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*Anton GRIZOLD, Andreja JAKLIČ**

CHANGING INTERNATIONAL RELATIONS AFTER THE COVID-19 PANDEMIC: MANAGING THE GROWING GAP BETWEEN NATIONAL AND MULTILATERAL RESPONSES[1]

Abstract. *Covid-19 pandemic came during the globalization backlash and accelerated two important millennial mega trends: the changing nature of production and innovation, and the changing global world order and trading system. Although stronger multilateralism was seen as a key approach to tackling the tough global challenges before the global crisis, the national responses at the start of Covid-19 have crowded out multilateral and even regional initiatives and revitalised the role of the state. A growing gap between national, regional and multilateral responses to Covid-19 challenges the development of global governance and regional integration, as well as the future of the EU and its capacities for international economic and political cooperation. All the dimensions of the complex multifaceted systemic crisis exacerbated by the Covid-19 pandemic are, however, still to be established, and their impacts on individual countries as well as on international relations continue to be an important topic of discussion and research.*

Keywords: *Covid-19 pandemic, globalisation, shocks, crisis, international relations, multilateralism, nation state*

Introduction

Seen in a long-term perspective, the processes of globalisation and internationalisation have faced many challenges and shocks. The end of the period of the Cold War in international relations (1989/90) was marked by certain radical geo-strategic, geo-political and geo-economic changes to the international environment. The bipolar order of the international system

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[1] *The authors of this special issue acknowledge the financial support received from the Slovenian Research Agency (research core funding No. P5-0177, Slovenia and its actors in international relations and European integrations).*

disintegrated, parallel to the falling apart of certain multinational states (Soviet Union, Czechoslovakia, Yugoslavia), together with the assertion of the market economy model on the global level etc. (Grizold, Svetličič, 2019: 334).

In this context, the sources of the threat to the security and well-being of populations, states and the entire international system have changed. Once the dominant threat to security – the global military conflict between the two superpowers – was replaced by other security challenges and threats: dangerous climate change, the intense destructiveness of weather phenomena (tempests, windstorms, hail etc.), environmental pollution – of air, seas and rivers – the global spread of infectious diseases, famine, mass migration, terrorism, internal state armed conflicts with international implications, but also connectivity and the technology divide.

The expectations of many that the end of the Cold War would bring a definitive end to the tensions and conflict-riven relationships between states, enabling the gradual assertion of a new, collaborative model for the provision of international peace, security and well-being, based on the reformed UN system of collective safety, did not come to fruition (Grizold et al., 2015: 8). On the contrary, in the decades following the end of the Cold War new tensions have pervaded international relationships. They are mainly a result of inadequate strategic state leadership and alterations to the global power structure: The USA as the dominant force in global politics has been losing elements of its power and domination, primarily in the area of the economy, politics, culture/ideology, while the power of new potential global hegemons like China, India etc. has been strengthening. The first decades of the new millennium have been marked by the enhanced interdependence of states due to highly fragmented and complex international production networks as well as the remarkable growth of international transactions which are increasingly digitalised. We have also faced the transition to a multipolar world together with a weakening of multilateralism and rising (economic) tensions. A new bipolarity is seen, particularly between the USA and China, two essential players in any global development project.

Covid-19 has entered and accelerated two important millennial mega trends: (i) the changing nature of production and innovation (chiefly caused by the fragmentation of production and the new technologies); and (ii) the changing global world order and trading system (due to rising nationalism, populism and protectionism).

The new international environment, which includes prevalent complex threats on national, regional, international and global levels, requires an adequate response from modern state and non-state actors and state leaders based on a joint and integrated approach. Yet, economic nationalism and protectionism have started to raise. An adequate response of the modern state and international community to the complex crises on both the national and global levels consists of the use of mechanisms and instruments of crisis anticipation and management within the existing institutional framework of the state, and international collaboration or, if necessary, joint action with other states. Crisis situations are what the crisis management plan is prepared for in a modern state, when it needs to ensure adequate organisation for the strategic crisis management of the country and, in this framework, to provide continuous and consistent (short, clear and unambiguous) information to the population about the situation in their country and the world.[2] Moreover, the crisis management plan involves continuous adequate decision-making to enable the leadership and functioning of the state and the entirety of its social subsystems in critical conditions. Of utmost importance in critical conditions is the government's transition to crisis management as soon as possible. This not only enables the adapted functioning of the state in the new situation, but also the strategic assessment and planning for normal work in the country and society after the crisis ends.

Further, the reactions of states and their politicians in responding to the current, most complex, global crisis to which the coronavirus Covid-19 pandemic has added the final nail, with the closure of borders by individual countries and their individual responses to the crisis, have been quite contrary to what might have been the expected; enhanced international cooperation. Although stronger multilateralism was seen as a key approach to tackling the tough global challenges before the global crises, the national responses at the start of Covid-19 have 'crowded out' multilateral and even regional initiatives. The Borderless World (Ohmae, 1990) and globalism might have seemed like the new norm before the crisis, but this extraordinary crisis has 'revitalised' the role of the state. The nation state has returned in all policies and areas that were subjects of global governance and a wave of (trade and other) restrictions has emerged. The health crisis has monopolised the world's attention, yet also accelerated the rate of local responses and exacerbated the pre-existing tensions in conflict zones.[3]

Even the transnational European Union has been unable to stand together and activate all of its available mechanisms to confront the current Covid-19 pandemic, just like it was unable to in the 2015/16 migration crisis. Especially indicative is the fact that the EU has more or less left the solving of both of these crises to the individual members. Despite the high level of

[2] *Society needs to be well informed about the dilemmas faced by policymakers, and for this, the communication between the government and the citizens must be clear, transparent and secure a sufficient level of trust and confidence in society (Sabat et al., 2020: 917).*

[3] *Certain armed groups have taken advantage of the current situation to seize control of new territories and step up their attacks on civilians, hospitals, schools and economic infrastructure. Two wars have started since the Covid-19 pandemic (the Nagorno-Karabakh war and the Eritrean–Ethiopian war).*

political commitment from the EU[4], the ongoing spread of Covid-19 reveals important obstacles to developing a comprehensive European response to infectious disease outbreaks. Existing coordination mechanisms, such as the Health Security Committee or the European Centre for Disease Prevention and Control (ECDC) which also includes an early warning and response system – an online portal that connects public health agencies in Europe, should be used to successfully resolve the Covid-19 pandemic (Anderson, Mckee and Mossialos, 2020) and prevent any further divide. At the beginning of the Covid-19 crisis, European institutions and member states relied on the available instruments to mitigate the economic contraction and their individual vulnerabilities. Greater commitment to economic integration and cross-country solidarity in the EU was only seen during the summer of 2020 when the European institutions also developed emergency programmes.[5] However, the risk remains that the current crisis will deepen the economic divergence across the Economic and Monetary Union (EMU) which started a decade ago. The severity of the recession but also the strength of the recovery may vary across euro area countries (Camous and Claeys, 2020)[6], but also around the world. All in all, the pandemic has been evolving not only into a health, but also an economic crisis, exacerbating the other persisting crises like the environmental crises, the inequality and poverty crises. While the pandemic can be managed when the vaccinations commence, other crises are much deeply rooted and more difficult to conquer.

The radically changed international environment is also reflected on the level of individual nation states and their societies in the form of "deep social changes of which most people have never experienced before: the globalisation of economy and politics, the severe and long term economic crisis from 10 years ago, the growing threat to the natural environment with ever more frequent and intense natural disasters, migrants and migrations, terrorism, new information-communication technologies and robotisation, the ageing of the population, growing social inequality, Covid-19" (Svetlik, 2020: 8).

[4] *On 10 March 2020, the European Council met by video link to discuss the joint European approach to Covid-19; four priorities were identified: limiting the spread of the virus, the provision of medical equipment, the promotion of research, and dealing with the socioeconomic consequences. The importance of strengthening solidarity, cooperation, and the exchange of information between member states was also reiterated (Anderson, Mckee and Mossialos, 2020).*

[5] *EU countries agreed on 21 July 2020 to develop, for the first time, countercyclical fiscal transfers financed by common debt issuance (a package combining the future Multiannual Financial Framework (MFF) and a specific Recovery effort under Next Generation EU (NGEU)).*

[6] *Divergence may accelerate for three main reasons: Some countries were affected by the pandemic earlier and more than others; some countries rely more on sectors (e.g. tourism) that have been heavily affected by the pandemic; and some countries have more policy space to react to the crisis. In the absence of risk-sharing mechanisms at the EU level, this means that the cohesion and sustainability of the monetary union could be threatened (Camous and Claeys, 2020).*

The recent complex global crisis brought by the Covid-19 pandemic is affecting all spheres of life in modern society: healthcare, the economy, education, social care, politics, education, culture, the environment, security etc. It again highlights that in the conditions of globalisation, internationalisation, the existing mode of production and in the current critical circumstances, deficient and inadequate strategic state governance (mainly due to the decision-makers' lack of awareness that all parts of the world form the interdependent "global village", and their consequent unilateral state actions), the modern international community must look for new and renewed models of cooperation. The currently limited growth and development prospects pose a threat not only to the well-being of people in individual countries, but also to the existence of the world as a whole.[7]

The complex multifaceted systemic crises exacerbated by the Covid-19 pandemic are still underway, and their impacts on social life in individual countries as well as on international relations continue to be an important topic of discussion and research. In this context, at least three urgent issues of the present international (economic) relations may be identified:

a. the gap between national, regional and multilateral responses to Covid-19 and its influence on the development of global governance, regional integration – the future of the EU and its capacities for international economic and political cooperation;
b. the relationship between nationalism and the Covid-19 pandemic which is fuelling ethnic and nationalist conflicts, and the risk of civil wars; and
c. reinforcing or broadening the nation-state role in the long run (Woods et al., 2020) in the context of "postteritorial governance of international relations" (Baylis and Smith, 2001: 30).

From analyses to responses

The editors of this special issue of Teorija in praksa wish to contribute to discussions made on the above-mentioned topic and, to this end, we invited some distinguished researchers of international relations at the Faculty of Social Sciences, University of Ljubljana to present their views. There is a consensus that the world after the Covid-19 pandemic is very different and the Covid-19 crisis may be seen as both a crisis and an opportunity (as Chinese writings on the crises reveal) for future international cooperation. The crisis has accelerated changes and the initiated trends. Analyses of the changing international environment, the renewed role of individual actors and

[7] *It may be expected that with the new American administration the general atmosphere in international relations will be improved in the direction of greater predictability and mutual trust. The latter are paramount for solving the problems of our time (Cerar, 2020: 8-9).*

their activities are on the rise. Scholars argue that the Covid-19 pandemic's impact on the global economy may be deeper and more widespread than the impact of the recession we have faced so far. Like all global economic crises, the Covid-19 crisis will also have a significant impact on the global power configuration. A new international system may emerge, or the existing system may be revised entirely as a direct or indirect consequence of the recent crisis.

The response to any crises depends on the analysis of all relevant data, the critical starting point of strategic thinking and scenario-making. The set of analyses in this special issue combines a variety of diverse theoretical and empirical approaches to analyse changes in international (economic) relations, and the global and regional environment. The economic analyses mainly take a long-term perspective; the authors discuss the potential impacts based on theory and evidence from past global crises, particularly the global recession in 2008, that revealed cracks in the international order. They compare the responses to the current Covid-19 crisis with the reactions in the last great recession and discuss what can be learned from the last global crisis to combat the recession. They also consider which lessons can developed countries offer for the Covid-19 exit strategies. Theoretical analysis discusses how various theories explain the progress of the European integration during the crisis while the analysis of selected EU policies further illustrates the dilemmas, challenges, problems and progress made during the Covid-19 pandemic.

The issue starts by analysing what can be learnt from the state aid in the past global recession. Anže Burger evaluates the impact of anti-crisis state aid measures implemented in Slovenia between 2009 and 2015 to combat the Great Recession and uses the insights for an ex-ante assessment of a series of fiscal relief and stimulus measures adopted by the Slovenian government during the first 6 months of the Covid-19 pandemic. The anti-corona fiscal policy actions are expected to effectively mitigate the Covid-19 crisis' severe consequences in the short term as the size of the recently introduced measures is exceptional compared to the previous recession. The key difference is that the majority of total fiscal stimulus has been allocated through grants and allotted to individuals. The Methodological Appendix appearing at the end of this special issue gives insight into two econometric techniques applied to evaluate the counterfactual effect of state aid; i.e. firm-level effects are estimated using the propensity score matching method and the difference in difference regression.

Firm-level strategic responses to crises are further analysed through their internationalisation strategies. In the context of a discussion on how important complex internationalisation is for small economies, Andreja Jaklič and Anže Burger evaluate geographical and product diversification during the period of the great recession and early changes in export diversification behaviour after the Covid-19 pandemic. The authors demonstrate that market and product diversification have provided a vital source of enterprise growth, value creation and revenue scaling during the great recession; exporters with the highest growth after the global recession showed high export diversification. In the post Covid-19 period, on the contrary, the majority of firms have not changed their export behaviour, but invested in digitalisation, automation and new technologies. Those that implemented changes prefer to localise their exports, reduce their export markets or reduce the product portfolio to diversification. Only a small share of the firms that used a complex diversification strategy in exports reported more optimistic recovery plans. Will the post-Covid-19 situation bring the more active reaction of firms in terms of export diversification behaviour and complex internationalisation strategies? Although questions on how the complexity influences economic growth started to be explored in the past, many questions about the sources and effects of the rising complexity of internationalisation deserve further theorisation and empirical evidence from different economic environments.

The third article discusses the context of global crises for firms within complex international production networks. The Covid-19 pandemic has led to renewed discussions on the benefits and costs of global value chains (GVCs), particularly whether GVCs increase risks and vulnerabilities to shocks. Questions are being raised about whether the gains from deepening and expanding international specialisation in GVCs are worth the associated risks, and whether more localised production would assure greater security against disruptions that can lead to shortages in supply and uncertainty for consumers and businesses (OECD, 2020). Jaklič, Stare and Knez (2020) analyse the structure of GVCs, factors and policies that can build the resilience and stability of GVCs during crises and identifies the most important structural changes that may deepen following the global pandemic and digitalisation. The consequences of Covid-19 pandemic pose a restriction on the future development of GVCs, which especially impacts small and export-oriented economies. The authors apply a new measure of value chain participation that allows the simultaneous examination of the global and domestic integration of economies/industries into GVCs. The changes in value chain structure during the past recession serve as a possible indication of the consequences of the current crisis. The great recession proved a short-term increase in the domestic value chain share that mirrors the reduction in the GVC share, but the relatively high stability of simple value chains in the EU and in Slovenia. Yet, deeper analysis of a small country case demonstrates that a number of manufacturing sectors in Slovenia have faced a high and permanent increase in the share of complex value chains in the post-crisis period. Countries and industries have shown a mixed response in GVCs depending on their resilience capability.

The diverse responses of firms and countries to crises are further discussed by Marjan Svetličič. He explores the learning lessons from previous crises in nowadays developed countries (DCs) and examines whether their strategies can be applied in today's crisis-exit strategies, including for the Covid-19 pandemic. DCs have relied in their transition to higher development levels mostly on protectionist policies in the areas of trade, patents and foreign direct investment until they reach the top, when they have kicked away the ladder of protectionism and started hypocritically propagating liberalism. Such experiences are also useful for now less developed countries so long as the international context provides them with adequate policy space and they use the crisis as an opportunity and react on time. A few famous cases from 2020 (like Tik Tok, Huawei etc.) show that emerging economies are quickly learning the lessons of the developed economies. The pandemic may be a good starting point for structural changes in the system of international (economic) relations if mind-sets and the system which created all of these crises can be changed. Although the moment of crisis is seen as the right moment for change, the author finds the pool of potential actors able to make changes is limited.

The challenges of the Covid-19 pandemic for economic integrations, their future deployment and role in transformation of the global world order is the next research issue. Marko Lovec regards the Covid-19 pandemic as a litmus test for the grand theories of European integration. A number of crises in the past decade showed the inability of the European integration to reconcile dysfunctionalities related with the partial transfer of authorities to the transnational level and raised criticism of the alleged pro-integration bias of the grand theories – neofunctionalism, liberal governmentalism and postfunctionalism. He therefore reflects on the conditions for integration through three grand theories placed in the framework of the demand for and supply of integration. In his view, liberal institutional theories explain the nationalist response to the health crisis (missing demand and supply) and the integrationist decision on economic recovery (sufficient demand and supply). Moreover, they do this better than the nationalist or federalist approaches that either understate the demand for (the former) or overstate the supply of the integration (the latter). He describes the most recent decisions in the EU and progress in the new MFF and RRF as a "Milwardian rather than a nationalist or Hamiltonian moment".

Daniel Crnčec next discusses whether the Covid-19 crisis may be used as an incentive for the EU integration process. He first analyses the Covid-19 crisis' impact on EU integration, and second the impact on the EU's energy policy and climate action. Based on the frameworks developed by

Schimmelfennig and used by Falkner, Crnčec establishes that the Covid-19 crisis and EU response to it have led to a step forward in EU integration. The EU response has also significantly impacted the trajectory of the EU's energy policy and climate action by strengthening elements of the EGD and its green transition.

The EU may also use the Covid-19 crisis to strengthen EU actorness. Increased external actors' competition is particularly seen in the Western Balkans (WB). Požgan, Ana Bojinović Fenko and Faris Kočan examine the WB' integration process during the Covid-19 crisis and argue that other powerful external actors should be taken into consideration besides the EU. Based on the external incentives model, they analyse Russia, China and Turkey as competing external actors to the EU's enlargement policy in the WB. These actors have increasingly competed with the EU's policies in the region during the Covid-19 crisis, especially with respect to the determinacy of conditions via state propaganda and by attacking the EU's credibility with disinformation campaigns. Their influence in terms of the size of rewards and domestic adoption costs however have dropped compared to the EU as the latter has increased its rewards, strengthened conditionality and regained some of its lost credibility capabilities. The authors see the potential for strengthened EU actorness in the context of the Covid-19 crisis since the EU remains the only external actor capable of addressing individual WB states.

The Covid-10 crisis has in addition 'revitalised' and strengthened the role of international diplomacy. Discussions on the role of diplomacy and its challenges in post-corona times have intensified along with the rise of new daily tasks for diplomats after the lockdown. Apart from a range of challenges following the Covid-19 pandemic, diplomats need to daily resolve diplomatic disputes arising from the new travel and trade restrictions, but also facilitate international collaboration on a vaccine and enhance efforts for a multilateral system. Boštjan Udovič discusses the main characteristics of Slovenia's consular activities during the first wave of the Covid-19 pandemic (in spring 2020). The analysis arrives at three research outcomes. The first outcome complements the finding of the revitalised role of the nation state. Consular assistance on the EU level is still under the 'coordinated approach', lacking efficiency. Second, in times of crisis management what matters most are good state-to-state connections and the people you know. Official channels are too slow and not effective. Third, high politics marginally influences consular assistance (being understood as low politics), meaning that open political questions usually do not hinder consular cooperation (as seen especially in the case of Slovenia and Croatia helping each other). Diplomacy of the 21st century has thus come to the essence of diplomacy: to establish and keep reliable and trustworthy relations. Diplomats' core communication may hence focus on regaining public trust in the institutions and processes of diplomacy.

Conclusion

The common message stemming from the analyses in this thematic issue is that the Covid-19 crisis needs a joint response and strengthened efforts for a multilateral approach that leverages capacity, knowledge and experience, although the immediate responses have been more national and inward-looking. Covid-19 is a global crisis and a global response may still work. The Covid-19 pandemic has crystalised the need to improve the effectiveness of international organisations and their ability to respond to crises. This is particularly evident from the perspective of a small country that faces a range of new challenges in the context of weak multilateralism and the "revitalised" role of the nation state. The small country case in the global economy that started to be explored in the era of increasing globalisation and liberalisation emphasises the value of a multilateral approach to global development. Studies of small countries in the context of the globalisation backlash, global crises and rising nationalism are on the contrary rarer, but may contribute to the knowledge and motivation needed for a future multilateral system. The revitalised state may not be seen just as an impediment to multilateralism. Multilateral organisations' dependence on states and complex procedures and bureaucracies may create difficulties in the development and implementation of timely and effective strategies, but more responsive (digitally experienced) and responsible national policies may impact the effectiveness of multilateral actions and stimulate political compromise and agreement on key development policies.

Shocks and crises require a response. These up-to-date analyses will hopefully stimulate future research, the gathering of new data and doing of new analyses, motivate learning and responsible decision-making. Although the vaccination is ever closer and the 'battles' for masks and health supply ...) are in full swing. And many decisions and compromises have yet to be made. Both national and multilateral responses are still emerging and analysis may still influence or prevent decisions and measures with long-term negative consequences.

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WHAT CAN BE LEARNT FROM THE EFFECTIVENESS OF SLOVENIA'S ANTI-CRISIS STATE AID MEASURES DURING THE GREAT RECESSION: APPLICATION TO THE COVID-19 DOWNTURN

Abstract. *The aim of this article is to evaluate the impact of the anti-crisis state aid measures implemented in Slovenia between 2009 and 2015 to combat the Great Recession and use the insights gained to make an ex-ante assessment of a series of fiscal relief and stimulus measures adopted by the Slovenian government during the first 6 months of the Covid-19 pandemic. We find that state aid for R&D, employment and training increased firm revenue and employment growth over a 5-year period, while the specialised anti-crisis measures and the rescue and restructuring state aid failed to improve the performance of subsidised firms. Our preliminary assessment of Slovenia's Covid-19 fiscal policy response reveals that its size is exceptional compared to the previous recession and that the majority of the total fiscal stimulus was allocated through grants and allotted to individuals. Given the premium dividend the grants have shown in our empirical analysis of past anti-crisis state aid measures and findings from the literature on the fiscal multipliers, we expect the anti-corona fiscal policy actions to effectively mitigate the Covid-19 crisis' serious consequences in the short term.*

Keywords: *state aid, coronavirus measures, effectiveness, fiscal policy, firm growth, Covid-19*

Introduction

Covid-19 has truly shaken the global economy amidst the longest expansion recorded in modern history. Despite this, most developed countries' available policy tools at the outset of the ensuing recession have in many ways been limited by the specific economic situation prior to the pandemic. The post-Covid era is namely marked by four defining macroeconomic characteristics, unmatched in earlier recession periods. The first feature is

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the unprecedented scale of public debt in the advanced economies. IMF estimates for 2020 put it in the scale of over 130% of GDP and predict that developed countries will borrow 17% of GDP this year to fund USD 4.2 trillion (EUR 3.5 trillion) of deficit due to spending and tax cuts. The second feature is the extremely low interest rates even as public debt issuance soars. Ten-year government-bond yields are close to zero or even negative for most major developed economies. This is a consequence of secular stagnation (low trendline long-term growth rates) and the unhindered expansion of the monetary base since 2008. In the USA, the UK, the eurozone, and Japan, central banks have created new money reserves worth USD 3.7 trillion in 2020 alone, meaning that by June 2020 their total assets were five times larger than in 2007 (Yardeni Research, 2020). The third characteristic is low inflation. Stagnating prices put no pressure on central banks to slow the growth of their balance sheets or to raise key interest rates. Low inflation also pushes borrowing costs down and allows governments to increase debt to finance stimulus. The fourth feature is the state's growing role in allocating capital across the economy. Buying huge amounts of corporate and public bonds, central banks across the rich world are propping up a considerable fraction of the entire stock of business and public debt.

These four features – zero bound interest rates in particular – have led to a significant reappraisal of the previous conventional wisdom that accommodating monetary policy with low interest rates could maintain macroeconomic stability across the business cycle (Woodford and Xie, 2020). Several other authors have suggested that fiscal transfers and tax cuts can be a powerful tool for reducing the contractionary effect of an increased financial wedge during a downturn, and can even enable the complete stabilisation of both aggregate output and inflation in certain circumstances, despite the binding lower bound on interest rates (e.g. Christiano et al., 2011; Eggertsson, 2011; Correia et al., 2013; Eichenbaum, 2019). Prominent practitioners have recently voiced calls for a stronger role for fiscal policy as well. Christine Lagarde opened her tenure as President of the ECB by calling for a large fiscal stimulus. Similarly, Jerome Powell, the Chair of the FED, recently urged Congress not to withdraw its fiscal stimulus against the pandemic too early.

In this situation when the fine line between monetary policy and government-debt management has become blurred (BIS, 2020: 62) and fiscal policy has been growing in importance for managing the business cycle, it is important to examine the effectiveness of past anti-crisis state aid measures that were an important part of the fiscal policy during the Great Recession. The prominence of state aid in the EU has been upheld by the European Commission's adoption of temporary state aid rules to ensure governments can provide liquidity to the economy to support citizens and save jobs more easily. The Commission has also, for the first time since its addition to the Stability and Growth Pact in 2011, triggered the general escape clause to allow exceptional fiscal support and coordinated and orderly temporary deviation from the normal requirements of the EU's fiscal rules. Further, on 21 July 2020 the European Council struck a landmark fiscal deal by agreeing on the regular EU multiannual financial framework, worth nearly EUR 1.1 trillion over 7 years, and a one-off Next Generation EU rescue fund of EUR 750 billion to help member states recover from the Covid-19 recession.

The aim of this article is to evaluate the impact of the anti-crisis state aid measures implemented in Slovenia between 2009 and 2015 to combat the Great Recession of 2008 and to use insights arising from the analysis for an ex-ante qualitative assessment of the main fiscal response measures to the coronavirus adopted by the Slovenian government during the first 6 months of the pandemic. Our study possesses novelties compared to the previous literature. Unlike earlier articles that generally aim to evaluate a specific programme, we have data on all disbursements of state aid already well before as well as during the 2008 recession since records are meticulously kept by the Ministry of Finance of the Republic of Slovenia. This adds to our confidence while claiming that our estimates are not biased due to the receipt of other state aid assistance. We use financial and other information for the entire population of firms in Slovenia over a long period of time (1994–2018) and hence avoid a sample bias many other studies suffer from. Moreover, we use advanced econometric methods for socio-economic programme evaluation (propensity score matching (PSM) and difference-in-differences (DiD) regression) to uncover causal effects of anti-crisis state aid on subsidised firms' employment and revenue growth.

We estimate the impact of five different state aid categories either introduced specifically to counter the negative impacts of the 2008 Great Recession (Remedy of a serious disturbance to the economy) or were already in existence but greatly increased in size during the 2009–2015 period (Employment; Rescue and restructuring (R&R); Training; and Research and development (R&D)). The results show the most effective state aid measures in terms of the recipient firm's revenue growth are R&D and Employment state aid categories. As for post-subsidy employment growth, a significant impact is generated by the R&D, Employment and Training state aid categories. Neither the specialised anti-crisis measure nor the R&R state aid succeed to incite revenue and employment growth in the beneficiary firms. The most effective state aid instrument identified is a grant, while the amount of funds allocated significantly increases the relative growth of revenue and employment in subsidised firms. Anti-crisis state aid was more effective for younger recipient firms, firms with higher labour productivity, those employing less-skilled workers with lower wages, foreign-owned firms and more export-intensive recipients. Our preliminary qualitative assessment of the Slovenian Covid-19 fiscal stimulus reveals that its size is exceptional compared to state aid expenditures during the previous recession and large even when compared to the much broader category of the cyclically adjusted balance during the 2008 crisis. The majority of total fiscal stimulus was allocated through grants or direct social transfers (55% of the total) and allotted to individuals (78% of the total) rather than to employers or firms. Given the premium dividend the grants have demonstrated in our empirical analysis of past anti-crisis state aid measures and findings from the literature on the fiscal multipliers, we expect the anti-Covid fiscal measures to effectively mitigate the Covid-19 crisis' short-term serious consequences.

The remainder of this article is structured as follows. In section 2, we briefly review the extant literature on the effect of state aid on firm performance and the impact of fiscal measures on economic recovery. Section 3 explains the identification strategy and describes the data. In section 4, we present our empirical results for the effectiveness of anti-crisis state aid during the 2008 financial crisis, followed by an application of the findings to the Covid-19-specific fiscal responses in section 5. Section 6 concludes the article with a review of the main findings and some policy recommendations.

Literature review

The traditional economic standpoint on the provision of state aid has been quite sceptical for several reasons. First, governments may grant excessive state aid if the benefits mainly accrue domestically, while the burden falls on foreign competitors or consumers. Second, states may be unable to commit to a specific aid level, which can lead to soft budget constraints, distort international competition and distort the pattern of real comparative advantages. Third, politicians may be unable to fend off the rent-seeking activities of firms to the detriment of consumers. Nevertheless, in the last two decades several studies have appeared arguing that subsidies can be an efficient economic policy instrument (e.g. Nitsche and Heidhues, 2006; Girma et al., 2007). There are important differences in the effectiveness of subsidies, depending on the objectives and market imperfections they aim to address. Below, we first provide a theoretical rationale for granting state aid of the types that are studied in the empirical part, followed by a review of empirical literature on these measures' effectiveness.

The European Commission considers rescue and restructuring state aid as a key policy instrument to support companies in difficulty. The main goal of the tool is to avoid their dissolution with all the ensuing socio-economic costs like unemployment, loss of competition, technical know-how and expertise or disruption to important services. To avert vested interests and avoid wasteful public spending, a necessary precondition for the granting of R&R aid under EU state aid rules is a sufficiently high probability that the subsidised firm will return to viability after undergoing the compulsory restructuring process.

Both the public good characteristics of R&D outputs and capital market imperfections constitute market failures, which provide the theoretical rationale for public intervention. First, R&D possesses public good characteristics, namely non-rivalry (the cost of providing it to an additional individual is zero) and non-excludability (non-paying users cannot be prevented from accessing it). Hence, private R&D outputs are not perfectly appropriable, which allows lower private than social returns and a socially suboptimal level of R&D (Nelson, 1959; Arrow, 1962; Bloom et al., 2013). Second, R&D investments entail high risk due to the nature of R&D activities, which cannot be used as collateral for loan contracts. Further, there is information asymmetry between creditors/investors and R&D performing firms. Both imperfections of capital markets lead to inadequate or overpriced external capital available to firms for financing their R&D activities (Hall, 2002a; Hall, 2002b). State aid can alleviate these market failures by reducing R&D investment costs and raising the expected profitability of subsidised R&D projects. In this regard, public subsidies incentivise larger private R&D spending (additionality). On the contrary, there are theoretical mechanisms within the public choice theory that lead to intervention instigating full crowding out. The effectiveness of R&D state aid may be diminished either by firms exploiting information asymmetries or self-interested selection practices on the part of public grantors. Public bureaucracies may adopt opportunistic behaviour and sponsor firms with R&D projects that are likely to succeed irrespective of public support. This cherry-picking strategy produces deceptive effectiveness, giving credit to the agency's managers where it is not due, justifying the role of the agency and thus perpetuating its existence.

A large variety of state aid measures falls under the umbrella of active labour market programmes (ALMP). Kluve (2010) classifies these programmes into a set of six core categories, which are very similar to corresponding classifications used by the OECD and Eurostat. First, (labour market) training encompasses programmes like classroom training, on-the-job training and work experience. Their main objective is to enhance the participants' productivity and employability as well as enhance human capital by increasing skills so as to remedy market imperfections stemming from the imperfect appropriability of human capital, positive externalities and information asymmetry. Second, private sector incentive programmes like wage subsidies, financial incentives to workers and self-employment grants encourage employers to hire new workers or maintain jobs that would otherwise be broken up. Third, youth programmes comprise specific programmes for disadvantaged and unemployed youth, including training programmes, wage subsidies and job search assistance. The fourth category contains measures for the disabled such as vocational rehabilitation, sheltered work programmes or wage subsidies for individuals with physical, mental or social disabilities. The last two categories are usually not handed out to firms in the form of state aids and comprise the direct employment programmes in the public sector (e.g. public works) and services and sanctions category which includes job search assistance and sanctions (e.g. reduction of unemployment benefits).

The nature of the special aid to remedy the serious disturbance to the economy introduced in Slovenia at the outset of the Great Recession in 2009 is similar to that of the aid for rescue and restructuring (henceforth R&R). Extant empirical studies of state aid for R&R usually measure the impact of aid on the survival or financial viability of subsidised firms. In general, the studies provide mixed findings. Nitsche and Heidhues (2006) in their study on the methods to analysed the impact of state aid on competition find that 32% of firms which had received R&R state aid failed to survive. Using case studies of R&R cases notified by the European Commission, London Economics (2004) reports that out of 71 beneficiary firms 47 survived, 22 went bankrupt, and for 2 recipient firms the outcome was unsettled at the time of the analysis. Głowicka (2006), Chindooroy et al. (2007), Nulsch (2014) and most recently Heim et al. (2017) evaluated the impact of R&R aid on firm survival. All four studies use data on R&R aid cases decided by the European Commission. Głowicka (2006) and Chindooroy et al. (2007) both examined whether companies which receive both rescue and restructuring aid are more likely to survive than beneficiaries which only receive rescue aid. The former study found that on average bailouts only delayed firm exit instead of preventing it, while the latter study identified high mortality among firms that had received R&R aid but also that distressed companies were more likely to survive after receiving rescue or restructuring aid. Nulsch (2014) also used a control group of non-aid receiving firms and found that despite the subsidies business failure was often only postponed. However, endogeneity concerns remain in this study and the results do not enable a causal interpretation because the control group is represented by negative aid decisions of the European Commission. Heim et al. (2017) estimated the causal impact of restructuring aid granted by the European Commission between 2000 and 2012 on the survival and financial viability of aided firms. Based on the construction of a non-aid receiving counterfactual group through a matching procedure, they found that restructuring aid decreases the hazard rate of a market exit and increases firms' average survival time by 8–15 years.

Schweiger (2007) analysed the impact of state aid for R&R granted to Slovenian firms between 1998 and 2003 on the allocation of resources. She claims that the aid hindered the efficient static allocation of resources. Her results show that no firm that received aid had exited by the end of the study period, the aid improved the growth rate of the recipient firms' market shares, but did not have a significant impact on their total factor productivity growth, suggesting that R&R aid was distortive. Murn et al. (2009) also analysed the effectiveness of state aid for R&R in Slovenia. By combining firm-level aid and accounting data and applying the PSM approach, they showed that 23.6% of aid recipients did not survive. Further, in the companies that survived, the aid proved to be ineffective for promoting sales, increasing productivity and creating new jobs. Burger and Rojec (2018) studied the effects of crisis-motivated subsidisation of Slovenian firms on their performance during the 2008 recession and found a non-significant impact of the anticrisis subsidies on revenue growth and positive effects on the employment growth of the subsidised firms. The positive effects identified in their study are generated by state aid schemes which are not primarily aimed at alleviating the crisis (R&D, employment and training state aid schemes).

The ex-post evaluation of different types of state aid measures has long been of interest in empirical economic research, probably most frequently with respect to the impact of R&D public policies on several outcomes such as R&D investment and R&D output (e.g. Czarnitzki and Lopes-Bento, 2013; Takalo et al., 2013; Bronzini and Piselli, 2016). The main issue with R&D subsidies is whether they complement or crowd-out private R&D expenditures. Two comprehensive overviews of econometric evidence on the subject (David et al., 2000; Garcia-Quevedo, 2004) report ambiguous results and claim that studies using firm-level data tend to show more of a substitution or crowding-out effect of R&D subsidies on private R&D expenditures. Jaklič et al. (2013) corroborate this finding with Slovenian data. However, in a recent meta-regression analysis Dimos and Pugh (2016) examine whether the empirical literature suggests that R&D subsidies cause the crowding out of private investments and conclude that this is not the case. Nevertheless, their findings reject the crowding out of private investment by public subsidies but reveal no evidence of substantial additionality.

Existing empirical literature on the effects of public support policies on employment is very extensive. A meta-analysis by Kluve (2010) based on data comprising 137 programme evaluations from 19 countries reveals that direct employment programmes in the public sector often appear unfavourable. On the other hand, wage subsidies and job search assistance and sanctions can be effective in increasing participants' employment prospects, while training programmes exhibit moderately positive effects. More recent meta-analysis by Card et al. (2018) summarises the estimates from over 200 empirical studies of ALMP measures and finds that the average impact on employment is close to zero in the short run, but turns more positive 2–3 years after the end of a programme. Further, larger effects are achieved by programmes that emphasise human capital accumulation, by female participants, and beneficiaries who enter from long-term unemployment. ALMPs are also more likely to show positive impacts in a recession.

The existing literature on the effectiveness of state aid measures therefore shows mixed results and that the outcomes depend on the underlying objective and type of the instrument. Anti-crisis state aid related to the promotion of R&D or employment and training is found to be more efficient than aid related to the rescuing and restructuring of firms in difficulties. This is relevant for the Slovenian case where an important part of the anti-crisis aid measures was intended for rescuing and restructuring firms in difficulties and where state aid for R&D, employment and training increased substantially as part of the Great Recession countercyclical fiscal policy.

Data and empirical method

In the first part of the empirical investigation, we study the effect of the anti-crisis state aid on recipient firms' employment and revenue during the 2008 recession using Propensity score matching and Difference-in-differences regression that account for the non-random administering of state aid. Both methods and detailed empirical procedures are described in a separate online appendix to this article.

We use three sources of data in the empirical analysis. All three cover Slovenian firm-level panel data over a long time period and represent the entire population of firms and not only a sample. We link several datasets on an annual basis using unique firm identifiers. First, the annual information on all recipients of state aid and 'de minimis' aid[1], available between 1998 and 2015, come from the Ministry of Finance State aid and 'de minimis' aid records. The following information is available for each state aid administered: grantor (e.g. Ministry for Economic Affairs), official name of the state aid measure (e.g. Guarantee Scheme), state aid category (e.g. Remedy of a serious disturbance to the economy), state aid purpose (e.g. Financial crisis), state aid instrument (e.g. Grants), amount of state aid allocated and recipient name and unique administrative identifier. We linked this database with the annual data on the total population of non-financial Slovenian firms' balance sheets and financial statements for the period

[1] De minimis aid refers to small amounts of state aid to undertakings which EU countries do not have to notify the European Commission about. The maximum amount is EUR 200,000 for each undertaking over a 3-year period.

1994–2018 provided by the Agency of the Republic of Slovenia for Public Legal Records and Related Services (AJPES). All monetary variables from these two sources are expressed in euros and deflated with appropriate consumer or producer price indices with the base year of 2018. Finally, data on inward and outward FDI come from the Bank of Slovenia. They cover information on inward (foreign-owned firms in Slovenia) and outward FDI (Slovenian subsidiaries abroad).

Table 1: VALUE OF STATE AID AND NUMBER OF RECIPIENTS IN SLOVENIA BY RECESSION-RELATED CATEGORIES (2005–2015)

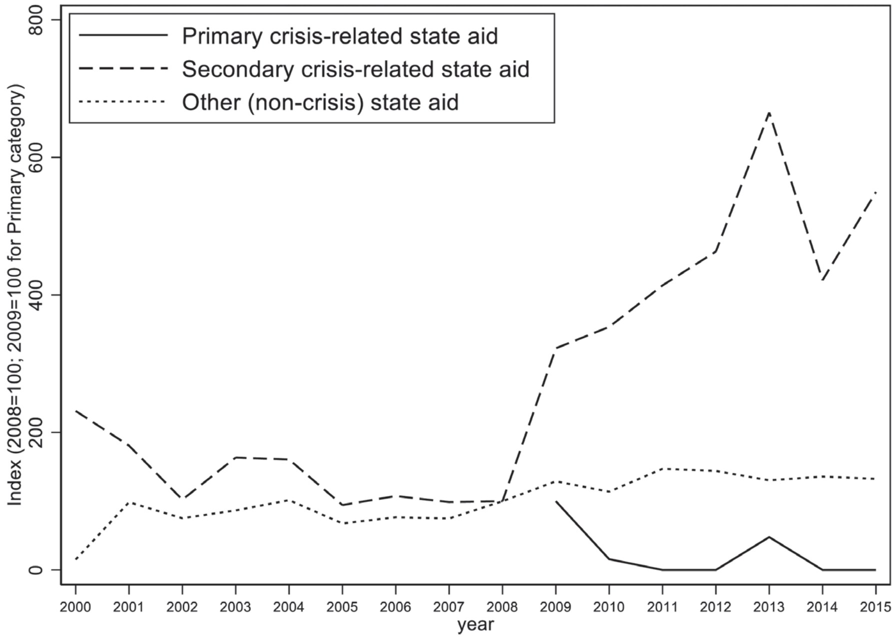
		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
1 Primary anti-crisis aid	€					215.49	33.89	0.008	0	103.00	0	0
	N					267	338	12	0	2	0	0
2 Employment	€	14.19	19.05	13.44	17.16	38.08	42.43	39.89	99.16	146.19	120.93	102.07
	N	2,643	4,334	3,427	2,609	7,089	7,812	7,898	7,426	12,453	6,636	4,230
3 Rescue & restructuring	€	0.81	2.62	1.08	1.30	3.02	2.65	52.53	0.95	42.64	1.46	97.34
	N	6	16	7	7	15	9	8	6	10	7	3
4 Training	€	1.21	1.82	3.33	0.76	2.67	1.71	0.68	6.57	13.01	2.04	0.72
	N	248	348	366	135	612	502	291	787	1,177	364	122
5 R&D	€	23.20	21.36	23.36	22.52	90.73	100.73	79.58	86.59	75.80	51.39	29.16
	N	352	302	435	480	820	939	1,010	793	725	647	523
Crisis total (1+2+3+4+5)	€	39.41	44.85	41.21	41.73	349.99	181.40	172.69	193.26	380.64	175.82	229.29
	N	3,159	4,864	4,067	3,166	8,497	9,314	9,082	8,705	13,698	7,381	4,754
Non-crisis related	€	177.59	201.45	196.63	262.48	338.21	299.08	386.12	377.97	342.27	356.55	347.67
	N	4,046	5,817	7,117	4,465	5,193	4,093	4,747	4,957	5,898	6,506	5,412
Total	€	217.00	246.30	237.84	304.21	688.20	480.49	558.81	571.23	722.91	532.38	576.96
	N	6,672	10,133	10,584	7,302	12,768	12,564	13,048	12,929	18,359	12,873	9,513

Notes: Values of state aid (€) are expressed in million euros. Number of recipients (N) does not necessarily sum up to the totals because some firms obtained more than one state aid in the same year.

Sources: Evidence of state aids and 'de minimis' aids, Ministry of Finance of the Republic Slovenia; own calculations.

Table 1 presents the total value and number of recipients for each crisis-related state aid programme and other (non-crisis) subsidies (state aids plus de minimis aid) awarded between 2005 and 2015. In 2009, Slovenia introduced a special category of state aid (Remedy of a serious disturbance to the economy) with a distinct purpose (Financial crisis), which we label primary crisis-related aid. However, these were not the only measures within the state aid instruments that Slovenia introduced in its effort to remedy the financial crisis and economic downturn. The number of existing state aid measures increased significantly in value and scope. We identified four categories of state aid that normally target other economic policy aims, but considerably

Figure 1: VALUE OF CRISIS-RELATED AND OTHER STATE AID MEASURES IN THE PERIOD 2000–2015



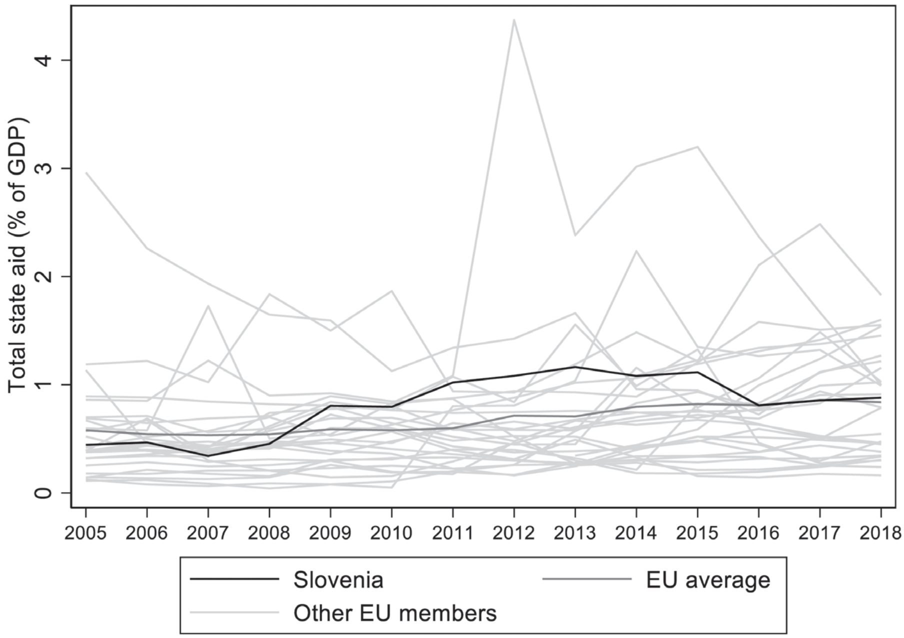
Note: Primary crisis-related state aid denotes a special state aid scheme for suppressing serious disturbances to the economy, while the Secondary crisis-related state aid includes four state aid categories: state aid for employment, R&D, training, and aid for rescuing and restructuring.

Source: Own calculations based on the Evidence of state aid and 'de minimis' aid, Ministry of Finance of the Republic Slovenia.

increased during the 2008 recession. We label them secondary crisis-related aid and they include four state aid categories: i) Employment; ii) Rescue and restructuring; iii) Training; and iv) Research and development.

The number of recipients and the value of crisis-related subsidies rose significantly from 2009 onwards. In 2009, 12,768 firms or sole proprietors received at least one form of state aid (9% of 136,915 firms and sole proprietors combined) and the total amount of subsidies handed out (EUR 688 million) amounted to 1.8% of GDP. The total value of state aids to the non-financial sector peaked in 2013 at EUR 723 million (2.1% of GDP) and almost EUR 4 billion (11% of GDP) including the financial sector, falling back to 1.5% of GDP in 2015. Figure 1 presents the relative changes in primary crisis-related aid, secondary crisis-related aid, and non-crisis state aid between 2000 and 2015. The four categories of state aid that we grouped into the secondary crisis-related aid exhibit a significant increase in funds allocated,

Figure 2: TOTAL STATE AID ADMINISTERED IN EU MEMBERS, 2005–2018



Note: The EU average is the unweighted simple average of all EU member states.
Source: Eurostat; own calculations.

exceeding a 6-fold increase in 2013 compared to the pre-crisis level in 2008. On the other hand, non-crisis related aid measures increased only steadily throughout the recession and show no structural break in the trend after 2009. It is also worth noting that primary crisis-related state aid represented a significant share of total state aid administered only in 2009 (31% of total aid), whereas in other crisis years its share was much lower (14% of the total in 2013) or negligible. These facts support our decision to analyse four additional state aid categories apart from the specialised anti-crisis state aid.

To determine the time interval in which to study the effects of anti-crisis state aid, we consider the unfolding of the recession in Slovenia and the evolution of total state aid in comparison to other EU member states. Slovenia experienced a double-dip recession. Economic activity started to decrease in the third quarter of 2008, shrinking more or less uninterruptedly until 2010Q1. After four quarters of sluggish growth, Slovenia was hit by the second dip that lasted from 2011Q2 to 2012Q4 and was primarily driven by the collapse of the financial sector. On an annual basis, Slovenian GDP fell by -7.5% in 2009 and by -2.6% and -1.0% in 2012 and 2013, respectively. Turning to an international comparison of state aid expenditures, Figure 2 exhibits the path of total non-financial state aid administered from 2005 to 2018 for Slovenia and other EU members, expressed as a share of GDP. Until the wake of the financial crisis, Slovenia had spent a lower share of GDP on state aid than the EU average. Upon the outbreak of the recession in 2008, Slovenia increased the amount of aid substantially more than the average EU member state. Aid allocation rose from 0.45% of GDP in 2008 to 0.81% of GDP in 2009, peaking at 1.16% of GDP in 2013. Between 2009 and 2015, Slovenia spent from 0.22% to 0.46% of GDP more than the EU average on state aid. Considering the evolution of state aid expenditures and the business cycle in Slovenia, we decided to analyse crisis-related state aid between 2009 and 2015.

Results

Table 2 shows mean and median values of the main variables used in our matching procedure. For the subsidised firms, we report statistics for the year before aid was administered to avoid confounding with treatment effects. Firms which received anti-crisis state aid from any of the five categories studied are on average larger in terms of employment and revenue, more export-outward-FDI oriented and older than non-subsidised firms. They are also better performing in terms of ROA, labour productivity and average wage. They are more indebted on average, yet the median values of their debt-assets ratio are similar for both groups of firms. All identified differences are highly statistically significant according to t-tests we performed for each variable.

Turning our focus now to the subsidised firms, Table 3 reports the evolution of revenue and employment in these firms from 2 years prior to receiving the anti-crisis state aid (t_0–*2*) to 5 years after (t_0+*5*). To control for the possibly of a non-random distribution of subsidised firms across industries, we also report their relative size compared to the corresponding 3-digit industry average. Both the absolute and relative revenue of subsidised firms was on a downward trend before the state aid year, turning upwards in the following 5-year period. The same pattern holds for employment and relative employment, which both monotonically increased after the state aid was allocated.

Of course, this is still not evidence that the anti-crisis state aid was indeed effective. As revealed in Table 2, subsidised firms differ systematically with respect to many attributes from those of the non-subsidised group of firms already before the aid was administered. These firm characteristics are likely to influence our outcome variables regardless of the effect of the state aid. For example, better performing firms in terms of profitability and productivity may weather the financial and economic turmoil better as they can draw from larger or cheaper financial resources. In this sense, confining our control group to firms that are in a comparable financial and operating shape as the subsidised firms may reduce the positive treatment effect suggested by Table 3. On the other hand, other differences identified in Table 2 may push in the opposite direction. Larger and older firms are on average growing slower than smaller and younger competitors. Adjusting our set of control firms to these characteristics may therefore reveal higher-than-expected growth of revenue and employment and hence increase the positive treatment effect suggested by Table 3. Both sets of confounding determinants make it impossible to assess the impact of state aid on firm growth at this stage of the analysis. Our PSM procedure presented in the Online Appendix aims to reduce this heterogeneity between the treatment and control groups, providing a clearer view of the consequences of anti-crisis state aid in Slovenia.

Table 2: SUMMARY STATISTICS OF SUBSIDISED AND NON-SUBSIDISED FIRMS, 2009–2015

	Subsidised firms			Non-subsidised firms		
	Mean	**Median**	**St. dev.**	**Mean**	**Median**	**St. dev.**
lnEmployment	2.21	2.01	1.69	0.79	0.56	0.97
lnRevenue	13.52	13.41	2.09	11.77	11.72	1.74
VA/Emp.	33,484	27,331	48,564	29,465	20,321	181,986
lnAvg.Wage	9.87	9.92	0.57	9.63	9.69	0.75
Exporter	0.521	1	0.500	0.340	0	0.474
Exp. share	0.164	0.001	0.291	0.125	0.000	0.282
Debt/Assets	0.64	0.60	1.21	2.28	0.63	110.82
ROA	0.01	0.02	0.69	-0.66	0.01	48.80
For. owned	0.059	0	0.235	0.121	0	0.326
Outward FDI	0.061	0	0.239	0.008	0	0.090
Age	10.8	12.0	6.5	9.3	8.0	6.8
	N = 22,781			N = 192,377		

Notes: All t-tests for the equality of means between the subsidised and non-subsidised firms are highly statistically significant (highest P-value = 0.000037).

Source: own calculations.

We start by presenting the results of PSM for the outcome variable total revenue (Table 4). Primary crisis-related state aid exhibits negative effects on the cumulative growth of total revenue 5 years after the subsidy was administered in the range of EUR -6.8 to EUR -9.9 million. However, when imposing stricter matching within the same industry and year, this category of state aid shows no effect on revenue growth compared to a similar control group. State aid measures that aim to foster new employment or prevent redundancies are found to produce a significant improvement in revenue growth over the course of 5 years after the state aid allocation.

The cumulative effect ranges from between EUR 0.37 to EUR 0.67 million of additional total revenue in the recipient firms. Similar to the Primary anti-crisis aid, the Rescue and Restructuring state aid measures and Training state aid measures fail to ignite revenue growth in recipients regardless of the matching procedure we apply. Finally, state aid allocated to R&D and innovation activities performs the best among all the state aid categories studied. Positive results for revenue growth are registered already in the first year and persist and increase in cumulative terms over the entire 5-year period following the state aid allotment. Five years after the state aid, subsidised firms increase their revenues from their pre-subsidy levels by EUR 4.3 million more than similar control firms according to the exact PSM methods. Encouragingly, we find no statistically significant difference in the pre-subsidy revenue growth trend in any of the state aid categories (column DIFt0-1 in Table 4), indicating that treated and control firms were similar before the state aid allocation not only in terms of covariates values but also followed a similar revenue growth trend.

Table 3: REVENUE AND EMPLOYMENT IN THE SUBSIDISED FIRMS BEFORE AND AFTER THE STATE AID

	lnRevenue	relRevenue	Emp.	relEmp.	N
t_0-2	13.63	3.68	57.0	3.92	20,924
t_0-1	13.52	3.64	52.5	3.94	22,781
t_0	13.41	3.57	49.4	4.00	24,445
t_0+1	13.48	3.67	49.7	4.11	23,652
t_0+2	13.54	3.79	50.9	4.22	22,578
t_0+3	13.61	3.91	52.8	4.36	21,667
t_0+4	13.63	3.97	53.4	4.36	18,325
t_0+5	13.68	4.07	56.0	4.39	14,150

Notes: LnRevenue is a natural log of total revenue, relRevenue and relEmp are revenue and employment relative to the firm's 3-digit industry average and Emp. is the number of employees, while t_0 is the year of the anti-crisis state aid.

