and Markets Authority (ESMA), which conducted the main research with regard to transition, while questioning stakeholders and evaluation overall impact, came to several conclusions, which defined some risks and benefits.

Firstly, by definition, it was clear that shortening the settlement cycle to T+1 will result in a significant reduction of the time that positions on cleared securities transactions remain open at CCP. This directly reduces the exposure to risk for CCP guarantee while additionally - and in certain ways more importantly with regard to the desire for increase of investments within EU - free up a significant chunk of capital.

A very important aspect, that has also primarily driven the call for shortened settlement cycle is, that T+1 will allow EU capital markets to keep up with the evolution of other markets (mainly the ones in North America and Asia) that already adapted T+1. This transition will decrease or fully remove the costs linked to the misalignment of settlement cycles, where one market uses T+2 and other T+1. This misalignment is particularly significant for ETFs, especially those consisting solely of US securities processed under a T+1 cycle. Currently, under EU jurisdiction, CCP (Central Counterparty Clearing House) has up to two days to settle the ETF transaction. As a result, an EU investor buying US securities through ETF must pay for these securities on T+1, but actually receives the ETF shares only on T+2. This one-day lag creates a mismatch and effectively ties up the investor's funds longer than necessary. This happening will be prevented when both markets align on T+1.

Overall, ESMA evaluation strongly suggests that the impact of transition to T+1 will have a major positive impact in terms of risk reduction, margin savings and the reduction of costs (deriving from misalignment with other major jurisdictions globally). This will also add to the desired boost of competitiveness of EU capital markets as defined in Draghi, Letta and Noyer reports.

Secondly, although in limited amounts, risks were also addressed and defined within this transition. One that comes to mind among first would be that shorter settlement cycle by rather significant amount is going to put much more demand on CCPs and CSDs that are clearing and settling the transaction, meaning that they will either require more staff, more efficient technology or would have to reduce the expected capabilities at given moment. With this regard, from a short-term perspective, T+1 could potentially lead to a deterioration of settlement efficiency, which could increase the situation where CCPs or CSDs fail to secure successful settlement. In that case, they can be subjected to fine for being unable to fulfil their obligation. To reduce the immediate stress on CCPs and CSDs, ESMA proposed, that the European Commission could within transition include the possibility for a *“time-limited suspension of the application of cash penalties”*, or *“an alternative mechanism to alleviate the potential increase of the overall level of cash penalties in the context of the shift to T+1”*.

Another risk that could be anticipated, as already suggested, is the initial increase of operational costs for CCPs. This would come from the necessity of increasing the staff members, working hours, or investments into technologies, that would allow for a faster (and safer) settlement of securities transaction within T+1.

¹⁴ EUROPEAN PARLIAMENT (2025): Securities settlement in the EU and central securities depositories (CSDs): shorter settlement cycle in the Union, *Summary*.

Within the questionnaire held by ESMA, several respondents have highlighted that a move to T+1 could also negatively impact retail investors. This was explained, by the expected costs increase as defined in the second point, that would spill over to end investor in the form of the higher transaction costs and higher cost of ETF investing. Others have identified “*very limited or no benefits for retail investors*”.^{15,16}

In conclusion, ESMA and Commission came to an agreement, having considered the impact as well as the costs and the benefits of the move to T+1, that there are net benefits in shortening the settlement cycle to T+1 in the EU. It is expected that most of the costs would manifest in the short term, and are related to the investments needed to modernize, standardize and digitalize various steps in the settlement process. With regard to that, the Commission proposed that the EU move to a shorter settlement cycle requiring the settlement of transactions to take place at the latest on the first business day after the trading takes place.

Here, it is also important to note two things; regulation of T+1 (or T+2) have not and will not prevent CSDs that are already technologically capable of doing so, to voluntarily settle transactions on the same date as the trade date, meaning to apply hypothetical rule of T+0 on themselves voluntarily with certain transactions. Additionally, although it is CSDs which are formally responsible to comply with the T+2 rule, its usually CCPs, which actually take the burden of fast transaction clearing.

4 Explanation of Mechanism of Involvement

Simplified version of mechanism structure is provided in order to better understand the whole concept of involvement of participants within the whole process of transaction, including buying, selling, clearing and settling of securities.

The composition of main actors within this process and general chronology is as follows; Buyer buys securities from Seller indirectly via Broker, which uses the services of Central Counterparty Clearing House (CCP) to clear the transaction and later Central Security Depository (CSD) to settle the transaction after its cleared.

In a broader spectrum, Brokers, taking care of selling and buying stocks, and other instruments do not hold the actual securities themselves or in their own depository - instead they are held in CSDs. Brokers are buying them in the name of client, but in order for this trade to be as secure as possible for investors, brokers and other implemented parties, specifically CCPs (Central Counterparty Clearing House), step in and figure as some kind of “guarantee”, making sure that the promised transaction by broker (which on the first look seems to be immediate for retail investor) is indeed carried out fairly and safely. Using an example, - when investor puts request to buy stock of a publicly traded company, broker executes purchase immediately and promises investor the ownership, which is immediate, although the real ownership of stock did not take effect, until its “physically i.e. digitally” transferred to the Broker’s (at which the securities were purchased) CSD account. For that to happen, Broker (and CSD) needs CCP to clear the transaction, meaning that they have to make sure both sides are able to provide what was agreed upon. In case that one side fails to meet its obligations, CCP provides guarantee, can use the margin (collateral) collected from participants to cover and ensure trade clears, and settles. After clearing, it is on CSD to settle the trade and notify Broker of completion of transaction and ownership of stock change. CCP (together with CSD) at the moment, has 2 business days to finalise this transaction (securities transfer between buyer and seller). This can be risky in certain situations, e.g. if the market is too volatile and the price of stock changes rapidly, which puts CCP at risk of Broker defaulting, where CCP would have to

¹⁵ ESMA (2024): Call for evidence on shortening the settlement cycle, Feedback statement, ESMA74-2119945925-1959.

¹⁶ ESMA (2024): ESMA assessment of the shortening of the settlement cycle in the European Union, Report, ESMA74-2119945925-1969.

step in, and cover the potential damage (via collateral [margin from Broker], or in worst case using its own funds). *The idea is that this should be reduced from 2 days to 1 day in order to make it more risk-proof and effective - making it T+1.*

5 Empirical Evidence

Although data defining a strong evaluation after the already implemented T+1 in other regions is very limited, some documents provide a brief overview and overall short-term impact of transition from T+2 to T+1.

The Securities Industry and Financial Markets Association (SIFMA) conducted an After-Action Report 4 months after the implementation, in order to better observe the initial impact of transition. It found, that *“in a T+1 environment, the NSCC Clearing Fund decreased on average by US\$3.0 Billion (23%) from the prior three-month average value of US\$12.8 Billion in a T+2 environment to US\$9.8 Billion”*. Additionally, *“The NSCC Clearing Fund decreased on average by US\$2.4 Billion (20%) from the prior month average value of \$12.2 Billion in a T+2 environment to US\$9.8 Billion post T+1 implementation”*. Now, this clearly demonstrates that the expected release of resources, which were previously held as “part” of the Clearing Fund to serve as a risk-mitigating buffer against potential counterparty defaults during the settlement window, was realized, effectively freeing up a substantial amount of capital. Hence, we can expect similar outcome within the European market after the transition takes effect in 2027, supporting the goals of SIU.

When looking at another of concerns - the late settlement a “barely in time” settled trades - *“DTCC metrics continued to show low fail and high same-day affirmation rates. Since implementation, the industry continues to affirm nearly 95% of transactions by the 9:00 p.m. ET cutoff on trade date set by The Depository Trust Company (DTC)..”* This means that the transition towards T+1 effectively delivered significantly higher affirmation rates than those seen in a T+2 environment. It is important to note here that the affirmation itself does not mean that the securities were settled, instead it confirms the reception of request, its processing and readiness for settlement, that is planned (in this case) for following business day, staying in line with T+1 conditions. It is then very important that 95% of all transactions were affirmed within T+0 and proved that the technological and personnel capabilities of US CCPs were mostly ready for transition.

Lastly, and probably the most importantly, the statistics pointing out to failure rate were also positive - *“On the first day following transition to T+1, Continuous Net Settlement (CNS) fail rates decreased to 1.9% and remain low at around 2%. The average CNS Fail Rate for July 2024(with T+1) was 2.12%, which was consistent with T+2 settlement rates average. The average non-CNS Fail Rate for July 2024 was 3.31%, which again, was consistent with T+2 settlement averages.”* This clearly points out, that the failure rate did not increase but instead, remained the same. Additionally, it can suggest, that CCPs were, for the most part, working on the T+1 regime even before the implementation itself.¹⁷

Moreover, TheValueExchange research published an additional evaluation of T+1 after implementation, that provided some feedback directly for affected parties. While most of the feedback correlated with positive findings of SIFMA, which do not have to be repeated, there were some negative indicators, which were pointed out by SimCorp analysis as well.

- a) *One of the occurrences mentioned, was the drop in trading volumes on Thursdays that could be attributed to the increased weekend funding costs of trades, tying up capital until Monday.*
- b) *The initial misalignment with Europe’s longer settlement cycles further complicated cross-border trades, making firms cautious about trading late in the week due to*

¹⁷ SIFMA (2024): T+1 After Action Report.

potential settlement delays and higher weekend-related costs. The transformation to T+1 within EU is then welcomed by US as well.

- c) To accommodate the shorter cycle, firms had to streamline processes, particularly around automation and exception handling, to ensure timely settlements. Despite these efforts, many firms still report an increase in off-hours staffing, indicating reliance on manual interventions to handle the transition in the short term, rather than relying solely on automation.*
- d) While technology investments are expected to yield long-term savings, many firms have faced short-term cost increases largely due to additional staffing needs, particularly for off-hours work, and higher liquidity demands to meet settlement deadlines.¹⁸¹⁹*

Results and Discussion

Firstly, it's important to note, that the amendment itself was not yet accepted at the time of conducting this study however, based on information provided and results from surveys made by ESMA as well as their recommendation and final proposition from EU Commission, it is very likely that this amendment to the Regulation (EU) No 909/2014 will be implemented within 2025, while entering into force from 11 October 2027. No matter the final outcome, this paper provided the overall evaluation of such adaptation based on some, although limited, empirical evidence from jurisdiction, that already went ahead and shortened the settlement cycle to T+1.

Some suggestions, even within the ESMA publications, that discussed the possibility of T+0, seem to be, at this stage, too ambitious. On the other hand, it also is not implemented or forced in any way within the proposition of amendment by EU Commission. However, just like with T+1 that came after the market input proved its necessity, implementation of T+0 can be expected within the time span of 6-8 years. Additionally, CCPs do still have the availability to apply T+0 regime, either partially or fully to some instruments, as it is done by their own decision and capabilities. However, after accepting the Regulation amendment, they will no longer have the option to go with T+2 settlement cycle and will have to clear transaction of securities within T+1. Really, the important thing here is, the question; to what extent will the clearing companies be affected. Indeed, the only change proposed by the amendment, changes one word in the Regulation from “two” to “one”. Benefits for the EU itself are rather limited from short term perspective, while it's harder, at this moment, to predict true long-term effects from some benefits that transition may bring, as pointed out.

As the European stock market and clearing of transactions have been functioning without any significant hassle even to this day (under T+2 regime), this change is driven rather by the implementation of T+1 in the US, which partially could have deviated from the high volatility GameStop saga and margin calls. But, if not looking solely at the market mechanisms, the empirical evidence proved indeed, that the capital required for guarantees decreased rather significantly, freeing up for other activities. This could be a very positive implication for the proposed Savings and Investments Union (SIU), that is so desired by the European Union. It will also decrease the risk that clearing houses are presented to slightly, which T+2 presents, although it's unlikely that there were any significant issues within T+2 in EU before, hence this could be mostly considered as precautionary measurement from this point of view. The implementation of T+1 will be beneficial, that is mostly clear, however it doesn't come without challenges, although of smaller nature. It will put more stress on clearing companies (especially smaller ones), as proven from survey data, and their capabilities, which was also pointed out by ESMA and the ValueExchange survey, since they will no longer have two days to clear transactions, but only one, meaning they might need to either increase investments into

¹⁸ SIMCORP (2024): What global markets can learn from North America's experience.

¹⁹ THEVALUEEXCHANGE (2024): T+1 Pulse survey (Sep 2024).

technology processing, or increase the amount of employees. The risk posed to large CCPs is with this sense much smaller.

To retail investors, this change is rather insignificant and barely observable, although it does have a positive implication for their security on capital market. The change may be more observable for large investors that are participating in capital markets buying hundreds or thousands of securities for a substantial amount of money.

Additionally, the expectance of error rate going up due to shorter time to settle the transactions was also disproved by empirical evidence from US where the error rate remained at same level as with T+2, even after implementation of T+1. Still, if the CCPs in EU are not going to use the expected two-year transitional period, to effectively prepare enough for shortened settlement cycle to T+1, they might be keen to increased errors which can eventually lead to additional fines and hence additional costs. After review however, we can expect that there won't be such an issue.

The conclusion would then be, that the proposition to move towards T+1 appears to be correct and beneficial for EU and global market and will increase the security of capital markets as well as decrease the capital that's being held up, freeing it for other use. It can present some challenges, specifically towards the smaller CCPs. The analysis and comparison of expected outcomes and empirical evidence prove that the positive implications and benefits are higher, in comparison to some challenges that may occur. Hence, to swiftly proceed with the implementation should be desired, while giving the parties involved enough time to adapt to such change.

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PORTRAYAL OF RUSSIAN PRESIDENT VLADIMIR PUTIN IN ALTERNATIVE MEDIA IN THE CONTEXT OF THE WAR IN UKRAINE¹

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Abstract: Exploring the impact of alternative media on public opinion is currently a challenge not only for the academic community, but also for policymakers and the general public. The paper focuses on identifying the lexis used by alternative media in reporting on the war in Ukraine and analyzes the Infovojna corpus. The first part of the paper introduces the theoretical level of the concept of alternative media. The second part of the paper analyses the lexis used by the Infovojna media in reporting on the person of Vladimir Putin as the Russian president.

Keywords: alternative media, Vladimir Putin, war, Ukraine

JEL: L82

Introduction

Today, experts are exploring the rise of alternative media influence not only in Europe but also in other parts of the world. Their influence on the reader is constantly growing, and this is reflected in the results of elections not only in Europe. Slovakia is no exception, and it is precisely among the major countries of Central Europe that Slovaks are the most prone to believe alternative media,² which in most cases feed their readers with various conspiracy theories, or an anti-Western line of thought is strongly present.

According to Bentley, if people do not trust journalists, or if journalists are less trusted than politicians, then the role of the media in a democratic state is severely limited.³ According to a Reuters poll, only 27 percent of people in Slovakia trust traditional media.⁴ We can assume that this information confirms the significant problem of the growing influence of alternative media that currently exists in Slovakia. For this reason, we decided to investigate how the "Infovojna" portal, which is indirectly supported by coalition politicians and government officials in the form of interviews, reports information. Until September 2023, articles on Infovojna were highly critical of the then government, but this has changed. Nowadays, criticism of the current government is absent; rather, the articles carry a positive character towards the government of the Slovak Republic. According to Pippa Norris, journalists should be the 'watchdog of democracy.'⁵ Lisowski, in turn, points to the disappearance of truth from the media; if truth ceases to exist for journalists, it ceases to exist for readers, and then journalistic independence "dies".⁶ For this reason, we consider the exploration of alternative media in the Slovak media space not only important, but also necessary in relation to democracy. As we are currently observing a significant pro-Russian undertone in the alternative media in their contributions, especially on the topic of the war in Ukraine, we decided to analyse the corpus

¹ The article was published under the project VEGA 1/0075/24 Political Discourse in Slovakia in the Context of the War in Ukraine.

² LIPKA, R. (2021): Slováci veria hoaxom viac ako iné národy. Prečo je to tak?

³ BENTLEY, T. (2005): Everyday Democracy. Why we get the politicians we deserve.

⁴ Reuters Institute (2023): Digital News Report, 2023.