Source: own calculations.

Table 4: PROPENSITY SCORE MATCHING RESULTS FOR REVENUE (IN EUR MILLION), 2009–2018

		DIF_{t0-1}	$ATET_{t0}$	$ATET_{t0+1}$	$ATET_{t0+2}$	$ATET_{t0+3}$	$ATET_{t0+4}$	$ATET_{t0+5}$
Primary crisis-related state aid	1NN	1.367	-2.230*	-2.692	-8.293***	-8.291**	-10.812**	-6.797**
		(1.757)	(1.250)	(2.197)	(2.473)	(3.986)	(4.403)	(2.776)
	3NN	-1.305	-0.114	-5.585***	-4.962**	-6.823***	-9.771***	-9.935***
		(1.494)	(1.383)	(1.925)	(1.917)	(2.306)	(2.786)	(2.755)
	1NN-exact	0.756	-1.324	-0.366	-0.533	-1.507	-1.552	-2.125
		(1.731)	(1.078)	(1.810)	(2.478)	(2.517)	(2.740)	(2.745)
	3NN-exact	-0.497	-0.935	-0.152	-0.849	-2.013	-2.438	-2.881
		(1.353)	(1.131)	(1.333)	(1.769)	(1.980)	(2.232)	(2.291)
Employment state aid	1NN	0.064	0.242**	0.521***	0.508**	1.032***	0.920***	0.808*
		(0.132)	(0.115)	(0.198)	(0.213)	(0.236)	(0.252)	(0.482)
	3NN	-0.114	0.211***	0.427***	0.574***	0.755***	0.919***	0.674***
		(0.074)	(0.062)	(0.114)	(0.140)	(0.174)	(0.212)	(0.244)
	1NN-exact	-0.031	0.056	0.105	0.001	0.065	0.312	0.482***
		(0.053)	(0.062)	(0.098)	(0.155)	(0.209)	(0.203)	(0.163)
	3NN-exact	-0.061	0.069	0.134*	0.115	0.180	0.286*	0.365**
		(0.049)	(0.044)	(0.069)	(0.094)	(0.139)	(0.155)	(0.172)
Rescue & restructuring state aid	1NN	0.997	-0.428	2.014	-2.111	-1.468	-6.109*	-9.097*
		(2.672)	(1.831)	(1.377)	(1.590)	(2.640)	(3.531)	(5.192)
	3NN	-1.772*	0.308	0.830	-1.960*	-3.726**	-6.052*	-5.995
		(0.918)	(1.248)	(1.533)	(1.020)	(1.569)	(3.535)	(4.792)
	1NN-exact	0.340	1.827	2.058	0.488	-0.489	-4.403	-9.631
		(1.754)	(1.597)	(2.907)	(2.695)	(2.992)	(5.313)	(7.104)
	3NN-exact	0.187	1.007	1.702	0.263	-1.007	-5.149	-10.511
		(1.040)	(1.485)	(1.564)	(1.238)	(1.857)	(4.562)	(6.567)
Training state aid	1NN	-0.605*	0.150	0.029	0.798	-0.406	-0.743	-1.267
		(0.342)	(0.185)	(0.387)	(0.496)	(0.905)	(1.113)	(1.251)
	3NN	-0.257	-0.316	0.165	0.245	-0.073	-0.581	-0.414
		(0.273)	(0.231)	(0.282)	(0.360)	(0.544)	(0.642)	(0.740)
	1NN-exact	-0.051	0.172	0.063	-0.243	-0.591	-1.079	-0.885
		(0.170)	(0.229)	(0.317)	(0.382)	(0.474)	(0.758)	(0.850)
	3NN-exact	-0.012	0.019	0.047	-0.084	-0.279	-0.367	-0.298
		(0.140)	(0.150)	(0.191)	(0.239)	(0.321)	(0.491)	(0.598)
R&D state aid	1NN	0.208	3.949***	6.830***	7.825***	10.132***	11.706***	12.145***
		(0.874)	(0.997)	(1.506)	(1.908)	(2.075)	(2.310)	(2.584)
	3NN	1.668**	3.165***	5.817***	7.089***	7.922***	9.476***	10.447***
		(0.725)	(0.744)	(1.168)	(1.423)	(1.620)	(1.877)	(2.205)
	1NN-exact	0.281	0.539**	1.139***	2.031***	2.837***	3.358***	4.309***
		(0.286)	(0.266)	(0.469)	(0.624)	(0.822)	(0.919)	(1.179)
	3NN-exact	0.365	0.457*	1.077**	1.984***	2.898***	3.478***	4.392***
		(0.290)	(0.269)	(0.464)	(0.602)	(0.804)	(0.905)	(1.165)

Notes: 1(3)NN denotes (3) nearest-neighbour(s) propensity score matching, exact refers to matching where exact matching within the same 2-digit industry and calendar year was imposed. Values represent estimates of the average treatment effect on the treated (ATET) as defined in equation (1) in the Online Appendix. Abadie and Imbens' (2006, 2016) standard errors are in parentheses. DIF_{t0-1} corresponds to the ATET estimate for the period between t_0-*2* and t_0-*1* and is the average difference between subsidised and control firms in their revenue growth in this pre-subsidy period. ATETt0+1 is cumulative ATET as defined by equation (1) in the Online Appendix and denotes the average difference between subsidised and control firms in their revenue growth between pre-subsidy year t_0-*1* and years after the state aid. Common support and calliper=0.05 imposed in all methods. ***, **, * indicate a significance level of 1%, 5% and 10%, respectively.

Source: own calculations.

Table 5: PROPENSITY SCORE MATCHING RESULTS FOR EMPLOYMENT, 2009–2018

		DIF_{t0-1}	$ATET_{t0}$	$ATET_{t0+1}$	$ATET_{t0+2}$	$ATET_{t0+3}$	$ATET_{t0+4}$	$ATET_{t0+5}$
Primary crisis-related state aid	1NN	-3.0	-3.3	-3.1	-23.6**	-18.3**	-13.3	-25.8**
		(3.2)	(2.6)	(5.9)	(9.3)	(9.1)	(10.9)	(11.9)
	3NN	-5.4*	-4.6	-9.5*	-13.3*	-20.8***	-25.6***	-31.9***
		(3.0)	(2.9)	(5.4)	(7.3)	(7.5)	(9.1)	(9.1)
	1NN-exact	-5.5*	-2.0	2.8	-6.6	-16.5*	-17.2	-17.3
		(2.9)	(2.5)	(5.7)	(8.8)	(9.8)	(11.4)	(11.3)
	3NN-exact	-4.0	-0.9	6.2	-1.1	-5.9	-9.0	-9.6
		(2.5)	(2.4)	(4.7)	(7.1)	(8.1)	(9.7)	(9.7)
Employment state aid	1NN	0.72	2.6***	6.1***	8.1***	9.8***	9.4***	11.8***
		(0.50)	(0.50)	(1.0)	(1.07)	(1.1)	(1.3)	(1.9)
	3NN	0.51*	2.8***	6.5***	8.4***	9.8***	10.3***	10.9***
		(0.28)	(0.26)	(0.49)	(0.60)	(0.65)	(0.76)	(0.89)
	1NN-exact	-0.3	1.8***	3.3***	3.8***	4.1***	4.6***	5.4***
		(0.2)	(0.2)	(0.3)	(0.4)	(0.5)	(0.5)	(0.7)
	3NN-exact	-0.3**	1.6***	3.1***	3.6***	3.8***	4.3***	5.1***
		(0.1)	(0.1)	(0.2)	(0.3)	(0.4)	(0.4)	(0.5)
Rescue & restructuring state aid	1NN	-30.6*	5.0	23.4	4.2	40.4	-6.7	-18.6
		(18.2)	(6.8)	(17.1)	(30.2)	(38.1)	(14.5)	(16.0)
	3NN	-10.7	1.0	15.3	26.6	19.6	-0.15	-5.4
		(8.3)	(4.7)	(11.6)	(25.9)	(18.8)	(16.4)	(17.0)
	1NN-exact	12.1	-1.8	16.9	25.9	23.9	16.4	-24.1
		(9.0)	(9.9)	(30.2)	(46.0)	(36.5)	(31.6)	(31.6)
	3NN-exact	6.4	-8.1	9.1	23.0	22.1	11.6	-33.5*
		(5.4)	(6.9)	(14.7)	(33.9)	(24.1)	(18.3)	(19.0)
Training state aid	1NN	-0.11	2.7***	4.6***	9.2***	9.5***	10.7***	5.5**
		(1.0)	(0.78)	(1.4)	(1.9)	(2.0)	(2.4)	(2.6)
	3NN	.42	2.5***	4.7***	7.67***	9.5***	9.07***	8.3***
		(.75)	(.648)	(.959)	(1.3)	(1.4)	(1.57)	(1.9)
	1NN-exact	-0.7	1.0	1.9*	1.9	2.2	1.8	2.0
		(0.7)	(0.7)	(1.1)	(1.3)	(1.5)	(1.7)	(2.3)
	3NN-exact	-0.6	1.2**	2.1***	2.4***	2.9***	2.6**	3.3**
		(0.6)	(0.6)	(0.8)	(1.0)	(1.0)	(1.2)	(1.5)
R&D state aid	1NN	-1.1	4.3**	18.8***	20.2***	25.6***	27.7***	27.5***
		(2.5)	(1.9)	(4.4)	(4.5)	(5.4)	(6.1)	(6.3)
	3NN	0.16	6.7***	18.6***	22.5***	23.5***	26.3***	29.2***
		(1.8)	(1.7)	(3.2)	(3.8)	(4.3)	(4.7)	(5.3)
	1NN-exact	-1.6*	1.1	3.6***	5.4***	6.7***	7.6***	9.1***
		(0.9)	(0.7)	(1.1)	(1.5)	(1.7)	(2.0)	(2.4)
	3NN-exact	-1.0*	1.1	3.5***	5.5***	7.0***	8.4***	9.6***
		(0.6)	(0.7)	(0.9)	(1.2)	(1.5)	(1.7)	(2.0)

Notes: Refer to the notes under Table 4, substituting the outcome variable revenue with employment.

Source: own calculations

Turning to PSM estimates of the treatment effect on the cumulative growth of employment (Table 5), the results are slightly more encouraging for the effectiveness of the anti-crisis state aid. As for revenue growth, the ATETs for Primary anti-crisis state aid are significant and negative only for the less stringent 1NN and 3NN PSM methods, while imposing exact matching within the same industry and year yields no significant treatment effects on employment growth for this measure. In contrast, employment state aid measures exhibit significant improvements in cumulative employment growth right from the year when the state aid was granted (around 1.7 additional employees). After 5 years, employee numbers in the subsidised firms increase by 5.1–5.4 persons more than in similar control firms from the same industry and timeframe. Similarly, vocational training and other similar schemes in the Training category create additional employment, although to a somewhat smaller degree: 5 years after the aid is administered, subsidised firms employ up to 3.3 additional workers compared to control firms. The Rescue and Restructuring state aid measures again fail to ignite revenue growth in recipients regardless of the matching procedure we used. Finally, the R&D state aid measures turn out to be not only the most potent among the measures in terms of catalysing revenue growth, but also in terms of fostering new employment. Significant increases in employment appear 1 year after the state aid allocation and increase monotonically up to the 5th year after. Recipient firms exhibit excess employment growth that amounts to 9.1–9.6 additional employees above the employment growth in similar control firms in the same industry and period. As for Table 4, we identify no statistically and economically different trend in employment growth between the treated and control firms prior to the state aid year.

Finally, we examine the results from the DiD regressions on the matched sample of subsidised and non-subsidised control firms (Table 6). The matched sample pools all five anti-crisis state aid categories together because the aim here is not to identify the differences in treatment effect as

Table 6: DIFFERENCE-IN-DIFFERENCES REGRESSIONS ON THE MATCHED SAMPLE OF SUBSIDISED AND CONTROL FIRMS

	Revenue	ln(Revenue)	Employment	ln(Employment)
Y_{t0-1}	1.085***	0.961***	0.951***	0.900***
	(0.0406)	(0.00754)	(0.0133)	(0.00347)
D	-30,829	-0.191***	-2.762**	-0.151***
	(343,004)	(0.0184)	(1.363)	(0.0106)
$D \times T_0$	-99,627	0.114***	1.009***	0.133***
	(119,463)	(0.0102)	(0.317)	(0.00541)
$D \times T_1$	-42,580	0.213***	1.860***	0.180***
	(102,963)	(0.0135)	(0.386)	(0.00665)
$D \times T_2$	12,830	0.255***	2.044***	0.178***
	(106,347)	(0.0181)	(0.442)	(0.00791)
$D \times T_3$	147,437	0.288***	2.170***	0.186***
	(146,983)	(0.0212)	(0.531)	(0.00907)
$D \times T_4$	239,911	0.297***	1.972***	0.187***
	(216,826)	(0.0255)	(0.614)	(0.0105)
$D \times T_5$	367,808	0.302***	2.019***	0.190***
	(289,455)	(0.0312)	(0.706)	(0.0125)
Grant	768,116**	0.109***	0.706	0.0404**
	(389,604)	(0.0331)	(1.310)	(0.0168)

	Revenue	ln(Revenue)	Employment	ln(Employment)
Inter. rate subs.	529,361	-0.0292	-0.834	0.0198
	(528,417)	(0.0311)	(1.343)	(0.0183)
Basic R&D	328,362	0.0342	0.940	0.169
	(947,066)	(0.199)	(1.597)	(0.124)
Tax credit	232,379	-0.0312	1.925	-0.00251
	(515,442)	(0.0283)	(1.208)	(0.0162)
Soc. contrib. relief	-680,394*	-0.0993***	-2.070***	-0.0909***
	(410,065)	(0.0176)	(0.804)	(0.00960)
Guarantee	-1.455e+06***	-0.0148	-6.105***	-0.0322*
	(542,486)	(0.0267)	(1.932)	(0.0165)
Other instruments	531,335	0.328	8.371	0.656
	(731,083)	(0.339)	(14.02)	(0.403)
$lnVALUEcrisis_{t0}$	-39,434	0.0185***	0.349*	0.0177***
	(52,425)	(0.00391)	(0.207)	(0.00212)
$lnVALUEnoncrisis_{t0}$	36,666	0.0135***	0.619***	0.00772***
	(87,956)	(0.00161)	(0.148)	(0.000926)
Age	30,120	-0.00611***	-0.118***	-0.0142***
	(38,002)	(0.00214)	(0.0458)	(0.00102)
Est. before 1995	-805,397	0.0382*	0.563	0.0701***
	(594,921)	(0.0232)	(0.666)	(0.0119)
$lnVA/EMP_{t0-1}$	232,631*	0.00933	2.522***	0.132***
	(132,562)	(0.0142)	(0.335)	(0.00554)
lnK/EMP_{t0-1}	-61,746	0.0239***	0.0531	0.00244
	(65,938)	(0.00412)	(0.0763)	(0.00166)
$lnAvgWage_{t0-1}$	30,918	-0.0390***	-0.504***	-0.0417***
	(62,571)	(0.00704)	(0.0946)	(0.00251)
Export $share_{t0-1}$	1.848e+06**	0.0598**	3.156**	0.0876***
	(834,654)	(0.0299)	(1.391)	(0.0147)
For. $ownership_{t0-1}$	-120,338	0.140***	7.144***	0.121***
	(1.025e+06)	(0.0258)	(2.143)	(0.0136)
Outward FDI_{t0-1}	-3.843e+06**	-0.0150	-8.275***	0.00376
	(1.646e+06)	(0.0324)	(2.870)	(0.0209)
Industry VA growth	22,851	0.00362***	0.0485	-5.86e-06
	(25,634)	(0.00122)	(0.0650)	(0.000550)
Region FE	yes	yes	yes	yes
Year FE	yes	yes	yes	yes
Industry FE	yes	yes	yes	yes
Observations	407,574	407,574	407,574	407,574
R^2	0.922	0.626	0.955	0.873

Notes: Observations are weighted by weights from the 3-nearest neighbour propensity score matching stage. T_0, T_1, ..., T5 are included but not reported. Region, year and 2-digit industry fixed effects are included but not reported. Cluster-robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1

Source: own calculations.

we already did in the previous PSM analysis, but to uncover potential mediating factors that are common to all state aid measures and determine their effectiveness. In general, we are interested in finding out whether the pre-treatment characteristics of the recipients, value of state aid granted, type of the state aid instrument and industry-specific business cycle moderate the size of the treatment effect. As above, we use total revenue and employment as the outcome variables, but also add into consideration their natural logs.

In the case of untransformed outcome variables, the coefficients reveal the effect in terms of absolute differences (euros and employees). When using logarithmic values, the treatment effects are expressed in terms of relative changes of the outcome variable, cleansing the effect of firm size. Before we interpret the mediating effects of the above confounders, we briefly interpret the set of coefficients on the interaction terms $D \times T\tau$. No cumulative treatment effect is identified for the outcome variable revenue, which is probably due to the wide heterogeneity of the measure-specific effects laid out in Table 4. However, in terms of the relative growth of revenue, the state aid treatment effects are significant from the year when the aid was allocated to the fifth year after. From the pre-subsidy year until 5 years after the year it was granted, recipients generated 30% of additional revenue growth. In terms of employment, the effect after 5 years is an additional 2 employees compared to similar control firms, which amounts to 19% excess growth in employment.

The most effective state aid instrument identified is a grant, where funds are allocated in a non-repayable manner. They on average achieve 10% higher cumulative revenue growth and 4% higher growth in employment. Social contribution credits and guarantee schemes were associated with significantly lower anti-crisis treatment effects. Basic R&D and Other instruments also produce on average higher growth effects, although the difference is not statistically significant. Next, we test whether the amount of state aid funds granted affects the absolute and relative treatment effects. The volume of funds allocated significantly increases the relative growth of revenue and employment in recipient firms, but has no effect on the growth of treated firms in absolute terms. Firms that received non-crisis related state aid funds performed better in terms of both revenue and employment growth. Next, the effect of industry-specific growth rate of value added, an indication of the demand shock facing firms, only affects the relative growth of revenue. Finally, the results reveal that the pre-treatment characteristics do influence the effectiveness of the anti-crisis state aid. Namely, these are more effective for younger recipients, firms with higher labour productivity, those employing less-skilled workers with lower wages, foreign-owned firms, and more export-intensive recipients.

Discussion of the results with reference to the Covid-19 crisis

Findings from the assessment of the effectiveness of Slovenia's anti-crisis state aid measures in the Great Recession can be used to qualitatively evaluate the remedy measures put in place after the coronavirus outbreak in 2020. The first cases of the Covid-19 virus in Slovenia were reported on 4 March 2020 and following an upsurge in cases the government declared an epidemic on 12 March 2020. What followed was a series of fiscal response measures to alleviate the socio-economic impact of the pandemic and the ensuing recession. By August 2020, altogether four "Anti-corona packages" had been implemented (#PKP1 – #PKP4). #PKP1 came into force on April 11 and was the crisis relief package with the largest scope and value, covering measures in the fields of the labour market, family affairs, social protection, healthcare provision, taxes, public finances, public sector wage policy, primary sector, culture, the environment, science, insurance sector, public procurement, insolvency procedures and others. #PKP2, in force since 1 May, was largely about a series of corrections of its predecessor, but also introduced state guarantees for corporate liquidity loans, covering 70% of the principal for large and 80% for small firms. #PKP3 from 1 June extended the additional liquidity loans through the Slovene Enterprise Fund and Slovenian Regional Development Fund, kick-started new investments through a list of priority projects in the public interest, handed out tourist vouchers for all citizens to be spent by the end of 2020 in tourist service providers, subsidised the transition from full- to part-time work, introduced additional state aid measures for digital transformations and R&D in companies and rolled out certain other measures. #PKP4 (starting on 11 July) introduced additional measures to preserve private sector employment and preventive measures ahead of the upcoming second wave of the pandemic.

The Fiscal Council, an independent and autonomous state authority supervising the management of the fiscal policy in Slovenia, began to continuously monitor the fiscal impact of the one-off measures adopted during the Covid-19 pandemic and to regularly update its assessment. We use its latest estimates of the value of major anti-crisis measures from the first three anti-corona packages #PKP1–#PKP3 in order to draw analogies with the anti-crisis state aid measures studied in the empirical part of the study and provide an early ex-ante qualitative assessment (Table 7).

We first examine the value of the anti-corona measures enforced in the initial half-year after the pandemic outbreak. The Fiscal Council's estimates amount to EUR 2.6 billion in total, which is considerably higher than the EUR 350 million in anti-crisis state aid allocated in 2009 and even compared to the total state aid expenditures of EUR 688 million in that year. The size of the Covid-19 fiscal stimulus is large even when we compare it to the conceptually much broader category of the cyclically adjusted balance (actual public finance balance net of the cyclical component), which peaked[2] in 2011 at -5.4% of GDP (European Commission, 2019: 26) or roughly EUR 2.0 billion. In terms of the principal beneficiaries of the anti-corona measures,

[2] *We ignore the much larger cyclically adjusted deficit of -11.5% GDP in 2013 due to the exceptional one-off banking sector rescue programme.*

Table 7: LIST OF COVID-19 ANTI-CRISIS MEASURES IMPLEMENTED IN PACKAGES #PKP1– #PKP3

	Value	Beneficiaries	Instrument
#PKP1 and #PKP2			
Measures in the fields of social contributions and labour market			
Financing to cover wages of employees on temporary leave (furlough scheme)	475	individuals	grant
Financing social contributions for employees on temporary leave	279	individuals	soc. con. relief
Financing retirement insurance contributions for working employees	405	individuals	soc. con. relief
Financing sickness leave pay from the first day onward	70	firms	grant
Paying out monthly basic income to self-employed, farmers and religious servants	103	individuals	grant
Financing social contributions for self-employed, farmers and religious servants	60	individuals	soc. con. relief
Measures in the field of social protection			
One-off solidarity supplement for pensioners	67	individuals	grant
One-off solidarity supplement for vulnerable social groups	29	individuals	grant
One-off solidarity supplement for students	8	individuals	grant
Large-family supplement	4	individuals	grant
Salary compensation in case of dismissal on operational grounds	28	individuals	grant
Public sector wage policy measures			
Employee reward scheme	98	individuals	grant
Tax policy measures			
Self-employment income tax prepayment not levied or not settled	18	individuals	tax credit
Corporate income tax prepayment on not levied or not settled	140	firms	tax credit
Deferred payment of taxes	259	firms	tax credit
#PKP3			
Partial subsidisation of transition from full- to part-time work	116	individuals	grant
Financing to cover wages of employees on temporary leave	86	individuals	grant
Vouchers for improving the economic situation in tourism	254	individuals	grant
Compensation for lost income resulting from the closure of healthcare services	88	providers	grant
Wage supplement for dangerous work and exceptional workload	7	individuals	grant
Financing the SID Bank liquidity scheme for road transport businesses	10	firms	int. rate subs.

Notes: Value is in million euros. soc. con. relief = social contribution relief; int. rate subs. = interest rate subsidy.

Source: Fiscal Council (2020).

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as much as 78% of the estimated fiscal stimulus was allocated to individuals, either in the capacity of workers, consumers or socially vulnerable individuals. Studies that examined the effects of direct fiscal transfers to individuals typically estimated the marginal propensity to consume (MPC). This is the share of the extra euro of aid that an individual spends on consumption, with the rest going to savings or debt repayment. Studies of 2008 tax rebates in the USA (Parker et al., 2013; Sahm et al., 2010) identified quite large MPCs, on average around 0.25 and as high as 0.67 for financially-constrained households which are the unable to borrow when income is low or that own assets which are hard to liquidate quickly. Further, Ganong and

Noel (2019) using individual bank account data found that consumption by unemployed individuals declines severely when unemployment benefits expire, implying that unemployment benefits significantly affect consumption. Given that most anti-corona transfers were handed out to individuals who are unemployed, on temporary leave, work in heavily hit sectors like culture, or are socio-economically vulnerable in some other respect, we therefore expect their MPCs and hence the fiscal multiplier on their transfers over the next few years to be much higher than the average MPC on individual transfers.

Coibion et al. (2020) is the first Covid-19 comprehensive study of how large one-time transfers to individuals from the US CARES Act[3] affected their consumption, saving and labour-supply decisions. Using a large-scale survey of US households, the authors show that only 15% of recipients of this transfer say they spent most of their transfer payment, with the large majority of respondents instead saying they either mostly saved it (33%) or used it to pay off debt (52%). On the whole, US households report having spent on average 40% of their cheques, with about 30% of the average cheque being saved and the remaining 30% being used to pay off debt. Most of the spending went to food, beauty and other non-durable consumer products, whereas little of the spending went to hard-hit industries selling large durable goods. The propensity to spend their stimulus cheques was higher for lower-income households, financially constrained, individuals out of the labour force, for those living in larger households, and those with a lower education. Recipients with mortgages, unemployed workers, and those reporting to have lost earnings due to Covid-19 were more likely to spend the transfers to pay debt off. Except for the employee reward scheme in the public sector and partially the tourism vouchers and wage supplement for dangerous work and exceptional workload, all of the other Slovenian anti-crisis social transfers allotted to individuals were targeted at lower-income households, financially constrained individuals and vulnerable social groups. In this regard, we can expect the effects of Slovenia's measures to be comparable to those employed in the USA. Further, given that Slovenia has one of the highest home-ownership rates (75% vs. 65% in the USA), low household debt (30% of GDP vs. 68% of GDP in the USA) and high levels of liquid deposit holdings (a household saving rate of 25% vs. 14% in the USA), we expect the propensity to spend the stimulus transfers in Slovenia will be somewhat higher than in the USA.

[3] *In response to the COVID-19 pandemic, the US Congress approved a USD 2 trillion fiscal stimulus package, including one-off USD 1,200 cheque per person (plus another USD 500 per child) to persons with an annual income of less than USD 75,000. Couples who filed jointly and made less than USD 150,000 were given a one-off USD 2,400 cheque (plus another USD 500 per child). The IRS reports that over 150 million payments have been distributed. This part of the package was called an Economic Impact Payment.*

If we assume the propensity to consume will be 60% of the transfers received, our back-of-the-envelope calculations suggest the stimulus package could spur EUR 1.2 billion in additional consumption (2.6bn×78%×60%). This would neutralise the majority of drop in household consumption in the first half of 2020 relative to the same period 1 year before (EUR -1.39 bn). Data on consumer spending and services sector revenues indicate the transfers indeed helped to turn aggregate consumption around. Namely, the index of nominal revenue in services and the index of wholesale and retail trade initially decreased to 78 and 77 in May from the January 2020 levels (Jan2020 Index=100), but subsequently recovered to 108 and 105 by July 2020, respectively.

Analysing the distribution of measures according to the fiscal instruments used, we observe that the majority of the total fiscal stimulus was allocated through grants or direct social transfers (55% of the total). In a recent survey of the effects of fiscal policy measures, Castelnuovo and Lim (2019) report that fiscal spending increases deliver a stronger stimulus than tax cuts, and that the 1-year median tax multiplier ranges between -0.5 and -0.7, while the spending multiplier ranges between 1 and 1.3 (e.g. Caldara and Kamps, 2017). Spilimbergo et al. (2009) also assert that the fiscal stimulus package has a bigger government spending component relative to tax cuts as the first-round effect on demand is immediate, while individuals may save (part of) a tax cut. Similarly, using a meta regression analysis on a set of 89 studies on multiplier effects, Gechert and Will (2012) found that direct public demand tends to have higher multipliers than tax cuts and transfers and that public investment seems to be the most effective fiscal impulse. From the perspective of the empirical findings in the literature and the findings from our own analysis above, we assess that the fact that most of the fiscal stimulus allocated was channelled through grants works in favour of expecting higher multipliers. However, more by way of public and publicly-stimulated investments is preferable in the coming months, acknowledging that such projects need more preparation time than direct transfers and tax credits. Ideally, government should in the future establish a standing facility of a set of operational public investment projects, ready to be deployed at the first signs of an economic downturn.

Conclusion

Since early April 2020, Slovenia has enacted a series of fiscal policy measures in response to the outbreak and economic repercussions of the Covid-19 pandemic. Given the inability of most central banks in developed countries to implement conventional policy to ease the situation (key interest rate cuts) due to a binding zero lower bound, policymakers are forced to use unconventional monetary policy interventions (quantitative easing) and expansionary fiscal policy. Recent theoretical and empirical literature suggests that an unconventional fiscal policy with an increase in government purchases along with a zero lower bound policy is effective for stimulating growth (Boubaker, 2018). In light of the calls for an expanded role of fiscal policy from the research community and practitioners alike, it is important to evaluate which fiscal policy measures and moderating factors achieve the greatest impact on the economy. This was the aim of the present study in which we evaluated the effects of five anti-crisis state aid categories in the period 2009–2015 on recipient firms' cumulative growth of employment and total revenue. Using a comprehensive dataset and econometric methods that control for endogenous state aid allotment, we find that measures which are effective in spurring revenue and employment growth are the state aid categories of R&D, employment and training. The special state aid to remedy a serious disturbance to the economy and state aid for rescuing and restructuring both fail to entice the growth of employment and revenue in the subsidised firms compared to similar control firms. The most effective state aid instrument identified is a grant, while the amount of funds allocated significantly increases the relative growth of revenue and employment in the recipient firms. The anti-crisis state aid was more effective for younger recipient firms, firms with higher labour productivity, those employing less-skilled workers with lower wages, foreign-owned firms, and more export-intensive recipients.

In the second part of the empirical analysis, we used the Fiscal Council's latest estimates of the value of major anti-crisis measures from the first three anti-corona packages implemented in Slovenia since April 2020 in order to draw analogies with the anti-crisis state aid measures studied in the empirical part of the study. Our findings show that the first half-year of the Covid-19 recession in Slovenia has been marked by the outstanding size of the anti-crisis fiscal stimulus compared to the previous economic downturn. The majority of the total fiscal stimulus has been allocated through grants or direct social transfers (55% of the total) and allotted to individuals (78% of the total) rather than to employers or firms. Given the paramount effectiveness shown by grants in our empirical analysis of anti-crisis state aid measures during the Great Recession and the findings from the literature on the fiscal multipliers and marginal propensity to spend the stimulus transfers, we expect the anti-Covid fiscal measures to effectively mitigate the Covid-19 crisis' short-term serious consequences.

There are important differences between the Covid-19 crisis and the Great Recession in terms of the initial structural conditions of the Slovenian economy. These differences explain why during the previous downturn state aid was aimed at and distributed to firms, whereas in the Covid-19 recession fiscal policy chiefly targeted individuals. We entered the 2008 recession with a heavily leveraged corporate sector and a banking sector burdened by risky assets, meaning that most of the fiscal space had to be devoted to the bank-rescue package and resolution of the non-performing loans. On the other hand, at the onset of the Covid-19 pandemic, Slovenian corporate debt was low and banks were liquid and adequately capitalised. Further, the monetary response in the euro area included a recalibration of the targeted longer-term refinancing operations (TLTROs) by the ECB and a relaxation of capital requirements by the centralised microprudential authority and by national macroprudential authorities. These measures significantly improved banks' capacity to absorb losses and still support the economy and have thereby mitigated the risk of pro-cyclical deleveraging (Altavilla et al., 2020). The fiscal stimulus was therefore able to target the areas with the largest multiplier effects: neutralising the personal income slump and preventing mass layoffs through furlough schemes. The advantage of the one-off transfers to individuals as opposed to state aid distributed to firms lies in their potency to swiftly boost aggregate demand, but should be weighted against possible drawbacks like public debt growth, an excessive household saving rate, the freeze on creative destruction in the market, and the lower search effort in the job market.

We offer three policy recommendations. First, the present fiscal policy measures should be complemented as soon as possible with public investment projects because the empirical literature on fiscal multipliers shows this type of fiscal stimulus exhibits the highest returns. Second, given that such projects take a considerable time before they are kick-started, the government should in the future establish a standing facility of a set of operational public investment projects, ready to be deployed at the first signs of an economic crisis. Third, given our findings concerning the effectiveness of the Great Recession state aid, we advise the government to bolster those existing state aid categories with a good track record such as state aids which promote R&D, employment and employee training. Such a targeted and structural instrument should gradually substitute blanket social transfers whose advantage lies in their simplicity and promptness, yet lack precision and sophistication.

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COMPLEX INTERNATIONALISATION STRATEGIES DURING CRISES: THE CASE OF SLOVENIAN EXPORTERS DURING THE GREAT RECESSION AND COVID-19 PANDEMIC[1]

Abstract. *Studies of firm growth and new exporters in this millennium reveal greater complexity and diversification in internationalisation strategies, especially in small and open economies. We examine the export diversification of Slovenian firms during recent crises. First, we analyse the foreign market and product diversification of exporting firms during the Great Recession and, second, changes in export diversification behaviour since the Covid-19 pandemic. Market and product diversification provided a vital source of enterprises' growth, value creation and revenue scaling during the great recession. The analysis shows: (1) Exporters with the strongest growth after the global recession demonstrated high export diversification. (2) In the post Covid-19 period, the majority of firms did not introduce any change in their export behaviour, but invested in digitalisation and automation. (3) The localising of exports, reduction of export markets and shrinking of the exported product portfolio was far more frequent than diversification, which might limit future growth prospects. (4) Firms that used complex diversification reported faster recovery plan. Managing complexity and export diversification thus remain important tools for overcoming crises, but can also be achieved through increased digitalisation.*

Keywords: *export, complex internationalisation strategies, export diversification, foreign market entry, market diversification, product diversification, digitalisation*

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Introduction

The growth of enterprises in small economies (regardless of firm size) vitally depends on their capacity to internationalise, integrate into global value chains or even establish control over their own value chains. Rapid changes in the global (and regional) environment, new risks and global crises along with competition from emerging markets have altered the patterns of internationalisation. Incremental, sequential internationalisation, entry to neighbouring markets first and later to more distant markets, product by product, known as the "Uppsala internationalization pattern" (Johanson and Vahlne, 1977, 1990) has for the last 30 years been accompanied by the "Born global" approach (McDougall et al., 1994; McDougall et al., 1996; McDougall and Oviatt, 2000; Chetty and Campbell-Hunt, 2004). This theory explains why some firms embark on a rapid initial international expansion, market dominance in global niches and flexible and innovative adaptation to foreign market opportunities. Such entrepreneurial, proactive risk-taking approach has more recently been transformed into a more opportunities-seeking approach and managing of risks. Hedging goes beyond the diversification of market and product portfolio towards new distribution channels and business models. The strategic logic of economies of scale and sequential knowledge accumulation (present in the Uppsala type of internationalisation) has been complemented by economies of scope and business-model innovations (Onetti et al., 2010). In these circumstances, the probabilities of achieving long-term international growth relate to complex internationalisation strategies. These include a variety of market channels, the parallel use of several entry modes (in the same market) and entry to several (carefully selected) foreign markets at the same time (or in a short period of time).

Simultaneous entry to several markets, the use of different entry modes and complex product/service portfolio enable the diversification of risks and growth synergies by markets, channels, product and service groups. The complexity of the internationalisation and diversification of exports is associated with growth and the likelihood of survival (Burger and Kunčič, 2010; Jaklič et al., 2017; Dikova, et al., 2016; McIntyre et al., 2018). Complex strategies sometimes manifest as *"internationalization in waves"*, such that an occasional high intensity or scope of international activities is followed by a reduction or even a complete withdrawal from foreign markets (Surdu et al., 2018). These patterns are often identified among firms in small open economies or former transition and emerging markets faced with strong dependence on foreign trade.[2] The study of the economic performance of

[2] The strongest dependence on foreign trade can be found in small European countries such as Luxembourg, Ireland, and Belgium as well as in the Central Eastern European countries of Hungary, Slovakia, the Czech Republic, Lithuania, Estonia, and Slovenia (Sacks et al., 2020).

small states in the period 1990–2015 found that more diversified economies experienced lower output volatility and higher average growth than most other small states (McIntyre et al., 2018). Despite their contemporary relevance, we still have limited knowledge about these new patterns and the complex internationalisation processes. There is also limited empirical evidence on the underlying forces, how companies seek to enter new growing markets, how they scale revenues in (existing) markets and how they synchronise or prioritise a range of alternative options on product and market diversification. We also have very limited evidence on changes in the internationalisation process during global recessions. How do global economic crises influence complexity in internationalisation? Do global economic downturns stimulate the acceleration of internationalisation, de-internationalisation, re-internationalisation, or all of them?

The aim of this article is to add empirical evidence about changes in the firm-level export diversification of firms during global recessions. We examine the episode of the Great Recession of 2008 and the Covid-19 recession in a small open economy (Slovenia) and study changes in the export behaviour and complexity of export strategies through market and product diversification. We first analyse changes in the market and product diversification of exporters during the period of the great recession. Next, we analyse the most recent changes in export diversification during the Covid-19 pandemic, especially with regard to export markets, product scope and number of suppliers. We discuss differences in diversification behaviour between these two global crises and conclude by summing up the implications for firms' growth. Product and market diversification remain key strategic tools for managing the risks and growth of enterprises, while the complexity of internationalisation is increasingly enhanced by e-sales, digitalisation and new technologies.

Complexity in internationalisation strategies: theoretical overview

A country's economic growth and development has historically been based on either the degree of specialisation or diversification of a country's production and trade structure. According to (neo)classical trade theories, countries should specialise in producing and specialise in goods for which they have a comparative advantage. After the Second World War, however, with the idea that economic growth and development may be achieved by export diversification (not specialisation)[3], active efforts were made by gov-

[3] A narrow export portfolio may face export instability/fluctuations, which arise from inelastic and unstable global demand, and can thus have an adverse impact on counties' investment and employment. Export diversification is thus a means to alleviate these risks, but it is also a means for scaling export revenues and enabling growth. On the macro level, export diversification refers to the move from "traditional (old industries)" to "non-traditional (new industries)" exports.

ernments to promote industrialisation and internationalisation. Theoretical reasons for the proposition that export diversification is conducive of higher and more stable per capita income growth arise from structural models of economic development.[4] Efforts for diversification in production and in exports began to intensify[5], along with the understanding that economic growth is not driven by comparative advantage, but by countries' diversification of their investments into new activities where an essential role is played by the entrepreneurial discovery process (Hausmann et al., 2003).[6] In this perspective, governments can play an important role in structural transformation and industrial expansion by promoting entrepreneurship and creating the right incentives for entrepreneurs to invest in a new range of activities.

On a country level, industrial policies from the 1970s until the 1990s promoted selected (fast growing) industries. However, within industries, they stimulated firm-level specialisation, focused on the product portfolio and also export promotion (which often resulted in the development of firms as national champions). Despite rising country-level diversification, the firm-level internationalisation process was seen as a focused, linear and sequential. Since the 1970s, several theoretical streams have sought to explain the internationalisation process of firms: the Uppsala Internationalisation model (Cavusgil, 1980; Johanson and Vahlne, 1977, 1990), the Transaction Cost Theory (Williamson, 1985), and the Resource-based view (RBV) (Barney, 1991). The Uppsala model is widely used to explain the internationalisation process of a small business and argues that an "enterprise gradually increases its international involvement" (Johanson and Vahlne, 1990: 11) through incremental development of its market knowledge and a gradual increase of commitment to international operations. A firm's decision to enter new markets is usually linked to psychic distance: companies

[4] *Countries should diversify from primary exports into manufactured exports to achieve sustainable growth (Chenery, H. 1979; Syrquin, 1989). Commodity products typically suffer from volatile market prices; therefore, commodity-export-dependent countries face export earnings' instability.*

[5] *Export diversification can help stabilise export earnings in the long run (Ghosh and Ostry, 1994, McMillan, Rodrik and Verduzco-Gallo, 2014), which is particularly relevant for countries vulnerable to terms-of-trade (ToT) shocks (small countries as price takers are particularly vulnerable, while large ones can manipulate the terms of trade).*

[6] *Hildago and Hausmann (2009) later developed a view of economic growth and development that gives a central role to the complexity of a country's economy by interpreting trade data as a bipartite network in which countries are connected to the products they export, and show that it is possible to quantify the complexity of a country's economy by characterising the structure of this network. Further, they showed that their measures of complexity are correlated with a country's level of income, and that deviations from this relationship are predictive of future growth. Countries tend to converge to the income level dictated by the complexity of their productive structures, indicating that development efforts should focus on generating the conditions that would allow complexity to emerge to generate sustained growth and prosperity. Slovenia ranks very highly (10th) in the index of economic complexity.*

start their internationalisation from those markets perceived as psychically close. A gradual approach was also identified in other dimensions: in the type of product and services being exported (from mature and established product and/or services to adapted and new product and services), for the entry modes (from simple export to a contractual mode or foreign direct investment) as well as for the functional orientation (from sales to manufacturing and supporting business functions and tasks).

However, ever since the 1990s diversification has also been gaining ground as a strategy within firms (not just in within national industrial policies). The changes in firms' behaviour (like the wide-scale rapid international growth of small and medium-sized enterprises (SMEs) and the wave of born-global exporters) since the 1990s have questioned the validity of the Uppsala gradual model. Many companies have entered foreign markets very early in their life with the world market in mind at the outset. Several changing patterns of behaviour of these companies may be identified. They enter a new market when opportunities arise, do not always internationalise gradually (as suggested by the psychic distance concept), may use multiple modes of entry simultaneously, may rely on the network relationship and the manager's knowledge and international experience (Johanson and Mattsson, 1988; McDougall et al., 1994; McDougall and Oviatt, 2000; Chetty and Campbell-Hunt, 2004). Scholars nowadays often argue that the Uppsala model is too deterministic as in reality firms frequently skip stages, it oversimplifies a complex process, ignores acquisitions and the impact of exogenous variables and may not be fully able to explain the internationalisation of firms in today's global market (Andersson and Wictor, 2003; Chetty and Campbell-Hunt, 2004). Such changes are preferably explained by newly emerged theories such as the Network Approach (Johanson and Mattsson, 1988; Coviello and Munro, 1997; Johanson and Vahlne, 2009) and the International New Ventures or Born-global approach (McDougall et al., 1994; McDougall and Oviatt, 2000; Chetty and Campbell-Hunt, 2004). The phenomenon of early internationalisation has been extensively studied from both a conceptual and an empirical perspective, giving rise and substantial improvement to the field of studies on 'International New Ventures' (INVs) and 'Born globals' (Rialp et al., 2005). The context of transition and emerging economies was especially fruitful for exploring changes in internationalisation patterns or export diversification and further stimulated the development of new internationalisation frameworks and perspectives. An early study on the outward internationalisation of transition economy firms for example described differences from the traditional (Uppsala) pattern and jumping over the stages with a "leapfrogging" pattern (Jaklič and Svetličič, 2003: 185; 2005: 107, 114). The studies of companies in emerging markets developed into the springboard theory (Luo and Tung, 2007).

According to this perspective, emerging and transition market firms systematically and recursively use international expansion as a springboard or accelerator to acquire critical resources they need to compete more effectively against their global rivals at home and abroad and to reduce their vulnerability to institutional and market constraints at home.[7] The internationalisation process in all of the newly described patterns is thus related to very complex strategies that transcend earnings' stabilisation. While studies in emerging markets demonstrate complex internationalisation strategies mainly by using examples of large and established MNEs with home-government support for going global (Luo and Tung, 2007), studies in small and open economies revealed the increased complexity and diversification in internationalisation strategies in recent decades also among SMEs and newly born exporters (Burger and Kunčič, 2010; Jaklič et al., 2017; Dikova, et al., 2016).[8] Although diversification has been recognised as the riskiest strategy for growth[9] in internationalisation and only used to be traditionally applied by large and established firms (exporters and MNEs), it is nowadays often seen as a key growth strategy of new exporters, young firms and even start-ups.

Just as there are several motives for diversification, growing complexity can stem from a number of reasons. First, it may be a result of volume (a large number) of different decisions that must be taken in a short time period. Second, it may also arise due to the pace of change and uncertainty related to the external environment. The current situation with Covid-19 includes both sources of complexity and requires efforts to ensure proper understanding and managing. System theorists distinguish between combinatorial and organic complexity (Buckley and Casson, 2004: 92–93). Combinatorial complexity is created when a number of different cases have to be analysed before a decision can be made, and in each case a large number of different factors must be taken into account. Organic complexity arises because of the numerous interdependences and feedback loops within a system (cause and effect may be difficult to disentangle). In this article, we only partially discuss organisational complexity in export diversification and neglect the questions of organic complexity. Ansoff (1957)

[7] These efforts are systematic in the sense that "springboard" steps are deliberately designed as a grand plan to facilitate firm growth and as a long-range strategy to more solidly establish their competitive positions in the global marketplace. They are also recursive because such "springboard" activities are recurrent and revolving.

[8] Feestra and Lee (2004) found that a 10% boost in export diversification in all industries would result in a 1.3 percentage point increase in a country's productivity growth, using a sample of 34 countries for the period 1984–1997.

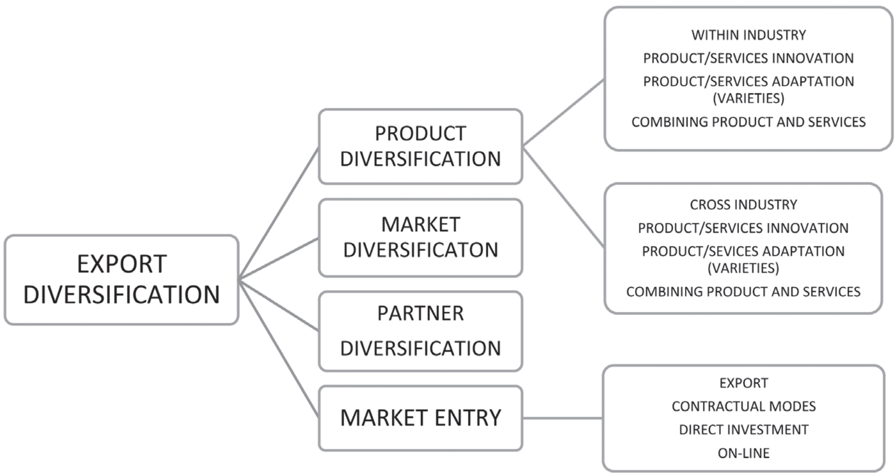
[9] This is clearly demonstrated in the Ansoff Matrix, also called the Product/Market Expansion Grid, a tool used by firms to analyse and plan their strategies for growth (Ansoff, 1957). The matrix shows four strategies that can be used to help a firm grow and also analyses the risk associated with each strategy.

mapped the dilemmas related to internationalisation strategy in a matrix and described four strategies that may be used to help a firm grow. An enterprise may select from among:

- Market Penetration, which focuses on increasing sales of existing products in an existing market.
- Product Development, which focuses on introducing new products to an existing market.
- Market Development, which focuses on entering a new market using existing products.
- Diversification, which focuses on entering a new market by introducing new products.

Figure 1 illustrates in a simplified way the potential complexity in export diversification that may emerge due to the large number of decisions related to exported products and services, their development through adaptation and innovation (that might take place within the same industry or another industry), the selection of different foreign markets, which may be approached through different foreign entry modes and distribution channels.

Figure 1: COMPLEX INTERNATIONALISATION AND THE POTENTIAL FOR EXPORT DIVERSIFICATION



Source: Own presentation.

Although diversification strategy is recognised as being the riskiest, given that both market and product development are required, the risk can be mitigated somewhat through related diversification where potential synergies can be realised between the existing business and the new product/market.

Product development and market development can be further accompanied by a cross-industry strategy and the spread of partners. Ansoff defined it as unrelated diversification that brings no potential synergies between the existing business and the new product/market. Yet, synergies can still be realised due to shared distribution channels, cross-industry product and services innovation and knowledge transfer. The diversification strategy may offer the greatest potential for increased revenues as it opens up an entirely new revenue stream for the firm.

The many possible combinations (Figure 1) that can occur simultaneously illustrate the sources of the rising complexity in internationalisation and also show the potential for changing dynamics in internationalisation, i.e. firm-level waves and cycles of firms' internationalisation, de-internationalisation and re-internationalisation. The existing models of internationalisation (i.e. the sequential approach to internationalisation, the international new venture theory (Johanson and Vahlne, 2009; Oviatt and McDougall, 1994) or the springboard theory (Luo and Tung, 2007)) highlight the growing complexity in internationalisation and increasingly in the model-decision-making process, but reveal a limited focus on the cycles and waves of firms' internationalisation (Vissak and Francioni, 2013). Implicitly, the models assume that internationalisation is a non-reversible process (Bernini et al., 2016). However, recent studies have identified internationalisation stages characterised by increasing, decreasing and re-increasing commitment to foreign markets (e.g. Dominguez and Mayrhofer, 2017). The former group comprises firms that suddenly decide to rapidly develop their foreign activities (Bell et al., 2001, 2003) or accelerate their internationalisation to more distant markets (Kalinic and Forza, 2012). Some firms decide to de-internationalise (pull back their level of internationalisation; e.g. Benito and Welch, 1997; Santangelo and Meyer, 2011, Svetličič and Jaklič, 2013). A third group of firms identified exhibits a re-internationalisation push, whereby they re-enter previously abandoned foreign markets (Welch and Welch, 2009; Vissak and Francioni, 2013). The growing complexity in internationalisation and the recent global crises thus question both the linearity and non-reversibility of internationalisation. New empirical evidence on cycles and waves of firms' internationalisation from different perspectives and more detailed firm-level insight into import and export diversification strategies over the crisis period may thus provide useful insights into how important diversification strategies are for managing crises. Based on the studied literature, we assume heterogeneity in firm behaviour with regard to export diversification strategies.

The following two sections present empirical evidence on export diversification patterns during the latest two economic crises. After explaining the data and methodology, we illustrate the dynamics in the export diversification of Slovenian firms alongside the product and market dimensions in the period of the great recession and the most recent changes in the export diversification behaviour of firms during the Covid-19 pandemic.

Methodology

The analysis of export diversification is based on firm-level data in Slovenia, namely, in the context of a small open economy. The analysis combines two different data sources for monitoring changes in export diversification in two different crises in two different periods.

Monitoring changes during the Great Recession

The dynamics of export market and exported product diversification during the global financial crisis of 2008 are studied by considering population data of Slovenian firms. Panel data of Slovenian manufacturing firms during the period 2000–2016 are compiled from financial statements and trade data from customs statistics and provided by the Statistical Office of the Republic of Slovenia.

The dataset includes the population of Slovenian firms in the period between 2000 and 2016. We focus on the period from 2006 to 2016. Based on Ansoff's model that relates the dynamics of firm growth to export diversification and on previous empirical evidence of Slovenian exporters (Dikova et al., 2016; Jaklič et al., 2017), we categorise firms into four groups based on the volume of export and growth rate of exports in the previous 5 years. We identified the following four mutually-exclusive categories of firms:

- **Unicorns**: average annual growth rate of exports in the last 5 years in the top 25% (top quartile) and export volume in the current year in the top quartile;
- **Mammoths**: average annual growth rate of exports in the last 5 years in the bottom 75% (bottom three quartiles) and export volume in the current year in the top quartile;
- **Gazelles**: average annual growth rate of exports in the last 5 years in the top 25% (top quartile) and export volume in the current year in the bottom 75% (bottom three quartiles);
- **Ordinary firms**: firms with a low export volume in the current year and low export growth in the past 5 years.

These four groups of firms are used in the analysis of export diversification during the Great Recession. We first trace changes in product diversification by groups of firms. We calculate the average number of export products and median number of export products per exporter per year and observe changes in the 2000–2016 period (product diversification).[10] Second, we monitor the number of foreign markets where enterprises sell their products. The average number of foreign markets and median number of foreign markets per firm per year are used as a variable of market diversification. The number of exported product per foreign markets (simultaneously observing the importance of the top 5 foreign markets and top five exported products) is also analysed.

Monitoring changes during the Covid-19 pandemic

Firms' responses after the Covid-19 outbreak, including changes in their export diversification in 2020 and firms' other reactions to the crisis were studied using survey data. An e-survey designed to study in detail the responses of enterprises, the use of Covid-19-related support measures and the consequences of Covid-19 on business performance was performed on a sample of Slovenian firms by the Slovenian Chamber of Commerce (SCC) and the Centre of International Relations (SCC and CIR Survey) between 15 June and 10 July 2020, with 278 firms responding out of the 815 contacted in the initial sample framework (a 34% response rate). We present only one part of the survey results, i.e. summary statistics for the questions concerning export diversification.

Changes in export diversification during the crisis

This section presents the findings on firms' export diversification strategies during the 2008 and 2020 economic crises. We summarise the empirical evidence for changes in export diversification during the Great Recession of 2008 and proceed with the findings on the latest reactions seen in export diversification due to the Covid-19 downturn. Despite differences in the methodological approach, both firm-level analyses address the same research question and enable a comparative perspective between the two recessions.

Export diversification during the great recession

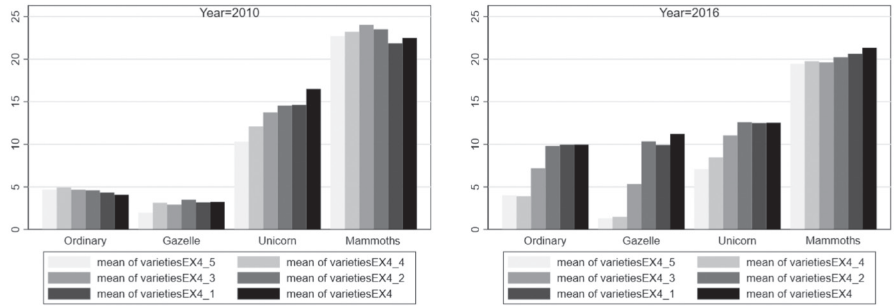
We traced changes in export diversification through the number of exporting markets and the number of 4-digit product varieties and monitored the average and median number of product varieties and foreign markets over 17 years.

[10] *4-digit and 6-digit product varieties were used in the analysis, but we only present the 4-digit breakdown in this article.*

Evolution of the number of 4-digit export product varieties is presented from 5 years before (t-5) to the current year t for the four distinct types of firms defined above: ordinary exporters, gazelles, unicorns and mammoths. Exporter types in year t were determined for each calendar year separately and their average number of exported product varieties and other characteristics were tracked from t-5 to t. Figures 2, 3 and 4 display different export diversification behaviour within these four groups of firms for the 2010 and 2016 vintages. The 2010 vintage reports diversification statistics from 2005 to 2010, while the 2016 vintage tracks firms from 2011 to 2016. First, there are significant differences in the level of export diversification in the product space: mammoths and unicorns exhibit a much larger number of exported products than gazelles and ordinary exporters. Second, export types differ significantly in the direction and dynamics of product scope diversification. Gazelles, unicorns and mammoths mainly show a positive trend of diversification, while ordinary exporters (that grew the least) exhibit reduced export diversification. The trend of diversification is the most intensive for unicorns, fast-growing exporters that achieved superior export revenue. Experimentation (in terms of product varieties) in the pre-crisis period continued during the recession and kept diversification stable in the post-crisis period. The recovery period showed a lower average and median number of exported product varieties (growth of new firms, restructuring and bankruptcy of existing). These trends can be identified by the average number (Figure 2) and median number of 4-digit product varieties (Figure 3). Gazelles demonstrated high diversification in the average number of 4-digit varieties only after the Great Recession, especially since 2013. The median number for this group of firms, however, reveals considerable heterogeneity (half of the gazelles still exported less than 4 product varieties in 2016, and less than 3 in 2012).

Figure 4 shows for each export group separately the average and median number of distinct 4-digit export varieties for all 2000–2016 vintages combined. It shows a permanent increase in the number of product varieties, i.e. growing diversification over a longer period. All groups of firms show a rising number of average product varieties, but the groups with high export growth (gazelles and unicorns) demonstrate the highest growth. The growth of exports is thus related to the size and expansion of the product portfolio. Unicorns reached a much higher size of their product portfolio than gazelles and ordinary firms, almost close to the mammoths. Comparing Figures 2 and 3 with Figure 4 reveals that the average and median number of exported products decreased in the aftermath of the Great Recession, especially for mammoths and unicorns. Figure 4 also reveals significant firm heterogeneity as the average number of product varieties largely exceeds the median number of distinct product varieties exported.

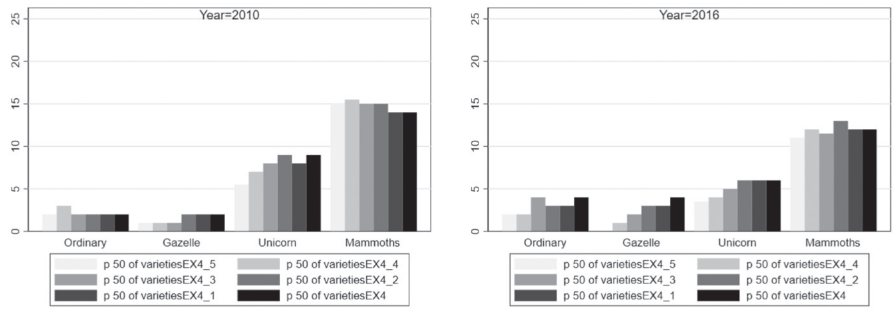
Figure 2: AVERAGE NUMBER OF DISTINCT 4-DIGIT PRODUCT VARIETIES EXPORTED FROM YEAR T-5 TO T, 2010 AND 2016



(c) Year=2010 (d) Year=2016

Source: Own calculations based on SORS data.

Figure 3: MEDIAN NUMBER OF DISTINCT 4-DIGIT PRODUCT VARIETIES EXPORTED FROM T-5 TO T, 2000 AND 2016

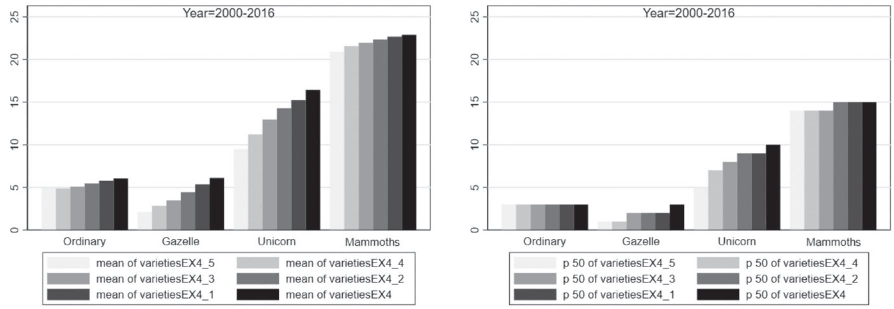


(c) Year=2010 (d) Year=2016

Source: Own calculations based on SORS data.

Figures 5–7 show the evolution of the number of export markets per firm from t-5 to current year t for all four distinct types of exporters. The data reveal a stagnating market development trend for ordinary firms, while all other groups of firms demonstrate growing market diversification. Unicorns and mammoths are again the most active in market development strategy. Geographical expansion of these two groups of firms is seen in the pre-crisis period, during the Great Recession and afterwards. Gazelles again show a growing average number of markets only after the recession. The average number of foreign market crises again exceeded the median number of foreign markets (Figure 7), suggesting heterogeneity in diversification strategies also within the groups.

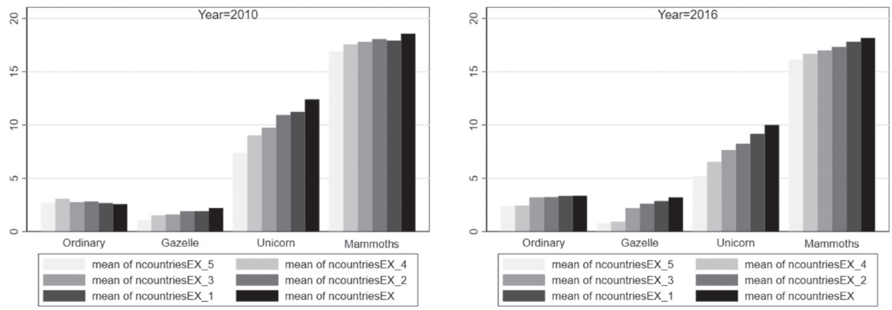
Figure 4: AVERAGE AND MEDIAN NUMBER OF DISTINCT 4-DIGIT PRODUCT VARIETIES EXPORTED FROM T-5 TO T, 2000–2016 AVERAGE



(a) Average Number of 4-digit EX varieties (b) Median Number of 4-digit EX varieties

Source: Own calculations based on SORS data.

Figure 5: AVERAGE NUMBER OF EXPORT MARKETS FROM T-5 TO T, 2000 AND 2016



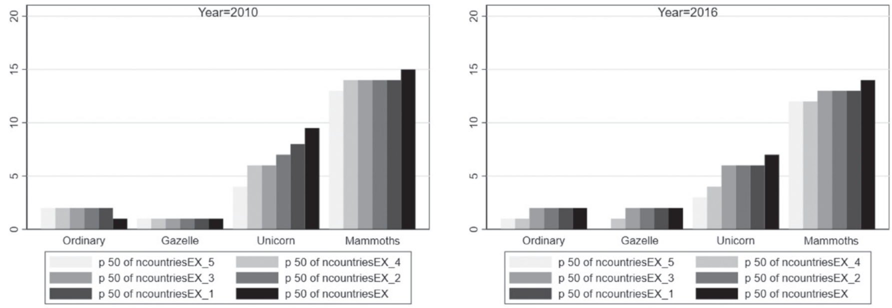
(c) Year=2010 (d) Year=2016

Source: Own calculations based on SORS data.

In terms of export diversification, unicorns were more similar to mammoths (large exporters). Insights into the revenue shares of the most important exported products and export markets[11] provide additional useful information. The average share of the top export product in the top export market was 44% of the total export revenue for unicorns, while gazelles and ordinary firms earned about 60% from their top export product in their top export market. Top product provided about 72% of export revenues for unicorns, and was very similar to the share found in gazelles, although unicorns attained the same share over a larger number of markets, i.e. with greater market diversification. In comparison to mammoths, unicorns

[11] *Extensive analysis available upon request from the SORS.*

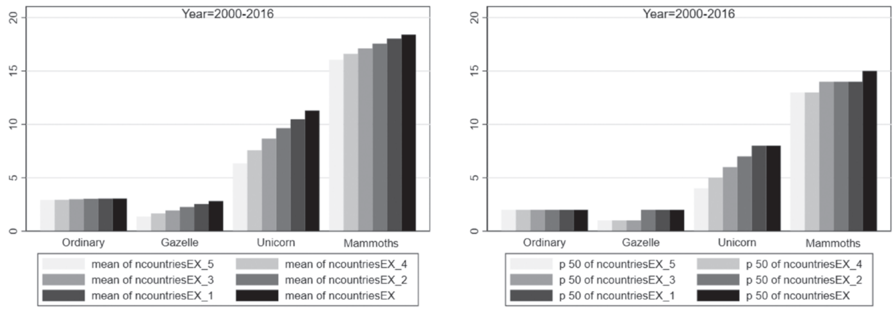
Figure 6: MEDIAN NUMBER OF EXPORT MARKETS FROM T-5 TO T, 2010 AND 2016



(c) Year=2010 (d) Year=2016

Source: Own calculations based on SORS data.

Figure 7: AVERAGE AND MEDIAN NUMBER OF EXPORT MARKETS FROM T-5 TO T, 2000–2016 AVERAGE



(a) Average Number of EX countries in current year (b) Median Number of EX countries in current year

Source: Own calculations based on SORS data.

realised approximately the same share of exports with their top five export products, but less geographically concentrated, i.e. over a larger number of export markets. The top export market represented on average 57% of i.e., total exports in unicorns, which is more similar to the mammoths (51%) than to the gazelles or ordinary firms (78% and 76%, respectively). Top export product is important for all firm groups. However, unicorns diversify more intensively in time with regard to both the product and market portfolio: unicorns for example reduced the share of the top export market from 70% to 57% in a 5-year period. Gazelles likewise diversify in the geographical dimension, but keep diversification of their product portfolio stable. Ordinary firms and mammoths, on the other hand, reveal stability in the top five markets and top five products. Unicorns covered their top markets with a greater number of export products than ordinary firms and a similar number as gazelles and slightly less than mammoths, but this difference could mainly be noticed for the first- and second-most important export markets, while the number of product varieties is more similar to other export markets. The average number of product varieties per market is positively correlated with the importance of the export market (a more important export market – where a bigger share of export revenues was realised – had more product varieties). A similar pattern holds for the product dimension: the more important the product for the exporter, the larger the number of foreign markets the product is exported to.

The average unicorn firm grew primarily due to intensive margins as they increased their revenues from the existing product-market combinations much faster than the average gazelles or mammoths. They were, however, also more successful than gazelles and ordinary exporters in launching new product-market combinations in previously known markets and with previously exported products.

While diversification in the past has primarily been understood as a risk-mitigation strategy, the new millennium has shown diversification chiefly as a tool for scaling export revenues and an important catalyst of firm growth. Market or product diversification (or sometimes even simultaneous diversification) not only enabled economies of scale, but also learning by exporting as testing the product in several markets stimulated product adaptation and presence in several markets (cross-country knowledge transfer) also stimulated the innovation process and expansion of the product/services portfolio. It also enabled the grasping of the opportunities in new markets less hit by the crises or markets with higher growth rates.[12]

Companies with permanent and rapid growth demonstrated continuously growing diversification during the great recession. The level of diversification seems related to firm growth.

Changes in export diversification during the Covid-19 pandemic

Covid-19 has impacted business performance in many respects. The survey among Slovenian firms revealed the consequences and reactions of firms 3 months after the lockdown had begun (14 March 2020). Companies reported a significant contraction of operations and anticipated a change in business performance in 2020 with regard to 2019. Revenues are expected to drop on average by 17.5% and export revenues are expected to fall by

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[12] Economic conditions in trading partners do in fact matter significantly for the growth of domestic exporters. Arora and Vamvakidis (2015) noted that countries which promote trade with markets with higher growth rates grow faster.

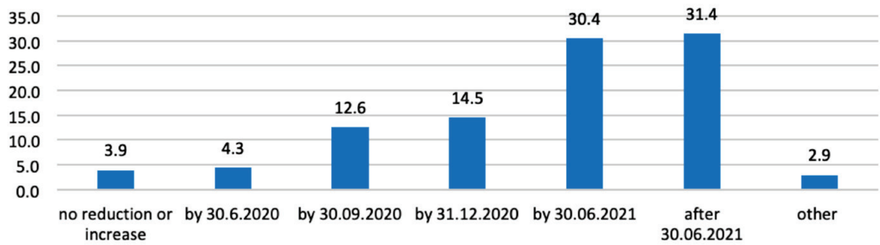
13.7% on average. Companies also reported a 14% decrease in investment and a 9% decrease in employment (Table 1). Expectations for recovery (Figure 8) were quite optimistic: almost 4% of the surveyed firms anticipate no loss in revenues, over 30% of firms foresee a recovery (return to the initial level of revenues) by the end of 2020 and more than 61% by the end of 2021. Only a few firms anticipate no recovery.

Table 1: ESTIMATED CHANGE IN TOTAL REVENUES, EXPORT REVENUES AND INVESTMENT, AVERAGE ANNUAL CHANGE (IN %)

	Average change in 2020 compared to 2021 in %	St. dev.
Revenues	-17.5%	22.4%
Export revenues	-13.7%	24.6%
Investment	-14.1%	36.5%

Source: SCC and CIR Survey, June-July, 2020; N=278.

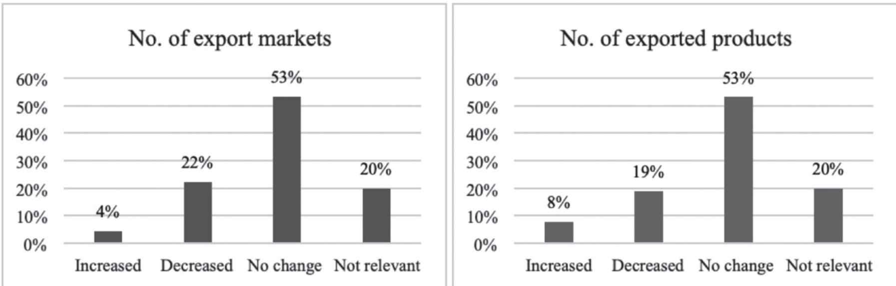
Figure 8: EXPECTATIONS ABOUT THE TIMING OF RECOVERY– PLANS TO RETURN TO THE PRE-COVID-19 LEVEL OF REVENUES (SHARE OF RESPONDENTS)



Source: SCC and CIR Survey, June-July, 2020.

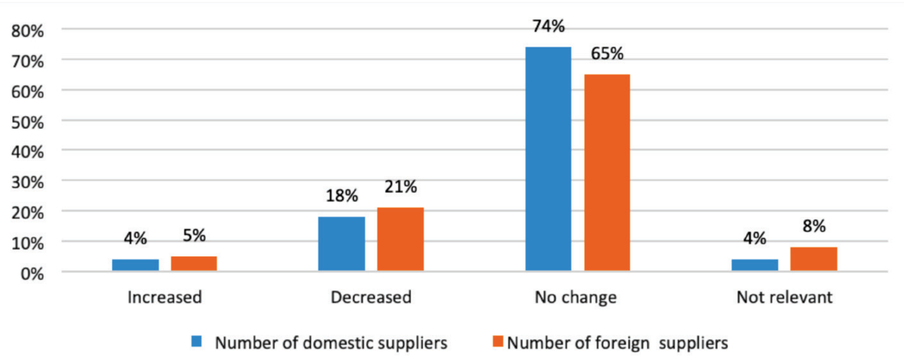
Next, we surveyed firms about their reactions and changes in their business operations in the first quarter after the lockdown. The majority of firms reported no change in their export behaviour in the post-Covid-19 period. Most firms had kept the same number of foreign (exporting) markets (Figure 9). For those that had changed the geographical presence of their foreign business, concentration was strongly preferred over diversification. De-internationalisation in the geographical dimension as well as in the product portfolio was a more frequent reaction than diversification. Managing risks (in existing markets and within existing product portfolios) seemed to be preferred over expansion and only a small share of enterprises reacted with greater export diversification. Firms that diversified their foreign operations preferred to introduce (adapt and innovate) products in the existing foreign markets since product diversification (i.e. increasing the number of exported products) was implemented twice as often as market diversification (8% vs. 4%). All those that had developed new export markets diversified simultaneously in more than one dimension. They also introduced product development and increased the number of exported product varieties. Above all, these firms show a relatively early recovery: 84% of those expect to recover by the first half of 2021. Managing complexity and export diversification thus remains an important strategy for overcoming crises, yet only few companies were capable of implementing it in the (early stages of the) crisis.

Figure 9: REPORTED CHANGES IN THE NUMBER OF EXPORT MARKETS AND EXPORTED PRODUCTS DUE TO THE COVID-19 PANDEMIC



Source: SCC and CIR Survey, June-July, 2020; N=278.

Figure 10: CHANGES IN THE NUMBER OF DOMESTIC AND FOREIGN SUPPLIERS DUE TO THE COVID-19 PANDEMIC



Source: SCC and CIR Survey, June-July, 2020; N= 278.

Changes in the post-Covid-19 period have also materialised in the network of suppliers (Figure 10). The majority of firms did not change their existing suppliers. The network of domestic suppliers remained more stable than the network of foreign suppliers. Here as well, contraction was preferred over an increase in the suppliers' network. The share of firms that reduced the number of their suppliers was higher than those which increased it by a factor of more than 4.

Operational choices can however heighten or lessen vulnerability to shocks. Practices like just-in-time production, sourcing from a single supplier, and relying on customised inputs with few substitutes amplify the disruption of external shocks and lengthen companies' recovery times. Geographic concentration in supply networks can thus also be a vulnerability if a single country or a single product accounts for the vast majority of exports or imports.

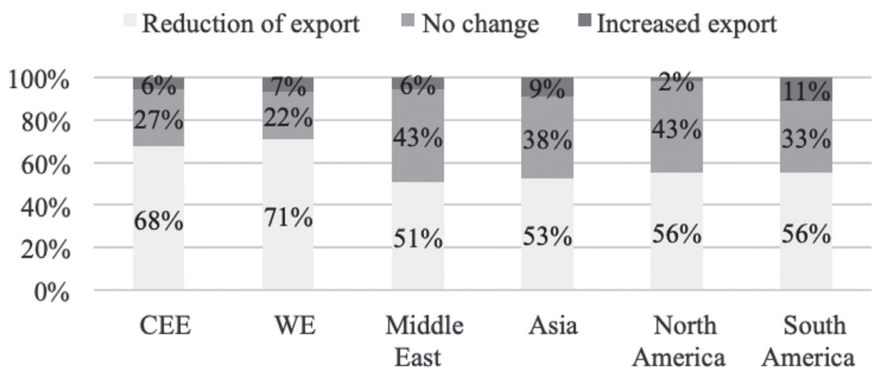
Apart from the identified changes in export behaviour, we examined changes in firms' online sales and use of digital channels that may be used to complement classic exports. Product and market diversification remain the main strategic tools for managing the risks and growth of enterprises, while the complexity of internationalisation is increasingly enhanced by e-sales, digitalisation and new technologies. The majority of firms have not introduced any changes, while the share of those that increased their on-line sales (17%) largely exceeded those who decreased their online sales (2%). Among other strategic responses, firms most frequently implemented new technologies (up to 42% of surveyed firms increased their investment in digitalisation, automation or other investment in new technologies), exchanged good practices among themselves, and strengthened human resource management (Table 2). As many as 36% of the surveyed firms have increased the formation of virtual teams while 25% have increased trainings for employees.

Table 2: FIRMS' RESPONSES AND CHANGES IN FOREIGN TRADE DUE TO COVID-19 PANDEMIC (PERCENTAGE OF SURVEYED FIRMS)

	Increased	Decreased	No change	Not relevant/ used
On-line sales	17%	2%	27%	54%
Implementing new technologies (digitalisation, automation)	42%	7%	40%	11%
Formation of virtual teams	36%	1%	33%	30%
Training employees	23%	16%	57%	4%
Exchange of good practices and mutual help with other enterprises	39%	10%	47%	4%

Source: SCC and CIR Survey, June-July, 2020; N= 278.

Figure 11: REPORTED CHANGES IN EXPORT ACTIVITY IN DIFFERENT FOREIGN MARKETS DUE TO THE COVID-19 PANDEMIC



Source: SCC and CIR Survey, June-July, 2020.

Before the 2008 global financial crisis, Slovenian firms (like most other CEE firms) relied heavily on trade with EU countries. Observing the reported change in the value of exports in different geographical regions following the Covid-19 restrictions reveals that the majority of firms encountered lower export revenue on all continents. The share of firms facing a drop in exports was largest in Western Europe (as this is the dominant export market): up to 71% of firms which operated there faced a contraction of exports, followed by Central and Eastern European (CEE) markets. Markets outside Europe (where only a minority of sample firms operate) seem to be more stable; the biggest share of firms without changes in export revenues was found in North America and the Middle East (28% and 27% of sample firms are only present there), followed by Asia and South America (28% and 18% of sample firms are only present there). Few firms which managed to develop business there also managed to maintain a commercial presence during the pandemic. Most Slovenian firms, however, lack experience in these markets. Further, a period of high risks in the business environment does not generally motivate them to experiment with distant markets.

Overall, the survey results during the Covid-19 recession reveal the largely cautious response of Slovenian firms and their only limited capability to manage the crisis via export diversification. Investment in new technologies (digitalisation, automation and other new technologies) and human resources was preferred over changes in internationalisation strategy. Firms that have entered new markets and introduced new products, however, have demonstrated a more holistic approach to diversification and report a more optimistic forecast for their post-crisis recovery.

Conclusion

The importance of export diversification has varied in recent decades with that time frame revealing the relationship between the growth and export strategies on the firm and macro level (e.g. Atkin et al., 2017; Harrison and Rodriguez-Clare, 2010). Small states face greater volatility in their annual growth rates of output and exports, partly due to their stronger volatility to terms of trade shocks (Easterly and Kraay, 2000). Facing increasing vulnerability to the ever-changing external environment, many small states are diversifying their economies and exports. Complex and non-linear internationalisation is an increasingly recognised pattern in both developed and developing countries over the last decades and might be a remedy to the global recession. This is not only true for large and established exporters, as was the case in the past. Export diversification has increasingly been a response of many SMEs and newly born exporters that wish to revitalise their growth.

Findings from the analysis of Slovenian firms' export strategies show that companies which pursued export diversification grew faster. Market and product diversification provided a vital source of firm growth: exporters enjoying the highest growth after the Great Recession demonstrated continuous and high export diversification. Product and market diversification provided leverage for scaling up export revenues, but also served as an experimentation and innovation strategy that led to the faster adaptation and agility of firms.

In contrast, firms reported lower diversification efforts during the Covid-19 crisis and having more concentrated and localised their exports. Only a small share of firms sought an answer via greater export diversification in the pandemic's early stages. While the majority of firms opted for a 'wait and see' reaction and have not changed anything, a de-internationalisation strategy was preferred over diversification for those that implemented changes in their export behaviour. Yet, the majority of firms which implemented diversification introduced complex internationalisation perturbations and forecast their recovery by mid-2021 (i.e. earlier than the majority).

Managing complexity and export diversification therefore remains an important instrument for overcoming crises, not just on the level of business strategies but on the country level. In this regard, governments should provide complementary services of commercial diplomacy and economic policies that open access to (a wide range of) foreign markets. Limited diversification may on the other hand also limit the future growth of exporters.

However, complex internationalisation strategies require considerable managerial skills and sophisticated business systems/models to coordinate all (foreign and domestic) activities. Access to data, business intelligence and business networks developed by international managers are all essential resources that take time to develop. Incentives and enhancing resilience support in this area are thus welcome policy tools for a faster recovery.

Export diversification provides the benefit of reducing output (revenues) volatility, but also of improving the long-run growth rate of small states. Hildago and Hausmann's (2009) recently developed measures of complexity are correlated with a country's income level and might help predict future growth. Yet, in practice, the quest for diversification has proven difficult and only successful in a modest number of small states. The general trend of diversifying observed in the late 1990s and early 2000s was short-lived and quickly reversed during and after the 2007–2008 global financial crisis. According to IMF estimates, the efforts to diversify were deprioritised on governments' policy agenda as more attention was given to policies designed to revive key industries facing significant economic challenges (McIntyre et al., 2018). The question of what has been learned from the past crises and how often they will rely on diversification thus remains open.

Besides the incentives for export diversification, there is a need for future research in adjacent areas. Exploring the sources of the rising complexity of internationalisation highlights the changing dynamics in internationalisation, which could also stimulate research on firm-level waves and cycles of firms' internationalisation, de-internationalisation and re-internationalisation. Questions such as how export diversification (and questions of how the initial market, product portfolio or initial entry mode) influence growth, waves and cycles of internationalisation (e.g. a complete and partial exit from markets, reduction of sales intensity, change in entry mode) and how relevant export diversification and complexity is for the sustainability of firm internationalisation deserve further theorisation and empirical evidence from different economic environments.

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CHANGES IN GLOBAL VALUE CHAINS AND THE COVID-19 PANDEMIC

Abstract. *The consequences of the Covid-19 pandemic might restrict the future development of global value chains (GVCs), especially impacting small and export-oriented economies. The article discusses factors of the resilience and stability of GVCs and identifies the most important structural changes that may deepen following the global pandemic and digitalisation. We apply a new measure of value chain participation that allows for the simultaneous examination of global and domestic integration of economies/industries into GVCs. Analysing the changes in value chain structure during the past recession may indicate the consequences of the current crisis. The past global recession shows a short-term increase in the domestic value chain share that mirrors the reduction in the GVC share, as well as the relatively high stability of simple value chains in the EU and in Slovenia. However, several manufacturing sectors in Slovenia saw a high and permanent increase in the share of complex value chain in the post-crisis period, suggesting a mixed response of countries and industries depending on their resilience capability.*

Keywords: *global value chains (GVCs), value chain structure, Covid-19 pandemic, GVC resilience and efficiency, EU, Slovenia*

Introduction

The complex interlinkages and interdependences among economies in the 21st century are best illustrated by Global Value Chains (GVCs), a phenomenon with increasing importance for almost every industry. Most businesses of developed and emerging market economies are in one way or another integrated into global networks and chains that are opening up new opportunities for growth, but also increasing vulnerability in uncertain

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times. The intensive integration of economies and businesses in international transactions has become a new lever for growth and development. Prior to the Great Recession of 2008–2009, hyper-globalisation was on the go with the rising participation of economies in GVCs that accounted for more than two-thirds of world trade (WB, 2019). The expansion was revolutionary for many countries, which boosted growth by joining GVCs, thereby eliminating the need to build whole industries from scratch. Few voices questioned the expectations of the future dynamic evolution of GVCs and the benefits for different actors.

Yet, GVCs are changing in an evolving global environment, where two decades of their growth was followed by a decade of stagnation while Covid-19 has opened discussions on whether they may be at a crossroads (World Bank, 2020: 13). The pandemic has seen many governments, from developed and emerging countries, call for "a rethinking of their companies' approaches to international outsourcing of production", with a view to avoiding future supply bottlenecks while increasing the resilience of supply chains.[1] These calls have not eased in the post-lockdown period, but encouraged studies on the resilience of GVCs to major exogenous disruptions. Overall, they point to a trend in international production evolution towards shorter value chains, a higher concentration of value added, regionalisation, and declining international investment in physical productive assets (OECD, 2020a; WIR, 2020; World Development Report, 2020).

Looking back, it seems that the globalisation and GVCs' dynamic reached a turning point towards the end of the first decade of the new millennium, which might also indicate the start of the de-globalisation process. In the period 2007–2017, the share of cross-border output of goods producing industries' travelling globally declined from 28.1% to 22.5%, however the experience of individual countries as well as industries varies. The change on the global level reflects several trends – from increased domestic demand in China and some other emerging economies, the re-shoring of production facilities in some manufacturing industries to regional partners in order to be closer to the buyers of final products, to the growing share of trade in services that is not well captured in trade statistics. Further, due to advances in technology (digital platforms, automation and robotisation) there is less

[1] See, for example, UNIDO (accessible at https://iap.unido.org/articles/managing-covid-19-how-pandemic-disrupts-global-value-chains), WEF ("Coronavirus is disrupting global value chains. Here's how companies can respond", World Economic Forum, 27 February 2020), and Financial Times ("Coronavirus will change the way the world does business for good", Financial Times, 8 April 2020). The Economist noted: "Narendra Modi, India's prime minister, told the nation that a new era of economic self reliance has begun. Japan's COVID 19 stimulus includes subsidies for firms that repatriate factories; European Union officials talk of 'strategic autonomy' and are creating a fund to buy stakes in firms. America is urging Intel to build plants at home" (Accessible at https://www.economist.com/leaders/2020/05/14/has-covid-19-killed-globalisation).

need for the movement of physical goods and more for digitised goods along with their transformation into data flows (e.g. 3-D printing, streaming of audio and video material) that lead to the diminishing importance of labour cost differentials[2] (Quilhoto et al., 2019; McKinsey, 2019).

In recent years, the frictions among big trading partners and growing protectionist threats have already added to the increase in uncertainty in international relations, raising the vulnerability and risks for business. However, the arrival of Covid-19 virus was so abrupt and unprecedented in the scale of its effect that it became the primary cause of huge uncertainty. Almost overnight, countries and citizens had to face human casualties, the collapse of health systems in many countries, the standstill or mitigation of production, the discontinuation of traditional education models and the shift to online systems, the halting of not only cross-border mobility but also mobility within countries, a rise in unemployment, the disruption of global supply chains etc. At the same time, Covid-19 has revealed the magnitude and intensity of the linkages within supply chains, as well as the weaknesses and risks related to GVCs[3]. Challenges abound for each of these areas and their impact will differ across regions, countries and industries. Further, it is very ambiguous whether the shock is temporary or will persist for a longer time. Against this backdrop, the most frequent question posed by philosophers, business leaders, scholars, politicians and citizens is not simply the extent of the damage but also what might become the 'new normal' in any domain.

Without further considering possible answers and changes in the economic, political and social spheres, the article focuses on the likely transformations of GVCs. The main objective of the article is to analyse GVCs' evolution after the great recession and to identify the most important structural changes that may sharpen and deepen following the global pandemic. How stable are GVCs through time and what can we learn from the past for the post-pandemic period? What can we expect in small and open, export-dependent economies? To answer these questions, the analysis applies a new measure of value chain participation (Knez et al., 2021) that enables one to simultaneously examine the global and domestic integration of economies/industries into GVCs and analyse the complex patterns of their evolution.

The resilience and reaction of GVCs to crises, the changing location and

[2] In the last decade, less than 20% of goods trade was based on labour-cost arbitrage, and this share has been declining parallel to the rising share of knowledge and intangibles playing a bigger role in GVCs (McKinsey, 2019).

[3] A highly relevant illustration of the issue relates to the GVC of surgical masks and increased demand across the world after the outbreak of the Covid-19 virus and shows how essential trade is. Even though these masks are relatively cheap (when not in short supply), their production involves several types of inputs, the assembly of different parts in relatively sophisticated processes from quality testing to logistics. In addition, export bans by producing countries could backfire on them while importing inputs for masks or other indispensable goods (OECDb, 2020).

structure of value creation as well as the impact of protectionist policies have been identified as deficiencies in the GVC literature (Kano et al., 2020). Based on a literature review (in section 2), we may expect several possible ways of restructuring, first in the direction of reduced complexity, regionalisation, localisation and the strengthened importance of domestic value chains, but also in the direction of the increased resilience of complex and well-orchestrated GVCs. A more intensive restructuring process is expected in smaller countries that depend more on international trade. As the disruption created by Covid-19 has demonstrated the importance of conceptualising and evaluating GVC resilience, we aim to contribute new empirical evidence and discuss factors influencing resilience in potential shifts in the development of GVCs after the pandemic. We expect to uncover alterations in the structure of GVCs over the last decades as responses to the global recession, focussing on the EU and particularly Slovenia. The structure of the article is as follows: after the introduction, we provide a literature review concentrating on recent changes and factors influencing resilience and stability in GVCs. The next section explains the methodology used for evaluating the structure of value chains over time. Based on the WIOD dataset (industry-level data), we examine the patterns of change in GVCs after the global recession and discuss the results of an empirical exercise for the EU and Slovenia. Acknowledging high uncertainty in the international arena, we conclude by anticipating changes that may occur due to Covid-19 and are especially relevant for shaping a flexible mix of public policies and increasing the resilience of businesses in small, export-oriented economies.

Discussion of the literature

The complexity of GVCs relates to the integration of trade, foreign direct investment, infrastructural services and coordination of dispersed production (Baldwin, 2012), which perhaps also explains the tremendous increase in literature on GVCs since the 1990s exploring diverse dimensions of the phenomenon. In a comprehensive way, global value chains are defined as a set of activities performed by several actors that deliver a product or service starting from development up to disposal after use (Kaplinsky, 2000), carried out by companies at different global locations and coordinated by the lead company (Park et al., 2013). A novel feature of GVCs compared to traditional trade is that the fragmentation of the production process and specialisation into individual tasks performed at global locations shifts the focus of competition from industries to tasks in the production process (Timmer et al., 2013; Cataneo et al., 2013).

Research on GVCs has focused in particular on the management of fragmented value chains, international business issues and the development-enhancing potential of GVCs via backward and forward linkages. The findings have highlighted the significance of GVCs for productivity growth, competitiveness, international trade, and for upgrading countries along the value chain. Some firms from emerging market economies have succeeded to integrate into GVCs with their own knowledge and technology and become global players. However, these firms generally originated from economies with a huge domestic market that enabled a good foundation for scale economies (e.g. China, Brazil or India). Notwithstanding the success of individual firms from emerging economies in upgrading (Dossani and Kenney, 2007; Di Gregorio et al., 2009) and acknowledging the role of FDI, transfer of knowledge and managerial know-how from parent companies, analyses also argue that such cases cannot be extrapolated to the majority of firms in those economies. In general, firms from emerging economies perform well in the manufacturing phase of GVCs but are much weaker in the phases/tasks preceding/following it (Buckley et al., 2020). Those tasks consist mainly of knowledge-intensive service activities – from research and design to marketing and customer relationship management that capture the bulk of value along the "smile curve" (Shih, 2005). Recent analyses argue that what matters most in catching up is the international diffusion of technology and innovation capability of local firms (Engel and Taglioni, 2017), where multinational companies play an important role (Buckley et al., 2020). Digital connectivity and implementation of the latest technologies give a further impetus to reconfigurations of GVCs (Rehnberg and Ponte, 2018) while the emergence of Covid-19 has revived the debate on the risks, resilience and efficiency of GVCs.

Efficiency and resilience of GVCs

GVCs can only be sustainable and stable if this form of cooperation is more efficient than other forms of value creation. Since a GVC is the aggregate outcome of many separate decisions (considering micro and macro determinants), orchestration of the production network demands new (hybrid) forms of inter-firm governance (Gereffy, Humphreon and Sturgeon, 2005). Lead firms (normally MNEs) have the difficult task of identifying value creation in complex networks, ranging between the two extremes of hierarchy and market structure. However, GVC efficiency (and resilience) not only depends on the lead firm's (MNE) performance and that of individual suppliers, but on the GVC's performance[4] as a whole. The

[4] *GVC performance is not uniformly described in the literature but through a range of different indicators such as the flexibility and agility of production process, access to a wide range of resources, operational efficiency, innovation, and also corporate social responsibility and development impact (Kano et al., 2020). While capability development is important for all firms in the value chain (suppliers and the lead*

way a GVC is configured is thus subject to constant revisions and reactions to the changing environment. GVC performance can be ensured through a variety of different (and changing) configurations. The key dimensions of GVCs are the geographical distribution of value added, the length (fine slicing/unbundling) and governance of the GVC (WIR, 2020: 129), although countless combinations are possible. Advanced, activity based accounting and digital tools, as well as other managerial innovations in coordination and control (based on blockchain technology) allow managers to identify and isolate very narrow, modular activity sets to be coordinated with each other. For each activity set, they decide on internal versus external production, and its optimal location (Benito et al., 2019). They continuously reflect on what should be done by the firm versus outside of it, and where. The outcome is a GVC with great agility to respond swiftly to exogenous shocks.

Intensive and interdisciplinary studies of GVCs in recent decades have not (yet) provided a unifying theory or model for use in evaluating or predicting GVC governance, performance and stability. An extensive multidisciplinary literature review (Kano et al., 2020), however, summarises the drivers of governance that also influence efficiency and resilience over a longer period. Based on a comparative institutional analysis perspective, they organised factors influencing value chain resilience and efficiency on the micro, macro and GVC levels (Table 1). With micro-level influences, they explore human behaviour conditions that impact firm-level (and, for a GVC, network-level) outcomes (Kano and Verbeke, 2019).[5] Individual-level characteristics, such as bounded rationality, reliability, cognitive biases, and entrepreneurial orientation influence GVC governance (Kano et al., 2020: 598). On the macro level, GVC governance is impacted by the interaction of home- and host-country environment characteristics. Altogether, the institutional, political economic, cultural and geographical characteristics of countries bear on a GVC's efficiency, resilience and governance. Institutional quality, IP protection and economic policies, for example, greatly influence the ability to engage in and profit from innovation (Buckley and Tian, 2017; Khano et al., 2018). On the GVC level, Kano et al. (2020) differentiate the elements of structural governance from the elements of strategic governance. Structural governance influencing the GVC outcome refers to control influencing the level of internalisation (make or buy or hybrid decisions for each value chain activity), locational choices for activities, and the network structure. Strategic governance, on the other hand, refers to learning (knowledge acquisition, innovation, catching up and

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firm), the ability to minimise the total sum of transaction costs and to orchestrate the network is essential for the lead firm's performance.

[5] *These general behavioural assumptions about decision-making are also referred to in the literature as microfoundations.*

upgrading), the power and impact of the lead firm and GVC orchestration.

A multi-level perspective of the elements shaping the GVC outcome reveals the complexity of GVC governance. The variety of the GVC governance system was acknowledged because it better serves economic efficiency and the creation of economic value than other governance types. This suggests the main guiding principles of GVC design are less likely to change even during times of crises. Yet, the re-configuration and restructuring of GVCs is expected to occur due to many current and forthcoming changes of factors that influence GVC governance. The pandemic is intensively influencing the macro-economic environment along with the behaviour of entrepreneurs/managers and countries' policymaking, but also the elements of structural and strategic governance. MNEs and other enterprises integrated into GVCs are changing their control and impact within networks, as well as their learning and innovation capacities. Further, social mechanisms and relational governance are rapidly changing through increased digitalisation and virtual teams/human resource management.

Table 1: FACTORS INFLUENCING VALUE CHAIN GOVERNANCE, RESILIENCE AND EFFICIENCY OVER A LONGER TIME PERIOD

Micro level	Macro level	GVC level
Behavioural assumptions (decision-makers in lead and peripheral/supplier firms) • Cognitive capabilities • Managerial capabilities • Bounded rationality	*Cultural, institutional, political, geographic, economic characteristic of home/host countries* • Quality and costs of production (labour costs) • Technological environment, IP protection • Trade costs • Institutional quality and political stability • Economic growth and development • Norms and value systems	*Structural governance* • Control and internalisation • Locational choice • Network structure *Strategic governance* • Learning • Power of lead firm • GVC orchestration

Source: Adapted from Kano et al., 2020 and WIR, 2020.

On the macroeconomic level, analyses show that the catching up of emerging economies requires a number of improvements in several areas.[6] A well-functioning innovation system that embraces education and training, finance and competition (Lundvall, 2007), trade and industrial policies

[6] The experience of companies' integration to GVCs in South Korea, Taiwan, India, Brazil suggests the process of upgrading evolves over three phases. In the first phase, the firms' integration into GVCs was related to the rising foreign value added in their gross exports. Capitalising on the learning process within GVCs, these companies were able in the second phase to develop internal knowledge and thus increase domestic value added, leading gradually to functional upgrading (e.g. from own equipment manufacturing to own design manufacturing) (Lee et al., 2017).

(Engel and Taglioni, 2017), the quality of institutions and of infrastructure (Ignatenko et al., 2019) is referred to as being the most important. Benefits from upgrading and the spillovers of low- and middle-income countries can only be materialised if those countries where the most important role is played by the accumulated higher human capital, contracting institutions and R&D intensity possess sufficient absorptive capability (Kummritz, 2015). All of these preconditions for reaping greater benefits of GVCs' integration raise the perspective of GVCs' links within the domestic economy, particularly how they might be affected by the evolution of GVCs' dynamics and structures (see section 4).

The analysis of Central and Eastern European (CEE) countries' integration into GVCs shows that the negative relationship between GVCs' participation and domestic value added in exports diminished in the period 1995–2011, possibly indicating the potential to gradually improve their position in GVCs (Vrh, 2017). Such a transition is also demonstrated by functional upgrading at the firm level in CEE countries, pointing out that some multinationals' subsidiaries have experienced a shift from the primary business function (goods or services production) to supporting business functions like logistics, marketing, R&D and ICT. While this change gave rise to domestic value added and value capture by subsidiaries, only a modest share of sample subsidiaries in the CEE countries had managed to upgrade functionally (Burger et al., 2018) confirming that it is not an automatic process.

Prior to the Great Recession, the discussion on GVCs paid less attention to research of the less favourable dimensions of globalisation and associated risks. Some studies claim that for emerging economies specialisation into individual tasks creates barriers to learning and acquiring broader capabilities to allow the production of a complete product (Collier and Venables, 2007), bring uneven development and lock-ins in low valued added activities (Kaplinsky and Masuma, 2010). Further, the sustainability of continuously expanding integration into GVCs had begun to raise questions about the risks for individual economies as well as globally (e.g. increasing income inequality, negative effects on the environment etc.). The shocks encountered as the financial crises unfolded affected a large number of countries and hence their international transactions. As GVCs' trade has started to decline since 2008, the risks linked to hyper-globalisation have become increasingly evident.

Apart from the financial crisis, other reasons were responsible for the falling trade, such as the further use of new technologies (e.g. robotisation and 3D printing) in advanced economies that challenges the GVC model underpinned by low-labour costs in developing and emerging economies. These changes announced a trend that could undermine the production-cost advantages of many emerging economies and move production closer to final consumption (Strange and Zucchella, 2017). In addition, the persistently high growth rates in China have enlarged the size of the middle class with a raised income that has increased internal demand (World Development Report, 2020). In fact, these trends were somewhat already seen in the reshoring and nearshoring of GVCs' flows towards regional suppliers, especially in Europe and Asia.[7]

The recent trade disputes and mounting protectionism have boosted awareness of the risks associated with GVCs and led to a rethinking of the prospects of GVC trade. Nonetheless, a massive disruption to supply chains was not in sight. The blow caused by the arrival of COVID-19 saw uncertainties skyrocket in every aspect of life on the global scale, raising many questions that still remain unanswered. In the subsection below, we discuss the findings and assessments of analyses that examine possible effects of the first wave of Covid-19 on international trade, especially the development of GVCs' trade.

Covid-19-related analyses

The global shock of Covid-19 spreading so quickly around the world prompted scholars, international institutions and consultancies to respond rapidly to the unforeseen situation of economies around the world going into lockdown and examine potential implications and scenarios in various fields. The forecasts of declines in both GDP and trade are increasingly uncertain, as evidenced by the downsizing of numbers since the arrival of Covid-19. Contrary to views that virus would only cause temporary shocks and afterwards life would quickly return to normal, some believe that its disruptive effect on the economy may last much longer. Due to economies' intensive interconnectedness via GVCs, no country can be isolated from others for any length of time. This view is underpinned by fears that the opening of borders will bring new waves of Covid-19 infections[8]. Economies with weak health systems will suffer the most in terms of human and economic loss, in turn possibly further increasing the income gap and poverty of already poor economies. GVC developments may lose momentum and experience not only a steeper decline but switch away from complex supply chains (Rajah, 2020; WIR, 2020) and start to develop (more) regional supply chains and networks.

The pandemic has accelerated supply chain restructuring and the network of value creation is expected to change in terms of its geographical

[7] *GVC activities in Europe and Central Asia have increased regionally more than globally in the last two decades (compared to the USA), particularly since the 2000s (WB, 2020: 24).*

[8] *Increased spread is already taking place, for example, in the Balkans and neighbouring countries, some other European economies, the USA, India, South America (situation as in July 2020).*

scope, complexity and governance. MNEs have used GVCs for decades as a governance tool to organise their international business activities, thereby involving a myriad of other company types (Kano et al., 2020). Yet, recent analysis based on a new measurement method (combining sectoral and micro data on firm ownership compiled by the OECD Statistics and Data Directorate[9]) might demonstrate that MNEs' contribution to value added exports is considerably less than suggested by traditional trade statistics (30% vs. 54%; for more, see Fortainer et al., 2020). Insights from that analysis may improve understanding of the role of MNEs and suppliers in GVCs, the consequences held by the pandemic for firms, but also the responses of both firms and policymakers. The role of local suppliers and other non-MNEs (domestic firms) in a GVC has thus been underestimated so far, but may increase in the future in global production networks. The considerable importance of the domestic supply chain (demonstrating the largest share in the EU average, see Figure 1) is also evidenced in the empirical analysis in this article.

When comparing Covid-19's impacts with similar experiences in the past, some scholars and institutions predict they will be larger than those associated with the financial crisis of 2008–2009 (Baldwin and Evenett, 2020; WIIW, 2020) and more similar in magnitude to the rise in uncertainty during the Great Depression of 1929–1933[10] (Baker et al., 2020; IMF, April 2020). Assessments of the trade effects vary between countries, with estimates changing in line with the changing depth of the pandemic and the continuously updated information on Covid-19 regional developments. The forecasts for world trade in 2020 reflect a dramatic drop in the volume of international trade due to the economic crisis caused by the pandemic, especially since trade tends to be more volatile than output. The figures for 2020 vary from -9.5% to -32%, depending on the scenario and institution (April 2020 forecasts of the OECD, IMF and WTO), whereas WTO data for the first half of 2020 indicate a year-on-year drop of around 18.5% (WTO, 2020). The European Commission estimates that extra-EU exports will fall in the range of 10% and 16% while imports will do so by 11% and -14% (EC, May 2020). The importance of trade for the EU's recovery is also critical from the perspective of the 36 million jobs that depend on exports (Monterosa et

[9] The main data sources used to develop the splits in the national IO tables were the official statistics on the structure and activity of foreign-controlled affiliates, by value added and gross output by industry (OECD, Activity of Multinational Enterprises (AMNE) Database and the OECD TEC database from official national statistics on Trade by Enterprise Characteristics (TEC) for merchandise exports and imports by industry and firm ownership).

[10] An estimate of GDP's contraction in the USA in the first two quarters of 2020 shows that half of it is caused by the Covid-19 uncertainty. The uncertainty degree is derived from stock market volatility measures, newspaper-based measures of economic uncertainty, and responses to survey questions about perceived business-level uncertainty.

al., 2020). Given the links between trade and FDI, the forecast of a drastic decline in global FDI flows of 40% in 2020[11] and a further 5%–10% in 2021 compared to the previous year will additionally impact the deterioration of trade generally and GVCs' trade in particular (WIR, 2020).

The backdrop to Covid-19, the bigger risks and gloomy prospects for GVCs will inevitably call for activities to accommodate the changes, countervail the decline, and especially transform GVCs. Companies will need to diversify their pool of suppliers, look at reshoring and use new technology (Javorcik, 2020), rethink the sustainability of complex supply chains and their increase regional supplies (Rajah, 2020). However, one should also consider whether the geographical concentration of production will erode the resilience and robustness of supply chains (Mirodout, 2020).

The aggregate result of all of these multi-level activities is reflected in changes in the integration of countries and industries into GVCs. The next section presents the methodological approach for analysing developments in GVCs' evolution following the Great Recession where the changes in the value chain structure may help to indicate the consequences of the current pandemic.

Methodology

Rapid progress in the database and methods for measuring GVCs' links with respect to both a macro-level insight with the construction of world input–output tables (measuring trade in value added, the length of and location of producers in GVCs, and price linkages across countries) and micro-level mapping (documenting firms' input-sourcing decisions, interlinkages between import and export, organisation of production networks of multinational corporations (MNCs)) gives a more complete empirical portrait of GVCs and a better analytical base for decision-making (Johnson, 2018).

In this article, we apply a novel methodology and introduce an extended typology of value chain disaggregation in an international input-output framework (as presented in detail in Knez et al., 2021). To conceptualise and measure the value chain structure of each specific smallest unit of analysis (country-sector), we introduce the concept of a value chain path. Value can be decomposed into two dimensions: origin (where the value was added) and final production stage (where the product was finalised for consumption). As opposed to existing approaches that rely on a matrix of value-added exports (Johnson and Noguera, 2012), that covers all of the value flows between any two country-sectors in the economy, we propose a new object – a matrix which describes the value chain structure of each

[11] *Europe will experience a larger fall (30%–45%) than North America.*

country-sector separately by covering all of the value chain paths between any two country-sectors that are part of the output of the country-sector in focus. Our conceptualisation of a value chain tree, specific to each country-sector, can therefore be thought of as all the paths of value creation (downstream paths) that lead through a particular country-sector and meet final demand through all possible upstream paths. Application of this methodology to our empirical study reveals the importance of including domestic path integration into value chain analyses.

This methodology thus enables value chain paths to be disaggregated on the country-sector level, which includes downstream and upstream paths, as well as their combination. In this framework, we develop an extended typology of value chains and define the following types of GVC:

1. Domestic value chain (DVC) is a value that involves at least 1 transaction between domestic firms and only involves domestic transactions between firms along its path.
2. Global value chain (GVC) is a value that involves at least 1 cross-border transaction between firms along its path. We further distinguish two types of global value chains: simple and complex.
   - Simple global value chain (SGVC) is a value that involves exactly 1 cross-border transaction between firms anywhere along its path.
   - Complex global value chain (CGVC) is a value that involves more than 1 cross-border transactions between firms along its path.
3. No value chain (NVC) is a value that does not involve any transactions between firms and has no path within production.

Since every physical product or service produced by a specific country-sector belongs to a multitude of production-sharing paths, we trace the shares of value that conform to each value chain type. In general, one part of output involves many cross-border transactions, another part only domestic production-sharing transactions, while yet another part entails their relatively complex intertwinement. Different shares of value chain paths can be attributed to each sector and country-specific production process, with these shares providing information about the economy's structure. The changes in the shares of different types of value chains can inform us about the processes of production fragmentation (for instance, decreases in no value chain shares), the process of domestic production fragmentation and integration, the processes of offshoring and international integration (for example, a decrease in domestic and rise in global value chain shares) as well as the nature of the global integration, such as changes in complex and simple global value chain integration.

We are using the WIOD dataset for the period 2000–2014[12] to observe patterns and changes in value chain structure in order to observe the economic crisis' effect on different value chain structures and identify which value chains are more stable in times of crisis and which are more affected by the economic downturn. Since the main interest of our empirical investigation concerns the policy implications for small and open economies, we focus on the Slovenian economy and the comparative perspective of the EU.[13]

Analysis of the value chain structure between 2000 and 2014

We first present the structure of value chains on the country level. The article focuses on exploring the ramifications of changing GVCs' structure for a small and export-oriented economy, with special reference to Slovenia and comparing it to the EU as a whole. Second, we analyse aggregated industry-level value chains and present the structure separately for manufacturing and services. A more detailed industry analysis was also conducted, however space constraints mean here we can only summarise the key findings.

The case of Slovenia and a comparison with the EU

The structure of value chains on the EU level has been quite stable over recent decades, with a larger change only being seen after the global recession. As a small and export-oriented economy, Slovenia faced greater dynamics and changes in its value chain structure in the period 2000–2014. Still, the stability of the different types of value chain paths across the EU varies. The increase in global production sharing has been a general trend in most countries in the last few decades (with a backlash apparent in the last few years), but different modes of integration have had a range of effects on domestic integration. The EU and Slovenia are both part of this trend, although Slovenia has seen higher growth in its share of global value chain paths. Different types of integration into global value chains are an outcome of varying structural developments across the EU (Figure 1).