⁵ NORRIS, P. (2012): "The Watchdog Role of Journalists: Rottweilers, Alsatians or Poodles?"

⁶ LISOWSKI, K. (2012): Czy śmierć zasad w polskich mediach jest faktem?

of texts that focuses on this issue. For this reason, we continue our research within the corpus analysis and our paper deals with the portrayal or depiction of Vladimir Putin using the lexis used by the authors of the texts under study. In the first part, the paper introduces the reader to the theoretical level of alternative media. In the second part, it analyses the corpus of texts of the electronic media *Infovojna*, which was chosen due to the provision of media space to representatives of the current government or politicians of far-right political parties.

1 Theoretical definition of "Alternative Media"

The term alternative media first appeared in the 1960s and 1970s and is related to the social movements of the time, as a creation of a counterpoint to the traditional media. These initiatives were associated with the progressive left ideological spectrum. The idea that this was primarily about increasing attention in views that were perceived as absent in the mainstream media is seen as a common feature with contemporary alternative media.⁷ For this reason, the perception and research on alternative media in the scientific and academic community at that time, as well as later, focused mainly on media with a strong left orientation.

Experts among academics agree that the concept of "alternative media" lacks a unified definition of what alternative media is and what its main characteristics are.⁸ Downing defines alternative media as: "sources that differ from traditionally established media in terms of their content, production, or distribution".⁹ On the other hand, Fuchs defines alternative media as: "a sphere that challenges the capitalist media industry and the way media is organized and produced, with the aim of producing critical content against the dominant media."¹⁰ However, according to Karas, overly broad definitions offer no insight and do not allow for meaningful applicability to research, while narrow definitions do not seem to capture the essence of the alternative media phenomenon.¹¹

Although researchers agree and argue that the term alternative media is generic and defies simple definition, the most widely used and simplest definition of alternative media remains that it "is not mainstream".¹² However, this general approach, which defines alternative media by what they are not rather than by what they are, has led to a variety of other definitions based on common considerations about the content, distribution, processes, and ideology of these media.¹³

However, the academic and scholarly community now perceives the complexity of grasping the dimension of alternative media. Some scholars divide alternative media into non-professional, pseudo-professional and semi-professional news outlets, which pursue different ideological goals and whose 'alternativeness' manifests itself in different political and cultural contexts.¹⁴

⁷ DAGRON, A. G. (2004): *The long and winding road of alternative media*, p. 43; WIMMER, J. (2015): *Counterpublic*; HARCUP, T. (2019): *Alternative journalism*.

⁸ FUCHS, CH. (2010): *Alternative Media as Critical Media*; BAILEY, O. G. – CAMMAERST, B. – CARPENTIER, N. (2008): *Understanding Alternative Media*; COYER, K. – DOWMUNT, T. – FOUNTAIN, A. eds. (2007): *The Alternative Media Handbook*; SANDOVAL, M. – FUCHS, CH. (2010): *Towards a Critical theory of Alternative Media*.

⁹ DOWNING, J. (2001): *Radical Media*.

¹⁰ FUCHS, CH. (2010): *Alternative Media as Critical Media*.

¹¹ KARAS, M. (2024): *Characteristics of Alternative and Mainstream Media*, p. 144.

¹² ATKINSON, J. (2010): *Alternative media and politics of resistance: A communication perspective*; ATTON, C. (2003): *What is 'alternative' journalism?*

¹³ COMEDIA (1984): *The Alternative Press: The development of underdevelopment*; RODRIGUEZ, C. (2001): *Fissures in the mediascape: An international study of citizens' media*.

¹⁴ CUSHION, S. – MCDOWELL-NAYLOR, D. – THOMAS, R. (2021): *Why National Media Systems Matter: A Longitudinal Analysis of How UK Left-Wing and Right-Wing Alternative Media Critique Main-stream Media (2015–2018)*.

Holt, Figenschou and Frischlich define alternative media as: "media that contradict the discourse regarding the mainstream media and that describe themselves as an alternative to the mainstream media."¹⁵ In the same way, we observe in the professional community the identification of criticism of the mainstream media in the question of the grasp of alternative media, which tends to be expressed implicitly or explicitly, mildly or aggressively, haphazardly or systematically, and can be directed against individual journalists or institutions.¹⁶

Since criticism of the perceived mainstream is often the editorial driving force behind the production of alternative media, the empirical question arises to what extent and in what ways "alternative" constitutes something other than "mainstream."

The media, whether mainstream or alternative, play a key role in a democratic society, providing the information needed to keep citizens informed about events taking place in the country in which they live or beyond its borders. According to Hel-Berger, the media should represent a diverse public by including different actors, ideas and opinions, making a pluralistic society visible and therefore discussable and debatable.¹⁷ The question remains, however, what information the alternative media provide, for what purpose, how they provide it, and whether it contradicts scientific facts, historical facts, and whether it incites violence against others.

In Slovakia, examples of media that are commonly called alternative include Hlavné zprávy, Infovojna, Slobodný vysielateľ and Zem a Vek. The term alternative media takes on different connotations depending on the side from which it is used. These media are usually referred to as alternative by the mainstream, i.e. "legacy" media, but the term is also sometimes used by the "alternative" media themselves to self-identify. However, there is a clear difference in meaning in the linguistic discourse when it is used by different types of media. When the term alternative media is used in the mainstream media, the term takes on pejorative overtones, as it is associated with a distorted image of the world through. On the other hand, when it is used in the so-called alternative arena, it carries the connotation of fighting against the hegemony of the mainstream media, or offering views that are absent in the mainstream. It follows from the above that there is currently a strong polarisation within the media, which also reflects the polarisation within Slovak society.

2 Interpretation of the Russian President in alternative media in the context of the war in Ukraine

As the media we selected declares on its web domain, the full name is Information War (Informačná vojna). According to their domain, they offer a "non-mainstream" view of events in society. Despite the fact that a significant number of alternative media operate in the Slovak space, "Infovojna" was chosen for the reason of providing space in the form of video interviews to government politicians after the parliamentary elections in September 2023. These are politicians such as MEP and head of advisors to the Prime Minister Erik Kaliňák, Deputy Speaker of Parliament Tibor Gašpar, ministers Róbert Kaliňák and Matúš Šutaj Eštok,¹⁸ or

¹⁵ HOLT, K. – FIGENSCHOU, U. T. – FRISCHLICH, L. (2019): Key dimensions of alternative news media.

¹⁶ CUSHION, S. – MCDOWELL-NAYLOR, D. – THOMAS, R. (2021): Why National Media Systems Matter: A Longitudinal Analysis of How UK Left-Wing and Right-Wing Alternative Media Critique Main-stream Media (2015–2018).

¹⁷ HELBERGER, N. (2019): On the Democratic Role of News Recommenders.

¹⁸ INFOVOJNA (2024): VIDEO: Minister vnútra Šutaj Eštok prehovoril v InfoVojne o partičke policajných kovbojov v bielych košeliach a ich spolupracovníkoch na ÚŠP likvidujúcich právny štát, o šikane Slovákov niektorými policajtmi počas covidizmu, o boji proti reálnym dezinformáciám aj o súčasnej EÚ, v ktorej sú podľa neho skutočnými lídrami Fico a Orbán. Komentoval aj neprimeraný drsný zásah v Žiline, keď policajti brutálne spacifikovali muža ako teroristu pred očami jeho 3-ročnej dcéry kvôli malej dopravnej nehode, keď nevedomky ťukol svojím vozidlom do nárazníka iného auta.

former advisor to the Prime Minister Eduard Chmelár.¹⁹ Even before the elections, "Infovojna" provided space for controversial politicians belonging to the populist to radical part of the political spectrum, such as Ľuboš Blaha, Štefan Harabin, Marián Kotleba, Milan Uhrík and Milan Mazurek.

Infovojna has the format of a news portal, providing new information and texts on a daily basis. Sources for articles and contributions are in most cases standard foreign mainstream media, but also various alternative Slovak or foreign websites or news portals. Infovojna gives space not only to government representatives, but also to coalition members of the National Council on its YouTube channel, or in the form of video interviews on its website.

We chose this media outlet because the representatives of the current government themselves appear in interviews in the aforementioned media outlet and have also identified it as relevant or not identified as hostile (such as the traditional mainstream media outlets Aktuality, TV Markiza, Denník N, Denník SME, for example).

According to the internet domain konspiratori.sk: "Infovojna has the format of a news portal that brings new information and texts on a daily basis. In most cases, the sources for the articles and posts are other media and websites, and side by side we can find articles taken from standard media as well as from media that are considered to be conspiratorial or disinformation. Infovojna does not transparently publish the current members of the editorial board. According to available information, Norbert Lichtner, who previously worked at Slobodni vysiatel, is behind the creation and operation of Infovojna. Lichtner ran for the European Parliament in 2019 for Marian Kotleba's party ĽSNS, but later withdrew from the race."²⁰

In this paper we focused on the issue of interpretation of politicians in alternative media in the context of the war in Ukraine, as it is still a topical issue. The war in Ukraine is a source of debate not only in Slovak society, but also among politicians, and for this reason it is constantly present in the Slovak media. The alternative media are no exception. Nowadays, in linguistic terms, it is no longer possible to examine only the text at the level of sentences and words, but units that go beyond the text also enter the analysis. Science calls them discourses and they are virtual, semantically defined corpora of utterances, in our case the text-texts of the alternative medium Infovojna, which refer to a certain topic - the war in Ukraine. According to Bussey and Teubert²¹ these are historically, spatially and institutionally anchored sets that determine social practice. According to Cingerová, Dulebová and Štefančík²² if the researcher approaches the representation of a certain part of reality, he also approaches its structure with the help of language. The authors who write the texts we are analysing can choose which names to use for them and, in the act of predication, attribute to them certain static or dynamic properties, certain intentions and actions.

The corpus in the research consisted of texts on the Infovojna portal from March 2022 to June 2025. The Infovojna news portal does not have an editorial board published on the website, nor are the authors or editors who wrote the articles listed under the texts. Infovojna draws attention to various social, political and economic topics in its articles, and the war in Ukraine is no exception. When analysing the texts that provide information on the state of the war in Ukraine, the image that the media outlet creates around Russian President Vladimir Putin comes to the fore. In all the articles, the Russian President is portrayed using positively coloured

¹⁹ INFOVOJNA (2024): Eduard Chmelár o politickej olympiáde v Paríži, zneužívaní holokaustu a obviňovaní kritikov z antisemitizmu pri ospravedlňovaní genocídy Palestínčanov sionistickým Izraelom, vydieraní Slovenska & Maďarska Ukrajinou a Európskou úniou, potreba mať plán „B“ na odchod z EÚ, o zlyhaní eurokomisára Šefčoviča, o zmysle ďalšej existencie V4, ale aj o nemožnosti zmiernu so súčasnou progresívno-liberálnou opozíciou.

²⁰ RITOMSKÝ, M. (2024): Infovojna.

²¹ BUSSE, D. – TEUBERT, W. (2013): Ist Diskurs ein sprachwissenschaftliches Objekt? Zur Methodenfrage der historischen Semantik, p. 44.

²² CINGEROVÁ, N. – DULEBOVÁ, I. – ŠTEFANČÍK, R. (2021): Politická lingvistika, p. 73.

or neutral lexis. Not a single post mentions Putin's decisions or speeches using lexis that carries a pejorative emotional character. In the speeches, decisions and foreign visits of the Russian president reported by the media we studied, the authors use lexis that glorifies Vladimir Putin or justifies, approves or describes his decisions with positive overtones.

Since the beginning of the war in Ukraine, Vladimir Putin has been portrayed as the one who protects the Russian nation or the Russian minority in Ukraine, and thus the media under review defends the decision of the Russian army to enter the territory of Ukraine. On this plane, he is portrayed as a kind, caring protector of the Russian national population in Ukraine, equally protecting Russians in foreign territories. Another way of endorsing the war that has been launched by the Russian Federation is that Vladimir Putin is trying to denationalize Ukraine. It is with the denationalisation of Ukraine that we see the image of the Russian President as one who is protecting the legacy of the Second World War, in which he portrays the Infowar Soviet Union as the state that defeated the Nazis. Since the beginning of the war in Ukraine (2022), Vladimir Putin's image has been adapted to the developments of this military conflict.

During the first two years of the military conflict, the image of the Russian President was shaped not only by the course of the military conflict itself, but also by the sanctions adopted against Russia by the EU, the US, Japan and other democratic states. Vladimir Putin was portrayed as the one who made Russia deal with the sanctions imposed and the one who recovered the Russian economy. Another image of the Russian President that is presented in the Internet medium Infovoojna is his professionalism. Vladimir Putin is described as a sovereign statesman, a legitimate president (in reference to Volodymyr Zelensky, who in most cases is portrayed as an illegitimately elected president), the head of the Kremlin. He is often referred to by the phrase democratically elected president, and in this we can observe the suggestion to readers that Russia is a democratic country in which democratic elections are held. There is also a comparison in the portrayal of the Ukrainian president, whom the media under scrutiny refer to with pejorative lexis,²³ Vladimir Putin, is always marked with the word president. The United States of America is often used as a counterpoint to Vladimir Putin in the media under review. Until the 2024 election, when Donald Trump won the US presidential election, the US was the state that provoked the war in the statements of the Russian president: "The U.S. engineered and orchestrated the coup in Ukraine, while European leaders just stood by quietly and pretended they didn't know what was going on."²⁴ In many articles, along with the denigration of the USA or former US President Joe Biden, there is also the use of pejorative lexis about the European Union or its representatives in comparison with the Russian President. In these cases, the Russian President is portrayed as a statesman who does not back down to the US or the EU, who outdoes the representatives of these countries in his arguments. The US and NATO are portrayed as Russia's enemy, and Vladimir Putin as one who is only defending Russia's interests and goals.

Since the beginning of the peace negotiations, the Russian president has been portrayed in the media studied as wanting and defending peace. He is the one who is trying to conclude a peace agreement with Ukraine and the term 'peacemaker' is associated with him in the corpus of texts. On the subject of peace, not only does the notion of a peacemaker come to the fore, but also one who does not back down: "Russia has sufficient forces and resources to bring what began in 2022 to its logical conclusion" while achieving Moscow's key objectives."²⁵ In peace negotiations, he is portrayed as the one who will set the parameters of the terms of peace in

²³ SERESOVÁ, T. (2024): Zobrazenie ukrajinského prezidenta Volodymyra Zelenského v internetovom médiu Infovoojna.

²⁴ INFOVOJNA (2023): Putin: USA zosnovali a zorganizovali prevrat na Ukrajine, zatiaľ čo európski lídri sa len ticho prizerali a tvárili sa, že nevedia, čo sa deje. Mier nastane, keď dosiahneme svoje ciele. Fico a Orbán nie sú proruskí, ale pronárodní politici, ktorí chránia záujmy svojho štátu.

²⁵ INFOVOJNA (2025): Vladimir Putin zopakoval, že Rusko chce odstrániť príčiny konfliktu na Ukrajine a zabezpečiť svoju bezpečnosť a trvalý mier.

Ukraine, not Donald Trump - the portrayal of Putin as a senior president, not Ukrainian and EU officials.

Putin is portrayed in the corpus of texts under review as if he is the only one who runs Russia as a state and absolute power is in his hands alone, which conflicts significantly with the claims that he is the president of a democratic state as portrayed by Infowar. The absence of other members of the government in the corpus of texts is present in the positively tuned economic articles about Russia. Government members are only mentioned in articles when commenting on sanctions or statements by EU, NATO, and US officials.

Of the verbs that appear in the corpus of texts of the studied media at the name of the Russian president, the following in particular stand out: the one who assures, assures, declares, promises, does not retreat, calls on the West, possibly the EU, the USA, NATO, admits, rejects speculation and blame, emphasizes, blames Kiev, the West, the USA, NATO, appreciates the Western leaders who maintain relations with Russia.

Conclusion

The topic of the growing influence of alternative media in Slovakia is topical not only for academics, but also for experts on media and democracy. Our paper analysed a corpus of texts of the electronic media Infovojna in the period 2022-2025 with the topic of the war in Ukraine. The aim was to identify, with the help of the analysis, how the studied media portrays Russian president Vladimir Putin in its articles. The portrayal of the Russian president varies and depends on events such as the introduction of sanctions, the US presidential election, changes in international relations, or changes in the geopolitical situation. In 2022-2024, a strong glorification of president Putin is present in the corpus of texts, while in 2025, on the contrary, positive portrayals are less present in the texts, rather neutral lexis increases.

The analysis revealed that the most significant geopolitical events that had the greatest impact on the lexis occurring around the name of the Russian president were the US presidential election. Donald Trump's victory significantly influenced the lexis in articles about the war in Ukraine and with it the lexis around Vladimir Putin.

In its articles, Infovojna presents the Russian president as the main commentator on the geopolitical situation in Europe or in the USA in connection with the war in Ukraine, using a strongly critical lexicon that arouses in the reader respect for Vladimir Putin. The Russian president is portrayed neutrally in Infowar in relation to pejoratively coloured words in comparison to the Ukrainian president Volodymyr Zelensky, who is often referred to in corpus texts as the antithesis of the Russian president.

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COOPERATION OF UKRAINE WITH THE V4 COUNTRIES IN THE FIELD OF BORDER CROSSING. THE CASE OF THE SLOVAK-UKRAINIAN BORDER¹

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Abstract: In light of the latest geopolitical transformations caused by the Russian invasion of Ukraine and the changing security situation in Central and Eastern Europe, it is necessary for Ukraine to deepen cooperation with regional groups. Of particular importance in this context is the Visegrad Four (V4), which includes Poland, the Czech Republic, Hungary and Slovakia. Despite certain internal contradictions within the V4, this association shows potential as a tool for regional lobbying interests within the European Union (EU). For Ukraine, as a candidate for EU membership, cooperation with the Visegrad Four countries can play a key role in consolidating support for European integration, transferring European policies and strengthening cross-border cooperation. The aim of the paper is to describe Ukraine's cooperation with the Visegrad Four countries in the area of customs checkpoints, with a focus on the Slovak-Ukrainian border.

Keywords: V4, integration, Ukraine, politics, border crossing

JEL: F15, F35

Introduction

Ukraine's cooperation with the Visegrad Four (V4) countries in the area of border crossings is of exceptional strategic importance, going beyond the framework of situational political dialogue. It is about building a long-term format of regional partnership capable of accumulating and adapting the experience of Central and Eastern European countries, with an emphasis on modernizing customs processes and increasing border efficiency.

In geoeconomic plain cooperation with the V4, and in particular with Slovakia how immediate neighbors, opens perspective creation integrated space that includes modernized infrastructure, mutually interconnected logistic network and coordination of customs services. This cooperation not only strengthens trade ties between Ukraine and the V4 countries, but also assists Ukraine in its integration into European economic and political structures.

The study aims to identify the main challenges faced by the V4 countries in the area of border crossings, especially on the Slovak-Ukrainian side. The article will attempt to explain the key factors that affect the efficiency and security of cross-border movement of goods, as well as opportunities for improving this cooperation.

In order to achieve the set goals, the study uses qualitative content analysis, where it will bring theoretical foundations closer to the issue. The quantitative component of the work will be presented with methods such as comparative analysis and data collection.

The results of the analysis confirm that effective cooperation in the area of customs crossings between Ukraine and the Visegrad Four countries, especially with Slovakia, is a key prerequisite for the stabilization and development of cross-border cooperation in the region. It was found that coordinated support from the V4 countries contributes to the gradual improvement of the situation at border crossings.

¹ This paper is part of the project No. 22420086 *V4-Ukraine Cooperation Enhancement Prospects in the Context of Ukrainian EU Accession Negotiations*.

1 Literature review

Cooperation between the Visegrad Four (V4) countries and Ukraine in the area of customs crossings and cross-border logistics is thematically developed mainly in professional articles, analytical reports and research projects. Research on customs cooperation is becoming an increasingly important topic in academic and professional literature due to geopolitical changes and growing trade potential.

Among the authors who contributed to the research on the issue are Liashekov and Trushkina, with the article: “*Institutional Principles of Formation of Cross-Border Transport and Logistics Cluster in the Conditions of Digital and Sustainable Development*”. The article represents a qualitative contribution to the discussion on the deepening of customs and logistics cooperation between Ukraine and the Visegrad Four countries. The authors analyzed the institutional principles of cross-border cooperation between the regions from the perspective of the institutional framework and regional development. The authors propose the creation of a cross-border transport and logistics cluster that would include the border regions of Ukraine (Volyn, Zakarpattia and Lviv Oblast) and the neighboring regions of the V4 countries (Poland, Slovakia, Hungary). The article emphasizes that such a cluster should serve to improve the coordination and efficiency of cross-border transport and logistics, and support the modernization of infrastructure. This study shows that successful customs and logistics cooperation between Ukraine and the V4 requires institutional linkages, political coordination, and long-term strategic planning, not just ad hoc responses to crisis situations (e.g., a state of war).²

The research of the authors Prytula et al. presents the subject of analysis of cross-border logistics infrastructure between Ukraine and the V4. The authors perceive customs cooperation as a key dimension of economic integration, pointing to specific problems at the borders-bottlenecks, long waiting times, acute technological deficiencies and uncoordinated customs operations. As a result of these problems, the study presents a set of recommendations aimed at modernizing transport and customs infrastructure, including the construction of new logistics centers and storage facilities. It also emphasizes the need for harmonization of customs regulations and procedures between Ukraine and the EU countries, as well as the introduction of digital systems that would allow for data exchange and coordinated controls in real time. In a broader context, the study contributes to the understanding that cross-border customs cooperation is not just a technical or administrative problem, but a key element of Ukraine's European integration. The effective functioning of customs and logistics infrastructure in border regions is a critical prerequisite for economic, as well as political stabilization. In terms of cooperation with the V4 countries, the authors also emphasized the emergence of common institutional platforms that would enable strategic coordination and planning in the field of customs operations and transport policy.³

2 Impact of the russian invasion on border crossings

Russia's military activities against Ukraine have provoked strong reactions around the world and affected the functioning of border crossings between Ukraine and the V4 countries-causing another refugee crisis in Europe. Border crossings, which traditionally served as key hubs

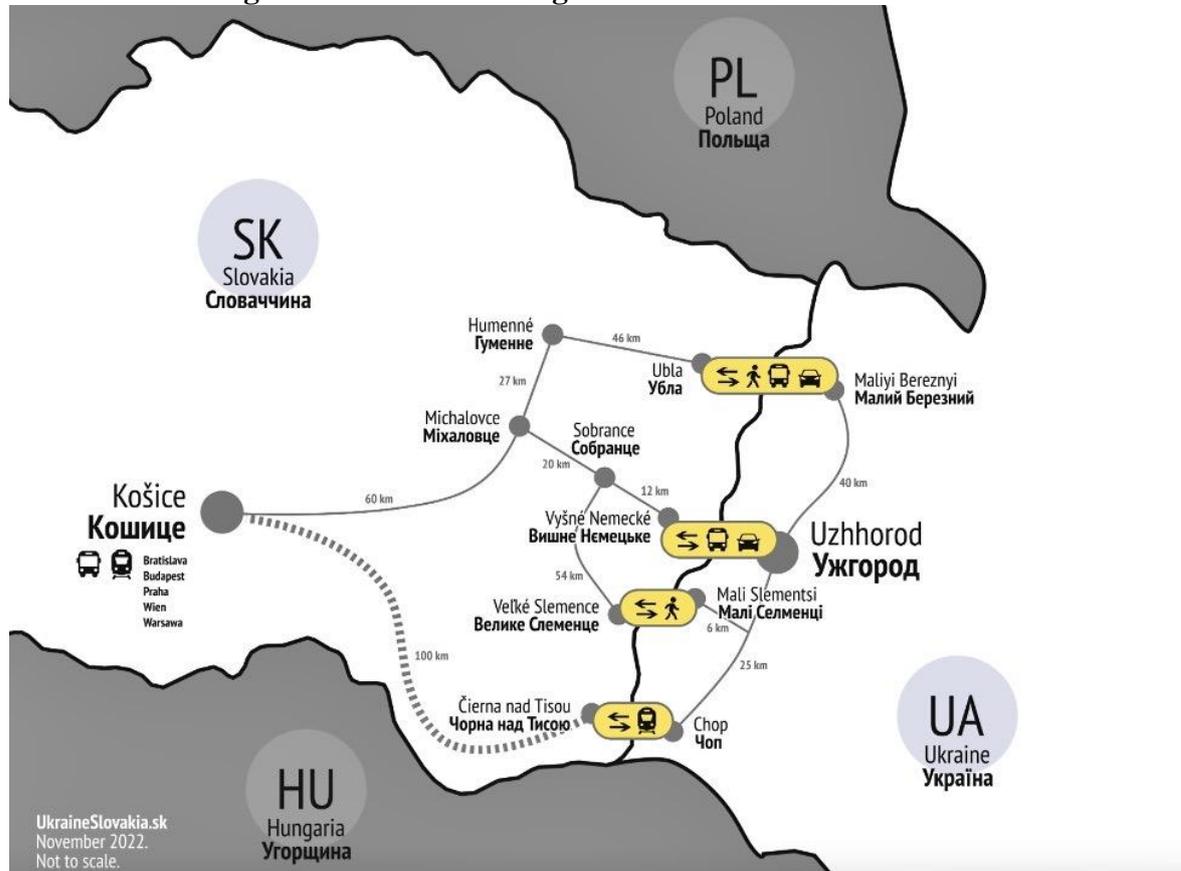
for the movement of goods, people and services, have become places where security problems, humanitarian crises and logistical challenges have intensified. According to the Ministry

² TRUSHKINA, N. – LIASHENKO, V. (2021): Institutional Principles of Formation of Cross-Border Transports and Logistics Clusters in the Conditions of Digital Sustainable development.

³ PRYTULA, Kh. et al. (2024): Study of the functioning of transport and logistics infrastructure for freight transport in the EU-Ukraine border zone.

of the Interior of the Slovak Republic, before the start of the aggression, the usual number of entries into Slovakia from Ukraine was around 1,400 people per day. The highest number of refugees in one day was recorded on February 27, namely 15,968.⁴

Figure 1: Border crossings of Ukraine and Slovakia



Source: WelcomeToSlovakia. [online]. [cit. 09.03.2025]. Available online: <https://www.welcometoslovakia.sk/sk/>

The border crossings Vyshne Nemecke – Uzhhorod, Ubl'a – Malyj Bereznyj, Čierna nad Tisou – Solomonovo came under strong operational pressure. This development revealed long-term infrastructural deficits. The most exposed crossing Vyshne Nemecke faced an enormous increase in passenger and freight traffic, which caused traffic congestion, long delays and disruption of cross-border logistics. The lack of parking and staging capacities, the absence of flow management systems, as well as the limited capacities of customs and passport checkpoints, resulted in the disruption of economic chains between Ukraine and the European Union. As Kosseová reports, on September 6, 2022, the queue of trucks reached 14 km (600-700 trucks). The trucks were coming from overcrowded crossings on the Ukrainian-Polish border, where the columns grew to approximately 50 km. With a capacity of 293 trucks per day to pass through Uzhhorod, the queues were three days long. Transport companies demanded that the ranks of police and customs officers be strengthened and the time for vehicle inspections and truck clearance be shortened.⁵

The European Parliament report states that after the outbreak of the military conflict in Ukraine and the subsequent blockade of Ukrainian ports in the Black Sea by the Russian Federation, there was a significant redirection of Ukrainian exports from sea ports to land

⁴ MINISTRY OF INTERIOR OF THE SLOVAK REPUBLIC (2022).

⁵ KOSSE, I. (2022): New momentum for development of the road freight between Ukraine and Slovakia: what approach should be taken?

border crossings, which had a significant impact on infrastructure and logistical capacities. According to the European Parliament's analysis, approximately 70% of Ukrainian exports were redirected to land borders with the EU. This caused a significant increase in the volume of goods transported by rail, which increased by 36% compared to the pre-war period. "Solidarity Lanes" – logistics corridors enabled alternative routes for the export and import of goods between Ukraine and the EU. Approximately 174 million tons of goods passed through these corridors, of which up to 89 million tons were agricultural commodities, and 70 million tons were delivered to Ukraine, including strategic raw materials, fuel and humanitarian aid.⁶ Rail transport has therefore become a key channel for the export of Ukrainian products, especially agricultural commodities.⁷

3 Challenges between Ukraine and Slovakia in the area of border crossings

Ukraine is an active participant in the Carpathian Euroregion and actively cooperates with the Visegrad Four countries, but the intensity of cooperation with Slovakia is most visible. Participants cross-border cooperation between Ukraine and Slovakia are: Transcarpathian region (Ukraine), Preshov and Koshice (Slovakia). There is a contractual basis for bilateral cooperation, such as Intergovernmental cross -border agreement cooperation signed in Bratislava (2000) or Agreement on Interregional cooperation Transcarpathian area and Koshice region (1999). These agreements create a formal framework for cooperation, which contributes to its stability and predictability. In Article 4 of the Intergovernmental cross - border agreements cooperation (2000) states that it is necessary to resolve all legal, technical or other problems that would burden cross-border cooperation and to consult each other on these challenges.⁸ Despite the common interest, several challenges remain in the area of border crossings:

Administrative obstacles. Despite the existence of programmes such as Interreg that support cross-border cooperation, the implementation of joint projects often encounters bureaucratic obstacles and differences in administrative procedures between Ukraine and EU Member States.⁹ Transporters have to fulfil different administrative obligations on both sides – filling in different types of customs declarations, undergoing different types of controls and submitting two certificates of origin and safety standards. Lack of coordination leads to longer waiting times at the border. Slovakia operates under the Union Customs Code (Regulation (EU) No 952/2013 of the European Parliament and of the Council). Ukraine has its own Customs Code of Ukraine, which regulates customs procedures. This code differs in definitions, procedures and documentation requirements. Each transit of goods from Ukraine requires double control – first under Ukrainian regulations, then under EU regulations, which increases time and costs for companies.¹⁰

Limited transport infrastructure as a structural barrier to economic convergence. One of the key challenges for effective cross-border cooperation and economic integration of Ukraine into the Central European Economic Area is the deficit in transport and logistics infrastructure, which has a multidimensional impact on regional cohesion and the dynamics of trade relations. Insufficient railway connections, such as between Uzhhorod and Koshice. In addition, the limited capacity of road border crossings and low interoperability of technical systems create transaction costs that reduce the efficiency of trade exchange. This situation

⁶ EUROPEAN COMMISSION (2025).

⁷ OFFICE OF THE DEPUTY PRIME MINISTER FOR THE RECOVERY AND RESILIENCE PLAN AND THE USW OF EU FUNDS SECTION FOR EU STRATEGIC INITIATIVES (2024): Framework for the involvement of the Slovak Republic in the reconstruction of Ukraine.

⁸ Slov-Lex public administration information system. (2025).

⁹ MINISTRY OF COMMUNITY AND TERRITORIAL DEVELOPMENT OF UKRAINE (2024): Ukraine and Slovakia deepen cooperation at the community level, in the fields of energy, infrastructure and business.