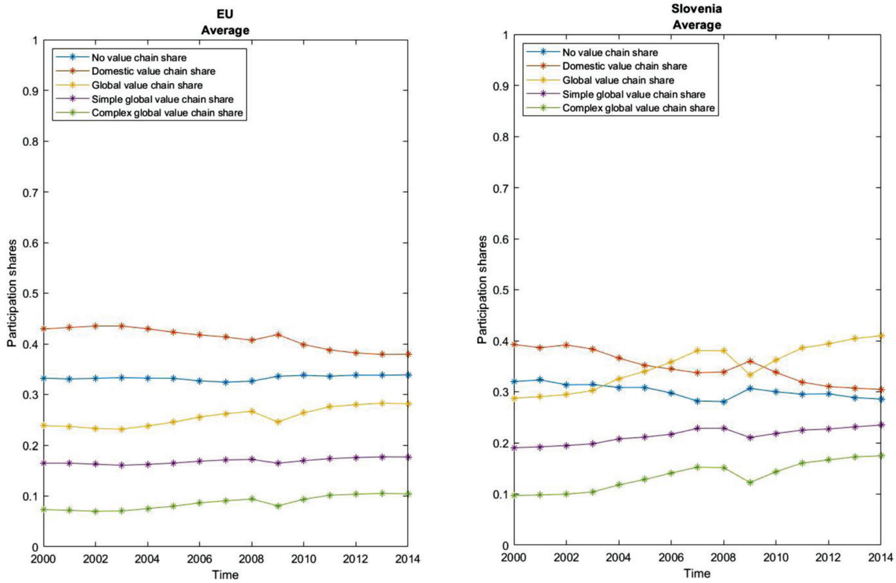
In the crisis in 2008, we observe an increase in the share of domestic value chains and a drop in the share of global value chains on the levels of the EU and the Slovenian economy. In manufacturing, almost the entire decrease in the global value chain share is due to the drop in complex value chains. This might indicate that in a crisis integration into a complex value

[12] *The most recent data available (WIOD, 2016).*

[13] *An overview for the world as a whole is available in Knez et al., 2021.*

chain is less stable, more prone to external shocks and exposed to risks.[14] A simple global chain seems the most stable during the studied period in both the EU and Slovenia. Interestingly, high stability is also seen in the no value chain path. The decline of global integration in a time of crisis had almost no effect on the no value chain part, while domestic integration increased almost in proportion to the decrease in global integration. The crisis therefore did not cause a general decrease in production fragmentation, only a decrease in its global character. Trade frictions and restrictions along with new technologies have led to important structural changes in the nature of globalisation over the last decade; goods-producing value chains are becoming more regionally concentrated and less trade-intensive, even as cross-border services are growing (McKinsey, 2020). GVC structure on the aggregate level shows long-term resilience, despite several disruptions that have exposed value chains and companies to losses. Domestic integration was relatively more stable, as seen in the growth of the domestic value chain share in a time of crisis.

Figure 1: PARTICIPATION SHARE BY TYPE OF VALUE CHAIN IN THE EU AND SLOVENIA, 2000–2014 (IN PERCENTAGE)



Source: Own calculations.

[14] *In value added terms, manufacturing represents 39% of Slovenian exports (Stare et al., 2019), placing Slovenia among the top 5 manufacturing exporters in the EU.*

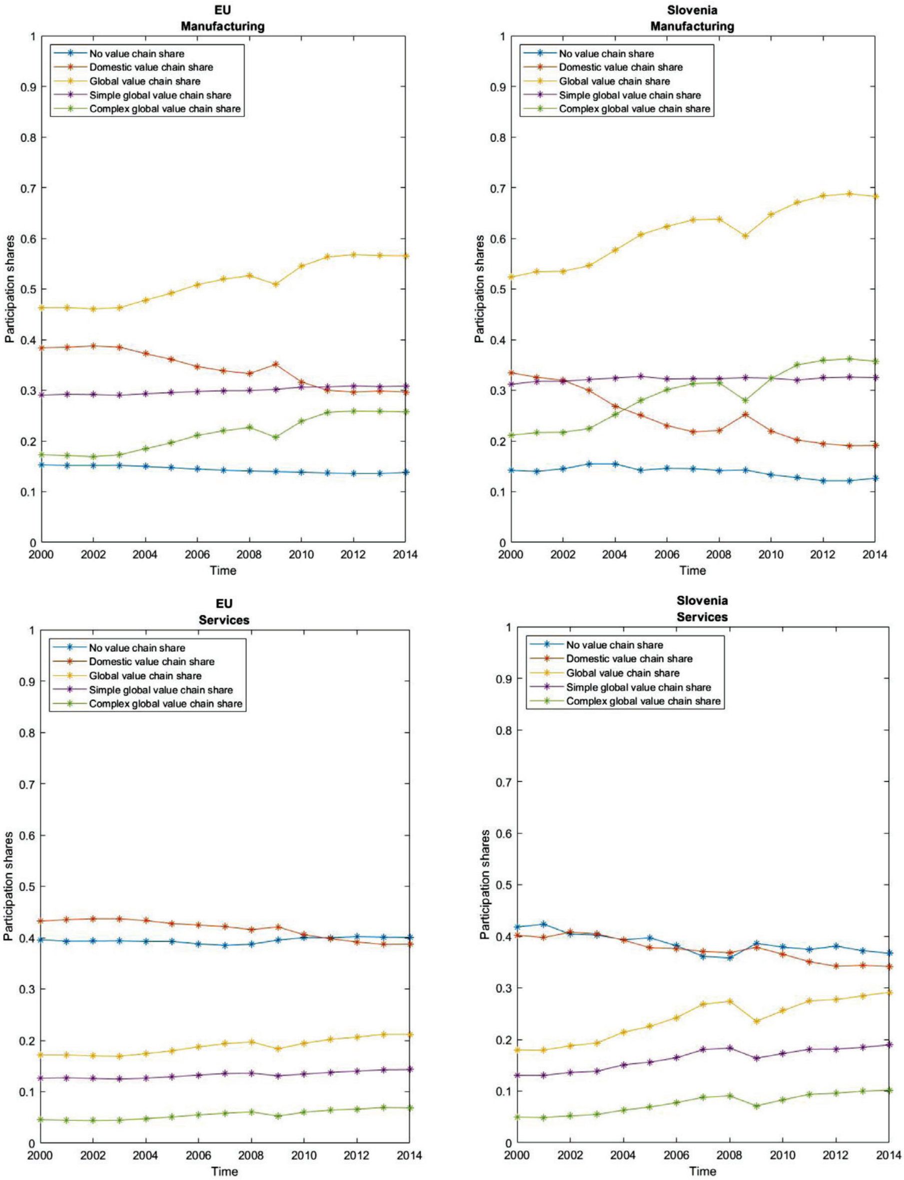
Overall patterns of Slovenian value chain development are similar to those in the EU, while differences can be explained by the economy's size and export orientation. The share of the domestic value chain is smaller than the EU average. An increase in the domestic value share is seen after the global recession in 2009, but it shrank again afterwards. The share in the latest year available, 2014, is even lower than in pre-crisis period, indicating growing integration into GVCs. Slovenia has higher shares of global integration, as may be expected due to its size. Both the shares of simple and complex value chains are higher than the EU average, although the difference is primarily related to the bigger share of complex global value chain integration and lower domestic value chain share (especially in manufacturing), which is a characteristic of smaller, newly integrated EU countries. Differences are also found in dynamics; the changes in value chain shares in the timespan of 2000–2014 are more pronounced in the Slovenian economy. The increase in the share of complex GVCs in Slovenia is above the EU average in both manufacturing and services. This may reflect the fact that during the observed period several Slovenian firms became subsidiaries of MNCs and were directly integrated into their value chains. Further, many domestic value chain linkages were replaced by integration into the intermediate stages of foreign manufacturing value chains, especially in the automotive industry. The above-average rise in the share of complex GVCs for Slovenia is typical of the small and open economies of Central and Eastern Europe, which might reflect their semi-peripheral integration.

Comparison of manufacturing and services value chains

Global integration over the decades under study is more pronounced in manufacturing than in services, while the speed of change in Slovenia is much faster than in the EU on average (Figure 2). Slovenian manufacturing is highly export oriented, but also very intertwined with the services sector and depends largely on upstream chains and imported goods and services. In 2014, the share of foreign services in the value added of manufactured exports was almost the same as the EU average and stable during the crisis while the share of domestic services dropped (Stare et al., 2019). Although manufacturing exporters are mostly not MNEs and neither are the lead firms, they rely heavily on foreign value added, illustrating their intensive and complex interlinkages with foreign suppliers.

Services are generally less tradable and integrated into GVCs than manufacturing on account of intrinsic features like intangibility, non-storability, the need for close contact between supplier and customer etc. Still, new technology and especially digitalisation are overcoming some of these barriers with tradability increasing for individual services (finance, e-commerce) and certain processes in services (e.g. diagnostics in health services, online

Figure 2: PARTICIPATION SHARE BY TYPE OF VALUE CHAIN IN MANUFACTURING AND SERVICES, THE EU AND SLOVENIA, 2000–2014 (IN PERCENTAGE)



Source: Own calculations.

learning in education etc.). The global integration of Slovenia into services is larger than in the EU on average. In the period 2000–2014, both simple and complex GVCs' share of services was increasing faster than in the EU.

Experience of the previous crisis and related shocks suggest that GVCs are quite resilient, but differences exist among countries and regions. The configuration and structure of value chains also varies greatly across industries. Differences among industries and regions are expected to rise further since Covid-19 has a strong regional and sectoral impact, calling for differentiated governance and policy responses. As already demonstrated, Covid-19 will hit some industries more profoundly while others will only experience minor changes[15]. Box 1 displays changes in the value chain structure of selected manufacturing industries and Box 2 changes and trends in the value chain structure of knowledge-intensive business services in Slovenia compared to the EU. The experience of earlier crises also depends on a firm's position and integration into a GVC. A survey among Slovenian firms showed the lead firms and leading suppliers in GVC have overcome the global recession successfully and improved their revenues, while generic suppliers have seen their position worsen (Bešter, 2019: 81–84).[16]

Box 1: DIFFERENCE IN GVC STRUCTURE ACROSS SELECTED SLOVENIAN MANUFACTURING INDUSTRIES

Insights into industry-level value chain structure and changes over time in Slovenian manufacturing reveal diverse and intensive changes following the global recession. Manufacturing exporters have intensified their participation in the downstream part of the value chain. The most dynamic change is noticed among elementary input suppliers, such as chemical and metal industries, forestry and wood industry (data available from the authors).

Chemical and metal industries (primarily the downstream part of global value chains) have increased their share in complex value chains with concurrent decreases in both domestic as well as simple global value chain shares. An example of the company Magnet from Slovenia demonstrates that the global recession created pressure to increase efficiency and resilience. Before the global recession, there were four European producers of magnetic substances in the EU, but post-crisis restructuring in automotive value chains and also other value chains in machinery and equipment caused three of them to leave the industry. Magnet has remained the sole EU supplier, which may substantially change its position and competitiveness in more localised GVCs within the EU.

[15] *For example, addressing the crisis in the air transport sector or tourism industry should be a higher priority than re-shoring the computer and electronics industry (Mirodout, 2020).*

[16] *The most important barrier for Slovenian firms for positioning in the GVC is the lack of organisational knowledge and experience with GVCs (Bešter, 2019: 62).*

Changes in forestry and wood industry reflect the exploitation and use of raw materials. The above-average increase in the global value chain share (chiefly driven by the increase in the complex global value chain share) is also a process we can find in Slovenian forestry and basic wood materials production (furniture excluded). This reflects changes in the value chain structure that are due to the decline of domestic wood manufacturers and the substantial rise in exports of raw wood and basic wood products for further production in the European economy (also due to icebreaking and mandatory logging).

*Box 2: KNOWLEDGE INTENSIVE BUSINESS SERVICES (KIBS)**

In the period 2000–2014 the share of KIBS domestic value chain in Slovenia has seen a substantial decline that was interrupted in the time of global crisis while the opposite trend was observed in the share of KIBS global value chain that was growing. Complex GVCs underwent deeper fall during the crisis than simple GVC, which also displays higher participation share. In the EU, the share of domestic value chain is larger than in Slovenia and was also declining, but experienced almost no reversal during the crisis. The patterns of change in global value chains of EU were similar, however contrary to Slovenia the effect of the crisis did not differ much between simple and complex GVC. Differences in trends and structure of value chain in KIBS between Slovenia and EU are gradually diminishing whereas the resilience to shocks is much lower for KIBS in Slovenia than in EU. This weakness might also appear as a consequence of COVID-19 disruption calling for faster implementation of policies supporting digitalisation of KIBS, innovation in those services, including introduction of new business models.

**Business services include legal and accounting activities; activities of head offices; management consultancy activities, architectural and engineering activities; technical testing and analysis, scientific research and development, advertising and market research and other professional, scientific and technical activities; veterinary activities.*

Conclusion

The Covid-19 crisis has stimulated the debate on global value chains (GVCs), not only as concerns their vulnerability, resilience and future development, but also the very continuation of globalisation patterns of production, and examined new risks.[17] Insights into the structure of value chains

[17] *Accessible at https://www.economist.com/leaders/2020/05/14/has-covid-19-killed-globalisation.*

highlight the long-term stability and resilience of different value chain types, as well as ongoing revisions and reconfigurations of GVCs induced by changes on the micro, macro and GVC levels. COVID-19 and other uncertainties in the international economy mean that we can expect a further increase in the changeability of GVCs' configurations and a preference for greater GVC flexibility. On one hand, this might lead to more dispersed sourcing from different suppliers in alternative locations, which raises complexity. The increased risks may, on the other hand, reduce the fine-slicing of production tasks, especially cross-border or extra-regional integrations), the preference for suppliers which are closer to final demand and also increase internalisation.

Post-Covid-19 behaviour may thus lead to less geographical dispersion, with fewer economies of specialisation and changes in comparative advantage. The shift toward internalisation and localisation may influence costs and reduce efficiency. However, localisation does not necessarily mean lower fragmentation or lower risks as reconfiguration mainly brings relocation. The empirical analysis confirmed that the past crisis did not cause a general decrease in production fragmentation, only a decrease in its global character. The findings illustrate that the share held by the domestic value chain increased during the crisis (Figure 1).

In this context, the governance, flexibility and efficiency of GVCs are crucial determinants of their long-run resilience. The complexity and multiple elements that influence GVCs' governance, efficiency and resilience offer many possibilities. Intensive interlinkages, digitalisation, big data management, innovation in business models and in general suggest that GVCs may still offer greater progress and development. Less efficient choices may on the other hand lead to unceasing pressure for re-configurations. They could also lead to underinvestment in innovation, competence development, learning, operational abilities and orchestration on the GVC level as a whole. It is also very likely that MNEs will further restructure and micro modularise their value chains to allow the easier substitution of one micro module by another, thereby also reducing the possible negative impact of any micro module in the GVC on the entire network.

While firms operating internationally seem aware of the interlinkages and efficiencies of GVCs, this may be less evident on the policy level. Multilateral organisations have lost momentum. Yet, strong multilateral institutions are key to GVCs' resilience and the need for robust multilateral organisations is stronger than ever. In the past, policies enhancing openness, connectivity and cooperation were drivers of GVCs. The diminishing role and importance of these policies might reduce resilience and efficiency, bringing additional risks for development and its sustainability. The most recent studies warn that "insular policies will also fail to foster economic recovery, and they are a threat to the collaborative spirit that the human race will need to defeat this threat" (Baldwin and Evenett, 2020). The findings of our analysis indicate that this is even more relevant for small and open economies because they are exposed to crises more than large economies and rely more on global integration. The policy response of these countries needs to combine different policies and especially speed up the digitalisation, innovation, training and reskilling of the labour force to improve the economy's resilience to shocks.

It is important to acknowledge that value chains were being restructured before the pandemic. Changes started after the global recession and were stimulated by the rising protectionism, but also by the pre-existing trends of digitalisation and sustainable development. The Covid-19 lockdown has merely accelerated value chain restructuring primarily due to the increase in overall uncertainty, yet also intensified digitalisation and the push towards sustainable development and localisation. Action today requires a better understanding of international interdependence, its effects on economic development as well as the effects external disruptions bring to economies, especially as concerns their role and place within value chains and overall international integration.

Our attempt to explore changes in different value chain types (domestic, simple and complex GVCs etc.) revealed structural changes in these value chains over a longer period that reflect the relatively high importance of domestic value chains, and certain special features of small open economies. However, the analysis also raises several new questions about the impact of value chain structure on development and the policy implications. We see a need to deepen and expand the scope of future research on GVCs by applying an interdisciplinary and multi-level approach.

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THE LESSONS OF DEVELOPED COUNTRIES FOR COVID-19 EXIT STRATEGIES

Abstract. *The objective of the article was to establish whether the strategies of today's developed countries (DCs) can today be applied to crisis-exit strategies, including the Covid-19 pandemic. DCs have in their transition to higher development levels generally relied on protectionist policies in the areas of trade, patents and foreign direct investment until reaching the top, when they kicked away the ladder of protectionism and started to hypocritically propagate liberalism. Such experiences are also useful for less developed countries so long as the international context provides them with adequate policy space and they use crises as opportunities and react on time. The pandemic could be a good starting point for structural changes in the system of international (economic) relations if the mind-sets and the system that created all of these crises are changed.*

Keywords: *crises, Covid-19, development strategies, intellectual property rights, foreign direct investment, economic nationalism, new order*

Introduction

We are passing through the most vulnerable, uncertain, unpredictable, complex and ambiguous moment of our lives times (VUCA). Covid-19 has just added to all such uncertainties, putting the world economy into a coma. It metastasised in an epochal[1] economic and social crisis, unseen in modern history. Many deficiencies, pathologies and injustices of the existing system have been revealed. "We've never frozen an economy to this extent" (Reis, 2020) and we do not know what will happen after de-freezing it. Yet, the outcomes are largely in our hands. People's "actions have been creating

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[1] *"Such biological shocks have been a persistent force of disruption in human history–destroying empires, overthrowing economies, decimating entire populations. When they spark or coincide with other crises–climate crises, legitimacy crises, monetary crises, and armed conflict–they mark moments of transformation or redirection in the stream of history" (Harper, 2020).*

crises"[2] and people's' policies can get out of them because crises are endogenous (as is technology or development). Provided, of course, that the right causes of such crises are identified, that the diagnosis is correct and designs the right ways out of it, concentrating on those elements on which we can, and not those on which cannot, influence.

Although it is impossible to predict the future, one can learn from lessons of the past; *historia magistra vitae est,* provided the crisis is not "turbulence without learning" (Haas, 1990). Crises are like a scholarship; you can use it productively or spend it and not *graduate*. It is thus high time to look to the past in the search for patterns that can guide us in the future. While we have already had even worse health pandemics (Black Death, Spanish Flu)[3], this one is unique in terms of how it has affected our economy and society. Drawing historical analogies is hence useful, because "those who do not learn from history are condemned to repeat it", as Santayana stated in 1896.

What are thus the history lessons, which strategies/policies were available and applied in the past when countries faced crises, turning points or crossroads in their development?

One way is to look into the experiences which have succeeded in their development, the lessons of developed countries (DCs) for today's less developed countries (LDCs) and for the world economy in general. The objectives of the article are to ascertain:

1. Which strategies/policies (trade, intellectual property rights, foreign direct investment[4]) worked for DCs in their transition from lower to higher levels of development?
2. What implications did the global context hold for the DCs' strategies?
3. Have DCs always been consistent in what they are today 'preaching' as the best policies for LDCs and for the world system generally?
4. Have countries made a timely response to the crises (we define pandemic as a crisis), defensively or offensively, using it as an opportunity for change?

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[2] *We define a crisis as any kind of extremely difficult or dangerous situation (usually appearing suddenly, but not necessarily) as climate change. It is an unavoidable and unexpected worsening of the situation which demands quick and fundamental reactions to overcome its negative effects. Yet, "no matter how bad, disorderly, and turbulent events and processes at a certain time are," they become a crisis only by relating them to a past development and projecting two different paths into the future, thereby defining the presents the critical moment of decision" (Graf, 2010).*

[3] *Harari (2020) claims that Covid-19 now looks to be a very big event but in the very long term of human development it will probably not be so epochal as it seems now because people's capacity to adjust is formidable and by appropriate use of knowledge we will probably be able to address such pandemics much better in the future. Yes, the storm will pass, humankind will survive, most of us will still be alive – but we will be inhabiting a different world.*

[4] *All three areas are a vital part of international economic relations and any development strategy, particularly for small open economies.*

5. Is the international context today less or more conducive for fundamental changes than it was in the past?

Such experiences may be highly relevant even though they happened in different contexts and times since these countries are the *godfathers* of the existing liberal economic order. Like any order, it is not only the economic strategies but also a projection of the political/ideological strategies of their proponents.

The rest of the article concentrates first on the catching-up lessons in the areas of: i) trade; ii) intellectual property rights (IPR); and iii) foreign direct investment (FDI), followed by an evaluation of contemporary protectionism. The final section presents conclusions along with some policy implications.

The catching-up lessons

It is almost consensually and wrongly believed that the dominant "preachers" of free trade and the GLO today, namely industrial countries, especially the dominant one of the USA and before then the UK, practised free trade throughout their history. Yet history tells a different story.

> *Virtually all of today's developed countries did not practice free trade (and laissez-faire industrial policy as its domestic counterpart) in their early development stages. /…. / Particularly notable is the fact that the gap between "real" and "imagined" histories of trade policy is the greatest in relation to Britain and the United States. /…/These two countries were, in fact, often the pioneers and frequently the most ardent users of interventionist trade and industrial policy measures in their early stages of development.* (Chang, 2003a: 1)

They only started to follow a liberal approach after having first achieved a high level of development. Before then, in their development strategies they were quite nationalistic, even mercantilist. With some variations, DCs protected their developing industries that were then lagging behind the major economic powers of the time, either Portugal, Holland, France, Germany, the UK or the USA.

Despite such experiences, DCs have become hypocritical advocates of the free-trade principle as the very best option for all countries regardless of their stage of development. They propose a *one-size-fits-all strategy*, a *level-playing-field* approach to others, which they themselves did not employ while they were still less developed.

Trade protectionism and state interventionist policies

Evaluating protectionism is important because it has been a very important part of development strategies in the history and due to today's unprecedented revival of protectionism among large countries (see Fajgelbaum et al., 2020).

Historically, mercantilism as practised in the 16th to the 18th century by the European monarchies was the first manifestation of protectionism and economic nationalism (EN) in general. But these were not the same because protectionism takes, according to List, different forms; infant industry protection, macroeconomic activism, authentic EN, and liberal EN (Helleiner, 2002, 308). In general, the ideology of EN seeks to advance national interests at the expense of international integration and cooperation by different policy instruments and has in history always started mushrooming as a first reaction to crises (with the Great Depression (GD) being a prime example). Yet it remains open whether it has been "good or bad protectionism" (see Reinert, 2000), a temporary, short-term reaction or a long-term strategy to achieve competitiveness as part of an endogenous development strategy. It has usually "correlated with national populism" (Judis, 2018; Eichengreen, 2018), or sovereigntism[5] parallel to the rising popularity of authoritarian values.

Mercantilists used governmental regulation to augment state power at the expense of rival national powers (a zero-sum or beggar-thy-neighbour principle). It was followed by (neo)mercantilism[6] as a kind of offensive EN, while contemporary protectionism is more defensive in nature.

The USA is "the mother country and bastion of modern protectionism" (Bairoch, 1993: 30) and Hamilton, the first Secretary of the Treasury of the USA, the *father* of protectionism by introducing high tariff protection in 1789[7]. It was only after the Second World War, with its industrial supremacy unchallenged, that the USA liberalised its trade, although not as unequivocally as Britain did in the mid nineteenth century, and started to champion free trade. The then already weakened UK remained protectionist until the 1960s.

Similar was the development in other DCs, particularly **Germany**[8]

[5] The belief in the uncontested primacy of national-level politics.

[6] It emerged as a reaction to Adam Smith's famous critique of the European "mercantile system" in his 1776 work The Wealth of Nations (Helleiner, 2002).

[7] Between 1816 and the end of WW2, the USA had one of the highest average tariff rates on manufacturing imports in the world (40%-48%). Given that the country enjoyed an exceptionally high degree of 'natural' protection due to high transportation costs, US industries were literally the most protected in the world until 1945.

[8] During the late nineteenth and early twentieth century, while maintaining a low average tariff, Germany accorded strong tariff protection to strategic industries like iron and steel. Sweden provided similarly targeted protection for the steel and engineering industries. Both countries and Japan actively used non-tariff measures to promote their industries, such as the establishment of state-owned "model factories, state financing of risky ventures, support of R&D etc." (Chang, 2003a: 24).

frequently incorrectly considered to be the mother of infant industry protection. France was less protectionist than Britain between 1821 and 1875, especially until the early 1860s. Only after the Second World War did it start to productively use industrial policy to boost its innovation system. **Japan** very aggressively applied tariff protection[9], but not **Switzerland** for which, as a small country, infant industry protection would have been costly (see Chang 2003a: 10).

The first lesson from today's DC's catching-up path is that they all applied strong protectionist measures and state interventionism during their catching-up period. Yet, as soon as they attained the summit of greatness, they followed List's advice: "nation can do nothing wiser than to throw away these ladders of her greatness, to preach to other nations the benefits of free trade, and to declare in penitent tones that she has hitherto wandered in the paths of error, and has now for the first time succeeded in discovering the truth" (1885: 295–296).

The second lesson is that the USA and UK both abandoned the laissez-faire approach as soon as they faced problems during the GD, the First and Second World Wars and whenever their dominance has evaporated. "The resulting contraction and instability in the world economy, /.../destroyed the last remnants of the first liberal world order. /.../ Dirigist approaches to economic management dominated the policymaking scene until the 1970s in the developed world, and until the early 1980s in the developing world" (Chang, 2003a: 3). The lesson of the GD is that it was actually the response of protectionist governments that did the real damage.

The liberal international economic system has in fact quite a short history because it was squeezed between two types of protectionism; mercantilism from the 16th century until the early 1880s followed by the laissez faire system and the neomercantilism[10] of the 21st century.

The most important take-away messages for LDCs of the catching-up phase of the development of DCs are:

a. With the exception of Switzerland and the Netherlands [11] and later Hong Kong, all DCs applied some form of protectionism and state industrial policies in their catching-up periods, while limited economic and political resources forced small states to apply more open strategies.

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[9] *On this basis, they developed successful export industries. The dichotomy between import substitution and export promotion was blurred and protectionism may have been regarded as part of a long-term endogenous development strategy.*

[10] *See section 3 for details.*

[11] *Both countries were already on the frontier of technological development by the eighteenth century and therefore did not need much protection. The Netherlands had deployed an impressive range of interventionist measures up until the 17th century in order to build up its maritime and commercial supremacy (Chang, 2003a: 24).*

b. The protection of domestic industries has not followed a 'one size fits all' recipe but was designed and implemented in a different manner. Some DCs implemented such policies even at a time of promulgating a free-trade approach[12].
c. A free-trade, laissez-faire approach was immediately abandoned when countries were faced with serious growth/development problems (GD, WW1 and 2, for instance)[13].

Intellectual property rights protection

Today, with digitalisation, the ever-increasing role of services and intangible assets, experiences with distance working during the pandemic, IPR policies are becoming ever more important, while also being more complicated to regulate. The pandemic has, among other things, put the dilemma between free access to knowledge and preserving the rights of innovators' property rights in the spotlight. Trump is not the only one wishing to privatise research results and make them available only to some, while others emphasise that we should avoid *corona-nationalism* or almost autarchic routes in facing the epidemic. Not only should the research results be made publicly available, governments should create the necessary overcapacities similar to what the military does in peace-building, to be prepared for all possible *predictable unpredictabilities*). IPRs are thus not only a narrowly defined economic issue but a deeply rooted development and political (economy) issue as Sell (2004) clearly described: "swings of the pendulum between public-approaches and private protection, reveals the fundamentally political nature of intellectual property regulation". China is today thus not a historical outlier in this regard.

The development in **England** and **France**[14] was similar, while smaller DCs' experiences are somewhat different[15], as were the experiences of

[12] *The USA, for instance, applied it after the WW2 by providing government financing for extensive defence-related programmes and R&D development, particularly in the pharmaceutical industry.*

[13] *During Covid-19, almost all countries also started to follow more nationalistic, even isolationistic policies like preventing the exports of some of the most important medical equipment. Export bans accounted for more than 90% of recorded pandemic related trade restrictions (WTO, 2020). The America first strategy was inaugurated when it became obvious that the demise of the USA as the only great power was being challenged by China not only in terms of size but also in technology.*

[14] *France formally established a patent system during the Revolution in 1791 (David, 1993: 13).*

[15] *Switzerland, although following a laissez-faire trade policy, refused to introduce a patent law until 1907. Its anti-patent policy contributed to the country's development–especially by allowing the 'theft' of German ideas in the chemical and pharmaceutical industries and by encouraging foreign direct investment (FDI) in the food industry (see Schiff, 1971). The Netherlands was the least protected economy among the DCs. It introduced the patent law in 1817, abolished it in 1869, and re-introduced it in 1912. But "during its extreme laissez-faire period, the Dutch economy remained rather sluggish" (Chang, 2003a: 10).*

Japan[16] and the **Asian tigers**. The trend of granting patents started in England in the fourteenth century. Before then, England had technologically been a laggard. Later it became technologically advanced with the modern-day Patent Office of 1852.

Such, now claimed to be problematic, imitation activities (trade, FDI, licensing, international research collaboration, reverse engineering) by Chinese and other LDCs are, and have been, in fact legitimate and voluntary, widely practised in early development periods by the DCs. The USA's protectionist IPR policy may look surprising in the context of today's *accusations* that China systematically imitates and 'steals' IPR and forces foreign companies to transfer their technology to Chinese companies (for more, see Svetličič, 2020), because imitation and "steeling foreign knowledge" was historically the *order of the day* for DCs. Second, because the optimistic "natural evolutionary" view, arguing that China's path to IPR protection is similar to that of the USA historically and it will evolve into a strong IPR protection regime as China develops more IPR itself[17] (Peng et al., 2017).

There are three important lessons for LDCs from the catching-up phase of the development of DCs in the area of IPR:

a. "Policy makers need to better arm themselves with a good command of the historical knowledge and to be aware of the crossover point[18] – the point of inflection beyond which benefits will outweigh the costs of world-class IPRs protection" (Peng et al., 2017: 30).
b. Do not liberalise IPR protection until domestic firms reach a higher level of innovativeness, starting producing new product/technologies.
c. Design IPR protection in accordance with own innovation capabilities and the international context. Today, with digital technology facilitating the unauthorised diffusion of IPR, a reshaping of IPR strategies is needed. They should overcome the prevailing defence-oriented measures of deterring imitation and also include offensive instruments to make imitation less attractive.[19]

[16] *It was based on a follower policy, emphasising the acquisition of technology from abroad and limiting patent protection (Maskus, 2000: 143, 145). In the 1960s, Japan was a global leader in counterfeit goods.*

[17] *"No one thought the reverse was possible", that such a natural transition "may stall and even reserve the course/…/ The fact that China heavily relies on global trade can be viewed as a positive factor in China's possible change toward adopting the rule of law". However, "under the party's rule, improving IPR protection by adopting the rule of law, is out of the question", Li et al., (2020: 60, 67, 69) more pessimistically argue.*

[18] *Prior to the crossover point, following the highest standards in IPR protection is not necessarily ideal, argues Naghavi (2007; cited in Peng et al., 2017: 30).*

[19] *Cuervo-Casura (2020) proposes four innovation protection strategies: (i) defence; ii) making innovations obsolete, iii) complexity in which firms invest in increasing the complexity of innovations to reduce imitation in situations of weak institutional but strong technological IPR; and iv) convenience; investing in platforms to reduce incentives for imitation.*

Foreign direct investment policies[20]

After the Second World War, FDI became one of the most dynamic instruments of the GLO. However, FDI has not always been so welcomed. The FDI policy has been changing, from more restrictive to more liberal. Based on the prevailing theoretical consensus on the developmentally beneficial role of FDI, DCs began to welcome inward FDI only after they had reached a higher stage of their development and started to propagate such a liberal policy also to LDCs. The **USA** was a champion in that, when it was a capital-importing country, it had in place all kinds of provisions to ensure that foreigners investing in the country did not control its economy.

The stories of the **UK**, **France and Germany** have been different. They did not have to control FDI until the Second World War, as they were capital-exporting countries before then. When faced with the upsurge of American investment after the Second World War[21], they started to apply several formal and informal mechanisms to ensure that their national interests were not hurt.

The policies of smaller, less developed DCs, like **Finland and Ireland**, could not have varied more. Finland was until its accession to the EU in 1993 blocking any significant foreign investment, while Ireland was aggressively seeking it out. Ireland is often touted as an example showing that a dynamic and prosperous economy can be built based on a liberal FDI policy. Yet, it became only liberal after the exhaustion of its early import substitution strategy and ensuing industrial stagnation in the 1950s, shifting to an outward-looking strategy. A combination of carrots and sticks has been used since the early days and it was only when it established the right balance between the two that the country started to truly benefit from FDI.

The three largest **East Asian** economies applied extensive controls to FDI throughout their developmental period. **Japan** and **Korea** (until recently) relied very little on FDI[22], while even **Taiwan**, the most FDI-friendly among the three countries, was below the international average in its reliance on FDI. **Japan's** restrictive stance on FDI is well known from the Meiji modernisation (1868) period on. Before 1963, foreign ownership was limited to 49%, while in some "vital industries" it was banned altogether.

DCs' FDI policies have obviously not always been liberal, based on the national treatment principle which makes it impossible for governments to regulate FDI in a manner that is congruent with their national interests. A

[20] *If not otherwise indicated, the section is mostly based on Chang, 2003b.*

[21] *Servan-Schreiber wrote the famous Le Defi American (1969), accusing American MNEs of colonising Europe (for more, see Svetličič, 2020).*

[22] *Korea has been one of the least FDI-dependent countries in the world, beginning to liberalise its FDI regime only in the mid-1980s.*

targeted and performance-oriented approach worked better than a hands-off approach. Yet, the DCs are now arguing that they all benefited from policies welcoming FDI and that the LDCs should do the same. The zeitgeist changed in the mid-1980s. The criticism of the TNCs also died down in LDCs as part of the overall transition to market-oriented economic systems and from import- to export-oriented strategies. "FDI from being part of the problem, became part of the solution, in fact almost a panacea" (Sauvant, 2015: 59), all up until the GR. During and after the crises, FDI flows slowed down, parallel to the globalisation backlash and expansion of Chinese acquisitions abroad. FDI liberalisation and promotion measures started to scale down, while restrictions started to mount, mainly based on security arguments. Nevertheless, the majority of new investment policy measures were still moving in the direction of liberalisation, promotion and facilitation (66% in 2018) (see UNCTAD, 2019: 84).

The following conclusions may be drawn with regard to FDI policies:

d. Countries always established policies congruent with their development objectives, socio-political context and level of development, being more restrictive at a lower level of development and more liberal as they advance technologically and institutionally.
d. The widespread propaganda by DCs that LDCs must be open to FDI because they also developed thanks to FDI[23] has proven to be wrong.
e. The one-size-fits-all strategy and level-playing-field principle regarding FDI or transnational corporations (TNCs) is therefore wrong.
f. FDI policies have also responded to the 'climate' in the world in general.

Twenty-first century protectionism

The present revival of EN, mostly appearing as protectionism[24], even with a touch of autarchic, isolationistic tendencies[25], is not limited to the USA (*America first* policy mind-set[26]). The pioneer of protectionism, the USA, is going back to its roots. "The pendulum of history" had swung back to

[23] *Appropriate evidence is in fact lacking.*

[24] *According to the WTO (2020), between mid-October 2019 to mid-May 2020, G20 economies implemented 154 new trade and trade-related measures, of which 95 were of a trade-facilitating nature and 59 were trade-restrictive. Sixty percent of these measures (93 in total) were linked to the Covid-19 pandemic (65 facilitated trade while 28 restricted trade). In the early stages of the pandemic, most measures restricted the free flow of trade, while by mid-May 2020, 70% were trade-facilitating. As much as 203 trade remedy actions, anti-dumping investigations accounted for around 80% of all trade remedy initiations, including safeguards and countervailing actions.*

[25] *The pandemic has given birth to proposals for closing borders disguised as "keep us healthy", similarly to the US isolationism before WW1.*

[26] *It is based on the assumption that China is growing rich at America's expense and that taking back control' through 'new sovereigntism' is a solution.*

EN with a neomercantilist touch, based on a *realist* assumption that "countries are amoral and put their own interests first" (see Nye, 2020). History is bringing us back to a farce.

DCs are now applying the infant industry argument[27], which is a theoretically reasonable instrument for countries on a lower level of development, with non-competitive markets to address market inefficiencies and in order to protect their uncompetitive industries so long as they become competitive in the international market (the dynamic concept of comparative advantages theory). But the same reasoning cannot be applied to highly DCs with competitive markets. Apart from traditional arguments against the infant industry argument, it can induce retaliation from other countries (boomerang, striking back, trade wars). The result is that consumer welfare decreases by paying too high prices for goods that would otherwise have been cheaper if imported. Even a senior fellow of the right-wing Cato Institute, Bandow (2020), claims that "the tariff idea is simply idiotic, chiefly punishing Americans, creating political tensions and triggering off fundamentalism/inflame nationalist sentiments there" (in China, op., author).

Economic nationalistic philosophy is part of the GLO backlash. Its major promotors have started accusing the GLO for their economic stagnation, lost jobs, for increasing inequalities etc. When DCs (the middle class in particular[28]) realised that the GLO could harm their development, they started *to kick* the GLO ladder away.

Economic nationalism has also spread to FDI[29]. It is mainly a reflection of the fear of Chinese acquisitions of national (techno) *champions*. Brexit is also part of the EN and *GLO hate* attitude (although its promotors claim otherwise) and protectionism revival story, as well as the fears of China's domination of the G5 technology. Whilst ever US companies dominated the area, it was not a problem[30]. Now, the threat of a 'different' domination, coming from a civilisationally different country,[31] has become a serious problem. It is a defensive reaction to China becoming a technological leader in this and

[27] Hamilton first systematically set out the infant industry argument in 1791, later developed by List (not the other way around; see Bairoch, 1993: 17).

[28] See Lakner and Milanović's elephant curve (2016).

[29] The USA, Canada, Japan and Australia established a mechanism for protecting the national economy against predatory investments. The EU joined in with adoption of the FDI Screening Regulation applicable as of 11 October 2020, although it remains the sole responsibility of the member states. In June, the European Commission also adopted a White Paper dealing with the distortive effects caused by foreign subsidies in the Single Market now seeking views and input from all stakeholders (see Velten, 2020).

[30] According to the World Economic Forum (2018), US companies' share of the info tech sector is 73%. Among the 10 largest companies by market capitalisation (June 2019), 5 are US (Microsoft, Amazon, Apple, Alphabet/parent company of Google, and Facebook). Alibaba (China) follows in 6th place (Statista 2019).

[31] It is largely rooted in ethnocentrism, even racism (see Svetličič, 2020).

many other dynamic economic sectors, *dressed up* in a fear of domination by this authoritarian, undemocratic country.

Contemporary protectionism or neomercantilism[32] is a manifestation of EN[33] as a defensive reaction to the rising power(s), especially China, and at the same time an offensive response[34] to the new VUCA global context, to which Covid-19 has just added new layers of complication and uncertainty. It is more a self-preserving defensive reaction of the USA and less the extent of other DCs, to retain their privileged position in international economic relations than an offensive instrument of climbing up the ladder to the leading power (as in the case of the UK[35]). E. Helleiner (2002) is thus right while claiming that a dimension of the EN ideology is not only defensive protectionism based on the infant industry argument but it can cohabit with liberal ideology, forming part of aggressive EN.

To conclude; when the interest in the lessons of the past is waning if not forgotten, hypocrisy is winning. DCs are preaching something and yet doing the very opposite. It seems like a see-saw strategy: the protection of domestic companies and free riding on foreign technology (no IPR protection) initially, but when the situation changes and the see-saw is turned around countries started to implement free trade, FDI and protecting the IPR of their firms. Never mind the policy prescriptions given to other countries not to do it. Covid-19 illustrates the same logic, or now, "Sickening the neighbour" (before it was beggar-thy-neighbour) policies and a blaming others policy[36] have spread widely. Solidarity principles, at least initially, have not past the exam, unlike after the Second World War the Marshal Plan helping in the recovery of Germany. Negative experiences after World War One when the reparations *killed* Germany and facilitated the rise of Nazism have also been forgotten. In spite of such disastrous consequences, the popularity of the right in Europe and elsewhere is, with its quick-fix solutions, gaining in popularity.

[32] The Merriam-Webster dictionary defines it as a revival of mercantilism emphasising trade restrictions and commercial policies as a means for increasing domestic income and employment.

[33] It is mostly defined as state centric realism, ideology putting national "unity, identity, and autonomy" (Shulman, 2000) or culture (pride), or reducing vulnerability, as the main national goals. According to List (1904: 97), the national interest is "how a given nation can obtain prosperity, civilization and power". What is crucial is that the nation state is in the centre while liberalism is more cosmopolitan, although putting individuals and their pursuit of wealth maximisation in the centre.

[34] Offensive also because it uproots the rules-based system of international trade based on power as a legitimate instrument.

[35] "British policymakers were supporting free trade because it would give their country a world manufacturing monopoly that would bolster British wealth and international power" (List, quoted in Semmel, 1963: 66).

[36] When putting all the blame on China, calling the virus Chinese virus, Trump forgets that the GD of the 1930s and the GR of 2008 could be called American because the USA exported both.

The recent pandemic also shows that context matters. Today, it is the rise of China as a major player[37], the GLO backlash, VUCA and the rise of EN[38]. The recipes could not have been the same as they were during similar pandemics in history. Globalisation has made the fundamental change, demanding solidarity, policy coordination and speedy responses in the context of much deeper interdependence than in the previous century. The Covid-19 pandemic is frequently presented as an outcome of the excesses of globalisation. Yes, physical globalisation is receding, but digital globalisation is continuing to grow. The GLO as a global division of labour/specialisation is not over[39], but it will have to become fairer and more domesticated if it is not to be altogether halted or reversed. The problem might actually be the "simultaneous presence of too much and too little globalization" (Lowy, 2020). Too much in terms of unnecessary trade[40], localisation of GVCs, cultural homogenisation, and too little in terms of solidarity, cooperation (particularly in R&D), global governance effectiveness in addressing *new* issues like inequalities, digitalisation, cybercrime etc.

Conclusion

Crises in the development strategies of DCs were turning points, leading to fundamental changes. Their success depended substantially on the policies of the actors as well as on the context, which has been substantially changing. Although crises have always worsened the situation, they have also triggered certain productive structural/systemic changes. Today, the world has never been technologically better prepared for such changes, for enhancing our economic and environmental resilience. The problem is the lack of political will and energy to make them.

Regarding our first research question (which strategies/policies worked in the transition from lower to higher development levels), in their transition to a higher development level DCs have mostly relied on protectionist policies in all three areas (trade, IPRs and FDI). Differences among them

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[37] Li et al. (2018, 68) clearly posit that size matters. When the USA was an IPR violator in the late 18th century to the early 19th century, its economy was small, accounting for about one-fiftieth of the world's GDP. China today accounts for nearly one-fifth of the world's GDP.

[38] The EN is namely relational, it depends on the particular socio-economic context (Helleiner, 2002).

[39] To throw the baby (GLO) away with the bathwater (virus), and to dream of a return to autarky is no answer. Full-fledged deglobalisation would be inefficient and painful because, by getting rid of the advantages of the division of labour, everybody would lose. "The virtue of specialization is very apparent now that I'm cleaning my toilets, that I'm making all of my meals, fixing everything around the house, now that I'm home schooling. I was much better off when I could specialize in just doing economics" (Reis (2020).

[40] Some goods are too pollution-intensive to be transported, others like the export of milk from some countries to be processed into yogurt and re-exported back are not really must dos.

were seen in terms of the size, factor endowments and global role. Small or leading ones behave differently than larger or non-major global players. But as soon as today's DCs reached the top they all *kicked away the ladder* of protectionism and started to propagate liberalism. Countries have in history always applied policies which were instrumental for their development needs, their factor endowments and competencies, primarily following their national interests and irrespective of what international or regional rules, practices or attitudes were. The approach was the ideology of EN and not a cosmopolitan free-trade liberal paradigm. The different context now makes such individual responses, allowing enough policy space for countries' specifics and not imposing on them one-size-fits-all approaches, both more relevant and also more difficult. The existing rules do not allow much space for individual action. The macro lesson is thus to allow countries more policy space than there was in the post Second World War Bretton Woods system and reconfigure state–economy relationships, by establishing a new balance between market automatism and government intervention. Governments' role should increase as occurred in all other crises in history[41].

The international **context**/zeitgeist has played an important role in designing strategies is the main answer to the second question (which implications has the global context held for DCs' strategies?). Under the pressure of the two world wars and following economic recessions/crises, solidarity, cooperative efforts in addressing the crises have grown in importance. Leading countries have always been inclined to promote a liberal order, while countries still climbing have advocated more protectionist policies. The Zeitgeist, like the growth performance of countries, has made development laggards more protective in slowdowns or, when faith in free trade evaporates, become more liberal in the golden age of capitalism.

The answer to the **third** question of whether DCs have been consistent is NO. Until DCs had achieved their leading role, they were 'climbing up the protectionist ladder', only to kick it away after reaching the top and to start imposing liberal policies on the rest of the world (Washington Consensus, IMF, WTO regimes...). Presently, we also see such hypocrisy[42] in, for

[41] *At the start of WW1, government consumption in Britain rose from 8% of GDP in 1913 to 40% in 1917. In the Second World War, America's government consumption rose from 15% of GDP in 1940 to 48% by 1943 (McKinsey, 2020).*

[42] *Or the case of Microsoft's potential takeover of the Chinese TikTok and WeChat after Trump's executive order threatened to ban it in the USA on the grounds of national security (read economic interests). It was not a security problem when problematic applications were available in Apple and Google's stores. Similar is the situation with 5G. So long as the American Qualcomm dominated the market, monopoly was not a problem. When Huawei started to be number one in this area, it became a security threat even though 5G is only infrastructure while its operation depends on the operators, the applications/programmes (the hardware is Chinese but the software is American). Operators can use or misuse the system. Yes, WeChat*

instance, waving EU rules with respect to support for industry when most developed countries, like Germany, are concerned, while this was 'not possible' in the case of the financial crises when Greece and less developed EU members, or recently even Italy, were concerned[43]. Because the big players are now hurt, the rules of the game are changing. Big players are conducting the rules of the game as they please. The international system should avoid such hypocritical policies in the future and DCs should be more self-critical by allowing others to do what they themselves have done, adopted to the contemporary context.

The **fourth** answer as to whether countries have used the crises timely and as an opportunity for changes[44] and not only reacted to them defensively, is mixed. When faced with growth crises, DCs started to change their policies, but not during the GR when the return to business-as-usual followed swiftly. Emerging economies, China, and the newly industrialised countries before them, have now reacted more swiftly and productively to the crises than the DCs did throughout their history. Whether the response to the crises has been timely also varies depending on the type of crisis and issue. In terms of the growth transition, the answer could be YES, but not with regard to the GD, GR or environmental/climate crises. The pandemic found countries mostly unprepared even though it is not, *according to* Taleb, a *black swan,* but a unpredictable predictability. Experts have over the years warned against both pandemic and climate risks[45]. The coronavirus outbreak indicates the world is ill prepared to prevent or confront such pandemics. One of the most important policy proposals of this article is thus: don't be late, because the winners are doing the right thing at the right moment and trying to prepare ex ante for potential surprises. Latecomers receive the *breadcrumbs left behind from the rich man's table* or are hurt badly by being unprepared. Adjustments must be done pro-actively *pre*, not *post mortem*, before, not after the *fire is already underway*. Anticipating, adapting quickly in advance by enhancing the resilience to the present

and TikTok can be misused as spyware, collecting huge amounts of data on users. But so too can US apps like Facebook, not to mention Snowden's revelations about the NSA spying on foreign leaders and taping via fibre optics all around the world.

[43] *It usually takes 6 months to review a state request for a derogation from the rules. During the pandemic, it was done in under 24 hours (The Economist, 30 May, 17).*

[44] *According to psychology, crises can be an incentive to change in the environment of new enlightenment.*

[45] *See Garrett 1994. In a lecture in 2015, B. Gates (2015) also warned us about such pandemics. An older CIA study, found that: "If a pandemic disease emerges, it probably will first occur in an area marked by high population density and close association between humans and animals, such as many areas of China and Southeast Asia, where human populations live in close proximity to livestock" (CIA, 2008, 75). The only thing they did not predict is the exact location: Wuhan. A WHO panel in February 2018 among threats like Ebola, SARS, Zika and Rift Valley fever also included "Disease X", which "would emerge from animals somewhere in the world" (The Economist, 2020, 27 June, 59).*

VUCA world, to black swans, is crucial[46]. Dealing with the unknown, the unforeseen, the foreseeable unpredictability, a threat that is likely to occur, but is effectively ignored as if it did not fully exist (Lowy, 2020) is becoming the new normal. Enhancing the resilience can be strengthened by following, analysing and thus improving understanding of contemporary developments, by overcoming ignorance (Gresham's law) and provincialism, by being cosmopolitan and taking the lessons of history seriously. The global precondition for the above is to change the existing fragile systems by strengthening our ability to control epidemics because we are still unable to conquer them.

The answer to the **fifth** question, whether the international context is today less or more conducive to fundamental changes, is ambivalent. Today's international governance system does not allow so much policy space as countries had in the past. "The current crises (and pandemic even more, op. author) has uncovered fundamental flaws in the capitalist system, ... calling for a new capitalism"[47] (Stiglitz, 2010: xxi, 188, 208). It seems to be not enough. Responses must be systemic since crises are in-built into the capitalist system. Integrating some elements of socialism[48] seems necessary because the Darwinist profit maximisation, as a founding stone of capitalism, is incompatible with sustainable, more human development and cannot address climate change, environmental degradation, unsustainable inequalities, cybercrime, bioterrorism or even pandemics or wars. Despite the fact that humans often resist change, choosing to stick with the more comfortable, less conflictual, status quo, people are nevertheless keener to accept deep changes in times of crisis. Calamities frustrate people and frustrated people are more open to sweeping changes. The trade-off is not too promising[49] even though, historically, the ends of wars have led to institutional changes, a better social contract (welfare state). Covid-19 is a global tragedy

[46] *Adizes nicely illustrated this with a tennis player who must predict where the ball will land and run accordingly. If the player reacts after the ball has landed, it is too late, the ball will be missed (2009: 20).*

[47] *Yet it is too early to say that the pandemic is the last nail in the coffin of capitalism, which has historically revealed a high capacity for changes and adaptations. The Economist Intelligence Unit (6 May 2020) claims that the "coronavirus pandemic will not usher in an entirely new global order", at least in the short term this is probably right.*

[48] *Piketty (2020) is proposing democratic, participative socialism (equality in education, co-decision of workers and progressive taxation as three main characteristics), unrelated to socialism as practised in the past. Adizes is proposing a self-management system as an alternative to capitalism, mentioning that the one practised in former Yugoslavia was not implemented well (see Canjko-Javornik, 2013).*

[49] *The conclusion of the G20 (2020) on the pandemic like: "We reiterate our goal to realize a free, fair, non-discriminatory, transparent, predictable and stable trade and investment environment, and to keep our markets open" is not much of new but more of old wine in new bottles. There is, for instance, no mention of the green recovery, of the Sustainable Development Goals. The last statement: "Global action, solidarity and international cooperation are more than ever necessary to address this pandemic" is however more promising.*

but it can accelerate progress provided that we act on time and deeply eliminate the roots of crises, or at least narrow the room for their negative effects by reshaping our paradigms, our beliefs[50] and the system which created the pandemic. The issue is not simply how to manage crises but how not to get into them in the first place. It could be good starting point for structural changes in the system of international (economic) relations.

If we accept the lessons from the after the Second World War, when the Bretton Woods system followed, or even the First World War with the establishment of the League of Nations, both manifesting the conviction that international cooperation and solidarity is needed to conquer war's disasters, then the chances of a new order will increase. Particularly if the mistakes of both institutions are healed.[51] Today's dream can become tomorrow's reality so long as there is no sliding back to 'business as usual', as happened after the GR[52] and if the *principle of humanity* (Bauer, 2008[53]) is in-built into the political economy and management (see Vernon and Wilson, 2019). The issue is how to enhance progress and well-being by overcoming the mentality that success is mainly material and that, if unsuccessful in this sense, one is regarded as a loser. If the return of fish to Venice's canals, cleaner air in Calcutta, blues skies above many of the world's metropolises, more prosperous countries with public health and women in leadership have taught us that something is wrong with consumeristic capitalism, then these allow a space for optimism.