¹⁰ EUROPEAN UNION (2013): Regulation (EU) No. 952/2013 of the European Parliament and of the Council.

implies fragmentation of the regional market, which deprives Ukraine of the opportunity to achieve the full effects of international specialization and economic diversification.¹¹

Technical deficits and missing equipment. Another significant factor that significantly hinders the deepening of cross-border economic integration are technical and technological restrictions at customs checkpoints, especially on the Ukrainian side. In many cases, this is due to outdated technical equipment - including inefficient scanning devices, manually processed customs documents and a lack of integration with digital systems of EU countries. The lack of compatibility between information systems causes customs procedures to be extended, thereby increasing the time and cost of trade operations.¹²

These obstacles hinder effective regional cooperation and can be assumed to negatively affect other levels of international cooperation. Inefficient infrastructure and technical backwardness not only slow down cross-border trade, but also increase logistics costs, weaken the competitiveness of the region and create security risks. Based on these facts, Table 1 assumes that the identified shortcomings may have a negative impact on the following levels:

Table No. 1 Impacts of identified challenges on other levels

CATEGORY	IMPACTS
Economic impact	Increased costs, decreased competitiveness, fragmentation of markets
Logistical impact	Missed deadlines, disruption of supply chains, long waiting times
Security impact	Cyber risks, DUAL CHECK ≠ DOUBLE SECURITY
Political-integration impact	Decreased credibility of Ukraine on the international stage

Source: the author's own processing

4 Modernization of border crossings between Ukraine and Slovakia

Initiatives to modernize Ukrainian border crossings go beyond simple technical improvements to transit infrastructure and represent an important integration mechanism. It is a component that connects technical, legislative, political and economic dimensions, which has a direct impact on the level of Ukraine's readiness for the integration process. The project portfolio represents the efforts of the V4 countries and Ukraine to align Ukrainian standards with the institutional, economic and security criteria of the European Union.

¹¹ MAJERSKÁ, T. (2025): Modernization of the Dobrá combined transport terminal will be a strategic investment, strengthening the rail connection between the EU and Ukraine.

¹² YURCHYSHYN, O. – STEPANETS, O. – SKOROBOGATOVA, N. (2024): Analysis of digital technologies in Ukraine: problems and prospects.

Table No. 2 Overview of selected V4 projects in the field of border crossing modernization

Country	Project	Support type	Period	Budget	Key activities
SK	CBC ENPI HU-SK-RO-UA 2007-2013 (HUSKROUA-LSP-001)	Technical, infrastructural	2013-2015	7,55 million EUR (90% EU grant and 10% Slovak Republic)	Modernization of customs controls and infrastructure, reconstruction of buildings and increased security of crossings
SK	Modernization of the Vyshne Nemecké - Uzhorod crossing	Infrastructure, integration	2023-2025	More than 80 million EUR (national and European sources)	Modernization of road transport, introduction of the ENTRY/EXIT system, new lanes for passenger, freight and bus transport
PL	Expansion of the Dorohusk – Jagodzin crossing	Security, logistical support	2021-2024	7,5 million EUR	New freight lanes, modernization of customs buildings, camera systems
HU	Interreg NEXT Cross-Border Cooperation Programme with Ukraine	Multimodal transport, railway	2021-2027	The total budget of the NEXT program is around EUR 63 million. ¹³	Support for the modernization of railway infrastructure and border crossing capacities, financed from EU funds; coordination with V4 partners
V4	V4 Border Assistance Project (Visegrad Fund)	Several areas, including administrative, technical and infrastructural	2021-2023	400,000 EUR	Planning, support for Schengen-ready infrastructure, exchange of know-how, security coordination

Source: author's own processing based on data from Ministry of Finance of the Slovak Republic and V4 GEN (2025)

Based on available official documents and expert analyses, it can be concluded that the Visegrad Group (V4) countries, in response to the sharp changes in the geopolitical environment after the outbreak of Russian aggression against Ukraine in 2022, have adopted a series of measures aimed at modernizing transport and customs infrastructure, with the aim of supporting cross-border trade, humanitarian aid and security stability in the region. As a strategic response of the V4 countries, the NCTS (New Computerized Transit System) system was introduced - Ukraine's entry into EU customs interoperability. Ukraine's official connection to this system took place on October 1, 2022. This step represented Ukraine's willingness to cooperate with European countries to strengthen, digitize and harmonize customs procedures. NCTS enables automated exchange of customs data, which leads to a significant acceleration of customs clearance and a reduction in the time required to cross the border.

¹³ EU4PFM (2022).

In the context of busy crossings, the NCTS system is considered a key element in increasing the efficiency of cross-border flows.¹⁴

The Visegrad Group has long demonstrated solidarity with Ukraine through systematic support implemented through the International Visegrad Fund (IVF). Within the framework of the Eastern Partnership program, co-financed by V4 member and non-member countries, financial resources exceeding EUR 1,3 million are allocated annually to support democratization processes, socio-economic transformation, European integration, civil society development, cross-border cooperation and administrative capacity building of Ukrainian public institutions. The cumulative amount of direct contributions from the V4 countries to Ukraine, outside the framework of EU assistance, has reached approximately EUR 4,6 million. In addition, the V4 member states have also provided Ukraine with specialized assistance in the form of vocational training, rehabilitation programs and demining activities.¹⁵

5 Opportunities for the future

Based on the analysis of the identified challenges and existing initiatives in the field of border crossings between Ukraine and the V4 countries, it can be concluded that an effectively functioning border infrastructure is a key prerequisite for a successful integration process. The study points to the need to strengthen technical, logistical and legislative compatibility, but at the same time it also brings opportunities for further development of cross-border cooperation. These opportunities reflect the geopolitical, economic and logistical needs of the region in the context of Ukrainian integration.

- Development of railway and combined transport, including the construction of logistics hubs and transshipment points that will connect Ukraine with key EU corridors
- Common security and information mechanisms that will improve control and data exchange between border services, and thus the security profile of the region.
- Strengthening regional development through the creation of new transport corridors, such as the "Solidarity Lanes" project, thereby increasing the connectivity and resilience of border areas;

By doing so, the work creates a framework for future cooperation between Ukraine and the V4 countries, which will be based on specific measures where there is potential to change and strengthen regional development.

Conclusion

In the context of the ongoing military activities of the Russian Federation towards Ukraine and Ukraine's strategic integration towards the European Union, the issue of cross-border infrastructure and customs cooperation is gaining crucial importance for regional security, economic stability and geopolitical coherence. As the study has shown, the Visegrad Group countries and, in particular, the Slovak Republic play a key role in this process as transit nodes, buffer zones and facilitators of Ukraine's European integration.

The current pressure on border crossings – caused by the redirection of a significant part of Ukrainian exports from sea to land transport – has required a rapid modernization of customs and logistics capacities, including the digitalization of processes, increased throughput and harmonization of regulatory regimes. Ukraine's connection to the NCTS system and the implementation of the "Solidarity Lanes" initiative represent concrete steps towards practical approximation of Ukraine to the EU customs and trade regime.

However, challenges remain: the most important are the deficient transport infrastructure, technological backwardness at some crossings, and fragmented information flow

¹⁴ V4 (2024): Joint Statement of the Visegrad Group and Ukraine.

¹⁵ VISEGRAD GROUP (2025): Joint Statement of the Visegrad Group and Ukraine.

between customs administrations. These factors limit effective economic integration and reduce the region's attractiveness for foreign direct investment.

Border cooperation and modernization of transport and customs infrastructure are not just technical measures, but part of a broader strategic framework to support Ukraine's European trajectory. The V4 countries, through synergistic political action and cross-border initiatives, can play the role of a bridge between Ukraine's integration ambitions and the institutional reality of the EU. It is in these transformational moments that a new geopolitical platform for Central and Eastern Europe is taking shape - and its stability will largely depend on how effectively the V4 countries can turn challenges into opportunities.

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THE COUNCIL OF EUROPE DEVELOPMENT BANK AND ITS ROLE IN INTERNATIONAL SOCIAL AND DEVELOPMENT AID

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Abstract: The Council of Europe Development Bank belongs to the group of multilateral development banks, with which it shares a number of common features, but also differences. In this paper we analyse the legal nature of this bank, its objectives and the instruments it uses to achieve them. The aim of this paper is to identify the features that distinguish the Council of Europe Development Bank from other multilateral development banks, as well as its strategic objectives, and thus to explain what role this bank plays in international development aid and how it could be an inspiration for other multilateral development banks.

Keywords: Council of Europe Development Bank, multilateral development banks, development aid, social aid

JEL: K33, F35, F63

Introduction

The Council of Europe Development Bank (hereinafter also referred to as “CEB” or “Bank”), formerly the Council of Europe Social Development Fund (since 1994) and even earlier the Council of Europe Resettlement Fund for National Refugees and Over-Population (since 1956), was established by so-called partial agreement of the Council of Europe. As the original name of the institution implies, its initial aim was to help refugees and other displaced persons after the end of the World War II. Later, it expanded its activities to help victims of natural disasters and, in the following period, to help create jobs and improve social infrastructure. Today, its aim is to promote social cohesion in the Member States. In this paper, we will discuss the legal basis of the Council of Europe Development Bank, its internal structure, the objectives it pursues and the resources it uses to finance them, as well as its place among the world's other multilateral development banks, focusing on its special position, the specificities that characterise it and the resulting potential it has in international development aid.

In this paper we use the scientific methods of analysis, synthesis, abstraction and comparison.

1 The legal basis of the Council of Europe Development Bank and its internal structure

The legal basis for the existence of this international financial institution is the Statute of the Council of Europe Development Bank (official name “Council of Europe Development Bank – Articles of Agreement”), adopted on 16 June 1993 and in force since 18 March 1997. It has been updated three times (17 December 1999, 26 November 2010 and 25 November 2011). The current version of the Statute of the Council of Europe Development Bank was also published in Slovak Collection of Laws as Notice of the Ministry of Foreign and European Affairs of the Slovak Republic No. 326/2016 Coll. (*Oznámenie Ministerstva zahraničných vecí a európskych záležitostí Slovenskej republiky č. 326/2016 Z. z.*). By the decision of its highest body – the Governing Board of 28 June 1999, the name of this institution was also changed

from the Social Development Fund of the Council of Europe to the Council of Europe Development Bank. The name change took effect on 1 November 1999.¹

The following may become members of the CEB:

- any member of the Council of Europe by simple accession;
- a European State which is not a member of the Council of Europe, if it is admitted as a member of the CEB or if it concludes an association agreement with the CEB;
- an international institution with a European focus, if it is admitted as a member of the CEB or enters into an association agreement with it.

Each full (not associate) member must accede to the CEB Statute and subscribe to the number of membership shares (so-called participating certificates) determined by the CEB Governing Board (Article III of the CEB Statute). Initially, only eight Council of Europe members became Member States of the CEB which at that time had available funds of less than 7 million USD.² All current members of the CEB are also its shareholders. It is altogether 43 states, of which 26 are EU Member States (only Austria among the EU Member States is not a member of the CEB³), 15 others are members of the Council of Europe, and the remaining two states are located in Europe but are neither EU nor Council of Europe members (Vatican City and Kosovo). Among the CEB members, there are 23 target countries, i.e. those receiving increased assistance from the CEB.⁴ The three largest shareholders (France, Germany and Italy) together have a supermajority of shares in the Bank – 16.901% each.⁵

Although the CEB is a legally independent entity from the Council of Europe, its social objectives must be consistent with those of the Council of Europe, and the CEB may not change its statutory objectives except with the approval of the Committee of Ministers of the Council of Europe. The bank also has an obligation to report regularly to the Council of Europe on its activities and to respond to all opinions and recommendations of the Committee of Ministers and the Parliamentary Assembly of the Council of Europe.⁶ Evidence of these institutional links is also provided by the fact that the Secretary General of the Council of Europe issues an opinion on acceptability in terms of consistency with the political and social objectives of the Council of Europe for all projects submitted by the bank to its Administrative Council for approval [Article XIII(c) of the CEB Statute]. The CEB Governing Board also comments on the proposed recommendations and opinions of the Committee of Ministers and the Parliamentary Assembly of the Council of Europe. The Secretary General of the Council of Europe attends, or is represented, at meetings of the CEB Governing Board and the CEB Administrative Board, without the possibility of voting [Article XIII(a) and (b) of the CEB Statute].

The principal office of the CEB is in Strasbourg, but its operational services are based in Paris (Article XIV of the CEB Statute).

The CEB has the following organs (bodies):

- The Governing Board is the supreme organ of the CEB and has all the powers relating to the Bank, except of any change in its objective. It shall consist of a Chairman and one representative for each CEB member, who may also appoint a

¹ COUNCIL OF EUROPE DEVELOPMENT BANK (1999): *Decision concerning the change of the name of the Institution (adopted by the Governing Board unanimously on 28 June 1999 at its 158th meeting (Extract from PV/CD 158 (1999))*.

² COUNCIL OF EUROPE DEVELOPMENT BANK (2025): *Mission and history*.

³ On the reasons for and criticisms of this, see HUMMER, W. (2015): The Council of Europe Development Bank – a completely unknown entity. Why does the Council of Europe have its own development bank and what is Austria's position in relation to it? In *ÖGfE Policy Brief*, 2015, 1, pp. 2-5.

⁴ COUNCIL OF EUROPE DEVELOPMENT BANK (2025): *Member Countries*.

⁵ See *ibid*.

⁶ REYES, O. (2020): The Council of Europe Development Bank and Covid-19. In: MCDONALD, D. A. – MAROIS, T. – BARROWCLOUGH, D. (eds.): *Public Banks and Covid-19 – Combatting the Pandemic with Public Finance*. Kingston – Geneva – Brussels : Municipal Services Project – UNCTAD – Eurodad, 2020, p. 117.

substitute (Article IX, Sections 1 and 2 of the CEB Statute). It currently consists of a Chairman, a Vice-Chairman and 42 nominees of the Member States (the position belonging to Ukraine is currently vacant).⁷ The powers of the Governing Board are more or less similar to those of the supreme body of other international financial institutions and are exhaustively enumerated in Article IX, Section 3 of the CEB Statute.

- The Administrative Council is the executive body of the CEB. Its competence includes all activities not expressly reserved to the Governing Council (Article X Section 1 of the CEB Statute). It shall consist of a Chairman appointed by the Governing Board and one representative appointed by each of the members, each of whom may appoint a representative (Article X, Section 2 of the CEB Statutes). It currently consists of a Chairman, a Vice Chairman and 43 nominees of the Member States.⁸
- The Governor is the statutory representative of the CEB. He manages its day-to-day operations under the authority of the Administrative Council, but may not enter into any financial commitments without its authorisation. He shall be appointed by the Governing Council [Article IX, Section 3(1) of the CEB Statute]. Under the general supervision of the Governing Board, the Governor is responsible for the organisation of services and the appointment and dismissal of CEB staff, within the framework of the regulations adopted by the Governing Board. His term of office is five years and may be renewed once (Article XI, Section 1 of the CEB Statute). The Governor is assisted in his/her work by the Vice-Governors. Like him, they are appointed by the Governing Board, on the proposal of the Governor and with the approval of the Administrative Council. Their term of office is, as in the case of the Governor, five years, renewable once (Article XI, Section 2, of the CEB Statute). The Bank currently has three Vice-Governors. Carlo Monticelli has been acting as Governor since December 2021.
- The Auditing Board is the independent audit body of the Bank. It is composed of three members appointed by the Governing Board. The Auditing Board audits the CEB's accounts and verifies the operating accounts and balance sheet (Article XII of the CEB Statute).

A similar structure of bodies (supreme, executive, and statutory bodies) is also typical for other international financial institutions.⁹ However, the latter supervisory body is specific to the CEB. Other multilateral development banks also have their own supervisory bodies, but these are not enshrined directly in their founding documents and do not have the same high degree of independence and autonomy as the Auditing Board of the CEB.

2 Objectives of the Council of Europe Development Bank

According to the CEB Statute, the main objective of the CEB is to help solve the social problems that European countries are experiencing or are likely to experience as a result of the presence of refugees, displaced persons or migrants, as a result of the movement of refugees or other unexpected population movements, and as a result of the presence of victims of natural or environmental disasters. Investment projects supported by the CEB may be designed either to assist these people in the country where they are located or to enable them to return to their countries of origin if the conditions for return are met, or, if possible, to settle in another host

⁷ COUNCIL OF EUROPE DEVELOPMENT BANK (2025): *Governing Board*.

⁸ Ibid.

⁹ See e.g. BROCKOVÁ, K. – WINKLER, M. (2025): *Medzinárodné ekonomické právo*. Bratislava: Wolters Kluwer SR, 2025, pp. 29-31, 48-49, 75.

country. At the same time, such projects must be approved by a CEB Member State [Article II(a) of the CEB Statute]. The CEB may also contribute to the implementation of investment projects approved by a CEB Member State aimed at creating jobs in disadvantaged regions, housing for low-income people or creating social infrastructure [Article II(b) of the CEB Statute].