Although the pandemic is a huge threat, it should not blind us from even more serious long-term crises like inequality[54], poverty (hunger)[55], wars[56], ecological/climate crises and cybercrime. They all coincide in "four crises: a health, an economic, a social and an ecological/climate crisis. Covid-19 is just additionally exacerbating the previous crises. Solving one crisis without

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[50] *The effects of beliefs are much stronger than usually thought (see Kozlowski et al., 2020).*

[51] *The League of Nations was impotent in materialising its founding principles; peaceful resolution of conflicts and preventing WW2. And the establishment of the Security Council after WW2 limited the implementation of the UN's ideals.*

[52] *"The same plumbers who installed the plumbing and created the mess, know only how to straighten it out" (Stiglitz, 2010, 295) while the problem is the installation system.*

[53] *According to which basic pattern in nature is synergy, not Darwin's life battle; man depends on cooperation, social networking.*

[54] *The pandemic will enhance inequalities among people and countries even further because some, well-off have the privilege to work at home while the less paid (frequently young, female, black or brown skin), but performing essential public service jobs, cannot.*

[55] *Poverty/hunger is killing more people that this pandemic probably will. According to The World Counts, around 9 million people die every year of hunger and hunger-related diseases (3.1 million are children) and the pandemic will only worsen this situation. It is a long-term problem since malnutrition has long-run detrimental effects on the brain and body development of children.*

[56] *Armed violence kills, according to Oxfam (2020), approximately 526,000 a year or 1 person every minute.*

taking the others into account would just mean passing the problems to the next generation and not create healthier planet now" (Mazzucato, 2020). Should things be restored to a pre-pandemic situation now that a vaccine has been found, this will not be so easy for all other crises. The environment cannot be recreated, for instance.

Although it may sound naive, a zeitgeist may have emerged when the debate on the New International Economic Order (NIEO) for the 21st century could be launched as part of efforts to find new innovative responses to the pandemic and any similar crises in the future. Why? According to M. MacMillan, "the river of history changes direction at big junctures like: France in 1789, Russia in 1917, the Europe in 1930s and the pandemic of 2020" (2020: 71). Not so far back, the "oil crises" of 1973/74 was another such *mini* turning point followed by the struggle for NIEO, when the developed countries also realised that the world was interdependent, that urgent changes were needed. The pandemic has revealed how much more vulnerable and interdependent we are now today. A deadly virus smaller than a micron has been able to detonate mega civilizational changes. "A better society can emerge from the lockdowns" (Sen, 2020) provided the pandemic will bring the world together and centrifugal forces do not tear it further apart, driving us into a world that is less open, less free and less prosperous.

The problem is how to make changes; who could be the actor(s) translating the *pandemic of words* about Covid-19 into deeds, to become a game changer. Unfortunately, the pool of potential actors is very modest, making the potential implementation of new ideas, of shaping the new international economic system, less optimistic. One reason for this is that we have many "black elephants,[57] a looming disaster that is visible to everyone, yet no one wants to address" (see Siwik and Siwik, 2020).

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[57] *A term coined by the environmentalist A. Sweidan as a cross between "a black swan" and the "elephant in the room".*

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PANDEMIC AS A LITMUS TEST FOR THE GRAND THEORIES OF EUROPEAN INTEGRATION

Abstract. *Several crises over the past decade have shown the inability of the European integration to reconcile the dysfunctionalities associated with the partial transfer of authorities to the transnational level and attracted criticism of the alleged pro-integration bias of the grand theories – neofunctionalism, liberal governmentalism and postfunctionalism. This article takes as a case study the Covid-19 pandemic as a 'moment of truth' that shares many aspects with past crises. It argues that, by addressing various dimensions of the demand for and supply of the integration, the three liberal institutional theories explain the nationalist response to the health crisis (missing demand and supply) and the integrationist decision on economic recovery (sufficient demand and supply). Moreover, they do this better than the nationalist or federalist approaches that either understate the demand for (the former) or overstate the supply of the integration (the latter).*

Keywords: *Covid-19 pandemic, crisis, European Union, European integration, grand theories*

Introduction: the pandemic as a decisive moment

The spread of the Covid-19 pandemic in Europe in the first months of 2020 produced a nationalist response to the health crisis which revealed a lack of solidarity among European Union (EU) member states that shut their borders and nationalised medical supplies. Moreover, in the spring of 2020, another pressing issue entering the agenda was financing the economic recovery, in particular the EU's inability to respond to calls for Eurobonds made by member states like Italy and Spain, which were hit hardest by the pandemic and under financial market pressure.

This crisis is one of a series of events in the past decade, such as the euro crisis (2010–2013) and the Schengen crisis (2015–2016)[1]. These raised questions as to whether the European integration is able to reconcile difficulties in addressing interdependence-related concerns – in a context of persistent

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[1] *For a definition of these crises, see Biermann et al., 2017 or Schimmelfennig, 2018.*

issues like the partial transfer of authorities to the supranational level, complex decision-making and weak European identity. Moreover, it also raised questions about whether some sort of 'integrationist ideology' was not to blame for the dysfunctional design resulting in crises ever more related to anti-EU sentiments, as seen in 2016 in the British vote to leave the EU (followed by the Brexit crisis) and the growing illiberalism (illiberal sentiments and practices by regimes in Central and Eastern European new member states, particularly Poland and Hungary, that faced Article 7 procedures in 2018 in 2019). With this in mind, the Covid crisis has also been, as Macron stated, "a moment of truth" in deciding on the further path of the integration.

The concerns over the integrationist ideology are not limited to policy-making but resonate in the increasing literature on grand theories of the integration and the recent crises (Schimmelfennig, 2018; Hooghe and Marks, 2019; Zeitlin et al., 2019). The underlying argument is that the integration bias is common to all three liberal institutional theories – neofunctionalism, liberal governmentalism and postfunctionalism in the sense they have put too much faith in the various partial institutional levers supporting integration and treated stagnation as the opposite (Börzel and Risse, 2018b). As a result, a choice of disintegration along the lines of nation states (conversely, a hypothetical stronger push for centralisation) that would correspond better to the structural dynamics was not considered an option.

The purpose of this article is to use the Covid pandemic as a case study (sharing aspects with past crises) to test the grand theories' relevance against more nationalist and federalist lines of reasoning. The article argues that the grand theories offer a sound explanation of the EU-level response to the pandemic by pointing to several dimensions of the insufficient supply of and demand for the integration in the health crisis stage and a sufficient supply/demand in the stage of an economic crisis – with demand defined as calls for EU policy by member state governments and constituencies and supply as the EU's ability to deliver effective policy based on its competences, institutional rules and capacities to act. In particular, neofunctionalism in line with experience of the euro and Schengen crises (Schimmelfennig, 2018) explains via the differences in the interdependence and availability of existing institutional capacity the integrationist moment in the decision made on financial solidarity, specifically the Recovery and Resilience Facility (RRF) and the absence of such a moment for the health crisis. Liberal governmentalism (Biermann et al., 2017) adds adverse preferences and status quo bias to help explain the bargaining over the healthcare crisis and the pro-deal preferences of big states – France and Germany – to the 'minimum common denominator' agreement on financial aid. Finally, postfunctionalism (Börzel and Risse, 2018a) explains in line with experiences from Brexit and illiberalism the contestation of various aspects of the deal from the national identity and ideology perspectives by the 'frugal four' and Central-Eastern members.

Moreover, the article states that the liberal institutional trio better explains the integration's response than do alternative the nationalist/realist or federalist/critical idealist explanations, which understate the demand for integration by voters or overstate the supply of integration by supranational authorities. Against nationalist views, the crisis has triggered demand for the integration among citizens as opposed to strengthening their anti-European sentiments. Against federalist views, enforcing certain EU rules where interests differed led to strong domestic politicisation. Thus, as nicely expressed by Krastev and Leonard (2020), in broad terms the crisis response was neither a Hamiltonian nor a nationalist moment, but a 'Milwardian' one (by being liberal-progressively oriented but also reserved towards any change in basic social institutions) which showed the need for and potential of the integration to 'save' the nation states in Europe.

This article presents the way the three grand theories have addressed the EU crises over the last decade and, considering possible integration bias, conceivable alternative explanations of the crises that entail alternative policy solutions. This is synthesised in an explanatory research model that presents different views on demand for and supply of the integration as the dividing line between the equilibrium-based 'grand trio' and alternative explanations. Research on the Covid-19 pandemic is then presented, divided into two sections, one on the health aspect of the crisis (commonalities with the Schengen crisis) and the other dealing with the crisis' economic aspect (commonalities with the Euro crisis). In the discussion, the article focuses on the ability of the European integration (theories) to learn from the earlier crises and to adapt.

Literature: do grand theories reveal integration bias?

Recent years have seen an upsurge in the literature on the EU's crises – euro, Schengen, Brexit and illiberalism – specifically exploring the relevance of the grand theories – neofunctionalism, liberal governmentalism and post-functionalism, and arguing they entail "integration bias" (integration being defined in vertical/deepening terms as more supranational authorities or in horizontal/widening terms as more members), implying that they have contributed to the ever-deeper crises and divisions within the integration.

The grand theories are about what European integration 'is' as opposed to the process or particular institutions oriented to mezzo level theories explaining how integration works, or micro level theories explaining why individual policies were formed in a certain way by using various agency and structure related mechanisms. Grand theories do not offer the same answer to the question of what the integration is. For neofunctionalism, this are positive spillovers based on the self-perpetuating transfer of authority (Haas, 2004), for liberal governmentalism these are enhanced preferences-based win sets and the specific powers governments achieve via internationalisation (Moravcsik, 1998), for postfunctionalism, these are Europeanisation-induced permissive elements in government consensus (Hooghe and Marks, 2009).

While all three theories recognise the possibility of disintegration – for neofunctionalism, this is a spill back, for liberal governmentalism it is the constraining of powers of supranational institutions and for postfunctionalism the repolitisation of community authorities – these options are quite marginal in terms of theoretical assumptions. All three institutional/progressive liberal theories share the assumption of international cooperation being facilitated by the specific institutional setting (supranational authority, two-level game or European consensus/identity) creating absolute gains and see non-integration or stagnation as the only alternative (Börzel and Risse, 2018b).

Such assumptions (potentially also impacting the choice of empirical cases) may imply that European integration research has disregarded certain structural conditions acting against (or in favour of) an 'ever deeper and wider union' which, by informing policy, could have led to further systemic crises and ruptures such as a growing divide between Northern, Southern and Eastern Europe, and Brexit. For example, integration might have gone too far in terms of handing over part of the core state powers (Genschel and Jachtenfuchs, 2018) to an entity which is still an international organisation, thus creating conflict over authority and creating issues of democratic deficit, legitimacy and constraining dissensus, blocking decisions on matters of interdependence. Below, we look at how grand theories have addressed the EU integration crises, which alternative arguments exist and how they might be reconciled.

Grand theories and integration crises

Schimmelfennig (2018) provides a neofunctionalist account of the euro and Schengen crises that have to do with two big European integration projects of the 1990s. Both crises were triggered by external shocks revealing internal dysfunctionalities that caused distribution and politicisation. In Schimmelfennig's view, in the euro crisis: (a) institutional legacy – strong interdependence between countries that was reflected in capital market pressures and no viable alternative/exit strategies; and (b) capacity to act based on existing institutions such as the European Central Bank

(ECB) created a 'neofunctionalist moment'. This spurred new institutional developments like engagement of the ECB to 'do whatever it takes' to save the euro, financial stability support mechanisms, fiscal rules and a banking union. The outcome was in sharp contrast to the Schengen crisis where countries were able to act effectively on their own by shutting their borders and where existing EU-level institutions such as the Schengen regime, European Asylum Support Office (EASO) and Frontex were quite weak, leading to no deal to a weak deal.

For Schimmelfennig (2018), the fact the two crises had different outcomes makes the neofunctionalist explanation specifically relevant as opposed to the governmental or a postfunctionalist ones. Still, these two theories share the view of different outcomes, yet point to somehow different reasons for them. Liberal governmental theory (Biermann et al., 2017) highlights the different constellation of preferences and bargaining powers, establishing different bargaining situations. While in the euro crisis, the preferences of key countries were to save the area, in the Schengen crisis no such common denominator could be found as several less affected countries were satisfied with the status quo as opposed to a reform that would redistribute the burdens. Moreover, various asymmetries between different countries (e.g. the asymmetric effects of the two crises for southern and border countries) and changes in effects through time (e.g. growing pressures on the European Monetary Union – EMU and influx of asylum seekers to target countries after temporal suspension of the Dublin regulation) explain the negotiation outcomes in different stages of the crises.

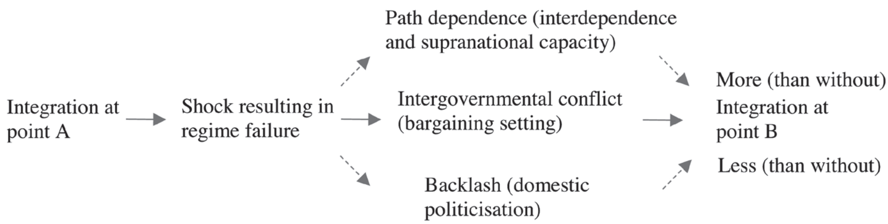
Schimmelfennig (2018) believes the problem with the liberal governmental explanation is that it offers a 'snapshot view' of preferences, discounting past decisions with certain long-term consequences. Different past decisions with implications for interdependence and institutional capacity are, he argues, precisely why neofunctionalism better explains the different outcomes of the two crises.[2]

The argument that the snapshot view vests too much rationality in government preferences is shared by postfunctionalism, which underscores how different topics are politicised in various ways based on different ideas, discourses and party strategies resulting in either permissive consensus or constraining dissensus. This goes beyond and perhaps challenges the 'institutional rationality' of neofunctionalism even more since to a certain extent liberal governmental theory does not question the source of the government preferences. While for Schimmelfennig the different outcomes of the two crises show the advantage of neofunctionalism over postfunctionalism

[2] *Schimmelfennig's view of neofunctionalism is under strong influence of the (historical) institutionalism as opposed to the focus on the transfer of the authority to the new supranational centre as such.*

(which does not explain adverse outcomes in ‘rationalist terms’), from the perspective of postfunctionalism, the two crises simply demonstrate different patterns in identity politics (Börzel and Risse, 2018a). Further, as they argue, in the euro crisis, depolitisation via delegated authorities created even more politicisation (as opposed to more rationalist approaches). However, a discourse of order, rules and solidarity ultimately prevailed as opposed to the Schengen crisis, where an exclusionary discourse dominated (for a slight governmental critique of such view of the Schengen crisis, see Lovec 2017a).

Scheme 1: GRAND THEORIES AND INTEGRATION CRISIS



Source: based on Schimmelfennig 2018.

In their overview of the three grand theories, Hooghe and Marks (2019) say that these are rather schools than theories for typical themes, actors, approaches to research and internal flexibility that makes them resistant to robust falsification. Still, some authors seem to believe in a comparable research programme and methods and make considerable effort to show a comparative advantage for individual topics and/or testing one grand theory against another.

While compared to the euro and Schengen crises, the grand theories’ contribution to explaining Brexit and illiberalism has been less pronounced, it was not absent (see the overview by Hooghe and Marks, 2019). Yet, the authors seemed to have stretched theories to the limits to explain the events that were directly opposed to the integration (Brexit) or its liberal foundations (illiberalism). While Brexit was generally perceived as a mistake or an unimportant event resulting from particular domestic politics, illiberalism was considered a problem of the weak definition of EU competences within the treaties and weak conditionality in the post-accession period (as opposed to strict rules on common policies such as the market with limited violations). For Brexit, neofunctionalism pointed to absolute losses, liberal governmentalism argued that Brexit will not in fact change too much (Moravcsik famously said that EU is like *Hotel California*; you can check out any time you want but you can never leave), while postfunctionalism explained the rise of national identity and conflict with the EU. As for the illiberalism, neofunctionalism focused on the growing role of supranational institutions like the Commission and the European Court of Justice in addressing it, liberal governmentalism noted the problems with Article 7 and postfunctionalism explained the domestic sources of antiliberalism and the role of transnational institutions as a lever for political opposition.

Alternative views and a possible landing

The alternative view of the integration's crises, which underscores problems related with passing on the core state powers as opposed to pure market integration (Genschel and Jachtenfuchs, 2018), is different from the grand theories in that the outcomes of the Schengen and Euro crises are seen as relatively similar. This relates to discontent resulting from the failure to take account of the structural impediments working against the integration. While many authors agree that these are not specific to the EU but also reflect global tendencies, they see some immanent characteristics of the integration through which those tendencies are strengthened and/or cannot be resolved on which we plan to focus here.

Zielonka (2012) referred to the economic integration and Schengen as two sources of discontent and politicisation. He argued that, in contrast to the USA, which is equally affected by the changing global context, but where some popular discontent can be channelled through federal government change, in the EU this is impossible since the EU is more of an international organisation/institution than a political system and community with a shared identity. Following Hooghe and Marks (2018), in the new global context the traditional party cleavages are being replaced by a new transnational one that is based on opposing trade, integration and migration. This actually puts the EU in the centre of politicisation. The inflexibility of the traditional political parties and party systems that is leading to major changes and shifts (Hooghe and Marks, 2018) might explain the failure of the grand theories to take account of the changing context and the unexpected occurrence of ruptures such as Brexit and the growing illiberalism.

Still, more specific politisation research is inconclusive with regard to the relevance of the grand theories. Hutter and Kriesi (2019) build on the assumption that politicisation dates back before the crises which acted as a catalyst and amplifier rather than the cause. Their analysis, based on 15 years of electoral debates (where they defined politicisation in terms of visibility, scope and intensity-conflictness), shows that politicisers are non-mainstream and opposition parties from left and right, which refers to benefits reaped by mainstream parties' policies on the EU level (Hooghe and Marks, 2018; see also Hernandez and Kriesi, 2016). This implies a turn of repoliticising European coalition-building and a permissive consensus that might explain blockades. It does not however oppose the integration in principle. It might even imply a cyclical movement with new pro-EU tendencies based on output legitimacy (results) of the anti-EU turn. Further results show the strong politicisation of the euro in the south (where political cleavages were still mostly traditional) and of migration in the north (where new transnational cleavages were present already). This shows that specific dysfunctionalities are more important than the perceived functionality of the integration in principle. It shows also that the grand theories' explanations of (non)integration during the Schengen crisis can be reconciled with the new political cleavages. An outlier is CEE where politicisation is general and goes beyond the standard 'U-shaped curve'. Hutter and Kriesi (2019) explain this with a premature political and party system (their integration was based on apolitical and technocratic governance) and argue that crises have actually brought some structure to it.[3]

Zioelonka (2012) predicted that the integration would accommodate the changing reality by more relaxed forms and concentric circles where, rather than territorial authority, core vs. non-core position and respect for rules will be points of dispute. He also argued that the external powers of the EU would be compromised. While norms will continue to play a role, the role of coherence as well as of convergence and a homogenisation-based approach would be weakened. There would be more space for other global actors such as the USA which would work through capitals as well as for regional powers such as Turkey.

Currently, any further integration demonstrates some slowing down, although this primarily relates to widening, e.g. of the euro and Schengen, as well as to EU accession, which might be related to 'needed fixes' in the current system, such as post-accession conditionality. In the foreign policy area, which is an interesting outlier, since the EU's competences are in fact very weak, Chryssogelos (2016) argues that the mentioned crises have strengthened the government approach, there is more politicisation of public opinion when it comes to the contribution of resources and, while the EU is still seen as an opportunity, this is more on an ad hoc basis. In such instances, the ideas of a multi-speed integration (some proceeding fast towards) that are based on existing treaties might also play in favour of further integration by strengthening the efficiency and effectiveness of decision-making (within the core group), re-mobilising the pro-integration camp in non-member countries as well as reintroducing conditionality via core membership-related expectations. Importantly, the changing global context does not work against but is exposing the dependence of small European states on

[3] *For a discussion of the EU crises and the rise of nationalist populism in CEE see Lovec (2019) and Lovec and Bojinović (2019).*

the EU. Following Jabko and Luhman (2019), politicisation and claims for more sovereignty do not necessarily lead to de-Europeanisation but could facilitate pro-European reform in the context of fragile sovereign practices and build the sovereignty issue into mobilisation of support for the EU and against those opposing it.

Finally, as argued by Zeitlin, Nicoli and Laffan (2019), the EU is faced with a multiple crisis which may be seen as a political trap – as opposed to decision-making traps in the past which led to new grand bargains, this one cannot. However, against that, the view of politicisation challenging non-majoritarian institutions should in principle be seen as a positive, re-mobilising element. There are ways of loosening the integration to endorse and strengthen the positive type of politicisation such as building on output legitimacy (Lovec, 2017b), pragmatic policy reconfiguration taking sovereignism into account and avoiding treaty change. Another option is a stronger role of the European parliament in the inter-institutional game. Schmidt (2019), for example, highlighted the somewhat overlooked issue of the growing politicisation in relations among EU institutions themselves.

Explanatory model

In order to test the grand theories' relevance for explaining the integration response to the Covid-19 pandemic, we propose a model based on matching supply and demand for the integration. Based on shared liberal/progressive assumptions, mainstream grand theories imply that integration occurs when there is matching demand and supply for it. While neofunctionalism chiefly focuses on the supply of integration (role of transnational interdependence and supranational institutions), postfunctionalism focuses on demand (permissive consensus or constraining dissensus based on party/political cleavages and ideologies) and liberal governmentalism, which has the most general and static assumption of what integration is among the three, lies somewhere in between (demand for and supply by governments, also see the Scheme 1). While explaining different aspects of (non)integration against changing contexts (such as the crisis), the liberal institutional trio essentially sees EU as being 'in equilibrium' in terms of being institutionally capable of dealing with the external shocks. Moreover, in line with ideas of Alan Millward, rather than changing the structure of the markets and states as such, European integration actually enhances the opportunities of (relatively small) European states to compete in global markets.

In contrast, the alternative nationalist/realist explanation would imply that the demand for the integration (by voters or citizens) is overestimated, resulting in oversupply that triggers a negative reaction. Conversely, we can construct a federalist/critical ideational explanation whereby supply by transnational/supranational authorities is insufficient, resulting in a half-finished and partial integration that is essentially responsible for the negative reaction on the demand side (see Jones et al., 2016).

Table 1: ALTERNATIVE EXPLANATIONS OF THE PANDEMIC'S IMPACT ON THE EUROPEAN INTEGRATION

Theory group	Level of analysis (demand/supply)	Equilibrium	Policy
Nationalist/ realist	Citizens, nation states	No: Overestimated demand for integration by voters implying oversupply by (supra)national authorities	Market only, veto powers
Liberal progressive (neofunctionalist/ governmental/ postfunctionalist)	Supranational institutions/ governments/ party ideologies	Yes: insufficient demand and supply in health crisis, sufficient in economic crisis (supply: institutional interdependence and capacity; demand: varying politicisation; supply/demand: bargaining setting)	Output-oriented/ flexible integration/ political integration
Federalist/ critical ideational	Trans-European institutions and identities	No: Undersupply of integration by (supra)national authorities explaining popular discontent and nationalist backlash	Federal state, trans-European identity

Source: own elaboration.

Building on the existing literature on the grand theories and EU crises, we expect neofunctionalism to explain economic integration in line with outcome of the euro crisis based on the interdependence and sufficient capacity of the EU to act – as opposed to the health crisis that, like the Schengen crisis, due to the availability of effective state actions and weak EU capacity, has triggered no to limited integration. We expect governmental theory to explain the outcomes from the perspective of different bargaining situations due to the adverse preferences and asymmetries and postfunctionalism to explain the specifically strong politicisation of certain distributional issues and illiberalism.

Results: supply and demand for the integration during the pandemic

The Covid-19 pandemic initially triggered a health crisis where a growing number of infected individuals has put pressure on the capacity of the healthcare systems, leading to an escalating death toll. In order to flatten the curve of infections, preventive measures ranging from social distancing to a complete lockdown were required. From the EU perspective, the problem was twofold: the infection spilling over from one country to another, and the competition for scarce medical supplies. Both issues entailed the problem of moral hazard and costs externalisation. This was made worse by an asymmetric spread where a more affected country would prioritise solving its domestic crisis over containing the spread (in an absence of reciprocal actions) and more symmetrical competition to secure medical supplies (hindering aid reciprocity for containing spread). The situation was also aggravated by scarce and possibly asymmetric information. While EU competences in health were limited to support and coordination, the issue of virus spread and medical equipment referred to competences in the areas of the borderless movement of goods, people and services, i.e. the common market and Schengen (for a detailed discussion, see Nicolas-Jean Breon, 2020).

The health crisis was followed by an economic one. Interestingly, in contrast to the health crisis, the European Commission actually prepared a scenario for a pandemic impact on the eurozone that also considered the effects on sensitive sectors like tourism and transport and thus an asymmetrical impact on the member states. However, the analysis built on the assumption of greater tolerance for human loss (Jounun and Roeger, 2006). The restrictive measures to fight the pandemic have strongly impacted economic activity and public revenues while public spending has increased due to the health, social security and economic measures to prevent the economic crisis deepening and to speed up the recovery. Since in the EMU national governments could not borrow directly from the central bank to avoid moral hazard and externalising debt to other member states, increased spending required borrowing from the capital markets. Yet, countries most affected by the health crisis such as Italy and Spain were already heavily indebted. Savings or reform policy that some countries had accepted in the past in return for financial support proved to hold negative economic and political implications. In addition, the overall size and depth of the crisis would make the economic impact on the eurozone much stronger. This would also make the need to resort to national monetary policies and/or end of the common market more likely.

The sense of (the absence) of solidarity and effective EU action during the first months of the 2020 has supported nationalist sentiments and added more legitimacy to illiberal trends. Thus, the multiple crisis triggered by the Covid pandemic has been both a continuation of the past crises and specific crisis in itself and – by virtue of its dramatic proportions – a moment of truth for the European integration.

Healthcare crisis: insufficient supply and demand for integration

From the neofunctionalism perspective, the lack of a community approach in the health crisis, especially in the early spring 2020, may be explained by the ability of the member states to impose effective measures on their own by establishing the border regime, which enabled them to deal with possible externalities in a rapidly changing context on an individual basis. While the crisis has touched on community competences in the areas of the mobility of people and goods, concerns about health that were under national jurisdictions allowed for temporary infringements. The EU's capacity to act was constrained because it could not impose specific universal mobility rules without an impact on national health. Since due to the lack of EU competences and resources in this area reciprocal measures on the capacity of healthcare would be difficult to achieve, such action constraining the authorities of the member states could actually pave way to moral-hazard situations, including blame avoidance. Still, as the situation became more symmetric towards the end of the spring and issues other than health came to the front, the EU did enact its support and coordination role (Nicolas-Jean Breon, 2020), e.g. by adopting general recommendations on border regimes and the joint public procurement of medical equipment (European Commission, 2020). Thus, the health crisis has resembled the Schengen crisis where, due to weak existing institutions (weak supply of integration) and effective national exit strategies (weak demand for integration), weak to no new institutions emerged (Schimmelfennig, 2018).

The correspondence between the pandemic and the migration and refugee crisis is also evident when it comes to liberal governmental theory. The spread of disease and policy responses has entailed the different preferences and asymmetric positions of individual governments. Countries like Italy that were first to face the virus' mass impact were in a deprivileged position since others could learn from their example and implement effective measures earlier on which included the closing of borders. Big countries with high demand for medical equipment could use their market leverage (lower dependence) and bilateral relations with third countries to secure supplies. Thus, in line with the liberal governmental explanation of the migrant and refugee crisis, the health crisis has been a bargaining situation in which key players, at least in the pandemic's early stage (i.e. the first months of the 2020), preferred the status quo.

Some of the variation in ideology and identities impacting (any) shared EU response may be explained by postfunctionalism. In the early stage of the crisis, there was strong securitisation of the crisis along the lines of the nation states with the closing of borders and the search for non-EU sources of aid. Later in spring, this was followed by calls for EU solidarity, also featuring bilateral aid and the coordination of policies (Busse et al., 2020). Initially, public debate was influenced by a stereotypical discourse of short social distance in the South, effective measures due to an authoritarian culture in the East and resistance to limiting personal freedoms in the North, which created a sense of divisions and mistrust. Some more variation was seen on the national level that affected government preferences: Sweden on one extreme with an anti-lockdown stance and Eastern governments strongly securitising the pandemic to strengthen their power on grip. Later on, however, as the effects of the spread became more symmetrical, views and policies converged.

Can nationalist and federalist approaches better explain the (non)integration in fighting the pandemic? The initial nationalist reaction did not really bring additional support to the governments as shown by a survey conducted by the European Council on Foreign Relations (ECFR) which involved 11,000 citizens and 9 member states (Krastev and Leonard, 2020). Instead, it strengthened existing trends depending on the effectiveness of the government measures and domestic opposition-position dynamics. Further, while EU's role was criticised, even more respondents were critical of the fact that the EU was not there to act (Krastev and Leonard, 2020). Against certain previous trends, support for the national government and for the EU correlated, Poland with its Eurosceptic government being an exception. Following Youngs (2020), right-wing populists such as Lega in Italy, Vox in Spain, FPO in Austria and FVV in the Netherlands initially even lost support and only started to regain grounds in a later stage by questioning the restrictive measures on, paradoxically, a liberal-constitutional basis. The pattern was similar with centre-right opposition parties such as the Republicans in France and the conservatives in Spain (Youngs, 2020).

From a global perspective, the pandemic has created some disillusionment for nationalists and federalists alike – about the role of third countries in the case of the former and the EU in the case of latter – as well as a convergence of views between the two (Krastev and Leonard, 2020). As shown by the ECFR study, when it comes to aid received by third countries, opinions on the USA and China have changed negatively in those member states where these used to enjoy the strongest support. The pandemic has resulted in 'strategic souvereignists', highlighting the need for a stronger EU to preserve nation states becoming the largest camp in the EU, specifically in Southern and Eastern Europe, and the least in Germany. This ran directly against the expected deepening of the North-South-East split and strengthening of the third countries' position on Europe's periphery. In fact, it has helped to realise dependence on the EU and reinforced the pro-EU camp (demand for the EU) among peripheral members.

As for the federalist approach, Macron's reaction to the early border closure with Italy by Slovenia, calling it a "bad decision" (France24, 2020), turned out to be premature as bigger members including France soon did the same. Macron also faced criticism from nationalist FN on the grounds of being unable to obtain aid from the EU, demonstrating the problems with linking aid to mobility indicated above. Moreover, while the EU approach could balance some of the government's measures, it would also create tensions between Brussels and elected governments implementing varying policies in different political contexts (Youngs, 2020). Hard-right Sweden democrats have criticised the government's measures due to the death toll. The Danish People's party was careful about the centre-left governments' de-escalation, warning about border openings. Conversely, in Poland and Greece, left-wing opposition parties pressured with little success for governments to implement less restrictive measures. The expert input legitimacy of the supranational authority would not help as, following the ECFR survey, the pandemic has not strengthened trust in experts (Krastev and Leonard, 2020) – trust has instead been correlated with trust in governments and the effectiveness of the measures.

Economic crisis: sufficient supply and demand for integration

From a neofunctionalism perspective, the economic crisis triggered by pandemic is a continuation of the eurozone crisis. The eurozone crisis demonstrated an integrationist moment based on external pressures and existing institutions, especially as the crisis has worsened and effects become more symmetrical. The ECB adopted a policy of 'whatever it takes' by intervening in capital markets, emergency mechanisms to help indebted countries were developed, measures ensuring fiscal prudence were adopted, and a move towards a banking union was made to prevent the costly saving of financial institutions (Schimmelfennig, 2018). In the pandemic, common institutions, building on past developments, have reacted swiftly by expanding financial operations, relaxing fiscal and state aid rules and enabling countries to draw on the EU budget (Nicolas-Jean Breon, 2020). However, due to a much deeper economic crisis, the limited manoeuvring space of monetary policy and the need for fiscal measures in the setting of much higher public debt levels, further steps are called for (Alcidi and Gros, 2020). Strong interdependence with limited alternatives being available (demand for integration) as well as existing institutions (supply for integration) enabled a historical agreement among the member states on increased EU spending via the RRF. The solution was based on community borrowing where a common budget as an existing strong community tool would serve as a warrant and as general guidance on spending (European Council, 2020).

Similar to the eurozone crisis, liberal governmental theory explains certain developments better. The crisis was yet another interruption to negotiations on the new Multiannual Financing Framework (MFF) 2021–2027 where, following Brexit, the 'Northern' net contributing members resisted contributing any more for traditional programmes benefiting the 'Southern' members. They also called for conditionality with the rule of law since some 'Eastern' illiberal regimes like those in Hungary and Poland has used cohesion and agricultural funds to support their voting base.

In the first stage of the crisis (early spring), southern members called for Eurobonds, but this was unacceptable for northern ones as they did not want to vouch for (past) excessive spending and they called for reforms. Yet, Italy and Spain were much bigger than Greece, and France would also face substantial problems. Severe implications for demand and the common market would hurt the export-oriented German economy. France and Germany carved out a compromise solution, which was taken up by the Commission. However, the 'frugal four' (Austria, Denmark, Netherlands, Sweden, joined by Finland) resisted the non-refundable supports and called for conditionality on reforms as well as the rule of law, triggering fierce reactions from Hungary and Poland. The final decision made during Germany's presidency at the European Council meeting in July which was adopted just in time to secure the timely implementation of the new MFF and RRF reflected the minimum common denominator of key member states. Frugal countries obtained substantial rebates and an overall reduced amount of non-refundable allocations, southern countries obtained substantial allocations of funds for traditional spending programmes with limited commitments, and rule-of-law conditionality for Eastern countries was relaxed. France and Germany, that were the biggest countries and median players, had to accept the least compromises. Some of the Commission's proposals on more progressive and new programmes and conditionality as well as new own resources were side-lined, at least for the time being. In line with the agreement, all contentious issues could be either vetoed (an emergency brake on financing) or required unanimity (new own resources and conditionality) (European Council, 2020; Utrilla, 2020).

From a postfunctionalism perspective, there are some parallels and differences with the eurozone crisis: in an early stage, the positions of North and South were conflicting, much in line with the eurozone crisis, but there was soon a change in Germany's position (as well as other member states), which paved way for a timely compromise. Postfunctionalism also explains some variation across the member states. With the UK absent, the frugal four governments which would contribute substantially in per capita terms took its role and negotiated stronger rebates to save face domestically. In return, a sacrifice was made on more progressive programmes from which they would benefit from the most. Another case is Eastern countries where illiberal regimes secured a relaxed rule-of-law conditionality, which was important for them to save face (and secure funds), even though this gave an impression as if certain fundamental EU norms and values were sacrificed.

Can the alternative nationalist and federalist approaches better explain the outcome? In the past, the rise of populists was facilitated by the demotivation of centrist voters after mainstream parties (and the EU) failed to respond to the crises (Guiso et al., 2019; Morelli, 2020). The stakes involved in the joint response to the pandemic have enabled mainstream government parties in many countries to mobilise the political centre by building on the recovery programme (Youngs, 2020). Following Youngs (2020), progressive opposition such as the French socialists, social democrats in Austria and Dutch left-wing opposition actually built on asking for more economic support – one of the Dutch centrist parties even left the coalition due to different views on the Commission's European recovery proposal.

From a federalism perspective, many have seen the pandemic as an opportunity for grand bargaining on a more sustainable future and a progressivist discourse (e.g. Lucchese and Pianta, 2020). However, there was strong politicisation of some elements in net contributing as well as Eastern countries. The compromise agreement was pragmatic, building on output legitimacy and leaving the door open for future steps. Moreover, while negotiations between the Commission and the capitals or the Council and the capitals were compromise-oriented, keeping politicisation at a low level, the directly-elected European Parliament was expected to fill the gap by asking for guarantees on conditionality, own resources and progressive goals.

Conclusion

The purpose of this article was to test mainstream liberal/progressive institutional grand theories on the European integration by building on their take on past crises, against the nationalist/realist and federalist/critical ideational explanations. Several crises of the European integration have raised allegations of an integrationist ideology in policy and theory as opposed to the disintegration or variable integration alternative. The pandemic is not just one in a series of crises but, due to links with the previous crises and its interdependence-related profound effects requiring collective action, has also been a decisive moment for the integration. In order to establish the difference between the two camps, we proposed a model assuming that in the case of the mainstream approaches the integration corresponds supply and demand for it while the nationalist/realist approaches assume an overestimation of demand reflected in an oversupply of integration and the federalist/critical idealist approaches assume insufficient supply, creating demand-side issues.

This research demonstrates that the grand theories are able to explain the integrationist moment or its absence in the pandemic in line with the experience of the Schengen/eurozone crises. From a neofunctionalism perspective, in this health crisis, similar to the Schengen crisis, member states could act effectively on their own and the weak existing institutions resulted in weak to no deal. From a liberal governmental perspective, the bargaining situation was characterised by diverging preferences and status quo bias. As demonstrated by the postfunctionalist view, some of the variation in preferences was due to politicisation. Importantly, against the nationalist explanation, the nationalist response did not strengthen nationalist forces but strengthened calls for the EU, indicating that demand was not overestimated. This specifically included the uplifting of the sovereignty discourse to the EU level. Against a federalist explanation, any stronger move by EU institutions on issues like border regimes would trigger tensions with several capitals, demonstrating there was not a substantial undersupply of EU action.

In the economic crisis, similar to the eurozone crisis, from a postfunctionalist perspective, the integrationist outcome is explained by the strong interdependence based on past decisions creating EU institutions with a capacity to act and where no effective exit strategies exist. From the liberal governmental perspective, the final deal was a product of a bargaining situation where the preferences of key member states were pro-reform-oriented, also taking dependence asymmetries into account. Postfunctionalism can explain the specific opposition made by the frugal and Eastern members' governments with their domestic positions/debates. In contrast, the nationalist explanation is problematic in the sense of strong mobilisation of the political centre in favour of a European solution (implying there was no oversupply) while the federalist approach would – taking account of politicisation in the North and East – trigger a political blockade. Instead, the final compromise agreement was a pragmatic one, building on output legitimacy, keeping the door open for future steps, and handing over politicisation to the democratically elected European Parliament.

This research shows that the alleged integration bias of the grand theories and policies on integration is somewhat overstated. The liberal institutional assumptions of the grand theories are broad enough to resist the nationalist/realist and federalist/critical ideational criticism. The research also indicates that the crises (somehow in line with the grand theories) have stimulated the much-needed politicisation of integration, which, along with institutional learning and the political process feedback loop, has resulted in an apparent "U" turn in support for the EU. The Covid crisis as an external shock has proven those who had expected growing polarisation along the lines of nationalists and federalists to be wrong. Instead, it has brought about the convergence of views on the need of the integration to save the European 'nation state' and the principles of democracy and a liberal economy. Thus, it has indeed been a Milwardian moment more than a purely nationalist or Hamiltonian one.

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*Danijel CRNČEC**

COVID-19 CRISIS: MORE EU INTEGRATION AND A STEP FORWARD FOR EU ENERGY POLICY AND CLIMATE ACTION?

Abstract. *The article has two aims. First, to analyse the impact of the Covid-19 crisis on EU integration and, second, the impact on EU energy policy and climate action. The analysis relies on the theoretical framework developed by Schimmelfennig, complemented with the analytical approach developed by Falkner. The article establishes that the Covid-19 crisis and the EU's response to it may be seen as a step forward in EU integration. The EU's response has also significantly impacted the trajectory of EU energy policy and climate action by strengthening elements of the European Green Deal and its green transition.*
Keywords: *Covid-19, crisis, EU integration, energy policy and climate action, European Green Deal*

Introduction

Energy policy has traditionally been a national concern. Although the treaties on the European Steel and Coal Community and the Euratom explicitly covered energy issues, for a long time European countries were reluctant to develop a common energy policy. Energy has become a slowly emerging and contested area of the European Union's (EU) competence (Kuzemko and Hadfield, 2016). A gradual development towards elements of a common energy policy only began to materialise after about 1990, along with intensification of the process towards the internal energy market (Matláry, 1997).

Leaders of the EU met in 2005 at Hampton Court to discuss a plan to create a common EU energy policy, which would go beyond energy liberalisation and include energy security and climate change issues. After three energy packages aimed at liberalising the electricity and gas markets, it was the Lisbon Treaty in 2009 that finally introduced an individual chapter on energy, thereby setting the legal basis for the development of a fully-fledged common energy policy based on the pillars of the internal market, energy security and sustainability. Since then, EU energy policy has seen

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considerable development as well as 'fusion' with EU climate policy, reaching a climax with the European Green Deal (EGD), the first priority of the von der Leyen Commission (2019–2024) and its aim of EU climate neutrality by 2050 (von der Leyen, 2019a).

The EU has come to operate in permanent crisis mode. Crises are open decision-making situations, entailing the manifest threat and perceived probability of disintegration. Yet, they may also trigger reform activities and lead to more integration. The euro crisis has produced more integration, whereas the migration crisis has not, whereas Brexit has initiated a disintegration process (Schimmelfennig, 2018a; 2018b). The 'crisis conglomerate' (financial, economic and migration crisis) has induced pressures and challenges for EU policies. Beyond changes in discourse, quite a sizeable amount of policy change has been observed in many areas (Falkner, 2016). Whereas the economic crisis has not fundamentally changed the broad policy objectives and preferences of member states, it has influenced the EU's decision-making process and policy outcomes in such a way that has led to a certain decline in ambition in the EU's climate policy (Slominski, 2016).

Given that the Covid-19 crisis represents for the EU a challenge of historic proportions and has already pushed it into an unprecedented economic downturn, the crisis may trigger reform activities and lead to more integration. It is expected that this crisis will prove to be a test of the energy sector's resilience and the EU's commitment to the transition to clean energy and climate neutrality (IEA, 2020). Both of these assumptions lead to the two main research questions in this article, i.e. what has been the impact of the Covid-19 crisis on EU integration generally, and the EU's energy policy and climate action in particular? The article relies on the theoretical framework developed by Schimmelfennig (2018a) to explain the impact the Covid-19 crisis has held for the EU integration. Parallel to this, the basic analytical approach developed by Falkner (2016) is used to assess whether the Covid-19 crisis has led to any changes in the EU's energy policy and climate action in particular and, if so, how significant they have been.

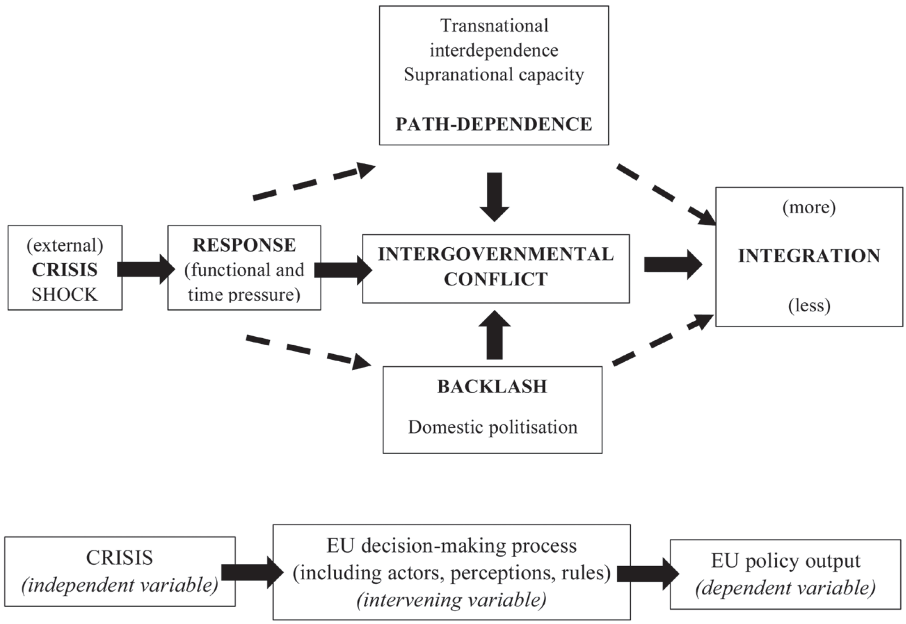
The article begins by overviewing the major theoretical approaches to studying EU integration and integration crises and provides the theoretical framework for the analysis. Then it analyses and explains the consequences held by the Covid-19 crisis for the EU integration, and analyses whether the crisis has in particular impacted the EU's energy policy and climate action.

Theorising EU integration crises and their impact on EU policy process and output

The crises of the last decade have brought with them an increasing body of theory-oriented literature focusing on their impacts on European (dis)integration (e.g. Ioannou, Leblond and Niemann, 2015; Niemann and Ioannou, 2015; Schimmelfennig, 2015; 2018a; 2018b; Jones et al., 2016; Biermann et al., 2019). Moreover, the impact of the 'conglomerate of crisis' (Falkner, 2016) on various EU policies has been researched *inter alia* on energy and climate policy (Slominski, 2016).

Schimmelfennig (2018a) integrated liberal-intergovernmentalist, neofunctionalist and postfunctionalist explanations into a single theoretical framework with the aim to analyse and explain the outcomes of the recent crises on the European integration. In a crisis caused by a shock to the existing regime, states engage in intergovernmental bargaining to find a common solution to the regime failure and to distribute the burdens of the crisis. The outcome is determined by asymmetries of interdependence and bargaining power. Simultaneously, prior integration is subject to feedback processes, whereas neofunctionalism focuses on positive processes of spillover and path-dependence that contribute to the integration, while postfunctionalism stresses the mass politisation of integration whose outcome is backlash and less integration (Schimmelfennig, 2018a) (see Figure 1).

Figure 1: THEORISING EU INTEGRATION CRISES AND THEIR IMPACT ON THE EU POLICY PROCESS AND OUTPUT



Source: based on Schimmelfennig, 2018a and Falkner, 2016.

The theoretical framework starts with liberal intergovernmentalism that is based on assumptions of bounded state rationality and that national preferences mirror (predominantly economic) interests of powerful domestic groups. It explains a common response to a crisis shock by differences in the constellation of preferences between governments and their bargaining powers, and in the severity of commitment problems (Schimmelfenning, 2018a; 2018b).

Governments respond rationally to crises (Schimmelfennig, 2018b), which may be understood as "situations that threaten the EU with disintegration, such as reduction of its membership or the renationalization of its policies" (Schimmelfennig, 2018b: 1578). Whereas crises usually result in asymmetrical externalities, affecting different states differently, they also hold significant distributional implications. Governments rationally pursue their national interest in intergovernmental bargaining by minimising the burden of the crisis and maximising benefits of policy and institutional changes (Schimmelfennig, 2018a: 973). States which are most affected by negative crisis externalities find themselves in a weaker bargaining position and are usually more willing to compromise in order to find a common solution to the crisis shock. On the contrary, states that are the least affected by the crisis typically have a stronger position and are often able to more successfully advocate their preferred solution and extract concessions (Schimmelfennig, 2018b). Consequently, the burdens of a joint response to the crisis are hence also asymmetrically distributed among bargaining governments. Finally, governments rationally delegate competences to supranational institutions to maximise the joint solution to the crisis shock. The more uncertain they are about their domestic actors or other governments trying to revise the agreed solution, the more power they are willing to delegate to EU institutions (Schimmelfennig, 2018a: 973).

Whereas intergovernmentalism has no specific theory of integration crises, neofunctionalism sees crises as an integral part of the process of European integration with usually positive effects, which have led to an increase in the authority and/or expansion of competences held by EU institutions (Lefkofridi and Schmitter, 2015: 4). Neofunctionalism assumes that integration processes evolve over time and develop their own dynamic. The unprecedented nature of EU integration process leads to difficulties for member states in assessing the costs and benefits of possible actions, which result in incremental decisions over grand designs with marginal adjustments often addressing the unintended consequences of previous decisions (Niemann and Ioannou, 2015: 197). Often deficient and incomplete integration steps, which reflect the lowest common denominator of the member states and their national preferences, result in a progressive integration dynamic driven by spill-overs and path-dependencies (Schimmelfennig, 2018a: 973–974).

Spill-over mechanisms can either be functional (the original objective can only be assured by engaging in further integration), political (national elites perceive that problems can only be effectively addressed with a common solution), or cultivated (supranational institutions become agents of further integration due to the benefits arising from it for them) (Niemann and Ioannou, 2015: 198). Path-dependence works in favour of further integration, despite possibly unintended or even inefficient integration, when the costs of stagnation or disintegration become unattractive. In case factors (like sunk and exit costs, endogenous interdependence, the autonomy, competences and resources of supranational actors, and decision-making procedures) surpass critical thresholds, governments, which are reluctant to enter into new commitments, then agree to more integration out of necessity. Crises tend to reproduce and strengthen integration due to institutionalisation and path-dependence, whereas the agreed solution to the crisis shock can be explained by variation in transnational interdependence and supranational capacity (Schimmelfennig, 2018a: 973).

Postfunctionalist theory of integration argues that the key mechanism which has changed the political climate in the EU "from a permissive consensus to a constraining dissensus" is politicisation (Hooghe and Marks, 2009). Politisation may be defined as "as an increase in polarization of opinions, interests or values and the extent to which they are publicly advanced towards the process of policy formulation within the EU" (de Wilde, 2011: 572). It increasingly characterises integration crises and represents an encompassing process with multiple manifestations and functions, broadening the scope of the actors and audiences involved in EU politics. It has contributed to the growing salience of EU politics, as well as the polarisation and opinions on European integration (ibid.). Postfunctionalism argues that politisation has empowered Eurosceptic parties and mobilised Eurosceptic citizens around national identities, meaning lower support for further European integration, especially when strong politisation occurs. Difference in the integration outcomes of crises may be explained by variation in domestic politisation (Schimmelfennig, 2018a: 975).

Falkner (2016: 221) points out that not only do external shocks redistribute critical political resources, unsettle policy beliefs and bring a de-stabilising effect, but are also an important driver of policy change. Whereas economic effects (e.g. substantial economic downturn) are often immediate, other crisis effects, particularly in public policies, are usually mediated (ibid.). Thus, a basic analytical approach has developed that takes a crisis as an independent variable impinging on the EU's policy process and output (see Falkner, 2016). Namely, crisis (as an independent variable) increases the functional pressures for policy innovation and time pressures, and may impact on EU decision-policymaking processes (intervening variable), including actors and their interests, perceptions and rules and, finally, on the EU policy output (a dependent variable) (see Figure 1). Like with the economic and financial crisis, the Covid-19 crisis is profound and multifaceted and one may expect it to impact in some way every single EU policy domain.

Falkner (2016) uses the lens of neofunctionalism while focusing on the analysis of the spill-over effects of a crisis and the role of path-dependency. A crisis will create a need to act and a sense of urgency (functional problem pressure) in order to steer away from the potential tipping point (time pressure). Therefore, the more urgent and the larger the crisis pressures, the more likely it is that they will lead to a spill-over in the form of policy reform. Spill-over is understood in a narrow sense as when a greater scope of themes as well as a higher level of authority result from reforms (Falkner, 2016: 222, 224). In order to understand the changes the crisis may bring about in different policy areas, Hall's concept of different "orders of change" is used (see Falkner, 2016; Slominski, 2016) (see Table 1).

Table 1: MAIN CONCEPTUAL BUILDING BLOCKS FOR ANALYSING CRISIS-INDUCED POLICY CHANGE

Order of change	Operationalisation
1st order	Policy level: change in settings to adjust existing instruments
2nd order	Policy level: change in instruments or techniques
3rd order	Policy level: New goals or altered hierarchy of priorities
4th order	Paradigmatic change

Source: see Falkner, 2016.

The Covid-19 Crisis: More EU Integration?

The Covid-19 health and economic crisis in the EU originated from an exogenous shock due to the outbreak and spread of the "2019-nCoV" coronavirus in China. At the end of February 2020, the outbreak of Covid-19 was announced in Italy and then rapidly spread across Europe. Italy went into lockdown on 9 March, a series of lockdowns followed in other EU countries, while the EU's external and Schengen borders were closed on 17 March. Economic activity in the EU plummeted. Member states soon agreed that Covid-19 and its economic consequences amounted to the most serious crisis ever faced by the EU since Second World War. The EU has entered its deepest economic recession in its history (European Commission, 2020a), which leads to the first part of the main research question in this article: What has been the impact of the Covid-19 crisis on EU integration?

A Bumpy Road to a Common EU Response

By the end of March, a series of fiscal national and EU measures had been approved to help ailing sectors and finance the economic recovery. Further, the Commission and member states had started work on a bigger European economic response package. In the early stage of the crisis, four steps were taken to ensure a safety net of liquidity, i.e. the unprecedented suspension of the Stability and Growth Pact, relaxation of state-aid rules, redirection of EU structural funds, and extension of the European Solidarity Fund. In April, the Eurogroup agreed on three safety nets for jobs and workers, businesses and member states (EUR 540 billion). Along with the fiscal stimulus, the European Central Bank (ECB) also intervened by launching a new-corona-bond-buying programme to buy public and private debt (worth EUR 750 billion). Finally, it was agreed by EU institutions and the member states that a recovery plan was needed to kick-start the EU economy.

A recovery plan soon became the main bone of contention between the member states as well as EU institutions. Namely, the form of the recovery plan and the sources for its financing have become fruitful grounds for hard intergovernmental bargaining, on how the benefits of the recovery and costs of the burden of the crisis should be distributed among EU countries.

Already by 17 March, the Italian Prime Minister was urging the leaders of EU countries to take extraordinary measures and do "whatever it takes" to support the economy, including the issue of "corona-bonds" (Fortuna, 2020). Nine eurozone countries asked for a common debt instrument to mitigate the economic damage caused by Covid-19. The potential mutualisation of debt on the EU level had already been proposed during the 2010–2012 sovereign debt crisis (Eurobonds), yet agreement proved impossible due to the strong resistance of certain countries (e.g. Germany, the Netherlands). The leaders clashed over the issue during a virtual summit on 27 March with the Northern countries rejecting the idea and insisting on using the ESM. Finally, the leaders agreed to "do everything necessary to meet this challenge in a spirit of solidarity" (European Council, 2020a, para 12).

At the end of April, the Commission circulated a proposed roadmap for recovery, which included a European Recovery Fund to be financed from the EU budget. A central and priority role in relaunching and modernising the EU economy, via Marshall-Plan-type investment support, should be played by the green transition and digital transformation (European Commission, 2020b). Leaders of EU countries agreed to work towards establishing a recovery fund, but have remained divided on almost every issue, from the nature of the tool to its size and ways to finance it. On 19 May, the French president and the German chancellor announced their joint proposal for a EUR 500 billion EU recovery programme to be given in the form of grants.

Germany's U-turn from its past support for loans indicated a possible breakthrough. Still, the 'frugal four' countries (Austria, Denmark, the Netherlands, Sweden, later also joined by Finland) presented their counterproposal for an EU recovery fund, to be based on the "Loans for Loans" principle, i.e. unlike grants, the money would have to be repaid (Grűll, 2020).

Finally, on 27 May the Commission presented a new proposal of the next Multi Financial Framework 2021–2027 (MFF) boosted by a EUR 750 billion fund called Next Generation EU (NG EU), an emergency temporary recovery instrument to kickstart the post-Covid-19 recovery.

Hard Intergovernmental Bargaining over Distribution of the Burden of the Crisis

Evidently, the leaders of EU countries were far apart, with one of the most difficult negotiations in the EU history still ahead of them. Main divisions concerned the size, shape, scope, as well as conditionality of the recovery programme. After 5 days of hard bargaining in July (17–22), a compromise was reached on the next MFF and NG EU. The whole negotiations process and the final deal reflect the expectations of intergovernmentalism.

Governments calculated the costs and oriented their negotiation positions to the least costly option. A majority of member states held similar structural positions compared to the previous economic crisis, with the notable exception of Germany. Its U-turn on its past rejection of any debt mutualisation enabled a significant step towards the final compromise on NG EU. This change in Germany's position may be seen in terms of the enormous negative economic externalities of the Covid-19 crisis and their potential to distort the single market, particularly crucial to Germany's export-oriented economy.

The final agreement adopted by the leaders of EU countries strongly reflects the demands of those governments that were the least willing to compromise. The 'frugal four' were given larger rebates (also the German contribution was reduced) and succeeded in rebalancing the ratio between grants and loans. Hungary and Poland succeeded in watering down the idea of linking adherence to the rule of law with payments. An 'emergency brake' on the possible freezing of payments in case of a serious deviation was introduced to accommodate the Netherlands' demand for greater control. The Franco-German cooperation was crucial in sealing the deal, whereas the most affected states (Italy, Spain etc.) were willing to compromise the most, still being better off than not having a deal. At the end, almost all leaders hailed the outcome as "historic".

Politisation and Contestation Remain High

The Covid-19 crisis and the EU's recovery plan have been highly politicised. Similar to previous economic crisis, much attention was paid to the monetary and fiscal measures, which belong to the 'core state powers' and usually result in highly politicised integration politics (Schimmelfennig, 2018a). The Covid-19 crisis was also extremely politically salient because it was primarily a health crisis holding the potential to affect every individual EU citizen, either directly with the coronavirus itself or indirectly by the containment measures imposed and their grave economic consequences.

The Covid-19 crisis has also been highly contested. The initial response of EU countries was lacking in solidarity and was heavily criticised by Commission President von der Leyen, as well as by members of the European Parliament. Moreover, EU citizens were in the majority (57%) dissatisfied with the solidarity in Europe and (69%) wished like to see greater EU involvement in resolving the Covid-19 crisis. Many believe the EU has not lived up to its responsibilities in its response to Covid-19, with dissatisfaction being particularly acute in the most affected countries of Italy, Spain and Greece (European Parliament, 2020a; Krastev and Leonard, 2020).

In the initial phase of the Covid-19 crisis, health issues and medical equipment dominated the contestation in national and EU politics, whereas along with the gradual relaxation of the lockdowns and containment measures the issue of the economic recovery rose to the fore, reinforcing the intergovernmental distributional conflict among the governments. They were reluctant to compromise on issues that would be hard for them to sell at home. Consequently, politisation of the crisis means the final agreement adopted by the leaders of EU countries contains many concessions.

Transnational Interdependence and Supranational Capacity as Catalysts of the EU's Response

The Covid-19 crisis and ensuing economic downturn have been marked by increased transnational interdependence. Global demand, supply chains, labour supply, industrial output, commodity prices, foreign trade and capital flows have all been affected. The economic recovery is expected to be incomplete and asymmetric across the member states. Further, due to the strong interdependencies amongst the member states, an incomplete recovery in one of them might spill-over to all others, thereby dampening economic recovery everywhere (European Commission, 2020a).

The economic recession following the Covid-19 crisis is thus bringing all of the member states together, despite differences in their growth strategies. Importantly, it was Germany's U-turn and its proposal with France that significantly contributed to the introduction and adoption of an extensive recovery instrument (NG EU). Parallel to this, the 'frugal four' (joined by Finland) in the end accepted mutualisation of the debt (albeit, they extracted important concessions). The negative economic externalities of the Covid-19 crisis have been too enormous with the potential to cause significant distortion of the single market, making it in the interest of all the member states to adopt an unprecedented economic recovery plan.

In addition to increased transnational interdependence, supranational capacity has played an important role. The ECB has been significant for strengthening the common EU response to the economic downturn. Already very early on it announced "there are no limits to their commitment to the euro", thus echoing the words of Mario Draghi in 2012 to do "whatever it takes" to preserve the euro (Valero, 2020). At the same time, the ESM, which was set up as an international financial institution by member states of the euro area to help them in severe financial distress, established Pandemic Crisis Support to provide loans to euro area member states.

Outcome: The Covid-19 Crisis Has Resulted in EU Integration

Summing up, the EU has been able to respond to the Covid-19 crisis, which has seen a deepening of the EU integration. Next to the unprecedented fiscal stimulus (suspension of the Stability and Growth Pact, relaxation of state-aid rules, emergency safety nets), the ECB has also monetarily intervened to a record extent. In Mario Draghi's manner of doing "whatever it takes", the ECB created the Pandemic Emergency Purchase Programme (PEPP), which in June 2020 was increased from the initial EUR 750 billion to a total EUR 1,350 billion and extended until at least the end of June 2021 (ECB, 2020).

Moreover, member states agreed on an unprecedented recovery effort under the NG EU instrument, which will authorise the Commission to borrow in capital markets on behalf of the EU. A similar measure was on the table during the sovereign debt crisis (Eurobonds), but failed to receive support. Despite the notion that NG EU should be temporary to boost the financial power of the EU budget, the agreement has been hailed as "historic" by many EU leaders. The funds borrowed (EUR 750 billion) may be used for loans (EUR 360 billion) and for expenditure (grants) (EUR 390 billion).

Finally, the leaders of EU countries agreed that the own resources system will be reformed with new own resources being introduced. As a first step, a new own resource based on non-recycled plastic waste should be introduced and apply as of 1 January 2021. Further, the Commission should put forward proposals in a carbon border adjustment mechanism, a digital levy, a revised ETS scheme (possibly extending it to aviation and maritime), and other own resources (which may include a Financial Transaction Tax) (European Council, 2020c).

Despite the lowest common denominator of the member states and their diverse national preferences on how to address the negative economic consequences of the Covid-19 crisis, the crisis has created a progressive integration dynamic driven by a functional spill-over, i.e. the economic consequences of it could only be optimally addressed by further integration, and political spill-over, indicating that governments believe that only a common solution is able to properly address the economic downturn. To a certain extent, also a cultivated spill-over was present as the Commission was an agent of further integration, which would bring certain benefits to it in the form of more competences and in acquiring an important role in the process of allocating funds (e.g. the Commission's allocation criteria, review of the national recovery and resilience plans, consistency with the country-specific recommendations of the European Semester).

Covid-19 Crisis: A Step Forward for EU Energy Policy and Climate Action?

Energy policy and climate action prior to the Covid-19 crisis

The area of energy formed part of the European integration since the outset. However, national differences mean there has not been any rationale to develop a common energy policy for a long time. Only in October 2005 did the leaders of EU countries agree to create a common EU energy policy. The year 2009 may be considered a "watershed moment for the EU energy policy" (Szulecki, 2016: 550) with the adoption of the Third Energy Package and the Lisbon Treaty, which finally introduced the Energy chapter and thereby a treaty basis for a common energy policy.

In March 2014, shortly after the European Council agreed on the 2030 climate and energy framework (including the 2030 climate and energy targets), a proposal on Energy Union was presented by Polish Prime Minister Tusk. It was taken over by the new incoming Juncker Commission and fully reshaped, soon becoming a buzzword and a Commission priority.

At the end of 2018, the Council and the Parliament agreed upon more ambitious EU 2030 energy targets than initially agreed by the European Council in 2014 (headline target on energy efficiency of at least 32.5%, and at least a 32% share of energy from renewable sources). Simultaneously, the Commission set out its long-term strategy and vision that can lead to achieving net-zero GHG emissions by 2050. In March 2019, the Parliament endorsed the net-zero GHG objective and urged the member states to do the same, while also supporting an update of the Union's nationally determined contribution (NDC) with an economy-wide target of 55% domestic GHG emission reductions by 2030 compared with 1990 levels (European Parliament, 2019a). In December 2019, the European Council endorsed the objective of achieving a climate-neutral EU by 2050 (without Poland) (European Council, 2019).

The new von der Leyen Commission introduced the EGD as its first political priority and a new growth strategy, which is to become "the first comprehensive plan to achieve sustainable development in any major world region" (Sachs, 2019). The Commission announced a bold set of (47) legislative and non-legislative actions that should be undertaken in 2020 and 2021 in order to implement the elements of the EGD (European Commission, 2019a):

i) a set of transformative policies (*inter alia*, increasing the EU's climate ambitions for 2030 and 2050, decarbonising the energy system, and energy efficient building and renovating);
ii) mainstreaming sustainability in all EU policies (*inter alia*, green finance and investment, and a just transition);
iii) strengthening the EU as a global actor; and
iv) the involvement of public and stakeholders (European Climate Pact).

Following adoption of the energy chapter in the Lisbon Treaty, EU energy policy has experienced considerable development, as well as 'fusion' with EU climate policy. Creation of the Energy Union and its governance mechanism gave it, along with climate action, an important impetus. They also set the grounds for the new von der Leyen Commission to promote the EGD as its first priority for 2019–2024, and the pivotal piece of its vision of Europe leading "the transition to a healthy planet and a new digital world" (von der Leyen, 2019a). In order to accomplish this, the EU has decided to mainstream climate action across the entire EU budget.

Already in 2014–2020, the EU agreed to make at least 20% of EU expenditure climate-related. Moreover, for the EU long-term budget 2021–2027, in May 2018 the Commission proposed to strengthen climate mainstreaming in all EU programmes by contributing at least 25% of EU expenditure to climate action (European Commission, 2018: 13). Earlier that year, the 'Green Growth Group' countries called for a target of at least 20% climate mainstreaming, better reporting, and transparency (Joint Statement, 2018), while the European Parliament backed a significant rise in climate-related spending to "reach 30% as soon as possible and at the latest by 2027". Further, the European Parliament called for "the establishment of a comprehensive fund in order to support a just transition" (European Parliament, 2018, paras 6 and 86).

Strengthening the EU's Energy Policy and Climate Action

The Covid-19 crisis and its harsh economic consequences have induced pressure and an EU policy response that could, as initially anticipated, hold important implications for EU energy policy and climate action, which leads to the second part of the main research question, i.e. What has been the impact of the Covid-19 crisis on the EU's energy policy and climate action?

The Commission initially failed to introduce in its updated state-aid rules any specific green requirements for firms receiving government support during the Covid-19 crisis, except for publishing information on how the aid received supports the green and digital transformation. The decision to grant state-aid to support green and digital innovation and investment was left to member states (European Commission, 2020d). The Commission then tabled a revised proposal for the next MFF boosted by a new EUR 750 billion emergency recovery instrument (NG EU). All of the money should be channelled through EU programmes "to accelerate the twin green and digital transition", respecting the green oath of "do no harm". It should be guided by priorities identified in the European Semester, Integrated National Energy and Climate Plans (NECPs) and Just Transition Plans. The proposal included a target of at least 25% of recovery spending contributing to climate action, as well as that the investment be guided by a sustainable finance taxonomy to ensure alignment with the EU's long-term ambitions (European Commission, 2020e: 4 and 6).

The agreement adopted by EU leaders on the MFF and NG EU in July brought about important implications for the EU's energy policy and climate action. Both the MFF and NG EU should help to transform the EU through its major policies, particularly the EGD, the digital revolution, and resilience. The EU should be set on a path towards a sustainable and resilient recovery, supporting the twofold – green and digital – transition. Member states should prepare national recovery and resilience plans setting out their reform and investment agenda for the years 2021–2023, which should be assessed by the Commission. Effective contribution to the green and digital transition should be a prerequisite for a positive assessment (European Council, 2020c: paras A2, A18, A19, 18).

Climate action should be mainstreamed in policies and programmes, and an overall climate target of (at least) 30% should apply to the total amount of expenditure from the MFF and NG EU. It should be reflected in appropriate sectoral targets, complying with the objective of EU climate neutrality by 2050 and contributing to achieving the new EU 2030 targets, which should be updated by the end of the 2020. EU expenditure should as a general principle be "consistent with Paris Agreement objectives" and the "do no harm" principle of the EGD, including the use of an effective methodology for monitoring, reporting and relevant measures in case of insufficient progress (European Council, 2020c: paras A21, 18).

Thus, member states took two steps forward compared to the Commission's initial proposal on the MFF 2021–2027, i.e. the overall climate target of EU spending was increased from 25% to 30%, and the funding amount was considerably increased to include funds from the NG EU. Thereby, instead of 25% from the Commission's initial proposal of EUR 1.1 trillion (MFF), (at least) 30% from EUR 1,824 trillion (MFF & NG EU combined) should be devoted to climate action.

Third, a Just Transition Mechanism, including a Just Transition Fund (JTF), should be created to address the social and economic consequences of reaching climate neutrality by 2050 and the EU new climate 2030 target. The JTF should have at its disposal EUR 10 billion under the NG EU and EUR 7.5 billion under the MFF, i.e. a total of EUR 17.5 billion. Access to the JTF should be limited to 50% of national allocation for member states (i.e. Poland) that have yet to commit to implement the objective of achieving a climate-neutral EU by 2050. The other 50% should be made available upon the acceptance of such a commitment (European Council, 2020c: paras A14, 18, 100).

The own resources system should be reformed and new own resources introduced. Initially, a new own resource based on non-recycled plastic waste should be introduced (by January 2021). Later on, the Commission should propose a carbon border adjustment mechanism and a digital levy (to be introduced by January 2023), a revision of the ETS scheme (with possible extensions to aviation and maritime) and, in the course of the next MFF, also other own resources (which may include a financial transaction tax) (European Council, 2020c: paras A29, 145–150). The 2030 targets should be updated by the end of 2020, whereas expenditure from the MFF and NG EU should help in achieving the EU's new 2030 targets (European Council, 2020c: paras A21, A29).

During bargaining on the MFF and NG EU, the leaders of EU countries adopted some harsh compromises for climate action. The total budget of the JTF fell from the proposed EUR 40 billion to EUR 17.5 billion, as the 'frugal four' pushed for less by way of grants than initially proposed. Despite a significant cut, the JTF might nevertheless be more than two times greater than in the initial proposal.

Climate conditionality, whereby only states which have committed to implement the objective of achieving a climate-neutral EU by 2050 would be entitled to the JTF funds, was diluted. The final compromise was that countries which have not committed to the objective of climate neutrality (i.e. Poland) could still have access to 50% of the national allocation.

Finally, it has to be stressed that the agreement of the leaders of EU countries on the next MFF and NG EU is far from final. Namely, besides the Council also the Parliament (as a budget authority) is to participate in the budget process and must consent to the MFF regulation under TFEU (Art. 312).

Yet, the Parliament has heavily criticised the agreement and pointed out, *inter alia*, that it does not accept the leaders' political agreement on the MFF 2021–2027 (European Parliament, 2020b: para 3). It has warned that cuts to the MFF, including cuts to programmes supporting the transition of carbon-dependent regions, run counter to the EU's objectives and the EGD. Further, the Parliament has stressed it will not consent to the MFF without an agreement on reform of the EU's own resources system, and also that it intends to negotiate targeted reinforcements of flagship EU programmes, including programmes relating to climate transition (like the abovementioned JTF) (European Parliament, 2020b: paras 10, 13, 14). The Parliament has stressed the need to also include in the legislation a biodiversity-related spending target of 10%, as well as the need to enshrine the 'no harm principle' and gradually phase-out fossil fuel subsidies (for both the MFF and NG EU). The Parliament has in addition demanded a legally binding MFF mid-term revision by the end of 2024, which would have to also concern the implementation of the climate and biodiversity targets (European Parliament, 2020b: paras 15, 17).

The position of the Parliament, which has proven to be an important green actor in the past, clearly indicates that it will insist on (further) strengthening the elements of the green transition in the MFF and NG, especially of the JTF and on the introduction of new own resources, also very relevant for climate action (ETS revision, carbon border adjustment mechanism).

Conclusion

The article has had two aims. First, to analyse the impact of the Covid-19 crisis on EU integration and, second, the impact on the EU's energy policy and climate action. The analysis relied on the theoretical framework developed by Schimmelfennig (2018a), complemented with the analytical approach developed by Falkner (2016).

First, the analysis showed that the crisis has resulted in momentum allowing for an important leap in the integration. The extent of the negative economic consequences of the Covid-19 crisis, along with their potential to distort the single market, could have led to disintegration had the member states, lacking capacity for unilateral action, not found a common response. Covid-19 has created significant pressure on EU institutions and on the member states, leading to hard intergovernmental bargaining over distribution of the recovery benefits and the costs of the burden of the crisis among EU countries. The analysis confirms the relevance of effects of the prior integration on transnational interdependence (Schimmelfennig, 2018a), which has created a strong impetus for finding a common response to the crisis. Parallel to this, there has been a critical supranational capacity as certain actors have autonomously decided to contribute extensive resources to the common response (e.g. the ECB) as well as to mitigate the intergovernmental distributional conflict (e.g. the Parliament). As a result, the EU's response to the Covid-19 crisis has followed a logic of path dependency, like in the euro crisis (Schimmelfennig, 2018a).

Second, the EU response to the Covid-19 crisis, as materialised in the agreement on the next MFF and NG EU instrument, has impacted the political discourse by strengthening the political priority of the EGD and its green transition. Compared to the pre-crisis proposal on the MFF, the Covid-19 crisis has created additional pressure for further policy change leading towards a more decisive and ambitious EU energy policy and climate action. It has strengthened the momentum initiated by the new von der Leyen Commission when introducing the EGD as its first priority. Despite functional and time pressures to deliver immediate results, and some less favourable elements of the July agreement on the MFF and NG EU, the attention of the leaders of EU countries has remained on the EU's long-term challenges (green and digital transition) contrary to the earlier economic crisis (Slominski, 2016). Significant weight was given to the arguments of not only states as climate front-runners, but also of EU institutions (the Commission, the Parliament), stressing that the energy transition and accomplishment of climate neutrality is indispensable and should be(come) the key building block of the EU's recovery efforts. A new instrument (NG EU) (2nd order policy change) holding significant implications for energy policy and climate action should be created. A higher target should be adopted on climate-related spending (3rd order policy change), covering both the MFF and NG EU, resulting in a considerably larger scope of funds for climate action. The latter should be mainstreamed in all EU policies and programmes. Sectoral targets should comply with the objective of EU climate neutrality by 2050 and contribute to achievement of the new EU 2030 targets. It has been confirmed that these should be updated by the end of 2020. Moreover, the Parliament has clearly signalled that its red lines in its negotiations with the Council on the MFF will include a further strengthening of its green elements.

To conclude, the Covid-19 crisis and the EU's response to it have seen the introduction of unprecedented fiscal and monetary measures, an agreement on the mutualisation of the debt, as well as on the need to reform the EU's own resources system, thereby representing an important step forward in

EU integration. The EU's response has also significantly impacted the trajectory of the EU's energy policy and climate action by appreciably strengthening green elements of the EGD.

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"NEVER LET A GOOD CRISIS GO TO WASTE": STRENGTHENING EU ACTORNESS AMID INCREASED COMPETITION OF EXTERNAL ACTORS IN THE WESTERN BALKANS

Abstract. *In this article, we argue that while examining the Western Balkans' integration process during the Covid-19 crisis we must take into consideration not only the EU's influence but that of other powerful external actors as well. Based on the external incentives model, Russia, China and Turkey are thus analysed as competing external actors to the EU's enlargement policy in the WB. We establish that during the Covid-19 crisis these actors have been increasingly competing with the EU especially with respect to the determinacy of conditions via state propaganda and by attacking the EU's credibility with disinformation campaigns. Nevertheless, their influence in terms of the size of the rewards and domestic adoption costs has dropped in comparison to the EU as the latter has increased its rewards, strengthened conditionality and regained some of its lost credibility capabilities. The most significant change visible during the Covid-19 crisis is a further fragmentation in addressing individual WB states by Russia, China and Turkey, whereas the EU remains the only external actor capable and willing to addresses the entire WB region.*

Keywords: *European Union, enlargement policy, Western Balkans, Russia, China, Turkey, Covid-19 crisis*

Introduction

The Covid-19 crisis calls for a re-evaluation of the Western Balkans' integration process based on Europeanisation as its main driver and calls for more "power-based explanations" of the integration process (Richter and Wunsch, 2020; Chrzova et al., 2019; Lavenex and Schimmelfennig, 2009: 792) with a consideration of the linkages of WB states with other powerful

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international actors. Namely, the crisis presents both opportunities and constraints for all external actors to consolidate their influence in the region. As previous and at times coinciding crises have shown, such as the global financial crisis of 2008, the migration crisis, Brexit and the rise of nationalism and Euroscepticism, a crisis holds the potential to challenge or even derail the European integration project. These crises not only showed the limits of solidarity and effective coordination between European Union (EU) member states but also disrupted the EU's relations with the WB. The EU's dominant partnership with WB states was somehow unchallenged in the early 2000s, but the above-mentioned internal and external challenges to the EU and WB states allowed other external actors to quickly use this opportunity to (re)introduce their presence in the region. At the same time, these crises have also partially reinforced the integration process by leading to internal economic and political reforms in the EU and reaffirmed the geopolitical importance of the WB for the EU for tackling common problems (such as migration, rise of authoritarianism etc.). In this respect, the Covid-19 crisis could either open up "the window of opportunity" (Bieber, 2020; Tocci, 2020) for both the EU and the WB to maintain the momentum of European integration; or, on the contrary, additionally limit the EU's influence in guiding political transformation in the WB by further allowing the greater engagement of other external actors like China, Russia and Turkey.

Conceptually, we build on the external incentives model by Schimmelfennig and Sedelmeier (2017) that was primarily designed to analyse the effects of EU conditionality on non-members. Given that the EU is no longer "the only game in town" (Börzel and Schimmelfennig, 2017) and that the WB has become "a playing ground" for other powerful external actors as well, we apply this model to test its analytical power also for the relations between the region and Russia, China and Turkey. The limitation of this approach is thus its focus on the application of a conceptual model originally designed for the EU as a global actor to other external actors in the WB and not vice versa, i.e. the use of a broad, IR-originating external actors-in-a-region model (e.g. interest sphere or (inter)regionalism) applied to the WB in order to among others address the EU. The external incentives model stipulates conditions that influence the cost-benefit calculations of a target state's government and impact the effectiveness of conditionality (Schimmelfennig and Sedelmeier, 2005). First, *the size and distance of EU rewards*, where membership is the highest reward that the EU can offer and the closer the date of accession moves the stronger is the 'compliance pull'. Second, *the determinacy of conditions* understood as clarity of what non-members need to do in order to meet the conditions and obtain the reward. At the same time, determinacy also depends on the relevance of conditions for the EU where certain conditions are considered as *sine qua non* and therefore a priority for the non-members. Third, conditionality depends on *the credibility of the EU* to grant membership if conditions are met or to withhold the reward in case of non-compliance by target states. Accordingly, the EU's promises and threats depend on internal as well as external factors. Internally, credibility depends on the EU's coherence and consistency as capability elements (Bretherton and Vogler, 2006) in applying conditionality over time and with different target states. Externally, the EU's credibility increases if non-members face fewer alternative options to the EU, i.e. if there is less "cross-conditionality" by other international actors offering similar rewards at lower costs (Schimmelfennig and Sedelmeier, 2020: 817). It is worth mentioning that credibility significantly depends on the perceptions held by non-members about the EU and the alternatives offered by other external actors. Last, *the size of domestic adoption costs* in non-member states determines whether (and how fast) EU conditions can be met. These costs depend on the extent to which the adoption of the EU's norms and rules endanger the hold on the power of domestic political/economic elites, on the number of veto-players that possess the capacity to block their adoption and on domestic capabilities to implement them (Schimmelfennig and Sedelmeier, 2020: 818). Deriving from this and for analytical purposes, we assess the above-mentioned conditions for influence by introducing the variable of competition between external actors on a continuum from low to medium and high competition. Low competition denotes little or no effect caused by the influence of external actors to the WB's EU integration process. Medium competition denotes a minor or limited effect, while high competition determines the effect of external actors on the WB's EU integration process as significant by both acting as an external spoiler or by offering a viable alternative to the WB's accession process.

The article first discusses the EU's approach to the region and examines some recent changes made in its approach to the WB. It then turns to empirical analysis by examining the roles of China, Russia and Turkey in the region and their influence on the WB's integration process prior to the Covid-19 crisis. The methods applied are content analysis of relevant primary sources, such as the EU's strategic documents on enlargement policy and European Council Conclusions, empirically rich policy papers and official news publications of EU institutions and the governments of WB states. A similar analysis is then performed for the period since the Covid-19 pandemic outbreak until October 2020. Based on this assessment, the article concludes with a discussion to answer the research question: to what extent and how has the influence of Russia, China and Turkey in the region during the Covid-19 crisis affected the WB's integration process.

Pitfalls in the EU's approach to the Western Balkans: internal divisions and external challenges

The EU's approach to the WB has built on the premise that the prospect of membership would enable the EU to exert an influence on the political transformation of the region similar to the positive experience with the Europeanisation of Central and Eastern European (CEE) countries (Ker-Lindsday, Armakolas, Balfour and Stratulat, 2017; Grabbe, 2006; Schimmelfennig et al., 2006). However, "copy-pasting" with stabilisation additions (Schimmelfennig and Sedelmeier, 2017; Richter and Wunsch, 2020; Griessler, 2020) is leading the EU's enlargement policy in WB into serious troubles, referred to as the three Cs problem; namely, stricter Conditionality, lost Credibility and rising domestic Costs. These developments have also negatively influenced the overall effectiveness of the EU's enlargement policy to the extent that the WB states have started questioning both the *size* and *distance of the reward* (full membership). The lack of a clear and consistent membership perspective from the EU has left the WB trapped "in a constant process of negotiation and reform that lacks a clear timeframe for their possible accessions" (Griessler, 2020: 2). Additional and stricter conditions for membership coupled with the EU's two-pronged strategy (simultaneous stabilisation and integration) have led to "an inconsistent application of conditionality that has thwarted its effectiveness, resulting on lower overall degrees of compliance" (Richter and Wunsch, 2020: 46). This was further exacerbated by diverging interpretations between the European Commission (EC) and the EU Council regarding *the determinacy of the conditions* and the progress made by the Western Balkan states. This has led to the problem of the perception of the EU's *lost credibility* in the eyes of the WB states. Not only have these developments cast doubt on whether the EU is eventually willing to grant membership, but they have also severely challenged the perception of the EU as a transformative power in the region. As noted by Szpala (2018), the relatively poor record in promoting pro-democratic reforms in WB may be attributed to the EU itself for often "turning a blind eye" in the case of the authoritarian and undemocratic regimes of some WB states in exchange for regional stability, which further weakens the EU's credibility (Griessler, 2020: 4). The effects of this are visible in the increasing opposition to EU accession in the region (International Republican Institute, 2020; Cameron and Leigh, 2020) and the weak compliance behaviour of the WB states (Börzel, Dimitrova and Schimmelfennig, 2017).

The most recent major setback in EU–WB relations came just a couple of months before the outbreak of the COVID-19 pandemic at the EU summit in October 2019, where France, Denmark and the Netherlands blocked the start of the accession negotiations with Albania and North Macedonia. While the reasons for this decision cannot be solely attributed to the weak performance of the two WB states, this once again confirmed what was feared by many in the WB that the EU is not yet ready to fully commit. EC President Juncker found this to be "a grave historic mistake", while the EU's Enlargement Commissioner Hahn stressed that this "was not a moment of glory for the EU but a matter of deep disappointment". Reactions from the region were similar, North Macedonia's Foreign Minister Dimitrov emphasised that "/t/he least that the European Union owes to the region is to be straightforward /…/ If there is no more consensus on the European future /…/ the citizens deserve to know," while the Prime Minister of Albania Rama spoke of a "heavy psychological shock in the country" that has further harmed the EU's credibility.

In February 2020, just before the actual start of the Covid-19 pandemic, the EC issued a new communication on EU policy towards the WB with the title "Enhancing the accession process – A credible EU perspective for the WB". Some authors label this as a "face-saving exercise" (Vurmo, 2020) in order to try to regain some lost credibility after the long-stagnant accession process (Strømmen, 2019; Cameron and Leigh, 2020). The document specifically addresses some of the shortcomings of the EU's existing approach to enlargement with regard to the credibility, conditionality and dynamics (speed) of the process. To regain credibility, the strategy calls for clear commitments on both sides – WB leaders must deliver on implementing the fundamental reforms, while the EU shall remain committed to move forward once countries meet the conditions. A re-organisation of the negotiation chapters in thematic clusters was proposed, which "will allow stronger focus on core sectors in the political dialogue".[1] This would give EU member states' governments more say in assessing the progress towards meeting EU standards. Also, the strategy introduces the ability for the EU to use negative conditionality, i.e. halt or even reverse the process if candidate countries stagnate or slip back in their efforts to Europeanise. At the same time, conditionality must become clearer, more transparent and focused on incentives of direct interest to citizens. More than before, this revised accession methodology emphasises the WB's geostrategic importance and links the effectiveness of its approach to strategic communications where the EU must "raise awareness in the region of the opportunities closer integration and reforms entail, and to tackle malign third country influences".[2] This indicates that the EU has started to consider other external actors in the WB as competitors or as a counter-weight to the Western dominance (Chrzova

[1] *EC communication 2020: 4*

[2] *EC communication 2020: 2*

et al., 2019) and perceives their interference as malign or even threatening. Many supporters of the enlargement process have thus feared that "another negative decision /on further accession negotiations/ would pave the way for Russia and Turkey to increase their influence" (Barigazzi, 2020).

The influence of external actors in the WB prior to the COVID-19 crisis

According to a recent study, the "diminishing US involvement in the region and the EU's failure to replace it, along with EU enlargement fatigue and shifts in the global geopolitical balance of power, have created a space for non-Western actors to step in and strengthen their presence in the region" (Chrzova et al, 2019: 1). Particularly Russia, China and Turkey have recently started to challenge the pro-EU orientation of the WB by more assertively using their economic, political, historical, cultural or religious leverage. Since these states have not based their co-operation with the region on any EU-like reform conditions, their emergence and assertiveness have further diminished the symbolic meaning of the EU for the WB. With the EU no longer being the only option, it has become even more difficult for the EU to push through with its own reform agenda. The pragmatic decision of WB states to seek support elsewhere at lower costs has considerably lowered aspiring members' motivation for reform, causing the effect of "reform fatigue" (Griessler, 2020: 4). While existing studies differ in their assessment on how significantly the scope and nature of external actors' engagements represents a real alternative to Europe for the WB, they do agree that these powers challenge the predominant role and determine the pace of European integration in the region (Chrzova et al., 2019; Cameron and Leigh, 2020).

Our analysis looks at the engagement of three main external actors in the WB – China, Russia and Turkey – which have all demonstrated a continued determination to not only increase their presence but also that they possess the ability to act as "external spoilers" for the WB's integration process (Reljić, 2019). While Russia and Turkey have built their relationship on long-standing historical, cultural, religious and political ties with certain countries, China is a recent actor in the region, mainly using it economic and political leverage. China, Russia and Turkey all represent autocracies that "promote an alternative economic or even 'civilizational' model, using all means at their disposal – from investments to soft power and coercion – to stabilize their neighbourhood and challenge Western hegemony" (Nelaeva and Semenov, 2016: 58). This is particularly relevant for WB states since they are already in the 'grey zone' between democracy and authoritarianism, and now have to manoeuvre between rival centres of power.

Russia: meddling with domestic politics

Russia exerts a limited economic presence in the region, mainly as an energy provider and investor in heavy industry and banking and counts on its political power to interfere in domestic affairs, e.g. objecting to Montenegro's accession to North Atlantic Treaty Organisation (NATO), supporting nationalist organisations in North Macedonia in fuelling protests. Nevertheless, its presence in the region has received strong popular support and the perception of a "friendly state" (Nelaeva and Semenov, 2016) especially in countries with a large Slavic and Orthodox population (such as Serbia, Montenegro, North Macedonia and Bosnia and Herzegovina (B&H)) where it plays the card of "the protector of Orthodox Christianity" (Chrzova et al., 2019: 11). One of the main features of Russian foreign policy in the region has been to position itself as an alternative to the Western dominance and, although it does not directly oppose EU enlargement, it has contributed to confusion and disenchantment with the EU in general. As noted by Larsen (2020: 2), "Russia appears to have embraced the role of a spoiler against Western interest in the region and views obstacles to /…/ EU integration as opportunities that it can exploit". While Russia does not perceive the WB as a sphere of privileged interest (such as Ukraine or Southern Caucasus) and has little to offer in the long term, it does take a particular geopolitical interest in using the region "in order to install a great powers 'directorate' that will manage regional competition and cooperation" (Secrieru, 2019: 1). Russia's recent more assertive posture in the WB can therefore be attributed to its regional policy of driving the EU from the Eastern Neighbourhood in order to focus on and provide stability in the WB. In this respect, Russia's pre-Covid-19 engagement in the WB has been somewhat self-constrained; there have been no signs that Russia is "willing or able to invest enough political and financial capital to match the region's already existing level of integration with the EU" (Reljić, 2019: 191). Russia also does not pose a threat to the EU's capability to determine accession conditions as EU members and WB states are quite consistent in applying foreign policy towards Russia (e.g. ongoing economic and political sanctions against Putin's regime) (Galeotti, 2019; Gould-Davies, 2018).

China: strategic encroachment through loans and infrastructure

China's engagement in the region is quite a recent phenomenon and mainly driven by its exponential economic growth. Unlike Russia, China had no previous ties with the WB with the exception of having had diplomatic relations with the communist regimes in Yugoslavia and Albania. However, since the 2000s China has become more actively engaged in the WB and used economic diplomacy and its investment potential in order to gain an influence in the region. The creation of the '17+1'[3] initiative in 2012 and the launch of its Belt and Road initiative in 2013 have further accelerated China's involvement not only in big infrastructural projects in the region (most notably in Serbia, Montenegro, North Macedonia and B&H) but also politically (Pavlićević, 2019). These initiatives have opened new possibilities for the WB states for economic development through modernisation and access to additional funds. The Chinese model (a combination of capitalism and a political dictatorship) has been welcomed by WB leaders and relatively positively received by the population. Yet, China's involvement in the construction of critical infrastructure has also raised fears that China is deliberately creating a debt-trap for financially weaker states (e.g. Montenegro) and that it is spreading opaque business practices that only accentuate the existing problems with corruption in the region (as was the case with the construction of two highways in North Macedonia) (Chrzova et al., 2019: 4). Such Chinese foreign policy in the region holds two main implications for the EU. It has further complicated the EU accession process by decreasing the motivation in the region for the comprehensive reforms that the EU requires. This is mainly because China is free of conditionality (e.g. it neither requires nor promotes EU norms and rules regarding public tenders, transparency and anti-corruption measures). The second implication is geopolitical and is linked to China's efforts to improve its international image by buying off a group of states (and increasing their economic dependence) that are, in return, less critical of China on certain global issues (such as human rights, 5G technology, trade) (Larsen, 2020: 3). Still, given the current level of integration of the WB with the EU, China is already facing constraints on certain trading and investment arrangements that were prioritised by the EU in order to counter China's influence in the region (Pavlićević, 2019: 460). Like in the case of Russia, despite being feared by other external actors in the region, China lacks both the willingness and capability to divert the WB away from the EU (Jian, 2018). Occasionally, it seems that China affects the EU more in terms of an internal actorness factor, namely capacity, as diverging standpoints towards its 17+1 economic initiative have sprung up among Northern-Western and Central-Eastern EU member states.

Turkey: asserting influence through soft power

Unlike Russia and China, Turkey has used a more soft-power approach in order to consolidate its influence in the WB (Hake and Radzyner, 2019).

[3] *Due to the non-recognition of Kosovo's independence, China has not included Kosovo in this regional initiative.*

During the 1990s, Turkey was amongst the biggest contributors to international peacekeeping operations in the region, which also gave it a certain political leverage, especially among the Muslim population (most notably in Albania, B&H, North Macedonia and Kosovo). Turkey initially developed its WB policy in a way that demonstrates its own strategic value to Europe (Krastev, 2018), but its stalled accession negotiations with the EU have made the independent character of its policy much more visible. Namely, since the 2000s Turkish foreign policy has gained further momentum by building on its historical ties emanating from the Ottoman rule over the region and considering the WB as a "natural hinterland" for Turkish influence (Dursun-Özkanca, 2016: 35). Turkey has mostly focused on developing close cultural and economic ties through numerous institutions such as the Turkish Cooperation and Coordination Agency (Türk İşbirliği ve Koordinasyon İdaresi Başkanlığı – TIKA), Yunus Emre Institues, universities and Turkish media outlets. Several scholars (see Reljić, 2019; Kočan and Arbeiter, 2019; Dursun-Özkanca, 2016; Tanasković, 2013; Hake and Radzyner, 2019) identify this as neo-Ottomanism – an ideological (religious and cultural) element in Turkish public diplomacy directed at the WB. Turkey has also strengthened it economic presence and is, after the EU, China and Russia, the fourth biggest trading partner in the region (Reljić, 2019: 188) and one of the leading investors (especially in Albania, Kosovo and North Macedonia). Nevertheless, its 2015 'authoritarian turn' tarnished the international image of Turkey and prevents it "to act as an example of modernization and development in the eyes of majority of the population in WB" (Larsen, 2019: 191). The increased engagement of Turkey in the region can also be seen as a direct response to its deteriorating relations with the EU and an attempt to establish itself as a regional power pursuing a pragmatic and interest-based foreign policy (Dursun-Özkanca, 2016: 43), thereby representing a constraint on EU enlargement policy towards the WB.

In Table 1, we summarise findings of the above analysis. The assessment of each element of the external incentives model (left column) for an individual external actor is additionally weighed from the perspective of how much their influence competes with the WB's integration process led by the EU.

Table 1: INFLUENCE OF EXTERNAL ACTORS ON THE WESTERN BALKANS' INTEGRATION PROCESS PRIOR TO THE COVID-19 PANDEMIC

	European Union	Russia	China	Turkey
size and distance of EU rewards	*EU membership prolonged due to EU internal and external crises*	*medium competition* (weak democracy based alternative model of regional governance)	*medium competition* (large economic modernisation projects)	*low competition* (economic and cultural investments)
size of WB states' adoption costs	*getting larger due to WB governments' political costs of domestic reforms*	*high competition* (political incentives for authoritarian style-friendly WB entities)	*high competition* (no conditionality for economic investments)	*medium competition* (no conditionality for cultural donations to Muslim communities)
determinacy of EU conditions	*clear: EU values, acquis-based and region-specific conditionality*	*low competition*	*low competition*	*low competition*
credibility of the EU	*high coherence but low consistency led to the losing of credibility*	*high competition* to EU's external credibility (alternative to Western liberal democracy)	*low competition* to EU's external credibility (authoritarianism, dubious business practices and disrespect of labour rights)	*low competition* to EU's external credibility (lacks legitimacy due to authoritarian turn)

Source: own empirical analysis.

The influence of external actors in the WB during the Covid-19 crisis

The outbreak of the Covid-19 pandemic somewhat unexpectedly turned the tables and brought the WB to the very forefront of the EU's foreign policy, at least declaratorily. On 25 March 2020, North Macedonia and Albania received the green light to open accession talks from the Council. In addition, on 6 May 2020 the leaders of the EU and its member states, in consultation with WB leaders issued the Zagreb Declaration and once again affirmed the EU's "unequivocal support for the European perspective of the WB".[4] While this came as no surprise, two important observations can be drawn from the declaration concerning the future of the WB integration process. First, the document purposely leaves out the words "enlargement" and "accession" and omits making any reference to a tangible time frame for the WB's integration into the EU. Instead, the Declaration mainly focuses on cooperation for tackling the Covid-19 outbreak and the post-pandemic recovery, coupled with the need for continued reforms and "tangible

[4] *Zagreb Declaration, 2020*

progress" of the WB region. While the summit was praised for its show of strong solidarity with the WB that was backed by a EUR 3.3 billion worth recovery package[5], some commentators (Vurmo, 2020) fear that this could reinstate the EU's old enlargement modus of committing to the region by focusing on stability at the expense of supporting democracy.

Second, for the first time in EU–WB relations, the declaration directly refers to third-state actors "seeking to undermine the European perspective of the region".[6] It also calls on all of the WB's partners to "progress towards full alignment with EU foreign policy positions, notably on issues where major common interests are at stake, and to act accordingly".[7] This indicates that the EU perceives the Covid-19 outbreak as having significantly increased the competition for influence in the region, with other powerful international actors stepping in and using the crisis to increase their influence.[8] Despite the fact that the EU's "support and cooperation goes far beyond what any other partner has provided to the region,"[9] this reference also indicates that the EU has become more aware of potential risks to its regional prevalence, especially if WB countries align themselves too closely with other external actors that challenge western interventionism or advance their own geo-political interests (Visoka, 2019; Griessler, 2020).

The first weeks of the EU's Covid-19 crisis response were foremost characterised by internal dysfunctionalities – a clear lack of solidarity among EU countries, unilaterally closed borders and disputes over the (financial) vision for common measures – that hindered the idea of 'being in the same boat'. In addition, the initial response did not consider the needs of the WB states as the EU banned exports of medical supplies to the WB countries and excluded them from its own recovery package. Although this changed in the course of the pandemic, when the WB were included in the EU joint procurement of personal protective equipment[10] and the "green lane" border crossing arrangements (Cameron and Leigh, 2020), it has left enough space for other external actors to increase their outreach to the region (Emmott, 2020) and further undermined the EU's credibility in the WB states.

The EU's most recent Economic and Investment Plan for the Western

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[5] *Zagreb Declaration, 2020*

[6] *Zagreb Declaration, 2020*

[7] *Emphasis in the original*

[8] *Historical reminder is in place of 'balkanisation' – a term coined by external Great Powers' meddling in the Balkans area since the second half of the 19th century by trading with territories and alignments of small local political entities which were unable to provide for their own stability or regional security (Bojinović Fenko, 2010: 73).*

[9] *Zagreb Declaration, 2020*

[10] *This decision was corrected on 14 April 2020 when the EC narrowed down export authorisation requirements to protective masks only and extended geographical and humanitarian exemptions (European Commission, 2020).*

Balkans – EUR 9 billion in funding for investment in the areas of transport, energy, green and digital transition, to create sustainable growth and jobs – is the latest example of the EU trying to reiterate its position in the WB by investing more than others and tailoring its activities to the region's needs. As noted by Cameron and Leigh (2020), this plan was "needed to tackle decades of underinvestment in infrastructure, an area in which China is particularly active". In the words of Joseph Borell, EU High Representative for Foreign Affairs and Security Policy, the EU is finally backing its "Enlargement Package assessment with action" (European Commission, 2020: 1).[11] This clearly links the increased funding and investment opportunities for the WB with progress in fundamental reforms that are in line with European values.

Contrary to the EU's slow and lukewarm initial crisis response, Russia, China and Turkey attempted to fill this broadening geopolitical gap (Keil and Stahl, forthcoming) from the very beginning in two defining ways.[12] First, China, Russia and Turkey immediately offered the WB medical assistance (masks, personnel/doctors, respirators), which helped them consolidate their media image as trustworthy partners (Cameron and Leigh, 2020). Second, China, Russia and Turkey also engaged in a number of negative reporting, fake news and disinformation activities that aimed to portray the EU as a selfish actor that is exploiting the crisis to advance its own interests (EEAS Special Report, 2020) and to criticise the EU's assistance for being (too) late. This has, according to several practitioners, experts and academics (Alexandris, 2020; Bieber et al., 2020; Cameron and Leigh, 2020; Ivković, 2020; Griessler, 2020; Prelec, 2020), further dulled the EU's image in the WB.

China: implementing mask diplomacy

From the very onset of the Covid-19 crisis (and since it was the first country to be hit by the coronavirus), China attempted to conduct a region-wide policy with Serbia as the focal point of its "mask diplomacy" in the WB (Vladisavljev, 2020). China has heavily relied on its economic influence in Serbia and been able to further consolidate the narrative of its role as a big power in the region. At the same time, Serbian political leaders have reinforced this narrative and engaged in aggressive propaganda[13] that has

[11] The EC also adopted the 2020 Enlargement Package, its annual assessment of the implementation of fundamental reforms in the Western Balkan partners and Turkey, presented guidelines for the Green Agenda in the WB, and created the WB Guarantee facility (EC, 2020: 2).

[12] According to Cameron and Leigh (2020), China and Russia were quick to offer not only assistance and investment but also used this as an opportunity for "negative reporting, fake news and disinformation aimed at the EU".

[13] A good example is the decision made by Aleksandar Vučić's ruling Serbian Progressive Party (Srpska napredna stranka – SNS) to replace a banner called "The Wall of Tears", which is an important

portrayed China as the only country able to provide substantial aid to Serbia during the unravelling of the corona pandemic (ECFR, 2020; Cameron and Leigh, 2020). China as "Serbia's great friend" and Xi Jinping as a "brother" are some of the many catchwords that were heavily present on Twitter.[14] At the same time, Serbian President Aleksandar Vučić branded the EU's claim about European solidarity "a fairy tale on paper". Further, China has consolidated its influence during the Covid-19 crisis with ongoing investments in the region.[15] Two of the most prominent examples are Huawei, a Chinese technological company, that opened its Innovations and Development Centre in Serbia in September 2020, and the agreement between the China National Biotech Group and Sinovac Biotech for participation in the third phase of clinical trials for coronavirus vaccines (Dragojlo, 2020; EWB, 2020).[16] However, China's involvement in the WB has stretched beyond using only economic or investment opportunities and included a military and security dimension as well (Larsen, 2020). In October 2020, Serbia tested Chinese combat drones (Vasović, 2020) which was the first such deployment of Chinese unmanned aerial vehicles in Europe (ibid.). Apart from China's strong involvement in the Serbian political and economic landscape via medical equipment, critical infrastructure, medical teams, masks and ongoing investments, China is also present in B&H and Albania with its financial support (Belt and Road News, 2020; Xinhua, 2020). However, while media monitoring of Serbian news articles during the Covid-19 crisis showed that news about China has become much more positive, reactions in other WB states differ (CRTA, 2020). B&H, Kosovo and Albania, despite economic support from China, remain less inclined towards China and more pro-EU (International Republican Institute, 2020: 69).

Russia: embracing anti-EU propaganda

During the Covid-19 crisis, Russia seems to have embraced the role of an external spoiler against EU interests in the region (Larsen, 2020). This has been particularly evident in using and supporting negative reporting

part of the Belgrade material environment as it carries anti-NATO messages alongside images of Serbian casualties from the Kosovo war, with banners thanking China for its support (ECFR, 2020).

[14] *The Digital Forensic Centre reported that 71.9% of all Twitter posts (more than 21,000 posts) in the period between 9 March and 9 April, which included the keywords "Serbia" and "China", were posted by both accounts (Vladisavljev, 2020).*

[15] *A study by the US Center for Strategic and International Studies showed that 93% of China-funded projects in the Western Balkans had Chinese suppliers or Chinese companies as subcontractors, which demonstrates the logic of China's economic involvement in the region (Bjelotomić, 2020).*

[16] *Chinese technology companies have implemented 18 projects in the WB in the past years and 14 of them were located in Serbia (Bjelotomić, 2020).*

and fake news about the EU via media propaganda.[17] Russia was heavily involved in anti-EU disinformation efforts in both the WB and the Eastern Partnership region. Sputnik, which is the main source of Russian disinformation in the WB, successfully penetrated mostly the Serbian public sphere by "warning" about the "lack of sustainability and stability of their Western partners" during the Covid-19 crisis (Necsutu, 2020). In a similar vein, Cameron and Leigh (2020) note that pro-Russian media portrayed EU assistance as belated and reported about the EU's possible collapse due to its failure to deal with the crisis. At the same time, Russia and China were portrayed "as the only trustworthy powers in the crisis, and as saviours who helped Italy and Serbia while the EU dithered" (ibid.). In terms of direct assistance, Russia was primarily focused on providing Serbia and Republika Srpska with humanitarian aid, doctors and medical supplies (Government of the Republic of Serbia, 2020; Samso, 2020; Reuters, 2020; Balkan Insight, 2020). In addition, as the Covid-19 crisis coincided with a more prominent role of the USA in Kosovo–Serbia peace talks, Russia become more active, e.g. Russian Foreign Minister Lavrov visited the Serbian capital Belgrade on his first foreign trip since the start of the crisis (Samso, 2020). Stradner and Frost (2020) assess that Russia's engagement in the region during the Covid-19 crisis has also been an attempt to reaffirm the role it once held in other WB countries, such as Montenegro[18] and Northern Macedonia. In the latter, Russia used VMRO-DPMNE, a pro-Russian nationalist party, to provide propaganda against a sizable Albanian minority in North Macedonia that allegedly wants to merge the country into a "greater Albania". However, Russian anti-EU propaganda has only had a limited effect in the region. While Russia remains perceived by the public as the most important partner of Serbia, sentiment in other WB countries has not changed considerably. According to a survey by the International Republican Institute (2020: 69), Montenegro, Kosovo and B&H still remain more pro-EU than pro-Russia.

Turkey: trapped between high ambitions and futile engagement

While Bechev (2020) argues that "Turkey aimed to join the soft power race in the WB during the Covid-19 crisis", we emphasise that this approach has followed the kin-state logic and Turkey primarily engaged in B&H, Northern Macedonia and Albania. Most of the humanitarian help was delivered in terms of medical supplies such as masks, test kits and protection wear (Bayar, 2020; Daily Sabah, 2020). An important dimension of this aid

[17] The Kremlin has earmarked EUR 1.3 billion for media spending in 2020 (Necsutu, 2020).

[18] Bečirević (2020) argued that we should not neglect the new parliamentary dynamics in Montenegro as the new coalition of three political blocs is overwhelmingly pro-Russian.

in all of the cases was its explicit highlight that the help was sent by Recep Tayyip Erdogan himself (N1, 2020). The most important factor in Turkey's 'passiveness' in the region during the Covid-19 crisis compared to Russian, Chinese and EU involvement lies in the instability in its immediate neighbourhood that is diverting its attention away from the WB. Besides having to deal with the subsequent refugee crisis, Turkey is currently engaged in illegal drilling activities in the Mediterranean and heavily affected by the outbreak of the proxy conflict in Nagorno-Karabakh (Cookman, 2020; Erbay, 2020). Turkey's track record in the region during the Covid-19 crisis therefore remains suboptimal and limited to isolated initiatives in order to keep one foot in the doorway, such as the most recent working lunch organised by Turkish President Erdogan with Serbian President Vučić on 25 September 2020 where the leaders further consolidated the need for friendly relations (Ozturk, 2020). On this occasion, Vučić confirmed that "Turkey is among the most important regional powers in the WB" (ibid.).

We summarise the findings on external actors' influence in the WB during the Covid-19 crisis in Table 2. Like for the period prior to Covid-19 (Table 1), we also assess the extent to which the influence of Russia, China and Turkey competes with the WB's integration process led by the EU.

Conclusion

We set out to investigate to what extent and how the influence of Russia, China and Turkey in the region during the Covid-19 crisis has affected the WB's integration process. We established that although the crisis has increased the competition between external actors (Russia, China and Turkey) and the EU, the effects of external actors on the WB integration process differ significantly between the two periods (pre- and during Covid-19).