In general, we can say that the CEB contributes to the implementation of socially oriented investment projects in three main areas:¹⁰

1. Strengthening social integration (e.g. in relation to excluded persons, refugees, migrants and displaced persons), in particular by promoting social housing, job creation and the preservation and improvement of living conditions in urban and rural areas;
2. in the field of the environment, not only by responding systematically to emergencies in the event of natural or environmental disasters, but also by promoting environmental protection and the preservation of historical and cultural heritage;
3. public infrastructure with a social mission, in particular in the health, education, administrative and judicial public services sectors, with a view to ensuring more dynamic and equitable economic and social growth in the long term and contributing to individual fulfilment and collective well-being.

The CEB is thus the only multilateral development bank with a priority focus on social objectives. Other multilateral development banks (e.g. World Bank Group entities, the European Bank for Reconstruction and Development – EBRD, the Asian Development Bank – ADB, the African Development Bank – AfDB, the Inter-American Development Bank – IADB, European Investment Bank - EIB or the Islamic Development Bank – IsDB) focus mainly on the general economic development of their member states.¹¹ The CEB is also the only international financial institution that exclusively finances projects in Europe. The other two multilateral development banks that have their seat in Europe (the EBRD and the EIB), finance also projects outside Europe, e.g. EIB in Sub-Saharan Africa¹² and EBRD in Central Asia¹³. Although the CEB only finances European projects, non-European citizens can also benefit. Examples include the participation in the Partnerships and Financing for Migrant Inclusion (PAFMI), a primarily EU-funded migrant inclusion programme currently running in 4 Member States of the EU and of the Council of Europe (Belgium, Finland, Italy and the Netherlands), which aims to promote employment, entrepreneurship and training opportunities for third-country nationals.¹⁴

As mentioned above, the social objectives of the CEB must be in line with those of the Council of Europe and the CEB may not change its statutory objectives except with the consent of the Committee of Ministers of the Council of Europe, which is followed by other provisions of the CEB Statute regulating the remit of its bodies and the links with the Council of Europe bodies. Such influence of an international organisation on a multilateral bank cooperating with it is exceptional in the world; it can only be compared, perhaps, with the position of the European Investment Bank, which is, however, an executive body of the European Union (e.g. Article 19(6) of the Statute of the EIB says: *Where the Commission delivers an unfavourable*

¹⁰ LESSAMBO, F. I. (2015): *International Financial Institutions and Their Challenges*. New York : Palgrave Macmillan, 2015, pp. 111-112.

¹¹ Cf. BROCKOVÁ, K. – WINKLER, M. (2025): *Medzinárodné ekonomické právo*. Bratislava: Wolters Kluwer SR, 2025, pp. 49-50, 53, 58-59, 65, 71-72, 82-84.

¹² See e.g. BOUGREA, A. (2025): The European Investment Bank in Sub-Saharan Africa: constrained expansion. In: *Journal of Economic Policy Reform*, 2025, vol. 28, No. 1, pp. 12-36.

¹³ See e.g. AMBROSIO, T. – HALL, S. G. F. – OBYDENKOVA, A. (2022) Sustainable Development Agendas of Regional International Organizations: The European Bank of Reconstruction and Development and the Eurasian Development Bank. In: *Problems of Post-Communism*, 2022, vol. 69, No. 4-5, pp. 304-316.

¹⁴ For more details see: COUNCIL OF EUROPE DEVELOPMENT BANK (2025): *Partnerships and Financing for Migrant Inclusion (PAFMI). Executive Summary: Mid-term Report on Emerging Lessons & Best Practices*.

opinion, the Board of Directors may not grant the finance concerned unless its decision is unanimous, the director nominated by the Commission abstaining). Since the fundamental values on which the Council of Europe is founded are human rights, democracy and the rule of law, and these values have had to be accepted by every member of this international organisation,¹⁵ the Council of Europe Development Bank is also unique in that it only finances projects in states that subscribe to these values. Projects based on these values also tend to be the subject of CEB financing.¹⁶

3 The activities and resources of the Council of Europe Development Bank

The activities of the CEB consist mainly of (Article VI and VII, Sections 1 to 4 of the CEB Statute):

a) lending, namely to:

- CEB Member States,
- any legal entity approved by a CEB Member State, if that Member State has guaranteed the loan,
- to any legal person approved by a CEB Member State if the Administrative Council considers the security for such a loan to be sufficient;¹⁷

whereby loans may be granted at partially reduced or fully forgiven interest. The types of loans granted by the CEB are:¹⁸

- the *EU Co-financing Facility* (ECF), which provides co-financing and/or *ex-ante* financing of EU-funded investment activities at country level,
- the *Public Sector Financing Facility* (PFF), which covers temporary shortfalls in public sector financing and facilitates the continuation of investment and reform programmes,
- the *Cross-Sectoral Loan Programme* (CSL), which responds to the social infrastructure needs of public authorities in several overlapping sectors;

b) the provision of bank guarantees for loans granted to financial institutions approved by Member States, where these serve to support the realisation of the CEB's objectives;

c) the provision of grants from the so-called trust accounts to which Member States, the Council of Europe or the CEB itself contribute;

d) investing its liquid assets, capital and reserves under conditions laid down by the Administrative Council in accordance with the principles of sound financial management.

It is the grants made from the trust accounts that are a specific method of CEB financing, not found in other multilateral development banks. For example, grants are also provided by IDA, but on a different basis.¹⁹

¹⁵ Cf. Article 3 of the Council of Europe Statute, according to which: *Every member of the Council of Europe must accept the principles of the rule of law and of the enjoyment by all persons within its jurisdiction of human rights and fundamental freedoms, and collaborate sincerely and effectively in the realisation of the aim of the Council as specified in Chapter I.*

¹⁶ See also PROCZEK, M. – SURAŁA, J. (2017): The Council of Europe Development Bank and its Activities in the Context of Global Public Goods. In: *Rocznik Instytutu Europy Środkowo-Wschodniej*, 2017, vol. 15, No. 4 (International organizations and multilateralism: a view from Central Europe), pp. 47-68.

¹⁷ It is also thanks to such lending conditions that the CEB maintains a high credit rating. See also REYES, O. (2020): The Council of Europe Development Bank and Covid-19. In MCDONALD, D. A. – MAROIS, T. – BARROWCLOUGH, D. (eds.): *Public Banks and Covid-19 – Combatting the Pandemic with Public Finance*. Kingston – Geneva – Brussels : Municipal Services Project – UNCTAD – Eurodad, 2020, p. 118.

¹⁸ COUNCIL OF EUROPE DEVELOPMENT BANK (2025): *A reliable financing partner*.

¹⁹ About grants provided by IDA see e. g. MORRIS, S. – LANDERS, C. – GARDNER, A. (2020): More World Bank Borrowers Will Need Grants, Not Loans. As a Result, More World Bank Donors Will Need to Pony Up. In *Center for Global Development*, 4 June, 2020.

The CEB's results for 2024 were published in April this year. At the end of 2024, the CEB had an outstanding loan portfolio of EUR 22.915 billion, while the volume of approved loans amounted to EUR 4.549 billion. The CEB's balance sheet total at 31 December 2024 was EUR 34,418 billion. At that date, the bank also managed 31 trust funds with a balance of EUR 98,3 million. For the year 2024, the CEB made a net profit of EUR 124.3 billion.²⁰

The CEB's resources include, in addition to the share capital created by the subscription of membership shares by individual Member States (as of 31 December 2024, the CEB's subscribed share capital amounted to EUR 9.623 billion and the paid-up portion amounted to EUR 1.766 billion)²¹ also the profits of previous years, which are automatically recapitalised, as well as the resources raised from bond issues, which tend to be in high demand as so-called socially responsible investment instruments.²²

4 Position of the Council of Europe Development Bank in the system of multilateral development banks

The CEB is a regional multilateral development bank financing European projects of its members. It is based on the same principle as other multilateral development banks, i.e. its member states are also its owners (shareholders). The three largest European members – Germany, France and Italy – have a majority in the CEB supreme body (the Governing Board). However, this is not enough for them to take important decisions, as this is tied to a 2/3 or 3/4 majority of those present [Section 4. letters e) and f) of the CEB Statute]. However, this is still a lower required quorum than in the case of, for example, World Bank Group entities, where in some cases a majority of up to 85% is required for approval.²³

The CEB is one of the smaller multilateral development banks. Compared to the largest of them, the EIB, its balance sheet is almost 15 times smaller. The volume of loans approved last year was even 20 times smaller. The table below compares the MDBs in terms of volume of total assets and volume of approved loans in 2024 (for World Bank Group entities, data is for the latest fiscal year 2023/2024).

**Table 1: Comparison of MBDs by total assets volume
and annual volume of approved loans**

Multilateral Development Bank	Total assets as at 31 December 2024 (for the World Bank Group as at 30 June 2024) (mil. EUR)	Volume of approved loans for 2024 (for the World Bank Group for fiscal year 2023/2024) (mil. EUR)
European Investment Bank (EIB)	556 442	91 734
International Bank for Reconstruction and Development (IBRD)*	312 543	32 926
Asian Development Bank (ADB)*	238 160	21 038
International Development Association (IDA)*	211 525	27 340
Inter-American Development Bank (IADB)*	136 168	10 420
International Finance Corporation (IFC)*	94 817	27 742
European Bank for Reconstruction and Development (EBRD)	86 467	16 583**
Asian Infrastructure Investment Bank (AIIB)*	50 057	11 398

²⁰ See COUNCIL OF EUROPE DEVELOPMENT BANK (2025): *Financial Report 2024*, p. 4 and 55 et seq.

²¹ See *ibid.*, p. 5.

²² REYES, O. (2020): The Council of Europe Development Bank and Covid-19. In MCDONALD, D. A. – MAROIS, T. – BARROWCLOUGH, D. (eds.): *Public Banks and Covid-19 – Combatting the Pandemic with Public Finance*. Kingston – Geneva – Brussels : Municipal Services Project – UNCTAD – Eurodad, 2020, p. 118.

²³ See e.g. BROCKOVÁ, K. – WINKLER, M. (2025): *International Economic Law*. Bratislava : Wolters Kluwer SR, p. 54.

African Development Bank (AfDB)*	37 224	4 882
Council of Europe Development Bank (CEB)	34 418	4 549

Source: own elaboration based on: EIB Financial Report 2024, World Bank Group Annual Report 2024, Asian Development Bank Annual Report 2024, Inter-American Development Bank Annual Report 2024: The Year in Review, IFC 2024 Annual Report Financials, EBRD Financial Report 2024, Asian Infrastructure Investment Bank Auditor's Report and Financial Statements for the Year Ended Dec. 31, 2024, African Development Bank Group 2024 Annual Report, CEB Financial Report 2024.

Explanatory notes:

*) Figures converted from USD to EUR at the ECB exchange rate on 10.6.2025.

**) This is the indicator called Annual Bank Investments = volume of commitments made by the Bank during the year. This includes: (i) new commitments (less any amount cancelled or syndicated within the year); (ii) restructured commitments; and (iii) amounts issued under the Trade Facilitation Programme (TFP) during the year and outstanding at year end.

The CEB has adopted a Strategic Framework 2023 – 2027,²⁴ which it follows. This document pursues three main objectives in this period:

1. respond flexibly to evolving challenges in the field of social development and inclusion,
2. to invest in the assistance and integration of refugees and migrants, in their host communities and in preparedness for future migration dynamics,
3. to support the reconstruction and rehabilitation needs of Ukraine's social sectors.²⁵

According to Strategic Framework 2023-2027 a special attention of CEB shall be paid to the following sectors:²⁶

- a) health and social care,
- b) education and vocational training,
- c) social and affordable housing,
- d) urban, rural and regional development,
- e) micro, small and medium-sized enterprise (MSME) financing and
- f) microfinance.

Ad a): Within the health and social care sector, the CEB will focus in particular on addressing disparities in access to and quality of health care, the challenges of ageing populations and non-contagious diseases, women's health, pandemic threats and, most recently, the impact of climate change on human health. Based on this background, CEB funding will focus on:

- selected primary health care centres,
- selected hospitals and
- long-term care and social care that can elderly people, as well as people with disabilities or other vulnerable people, to lead good lives in the community.

As part of its focus on the health and social sectors, the CEB will also promote gender equity in terms of wages and the economic advancement of women, as these are sectors where female employees outnumber male. At the same time, the CEB will ensure that funding for these sectors takes into account the improvement of the living conditions of migrants and refugees.²⁷

Ad b): In the education sector, the CEB will focus on promoting quality and inclusive education. In doing so, it wants to focus not only on content but also on educational infrastructure (the design of buildings, their energy efficiency, digital technologies used in

²⁴ COUNCIL OF EUROPE DEVELOPMENT BANK (2022): *Strategic Framework 2023 – 2027*.

²⁵ Ibid., p. 11.

²⁶ Ibid., pp. 12-15.

²⁷ Ibid., p. 12.

education, etc.). In this sector, the CEB wants to focus in particular on helping low-skilled workers who are at risk of losing their jobs as the result of new technological trends, as well as on the integration of migrants and refugees.

Ad c): The CEB will promote affordable housing for vulnerable groups of people in order to foster inclusive mixed neighbourhoods. The CEB will support affordable rental housing as well as housing for students and the elderly. The CEB will combat homelessness.

Ad d): In the area of regional development, the CEB focuses on the development of communities of all sizes (metropolitan areas, small towns and rural areas). The beneficiaries are to be local self-governing units and their institutions. CEB support should focus on social cohesion, resilience and environmental sustainability.

Ad e): The CEB will provide financing to micro, small and medium enterprises through intermediary financial institutions. The aim is to create and preserve jobs and support the local economy. In particular, energy efficiency and climate change response will be areas of CEB support.

Ad f): Microfinance, i.e. small loans to be provided not only to businesses but also to consumers. The CEB's support for microfinance is to take the form of support for the financial institutions that provide such finance, in particular to compensate them for the high risk they bear as a result of providing microloans. Microfinance is also a tool to help people suffering from financial exclusion, such as refugees and migrants.

According to the Strategic Framework 2023-2027, the CEB also promotes three cross-cutting themes, which are:²⁸

- climate action,
- gender equality and
- digitalisation.

Unlike other multilateral development banks, the CEB has so far not paid much attention to climate change mitigation in its work. However, by making this a cross-cutting theme in its strategic plan for 2023-2027, the CEB has expressed the importance of the climate impact criterion in assessing the projects it will support. Nevertheless, going forward, it can be said that there is no change in its main focus, which is to support social programmes and projects.

Conclusion

The CEB is one of the smaller and lesser known multilateral development banks. Its focus is exclusively on Europe, where it has an indispensable place. However, the effects of its aid are also felt outside Europe, in that a significant part of its work involves supporting migrants and refugees from non-European countries who, once integrated into the labour market in their new home countries, support their relatives in their home countries with remittances.

Although the CEB shares a number of common features with other multilateral development banks (its 'shareholder' nature, its internal structure, its decision-making methods, its methods of support and sources of funding, its high rating from rating agencies), it also has certain specificities, among which we include its:

- focus – CEB is the only multilateral development bank that focuses exclusively on social objectives,
- regional nature – CEB is the only multilateral development bank that supports projects exclusively in Europe,
- internal control mechanism – CEB is the only multilateral development bank with an Auditing Board as one of its core bodies,

²⁸ Ibid., pp. 16-17.

- link with the values of human rights, democracy and the rule of law – CEB is the only multilateral development bank that takes these values into account when assessing and approving projects,
- close links with the international organisation whose objectives the CEB supports, i. e. the Council of Europe – the bodies of the Council of Europe can intervene directly in the CEB's approval process of projects,
- specificities in the funding – this is the provision of grants from specific sources, the so-called *trust accounts*.

The CEB's Strategic Plan 2023-2027 demonstrates that the CEB, through its focus and activities, will continue to meet its core objectives in the field of social development, specifically in the sectors of health, education, regional development, housing and support for micro, small and medium-sized enterprises. It will continue to provide significant support to excluded and vulnerable social groups such as refugees, migrants, the disabled and the elderly. The CEB is also a major supporter of Ukraine resisting Russian aggression. The focus will also be on climate objectives, which have not played as prominent a role in the CEB's strategic objectives as in the other multilateral development banks. The CEB will continue to play an important role in supporting social projects in Europe. As a little-known institution, it would benefit from better visibility and presentation of its activities.

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FOREIGN POLICIES OF SELECTED AFRICAN STATES¹

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Abstract: This paper analyses the foreign policy strategies of four African states—Kenya, Nigeria, South Africa, and Mali—based on their official or representative foreign policy documents. It highlights African countries as autonomous actors shaping their external engagements, the aspect, that is seldomly studied. The study compares how these countries frame their relationships with major global powers, including the United States, the European Union, China, and Russia. It finds that democratic African states emphasize diversified partnerships, regional integration, and themes such as strategic autonomy and diaspora engagement. In contrast, Mali, following recent coups, adopts a more sovereignist and anti-Western stance, aligning more closely with Russia and China.

Keywords: Africa, foreign policy, USA, European Union, Russia, China

JEL: F50, O55

Introduction

The study of international relations has been primarily focused on developed countries of the Global North. Only recently has there been a shift to studying the countries of the Global South not just as objects of International Relations but as actors in them. This paper aims to continue with this trend, focusing on the foreign policies of selected African countries. There have been studies on how Africa is portrayed in the strategic foreign policy documents of global actors, such as the European Union, the Russian Federation, and the United States of America. However, foreign policy strategies of African countries or other countries of the Global South are seldom studied.

In this paper, we focus on the foreign policy objectives and strategies of selected African states, examining how they perceive international partners and global actors, such as the United States, the European Union, Russia, and China, and whether and how they mention them in their foreign policy strategy documents. This paper aims to describe the positions of selected African states towards key international actors, including the USA, Russia, the European Union, and China, as declared in their foreign policy strategic documents. To compare the positions of African states, we selected several states from different regions, including Kenya, Nigeria, and South Africa. To capture the differences between democratic states and those that have recently undergone a change in their political situation, we included Mali as a representative of the so-called "Coup belt" in the Sahel region.

1 Africa in International Relations

Most works on Geopolitics and International Relations focus on the countries of the Global North, and even books on the geopolitics of Africa often treat the continent as an object of international relations, strategies, and policies of developed countries. However, Africa comprises over fifty independent states with their distinct foreign policies and interests. Researchers have recently begun to treat Africa as a subject of international relations, calling

¹ This paper is part of the project I-24-106-00 'Changes in the positions of global actors in economic relations with Africa'.

for a shift in the outlook of International Relations theory to incorporate Africa's specific characteristics.

Power² claims that non-Western countries, in general, and Africa specifically, have been neglected and misrepresented in the disciplines of Political Geography and International Relations. On the other hand, including Africa in these studies is not a straightforward matter, as the disciplines remain Western-centric, and the representation of Africa is often superficial, emphasizing its otherness.³ Odoom and Andrews⁴ go even further in their recommendations on how to include the African perspective in the study of International Relations. They propose redefining key terms in the study of International Relations, such as "state" or "liberalism," to incorporate the diverse realities of African experiences, which would extend beyond merely incorporating readings of critical theories into the syllabi of International Relations.

Nkiwane⁵ highlights the potential of African scholarly views on traditional concepts of International Relations, such as liberalism, human rights, and democracy, as the colonial period and independence movements in these countries often overshadow the meanings of these terms in the African context. She specifically mentions the idea of the triumph of the liberal economic model and its accompanying peace dividends, which does not necessarily describe the reality in many impoverished African countries.

Brown⁶ claims that the inclusion of African agencies into the study of International Relations has been met with two different reactions: (1) excitement that the constraints have been lifted, or (2) the changes are superficial, and global inequality remains unchanged. Brown argues that, despite improvements, there are still hurdles that limit the agency of specific countries or groups within countries, which should be further studied and taken into account. However, in a different study,⁷ he defends the discipline of International Relations and argues for its relevance to Africa, except in the case of neorealism. His view is that most critics of African inclusion in International Relations are aimed at criticizing neorealism and the problems with it exist even without the lens of the African perspective.

Dunn⁸ even argues that neorealism and its focus on great powers of International Relations downplays the development of problems in Africa, citing specifically the example of the Rwandan genocide. This systematic underestimation of African politics can lead to serious crises that could have been prevented if Africa were not viewed as the source of catastrophes and its problems as "Africans just being Africans."

As Vil-Nkomo⁹ States in the preface of *Africa and the World: Navigating Shifting Geopolitics*, Africa is strategically located between East and West, which has led to domination and exploitation in the past. However, this position presents unique political, security, and geo-economic benefits. He sees the potential for Africa to become an active agent in shaping the changing global order if the countries can present a united front toward the rest of the world.

Papers on the foreign policies of African states or those advocating an African perspective in International Relations often employ the term "strategic autonomy" about Africa as a whole. Strategic autonomy can be defined as "the ability of a state or a group of states to independently outline their foreign, security, and defence policies, backed by enough institutional, political, and material resources to implement these policies in collaboration with

² POWER, M. (2019): Post-colonialism, geopolitics and the periphery.

³ ABRAHAMSEN, R. (2017): *Africa and international relations: Assembling Africa, studying the world.*

⁴ ODOOM, I. – ANDREWS, N. (2017): What/who is still missing in International Relations scholarship? Situating Africa as an agent in IR theorising.

⁵ NKIWANE, T. C. (2001): *Africa and International Relations: Regional Lessons for a Global Discourse.*

⁶ BROWN, W. (2012): *A Question of Agency: Africa in international politics.*

⁷ BROWN, W. (2006): *Africa and international relations: a comment on IR theory, anarchy and statehood.*

⁸ DUNN, K. C. (2001): *Introduction: Africa and International Relations Theory.*

⁹ VIL-NKOMO, S. (2020): *Preface.*

others, as well as unilaterally where needs be".¹⁰ Isikalu et al.¹¹ advocate for regional cooperation as a means to achieve strategic goals for Africa. They specifically focus on cooperation within West Africa on the platform of the Economic Community of West African States (ECOWAS).

El Bikam et al.¹² also consider cooperation among African states as the key prerequisite for building African strategic autonomy. They call for wider participation of civil society in Africa in building strategic autonomy, as their involvement is key to addressing challenges specific to Africa, such as poverty, population growth, and security threats. Quinn¹³ researched the foreign policies of African countries from many perspectives, focusing on actors, partners, or the most common concerns of the region: decolonization, nation-building, economic and political autonomy, or economic development.

With the existence of numerous regional integration organizations, regionalism is another significant theme in the foreign policies of African countries. Babarinde¹⁴ evaluated this cooperation and attempts to build common foreign policies within the bloc and found an example of beneficial cooperation. This example was the successful negotiation between the European Union and ACP, where the input of Southern African Development Community (SADC) have been implemented (successful North-South cooperation).

The most specific theme within foreign policies of most African states in the early 20th century has been economic assistance and foreign aid.¹⁵ Currently, the shift has been more towards economic development combining domestic opportunities with foreign sources of capital in the form of assistance and investment.

2 Data and methods

In the second part of this paper, we are analysing foreign policy documents of four African countries. We selected countries based on their specificity and importance within the African continent, aiming to cover several regions of the continent. We chose two of the three largest economies on the continent, which regularly hold the top three positions in different rankings. These countries are Nigeria and South Africa, which represent different regions within Africa: Western Africa and Southern Africa, respectively. Another country we chose was Kenya, a representative of eastern African countries and one of the region's largest economies. All three of these countries are former British colonies, so we added one more country, which is Mali. Not only is Mali a former French colony, but its specificity also lies in its recent history. In the early 2020s, Mali went through a series of coups d'état. Following the overthrow of the government by military officers, Mali is revising its foreign policy, including the withdrawal from ties with European countries and, most significantly, severing its connections to France, stemming from its colonial history. Nowadays, Mali is focusing more on cooperation with other countries, most importantly, China and the Russian Federation. Mali is not the only country with this trajectory and represents several such countries in the Sahel region; therefore, we included it in our analysis.

Our analysis is based on official foreign policy documents of these countries, if available. In the case of Kenya and South Africa, these countries have had official documents describing their foreign policy strategies for several years, and these documents are relatively

¹⁰ ISIKALU, A. A. et al. (2021): ECOWAS and Strategic Autonomy of the Global South in International Development.

¹¹ Ibidem.

¹² EL BIKAM, A. et al. (2017): African Union: What are the Possible Options for Strategic Autonomy?

¹³ QUINN, J. J. (2017): African Foreign Policies.

¹⁴ BABARINDE, O. A. (1999): Regionalism and African Foreign Policies.

¹⁵ AKOKPARI, J. K. (2001): Post-cold war international relations and foreign policies in Africa: New issues and new challenges.

new. In the case of Kenya, the document was adopted in 2024;¹⁶ in the case of South Africa, the document dates back to 2022.¹⁷ Nigeria hasn't had a new foreign policy document since the beginning of the current president's administration, Tinubu, who took office in 2023. However, we found an official document describing the Tinubu government's foreign policy¹⁸ by the Senior Special Assistant to the President on Foreign Affairs & International Relations, and the document is very similar to what you would find as the foreign policy strategy of the country

The most specific was the situation with Mali, as Mali doesn't have its foreign policy written anywhere specifically since the change of government. In the case of Mali, we relied on the document by the International Crisis Group.¹⁹ This document describes Mali's foreign policy since President Traore took power in 2021. It is similar to the foreign policy strategies found in other countries; however, it is written from the perspective of the International Crisis Group, an independent organization, rather than the government.

To describe the country's foreign policy, we focused on two main areas. First, we tried to identify the leading points of the policy and the most important messages from these documents. The second part that we focused on was the description of the relationship or policy towards the most important players in the global economy and policy. In this paper, we have chosen four partners: the United States of America, the Russian Federation, the People's Republic of China, and the European Union. If other important partners were prominent in the description of foreign policy, we also included them in the analysis.

3 Foreign policies of Kenya, South Africa, Nigeria and Mali

Kenya's foreign policy is most comprehensively described in the document 'The Grand Strategy to Position Kenya's Foreign Policy in the Global Landscape.'²⁰ written in 2024. This document is over 100 pages long and represents the revision of Kenya's previous foreign policy strategy, dated 2014. The key principles of current Kenyan foreign policy are Pan-Africanism and value-driven policy, and Kenya aims to forge relationships with a wide range of partners in plural and diversified, mutually beneficial relations. Another specifically important part of Kenya's foreign policy is its diaspora diplomacy, which recognizes the importance of the Kenyan diaspora as an asset in shaping the countries' international relations. Kenyan foreign policy also prioritizes environmental and climate diplomacy. Kenya has identified several key focus areas in its foreign policy, including Peace and Security diplomacy, Economic and Commercial diplomacy, Oceans and Blue diplomacy, Global Governance and Multilateral diplomacy, Environmental and Climate Change diplomacy, Science, Technology, and Innovation diplomacy, Diaspora diplomacy, and Socio-Cultural diplomacy.

The part of the document that describes Kenya's bilateral regulations is organized into three sub-chapters based on the proximity of the countries to Kenya. The first layer of bilateral ties, which is described as defining Kenya's foreign policy, is its neighbours. This includes eight members of the East African Community (EAC) and eight members of the Intergovernmental Authority on Development (IGAD). Kenya is a member of both organizations, and the partners in this close neighbourhood, which is crucial for Kenya's foreign policy, include Uganda, Somalia, Tanzania, South Sudan, Ethiopia, Rwanda, Burundi, the Democratic Republic of the

¹⁶ Office of the Prime Cabinet Secretary and Ministry of Foreign and Diaspora Affairs (2025): Sessional Paper No. 01 on The Foreign Policy of the Republic of Kenya: the Grand Strategy to Position Kenya's Foreign Policy in the Global Landscape.

¹⁷ Department of International Relations and Cooperation (2022): Framework Document on South Africa's National Interest and Its Advancement in a Global Environment.

¹⁸ ENIKANOLAIYE, S. (2025): Tinubu and Nigeria's Foreign Policy.

¹⁹ International Crisis Group (2024): A Course Correction for Mali's Sovereign Turn.

²⁰ Office of the Prime Cabinet Secretary and Ministry of Foreign and Diaspora Affairs (2025): Sessional Paper No. 01 on The Foreign Policy of the Republic of Kenya: the Grand Strategy to Position Kenya's Foreign Policy in the Global Landscape.

Congo, Djibouti, Eritrea, and Sudan. The second layer of important bilateral partners of Kenya are the other African states that were not included in the first category. This part of the policy includes support for African Union activities, most importantly, the African Continental Free Trade Area (AfCFTA), and an important part of Kenyan policy in this regard is visa-free access to Kenya from all African countries, which is unique in Africa as African states still have quite a lot of travel barriers within the continent.

The rest of the world and Kenya's bilateral relations with the rest of the world are divided among five regions: Asia and the Pacific, Europe, the Americas and the Caribbean, the Middle East, and the Western Indian Ocean. China is mentioned in this document, along with other Asian countries such as Japan, India, South Korea, Indonesia, Malaysia, and Singapore, as a source of foreign direct investment, manufacturing, technological partnerships, trade, and infrastructure development. European Union is described as the most important trade and development cooperation partner, and the document mentions several strategic documents that frame the cooperation between Kenya and the European Union. The document also highlights the relationship with the United Kingdom, as it is no longer part of the Kenya-EU relationship. Additionally, the United States of America is specifically mentioned, with the AGOA cooperation serving as a boost for Kenya's exports to the USA. Of the four important global players chosen for this paper, only Russia is not specifically mentioned in Kenya's foreign policy strategy.

South African foreign policy remains to be centred around Ubuntu as a principle of humanity. The document defining South Africa's foreign policy is called "Framework Document on South Africa's National Interest and Its Advancement in a Global Environment."²¹ South Africa's national interests are divided into five parts: political interests, security interests, human development, economic interests, and ideological and global interests.

South African foreign policy strategy does not focus particularly on relations with specific countries. However, all partners selected for this paper are mentioned. The South African strategy emphasizes the development of new partnerships, such as cooperation within BRICS countries, while maintaining close connections to traditional partners, including the USA and the European Union.

Current Nigerian foreign policy was described by Ambassador Sola Enikanolaiye,²² the Senior Special Assistant to the President on Foreign Affairs in 2025. The primary objective of the new government's foreign policy is to transition Nigerian foreign policy from a passive to an active approach to global engagement. President Tinubu, who took office in 2023, described peace and stability in the West African region and across Africa as the primary objective of his foreign policy. Similarly to Kenya, Nigeria is focusing on its immediate neighbourhood first and the whole of Africa second. The other partners are beyond this primary focus, as in the case of Kenya. Nigerian foreign policy focuses primarily on integration cooperation. In the case of Nigeria, it is the cooperation within the Economic Community of West African States (ECOWAS). Nigerian foreign policy can also be described under the abbreviation four Ds: democracy, development, demography, and diaspora. The document also mentions strategic autonomy described in the first part of this paper. Only a few countries are specifically mentioned in this document to illustrate that Nigerian foreign policy is not focused on a single region or type of country but rather has a diverse set of partners. In this list, the United States of America, the European Union, and China are mentioned. The only country not mentioned in this document among the countries studied in this paper is Russia. Russia is only mentioned as a source of tension in Sahel region countries, such as Mali, Burkina Faso, and Niger, and the

²¹ Department of International Relations and Cooperation (2022): Framework Document on South Africa's National Interest and Its Advancement in a Global Environment.

²² ENIKANOLAIYE, S. (2025): Tinubu and Nigeria's Foreign Policy.

document describes Russian involvement and the involvement of the Wagner group in this region as unfortunate.