First, the empirical evidence for the pre-Covid-19 period shows that the EU was facing medium (Russia and China) to low competition (Turkey) with regard to the size and distance of membership as the ultimate reward of the accession process. However, in terms of domestic adoption costs, external actors have increased the costs of the EU's accession process for WB states. Unlike those of the EU, the Russian political incentives to friendly authoritarian WB entities, Chinese economic investments and Turkish cultural donations to Muslim communities were not made conditional upon values, democratisation efforts and structural economic reforms. The adoption costs of the WB's EU accession further increased when external actors (especially Russia and Turkey) started working against these democracy and free-market-related conditions in the WB. Prior to Covid-19, only Russia had managed to undermine the EU's external credibility in the region by directly targeting its close WB entities with an alternative regional governance model to that promoted by the EU.

Table 2: INFLUENCE OF EXTERNAL ACTORS ON THE WESTERN BALKANS' INTEGRATION PROCESS DURING AND AFTER THE COVID-19 PANDEMIC

	European Union	Russia	China	Turkey
size and distance of EU rewards	*focus on the process rather than the reward (membership); high economic recovery Covid-19 donations*	*low competition* (medium Covid-19 medical and humanitarian aid donations limited to Serbia and Republika Srpska)	*low competition* (large Covid-19 medical equipment donations but focused primarily on Serbia)	*low competition* (small Covid-19 medical equipment donations to limited recipients: B&H, Northern Macedonia, Albania)
size of WB states' adoption costs	*no adoption costs for all-encompassing a EUR 3.3 billion Covid-19 recovery package for all WB states; demand for full alignment with EU foreign policy positions*	*low competition* (focused on Serbia: adoption costs of Covid-19 aid relate to foreign policy; pro-Russian domestic parties' support in all WB states)	*low competition* (focused only on Serbia: adoption costs of Covid-19 aid relate to foreign policy)	*low competition* (adoption costs of Covid-19 aid in kin states/entities relate to foreign policy)
determinacy of EU conditions	*solidarity-based Covid-19 recovery package exempt from conditionality; a EUR 9 billion Economic and Investment Plan for the WB based on renewed conditionality*	*high competition;* condition for Covid-19 aid indirectly linked to Russian foreign policy support on global issues (e.g. self-determination) and the domestic struggle for power	*high competition;* condition for Covid-19 aid: China's positive propaganda - "mask diplomacy" and entry into the military market	*medium competition;* condition for Covid-19 aid: propaganda of Turkey's President
credibility of the EU	*higher internal credibility after the initially slow reaction; lack of strong public diplomacy capabilities*	*high competition* to EU's external credibility (Serbia-Kosovo peace talks; strong disinformation campaign directly targeting the EU)	*high competition* to EU's external credibility (strong propaganda outweighs de facto extent of Covid-19 aid; strong disinformation campaign directly targeting the EU)	*low competition* to EU's external credibility (Erdogan lacks legitimacy, Turkey's foreign policy capabilities limited due to the Mediterranean crisis)

Source: own empirical analysis.

After the Covid-19 crisis outbreak, the competition with respect to the size of EU rewards decreased as none of the three external actors have offered comparable Covid-19 related aid to that offered by the EU. This holds both in terms of the financial extent of the aid, where the EU has by far outweighed external actors altogether, as well as with respect to the structure of the aid. Russia, China and Turkey mostly targeted particular states with short-term medical equipment while the EU focused on the whole region via a long-term economic and investment recovery package. A new element in the EU's post-Covid-19 (accession) conditionality is the demand for the full foreign policy alignment of the WB states with the EU's positions, which we assess is a direct response to the greater geopolitical competition among external actors present in the region (already prior to the Covid-19 crisis). Moreover, while the adoption costs for WB states have not changed during the crisis in the case of Russia, China and Turkey, the EU has successfully managed to lower the WB's domestic adoption costs by not using conditionality for Covid-19 related aid. This leads to the conclusion that while the crisis has not caused any major change in the foreign policy strategies of the three external actors in the WB, it has altered the EU's approach to the region and thereby diminished competition with other actors.

Another element of the external incentives model where a significant change has occurred during the Covid-19 crisis is the determinacy of EU conditions. Although the EU has not used conditionality for Covid-19-related aid, it has kept the WB's EU accession-process aid linked to conditions. The latter is not directly linked to the Covid-19 crisis, but is a result of the EU's prior engagement in the WB that is now taking place in the context of a global pandemic. Nevertheless, it is highly relevant to note that the implementation of the EUR 9 billion worth Economic and Investment Plan for the WB is to be carried out according to a renewed methodology of conditionality in the accession process. The most obvious constant of the pre and post Covid-19 crisis is however the fact that the EU is the only external actor that is systematically targeting the entire WB region. On the contrary, Russia, China and Turkey offer cooperation mostly to individual WB states, entities or even domestic political parties. Given that they often target similar states, this could produce a potential clash between these actors in the future (e.g. Russian vs. Chinese engagement in Serbia or Russian vs. Turkish engagement in B&H and North Macedonia), although this aspect exceeds the framework of this article.

A final empirical observation relates to the last element of the external incentives model: the EU's credibility. We assess that the EU has, after its initially slow reactions, increased its internal credibility by formulating clear common positions, policy aims and instruments for their implementation. Yet, compared to other external actors, the EU still lacks the capability to perform public diplomacy in the WB region. During the Covid-19 crisis, Russia and China in particular have been directly targeting the aid-recipient states with state propaganda which has (in the eyes of the public exposed to state media) distorted the public perception of the extent of Covid-19 aid given to the WB states by the EU to the favour of China and Russia. Turkey's outreach in this respect was negligible due to its comparatively limited foreign policy capabilities and the simultaneous problems in its own neighbourhood. However, China and Russia have seized the Covid-19 crisis to launch additional and strong disinformation campaigns in the WB by directly targeting the EU with fake news and negative reporting, which has diminished the effect of the aid given and further damaged the EU's credibility in the WB. Since the EU has already developed foreign policy capabilities to counterbalance the Russian fake news propaganda mainly in Eastern Partnership countries, it should add this instrument to its foreign policy assortment in the WB as well, especially since the Covid-19 crisis has made it clear that the WB's EU orientation should not be taken for granted.

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CONSULAR PROTECTION IN SLOVENIA DURING THE FIRST WAVE OF COVID-19

Abstract. *The article discusses the main characteristics of Slovenia's consular activities during the first wave of the Covid-19 pandemic (spring 2020). The results of the analysis bring us to three research outcomes. First, consular assistance at the EU level is still under the 'coordinated approach', lacking in efficiency. Second, in times of crisis management, what matters are good state-to-state connections and the people you know. Official channels are too slow and not effective. Third, high politics marginally influence consular assistance (understood here as low politics), meaning that open political questions usually do not hinder consular cooperation (as especially seen in the example of Slovenia and Croatia helping each other).*
Keywords: *COVID-19, consular protection, European Union, Slovenia, diplomatic changes*

Introduction

The coronavirus (hereafter Covid-19) that hit Europe at the end of winter was unprecedented. Even though some signals about its acuteness were already coming from China in January 2020, the European Union (EU) did not realise that Covid-19 would be such a difficult experience. The fact the threat of Covid-19 was not taken seriously is illustrated by Brglez (2020), who explains that he submitted a written question to the Council of the European Union in late January 2020 about whether EU member states were going to seek a single response to the Covid-19 threat, but received no answer until mid-April 2020, when the answer was merely lame political sweet talk. In the meantime, the situation in the EU worsened, with the number of infected people growing exponentially, and states starting to adopt individual solutions instead of common ones. At the end of February 2020, the EU tried to establish a single framework of common action to halt the spread of Covid-19, but unsuccessfully. The situation deteriorated when some member states decided to introduce strict controls on their borders

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fearing the possible spread of Covid-19. Such thinking hindered the chances of finding a common solution on the European level. The EU's crisis commissioner Janez Lenarčič tried his best to find a common (EU) solution in the battle against Covid-19, but was unsuccessful. Since health policy lies in the hands of the member states, the European Commission merely holds the "primary responsibility for organising and delivering health services and medical care" (European Commission, 2020). In the case of Covid-19, the fact that health policies are in the hands of single states has proven to be catastrophic because each member state has adopted its own policy responses: some of them, such as Sweden (and the Netherlands) (Friedman, 2020; Reynolds, 2020; Holligan, 2020), decided their strategy would be to aim for herd immunity by letting Covid-19 spread slowly, while others opted for the Singapore or Wuhan models (e.g. Italy, Spain, Austria, Slovenia and partially also Germany)[1] (Pisano, Sadun and Zanini, 2020; STA, 2020), based on restrictions to limit the virus' spread and reduce the number of those infected with Covid-19. Belgium, for example, opted for something in-between since they officially adopted severe measures, but their implementation in practice was much laxer.

The chaotic situation also influenced the protection of citizens of every EU country. Since countries were closing their borders and traveling across them was becoming almost impossible, the repatriation of own citizens became one of the main preoccupations of each EU government. This caused also a change in the task force of the consular departments at the Ministries of Foreign Affairs (hereafter MFA) that for a short period minimised work on their regular tasks and focused on the repatriation issue (Šter, 2020).

The aim of the article is to investigate the relationship between EU consular activities and Slovenian consular activities during the Covid-19 repatriation of EU country citizens. An answer to this research question is important because with the introduction of the EU citizenship the EU also assumed responsibility to develop its own consular activities. The repatriation of citizens, since it tackled all EU member states, could be such platform in which EU consular diplomacy may present its efficiency and effectiveness.

The article is structured in three inter-related parts: a theoretical part, empirical part and a conclusion. In the theoretical part, by using the method of a critical analysis of primary and secondary sources, we establish the frame for the empirical part in which we discuss consular assistance during the first wave of Covid-19 in Slovenia. The empirical part is based on the method of the analysis of news/reportage, complemented by two other

[1] *These activities were not made within a clear theoretical model. Some countries decided to limit public life ex ante, while others did so because they were forced to (ex post).*

methods, namely a semi-structured interview with Andrej Šter (head of the consular department at the Slovenian Ministry of Foreign Affairs) and two unstructured discussions with two senior diplomats. Finally, the conclusion answers the research question and evaluates the role of personal contacts for the performance of consular affairs in modern diplomatic intercourse.

Consular protection: a theoretical framework

A historical and structural outline of the formation of consular affairs

The beginnings of consular relations date back to Ancient Greece when special institutions of *prostates* and *proxenos* were established. Their main task was to enter into contacts with foreign merchants coming to their city-state and help them establish trade relations there (Udovič, 2013: 40–42). The Romans copied the Greek formula, but gave this institution a new name, i.e. *praetor mercatorum* (Puente, 1930: 323). However, Rome did not understand consular relations as only commercial ones and its perception of consular intercourse also extended to the judicial field. In this respect, we can also view the institution of *praetor peregrinus*, which the Roman Republic established in 242 BC and whose main task was to "judge disputes between foreigners (*peregrini*), or between foreigners and Roman citizens. Cases were tried under the *ius gentium*, which included foreign law and customary trade practice" (Lee and Quigley, 2008: 4). Although the evolving 'international community' in the following years and centuries reshaped the institution of *proxenos*, its main tasks remained mostly focused on two areas: promotion of commercial relations, and protection (of the interests) of citizens from the sending 'state' in the receiving 'state' (ibid.: 3).

The importance of consular relations and of the institution of consuls increased significantly in the Middle Ages, for two main reasons. First, diplomatic relations at that time were built on an ad hoc basis, meaning that envoys were sent to another country or ruler on one assignment at a time. This led to the establishment of ad hoc single-task missions that ceased when the task was completed. Second, the fragmentation of state-to-state relations meant that political cooperation was at a low level or non-existent, with rulers largely focusing on commercial benefits and commercial relations. When there was a need to deliver political messages or similar, this was performed by the same (commercial) envoy. Because of the growing complexity of inter-state relations already in the early Middle Ages, consular officials were divided into two groups: *consuls of traders* and *consuls of the sea*. *Consuls of traders* were local magistrates, elected by the local merchants with a majority vote for a period of 1 year, and were usually not re-elected to serve in consecutive years (Puente, 1930: 323). On the other hand, *consuls* *of the sea* were appointed by their home authorities and became the judicial heads of colonies of merchants in foreign territory (Leira and Neumann, 2006/2013: 119).[2] The two institutions later merged into a single institution named consul, but the division within the same concept became relevant with the institutionalisation of diplomacy when two categories of consuls were established – *consuli missi* and *consuli electi*. These two categories were based on term duration and who appointed the consul. *Consuli electi* were appointed by the commercial unit in the country for a term of up to 1 year, and usually for a single task (protection of citizens, promotion of commercial relations etc.). *Consuli missi*, on the other hand, were nominated by state authorities and could have a longer term (Udovič, 2018: 97).[3]

The politicisation[4] of diplomatic relations in the subsequent centuries, which included its institutionalisation, longer (stable) relations etc., artificially divided the consular and diplomatic component of inter-state relations. The dividing line was drawn based on the symbolic relevance (see Arbeiter, 2019; Arbeiter and Udovič, 2017) of the formation of intercourse. If the topic was more political, then it was diplomacy, while more administrative issues were solved by consular agents. This artificial division into diplomatic and consular relations was deepened by two ideological breaking points – the religious wars of the 16th century and the French Revolution of 1789. These two ideological factors not only determined the further development of diplomatic and consular relations, but introduced the *forma mentis* of high and low politics in the field of diplomacy.

In the post-French Revolution era, consular relations were treated as a purely administrative activity of each country's foreign policy. States developed their consular relations through bilateral treaties, but by the 20th century the situation had become so complex that there was increasing momentum to unify different practices, especially those relating to consuls' field of work, their citizenship (differences between ordinary and honorary consuls), their consular immunities and privileges etc. The first such attempt was the 1927 *Questionnaire N. 9: Legal Position and Functions of Consuls* (Hammarskjöld et al., 1928), and at the Sixth International Conference of American States 1 year later (1928) the Havana *Convention on Consular Agents* was adopted. The main aim of this political action was to coordinate/harmonise the framework of consular affairs among American states

2 *In the High Middle Ages, we can find consuls in Pastoria (1107), Montpellier (1141), Ravenna (1115), Milan (1159), Ferrara (1181), Modena (1182), Bologna (1200), Genoa (1206) etc. (Puente, 1930: 323).*

3 *In fact, the words electus and missus also defined the status of the consul: electus meant non-professional, while missus meant professional.*

4 *This term is used for the introduction of political means, ends and reasons into diplomatic and consular intercourse.*

(OAS, 2020).[5] Based on the Havana text, the Harvard Law School prepared a *Draft Convention on the Legal Position and Functions of Consuls*, which was published in 1932 in the American Journal of International Law. The chief contribution of this draft was that it discussed all open issues related to the work, tasks and position of consular agents. However, the Second World War stopped the codification of consular law, which resumed in the late 1940s and culminated in the *Vienna Convention on Consular Relations* (VCCR), adopted in Vienna in 1963 and entering into force in 1967.[6] The adoption of this umbrella convention allowed consular relations among states to be simplified and also empowered countries to increase the relevance of consular cooperation not only among them, but also with respect to third countries.

The VCCR is composed of five chapters, along with a preamble and a definition part. Chapters 1 (*Consular relations in general*) and 2 (*Facilities, privileges and immunities relating to consular posts, career consular officers and other members of a consular post*) are divided into two sections each, while the other chapters have one section each (see Table 1).

Table 1: STRUCTURE OF THE VCCR

CHAPTER	SECTION	ARTICLES
Preamble		
Definitions		Article 1
CHAPTER I	Consular relations in general End of consular functions	Articles 2–24 Articles 25–27
CHAPTER II	Facilities, privileges and immunities relating to a consular post Facilities, privileges and immunities relating to career consular officers and other members of a consular post	Articles 28–39 Articles 40–57
CHAPTER III		Articles 58–68
CHAPTER IV		Articles 69–73
CHAPTER V		Articles 74–79

Source: Own adaptation based on the VCCR.

Article 5 of the VCCR can be compared to Article 3 of the *Vienna Convention on Diplomatic Relations (VCDR)* since it lists the main consular functions. Both the VCDR and the VCCR put the function of protecting nationals of the sending state in the receiving state on top of the list. The VCCR lists the main functions of consular agents in detail, highlighting that:[7]

[5] *The Convention was adopted on 20 February 1928 and entered into force on 9 March 1929. 155 LNTS 259.*

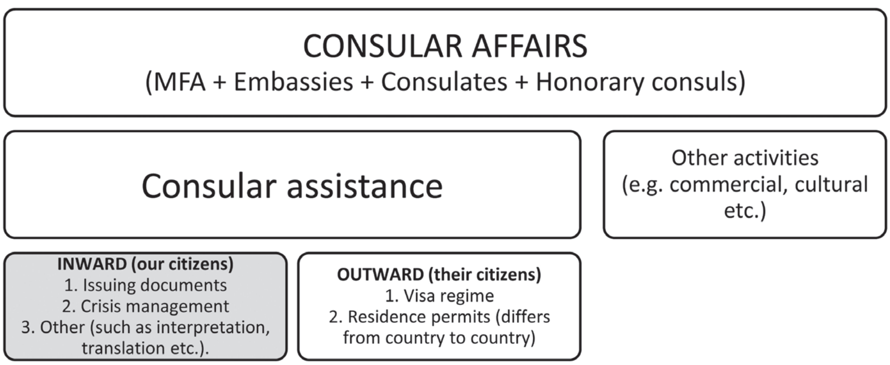
[6] *596 UNTS 261. On 24 May 2020, it had 180 parties (originally 48 signatories).*

[7] *Here we only present certain excerpts related to consular protection issues.*

[c]onsular functions consist in:
(a) protecting in the receiving State the interests of the sending State and of its nationals, both individuals and bodies corporate [...];
(d) issuing passports and travel documents to nationals of the sending State, and visas or appropriate documents to persons wishing to travel to the sending State;
(e) helping and assisting nationals, both individuals and bodies corporate, of the sending State;
(f) acting as notary and civil registrar and in capacities of a similar kind, and performing certain functions of an administrative nature, provided that there is nothing contrary thereto in the laws and regulations of the receiving State;
(g) safeguarding the interests of nationals, both individuals and bodies corporate, of the sending States in cases of succession mortis causa in the territory of the receiving State, in accordance with the laws and regulations of the receiving State;
(h) safeguarding, within the limits imposed by the laws and regulations of the receiving State, the interests of minors and other persons lacking full capacity who are nationals of the sending State, particularly where any guardianship or trusteeship is required with respect to such persons [...].

The functions presented above clearly state that consular posts are *prima facie* entitled to protect citizens of the sending state in the receiving state through 'consular assistance' (see Figure 1). Protection of interests (sometimes also called diplomatic espousal) in consular affairs as well as in diplomatic ones (see Article 3(b) VCDR) is therefore one of the main tasks in diplomatic and consular relations.

Figure 1: CONSULAR AFFAIRS IN THE BROADEST SENSE



Source: Adapted from Okano-Heijmans (2013: 480).

Figure 1 shows the importance of crisis management in the framework of consular assistance. When there is a need to help citizens of the sending state, this state can, within the limits of international law, perform all activities that prevent the worsening or improve the situation of its citizens abroad.

Consular protection in the EU

When Slovenia joined the EU, it became a member of the bloc's consular system. Even before then, Slovenia held bilateral agreements with different countries (particularly Austria) that helped its citizens in countries where Slovenia had no diplomatic or consular representation. In order to establish consular protection at the level of the Union, it was necessary to introduce Union citizenship. This was done with the *Maastricht Treaty*, but citizenship rights were amplified in the *Lisbon Treaty* (*Treaty on the Functioning of the European Union – TFEU*). Its Article 20 states in paragraph 2(c) that citizens of the Union have "*the right to enjoy, in the territory of a third country in which the Member State of which they are nationals is not represented, the protection of the diplomatic and consular authorities of any Member State on the same conditions as the nationals of that State*". This provision is affirmed in Article 46 of the *Charter of Fundamental rights of the European Union*, which states that

> *[e]very citizen of the Union shall, in the territory of a third country in which the Member State of which he or she is a national is not represented, be entitled to protection by the diplomatic or consular authorities of any Member State, on the same conditions as the nationals of that Member State.*

Based on Article 23 of the *TFEU*,[8] the Council adopted the *Directive (EU) 2015/637 of 20 April 2015 on the coordination and cooperation measures to facilitate consular protection for unrepresented citizens of the Union in third countries* (hereafter *the Directive*), which provides the framework and details on how the diplomatic and consular protection of EU citizens

[8] *The full text of Article 23 of the TFEU is: "Every citizen of the Union shall, in the territory of a third country in which the Member State of which he is a national is not represented, be entitled to protection by the diplomatic or consular authorities of any Member State, on the same conditions as the nationals of that State. Member States shall adopt the necessary provisions and start the international negotiations required to secure this protection.*

The Council, acting in accordance with a special legislative procedure and after consulting the European Parliament, may adopt directives establishing the coordination and cooperation measures necessary to facilitate such protection".

(a) should be performed, (b) how EU member states coordinate their assistance, and (c) who pays the costs incurred. Article 9 of the *Directive* enumerates the types of assistance to EU citizens which are typical cases of consular assistance (assistance in case of arrest, detention, serious illness, death, provision of documents). Among the listed activities, this article provides EU consular assistance in the case of an emergency when EU states in third countries help EU citizens with their repatriation.

This provision is further elaborated in Article 13 of the *Directive* where different approaches to how EU member states' representations in third countries should react in case of crisis are outlined. Paragraph 2 notes that member states "*shall, where possible, inform each other of available evacuation capacities in a timely manner*". Such an instruction clearly frames the possibility and duty to take coordinated action if the repatriation of EU citizens is necessary. As for the costs, the *Directive* stipulates that the costs incurred in crises are paid by the MFA of the member state of which the unrepresented citizen is a national, which may (based on national legislation) then ask the citizen to reimburse them. In this way, the assisting member state does not bear the costs of consular protection of another EU country's citizens, and it also does not require the citizen it assists to pay the costs incurred directly.

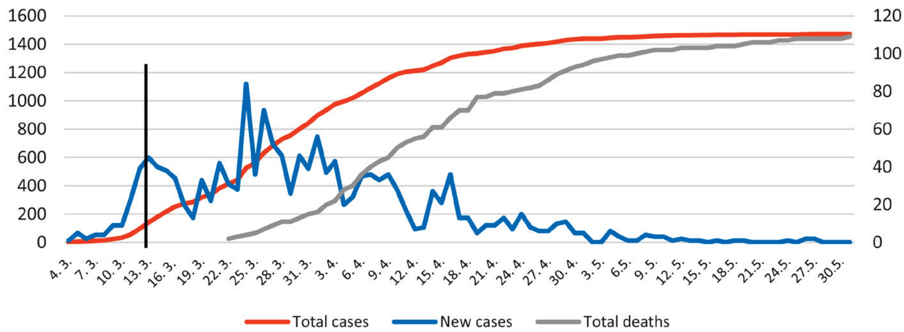
Consular assistance of the Slovenian Ministry of Foreign Affairs during the Covid-19 crisis: a pre-analysis

Praeludium: Political situation in Slovenia between January and May 2020

Slovenia experienced a period of political instability after its last general election in June 2018. Since the relative winner Janez Janša was unable to form a government, the President of the Republic next gave this possibility to the runner-up, Marjan Šarec. He succeeded in bringing together a coalition in September 2018, but was only able to form a minority government since one of the supporting parties, Levica (*The Left*), chose not join the government but only entered into a special agreement on cooperation with the five government parties. It was clear already from the first steps that this would be a difficult arrangement – not only because two ex-prime ministers were sitting on the government, but also because there was no majority party or main player among the five coalition parties. The *melée* in the coalition and the unstable relationship between the government and Levica led to acute instability in the government. At one point, when public support for Prime Minister Šarec was relatively high, he decided on a manoeuvre of resigning and calling for an early election. However, two of his partners in the government (SMC and DeSUS), preferred to try to find another majority in the existing composition of the National Assembly. Finally, they reached an agreement with the Slovenian Democratic Party (SDS) and New Slovenia–Christian Democrats (NSi) to form a new coalition. On 3 March 2020, SDS president Janez Janša was appointed prime minister, and less than 2 weeks later a new government was sworn in.

The first cases of Covid-19 were officially recorded on 4 March 2020. While the numbers were increasing slowly and not dramatically at first, they started galloping after 11 March (Figure 2). What must be emphasised here is that Slovenia had a change of government right at this time (black vertical line).

Figure 2: NUMBER OF COVID-19 CASES, NEW CASES, AND DEATHS (4 MARCH TO 31 MAY 2020)



Source: Based on STA data (2020).

However, already before the first cases were present in Slovenia, Šarec's outgoing government had adopted some measures to minimise the possibility of the spread of Covid-19. Šarec's government at its 61st regular session (13 February 2020) debated the situation concerning Covid-19 in China. One week later (18 February 2020), at its 105th extraordinary session, the government already discussed the Covid-19 situation in the world and its possible implications for Slovenia. The decision it adopted was that all activities should be treated proportionately under the provisions of the *Communicable Diseases Act* (OG 33/06) (105th Extraordinary Session, 2020). The activities continued at the 107th extraordinary session (21 February 2020) when the government decided to rent an aircraft to bring back a Slovenian and Croatian citizen from Berlin where some passengers from the Diamond Princess cruise ship (CNN, 2020), quarantined in the port of Yokohama, Japan, would be landing (107th Extraordinary Session, 2020). From the aspect of consular diplomacy, this repatriation may be understood as a sort of milestone in which it was already clear that the consular assistance of the EU would remain in words, while consular practice would be executed by national governments. The worsening situation (see 62nd Regular Session, 2020) led to the introduction of more drastic measures: on Saturday 7 March 2020, to assure public order the Minister of Health issued an *Order prohibiting indoor public events* (OG 15/2020) that banned all public gatherings of more than 500 people until the end of the Covid-19 epidemic;[9] on 10 March, arrivals from some Italian airports were banned, and later the same day the prime minister decided to close the border with Italy for personal transport, while cargo transport was still allowed (Prime Minister's Speech, 2020). In the following days, different measures were adopted. At its 63rd regular session on 12 March 2020, the government decided to close all educational institutions, and submitted to the National Assembly an intervention bill that would help mitigate the impact of Covid-19 on jobs.

The Janša government took office on 13 March 2020, holding its 1st regular session on the same night where it established a Covid-19 Crisis Staff (*Krizni štab Republike Slovenije*). Two days later, the government started to adopt drastic measures to control and stop the spread of Covid-19. On 15 March 2020, the government suspended public transport in Slovenia (2nd Regular Session, 2020) and closed shops and markets (apart from shops selling essentials, such as pharmacies and supermarkets) (1st Extraordinary Session, 2020). The government also limited travel to Slovenia: it closed the main (and most important) Slovenian airport on 16 March 2020 (2nd Extraordinary Session, 2020), increased the strictness of control along the border with Italy on 18 March 2020 (6th Extraordinary Session, 2020), established 13 checkpoints on the border with Austria on 24 March 2020 where every incoming passenger's temperature would be taken etc. (6th Regular Session, 2020).

The strict control on borders caused chaos at them and in the country. As a consequence, the Ministry of Foreign Affairs increased its diplomatic activities on 14 March 2020 to help trucks and busses in Slovenia and on Slovenian borders pass through the country (Government of the Republic of Slovenia, 2020a).

Consular affairs in Slovenia: from ordinary work to the 2020 Consular crisis cell

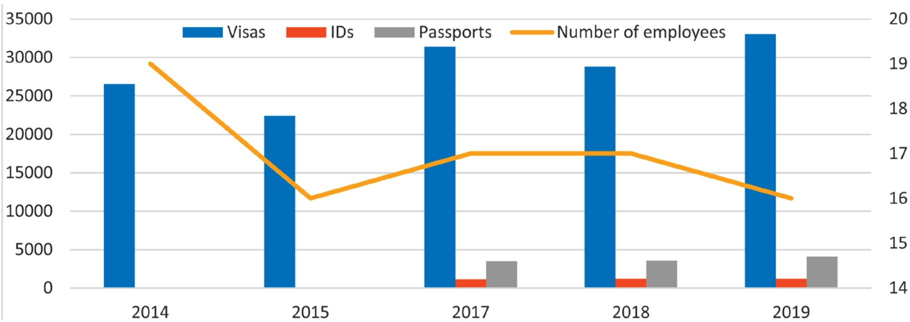
Work in the consular branch of diplomacy is normally regarded as very administrative. This is especially seen in the case of the Slovenian MFA, where the consular sector is always understood as something detached

[9] *This ban was issued just hours before a scheduled concert by Andrea Bocelli at the Stožice arena, which caused great dissatisfaction among those planning to attend it.*

from 'real' occurrences in the state's diplomatic intercourse. As a result, fluctuation in Slovenian consular affairs is low, and the teams working there are solid and coherent. Moreover, only rarely do the individuals that leave the national Consular Department to serve abroad not return to the Consular Department.

Slovenia has 27 embassies (which include consulates) and 5 consulates general (Triest, Klagenfurt, Szentgotthárd, München and Cleveland). One consular post is also in Shanghai, but it serves as more of a trade office than a classical consular one. Slovenia thus has more than 30 consular offices abroad altogether,[10] most of which are in Europe. In the Americas, the country has four, four in Asia, one in Africa and one in Australia. In 2019, the consular sector of the MFA resolved 61,731 cases, in which it issued 4,103 passports, 1,203 IDs, and 31,018 visas (Ministry of Foreign Affairs, 2020a: 101). As Figure 3 shows, the workload of the consular sector has been increasing over the last few years. On the other hand, we should note that the staff numbers at the Consular Department of the Ministry of Foreign Affairs have remained almost unchanged.

Figure 3: NUMBER OF VISAS, PASSPORT AND IDS ISSUED BY THE CONSULAR SECTOR (AS A WHOLE)



Sources: Ministry of Foreign Affairs Annual Reports (2015–2020); Podlesnik (2020).

However, the role of consular affairs not only consists of its ordinary tasks, but also encompasses assistance in different crises and natural disasters. A detailed description of the roles and functions of the MFA as a whole (and within it the consular part) is presented in the *National Plan on Protection and Relief in the Event of an Epidemic or Pandemic of an Infectious Disease among Humans* (2016: 23), especially in section 7.1.10, which defines that the MFA (in the time of crisis):

[10] *Honorary consulates not included.*

establishes contacts with foreign governments and international organisations to inform them of the situation and consequences of the epidemic/pandemic [...],
informs [...] the diplomatic and consular missions responsible for the Republic of Slovenia of the situation in the country and the consequences of the epidemic/pandemic, as well as situations that may affect the safety of foreign nationals in Slovenia, [...]
in case of an epidemic/pandemic abroad, [...] offers assistance to Slovenian citizens located in that country [...].

The above-mentioned document presented the legal basis for establishing the Consular crisis cell (*Konzularna krizna celica* – KKC) that was formed mid-February 2020. Since the situation worsened in the following 2 weeks and questions from Slovenian citizens about how they could return home increased, the KKC became more structuralised and task-oriented. The intensively growing workload also called for a better place to work. Hence, by the end of February 2020 the KKC was working in three compartments: 7 working stations were in one of the main buildings of the MFA (*Mladika*), while 3 were on the premises of the consular department (MFA, 2020c). At these working stations, up to 20 people worked daily,[11] half of whom came from the Consular Department, while the rest joined the group from other MFA departments and directorates. The head of the KKC was Andrej Šter, Head of the Consular Department. Although in the process of repatriation, eyes were set on the KKC, an important part in the repatriation process was also taken by 45 diplomatic and consular posts abroad, presenting a sort of proxy between the people who wished to be repatriated and the KKC that was searching for platforms for repatriation. Another important aspect during the time of the crisis was that the KKC performed excellent public diplomacy[12] in which Andrej Šter was the frontman, explaining the situation every day, providing information on how many Slovenians had been repatriated, where challenges and possibilities remained etc.[13] His straight-

[11] There was some variation and the number changed on a day-to-day basis (Šter, 2020).

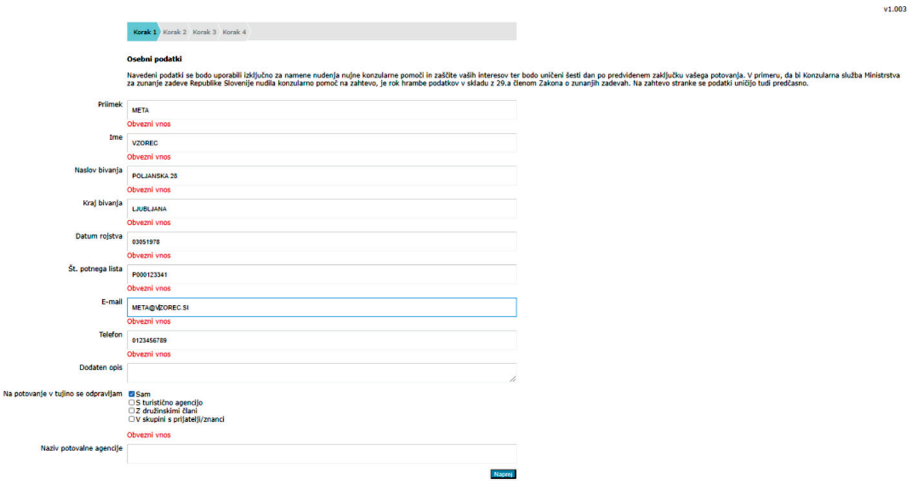
[12] One instrument of KKC public diplomacy was the 'Motivational wall' on which KKC members posted different messages intended to raise the moral of the group. Most messages expressed gratefulness (such as Thank you; My respect; Well done as always; You are incredible etc.), some were symbolically Slovenian (related to Slovenian national characteristics, such as Our son came back from India. His mother already makes the soup), some were 'funny' showing the non-awareness of people about the complexity of the moment (One called us if he can go to Udine to buy ceramic tiles; A madam would like to go to Krk to close the windows on her holiday cottage; Are you going to provide a vegetarian meal on the return flight?).

[13] In those days, there was almost no TV news report, livestream, radio programme etc. that did not feature Šter with at least one statement about issues related to the repatriation of Slovenian citizens.

forwardness and frankness made him a sort of a national hero,[14] people perceived him as effective and efficient, as a person who knows what he is doing. It is thus not surprising that some Slovenian media described him as "the major star of the Slovenian public administration" (Krušec, 2020). Yet Šter's bluntness not only mythologised his work, but also the work of the KKC as a whole. Even though people did not know who members of the KKC were, they were often labelled as national heroes.

The organised repatriation started on 17 March 2020, 1 day after the MFA published a repatriation form (see Figure 4) that served as a request and a database for the repatriation of Slovenians.

Figure 4: REPATRIATION FORM



v1.003

Korak 1 Korak 2 Korak 3 Korak 4

Osebni podatki

Navedeni podatki se bodo uporabili izključno za namene nudenja nujne konzularne pomoči in zaščite vaših interesov ter bodo uničeni šesti dan po predvidenem zaključku vašega potovanja. V primeru, da bi Konzularna služba Ministrstva za zunanje zadeve Republike Slovenije nudila konzularno pomoč na zahtevo, je rok hrambe podatkov v skladu z 29.a členom Zakona o zunanjih zadevah. Na zahtevo stranke se podatki uničijo tudi predčasno.

Priimek: META
Obvezni vnos

Ime: VZOREC
Obvezni vnos

Naslov bivanja: POLJANSKA 28
Obvezni vnos

Kraj bivanja: LJUBLJANA
Obvezni vnos

Datum rojstva: 03051978
Obvezni vnos

Št. potnega lista: P000123341
Obvezni vnos

E-mail: META@VZOREC.SI
Obvezni vnos

Telefon: 0123456789
Obvezni vnos

Dodaten opis:

Na potovanje v tujino se odpravljam:
- [x] Sam
- [ ] S turistično agencijo
- [ ] Z družinskimi člani
- [ ] V skupini s prijatelji/znanci

Obvezni vnos

Naziv potovalne agencije:

Naprej

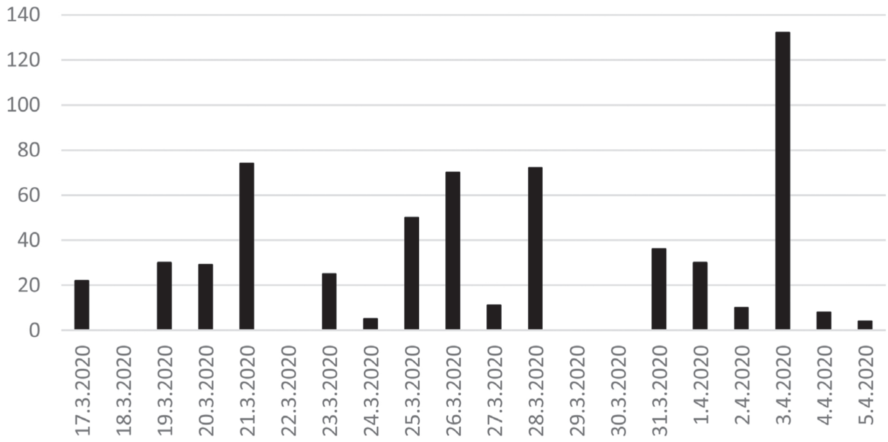
Source: Ministry of Foreign Affairs (2020b).

There was an extensive campaign for this form in traditional and electronic media so Slovenians abroad had the possibility to follow the instructions of the MFA and Slovenian diplomatic and consular representations in their country of stay. According to the information obtained, most repatriations were performed between 18 March and 6 April 2020. In that wave, the MFA directly assisted in the repatriation of 674 Slovenian citizens (Figure 5) and 136 foreign nationals, and another 2000 Slovenian citizens returned home safely with indirect help (or suggestions) from the MFA and Slovenian diplomatic and consular representations. The number of Slovenians requesting repatriation decreased by mid-April, so the government decided to

[14] *When a group of Slovenian citizens refused an opportunity provided for them to return from the Canary Islands, Šter did not use diplomatic language to describe them.*

dissolve the KKC on 26 April 2020 (Government of the Republic of Slovenia, 2020b).

Figure 5: 'FREE OF CHARGE' ORGANISED REPATRIATION ACTIVITIES OF THE MFA (17 MARCH TO 4 APRIL 2020); NUMBER OF PEOPLE REPATRIATED



Source: MFA (2020c).

Although it seemed to the public that the repatriation efforts had concluded by mid-April 2020, Andrej Šter emphasised in an interview that the operation was "not over, just transformed. Until the end of April, we mainly helped those Slovenians that were abroad as tourists and were caught by the situation unprepared. Now [the interview was made on 23 May 2020 – comment added] we help Slovenians that had a reason to stay abroad" (e.g. students or people with a residence permit) (Esih, 2020: 7). In this interview, he also stated that "every day we answer 400 to 600 questions over the phone and a few hundred e-mails" (ibid.). As Šter (2020) pointed out, those questions were no longer related to far-away countries, but everyday issues in countries that mostly border Slovenia (health services in a foreign country, cross-border work permits etc.).

Regarding the expenditures needed for the repatriation, Šter (2020) quotes the figure of EUR 350,000, which is quite low for all the activities undertaken for the repatriation of more than 600 Slovenians. Upon discussing the numbers with different people, we expected that the state could charge the costs of the flights and related activities. Some of our interlocutors said that this was the initial idea, but it soon became clear that the main issue would be who to charge. That is why the decision-makers opted for free assistance. Šter implicitly confirms that this was the right decision by stating: "[...] The amount is relative. To me, it's a lot of money, but it's a different story if we take into account the ratio between the costs and benefits" (Esih, 2020: 7).

What comes out from the analysis of the MFA (2020c) document is that the amount was not spent only on the repatriation of Slovenians, but also included other nationals repatriated by the Slovenian authorities. This created a sort of *quid pro quo*, with Slovenia helping other countries and others helping Slovenia. Šter (2020) confirmed the importance of good bilateral relations by saying they had a greater impact in the Covid-19 crisis than EU solutions. Paraphrasing Šter's interview for the paper Večer (*cf*. supra), we may say that the EU missed an opportunity to become a more important player in consular relations. "I saw no EU flag carrier", Šter illustrates, criticising the European Union, "there were only national means of transportation" (Esih, 2020: 9). Šter also emphasises that in such a situation the only thing that matters is "who to call", and continues "we used connection that we and our colleagues have – from personal to those related to work. In harsh times only personal contacts and relations counts" (Šter, 2020).[15]

Finally, the issue of Covid-19 assistance is also a matter of demand. Diplomatic and consular officers can assist people only if they wish to be helped. This means that diplomatic and consular assistance can be useful when an individual understands that the state is willing to help them, but they are not obliged to utilise this help. On the other hand, there are certain relations and protocols between states that should be respected. In the case of a group of people who refused repatriation from the Canary Islands through Poland at the last minute, the issue was not that these people would be forced to come back, but more that they should not bend the rules of inter-state cooperation. If they had decided to remain in the Canaries, they should not have asked for repatriation, and vice-versa, if they had requested repatriation, they should not have hesitated while the window was still open. As was evident in the days to follow, the window of opportunity for the repatriation of Slovenian citizens was quickly narrowing.

Conclusion

In the introduction, we set a research question about the role of 'national' and 'European' in the system of consular assistance. What we realised is that, although the EU has a legal framework for the consular assistance consular assistance and cooperation, *via facti* it still remains in hands of EU member states. This is an important conclusion since officially the EU after the

[15] For the role of personal contacts and relations on the decision-making process, cf. Lange and Svetličič (2009), Svetličič and Cerjak (2015), Udovič and Svetličič (2018).

adoption of the Lisbon Treaty is also trying to find a common denominator in the area of member states' foreign policy. As such, consular relations and consular assistance in times of crisis could be a first step towards a single framework of EU diplomacy and towards the unification of activities. An important step in this direction was the adoption of the 2015 *Directive*, but what is lacking is practice. In the Covid-19 first wave, the EU tried to help the member states, but only a few activities were done on the EU level. Our perception is that the EU could do more. Not only by focusing on the coordination of consular assistance, but by promoting (and also achieving) a single approach to it. The EU can and should become a single player in consular assistance. One possibility would be that member states leave the lead state approach and replace it with a single European External Action Service consular assistance.

Another lesson learnt from the first wave of Covid-19 is that in diplomatic relations (understood in a broad sense) personal contacts are far more important than other factors (e.g. membership in the EU, foreign policy orientation etc.). Since there is a lack of time, and time must be used efficiently, calling somebody you know personally is far more effective than taking the official channels. Diplomacy in a time of crisis therefore side-lines the official communication and uses unofficial channels. This finding is not only relevant from the theoretical point of view, but from the practical one – and should also be emphasised in the courses of the newly-established Diplomatic Academy at the Slovenian MFA.

Finally, the Slovenian experiences also present another important finding, becoming important at a time of renovation of Slovenia's Foreign Policy strategy. In foreign policy and diplomacy, what really counts are not high-level declarations, official statements, and maybe open (political) questions, but day-to-day (concrete) cooperation. This was seen in the case of the repatriation of citizens where Slovenia and Croatia worked together promptly and efficiently, without making any problems for each other in the face of their unsettled (political and diplomatic) issues.

To conclude: the work of diplomatic agents during the first wave of Covid-19 in Slovenia reaffirms the statement made by Bojko Bučar (2007: 875), that "diplomacy in the 21st century did not change dramatically – some changes occurred in qualitative and quantitative determinants, but its functions are still the same". Complementing Bučar's definition, we can say that not only did the functions remain the same, but also the essence of diplomacy. What in diplomacy matters most (and this is also shown by the Covid-19 crisis) is who you know (personally) and what this person is willing to do for you (and your country).

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EVALUATING THE EFFECTIVENESS OF ANTI-CRISIS STATE AID MEASURES

METHODOLOGICAL APPENDIX TO THE ARTICLE "WHAT CAN BE LEARNT FROM THE EFFECTIVENESS OF SLOVENIA'S ANTI-CRISIS STATE AID MEASURES DURING THE GREAT RECESSION: APPLICATION TO THE COVID-19 DOWNTURN"

Abstract. *This methodological contribution is explaining selected empirical methods useful for evaluating the effectiveness of state aid measures in order to separate the causal effect from the effect due to non-random assignment of the treatment. These methods were employed in the analysis of the Effectiveness of Slovenia's Anti-crisis State Aid Measures During the Great Recession. Methodological note is complementary to of the article entitled "What Can Be Learnt from the Effectiveness of Slovenia's Anti-crisis State Aid Measures During the Great Recession: Application to the Covid-19 Downturn". First, we explain the propensity score matching (PSM) method, followed by difference-in-differences regression (DiD). Finally, we discuss the value of using both methods and include some auxiliary tables and figures.*

Keywords: *effectiveness of anti-crisis measures, propensity score measure, difference-in-differences regression*

Introduction

Different matching estimators are often applied in treatment evaluation to estimate average treatment effects of a program. When selection into the program (state aid allocation in our concrete case) is performed based on the observable characteristics, one has to adjust for the different distributions of the observed characteristics in the treated (subsidized) and the non-treated (non-subsidized) sample when evaluating a socio-economic program. In this way, we are able to separate the causal effect from the effect due to non-random assignment of the treatment. In the next sections we described the propensity score matching and difference-in-differences regression as two estimators with which we estimated the effects of anti-crisis state aid measures handed out to Slovenian firms during the Great Recession.

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Propensity score matching

We study the effect of anti-crisis state aid on recipient firms' employment and revenue using the counterfactual framework pioneered by Rubin (1974). The Rubin causal model is based on the concept of a counterfactual, where each firm has an outcome with and without treatment (state aid in our case). We denote firm *i*'s pair of potential outcomes with Y_{i0} and Y_{i1}, where the former denotes the outcome with treatment and the latter the outcome without treatment. We denote the treatment status of a firm with D_i, where D_i=1 if the firm receives state aid and 0 otherwise. The following exposition assumes that the treatment of firm *i* affects only the outcome of unit *i*, known as stable unit treatment value assumption (SUTVA) in the treatment literature.

To measure the effect of state aid, we are interested in the difference in the outcomes with and without treatment: $Y_{i1}-Y_{i0}$. Since this quantity is a random variable, we focus on the average treatment effect on the treated, which we denote as $ATET = E(Y_1 - Y_0 | D \equiv 1)$. Namely, ATET is the mean effect for firms who actually received state aid. To calculate this statistic, both potential outcomes are required, yet we observe only one for each firm: $Y_i = (1 - D_1)\, Y_{i0} + D_i Y_{i1}$, where Y_i is the observed outcome. This fundamental missing observation problem (Holland, 1986) can be overcome if we can rely on an assumption called conditional mean independence (CMI) (Rosenbaum and Rubin, 1983): a) $E(Y_0 | \boldsymbol{X}, D) = E(Y_1 | \boldsymbol{X})$; and b) $E(Y_1 | \boldsymbol{X}, D) = E(Y_1 | \boldsymbol{X})$. That is, if we can observe enough information (contained in a vector of observed covariates $\boldsymbol{X}$) that determines the treatment status, then (Y_1, Y_0) might be mean independent of D, conditional on $\boldsymbol{X}$. In other words, even though (Y_1, Y_0) and D might be correlated, they are uncorrelated once we partial out $\boldsymbol{X}$.

Following from the CMI assumption, we can write the ATET conditional on the observed covariates as $ATET(\boldsymbol{X}) = E(Y | \boldsymbol{X} = x, D = 1) - D = 1)$ that is a function of all observable quantities (Cerulli, 2015 pp. 70–71). Averaging over the support of $\boldsymbol{X}$ yields an estimate of the unconditional ATET. Matching on a set of covariates $\boldsymbol{X}$ is feasible only when $\boldsymbol{X}$ has a very small dimensionality. If the set of covariates is large and many of them take multiple discrete values or they are continuous variables, we can avoid this dimensionality problem by matching units instead according to the propensity score. The latter is defined as the probability of being treated (receiving state aid) conditional on $\boldsymbol{X}$, and is represented by a single scalar dimension, $p(\boldsymbol{X}) = Pr(D | \boldsymbol{X})$. Stratifying units according to $p(\boldsymbol{X})$ produces the same orthogonal condition between the potential outcomes and the treatment that is stratifying on $\boldsymbol{X}$, but with the advantage to rely just on one dimension variable (Unconfoundedness property). In addition, if the propensity score is correctly specified, then we should observe that firms matched according to the p(*X*) should be indistinguishable in terms of their X (they are balanced; Balancing of confounding variables property). We test empirically whether the balancing property holds to make sure that the correct propensity-score is being used to stratify firms.

We estimate ATET using the one-to-one nearest-neighbour (1-NN) and multiple-nearest-neighbours propensity score matching methods. The basic logic is to select for each subsidised firm one or more control firms with a similar propensity score that have not received state aid. In 1-NN matching, each treated firm is matched with a single control firm whose propensity score is closest. Alternatively, we match each subsidised firm with the three closest control firms (3-NN). As is common in empirical applications, we impose the common support restriction, dropping out all those controls whose p(*X*) values are either higher or smaller than that of the treated units, and set a calliper to 0.05, so that those treated firms with no matches within the caliper are eliminated (see Caliendo and Kopeinig, 2008). We report robust standard errors as of Abadie and Imbens (2006, 2016), who provided the correct formulas and estimation of the variances for the nearest-neighbour matching when matching is performed on a parametric estimation of the propensity score.

We focus on two outcome variables in the PSM stage of analysis: employment and total revenue. We estimate ATET using a Matching-DiD hybrid method, a combination of the difference-in-differences approach with propensity score matching (Heckman et al., 1998; Smith and Todd 2005). This estimator is similar to the classical DiD, but does not demand the imposition of the linear-in parameters form of the outcome specification. In essence, it can be regarded as a nonparametric DiD, reweighting observations determined by a weighting function contingent on the specific matching strategy adopted (Cerulli, 2015: 198–199). The advantage of applying the hybrid method is that the DiD part controls for the selection on the time-invariant part of the unobservable heterogeneity by differencing out an individual firm's fixed effects. Average treatment effect on the subsidised firms   years after the year in which state aid was granted is estimated as follows:

$$\widehat{ATET}_{\tau} = \frac{1}{N} \sum_{i \in \{D\}} \left(\left(Y_{i,t_0+\tau}^{D=1} - Y_{i,t_0-1}^{D=1} \right) - \sum_{j \in C(i)} h(i,j) \left(Y_{j,t_0+\tau}^{D=0} - Y_{j,t_0-1}^{D=0} \right) \right)$$

where N is the number of subsidised firms, $i \in \{D\}$, C is the non-subsidised set of control firms, $Y_{i(j),t_0+\tau}^{D=1(D=0)}$ is the size (total revenue or employment) of subsidised (control) firm i (j) τ years after the state aid year t_0, $h(i,j)$ are the matching weights that depend on the type of matching estimator. *ATET* tells us by how much more (or less) revenue or employment has grown in subsidised firms compared to similar control firms from pre-subsidy year t_{0-1} to τ years after the state aid utilisation year t_0.

Matching procedure begins with an estimation of propensity scores, $\Pr(D_{it}|X_{it})$, with a probit model. We perform the estimation for each anti-crisis state aid category and each year separately to allow for different determinants between measures and years. We include the following regressors as determinants to receive state aid: lagged growth rate of revenue (*Revenue growth*$_{t-1}$) and employment (*Emp. growth*$_{t-1}$), lagged log of employment (*lnEmployment*$_{t-1}$), dummy for zero employees in the previous year (*I(Emp.=0)*$_{t-1}$), lagged log of total revenue (*lnRevenue*$_{t-1}$), dummy for zero revenue in the previous year (*I(Revenue=0)*$_{t-1}$), dummy for exporter status (*Exporter*$_{t-1}$), share of exports in total revenue (*Export share*$_{t-1}$), lagged labour productivity (*VA/Emp.*$_{t-1}$), lagged debt-to-assets ratio (*Debt/Assets*$_{t-1}$), dummy for debt-to-assets ratio exceeding 1 (*I(Debt/Assets>1)*$_{t-1}$), lagged return on assets (*ROA*$_{t-1}$), lagged log of average wage (*lnAvg. Wage*$_{t-1}$), lagged dummy for zero average wage reported (*I(Avg. Wage=0)*$_{t-1}$), lagged dummy for foreign ownership (*For. Ownership*$_{t-1}$), lagged dummy for outward FDI (*Outward FDI*$_{t-1}$), cumulative number and value of different state aid measures utilised from 1998 to the previous year (*Num. Grants CUM*$_{t-1}$ and *Val. Grants CUM*$_{t-1}$, respectively), current age of the firm (*Age*) and a dummy for whether it was established before 1995 (*I(Est. before 1995)*). To make a better fit, we include second-order polynomial terms of the continuous variables in the regression. We also include region, year and 2-digit industry dummies. The probit models are estimated with all firm-year observations of our pool of possible matching partners from 2009 to 2015, whereas for subsidised firms, we only include the observations of the years before and on the year state aid was granted. The estimation results of probit models are presented in the Appendix Table A1, where we report average marginal effects of the main explanatory variables. The probit estimations produced a fairly good model fit (McFadden Pseudo-R^2 between 0.15 and 0.52), demonstrating a sufficient explanatory power of the regressors included. We use these model estimates to predict propensity scores for each observation in our sample.