The foreign policy of Mali after the coups d'etat in 2020 and 2021 is not part of an official document yet, so for this analysis, we rely on the study of the International Crisis Group²³ written in December 2024. In this paper, the International Crisis Group documents the change in foreign and domestic policy in Mali. The key concept described here is state sovereignty. This stems from two different disappointments connected to the previous government. The first is internal, where the previous government was perceived as unable to combat insurgencies within the country, and the second is the disappointment with the actions of mostly European military forces that came to assist with these insurgencies. Based on the unfavourable results of the combination of domestic politics and foreign interventions, Mali altered its policy with the coup, also changing its course in international relations. The security architecture that was in place before the coup was dismantled, and most of the European troops were sent away from the country. These troops were mainly French, as Mali was a former French colony. This change is also linked to Russia's increased activities in Mali. Russia is active in Malian politics, security, media, and social networks. Russia is financing campaigns through mostly Facebook to support good relations between Mali and Russia. In the security corporation, the most active actor from Russia in Mali is the Wagner group, and Russia is also favourably portrayed in the media and favoured by the current leaders of Mali. However, cooperation with Russia is not benefiting Mali economically. Russia is partially stepping in with energy deals in Mali. However, when it comes to economic cooperation, Mali is seeking support, primarily from China, in the form of investment and development financing opportunities. The authors of the study claim that Mali will not be able to finance its development without Western partners and should not close the door to cooperation with them. The option for Mali is to maintain its sovereignty in foreign affairs while establishing a corporation with parties that are open to closer cooperation with Russia.

Conclusion

This paper shows that African countries have foreign policies that are similar in some respects but differ in others. What is common to Africa is some form of autonomy mentioned in their foreign policies, whether it is in the form of strategic autonomy, as in the case of Nigeria, or sovereignty, as in the case of Mali. However, in democratic African countries, an independent foreign policy typically means that the country is open to cooperation with a wide range of actors from different parts of the world while maintaining its neighbours and other African countries as key partners. In the case of Mali, which has been under a military dictatorship since 2020, and the new government's policy is strongly opposed to European influence, or more specifically, French influence, the foreign policy takes a different approach. Mali is leaning more towards Russia and further away from France; therefore, unlike other African countries, it is closing the doors to cooperation with the European Union at least partially. However, as the International Crisis Group study notes, Mali will need to diversify the range of actors it cooperates within its foreign policy. Currently, it is partially closing the doors to cooperation with the European Union and other Western countries. However, to fulfil its economic needs and foster development, it will need to seek partnerships with economically strong countries, both within and outside the European Union.

With this paper, we aim to contribute to the growing interest in studying African countries within the discipline of International Relations. After decades of independence of African states, their sovereign foreign policies, reflecting their differing interests, are still overshadowed by global players. This paper's aim is to shed light on their positions within international relations.

²³ International Crisis Group (2024): A Course Correction for Mali's Sovereign Turn.

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MEASURING FOREIGN DIRECT INVESTMENT: CONCEPTS, INDICATORS AND DATA CHALLENGES¹

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Abstract: In the current global economy, foreign direct investment continues to play an important role in business operations and in affecting national economies. It is therefore essential that theoretical concepts and indicators related to cross-border investment are transparent, reliable, comprehensive, and comparable internationally and over time. The aim of the conference paper is to summarize basic theoretical concepts, indicators and data challenges in the field of foreign direct investment by applying a conceptual framework analysis. We conclude that the definitions of foreign direct investment provided by international economic organizations have not changed for several years, with control or a significant degree of influence as well as a lasting interest in a direct investment enterprise remaining the two basic characteristics of direct investment. The paper then classifies foreign direct investment indicators into individual and composite indicators, while the former is further subdivided into simple and compound individual indicators, and the latter is subdivided into direct and indirect composite indicators.

Keywords: foreign direct investment, indicator, index, flow, stock, income

JEL: F21, F60

Introduction

Foreign direct investment (FDI) is considered to be a major driver of globalization, i.e. the increasing economic integration of economies around the world. However, the current world economy is rather experiencing the so-called slowbalization or even deglobalization, which are characterized, inter alia, by nearshoring, friendshoring and reshoring, as well as a slowdown in global FDI flows. The share of global FDI net inflows in the world GDP has decreased from 5.3% in 2007 to 0.7% in 2023.² Nevertheless, foreign direct investment continues to play an important role in many advanced and developing economies of the world. Clearly defined concepts of foreign direct investment, along with reliable and internationally comparable foreign investment statistics and indicators, are therefore essential for appropriate investor decision-making, valuable economic analysis, and effective policymaking.

The aim of the conference paper is to summarize some basic theoretical concepts, indicators and data challenges in the field of foreign direct investment. This paper reviews existing foreign direct investment variables and classifies them into broader groups, such as individual and composite indicators. Regarding methodology, the paper applies a conceptual framework analysis to identify, organize, and interpret key concepts and indicators relevant to researchers, policymakers, and businesses for analyzing FDI trends, patterns, and effects. The paper is based on official sources provided by international economic organizations, with the main sources being the recently updated *Integrated Balance of Payments and International Investment Position Manual, Seventh Edition (BPM7)*, published by the International Monetary Fund in March 2025, and the *OECD Benchmark Definition of Foreign Direct Investment, Fifth*

¹ This conference paper was written as part of the project No. 09I03-03-V04-00505 entitled “Contemporary Trends in FDI Regulation and Promotion”, funded by the Slovak Recovery and Resilience Plan.

² WORLD BANK (2025): Foreign direct investment, net inflows (% of GDP).

Edition, published by the Organization for Economic Co-operation and Development in May 2025.

1 Basic Theoretical Concepts of Foreign Direct Investment

The most widely used and internationally recognized definitions of foreign direct investment are those provided by the International Monetary Fund (IMF) and the Organization for Economic Co-operation and Development (OECD). The IMF's *Integrated Balance of Payments and International Investment Position Manual, Seventh Edition (BPM7)*, published in March 2025, defines foreign direct investment as “a category of cross-border investment associated with a resident in one economy having control or a significant degree of influence on the management of an enterprise that is resident in another economy”.³ According to the *OECD Benchmark Definition of Foreign Direct Investment, Fifth Edition*, published in May 2025, FDI is “a category of cross-border investment made by a resident in one economy (the direct investor) with the objective of establishing a lasting interest in an enterprise (the direct investment enterprise) that is resident in an economy other than that of the direct investor”.⁴ The definitions of FDI provided by these two international economic organizations have not been revised compared to the previous OECD benchmark definition (fourth edition) from 2008, as well as the definition given in the previous IMF's manual (sixth edition) from 2009.

Based on the above definitions, there are two essential characteristics of foreign direct investment: (i) control or a significant degree of influence, and (ii) a lasting interest in a direct investment enterprise, which usually takes form of a subsidiary, an associate or a branch. An investor is considered to be able to exercise a significant degree of influence on the management of a direct investment enterprise with the ownership of 10% or more of the voting power, while control is determined to exist if an investor owns more than 50% of the voting power.⁵ In practice, however, this criterion is not always appropriate. In some cases, it is possible to exercise a significant degree of influence by owning less than 10% of the voting power or, conversely, by owning significantly more than 10%. A lasting interest refers to the existence of a long-term relationship between a direct investor and a direct investment enterprise. These characteristics distinguish foreign direct investment from portfolio investment. Therefore, FDI can be considered as a long-term active form of cross-border investment, whereas portfolio investment rather takes a short- to medium-term passive form.

Foreign direct investment represents one of the five functional categories of the international accounts (balance of payments financial account, international investment position) along with portfolio investment, financial derivatives, other investment and reserve assets. The balance of payments financial account records FDI flows, while foreign direct investment income is recorded in the balance of payments current account as primary income. Direct investment statistics record both the initial investment and all subsequent investment made by a direct investor. FDI comprises three different components: (i) equity capital (the initial equity transaction that meets the 10% threshold and all subsequent financial transactions and positions between a direct investor and a direct investment enterprise),⁶ (ii) reinvested earnings (income of a direct investor that is not distributed as dividends but is reinvested in a direct investment enterprise), and (iii) intracompany loans (borrowing and lending of funds between direct investors and direct investment enterprises)⁷. The breakdown of FDI into these components is important for understanding cross-border investment patterns and trends.

³ IMF (2025): *Integrated Balance of Payments and International Investment Position Manual, Seventh Edition (BPM7)*, p. 242.

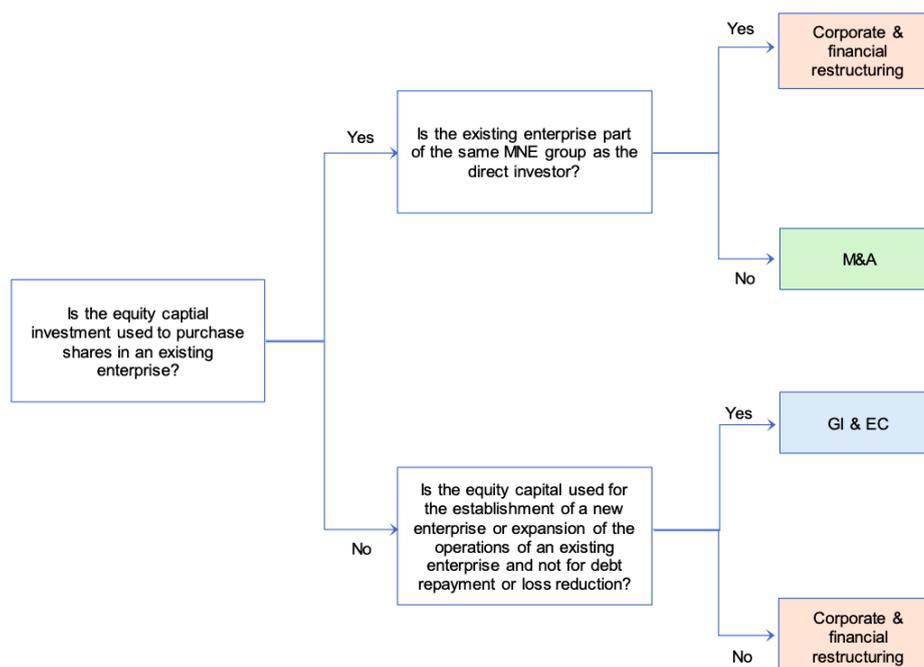
⁴ OECD (2025): *OECD Benchmark Definition of Foreign Direct Investment, Fifth Edition*, p. 18.

⁵ IMF (2025): *Integrated Balance of Payments and International Investment Position Manual, Seventh Edition (BPM7)*, p. 244.

⁶ UNCTADstat (2025): *Foreign direct investment: Inward and outward flows and stock, annual*.

⁷ UNCTAD (2022): *Methodological Note. World Investment Report 2022*, p. 4.

Scheme 1: Foreign direct investment by type of operation



Source: OECD (2025): OECD Benchmark Definition of Foreign Direct Investment, Fifth Edition, p. 203.

Foreign direct investment can be classified from various perspectives. The BPM7 classifies FDI according to the instrument into debt and equity instruments, as well as by sector into central bank, deposit-taking corporations except central bank, general government, other financial corporations, non-financial corporations, and households and non-profit institutions serving households.⁸ According to the type of operations, the new OECD benchmark definition differentiates between greenfield investment (GI), extension of capacity (EC), mergers and acquisitions (M&A), and corporate and financial restructuring.⁹ Greenfield investment refers to FDI where a direct investor starts new operations in the host country from the ground up. Extension of capacity is defined by the IMF as “capital injections that are used to expand the capacity of direct investment enterprise that have existed for three years or more”.¹⁰ Put simply, extension of capacity is an additional new investment to expand already established direct investment enterprise. Mergers represent an agreement to combine two or more companies into a single operation, whereas acquisitions refer to the purchase of a company by another one.¹¹ Corporate and financial restructuring includes a variety of different FDI transactions, defined by the OECD as “the intra-group transfer of existing FDI equity to existing or newly created subsidiaries without any major impact on the productive activities of the group, and/or use of equity instruments for loss reduction and debt repayment”.¹² In addition, FDI can also take the form of joint venture in which a direct investor enters into a business partnership with a foreign enterprise to form a new entity.

The different types of FDI according to the nature of transaction can be distinguished using the decision tree that can be seen in Scheme 1. This classification also provides important

⁸ IMF (2025): Integrated Balance of Payments and International Investment Position Manual, Seventh Edition (BPM7), p. 255.

⁹ OECD (2025): OECD Benchmark Definition of Foreign Direct Investment, Fifth Edition, p. 197.

¹⁰ IMF (2025): Integrated Balance of Payments and International Investment Position Manual, Seventh Edition (BPM7), p. 776.

¹¹ IMF (2025): Integrated Balance of Payments and International Investment Position Manual, Seventh Edition (BPM7), p. 311.

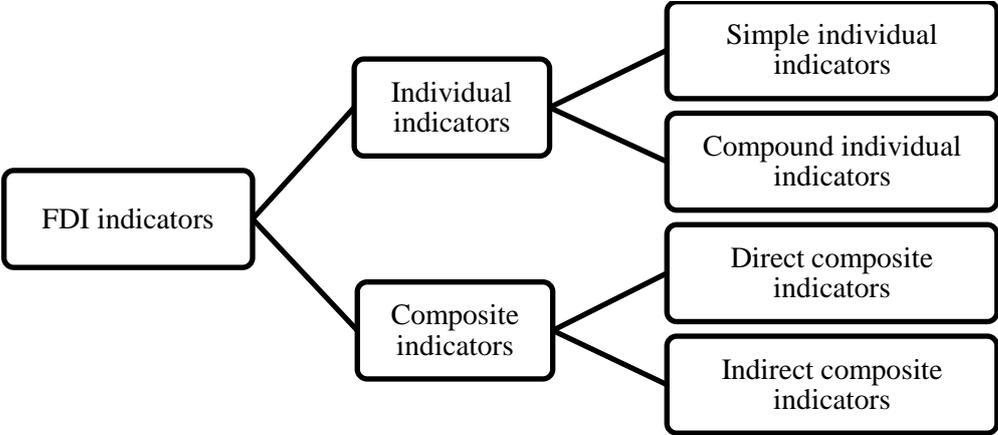
¹² OECD (2025): OECD Benchmark Definition of Foreign Direct Investment, Fifth Edition, p. 200.

information to policymakers and researchers by indicating the potential impact of FDI on the host country’s economy. On the one hand, greenfield investment and extension of capacity are associated with the most significant impact on the host country’s economy through creating new productive capacities, and thus increasing output, productivity and employment. On the other hand, M&A are usually of a limited economic importance given the fact that they only result in a change of existing company’s ownership and organization, whereas corporate and financial restructuring does not impact productive activities. However, M&A can contribute to the host country’s economic development by bringing in new technologies, managerial skills and know-how, as well as through other potential channels.

2 Overview of Foreign Direct Investment Indicators

In general, foreign direct investment indicators can be divided into individual and composite indicators. We further subdivide individual indicators into simple and compound measures (Scheme 2). Simple FDI indicators include three main categories of measures such as flows, positions and income. From a statistical perspective, these variables can take the form of either inward investment (investment by foreigners in the reporting economy) or outward investment (investment by resident companies in foreign entities). Foreign direct investment flows (transactions) denote the new inward or outward investment recorded during the reference period, typically year or quarter. Foreign direct investment positions (stock) represent the accumulated value of inward or outward FDI at a specific point in time, usually at the end of the year.¹³ FDI flows and positions are usually broken down by components, i.e. equity capital, reinvested earnings and intracompany loans.

Scheme 2: Classification of foreign direct investment indicators



Source: Author’s own elaboration.

In short, simple individual indicators mainly comprise *inward FDI flows*, *outward FDI flows*, *inward FDI stock*, and *outward FDI stock*, which tend to be recorded on a net basis (credits minus debits), i.e. net acquisitions of assets in the case of outward FDI, and net incurrence of liabilities when it comes to inward FDI. One of the most widely used indicators is *FDI net inflows*, calculated as new foreign direct investment inflows less disinvestment in the reporting economy.¹⁴ This implies that only net values are used, i.e. the value of disinvestment, including repatriation of capital and loan repayment, is deducted from the value

¹³ OECD (2025): OECD Benchmark Definition of Foreign Direct Investment, Fifth Edition, p. 93.
¹⁴ WORLD BANK (2025): DataBank. Metadata Glossary.

of inward FDI made by non-resident investors in the reporting economy. Therefore, negative values of *FDI net inflows* indicate that the withdrawal of investments exceeds new FDI in a given period of time. The indicator *FDI income* represents an income accruing to direct investors over a specified period of time, typically a year.¹⁵ There are three main kinds of investment income, such as dividends, reinvested earnings and interest on loans. Inward and outward *FDI income* indicators provide information about the importance of the earnings of direct investment enterprises in the reporting country and abroad.¹⁶ In addition, simple individual indicators also cover some other variables, such as the number of greenfield investments, the value of cross-border M&A, foreign direct investment by sector or economic activity (NACE activities, ISIC industries) and others.

We classify as compound individual indicators those variables that are created by combining the values of two or more simple individual indicators. The variable *FDI net inflows as share of GDP* of the reporting country is commonly used as a measure of the host country's relative attractiveness to foreign investors as it takes into consideration the relationship between the amount of inward investment flows and the host country's economic size. Furthermore, the ratio of FDI inflows to GDP is commonly used as an indicator of the relative importance of globalization for the reporting economy or, in other words, the degree of its involvement in globalization processes.¹⁷ Similarly, *FDI stock as share of GDP* indicates the interdependence of economies, i.e. the level of reporting country's dependence on foreign economies (inward FDI stock to GDP ratio) and the degree of its penetration in foreign markets (outward FDI stock to GDP ratio).¹⁸ A comparison of inward and outward FDI positions as percentage of GDP denotes the reporting country's role in international investment relations either as a net exporter of FDI or net recipient of FDI. Inward and outward FDI flows and positions also tend to be expressed per capita or as percentage of gross fixed capital formation.¹⁹

An indicator *FDI intensity*, as calculated by Eurostat, represents the average value of inward and outward FDI flows divided by GDP, multiplied by 100%.²⁰ This indicator measures the intensity of investment integration within the international economy. In other words, *FDI intensity* indicates the extent to which the reporting country is open to international investment flows. It is important to note that the indicator *FDI intensity* is not calculated uniformly, for example, the international research centre Nordregio defines *FDI intensity* as the value of FDI inflows divided by GDP,²¹ which is in our case an indicator *FDI net inflows as share of GDP*. Therefore, these two indicators can be regarded as alternative indicators of the degree of globalization of an economy, with the indicator *FDI intensity* being more comprehensive because it takes into consideration not only inward but also outward FDI flows.

Another compound individual FDI indicator is *return on FDI* that provides preliminary information on the profitability and competitiveness of direct investment enterprises. According to the OECD, *return on FDI* is calculated as inward (or outward) FDI income expressed as a percentage of total inward (or outward) FDI stock.²² *Return on inward FDI* refers to income earned by foreign entities from their investments in the reporting country, whereas *return on outward FDI* refers to income earned by domestic companies from their investments abroad. The rate of *return on inward FDI* indicates not only the efficiency of foreign investments across countries and over time but also the investment climate of the reporting economy. An indicator

¹⁵ EUROSTAT (2025): Reference metadata. European Union direct investments (bop_fdi).

¹⁶ OECD (2008): OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition, p. 35.

¹⁷ OECD (2025): OECD Benchmark Definition of Foreign Direct Investment, Fifth Edition, p. 236.

¹⁸ OECD (2008): OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition, p. 35.

¹⁹ UNCTADstat (2025): Foreign direct investment: Inward and outward flows and stock, annual.

²⁰ EUROSTAT (2025): Reference metadata. European Union direct investments (bop_fdi).

²¹ NORDREGIO (2018): FDI inflows value and FDI intensity 2003-2016.

²² OECD (2025): OECD Benchmark Definition of Foreign Direct Investment, Fifth Edition, p. 238.

net FDI position is the difference between direct investment assets of residents of the reporting economy on non-residents and direct investment liabilities of residents of the reporting economy to non-residents.²³ In other words, the *net FDI position* represents the difference between outward FDI stock and inward FDI stock at a given point in time. A positive value of the *net FDI position* refers to a net FDI claim (net investor country), whereas a negative value denotes a net FDI liability (net recipient of FDI) to the rest of the world.

According to the OECD Glossary of Statistical Terms, “a composite indicator is formed when individual indicators are compiled into a single index, on the basis of an underlying model of the multi-dimensional concept that is being measured”²⁴. We further subdivide composite indicators on foreign direct investment into direct and indirect indicators (Scheme 2). The former are directly focused on various aspects of foreign direct investment, such as *FDI Regulatory Restrictiveness Index* and *FDI Confidence Index*, while the latter incorporate foreign direct investment as a component of more comprehensive indices in a specific area, such as *KOF Globalization Index* and *World Competitiveness Ranking*. To sum up, direct composite indicators focuses on FDI as a core indicator or area of interest, whereas indirect composite indicators include foreign investment as part of broader economic assessment.

The OECD *FDI Regulatory Restrictiveness Index*, created in 2003, measures the restrictiveness of a country’s foreign investment regime in 22 economic sectors across four main categories of investment restrictions, such as foreign equity limits, discriminatory screening or approval mechanisms, restrictions on key foreign personnel, and other restrictions faced by investors (e.g. acquisition of land and real estate for business purposes).²⁵ The index is scored on a scale from 0 (fully open to FDI) to 1 (fully closed).²⁶ The index can be used to empirically assess the potential effects of foreign direct investment regulatory reforms. Removing barriers to cross-border investment and providing non-discriminatory regime to foreign investment will most likely result in increasing FDI inflows. However, it is important to note that the index does not assess the overall attractiveness of a host country, nor is it a comprehensive measure of the country’s investment environment.²⁷ *FDI Regulatory Restrictiveness Index* ignores investment promotion policies and other factors that may attract FDI, such as macroeconomic stability, infrastructure quality, and human capital. In addition to that, the index measures only statutory (formal) restrictions,²⁸ whereas non-statutory (informal or practical) barriers that may occur during the implementation of FDI are omitted.

FDI Confidence Index, published by Kearney, ranks countries that are likely to attract the most investment over the next three years. The index is constructed using primary data from a proprietary survey of senior executives of the world’s leading multinational corporations. It is calculated as a weighted average of the number of high, medium, and low responses to questions on the likelihood of making a direct investment in a select market over the next three years.²⁹ Values are calculated on a scale of 0 to 3, with 3 being the highest level of confidence in a market for FDI, and 0 being the lowest level of confidence. This index reflects investors’ expectations, not just past FDI flows, which may help policymakers and businesses identify trends, risks, and opportunities in the international investment environment. However, the index is based on the subjective perceptions of business executives that can be affected by short-term events and may not necessarily reflect real future investment decisions. Furthermore, *FDI*

²³ EUROSTAT (2025): Reference metadata. European Union direct investments (BPM6).

²⁴ OECD (2009): OECD Glossary of Statistical Terms, p. 89.

²⁵ OECD (2025): FDI Regulatory Restrictiveness Index.

²⁶ OECD (2024): OECD FDI Regulatory Restrictiveness Index: Methodological framework.

²⁷ GOVERNMENT OF CANADA (2023): Understanding Canada’s performance on the OECD’s FDI regulatory restrictiveness index.

²⁸ OECD (2024): OECD FDI Regulatory Restrictiveness Index: Methodological framework.

²⁹ KEARNEY (2025): The 2025 Kearney FDI Confidence Index: World at inflection.

Confidence Index ranks only 25 target economies, which may not provide a complete picture of global FDI developments, although these countries account for most global FDI flows.

In the past, UNCTAD constructed *Inward FDI Potential Index* that assessed a country's capacity to attract foreign direct investment by using a set of economic, social, political and institutional factors of importance to foreign investors.³⁰ The index evaluated how well a country's characteristics are aligned with factors that typically attract FDI, such as market size, natural resources, infrastructure, institutions, and macroeconomic stability. It ranged from 0 to 1, with higher values indicating greater FDI potential. A complementary indicator was the UNCTAD *Inward FDI Performance Index*, which was calculated as the ratio of a country's share in global FDI flows to its share in global GDP.³¹ Thus, the index measured how successfully a country attracts FDI relative to its economic size. The index value higher than one indicates that a country attracts more FDI than expected in relation to the size of its economy, while the value lower than one indicates underperformance in attracting FDI as compared to its economic size. In the scientific literature, there have been some attempts to modify and improve *FDI Potential Index* that aims to assess countries' FDI attractiveness. For instance, Maza and Villaverde proposed alternative versions of computing *FDI Potential Index* based on UNCTAD approach, theoretical and empirical literature on FDI drivers, and upgraded methodology.³²

There are several indirect composite indicators that reflect, inter alia, different aspects of cross-border investment. For example, *KOF Globalization Index* measures economic, social and political dimensions of globalization by incorporating various foreign investment variables into its economic globalization sub-index, which comprises financial flows and trade flows.³³ The *World Competitiveness Ranking*, published by International Institute for Management Development (IMD), assesses the capacity of 69 economies to create and maintain an environment that sustains competitiveness of enterprises.³⁴ The index is based on both statistical data and survey responses from business executives. The national environment is divided into four main factors, such as economic performance, government efficiency, business efficiency, and infrastructure. Economic performance evaluates macroeconomic conditions of an economy and includes the international investment sub-factor by incorporating several FDI indicators, such as inward and outward FDI flows and stocks as well as FDI net position, expressed in monetary terms and as a percentage of GDP.³⁵ The index is relevant for policymakers and enterprises because it provides information on the quality of business environment, with a high score indicating a strong enabling climate for investment.

The *Index of Economic Freedom*, regularly published by The Heritage Foundation, covers investment freedom as one of 12 economic freedoms. It evaluates a variety of regulatory restrictions that are commonly imposed on foreign investment.³⁶ The index is relevant for policymakers and businesses by indicating the level of economic and entrepreneurial freedom of an economy, which affects the potential for cross-border investment flows. A greater degree of economic (including investment) freedom indicates less constraints on international capital movements. The index can be applied as a proxy for assessing the host countries' investment attractiveness. There are also some other composite indicators that may be relevant to foreign direct investment, such as the World Bank's *Business Enabling Environment* or Harvard Growth Lab's *Economic Complexity Index*.

³⁰ UNCTAD (2002): UNCTAD Benchmarks FDI Performance and Potential.

³¹ UNCTAD (2002): UNCTAD Benchmarks FDI Performance and Potential.

³² MAZA, A. – VILLAVERDE, J. (2015): A New FDI Potential Index: Design and Application to the EU Regions.

³³ KOF (2025): KOF Globalisation Index.

³⁴ IMD (2025): IMD World Competitiveness Booklet 2025, p. 56.

³⁵ IMD (2025): IMD World Competitiveness Booklet 2025, p. 145.

³⁶ THE HERITAGE FOUNDATION (2025): About the Index of Economic Freedom.

3 Major Challenges in Measuring Foreign Direct Investment

There are several challenges and limitations when it comes to data and statistics on foreign direct investment. These challenges and limitations affect the accuracy, comparability, and interpretability of FDI data across countries and time periods. One of the main challenges arises from the fact that countries may apply different methodologies and definitions of cross-border investments, in particular with regard to the coverage and investment classifications. In practice, however, it can be difficult to distinguish between different types of foreign direct investment and it is also possible that one transaction involves simultaneously more types of FDI. For instance, when a direct investor establishes a new company to undertake a M&A, it should be categorized as a M&A and not greenfield investment.³⁷ In addition, statistics on foreign direct investment are usually reported on a highly aggregated level when it comes to type of FDI, sector and geographical breakdown, which limits, inter alia, the possibility of assessing development impacts of inward FDI. Some countries do not report short-term intra-company loans, others do not report reinvested earnings, and many countries do not specify how they process disinvestments.³⁸ Therefore, it would be appropriate to report as disaggregated (detailed) data as possible.

Some challenges also arise from what foreign direct investment covers or, on the contrary, does not include. Foreign direct investment incorporates transactions with different motivations and economic impact, such as, for instance, real estate investment, including investment properties and vacation homes.³⁹ Regarding development impacts in host countries, many real estate investments, especially residential or speculative ones, do not contribute to job creation, export growth, technology transfer, or similar development outcomes. On the other hand, according to the World Bank, foreign direct investment data do not give a full picture of international investment in a host country.⁴⁰ The reason is that FDI statistics, based on the balance of payments data, do not include capital raised locally, such as loans from local banks or bond issue on the domestic market, which represents an important source of investment financing in some developing countries. To sum up, FDI statistics only count cross-border investment flows, excluding capital raised within the country.

Another challenge is related to the so-called pass-through funds, which represent “investment flowing through a company in one country on its way to another company in a different country, without staying in the first country”.⁴¹ Pass-through funds inflate foreign direct investment statistics because every transaction into and out of a country is counted, even if it does not represent a real investment. Pass-through funds usually move through special purpose entities (SPEs), such as holding companies and financial centers, which are often set up to obtain specific advantages from a host country (e.g. low taxes, establishment of regional headquarters), in which they have little or no employment, physical presence or production activities.⁴² For instance, it is estimated that between 50% and 80% of outward FDI flows from BRIC countries are channeled through special purpose entities located in offshore financial centers.⁴³ Therefore, SPEs may distort the true picture of foreign direct investment statistics.

³⁷ OECD (2025): OECD Benchmark Definition of Foreign Direct Investment, Fifth Edition, p. 203.

³⁸ ITC (2025): Methodology for the FDI data.

³⁹ IMF (2025): Integrated Balance of Payments and International Investment Position Manual, Seventh Edition (BPM7), p. 253.

⁴⁰ WORLD BANK (2025): DataBank. Metadata Glossary.

⁴¹ OECD (2025): Five reasons why measuring FDI data matters.

⁴² GOKSU, E. B. – BIKOI, T. – GOBIN, P. H. (2022): Special Purpose Entities Shed Light on the Drivers of Foreign Direct Investment.

⁴³ SAUVANT, K. P. (2017): Beware of FDI statistics!

Conclusion

The aim of this paper was to summarize basic theoretical concepts, indicators and data challenges in the field of foreign direct investment by applying a conceptual framework analysis. We first reviewed the fundamental concepts of foreign direct investment that are provided by recently updated international statistical standards such as the IMF's *Integrated Balance of Payments and International Investment Position Manual, Seventh Edition (BPM7)* and the *OECD Benchmark Definition of Foreign Direct Investment, Fifth Edition*. We found that the definitions of foreign direct investment provided by the IMF and OECD have not been revised for several years. Two essential characteristics of foreign direct investment remain, namely a direct investor's control or a significant degree of influence over a direct investment enterprise, and a direct investor's lasting interest in a direct investment enterprise. An appropriate classification of FDI according to the type of operations, i.e. greenfield investment, extension of capacity, mergers and acquisitions, and corporate and financial restructuring, is important when analyzing the potential impact of FDI on the host country's economy.

Foreign direct investment indicators were divided into individual and composite indicators. The former were further subdivided into simple and compound individual indicators, while the latter were subdivided into direct and indirect composite indicators. Simple individual FDI indicators include three main categories of measures such as flows, positions and income. Compound individual indicators are defined as variables created by combining the values of two or more simple individual indicators such as, for instance, *FDI net inflows as share of GDP*, *net FDI position*, *FDI intensity*, and *return on FDI*. Direct composite indicators incorporate FDI as a core variable or area of interest, such as *FDI Regulatory Restrictiveness Index* and *FDI Confidence Index*. On the other hand, indirect composite indicators either incorporate FDI into the index construction, such as the *IMD World Competitiveness Ranking*, or are relevant to foreign direct investment as part of a broader economic assessment that may be useful to researchers, policymakers or businesses, such as *KOF Globalization Index* and the *Index of Economic Freedom*.

There are several challenges and limitations when it comes to data and statistics on foreign direct investment, such as different methodologies, insufficient data disaggregation, the existence of pass-through funds and special purpose entities, and others. Improved availability, greater transparency and reliability, as well as international harmonization of FDI statistics is crucial for better economic analysis and policymaking.

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