Next, we perform the matching procedure. To obtain comparable control firms from our pool of potential matching counterparts, we implement nearest neighbour PSM with replacement based on the estimated propensity scores for each state aid category separately. Later, we also combine PSM with elements of exact matching by matching each subsidised firm with a control firm whose propensity score is closest conditional on having the exact same 2-digit NACE code and year of observation. For a robustness check, we report estimates with two different counterfactual groups: single nearest neighbour (1NN) and three closest neighbours (3NN). Allowing for multiple neighbours improves the precision of our estimates, but there is the trade-off with the increased bias. To implicitly check for the unconfoundedness assumption, we also report the matching estimates for the outcome variable growth of revenue (employment) in the year prior to the state aid allocation (DIF_{t0-1}), obtained by replacing $t_0 + \tau$ and $t_0 - 1$ from Equation (1) with $t_0 - 1$ and $t_0 - 2$, respectively. This way we check whether growth of revenue and employment in the subsidised firms differed significantly from control firms already before the aid was allocated. Ideally, growth trajectories just before the state aid allotment would be similar in both groups of firms, revealed through a statistically non-significant pre-subsidy effect DIF_{t0-1}. This is important in order to make sure that the post-subsidy firm growth is not caused by dissimilar pre-subsidy developments.

After the PSM procedure, it is important to evaluate how well the treatment and comparison groups are balanced in the matched samples to ensure that the balancing of confounding variables given the propensity score holds. To check whether the distribution of the covariates to be balanced between the treatment and matched control group, we compare the mean values of the covariates after the matching procedure (Appendix Table A2). Firms in our matched control group generally exhibit similar characteristics to state aid recipients. The only statistically significant differences between the selected control group and subsidised firms are identified with respect to firm ROA for the Employment state aid and R&D state aid categories, with respect to the cumulative number of distinct state aid measures used in the past for the Employment state aid and Training state aid categories and in terms of age for the Employment state aid category. In addition, Kernel densities were plotted to examine the distributions of propensity scores across the matched treatment and comparison groups and were reasonably similar for all five anti-crisis state aid categories examined (Appendix Figure A1). The results suggest that the matching procedure was successful in identifying valid counterfactuals for the subsidised firms in all five groups of anti-crisis state aid.

Difference-in-differences regression

Employing 3-NN PSM, we create the matched sample of subsidised firms and the corresponding control firms. We use this matched sample to estimate the effect of anti-crisis state aids on revenue and employment growth in a difference-in-differences (DiD) regression setting. This allows us to control for relevant factors that influence firm growth, as well as identify the mediating factors of state aid effectiveness. For each subsidised firm and their matched controls, we construct a window around the state aid grant year t_0 and use observations from $t_0 - 1$ to $t_0 + \tau$, where τ = 0, 1, 2, ..., 5. In this way, we apply a time-variant treatment DiD framework with post-treatment effects and recalibrate all acquisition calendar years to technical years t around t_0 denoting the calendar year when the state aid was administered. We do the same translation to technical time for all subsidised firm's control firms. We combine the dynamic specification of a Gibrat law panel data model with the DiD setting and estimate the following specification:

$$Y_{i,t} = \beta_0 + \beta_1 Y_{i,t_0-1} + \beta_2 \boldsymbol{X}_{i,t} + \beta_3 D_i + \sum_{\tau=0}^{5} \gamma_\tau T_\tau + \sum_{\tau=0}^{5} \delta_\tau (D_i * T_\tau) + R_i + I_i + \theta_t + \varepsilon_{i,t}$$

where $Y_{i,t}$ is the size (total revenue or employment) of firm i in year t and Y_{i,t_0-1} is the size of firm i one year before the state aid year t_0. Controlling for constant pre-subsidisation firm size enables us to estimate the post-aid cumulative effect on firm growth from year $t_0 - 1$ to $t_0 + \tau$. This is equivalent to DiD treatment effect from the non-parametric PSM estimation above. As in the standard DiD setting, we include a set of dummies $T\tau$ that indicate the specific post-subsidy period. T_0 designates the period in which the state aid was administered to the subsidised firms and the corresponding counterfactual period in the matched non-subsidised control firms. Likewise, T_5 indicates 5 years after the state aid utilisation year and hence enables us to estimate the long-term cumulative effect on firm growth over a 6-year period from $t_0 - 1$ to $t_0 + 5$. A set of dummies of the utmost importance, $D_i * T_\tau$, designate whether a firm was acquired in the current year ($\tau = 0$), 1 year before ($\tau = 1$) and so on, or 5 years before ($\tau = 5$). To serve as a benchmark period against which post-subsidy periods are compared, we also include observations of the outcome variable 1 year prior to state aid deployment ($t = t_0 - 1$). The corresponding lagged dependent variable (Y_{i,t_0-1}) refers in this case to the preceding year ($t_0 - 2$).

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Parameters δ_τ therefore identify the cumulative effect of anti-crisis state aid on subsidised firms' employment and revenue growth above that in the pre-subsidy period. In other words, δ_τ shows us by how much more (or less) subsidised firms grew in size compared to similar non-subsidised firms from pre-subsidy year t_0-1 to post-subsidy year $t_0 + \tau$. The vector of controls consists of three groups of variables. First, we control for a set of pre-treatment variables to explain the heterogeneity of post-subsidy growth. These include log of labour productivity ($lnVA/EMP_{t0-1}$), log of capital-labour ratio (lnK/EMP_{t0-1}), log of average wage ($lnAvgWage_{t0-1}$), share of exports in total revenue (*Export share*$_{t0-1}$), dummy for foreign ownership (*For. ownership*$_{t0-1}$) and dummy for outward foreign direct investments (*Outward FDI*$_{t0-1}$). Second, to control for industry-year-specific demand shifts, we include the 2-digit industry growth rate of value added in the current year (*Industry VA growth*). Third, we include indicators for the state aid instruments and the value of state aid administered. This allows us to identify which type of aid is more effective and what is the elasticity of growth effects on the size of the subsidy. A set of dummy variables indicates the following state aid instruments: grants (*Grant*), interest rate subsidies (*Inter. rate subs.*), fundamental R&D (*Basic R&D*), tax credits (*Tax credit*), social contributions credits (*Soc. contrib. relief*), guarantees (*Guarantee*) and other instruments (*Other instruments*). The value of anti-crisis state aid in t_0 ($lnVALUEcrisis_{t0}$) and possible non-crisis state aid in the same year ($lnVALUEnoncrisis_{t0}$) is included to control for state aid volume, as well as to allow for other types of aid to affect treated and control firms' growth. Finally, we also control for firm age (*Age* and dummy for firms established before 1995) and include region dummies (R_i), industry dummies (I_i) and calendar year dummies (θ_τ) that capture time-varying macroeconomic shocks common to all regions, industries and firms. θ_τ dummies also control for mediating effect of business cycle on the growth of firms. We estimate specification (2) with weighted least squares, using analytic weights provided by the 3-NN PSM procedure. Namely, weights attributed to the selected control firms correspond to the number of controls chosen for each treated firm and number of times a firm was selected as a control unit (we ran matching with replacement).

Conclusion

In this article, we described propensity score matching and difference-in-differences regression as two estimators with which we estimated the effects of anti-crisis state aid measures handed out to Slovenian firms during the Great Recession. The first method, propensity score matching, matches each subsidized firm with one (or more) non-subsidized control firm based on the degree of similarity in the estimated probabilities of receiving state aid. The average effect of the program is estimated by the mean difference in the outcomes of the matched pairs of firms. In the difference-in-differences regression we pooled matched samples of all five anti-crisis state aid categories in order to uncover potential mediating factors that are common to all state aid measures and determine their effectiveness. Namely, we were interested in identifying whether the pre-treatment characteristics of the recipient firms, amount of state aid granted, type of the state aid instrument and industry-specific business cycle moderate the size of the treatment effect.

Appendix: tables and figures

Table A1: PROBABILITY OF OBTAINING STATE AID (AVERAGE MARGINAL EFFECTS), 2009–2015

	Primary	Employment	Resc.&Restr.	Training	R&D
Revenue growth$_{t-1}$	-0.00154**	0.0168***	0.000280	0.00134**	0.00226***
	(0.000604)	(0.00112)	(0.000312)	(0.000619)	(0.000503)
Emp. growth$_{t-1}$	-0.00107	0.00465***	-0.000760*	0.000458	0.00146**
	(0.000709)	(0.000897)	(0.000455)	(0.000586)	(0.000577)
lnEmployment$_{t-1}$	0.00275***	0.0212***	0.000351*	0.00507***	0.00592***
	(0.000366)	(0.000784)	(0.000198)	(0.000350)	(0.000376)
I(Emp.=0)$_{t-1}$	0.00531**	0.00176		0.00512***	0.00594***
	(0.00233)	(0.00231)		(0.00147)	(0.00127)
lnRevenue$_{t-1}$	0.000877***	0.00691***	-1.11e-05	0.00243***	-5.23e-05
	(0.000325)	(0.000638)	(0.000168)	(0.000317)	(0.000323)
I(Revenue=0)$_{t-1}$		0.219***			-0.0690***
		(0.0228)			(0.00702)
Exporter$_{t-1}$	0.00116**	0.00404***	0.000195	0.00222***	0.00516***
	(0.000566)	(0.00136)	(0.000327)	(0.000583)	(0.000652)
Export share$_{t-1}$	0.00228*	-0.00807	0.000385	-0.00131	0.0124***
	(0.00121)	(0.00619)	(0.000357)	(0.00212)	(0.00157)
VA/Emp.$_{t-1}$	1.01e-08	-6.83e-08***	-1.13e-08	-2.34e-08**	1.12e-08
	(1.33e-08)	(1.90e-08)	(1.17e-08)	(9.57e-09)	(9.26e-09)
Debt/Assets$_{t-1}$	0.0114***	5.62e-06	0.00204***	0.00107	0.000265
	(0.00111)	(0.000694)	(0.000514)	(0.000681)	(0.000209)
I(Debt/Assets>1)$_{t-1}$	-0.00639***	-0.0132***	3.51e-05	-0.00585***	-0.00929***
	(0.00170)	(0.00197)	(0.000342)	(0.00127)	(0.00131)
ROA$_{t-1}$	-0.00467	0.00162*	-0.00164	-0.00115	0.000350
	(0.00299)	(0.000927)	(0.00106)	(0.00111)	(0.000607)
lnAvg. Wage$_{t-1}$	0.00126*	-0.0183***	-0.000475	0.00201***	0.00972***
	(0.000754)	(0.00134)	(0.000517)	(0.000692)	(0.000669)
I(Avg. Wage=0)$_{t-1}$		0.272***		0.0416	-0.00981
		(0.0478)		(0.0399)	(0.0304)
For. Ownership$_{t-1}$	-0.00478***	-0.0337***	-0.000607	-0.00577***	-0.00825***
	(0.000825)	(0.00202)	(0.000453)	(0.000838)	(0.000873)
Outward FDI$_{t-1}$	0.00191***	-0.0179***	-0.000357	-0.00260**	0.00567***
	(0.000590)	(0.00323)	(0.000302)	(0.00103)	(0.000922)
Num. Grants CUM$_{t-1}$	9.49e-06	0.00126***	2.45e-06	0.000247***	0.000900***
	(1.45e-05)	(4.40e-05)	(7.41e-06)	(1.92e-05)	(2.60e-05)
Val. Grants CUM$_{t-1}$	-6.58e-11	-9.37e-11	2.00e-10***	7.48e-11	2.94e-09***
	(1.10e-10)	(3.87e-10)	(5.67e-11)	(3.02e-10)	(2.71e-10)
Age	-0.000159	0.000959***	4.48e-06	-9.74e-05	-0.000939***
	(0.000222)	(0.000172)	(0.000105)	(9.31e-05)	(8.92e-05)
I(Est. before 1995)	0.00114	-0.0175***	0.00105*	-0.00225**	0.00207**
	(0.00123)	(0.00208)	(0.000627)	(0.000934)	(0.000997)
Region FE	yes	yes	yes	yes	yes
Year FE	yes	yes	yes	yes	yes
Industry FE	yes	yes	yes	yes	yes

	Primary	Employment	Resc.&Restr.	Training	R&D
Observations	116,078	257,906	80,186	250,742	253,701
Pseudo R2	0.4603	0.1501	0.5233	0.2273	0.4093

Notes: For each state aid category, probit results refer to the estimates for the period 2009–2015. Average marginal effects are based on the second-order polynomial regression specification. *** p<0.01, ** p<0.05, * p<0.1

Source: own calculations.

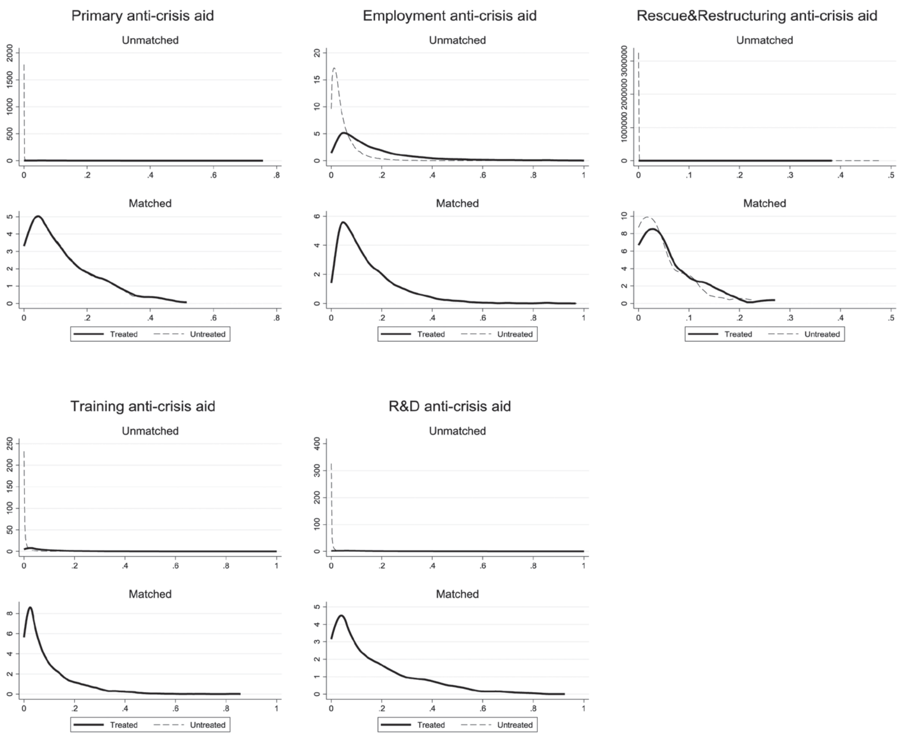
Table A2: T-TESTS FOR COVARIATE BALANCE ACROSS SUBSIDISED AND MATCHED CONTROL GROUPS

		Primary y	Employment nt	Resc.&Restr. tr.	Training	R&D
Propensity score	t	0.29	0.45	0.86	0.27	0.31
	P-value	0.773	0.655	0.391	0.790	0.757
$\ln$Employment$_{t-1}$	t	-0.410	-1.7	-0.12	-0.04	-1.41
	P-value	0.679	0.089	0.907	0.967	0.159
$\ln$Revenue$_{t-1}$	t	-1.42	-0.99	0.14	-0.41	-0.92
	P-value	0.156	0.322	0.887	0.682	0.359
Exporter$_{t-1}$	t	0.1	-1.16	-0.35	0.03	-1.25
	P-value	0.935	0.246	0.726	0.978	0.213
Export share$_{t-1}$	t	-0.68	-0.35	-0.2	0.01	0.19
	P-value	0.494	0.723	0.843	0.992	0.851
VA/Emp.$_{t-1}$	t	-1.43	0.91	0.37	-1.18	-1.49
	P-value	0.153	0.363	0.713	0.237	0.137
Debt/Assets$_{t-1}$	t	-0.39	-1.6	0.52	-0.89	-1.92
	P-value	0.700	0.109	0.605	0.373	0.054
ROA$_{t-1}$	t	-0.62	2.72***	-0.64	0.57	2.14**
	P-value	0.535	0.007	0.522	0.57	0.033
$\ln$Avg. Wage$_{t-1}$	t	-1.53	0.86	1.02	-0.91	-0.17
	P-value	0.126	0.388	0.312	0.361	0.864
For. Ownership$_{t-1}$	t	-0.44	-0.56	-0.58	-1.55	-1.4
	P-value	0.660	0.578	0.562	0.120	0.162
Outward FDI$_{t-1}$	t	-0.81	-0.94	0.35	0.64	0.95
	P-value	0.418	0.345	0.726	0.522	0.342
Num. Grants CUM$_{t-1}$	t	0.64	8.39***	0.27	3.59***	1.24
	P-value	0.520	0.000	0.789	0.000	0.214
Val. Grants CUM$_{t-1}$	t	0.78	0.15	0.88	1.03	1.31
	P-value	0.434	0.882	0.382	0.303	0.189
Age	t	0.72	2.21**	1.15	0.96	0.34
	P-value	0.471	0.027	0.252	0.335	0.734
I(Est. before 1995)	t	0.82	1.2	1.54	1.13	-0.32
	P-value	0.412	0.230	0.128	0.257	0.746

Notes: The test corresponds to the nearest-neighbour matching with additional constraints that treated and control firms belong to the same 2-digit industry and the same year and that we estimate the propensity score for each state aid category and year separately. T-tests are based on a regression of the variable on a treatment indicator and a test for equality of means in the two samples. *** p<0.01, ** p<0.05, * p<0.1

Source: own calculations.

Figure A1: KERNEL DENSITY ESTIMATES OF THE PROPENSITY SCORE BEFORE AND AFTER MATCHING



Source: own calculations.

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Richard Lachmann
First-Class Passengers on a Sinking Ship: Elite Politics and the Decline of Great Powers
Verso, London in New York 2020,
p. 496, EUR 25.00
(ISBN 978-1-78873-407-3)

In his new book, the renowned US historical sociologist Richard Lachmann presents us with an ambitious intervention at the intersection of two crowded fields – macro histories of past hegemonic transitions and narratives of the decline of the latest hegemon, the USA. The book is a valuable contribution to both by combining an explicitly formulated theoretical framework with a very rich and historically wide-ranging empirical and descriptive component. Lachmann's first observation is that the USA is in decline in many areas – infrastructure, healthcare, life expectancy, the military's ability to win wars, and economic well-being among others – and it is time to overcome the "fruitless hope" (p. x) that this trend can be halted or reversed. Generally, however, the decline of a hegemon is not inevitable; "it is not determined by grand-historical cycles and does not conform to a universal clock" (p. 11). Instead – and this is the author's innovative theoretical claim – it is the result of internal political dynamics. It is the elite conflict over the appropriation of resources that explains why the wealthiest and most powerful polities have often failed to attain or sustain dominance.

Right from the start, the author makes clear the political implications of the above argument. If the USA's decline is unstoppable, the question becomes the distribution of the burdens emanating from it. The political goal of the book then is to expose the fissures in and political vulnerabilities of the US elite and thus help the progressive forces from below to deflect the elite's attempts to saddle the working class with the decline-related costs. The book, which can be read as the culmination and a fusion of Lachmann's previous research projects, is distinguished by its clear structure and neat argumentation. Two theoretical chapters dealing with the literature on hegemonic decline and elites are followed by three historically-comparative chapters. The second part tackles the question of how the USA compares with previous hegemons and how we can trace and explain its decline.

In the longue duree since 1492, Lachmann counts six empires that have dominated enough lands beyond its immediate region to vie for global economic or geopolitical dominance: Spain, France, Portugal, the Netherlands, Britain, and the USA. Each power's dominance was challenged continuously by rival geopolitical powers, competing foreign capitalists, the self-serving efforts of metropolitan elites, and the resistance from elites in subordinate territories and non-elites at home (26). But only the latter three empires achieved hegemony (with their empires as its cornerstone). Lachmann defines hegemony as not merely having a quantitative or qualitative edge over competitors. Rather, its characteristic is its institutionalisation through networks of finance, trade, production, and geopolitical alliances. Thus, a polity is hegemonic only as long it can enforce a system of geopolitical and economic relations that advantage it over all other polities (p. 49). What distinguishes the three hegemonic polities from the non-hegemonic empires is the stability of relations among the elites (p. 53).

Since the elites are the main explanatory factor in Lachmann's more than five centuries-old story of capitalism, he offers a relatively broad, almost transhistorical definition. An elite is a "group of rulers who inhabit a distinct organisational apparatus with the capacity to appropriate resources from the non-elites" (p. 26). The interests each elite seeks to defend are grounded in their relations with the producing classes. Still, in exercising their power through institutions – a combination of economic, political, military, and ideological power – the elites guard and extend their power at the expense of rival elites. This, as well as Lachamnn's assertion that the elite's capacity to pursue its interests derives from the structure of relations among various coexisting elites rather than the relations of production (that is, exploitation), distinguishes his model from the more classically Marxist concept of the ruling class (Bottomore, 2014) as well as some Weberian strains in historical sociology marked by technological or market determinism (Rutar, 2015). By containing "class relations" to the exclusive realm of exploitation and the extraction of surplus-value, Lachmann also distances himself from Marxist accounts, such as those of Political Marxists (Brenner, 1977) or scholars working with the concept of capital factions (van der Pijl, 1998). They similarly emphasised the open-ended and conflict-ridden nature of the 'interests of capital' but understood it in terms of horizontal class struggle, where 'the political' is significantly less autonomous vis- -vis 'the economic' than is the case in Lachmann's book.

After defining the concept of elites, Lachmann lays out four factors, any of which can prevent a polity from achieving global hegemony; a high level of elite conflict in the metropole; a high level of colonial elite autonomy from the metropole; a unitary elite achieving dominance over and effectually eliminating all other elites in the metropole; and the lack of infrastructural capacity to control elites in conquered or dominated lands (p. 54). The Netherlands, Britain and the USA did not face any of these factors and achieved hegemony. But their contradictions eventually disrupted the stable elite relations and resulted in either heightened elite conflict or in elites' successful autarkic take-over of the economy and the state which precluded reinvestments necessary to maintain the hegemony. The rest of the book's first part is dedicated to a convincing and historically rich account determining what precisely were the mechanisms and causal links in these processes in the cases of Spain, France and the two earlier hegemons. However, limitations of space allow us only to discuss Lachamnnn's take on the most timely and perplexing case, the USA.

The USA differs from all of its predecessors in that it was not first an empire and then a hegemon, but was, after the Second World War, more already born a hegemon. A strong elite consensus and capitalist acquiescence to the 'Keynesian compromise' (with the persistent bashing of trade unions as an important caveat) lasted throughout the 1960s, after which a significant U-turn in the USA's economy and public policy took place (p. 251). There are many culprits appearing in explanations of what/who killed the post-war consensus and balanced the elite – from the economic decline in the 1970s to the new social movements on the left and subsequent rise of the Right. However, the impact of all these forces was only indirect. Specific policies and the uneven decline in state capacity in the decades following the 1970s can only be understood once we examine the new structure of elite relations (p. 262). The wave of mergers in the 1980s coupled with deregulation consolidated diverse economic sectors and enabled the elite capture of government agencies and powers. The goal of this new configuration of elites, unrestrained by successfully subdued unions and other mass organisations, was not to formulate programmes and policies with a national reach. Instead, they seek to appropriate state resources and advance favourable policies, protecting them from competitors at home and abroad (p. 290). The outcome of this constellation of powers has been financialisation, financial cannibalisation of US economy benefiting no one but the elites. Although his explanation of financialisation and its origins is somewhat eclectic, Lachmann is right in concluding that "America's ability to exercise unilateral control over the global financial architecture is the one remaining pillar of US hegemony" (p. 420).

Immediately, this raises the question of the USA's armed forces, the most lavishly funded and generally recognised as the most powerful in the world. Here, the USA is submitted to a similarly rigorous sociological analysis as the previous hegemons' armies have been. In perhaps the most valuable part of the book, Lachmann discounts the usual "resource power" approach of examining military might by counting the number of tanks and aircraft carriers and instead studies the generals as social actors with their specific interests (p. 310). He shows that the tight links (and often "revolving doors") between the top officers and the arms industry are pushing the former into committing to unwinnable wars and demanding ever more cutting-edge technology which is useless in counterinsurgency wars (p. 352).

Lachmann refuses to toe the line so prevalent in "declinist" literature and therefore does not end his book with a "chapter of recommendations and hopes" (p. 431). Instead, he identifies three dimensions – again drawing parallels with the Netherlands and Great Britain – around which the shape of the USA's decline and the distribution of its costs among social forces will play out. He argues that due to the weak organisational strength of the non-elites the USA – even in decline – is poised to continue the trends of growing inequality, shrinking social welfare, and counterproductive wars on the periphery. The sad irony is that the elites cannot escape the straitjacket of securing their reproduction. They cannot "override their particular interests and mobilise their power and resources behind policies that could sustain US geopolitical or economic hegemony" (p. 461) This eminently readable book, full of provocations and insights, thus concludes on an ambiguous note. On one hand, Lachmann is pessimistic about the hopeless and directionless US elite. But he is an optimist in the sense that this does not launch him into moralising calls for elites' refoundation as is usually the case with elitist scholars. Instead, he lays his (modest) hope on pressure (and organising) from below, the non-elites.

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Anton GRIZOLD, Andreja JAKLIČ: SPREMINJANJE MEDNARODNIH ODNOSOV PO PANDEMIJI COVID-19: UPRAVLJANJE RASTOČE VRZELI MED NACIONALNIMI IN MULTILATERALNIMI ODZIVI
Teorija in praksa, Ljubljana 2020, Let. LVII, št. 4, str. 979–989

Pandemija zaradi Covid-19 je nastopila v času upočasnjene globalizacije. Pospešila je dva že od velike recesije dalje prisotna globalna trenda, spremenjeno naravo mednarodne proizvodnje in inovacij in spreminjanje globalnega reda in trgovinskega režima. Čeprav je multilateralizem pred veliko recesijo veljal kot najboljši pristop za reševanje globalnih režimov, so ob nastopu globalne krize zaradi Covid-19 prevladali nacionalni ali regionalni odzivi. V reševanju krize se je okrepila vloga nacionalnih držav. Vrzel, ki je nastala zaradi zamika in razlik v odzivih nacionalnih držav, na multilateralni ravni predstavlja izziv za bodoče globalno upravljanje in regionalno povezovanje, pa tudi za prihodnost EU in njeno mednarodno ekonomsko in politično sodelovanje. Razsežnosti kompleksne sistemske krize zaradi pandemije Covid-19 in vplive na posamezne države in na mednarodne odnose s prvimi analizami šele spoznavamo, a bodo še naprej pomembna tema raziskav in diskusij.

Ključni pojmi: Covid-19 pandemija, globalizacija, nacionalna država, kriza, multilateralizem

UDK 339.13.027(497.4)"2009/2015":616-036.21:578.834

Anže BURGER: KAJ SE LAHKO NAUČIMO IZ UČINKOVITOSTI SLOVENSKIH PROTIKRIZNIH UKREPOV MED VELIKO RECESIJO: APLIKACIJA NA KRIZO ZARADI VIRUSA COVID-19
Teorija in praksa, Ljubljana 2020, Let. LVII, št. 4, str. 990–1017

Cilj članka je oceniti vpliv slovenskih protikriznih ukrepov v obliki državnih pomoči v obdobju 2009–2015 in uporabiti ugotovitve za oblikovanje ex-ante kvalitativne ocene serije fiskalnih ukrepov za blažitev gospodarskih posledic epidemije nove koronavirusne bolezni v prvih šestih mesecih od izbruha pandemije. Ugotavljamo, da so državne pomoči za raziskave in razvoj, zaposlovanje in usposabljanje uspele povečati rast prihodkov od prodaje in zaposlenost v obdobju petih let po dodelitvi pomoči. Po drugi strani pa specializirani protikrizni ukrepi in pomoči za reševanje in prestrukturiranje pri prejemnikih niso izboljšali kazalcev poslovanja. Preliminarna ocena fiskalnih ukrepov, sprejetih v Sloveniji v prvih šestih mesecih krize zaradi covida-19, nakazuje, da je obseg paketa pomoči neprimerno večji od spodbud v minuli recesiji ter da je bila večina sredstev alocirana v obliki nepovratnih sredstev in v pretežni meri namenjena posameznikom. Glede na ugotovljeno nadpovprečno učinkovitost nepovratnih sredstev iz empirične analize velike recesije in glede na izsledke pregleda literature o fiskalnih multiplikatorjih lahko pričakujemo, da bodo protikoronski ukrepi na kratek rok uspešno omilili ekonomske posledice pandemije virusa covid-19.

Ključni pojmi: državne pomoči, protikrizni ukrepi, učinki protikriznih ukrepov, rast podjetij, protikoronski ukrepi, covid-19

UDK 339.564(497.4):338.124.4

Andreja JAKLIČ, Anže BURGER: KOMPLEKSNE STRATEGIJE INTERNACIONALIZACIJE V OBDOBJIH KRIZ: ANALIZA PRIMERA SLOVENSKIH IZVOZNIKOV V OBDOBJU GLOBALNE RECESIJE IN V OBDOBJU PANDEMIJE VIRUSA COVID-19

Teorija in praksa, Ljubljana 2020, Let. LVII, št. 4, str. 1018–1041

Preučevanja rasti podjetij in novih izvoznikov v zadnjem tisočletju so v njihovih strategijah internacionalizacije pokazala rastočo kompleksnost in diverzifikacijo, še posebej v malih odprtih gospodarstvih. V prispevku preučujemo produktno in geografsko diverzifikacijo slovenskih izvoznikov v obdobju zadnjih dveh kriz; najprej v obdobju globalne recesije in v obdobju pandemije zaradi nove koronavirusne bolezni. Tržna in produktna diverzifikacija (povečevanje števila izvoznih trgov in izvoznih produktov) je bila za podjetja v obdobju zadnje recesije pomemben način rasti izvoznih prihodkov in dodane vrednosti. Analiza je pokazala: (1) Izvozniki z najvišjimi stopnjami rasti izvoza so povečevali produktno in geografsko diverzifikacijo izvoza. (2) V obdobju po pandemiji večina izvoznikov ni spremenila izvoznega vedenja, so pa mnogi povečali vlaganja v digitalizacijo in avtomatizacijo. (3) Lokalizacija izvoza (na bližnje trge), zmanjšanje števila izvoznih trgov in zmanjšanje produktnega portfelja so bili veliko pogostejši odzivi kakor diverzifikacija, kar lahko omejuje rast v prihodnje. (4) Upravljanje kompleksne internacionalizacije in diverzifikacije izvoza je pomembno za premagovanje kriz, k temu pa lahko pripomore tudi pospešena digitalizacija.

Ključni pojmi: kompleksne strategije internacionalizacije, izvoz, diverzifikacija izvoza, produktna diverzifikacija, diverzifikacija trgov, načini vstopa na tuje trge, digitalizacija

UDK 339.5:330.143.2:616-036.21

Andreja JAKLIČ, Metka STARE, Klemen KNEZ:
SPREMEMBE V GLOBALNIH VERIGAH VREDNOSTI IN COVID-19
Teorija in praksa, Ljubljana 2020, Let. LVII, št. 4, str. 1042–1064

Posledice epidemije virusa covid-19 postavljajo omejitve razvoju globalnih verig vrednosti, kar še posebej vpliva na majhne in izvozno usmerjene države. Analiza obravnava dejavnike odpornosti, stabilnosti in učinkovitosti GVV ter strukturne spremembe GVV, ki se po pandemiji lahko še pospešijo. Kompleksnost mednarodne proizvodnje preučujemo z novim pristopom, ki omogoča sočasno opazovanje domačih in globalnih verig vrednosti. Verigo vrednosti razdelimo po deležih glede na različne poti, ki jih izdelki in storitve opravijo od začetka proizvodnje do končne potrošnje. Opazovanje sprememb v prejšnji globalni recesiji je podlaga za predvidevanje odzivov v trenutni krizi. Empirična analizira pokaže, da se je v pretekli globalni krizi delež kompleksnih globalnih verig zmanjšal, medtem ko je bil delež enostavnih globalnih verig relativno konstanten, tako v EU kakor v Sloveniji. V več panogah predelovalne industrije v Sloveniji pa se je delež kompleksnih globalnih verig v obdobju po krizi povečal. Strukturne razlike v GVV med panogami in državami narekujejo tudi različne odzive ekonomskih politik.

Ključni pojmi: globalne verige vrednosti (GVV), struktura verig vrednosti, covid-19, pandemija, odpornost in učinkovitost GVV, EU, Slovenija

UDK 330.341(100-775):616-036.21:578.834

Marjan SVETLIČIČ: RAZVOJNE LEKCIJE RAZVITIH DRŽAV
ZA IZHODNE STRATEGIJE COVIDA-19
Teorija in praksa, Ljubljana 2020, Let. LVII, št. 4, str. 1065–1085

Cilj članka je bil ugotoviti, ali so strategije razvitih držav relevantne za strategije za izhod iz današnje krize zaradi pandemije nove koronavirusne bolezni. Razvite države so se pri prehodu na višje razvojne stopnje večinoma opirale na protekcionistične politike na področju trgovine, intelektualne lastnine in neposrednih tujih naložb, da bi – takoj ko so dosegle vrh – odvrgle lestev protekcionizma in začele (hipokritično) propagirati liberalizem. Te izkušnje so koristne tudi za zdaj manj razvite države, če jim mednarodni kontekst zagotovi ustrezen politični prostor in če bi krize uporabile kot priložnosti ter se pravočasno odzvale nanje. Analiza ugotavlja, da bi bila pandemija lahko dobro izhodišče za strukturne spremembe v sistemu mednarodnih (ekonomskih) odnosov, če bi se spremenili naši miselni vzorci in sistem, ki je te krize ustvaril.

Ključni pojmi: kriza, covid-19, razvojne strategije, pravice intelektualne lastnine, tuje neposredne investicije, ekonomski nacionalizem, nova ureditev

UDK 339.923(4-6EU):616-036.21:578.834

Marko LOVEC: PANDEMIJA KOT LAKMUSOV TEST
ZA VELIKE TEORIJE EVROPSKE INTEGRACIJE
Teorija in praksa, Ljubljana 2020, Let. LVII, št. 4, str. 1086–1104

Številne krize so v preteklem desetletju pokazale na nezmožnost evropskih integracij, da naslovijo disfunkcionalnosti, povezane z delnim prenosom oblasti na transnacionalno raven, ter spodbudile kritiko domnevne integracijske pristranskosti velikih teorije integracij – neofunkcionalizma, liberalne medvladne teorije ter postfunkcionalizma. V analizi jemlje ta članek kot študijo primera pandemijo covida-19 kot »trenutek resnice" za integracijo, ki deli številne skupne značilnosti preteklih kriz. Iz analize sledi, da z naslavljanjem različnih ravni povpraševanja in ponudbe integracije tri liberalne institucionalne teorije razlagajo nacionalistični odgovor v zdravstveni krizi (pomanjkanje povpraševanja in ponudbe) ter povezovalno odločitev o gospodarski obnovi (zadostno povpraševanje in ponudba). Še več, izpostavljen je argument, da to počno omenjene teorije bolje od nacionalističnih ali federativnih pristopov, ki podcenjujejo bodisi povpraševanje (prvi) ali ponudbo integracije (drugi).

Ključni pojmi: pandemija covida-19, kriza, Evropska unija, evropske integracije, velike teorije

UDK 339.923(4-6EU):616-036.21:578.834

Danijel CRNČEC: KRIZA ZARADI COVIDA-19: POGLABLJANJE
INTEGRACIJE EU TER KORAK NAPREJ PRI ENERGETSKI POLITIKI EU
IN PODNEBNIH UKREPIH?
Teorija in praksa, Ljubljana 2020, Let. LVII, št. 4, str. 1105–1123

Članek ima dvojni cilj. Prvič, analizirati, kakšen je bil vpliv krize zaradi nove koronavirusne bolezni na integracijo EU. In drugič, analizirati njen vpliv na energetsko in podnebno politiko EU. V analizi je bil uporabljen teoretični okvir, ki ga je razvil Schimmelfennig in je bil dopolnjen z analitičnim pristopom Falknerjeve k analizi posledic kriz za politike EU. V analizi se ugotovi, da je rezultat krize zaradi nove koronavirusne bolezni in odziva EU nanjo korak naprej v integraciji EU. Odziv EU je s krepitvijo elementov Evropskega zelenega dogovora in zelenega prehoda pomembno vplival tudi na krivuljo razvoja energetske in podnebne politike EU.

Ključni pojmi: covid-19, kriza, integracija EU, energetska in podnebna politika, Evropski zeleni dogovor

UDK 339.923(4-6EU:497):616-036.21:578.834

Jure POŽGAN, Ana BOJINOVIĆ FENKO, Faris KOČAN:
»KRIZA JE LAHKO TUDI PRILOŽNOST«: KREPITEV AKTERSTVA EVROPSKE UNIJE V KONTEKSTU POVEČANE TEKMOVALNOSTI ZUNANJIH AKTERJEV NA ZAHODNEM BALKANU
Teorija in praksa, Ljubljana 2020, Let. LVII, št. 4, str. 1124–1146

Članek proučuje proces evropske integracije Zahodnega Balkana v obdobju krize zaradi epidemije covida-19, ob predpostavki, da pri tem ni treba upoštevati samo vpliva EU, temveč tudi druge vplivne zunanje akterje. Na podlagi modela zunanjih spodbud so Kitajska, Rusija in Turčija analizirane kot tekmujoči zunanji akterji širitveni politiki EU. Ugotavljamo, da so ti zunanji akterji med krizo zaradi nove koronavirusne bolezni okrepili tekmovanje z EU predvsem prek državne propagande z ozirom na jasnost pogojev sodelovanja in prek napadov na kredibilnost EU z dezinformacijskimi kampanjami. Kljub temu se je njihov vpliv v primerjavi z vplivom EU zmanjšal z vidika velikosti nagrade in domačih stroškov prilagoditve. EU je namreč v analiziranem obdobju povečala svoje nagrade, okrepila pogojevanje in si povrnila del prej izgubljene kredibilnosti. Najpomembnejšo spremembo v času krize zaradi covida-19 pa pomeni povečanje fragmentacije pri naslavljanju posameznih držav Zahodnega Balkana s strani Rusije, Kitajske in Turčije, pri čemer EU ostaja edini zunanji akter z zmogljivostmi in voljo, da Zahodni Balkan naslavlja enotno kot regijo.

Ključni pojmi: Evropska unija, širitvena politika, Zahodni Balkan, Rusija, Kitajska, Turčija, kriza, covid-19

UDK 341.8(497.4):616-036.21:578.834

Boštjan UDOVIČ: KONZULARNA ZAŠČITA V SLOVENIJI
V ČASU PRVEGA VALA NOVE KORONAVIRUSNE BOLEZNI
Teorija in praksa, Ljubljana 2020, Let. LVII, št. 4, str. 1147–1166

Članek obravnava glavne značilnosti konzularne pomoči spomladi 2020 v Sloveniji, v času prvega vala nove koronavirusne bolezni. Analiza pokaže, da so v konzularnih odnosih države še vedno pomembnejše od EU, saj EU konzularne odnose še vedno »koordinira«, jih pa ne vodi oz. ni njihov nosilec. Druga ugotovitev članka je, da je tudi v času kriznega reševanja v diplomaciji najbolj pomembno, koga lahko pokličeš oz. koga (osebno) poznaš. Pristni stiki, ki so se oblikovali ob različnih priložnostih, so bolj učinkoviti in hitrejši ter lažje rešujejo obstoječe težave. Tretja ugotovitev pa je, da odprta politična vprašanja držav ne vplivajo na konzularno sodelovanje. Takšen primer je bilo dobro konzularno sodelovanje med Slovenijo in Hrvaško v času prvega vala nove koronavirusne bolezni.

Ključni pojmi: covid-19, konzularna zaščita, Evropska unija, Slovenija, spremembe v diplomaciji

UDK 303.025:339.13.027(497.4)"2009/2015"

Anže BURGER:
OCENJEVANJE UČINKOVITOSTI PROTIKRIZNIH UKREPOV
(Metodološki dodatek k članku z naslovom »Kaj se lahko naučimo iz učinkovitosti slovenskih protikriznih ukrepov med veliko recesijo: aplikacija na krizo zaradi virusa covid-19«)
Teorija in praksa, Ljubljana 2020, Let. LVII, št. 4, str. 1167–1177

Metodološki dodatek podrobno opisuje empirične metode, ki jih lahko uporabimo pri ocenjevanju učinkovitosti protikriznih ukrepov, saj omogočijo oceno vzročnih učinkov posameznih ukrepov. Metode, ki jih predstavljamo, so uporabljene v analizi učinkovitosti slovenskih protikriznih ukrepov v obdobju velike recesije in so komplementarni dodatek k članku z naslovom »Kaj se lahko naučimo iz učinkovitosti slovenskih protikriznih ukrepov med veliko recesijo: aplikacija na krizo zaradi virusa covid-19«. Najprej je predstavljena metoda prirejanja na podlagi ocenjene verjetnosti (propenstity score matching), nato pa metoda regresija razlike v razlikah (difference-in-differences regression). Podrobno so predstavljene še dodatne tabele in slike rezultatov empirične analize. Sklepni del utemeljuje smiselnost uporabe obeh metod.

Ključni pojmi: učinki protikriznih ukrepov, metoda prirejanja na podlagi ocenjene verjetnosti, metoda regresija razlike v razlikah

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Teorija in praksa sprejema v presojo za objavo izvirna znanstvena besedila, ki še niso bila objavljena drugje ali niso v recenzentskem postopku pri kateri drugi znanstveni reviji oziroma monografiji. Objava članka ali knjižne recenzije v Teoriji in praksi je brezplačna.

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Tabele, grafi in slike morajo biti izdelani kot priloge (in ne vključeni v besedilo) z jasnimi naslovi, pri čemer naj avtorica/avtor uporabi velike tiskane črke v poševnem tisku; biti morajo zaporedno oštevilčeni (Slika 1: NASLOV SLIKE, Graf 2: NASLOV GRAFA, Tabela 3: NASLOV TABELE). Vsaka tabela in slika mora biti izpisana na posebnem listu papirja. V besedilu naj bo okvirno označeno mesto, kamor sodi. Avtorica/avtor naj pri vsaki tabeli, grafu in sliki opredeli, koliko prostora zavzema v besedilu. Tabele, grafe in slike naj avtorica/avtor šteje v obseg besedila bodisi kot 250 besed (pol strani) ali 500 besed (celotna stran). Pod tabelami in grafi je potrebno navesti vir. Navedba vira naj se zaključi s piko. Uporabljajte orodje za oblikovanje tabel v programu Word.

Tabela 1: UČINEK ODBOROV

Regulativni učinek	Mešani učinek	Distribucijski učinek
BUDG, TRAN, IMCO,	ECON, ENVI, ITRE, LIBE	EMPL, AGRI, PECH, REGI
JURI, AFET, DEVE, INTA	JURI, AFET, DEVE, INTA	JURI, AFET, DEVE, INTA

Vir: Yordanova, 2009: 256.

Opombe morajo biti v besedilu jasno označene z zaporednimi številkami od začetka do konca, napisane na ustreznem mestu v besedilu in po enakem vrstnem redu razvrščene pod besedilom. Število in dolžina opomb naj bo omejena. Opomba o avtorici/avtorju in morebitna zahvala naj vključujeta informacije o organizacijski pripadnosti avtorice/avtorja, ki so relevantne za obravnavano problematiko v besedilu, ter o finančnih in drugih pomočeh pri pripravi besedila.

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> *Če so gibanja za pravice vložila svoja telesa v aktivizem in mobiliziranje novih oblik diskurza, da bi tako omajala njihovo marginalizacijo in zatiranje, so filozofske in teoretske kritike kartezijanstva na novo pretehtale subjekt in ga opredelile kot hkrati razsrediščenega (ki v sebi ni v celoti koherenten) In utelešenega (ne čisti "kogito").* (Jones, 2002: 239)

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Ime PRIIMEK
Institucionalna pripadnost

Ime in priimek avtorja knjige
Naslov knjige: podnaslov
Založnik, Kraj letnica objave, število strani, cena (ISBN številka)

Janez NOVAK
Fakulteta za družbene vede, UL

Eviatar Zerubavel
Time Maps: Collective Memory and the Social Shape of the Past
The University of Chicago Press, Chicago in London 2003, 184 str., 25.00 $
(ISBN 0-226-98152-5)

NAVAJANJE

Osnovna oblika reference v besedilu je (Novak, 1994). Za navajanje strani naj avtorica oziroma avtor uporablja naslednjo obliko navajanja: (Novak, 1994: 27–29). Če sta avtorja reference dva, naj avtorica oziroma avtor navede oba: (Novak in Kosec, 2007). Če je avtorjev reference več, naj se v tekstu uporablja naslednja oblika navajanja: (Novak et al., 1994: 27), v seznamu LITERATURE pa naj se navedejo vsi avtorji. Če avtorica oziroma avtor besedila ne uporablja prve izdaje knjige, naj pri navajanju zabeleži tudi letnico prve izdaje: (Novak, 1953/1994: 7). Več referenc hkrati naj avtorica oziroma avtor loči s podpičjem: (Novak, 1994: 7; Kosec, 1998: 3–4; 2005: 58). Pri navajanju večjega števila referenc enega avtorja, objavljenih v istem letu, naj avtorica oziroma avtor reference med seboj loči s črkami a, b, c itd.: (Novak, 1994a: 27–29; Novak, 1994b: 1), in sicer v zaporedju, v kakršnem se prvič pojavijo v besedilu.

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Knjige

Priimek, ime (letnica izdaje knjige): Naslov knjige: Podnaslov. Kraj: Založba.
Geertz, Clifford (1980): Negara: The Theatre State in Nineteenth Century Bali. Princeton, NJ: Princeton University Press.

Zborniki

Priimek, Ime (ur.) (letnica izdaje knjige): Naslov knjige: Podnaslov. Kraj: Založba.
Featherstone, Mike (ur.) in Mike Hepworth (ur.) (1991): The Body: Social Process and Cultural Theory. London: SAGE Publications.

Samostojni sestavek ali poglavje v monografiji

Priimek, Ime (letnica izdaje monografije): Naslov prispevka v zborniku. V: Ime Priimek urednika (ur.), Naslov zbornika, strani prispevka. Kraj: Založba.
Palan, Ronen (1999): Global Governance and Social Closure or Who is to Governed in an Era of Global Governance? V: Martin Hewson (ur.) in Thimothy J. Sinclar (ur.), Approaches to Global Governance Theory, 55–72. Albany: State University New York Press.

Članki

Priimek, Ime (letnica izida članka): Naslov članka. Ime revije letnik (številka): strani.
Bachrach, Peter in Morton S. Baratz (1963): Decisions and Nondecisions: An Analytical Framework. American Political Science Review 57 (3): 632–42.

Svetovni splet (WWW)
Priimek, Ime (letnica): Naslov. Dostopno prek Internetni naslov, datum dostopa.
Deluze, Gilles (1978): Spinoza. Dostopno prek http://www.imaginet.fr/deluze/TXT/420178.html, 10. 1. 2001.

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Koprivec, Daša (2005–2008): Avdio kasete. Kustodiat za slovenske izseljence in zamejce SEM. Dostopno prek http://www.imaginet.fr/deluze/TXT/420178.html, 10. 1. 2010.
ali
Luthar, Breda, Samo Kropivnik, Tanja Oblak, Blanka Tivadar, Mirjana Ule, Slavko Kurdija in Samo Uhan (2006): Življenjski stili v medijski družbi 2001. Ljubljana: Fakulteta za družbene vede, Arhiv družboslovnih podatkov.

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Priimek, Ime morebitnega avtorja (morebitna letnica nastanka vira): Ime ali opis vira/arhivska številka. Mesto hranjenja vira. Zasebni arhiv.

Zbirka navijaških šalov. Avtoštoparski muzej, Kanal ob Soči. Zasebni arhiv Mirana Ipavca.
ali
Zbirka pisem Janeza Novaka. 1953–1989. Privatni arhiv.
Avtorica oziroma avtor naj v primeru znanega avtorja in leta nastanka vira

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(Poročilo o delu državnega zbora, 2000)
ali

(Zbirka navijaških šalov)

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Uredništvo TIP uporablja za vse vrste člankov in za knjižne eseje obojestransko anonimni recenzentski postopek. Članke in knjižne eseje recenzirata vsaj dva recenzenta. Postopek recenziranja, od oddaje besedila do seznanitve avtorice/avtorja z recenzentskimi mnenji, traja dva meseca. Uredništvo TIP lahko brez zunanjega recenziranja zavrne objavo besedila, če ugotovi, da avtorica oziroma avtor besedila ni pripravil v skladu z zgoraj navedenimi navodili, ali pa če oceni, da besedilo ne sodi na znanstveno področje, ki ga revija pokriva.

Uredništvo ima pravico, da prispevkov, ki ne ustrezajo merilom knjižne slovenščine (ali angleščine, če je članek oddan v angleščini; upošteva se British English) ne sprejme v recenzentski postopek. Stroški obveznega lektoriranja angleških besedil se avtorjem zaračunavajo po predhodnem dogovoru.

Avtorica/avtor ima od trenutka, ko je seznanjen z recenzentskimi mnenji, tri tedne časa, da v besedilo vnese popravke in popravljeno besedilo vrne v uredništvo TIP. V primeru, ko recenzenti zahtevajo temeljitejše popravke, se popravljeno besedilo ponovno vrne recenzentu v presojo. Avtorica/avtor naj popravljenemu besedilu priloži poseben obrazec "avtorjevo poročilo", ki ga dobi skupaj z recenzijama besedila, v katerem naj obrazloži, katere dele besedila je popravil in kako. Če avtorica/avtor oziroma avtor meni, da so pripombe recenzenta neutemeljene, pomanjkljive ali kakorkoli nerazumljive, naj neupoštevanje recenzentskih pripomb pojasni in utemelji v posebnem poročilu glavnemu uredniku.

Avtorica/avtor in soavtorji ob objavi dobijo po en brezplačen izvod številke revije, v kateri je bil objavljen njihov prispevek. Vsak dodaten izvod stane 10 evrov (plus poštnina). Na zahtevo lahko avtorici/avtorju pošljemo brezplačen izvod njegove objave v formatu pdf.

Avtorica/avtor prenese materiale avtorske pravice za objavljeni prispevek na izdajatelja revije.

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Submitted texts should not be previously published or the subject of a peer-review procedure for another journal or book/monograph. The publishing of an article or a book review in *Teorija in praksa* is free of charge.

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Original or review articles written in the English language (British English) should not exceed 6,500 words. If the author wishes to publish a longer text, they should first consult the Editor. An article should be accompanied by an abstract of up to 100 words, written in both Slovenian and English, containing a definition of the subject under scrutiny, methods of argumentation, and conclusions. The author should also provide up to seven key words. The titles should be clear and indicative. The main title, printed in bold uppercase letters, should not exceed 100 characters. Texts longer than 1,500 words should contain subtitles of no more than two levels. The subtitles of the second level should be italicised.

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Table 1: COMMITTEE EFFECT

Relugative effect	Mixet effect	Distributional effect
BUDG, TRAN, IMCO,	ECON, ENVI, ITRE, LIBE	EMPL, AGRI, PECH, REGI
JURI, AFET, DEVE, INTA	JURI, AFET, DEVE, INTA	JURI, AFET, DEVE, INTA

Source: Yordanova, 2009: 256.

Footnotes should be clearly marked in the text with consecutive numbers from beginning to end; written in appropriate places in the text; and arranged in the same order under the text. Footnotes must be limited in both number and length. Notes about the author/s, as well as any acknowledgements, should include information on the organisation to which the author/s belongs when relevant to the subject addressed in the text, and should also include information regarding any financial or other assistance given for preparing the text.

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> *The fact that most of the posts have been liked is an evidence that citizens find the posts made by the local government interesting and useful, but they do not show any further interest by sharing the information with friends or by engaging in dialog commenting on them.* (Bonsón et al., 2013: 12)

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Book reviews not older than 2 years are accepted for publication in *Teorija in praksa* and should contain up to 1,500 words. In a book review, the author should strictly avoid making any references to any sources and literature. The book review should not include title or subtitles. Information about the author and the reviewed book should be given at the review's start in the form shown below:

First Name LAST NAME
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Author's First and Last Name
Title: Subtitle
Publisher, City Year of publication, number of pages, price (ISBN number)

John SMITH
Oxford University

Eviatar Zerubavel
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University of Chicago Press, Chicago and London 2003, 184 pages, USD 25.00 (ISBN 0-226-98152-5)

REFERENCES

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Edited Books

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Featherstone, Mike and Mike Hepworth, Bryan S. Turner (eds.) (1991): The Body: Social Process and Cultural Theory. London: SAGE Publications.

Chapters or Essays in Monographs

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Palan, Ronen (1999): Global Governance and Social Closure or Who is to Be Governed in an Era of Global Governance? In Martin Hewson and Timothy J. Sinclair (eds.), Approaches to Global Governance Theory, 55–72. Albany: State University New York Press.

Articles
Last Name, First Name (year of publication): Title of the Article: Subtitle. Name of Journal Volume (Number): pages.
Bachrach, Peter and Morton S. Baratz (1963): Decisions and Nondecisions: An Analytical Framework. American Political Science Review 57 (3): 632–642.

Internet (WWW)
Last Name, First Name (year of publication): Title. Accessible at Internet address, date of access.
Deluze, Gilles (1978): Spinoza. Accessible at http://www.imaginet.fr/deluze/TXT/420178.html, 10. 1. 2001.

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(Activity Report of the National Assembly, 2000)
or
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